

CORPORATE

Share Price 1175p

Ticker WATR
 Index FTSE AIM
 Sector Support Services
 Market Cap £180m

MORNING COMMENT

Water Intelligence

Small, but great acquisition; following on from an impressive update last week

WATR is a leading supplier, across multiple geographies, of precision, minimally-invasive leak detection and remediation solutions for water, drinking and otherwise. Last week's Q3 update showed how the company is progressing rapidly – in the first nine months, revenues were up 43% YoY, EBITDA up 48% and PBTA +42%, impressive numbers by any measure. This morning's announcement that WATR has acquired Wat-er-save Services highlights (1) the company's ability to make acquisitions at an attractive price, (2) its wide-ranging offering to residential, commercial and public customers, as well as (3) its geographical ambitions and ability to fulfil them. Although small, the target is not just profitable but, providing leak detection, repair and water infrastructure services, highly synergistic with the existing business. At group level, WATR has generated impressive 5-year CAGR rates of 33% (revenues) and 53% (PBTA), which provide evidence for the strength of the operating model and the value of its highly focused strategy, as well as growing demand for their services arising from well-publicised and highly topical issues around water. The fundamentals remain strong, with the cost of water rising and the regulatory framework expanding. Our fair value is raised to 1350p following the strong update and this morning's acquisition (was: 1300p).

- Synergistic acquisition for a good price** WATR's acquisition of Wat-er-save Services builds on a series of opportunities for the company in the UK, where it has had a presence for a number of years. Providing leak detection, repair and water infrastructure services to clients which range from universities to resorts, it is self-evidently highly synergistic with WATR's core business. Acquired for price / sales of 0.74x and 2.8x PBT, with an acquisition price of £0.7m, the deal illustrates WATR's ability to source attractive deals at sensible prices. We see excellent prospects for cross-sells into the target's existing client base, and believe that the deal will prove accretive as highlighted by the company.
- Deal follows on from strong 9m update** Last week's update from WATR reflected again the very strong progress the company has been making, with all of the business strands firing well. Overall impressive YoY increases in the 40 – 50% range cloaked a 78% rise in Corporate Services revenues, while the franchise business made continued progress despite reacquisitions.
- Strong and topical opportunity** We expect WATR to continue to benefit from major underlying secular trends, notably the growing scarcity (and value) of water, its ability to replicate its model in new or under-penetrated geographies (including the UK), its strong reach in the US, where it has no fewer than 150 sites across 46 states, and an increasingly strong spread of businesses all focused around the same area but at a different angle to it, eg its recent acquisition of a plumbing company, and its new-found partnership with a National Home Builder in the US. Its IP remains at the sector forefront and it has shown its ability to grow both organically and by acquisition.
- Forecasts** Having put our numbers under review last week, we now upgrade them, bearing in mind the very strong drivers which last week's update demonstrated. We are lifting our adj. PBTA forecast for the current year from \$US6.25m to \$US6.55m (adj. EPS rises from 25.9c to 27.1c. Next year's profits are upgraded from \$US7.6m to \$US7.8m (adj. EPS from 31.4c to 32.3c). Our net cash forecast is reduced marginally to allow for the acquisition and ongoing investment. We continue to see upside for the shares, and have raised our fair value assessment again, from 1300p to 1350p.

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Estimates (Dec)	2018A	2019A	2020A	2021E	2022E
Revenue (\$USm)	25.5	32.4	37.9	49.0 (48.3)	57.5 (57.0)
Adj. PBT (\$USm)	2.5	3.35	5.06	6.55 (6.25)	7.8 (7.6)
EPS (USc) fd	12.7	15.3	22.8	27.1 (25.9)	32.3 (31.4)
PER (x)	126.1	101.2	69.9	58.9	49.4
EV/EBITDA (x)	97.7	60.5	39.5	30.0	24.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0
Net Cash (\$USm)	2.5	2.0	-1.9	1.0 (3.0)	1.8 (3.6)

Source: WHI Research

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Corporate	61	95.3	61	100.0
Buy	3	4.7	0	0.0
Speculative Buy	0	0.0	0	0.0
Outperform	0	0.0	0	0.0
Market Perform	0	0.0	0	0.0
Underperform	0	0.0	0	0.0
Sell	0	0.0	0	0.0
Total	64.0	100.0	61.0	100.0

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Company Name	Table of interest number	12-month recommendation history	Date
Water Intelligence (WATR)	1,2,3,4,5,7	Corporate	14.02.19

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