

BQE Water – Q4 Financials Preview

Rating
BUY
Unchanged

Target Price
\$55.00
Unchanged

April 10, 2024

All figures in CAD unless otherwise stated

BQE Water Inc.	BQE:TSXV
Rating	BUY
Target Price	\$55.00
Return to Target	7%

Market Data	
Share Price	\$51.51
Average Daily Volume	280.0
FD ITM Shares (M)	1.3
Market Cap (\$M)	\$67.0
Cash (\$M)	\$6.7
Debt (\$M)	\$1.6
Enterprise Value (\$M)	\$61.9

FYE Dec 31	2023E	2024E	2025E
Proportional Revenue (\$M)	\$21.5	\$23.7	\$25.8
Revenue (\$M)	\$15.9	\$17.8	\$19.8
Gross Margin (%)	48%	49%	49%
Adj. EBITDA (\$M)	\$4.7	\$6.2	\$7.2
Adj. EBITDA Margin (%)	22%	26%	28%
Net Income (\$M)	\$2.8	\$4.8	\$5.5
EPS (Basic)	\$2.22	\$3.87	\$4.39
FCFF (\$M)	\$2.3	\$3.6	\$5.4

Valuation	2023E	2024E	2025E
EV/EBITDA	13.2x	10.0x	8.6x
P/E	23.2x	13.3x	11.7x
FCF Yield (%)	4%	6%	9%
EV/Sales	2.9x	2.6x	2.4x

Please refer to the applicable disclosures on the back page
Source: Atrium Research, CapitalIQ, Company Documents



BQE Water is a service provider specializing in water treatment and management for mining, smelting, and refining businesses. BQE Water invests in innovation and has developed unique intellectual property through the commercialization of several new technologies at mine sites around the world for organizations including Glencore, Codelco, Jiangxi Copper, Freeport-McMoRan and South32. BQE Water is headquartered in Vancouver, Canada.

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What you need to know:

- BQE will be reporting Q4 & 2023 financial results in ~2 weeks, we are expecting proportional revenue of \$4.2M, gross margin of 45%, and adj. EBITDA of \$0.6M (14% margin).
- Metals prices have been rising steadily over the last month with copper up 9%. BQE's China JV has leverage to the copper price as it sells recovered metals.
- BQE remains cheap at 10.0x/8.6x 2024E/2025E EBITDA.

BQE Water (BQE:TSXV, BTQNF:OTC) will be reporting Q4 and 2023 financial results around April 25th. We are expecting another strong quarter from BQE, albeit Q4 being a seasonally weak quarter. An overview of our estimates can be found below. BQE stock is up 47% since our initiation report last month (read [here](#)), yet we are still highly bullish in our thesis and will reassess our target price on the back of the financial results. **We are maintaining our BUY rating and \$55.00/share target price on BQE Water.**

Q4 & 2023 Financials Preview

For Q4, we are expecting:

- Proportional revenue of \$4.2M (-2% YoY) comprised of reported revenue at \$2.8M and share of JV revenue at \$1.4M
- Gross margin of 45% compared to 41% in Q4/22 (note that this is reported as operating margin before depreciation)
- Adjusted EBITDA of \$0.6M (14% margin) compared to (\$0.1M) in Q4/22
- Net income of \$0.4M or \$0.29/share compared to (\$0.2M) or (\$0.19/share) in Q4/22

For 2023, we are expecting:

- Proportional revenue of \$21.5M (+14% YoY) comprised of reported revenue at \$15.9M and share of JV revenue at \$5.6M
- Gross margin of 48% compared to 42% in 2022
- Adjusted EBITDA of \$4.7M (22% margin) compared to \$3.1M (16% margin) in 2022
- Net income of \$2.8M or \$2.22/share vs. \$1.2M or \$0.93/share in 2022

Rising Metals Prices

Since our last report, metals prices have significantly increased with gold up 9%, silver up 15%, and copper up 9%. We remind readers that BQE's China JV is highly levered to the copper price with every 10-cent increase in the copper price resulting in ~\$0.5M in additional annual JV income; copper is up 30 cents over the last month. We will look to increase our estimates for the JV upon reviewing the full financial results. We reiterate that we believe we are in the early innings of a mining capex cycle where hundreds of new mines will be opened (especially in battery metals), playing into BQE's value proposition.

Valuation

Following the strong performance in BQE stock, BQE trades at 10.0x/9.9x 2024E/2025E EBITDA compared to engineering service firms at 13.7x/12.4x and water treatment firms at 11.3x/10.2x. We note that our forward estimates are quite conservative to accommodate the quarterly lumpiness, but we will look to revise upward as management executes. Our estimates remain unchanged and our target remains at \$55.00/share based on 9.0x 2025E EBITDA.

Tear Sheet

Market Data						Capital Structure						
Ticker	BQE:TSXV					Basic Shares Outstanding (M)	1.2					
Stock Price	\$51.51					Warrants (M)	0.0					
Rating	BUY					Options (M)	0.1					
Target Price	\$55.00					FD Shares (M)	1.3					
Upside	7%					FD ITM Shares (M)	1.3					
Market Cap (\$M)	\$67.0					Ownership						
Cash (\$M)	\$6.7					Management & Board	8%					
Debt (\$M)	\$1.6					Other Insiders	47%					
EV (\$M)	\$61.9					Retail	45%					
Financial Estimates												
	2022A	Q1/23A	Q2/23A	Q3/23A	Q4/23E	2023E	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2024E	2025E
Revenue (\$M)	12.2	2.7	4.2	6.2	2.8	15.9	2.9	4.5	6.9	3.5	17.8	19.8
Proportional Revenue (\$M)	18.9	3.6	5.8	8.0	4.2	21.5	4.1	6.2	8.5	5.0	23.7	25.8
% YoY	21%	1%	12%	40%	-5%	14%	14%	7%	7%	17%	10%	9%
Gross Profit (\$M)	5.1	1.0	2.0	3.3	1.3	7.6	1.1	2.3	3.8	1.6	8.8	9.7
Gross Margin	42%	37%	48%	53%	45%	48%	40%	50%	55%	45%	49%	49%
Adj. EBITDA (\$M)	3.1	(0.1)	1.5	2.7	0.6	4.7	0.6	1.7	2.7	1.1	6.2	7.2
Adj. EBITDA Margin	16%	-2%	25%	34%	14%	22%	16%	28%	32%	21%	26%	28%
Net Income (\$M)	1.2	(0.3)	0.6	2.1	0.4	2.8	0.4	1.4	2.3	0.8	4.8	5.5
EPS (Basic)	0.93	(0.27)	0.49	1.71	0.29	2.22	0.32	1.09	1.83	0.62	3.87	4.39
FCFF (\$M)	(0.5)	(0.4)	(0.6)	0.6	2.8	2.3	(0.2)	1.1	2.0	0.9	3.6	5.4

Figure 1: Tear Sheet

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RATING	COVERED COMPANIES
BUY	13
HOLD	0
SELL	0

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