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Research Flash

BQE Water – New Water Treatment Plant Contract

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Rating	Target Price
BUY	**$77.00**
Unchanged	*Unchanged*

August 30, 2024

All figures in CAD unless otherwise stated

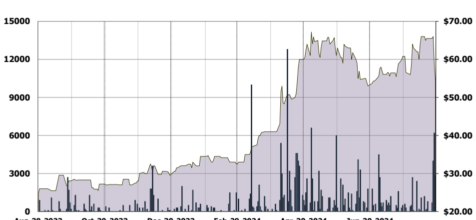
BQE Water Inc.	**BQE:TSXV**
Rating	BUY
Target Price	$77.00
Return to Target	41%

Market Data	
Share Price	$54.50
Average Daily Volume	1720.0
FD ITM Shares (M)	1.3
Market Cap ($M)	$71.1
Cash ($M)	$7.8
Debt ($M)	$2.0
Enterprise Value ($M)	$65.4

FYE Dec 31	**2023A**	**2024E**	**2025E**
Proportional Revenue ($M)	$22.7	$24.1	$28.0
Revenue ($M)	$18.1	$18.1	$21.3
Gross Margin (%)	50%	49%	50%
Adj. EBITDA ($M)	$4.7	$5.3	$8.3
Adj. EBITDA Margin (%)	20%	22%	30%
Net Income ($M)	$2.7	$3.3	$6.0
EPS (Basic)	$2.12	$2.62	$4.71
FCFF ($M)	$0.5	$1.6	$6.3

Valuation	**2023A**	**2024E**	**2025E**
EV/EBITDA	14.0x	12.4x	7.9x
P/E	25.7x	20.8x	11.6x
FCF Yield (%)	1%	3%	10%
EV/Sales	2.9x	2.7x	2.3x

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.

What you need to know:

- BQE announced that it has been contracted for a new water treatment plant for the closure of the legacy Valley Tailings Facility in the Yukon. This continues the rapid growth that BQE has posted in its recurring operations segment which grew 79% YoY and 43% QoQ in Q2.
- The plant is expected to be completed in Q2/25 and operate for six years.
- The new contract leverages BQE's experience in the Yukon, as it currently works with the Yukon Government and the Keno Hill mine.

Yesterday after market close, BQE Water (BQE:TSXV, BTQNF:OTC) announced that it has been contracted to design, supply, install, and commission a new water treatment plant for the closure of the legacy Valley Tailings Facility near Mayo, Yukon. This comes on the back of its Q2 financials which were released on Tuesday, please refer to our note here. We view both announcements as solid positives for the stock given that they support the growth of the recurring operations services segment. **We are maintaining our BUY rating and $77.00/share target price on BQE Water.**

New Water Treatment Contract

BQE announced that Elsa Reclamation & Development Company Ltd. (ERDC) has contracted it to design, supply, install, and commission a new Water Treatment Plant (WTP) for the closure of the legacy Valley Tailings Facility near Mayo, Yukon, on the traditional territory of the First Nation Na-Cho Nyak Dun. The plant will treat water generated during tailings excavation and consolidation, and discharge treated water into the environment. The treatment process primarily targets heavy metals. BQE will be responsible for engineering design, equipment procurement, site installation, commissioning, and start-up of the WTP; the plant is expected to be completed in Q2/25. The plant is anticipated to be used for six years.

This relationship leverages BQE's experience in the Yukon, having signed a contract with the Yukon's Department of Energy, Mines and Resources for the closed Minto Mine in August 2023 as well as serving Hecla's Keno Hill mine. Management also highlighted that the contract gives BQE the opportunity to showcase a rapid and cost-effective deployment of a fit-for-purpose treatment that eliminates the need for a long-term liability at a remote site. We view the announcement as a positive development as management continues to execute on the operations services side of the business. Our model remains unchanged given that projects like this are baked into our assumed growth of the operations services segment.

Q2 Financials Recap

On Tuesday after market close, BQE reported Q2 financial results which beat our expectations on revenue and were in line on EBITDA. Proportional revenue came in at $6.1M (+5% YoY) vs. our estimate of $5.7M and adjusted EBITDA came in at $1.34M vs. our estimate of $1.4M. This was comprised of operations services revenue of $2.6M (+79% YoY, 42% of revenue), technical services revenue of $0.9M (-69% YoY), and BQE's share of JV revenue of $2.7M (+68% YoY).

We viewed the quarter as a positive given that management guided for continued struggles in the technical services segment back in Q1, which would rebound strongly in H2. Management provided the same commentary in Q2, yet stock subsequently traded down 17%. The other two segments performed exceptionally well and we have every reason to believe management regarding technical services posting YoY growth on an annual basis.

Why We Like BQE

- BQE has a growing stream of recurring revenue. Recurring revenue represented 13% of proportional revenue in 2020 and has grown to 36% in 2023.
- The Company has strong tailwinds in increasingly strict government regulations for water discharge and increasing mining capex globally.
- BQE Water has been steadily increasing its EBITDA margins from negative levels a decade ago to 20% in 2023. Given its asset-light business model, we expect this to continue scaling up.
- BQE has a clean balance sheet with a large cash position and no interest-bearing debt. The Company has not raised equity since 2018 and has three private investors owning 46%.
- BQE's valuation is cheaper than water treatment and engineering service firms.

Catalysts

- Quarterly Financial Results & Increasing Recurring Revenue – Ongoing
- New Contract Announcements – Ongoing
- Share Repurchases – 2024

Tear Sheet

Market Data	
Ticker	BQE:TSXV
Stock Price	$54.50
Rating	BUY
Target Price	$77.00
Upside	41%
Market Cap ($M)	$71.1
Cash ($M)	$7.8
Debt ($M)	$2.0
EV ($M)	$65.4

Capital Structure	
Basic Shares Outstanding (M)	1.3
Warrants (M)	0.0
Options (M)	0.1
FD Shares (M)	1.3
FD ITM Shares (M)	1.3

Ownership	
Management & Board	8%
Other Insiders	46%
Retail	46%

Financial Estimates	2022A	Q1/23A	Q2/23A	Q3/23A	Q4/23A	2023A	Q1/24A	Q2/24A	Q3/24E	Q4/24E	2024E	2025E
Revenue ($M)	**12.2**	**2.7**	**4.2**	**6.2**	**5.0**	**18.1**	**2.5**	**3.4**	**6.9**	**5.2**	**18.1**	**21.3**
Proportional Revenue ($M)	**18.9**	**3.6**	**5.8**	**8.0**	**5.4**	**22.7**	**3.4**	**6.1**	**8.6**	**6.0**	**24.1**	**28.0**
% YoY	*21%*	*1%*	*12%*	*40%*	*21%*	*20%*	*-4%*	*5%*	*8%*	*11%*	*6%*	*16%*
Gross Profit ($M)	**5.1**	**1.0**	**2.0**	**3.3**	**2.8**	**9.1**	**1.1**	**1.6**	**3.7**	**2.4**	**8.8**	**10.7**
Gross Margin	*42%*	*37%*	*48%*	*53%*	*55%*	*50%*	*44%*	*47%*	*54%*	*46%*	*49%*	*50%*
Adj. EBITDA ($M)	**3.1**	**(0.1)**	**1.5**	**2.7**	**0.5**	**4.7**	**(0.1)**	**1.3**	**2.7**	**1.4**	**5.3**	**8.3**
Adj. EBITDA Margin	*16%*	*-2%*	*25%*	*34%*	*10%*	*20%*	*-4%*	*22%*	*31%*	*22%*	*22%*	*30%*
Net Income ($M)	1.2	(0.3)	0.6	2.1	0.2	2.7	(0.5)	0.6	2.2	1.0	3.3	6.0
EPS (Basic)	0.93	(0.27)	0.49	1.71	0.20	2.12	(0.39)	0.44	1.76	0.81	2.62	4.71
FCFF ($M)	(0.5)	(0.4)	(0.6)	0.6	1.0	0.5	0.3	(1.9)	2.8	0.5	1.6	6.3

Figure 1: Tear Sheet

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SELL: The stock is expected to generate negative returns over the next 24 months.
NOT RATED (N/R): Atrium does not provide research coverage on the respective company.

RATING	COVERED COMPANIES
BUY	15
HOLD	0
SELL	0

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