

BQE Water – Decent Q1 Financials; Recurring Revenue Up 114% YoY

Rating  
**BUY**  
Unchanged

Target Price  
**\$71.00**  
Unchanged

May 30, 2024

All figures in CAD unless otherwise stated

BQE Water Inc.	BQE:TSXV
Rating	BUY
Target Price	\$71.00
Return to Target	16%

Market Data	
Share Price	\$61.01
Average Daily Volume	1020.0
FD ITM Shares (M)	1.3
Market Cap (\$M)	\$80.5
Cash (\$M)	\$8.2
Debt (\$M)	\$1.9
Enterprise Value (\$M)	\$74.2

FYE Dec 31	2023A	2024E	2025E
Proportional Revenue (\$M)	\$22.7	\$23.7	\$26.8
Revenue (\$M)	\$18.1	\$18.8	\$21.3
Gross Margin (%)	50%	49%	49%
Adj. EBITDA (\$M)	\$4.7	\$5.4	\$7.8
Adj. EBITDA Margin (%)	20%	23%	29%
Net Income (\$M)	\$2.7	\$3.9	\$5.8
EPS (Basic)	\$2.12	\$3.07	\$4.53
FCFF (\$M)	\$0.5	\$3.1	\$7.0

Valuation	2023A	2024E	2025E
EV/EBITDA	15.9x	13.8x	9.6x
P/E	28.8x	19.9x	13.5x
FCF Yield (%)	1%	4%	9%
EV/Sales	3.3x	3.1x	2.8x

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 reported Q1 financial results yesterday where the highlight was 114% YoY growth in its recurring operation services segment.
- Technical services revenue was weak however, leading to a slight miss on proportional revenue (\$3.4M vs. \$3.8M expected) and margins.
- Management's outlook remained bullish, expecting operation services revenue continuing to grow rapidly and technical services revenue catch back up in H2.

BQE Water (BQE:TSXV, BTQNF:OTC) reported Q1 financial results yesterday after market close that included a more than doubling of operation services revenue (recurring). Technical services revenue was soft in the quarter, leading to a miss on our expectations; however, management expects this segment to pick up in H2. The China JVs also performed well, taking advantage of the higher copper prices. We remind readers that Q1 is seasonally weak for BQE. We remain highly confident in our investment thesis on BQE which was laid out in our initiation report (read [here](#)). **We are maintaining our BUY rating and target price of \$71.00/share on BQE Water.**

Key Highlights

- Proportional revenue came in at \$3.4M (-4% YoY) compared to our estimate of \$3.8M. This was comprised of operation services revenue of \$1.8M (+114% YoY, 52% of revenue), technical services revenue of \$0.7M (-61% YoY), and BQE's share of JV revenue of \$0.9M (+4% YoY).
- Gross margin of 44% vs. our expectation of 40% and 37% in Q1/23 (note that this is reported as operating margin before depreciation).
- Adjusted EBITDA of (\$0.1M) vs. our estimate of \$0.6M and (\$0.1M) in Q1/23. The negative margins were due to the miss on technical services revenue as resources were allocated to sales and marketing rather than direct operating expenses.
- BQE's share of JV net income was \$0.3M compared to our estimate of \$0.2M and \$0.1M last year. This includes a 35% increase in revenue from the JCC-BQE JV.
- Net income of (\$0.5M) vs. our estimate of \$0.3M and (\$0.3M) in Q1/23.
- BQE ended the quarter with \$8.2M in cash, generating \$0.3M in OCF.

	Q1/24A	Atrium Est.	YoY
Proportional Revenue (\$M)	<b>\$3.4</b>	\$3.8	-4%
Reported Revenue (\$M)	<b>\$2.5</b>	\$2.9	-7%
Gross Margin (%)	<b>44%</b>	40%	+698 bps
Adj. EBITDA (\$M)	<b>(\$0.1)</b>	\$0.6	N/A
Adj. EBITDA Margin (%)	<b>-4%</b>	15%	-130 bps

Figure 1: Q1 Financials Summary

Outlook

Management highlighted that the winter shutdown of its Northern Canada operations and the lower water volumes in China led to the weaker financial performance. However, due to the newly commissioned plant in the U.S., there is an expanded base of recurring revenues that will mitigate seasonality going forward. The team expects technical services revenue to catch up to 2023 levels through the remainder of the year. BQE also remains focused on increasing operational efficiency across its business functions.

As mentioned in our preview notes, metals prices have significantly increased since our initiation report with gold up 9%, silver up 32%, and copper up 22%. BQE's China JV is highly levered to the copper price as it sells recovered metals with every 10-cent increase in the copper price resulting in ~\$0.5M in additional annual JV income; copper is up 85 cents since our initiation. We remain bullish on the future outlook for the mining industry in general and BQE's products specifically.

### Our Take

Q1 represented a decent quarter for BQE, with the main highlight being the 114% increase in recurring operation services revenue. This segment is the crux of our investment thesis and as such, we label the quarter as a success. Technical services were disappointing, however, management guided for flat growth on an annual basis; we remind readers that quarterly results can be lumpy for BQE and that the annual numbers paint a better picture. As mentioned above, we remain bullish on BQE's China JVs that take advantage of the increasing copper price.

While there was a 44% increase in SBC in the quarter due to RSUs being valued at the higher stock price, we remind readers that BQE's RSUs vest over three years and have annual cash payouts (avoiding dilution). We are tweaking our model slightly to push technical services revenue into Q3 and Q4. BQE remains one of our highest conviction names and we look at any pullback in the stock as a buying opportunity.

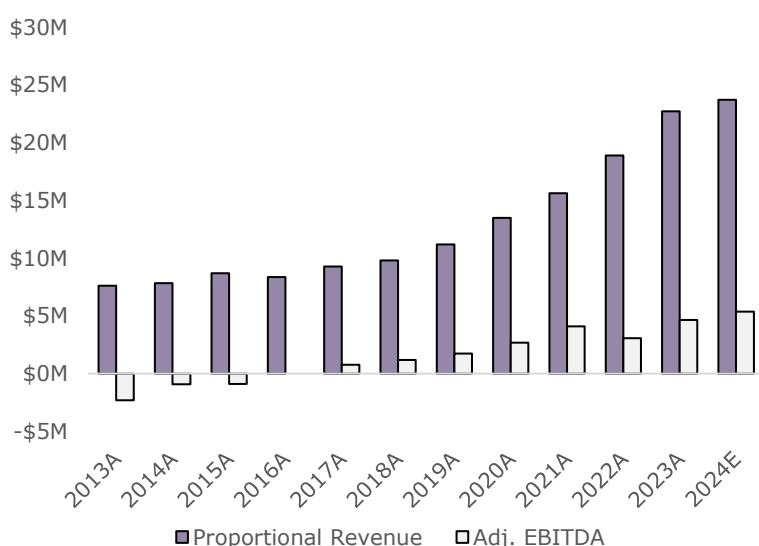


Figure 2: Revenue & EBITDA Growth

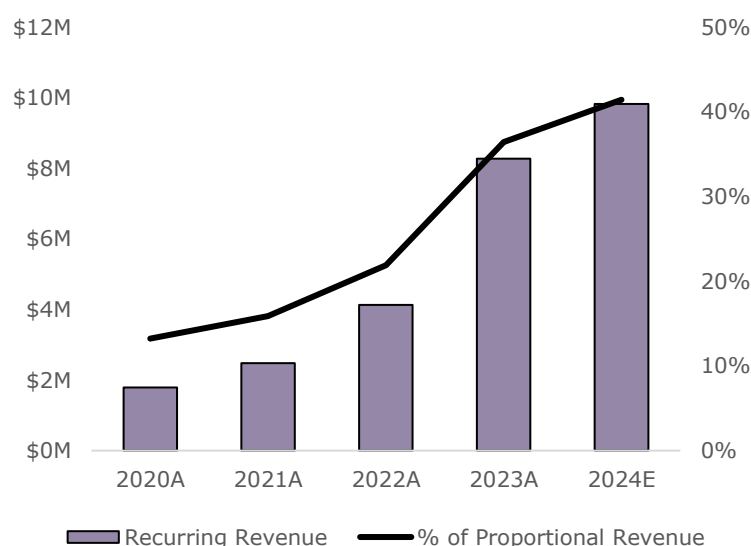


Figure 3: Recurring Revenue Improvement

### Valuation

Following the strong performance in BQE stock (+80% since our initiation), the valuation now sits at 13.8x/9.6x 2024E/2025E EBITDA compared to engineering service firms at 13.7x/12.2x and water treatment firms at 11.5x/10.7x (all of which have lower growth). We remain confident that BQE can grow on an annual basis, especially given the increased copper price and potential to sign "Company Maker" projects. We continue to value BQE based on 11x 2025E EBITDA, resulting in our unchanged target price of \$71.00/share. Our target price is equivalent to 15x 2025E earnings and an 8% FCF yield (2025E).

### 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

### Estimate Revisions

	Q2/24E		Q3/24E		2024E		2025E	
	New	Previous	New	Previous	New	Previous	New	Previous
Prop. Revenue (\$M)	<b>\$5.7</b>	\$6.3	<b>\$8.6</b>	\$8.5	<b>\$23.7</b>	\$24.6	<b>\$26.8</b>	\$27.3
Reported Revenue (\$M)	<b>\$4.1</b>	\$4.7	<b>\$6.9</b>	\$6.9	<b>\$18.8</b>	\$19.2	<b>\$21.3</b>	\$21.4
Gross Margin (%)	<b>48%</b>	50%	<b>55%</b>	55%	<b>49%</b>	49%	<b>49%</b>	49%
Adj. EBITDA (\$M)	<b>\$1.4</b>	\$1.8	<b>\$2.8</b>	\$2.7	<b>\$5.4</b>	\$6.3	<b>\$7.8</b>	\$7.9

Figure 4: Estimate Revisions

### Tear Sheet

Market Data						Capital Structure						
Ticker	BQE:TSXV					Basic Shares Outstanding (M)	1.3					
Stock Price	\$61.01					Warrants (M)	0.0					
Rating	BUY					Options (M)	0.1					
Target Price	\$71.00					FD Shares (M)	1.3					
Upside	16%					FD ITM Shares (M)	1.3					
Market Cap (\$M)	\$80.5					Ownership						
Cash (\$M)	\$8.2					Management & Board	8%					
Debt (\$M)	\$1.9					Other Insiders	46%					
EV (\$M)	\$74.2					Retail	46%					
Financial Estimates												
	2022A	Q1/23A	Q2/23A	Q3/23A	Q4/23A	2023A	Q1/24A	Q2/24E	Q3/24E	Q4/24E	2024E	2025E
<b>Revenue (\$M)</b>	<b>12.2</b>	<b>2.7</b>	<b>4.2</b>	<b>6.2</b>	<b>5.0</b>	<b>18.1</b>	<b>2.5</b>	<b>4.1</b>	<b>6.9</b>	<b>5.2</b>	<b>18.8</b>	<b>21.3</b>
<b>Proportional Revenue (\$M)</b>	<b>18.9</b>	<b>3.6</b>	<b>5.8</b>	<b>8.0</b>	<b>5.4</b>	<b>22.7</b>	<b>3.4</b>	<b>5.7</b>	<b>8.6</b>	<b>6.0</b>	<b>23.7</b>	<b>26.8</b>
% YoY	21%	1%	12%	40%	21%	20%	-4%	-1%	8%	11%	4%	13%
<b>Gross Profit (\$M)</b>	<b>5.1</b>	<b>1.0</b>	<b>2.0</b>	<b>3.3</b>	<b>2.8</b>	<b>9.1</b>	<b>1.1</b>	<b>2.0</b>	<b>3.8</b>	<b>2.3</b>	<b>9.2</b>	<b>10.5</b>
Gross Margin	42%	37%	48%	53%	55%	50%	44%	48%	55%	45%	49%	49%
<b>Adj. EBITDA (\$M)</b>	<b>3.1</b>	<b>(0.1)</b>	<b>1.5</b>	<b>2.7</b>	<b>0.5</b>	<b>4.7</b>	<b>(0.1)</b>	<b>1.4</b>	<b>2.8</b>	<b>1.3</b>	<b>5.4</b>	<b>7.8</b>
Adj. EBITDA Margin	16%	-2%	25%	34%	10%	20%	-4%	25%	32%	22%	23%	29%
Net Income (\$M)	1.2	(0.3)	0.6	2.1	0.2	2.7	(0.5)	1.1	2.3	1.0	3.9	5.8
EPS (Basic)	0.93	(0.27)	0.49	1.71	0.20	2.12	(0.39)	0.87	1.81	0.77	3.07	4.53
FCFF (\$M)	(0.5)	(0.4)	(0.6)	0.6	1.0	0.5	0.3	1.1	1.7	0.1	3.1	7.0

Figure 5: Tear Sheet

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RATING	COVERED COMPANIES
BUY	13
HOLD	0
SELL	0

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