

BQE Water – Evaluating the Blue-Sky Opportunity

Rating
BUY
Unchanged

Target Price
\$80.00
Unchanged

February 12, 2025

All figures in CAD unless otherwise stated

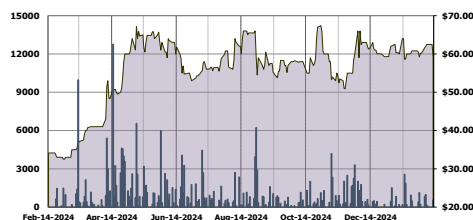
BQE Water Inc.	BQE:TSXV
Rating	BUY
Target Price	\$80.00
Return to Target	36%

Market Data	
Share Price	\$59.01
Average Daily Volume	390.0
FD ITM Shares (M)	1.3
Market Cap (\$M)	\$77.3
Cash (\$M)	\$11.0
Debt (\$M)	\$2.0
Enterprise Value (\$M)	\$68.3

FYE Dec 31	2023A	2024E	2025E
Proportional Revenue (\$M)	\$22.7	\$25.7	\$29.1
Revenue (\$M)	\$18.1	\$17.9	\$20.8
Gross Margin (%)	50%	51%	51%
Adj. EBITDA (\$M)	\$4.7	\$6.8	\$8.4
Adj. EBITDA Margin (%)	20%	27%	29%
Net Income (\$M)	\$2.7	\$4.3	\$5.9
EPS (Basic)	\$2.12	\$3.36	\$4.61
FCFF (\$M)	\$0.5	\$2.9	\$5.2

Valuation	2023A	2024E	2025E
EV/EBITDA	14.7x	10.0x	8.1x
P/E	27.8x	17.6x	12.8x
FCF Yield (%)	1%	4%	8%
EV/Sales	3.0x	2.7x	2.3x

Please refer to the applicable disclosures on the back page Disseminated on behalf of BQE Water Inc. 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.

Nicholas Cortellucci, CFA | Equity Research Analyst | ncortellucci@atriumresearch.ca | 647-391-3314
Ben Pirie | Equity Research Analyst | bpirie@atriumresearch.ca | 647-688-9661

What you need to know:

- BQE has various blue-sky opportunities ahead which we do not account for in our model. This report breaks down each opportunity to paint a picture of a bull case scenario for the Company.
- This includes company maker projects, new applications and technologies, the mining bull cycle, capital allocation plans, geographic expansion, trust in management, and multiple expansion.

Since BQE Water (BQE:TSXV, BTQNF:OTC) stock has stabilized over the past few months, we would like to spend some time outlining the blue sky opportunity ahead for the Company. This includes various factors that are not accounted for in our model including company maker projects, new applications of its IP, the mining bull cycle, capital allocation, geographic expansion, trust in management, and multiple expansion. In this blue-sky scenario, we can see BQE posting \$15M in EBITDA in 2027 and trading at 13x EBITDA, resulting in a blue-sky target of \$156/share. **We are maintaining our BUY rating and \$80.00/share target price on BQE Water.**

Company Maker Projects

BQE has three “company maker” projects in its existing pipeline. Over the years, these projects have gradually progressed through early stages of development which involved BQE’s services to complete technical assessments, piloting, and/or permitting, and have a realistic chance of proceeding to the implementation phase in the time horizon of the next 2 to 5 years. Management defines the company maker projects as water treatment plants with capex >\$100M integrated into world-class mining assets with an operating life of over 30 years. Each one of the projects is estimated to generate >\$6M in annual recurring revenue for BQE. Reviewing the Company’s newsletters and MD&As over the last three years, we believe that one of the projects is likely Seabridge Gold’s KSM project in BC.

KSM received environmental approvals specifically using BQE’s water treatment technology (including selenium); meaning that if the KSM Mine moves towards production, it will be using BQE. This is largely dependent on Seabridge receiving the necessary financing to move KSM into production (\$6.4B) which we see a strong likelihood of happening given its development stage and the rising gold price. Mining.com reported in August that KSM is in partnership conversations with six major gold and copper companies after receiving its “Substantially Started” designation from the B.C. government. However, the project has recently struggled, having been challenged by a First Nations group and Earthjustice.

We remind readers that KSM has a P&P resource of 47.3Moz of gold and 7.3 Blbs of copper and is expected to have a 52-year mine life. As per its 2022 pre-feasibility study, the selenium water treatment will cost Seabridge US\$19.6M per year for the life of mine. KSM is likely to have multiple plants through its construction and operational stages. While we do not include any company maker projects in our model, this provides a blue-sky scenario that would transform BQE’s revenue profile.

New Applications and Technology

BQE is currently working on applying its selenium IP to the remediation and closure of ash ponds. Decades of power generation using coal combustion has left large tonnage of ash, some containing selenium, stored in unlined ponds across North America. BQE has already implemented and is currently operating one plant in the Eastern U.S.; we expect this project to become a strong case study for further uses of BQE’s selenium IP in ash pond cleanups. Additionally, the Company disclosed that it has been working on water treatment linked to uranium projects in North America.

Whether located in the U.S. or Canada, the advancements of these projects is in our opinion quite likely considering rising uranium price, the announcements by large tech firms to power their operations (AI and data centres) using nuclear power, and the reclassification of nuclear energy as green by the EU. See our previous commentary on the uranium market [here](#) and [here](#). Finally, BQE continues to innovate and while there is no way to assess the value of future IP currently under development, BQE's track record of bringing a new technology to market every ~5 years has been quite consistent. While these new developments are not included in our model, they offer additional upside opportunities for outsized revenue growth over the coming years.

Mining Bull Cycle in New Era of ESG

In our opinion, we are in the early innings of a mining bull cycle with the gold, silver, and copper prices up 44%, 42%, and 23% in the last year, respectively. This has resulted in largely improved cash flow for the major producers, allowing these companies to commit further capital to development projects that need water treatment services. Crucially, the new development projects will be proceeding in the backdrop of increased scrutiny around ESG, more stringent regulations, and requirements for much more meaningful engagement of indigenous groups and local communities since the last bull cycle. Considering the unique alignment of BQE's business goals with those of local communities, and BQE's experience in delivering projects and partnerships with First Nations, we believe that BQE will likely benefit more from the future bull cycle than other businesses in the same sector.

Additionally, the Trump administration's "Unleashing American Energy" executive order, initiated a review of the regulations and policies surrounding the approval and development of U.S. natural resources. These resources include oil, natural gas, coal, hydropower, biofuels, critical minerals, and nuclear energy. This could drastically speed up the permitting and development process, bringing projects into production faster; increasing the pool of mines that need BQE's services.

Furthermore, we have not yet seen a large influx in capital committed to development and exploration firms (albeit improving) as it takes time for the improved commodity prices to trickle down to the mid and small-cap firms. While certain prospective projects in predominant jurisdictions are advancing, we think there is a long way to go. As such, we have not seen strong growth from the mining service firms either, with MDI and FAR posting -9% and -18% YoY revenue growth respectively in their last quarters. Therefore, the effect of the higher gold price has not yet reached the mining services market, however, we expect this to change over the next year.

Capital Allocation

As of Q3, BQE had \$11.0M in cash and \$2.0M in debt (non-interest bearing), positioning the Company to make capital allocation decisions as it continues to generate cash flow. While there are various options on the table for management, we believe the most likely are tuck-in acquisitions and stock buybacks. Tuck-in acquisitions can build out BQE's portfolio of services to capture a larger share of revenue from its projects and/or add complementary IP, supporting future growth as environmental regulations become increasingly strict. Management has been taking a patient approach to acquisitions, looking for accretive and cashflow positive opportunities that can create long-term growth and strategic positioning. Share repurchases are also a solid option, where BQE can decrease its share count over time, while the stock trades ~8x forward EBITDA; a valuation we find to be objectively cheap.

Regional Clusters & Geographic Expansion

Management has also outlined that it intends to create regional clusters of projects where BQE can serve multiple clients or operations, thus increasing margins. BQE has already shown the effectiveness of this strategy in the Yukon with customers such as the Eagle Gold Mine, Hecla, and ERDC. As stated in our previous notes, the fact that BQE was selected to work on Eagle is very impressive given the scale of the disaster, and as such, we expect BQE's brand recognition to improve in the region. BQE already has a track record of increasing margins, with EBITDA margins rising from 16% in 2022A to 27% in 2024E; with regional clusters having the opportunity to increase margins further.

Historically, Latin America has been a largely untapped market for BQE, never having secured an operations services contract and posting only breakeven profitability. If management can secure various operations contracts in the region, this can significantly diversify revenue and provide a new growth engine for the topline.

Trust in Management

BQE is led by an incredibly talented management team who have been able to turn around the Company over the past decade. Over the past 10 years, management has grown proportional revenue from \$7.6M (2013) to \$22.7M (2023) representing a 12% CAGR or a 18% CAGR over the past five years. Additionally, management has grown EBITDA margins from -30% to 20% over the same period. Management has also proven that they can negotiate and land deals with some of the largest players in the mining industry, including Glencore and Codelco as well as various government institutions. The current leadership team at BQE has grown the business into a consistently profitable and constantly innovating organization, incentivized by management's 8% ownership in the Company.

Multiple Expansion

BQE currently trades at 8.1x/7.4x 2025E/2026E EBITDA using our conservative projections. This compares to engineering services firms at 14.0x/12.7x and water treatment firms at 9.8x/8.9x as seen in the figure below. Amongst its peers, BQE has the #1 sales CAGR, #2 EBITDA CAGR, and #1 EBITDA margins, providing a justification for a premium valuation. As the market continues to take note of BQE's fundamentals, we can see the forward EBITDA multiple expanding to 13x in the blue-sky case. This would result in our target price increasing to \$90/share assuming none of the other blue-sky events occur (we assume 11.5x currently).

Company	Ticker	Mkt Cap (\$C)	EV (\$C)	Sales CAGR (2022A-2026E)	EBITDA CAGR (2022A-2026E)	EBITDA Margin 2024E	EV/EBITDA		
							2024E	2025E	2026E
Engineering Services									
WSP Global Inc.	WSP	\$33,087	\$37,311	5%	25%	18%	17.2x	14.6x	13.4x
Stantec Inc.	STN	\$12,615	\$14,684	11%	20%	16%	15.4x	13.8x	12.6x
Atkinsrealis Group Inc.	ATRL	\$12,837	\$14,742	9%	35%	9%	16.6x	13.7x	12.0x
BluMetric Environmental Inc.	BLM	\$28	\$32	N/A	N/A	3%	32.9x	N/A	N/A
Average				9%	26%	12%	20.5x	14.0x	12.7x
Water & Wastewater Treatment									
Veolia Environnement SA	VIE	\$29,553	\$58,938	4%	11%	15%	5.8x	5.5x	5.2x
Xylem Inc.	XYL	\$45,819	\$47,431	14%	24%	21%	18.8x	17.3x	15.8x
Kemira Oyj	KEMIRA	\$4,568	\$5,060	-4%	3%	20%	5.7x	5.8x	5.7x
Consolidated Water Co. Ltd.	CWCO	\$604	\$465	17%	24%	21%	11.2x	10.5x	N/A
Average				8%	16%	19%	10.4x	9.8x	8.9x
BQE Water Inc.	BQE	\$77	\$68	17%	32%	27%	10.0x	8.1x	7.4x

Figure 1: Peer Group Analysis (Source: Capital IQ)

However, if we do assume that the other blue-sky events occur, we can see 2027E EBITDA rising to \$15M (compared to our current estimate of \$9.8M). Combining this with the multiple expansion to 13x, would result in a valuation of \$156/share, ranging from \$99/share to \$224/share; as seen in the sensitivity analysis below.

		2027E EBITDA Multiple				
		11.0x	12.0x	13.0x	14.0x	15.0x
2027E EBITDA	\$11M	\$99.00	\$108.00	\$116.00	\$124.00	\$133.00
	\$13M	\$116.00	\$126.00	\$136.00	\$146.00	\$156.00
	\$15M	\$133.00	\$144.00	\$156.00	\$167.00	\$179.00
	\$17M	\$150.00	\$163.00	\$176.00	\$189.00	\$202.00
	\$19M	\$166.00	\$181.00	\$195.00	\$210.00	\$224.00

Figure 2: Blue Sky Sensitivity Analysis

Q4 Preview

BQE will be reporting Q4 financial results towards the end of April. Our expectations are:

- Proportional revenue of \$6.0M (+11% YoY)
- Gross margin of 49% (vs. 55% in Q4/23)
- Adjusted EBITDA of \$1.0M (+92% YoY, 17% margin)
- Net income of \$0.5M (vs. \$0.2M in Q4/23) or \$0.40/share (vs. \$0.20/share)

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 or M&A – 2025

Tear Sheet

Market Data		Capital Structure	
Ticker	BQE:TSXV	Basic Shares Outstanding (M)	1.3
Stock Price	\$59.01	Warrants (M)	0.0
Rating	BUY	Options (M)	0.1
Target Price	\$80.00	FD Shares (M)	1.3
Upside	36%	FD ITM Shares (M)	1.3
Market Cap (\$M)		Ownership	
Cash (\$M)	\$77.3	Management & Board	8%
Debt (\$M)	\$11.0	Other Insiders	46%
EV (\$M)	\$68.3	Retail	46%

Financial Estimates												
	2022A	Q1/23A	Q2/23A	Q3/23A	Q4/23A	2023A	Q1/24A	Q2/24A	Q3/24A	Q4/24E	2024E	2025E
Revenue (\$M)	12.2	2.7	4.2	6.2	5.0	18.1	2.5	3.4	6.8	5.2	17.9	20.8
Proportional Revenue (\$M)	18.9	3.6	5.8	8.0	5.4	22.7	3.4	6.1	10.2	6.0	25.7	29.1
% YoY	21%	1%	12%	40%	21%	20%	-4%	5%	28%	11%	13%	13%
Gross Profit (\$M)	5.1	1.0	2.0	3.3	2.8	9.1	1.1	1.6	3.9	2.5	9.1	10.6
Gross Margin	42%	37%	48%	53%	55%	50%	44%	47%	57%	49%	51%	51%
Adj. EBITDA (\$M)	3.1	(0.1)	1.5	2.7	0.5	4.7	(0.1)	1.3	4.6	1.0	6.8	8.4
Adj. EBITDA Margin	16%	-2%	25%	34%	10%	20%	-4%	22%	45%	17%	27%	29%
Net Income (\$M)	1.2	(0.3)	0.6	2.1	0.2	2.7	(0.5)	0.6	3.7	0.5	4.3	5.9
EPS (Basic)	0.93	(0.27)	0.49	1.71	0.20	2.12	(0.39)	0.44	2.91	0.40	3.36	4.61
FCFF (\$M)	(0.5)	(0.4)	(0.6)	0.6	1.0	0.5	0.3	(1.9)	3.3	1.2	2.9	5.2

Figure 3: Tear Sheet

	Q4/24E		2024E		2025E	
	New	Previous	New	Previous	New	Previous
Prop. Revenue (\$M)	\$6.0	\$6.0	\$25.7	\$25.7	\$29.1	\$29.1
GAAP Revenue (\$M)	\$5.2	\$5.2	\$17.9	\$17.9	\$20.8	\$20.8
Gross Margin (%)	49%	49%	51%	51%	51%	51%
Adj. EBITDA (\$M)	\$1.0	\$1.5	\$6.8	\$7.3	\$8.4	\$8.4

Figure 4: Estimate Revisions

Disclosures

Analyst Certification

Each authoring analyst of Atrium Research on this report certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated securities discussed (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research, (iii) to the best of the authoring analyst's knowledge, she/he is not in receipt of material non-public information about the issuer, (iv) the analyst does not own common shares, options, or warrants in the company under coverage, and (v) the analysts adhere to the CFA Institute guidelines for analyst independence.

Atrium Research Ratings System

BUY: The stock is expected to generate returns of over 20% over the next 24 months.

HOLD: The stock is expected to generate returns of 0-20% over the next 24 months.

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	19
HOLD	0
SELL	0

About Atrium Research

Atrium Research provides institutional quality issuer paid research on public equities in North America. Our investment philosophy takes a 3-5 year view on equities currently being overlooked by the market. Our research process emphasizes understanding the key performance metrics for each specific company, trustworthy management teams, unit economics, and an in-depth valuation analysis. For further information on our team, please visit <https://www.atriumresearch.ca/team>.

General Information

Atrium Research Corporation (ARC) has created and distributed this report. This report is based on information we considered reliable; we have not been provided with any material non-public information by the company (or companies) discussed in this report. We do not represent that this report is accurate or complete and it should not be relied upon as such; further any information in this report is subject to change without any formal or type of notice provided. Investors should consider this report as only one factor in their investment decisions; this report is not intended as a replacement for investor's independent judgment.

ARC is not an IIROC registered dealer and does not offer investment-banking services to its clients. ARC (and its employees) do not own, trade or have a beneficial interest in the securities of the companies we provide research services for and does not serve as an officer or Director of the companies discussed in this report. ARC does not make a market in any securities. This report is not disseminated in connection with any distribution of securities and is not an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal.

ARC does not make any warranties, expressed or implied, as to the results to be obtained from using this information and makes no express of implied warranties for particular use. Anyone using this report assumes full responsibility for whatever results they obtain. This does not constitute a personal recommendation or take into account any financial or investment objectives, financial situations or needs of individuals. This report has not been prepared for any particular individual or institution. Recipients should consider whether any information in this report is suitable for their particular circumstances and should seek professional advice. Past performance is not a guide for future results, future returns are not guaranteed, and loss of original capital may occur. Neither ARC nor any person employed by ARC accepts any liability whatsoever for any direct or indirect loss resulting from any use of its research or the information it contains.

This report contains "forward looking" statements. Forward-looking statements regarding the Company and/or stock's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Such statements involve a number of risks and uncertainties such as competition, technology shifts, market demand and the company's (and management's) ability to correctly forecast financial estimates; please see the company's MD&A "Risk Factors" Section for a more complete discussion of company specific risks for the company discussed in this report.

ARC is receiving a cash compensation from BQE Water Inc. for 12-months of research coverage. ARC retains full editorial control over its research content. ARC does not have investment banking relationships and does not expect to receive any investment banking driven income. ARC reports are primarily disseminated electronically and, in some cases, printed form. Electronic reports are simultaneously available to all recipients in any form. Reprints of ARC reports are prohibited without permission. To receive future reports on covered companies please visit <https://www.atriumresearch.ca/research> or subscribe on our website.

The information contained in this report is intended to be viewed only in jurisdictions where it may be legally viewed and is not intended for use by any person or entity in any jurisdiction where such use would be contrary to local regulations or which would require any registration requirement within such jurisdiction.