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Research Note

BQE Water – Monster Q1 Beat on Technical Services Outperformance

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

Rating	Target Price
BUY	**$80.00**
Unchanged	*Unchanged*

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All figures in CAD unless otherwise stated

BQE Water Inc.	**BQE:TSXV**
Rating	BUY
Target Price	$80.00
Return to Target	43%

Market Data	
Share Price	$55.99
Average Daily Volume	410.0
FD ITM Shares (M)	1.3
Market Cap ($M)	$73.5
Cash ($M)	$11.1
Debt ($M)	$2.2
Enterprise Value ($M)	$64.6

FYE Dec 31	**2024A**	**2025E**	**2026E**
Proportional Revenue ($M)	$24.8	$30.6	$34.1
Revenue ($M)	$17.2	$29.9	$0.0
Gross Margin (%)	49%	46%	51%
Adj. EBITDA ($M)	$5.6	$9.1	$10.5
Adj. EBITDA Margin (%)	23%	30%	31%
Net Income ($M)	$4.8	$7.0	$7.4
EPS (Basic)	$3.78	$5.39	$5.71
FCFF ($M)	$2.5	$6.7	$6.1

Valuation	**2024A**	**2025E**	**2026E**
EV/EBITDA	11.6x	7.1x	6.2x
P/E	14.8x	10.4x	9.8x
FCF Yield (%)	4%	10%	10%
EV/Sales	2.6x	2.1x	1.9x

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.

What you need to know:

- BQE reported Q1 financial results that largely smashed our estimates across the board due to rapid growth in its technical services segment.
- Q1 proportional revenue came in at $7.9M (+133% YoY), beating our estimate of $3.9M. Adjusted EBITDA was $1.9M (24% margin) compared to our estimate of breakeven (0% margin).
- Management is expecting continued strong financial results over the next two quarters due to good visibility into the operations and technical services segments.

Yesterday after market close, BQE Water (BQE:TSXV, BTQNF:OTC) reported Q1 financials that largely beat our expected numbers due to strong performance from its technical services segment. The quarter was BQE's best Q1 in its history. As such, BQE remains one of our highest-conviction ideas in our coverage universe with potential for the trifecta of earnings growth multiple expansion, and strategic capital allocation. **We are maintaining our BUY rating and $80.00/share target price on BQE Water.**

Key Highlights

- Q1 proportional revenue came in at $7.9M (+133% YoY) vs. our estimate of $3.9M. This was comprised of $2.0M in operations services revenue (+10% YoY), $5.5M in technical services revenue (+663% YoY), and $0.5M in BQE's share of JV revenue (-44% YoY).
- As for the operations services segment, no new operations were added to the existing portfolio of plants.
- The projects contributing to the major growth in technical services included the design and construction of the Valley Tailings plant in the Yukon, advisory and treatment services for the Eagle Gold Mine, detailed design of a sulphate removal plant that will go into construction in B.C., and the detailed design of a cyanide removal plant in the U.S.
- Gross margin was 43% vs. our estimate of 44% and 44% in Q1/24.
- Adjusted EBITDA for the quarter was $1.9M vs. our estimate of ($0.0M). This represents a 24% margin compared to (4%) in Q1/24.
- BQE's share of JV net income was $0.1M, compared to $0.3M in Q1/24.
- Net income was $1.7M vs. our estimate of ($0.3M) and ($0.5M) in Q1/24.
- The Company ended the quarter with $11.1M in cash after generating $1.7M in OCF (before WC). BQE ended the quarter with $2.2M in debt.

	Q1/25A	Atrium Est.	YoY
Proportional Revenue ($M)	**$7.9**	$3.9	+133%
GAAP Revenue ($M)	**$7.4**	$3.1	+197%
Gross Margin (%)	**43%**	44%	-101 bps
Adj. EBITDA ($M)	**$1.9**	($0.0)	N/A
Adj. EBITDA Margin (%)	**24%**	0%	+2717 bps

Figure 1: Q1 Financials Summary

Outlook

Management stated that it has recently advanced several projects into the plant design and construction phase. BQE expects continued strong results over the next two quarters as it makes progress and completes these large projects, which have potential for new recurring revenue. In Q1, BQE renewed two operating contracts in the U.S. that were expiring in the next 4-12 months. The scope of operating services were reduced, but the term was extended for five years with an extension option for an additional two years.

The strength in technical services will more than offset the reduction in scope and is expected to mitigate BQE's exposure to the geopolitical risks of operating in China. Management now has good visibility and certainty over existing operations contracts and large technical services contracts including:

- Commissioning of a third SART plant in China followed by the start of new recurring operations services
- Commissioning of the fourth Selen-IX™ plant in the U.S. followed by the start of ongoing operations support services
- Pilot demonstration of Selen-IX™ at a mine in the U.S.
- Construction and commissioning of the Valley Tailings treatment plant
- Several feasibility, pre-feasibility, and pilot demonstration projects in Chile and Brazil.

Our Take

We believe that the quarter speaks to the quality and trustworthiness of management; We recall Q1/24 when technical services dropped to $0.7M and management stated that it would recover through H2/24 and into 2025. This is indeed what happened, proving again that the BQE team executes on what they say they will do. We remind readers that Q1 is traditionally the weakest quarter for BQE each year. We view the outlook presented today as highly bullish for the remainder of the year, with Q1 putting BQE well ahead of schedule. For 2025, our model now assumes 24% YoY proportional revenue growth and 65% YoY growth for adjusted EBITDA.

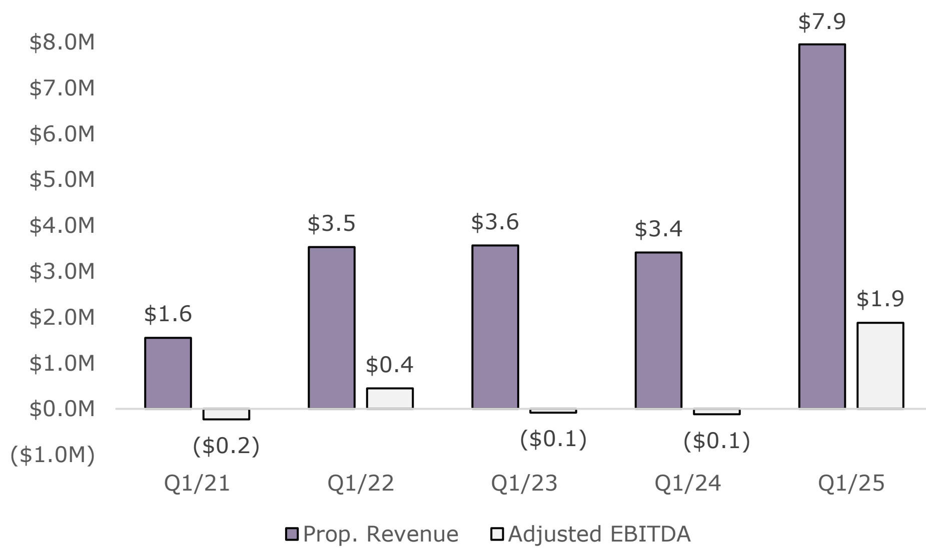

Figure 2: Q1 Financial History

Valuation

BQE currently trades at 7.1x/6.2x 2025E/2026E EBITDA compared to engineering services firms at 16.6x/13.2x and water treatment firms at 10.8x/8.7x. We will also highlight the emergence of BluMetric Environmental (BLM:TSXV, +86% YTD), which is now likely the closest peer to BQE; BluMetric trades at 8.5x 2026E EBITDA. We have updated our model to reflect better performance from technical services and weaker performance from the other two segments. We continue to value BQE at $80.00/share, equating to 10.5x 2025E EBITDA or 9.2x 2026E EBITDA.

Why We Like BQE

- BQE has a growing stream of recurring revenue (operation services). Recurring revenue represented 13% of proportional revenue in 2020 and has grown to 42% in 2024.
- 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 23% in 2024. 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 (Including "Company Maker" Projects) – Ongoing
- Share Repurchases & Acquisitions – 2025
- Following a solid start to 2025, management reiterated its outlook for another record year, supported by new project momentum,

Estimate Revisions

	Q2/25E		Q3/25E		2025E		2026E	
	New	Previous	New	Previous	New	Previous	New	Previous
Prop. Revenue ($M)	**$7.2**	$7.1	**$9.8**	$11.5	**$30.6**	$28.7	**$34.1**	$32.1
GAAP Revenue ($M)	**$5.9**	$4.7	**$8.1**	$8.5	**$26.6**	$22.0	**$29.9**	$25.2
Gross Margin (%)	**47%**	47%	**47%**	47%	**46%**	48%	**51%**	51%
Adj. EBITDA ($M)	**$2.2**	$2.2	**$3.1**	$3.7	**$9.1**	$8.2	**$10.5**	$10.1

Figure 3: Estimate Revisions

Tear Sheet

Market Data	
Ticker	BQE:TSXV
Stock Price	$55.99
Rating	BUY
Target Price	$80.00
Upside	43%
Market Cap ($M)	$73.5
Cash ($M)	$11.1
Debt ($M)	$2.2
EV ($M)	$64.6

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

Ownership	
Management & Board	8%
Other Insiders	45%
Retail	47%

Financial Estimates	2023A	Q1/24A	Q2/24A	Q3/24A	Q4/24A	2024A	Q1/25A	Q2/25E	Q3/25E	Q4/25E	2025E	2026E
Revenue ($M)	**18.1**	**2.5**	**3.4**	**6.2**	**5.1**	**17.2**	**7.4**	**5.9**	**8.1**	**5.2**	**26.6**	**29.9**
Proportional Revenue ($M)	**22.7**	**3.4**	**6.1**	**9.5**	**5.8**	**24.8**	**7.9**	**7.2**	**9.8**	**5.7**	**30.6**	**34.1**
% YoY	*20%*	*-4%*	*5%*	*20%*	*6%*	*9%*	*133%*	*19%*	*2%*	*-1%*	*24%*	*11%*
Gross Profit ($M)	**8.3**	**1.1**	**1.6**	**3.7**	**2.0**	**8.4**	**3.2**	**2.8**	**3.8**	**2.6**	**12.3**	**15.3**
Gross Margin	*46%*	*44%*	*47%*	*59%*	*40%*	*49%*	*43%*	*47%*	*47%*	*49%*	*46%*	*51%*
Adj. EBITDA ($M)	**4.7**	**(0.1)**	**1.3**	**4.4**	**(0.0)**	**5.6**	**1.9**	**2.2**	**3.1**	**1.9**	**9.1**	**10.5**
Adj. EBITDA Margin	*20%*	*-4%*	*22%*	*46%*	*0%*	*23%*	*24%*	*30%*	*32%*	*33%*	*30%*	*31%*
Net Income ($M)	1.9	(0.5)	0.6	3.5	1.2	4.8	1.7	1.6	2.4	1.3	7.0	7.4
EPS (Basic)	2.12	(0.39)	0.44	2.91	0.96	3.78	1.34	1.21	1.82	1.01	5.39	5.71
FCFF ($M)	0.5	0.3	(1.9)	3.3	0.8	2.5	(1.0)	1.9	3.6	2.3	6.7	6.1

Figure 4: Tear Sheet

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SELL	0

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