

Price Data

Price:	1120p
Shares in Issue:	16.3m
52 Week High/ Low:	1394/445p
Market Cap:	£184m
Market:	AIM
Broker:	Dowgate/WHI/RBC
Ticker:	WATR.L
Target Price:	1425p

Share Price Performance

BUY



Source: London Stock Exchange

Activities

An environmental services and technology company focused on detecting, finding and remediating water leaks using minimally invasive technology solutions.

Board & Senior Management

Dr Patrick DeSouza	Exec Chairman
Pat La Marco	CFO
Laura Hills	Exec Director
Bobby Knell	Non-Exec Dir
Michael Reisman	Non-Exec Dir
Dan Ewell	Non-Exec Dir

Major shareholders, %

Patrick DeSouza	28.2
Plain Sight Systems	13.7
Canaccord	9.2
Berenberg	6.2
George Yancopolous	4.8
Amati	4.6
Herald	3.4

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Q3 Trading Update

Water Intelligence has released a very strong Q3 update and at the 9m stage has now already achieved our FY21 Normalised PBT forecast. Group revenues advanced +43% for the 9m, led by US Corporate-Owned Locations (+79%) and International Corporate-Owned Locations (+47%), supported by Franchise Royalty Income and Franchise-Related Sales, which both grew +4%. Normalised PBT for 9m was \$6.5m, equal to our FY21 estimate. The group was very active in Q3, with a Midwest Home Builder contract win developing the B2B channel beyond insurance. In addition, the group won a further national insurance channel and completed franchise reacquisitions in Northeast Florida and Las Vegas & Phoenix. Water Intelligence indicates that the corporate development pipeline for Q4 and 2022 is 'strong'. The group guides that it expects FY21 results to be at the high end of estimates. We upgrade our top-of the range estimate to \$6.6m (was \$6.5m) and see further upside potential for Q4. We raise our target price to 1425p (was 1400p).

- 9m update.** Water Intelligence reported 9m revenues of \$39.7m, up +43% on the same period last year and ahead of the \$37.9m delivered in FY20. US Corporate-Owned Locations grew +79% to \$22.8m and International Corporate-Owned Locations advanced +47% to \$4.4m. Notwithstanding franchise reacquisitions, Franchise Royalty Income rose +4% to \$5.3m, a growth rate matched by Franchise-Related Sales (+4% to \$7.2m). Normalised PBT emerged at \$6.5m, equal to our FY21 estimate and up +42% on \$4.6m for 9m 2020 and well ahead of the \$5.1m that was delivered in FY20.
- H1 results.** Water Intelligence reported very strong H1 results in September, with Normalised PBT +77% to \$4.2m. Group revenues grew +44% to \$24.7m with notably strong performances in corporate-operated locations (US +75% to \$13.3m, International +65% to \$2.8m) as robust underlying growth was fortified by franchise reacquisitions. Group EBITDA leapt +75% to \$5.6m with margin expanding +370bp to a strong 22.7%.
- Forecasts.** At the September interims we raised our PBT forecasts by +7% to \$6.5m (was \$6.1m) in FY21 and by +5% to \$8.0m (\$7.5m) for 2022. We note that the group has already achieved our FY21 forecast at the 9m stage and upgrade our top end of the range forecast again to \$6.6m (was \$6.5m). Given the strong trading momentum, we continue to see upside to this estimate.

Financials and valuations

Year to December (\$m)	2019	2020	2021E	2022E
Revenues	32.4	37.9	49.0	57.0
Normalised PBT	2.9	5.1	6.6	8.0
Normalised EPS, c	14.2	24.4	26.9	32.3
Normalised EPS, p	11.1	17.7	19.3	23.1
Adjusted P/E (x)	113.1	70.8	65.5	54.4
Net cash/ (debt)	0.0	0.0	3.0	3.4

Source: Water Intelligence (historic), Dowgate Capital (forecast)

Profit & Loss

Year to December (\$m)	2019	2020	2021E	2022E
Revenues				
Franchise royalty income	6.5	6.7	7.0	7.1
Franchise related activities	8.0	9.5	10.4	11.4
US corporate operated	14.4	17.4	26.0	31.6
Int'l corporate operated	3.4	4.3	5.7	6.8
Group Revenues	32.4	37.9	49.0	57.0
<i>Growth, %</i>	27	17	29	16
Adjusted EBITDA	3.7	6.7	9.3	10.8
<i>Margin, %</i>	11.5	17.7	19.0	19.0
Depreciation	(1.3)	(1.5)	(2.2)	(2.4)
Adjusted Operating Profit	3.2	5.2	7.1	8.4
AOP margin, %	9.9	13.7	14.5	14.8
Net interest	(0.3)	(0.1)	(0.6)	(0.4)
Normalised PBT	2.9	5.1	6.6	8.0
Headline PBT	2.4	4.9	6.6	8.0
Tax charge - Normalised	(0.8)	(1.3)	(2.0)	(2.4)
Tax rate, %	28.1	26.2	30.0	30.0
Normalised Earnings	2.0	3.8	4.6	5.6
Average shares in issue, m	14.4	15.4	17.0	17.4
Normalised EPS, c	14.2	24.4	26.9	32.3
Normalised EPS, p	11.1	17.7	19.3	23.1
Dividend per share, c	0.0	0.0	0.0	0.0

Source: Water Intelligence, Dowgate Capital estimates

Cash Flow & Balance Sheet

Year to December (\$m)	2019	2020	2021E	2022E
Cash Flow, \$m				
Operating Profit	2.7	4.3	7.1	8.4
Depreciation	1.3	1.6	2.2	2.4
Working Capital	1.8	(0.8)	(0.5)	0.0
Other	0.5	1.0	(0.5)	0.0
Cash from Operations	6.2	6.1	8.3	10.8
Interest	0.0	(0.3)	(0.6)	(0.4)
Taxation	(0.5)	(1.0)	(1.0)	(1.0)
Net Cash from Operating	5.7	4.8	6.7	9.4
Acquisitions	0.0	(0.3)	0.0	0.0
Capex	(3.3)	(0.8)	(3.0)	(3.0)
Reacquisition of Franchises	(3.2)	(9.2)	(8.3)	(6.0)
Other	(1.2)	0.1	0.0	0.0
Net Cash used in Investing	(7.7)	(10.2)	(11.3)	(9.0)
Issue of Shares	2.7	5.0	7.5	0.0
Dividends	0.0	0.0	0.0	0.0
FX/ Other	(0.9)	0.4	0.1	0.0
Net Cash from Financing	1.8	5.4	7.6	0.0
Net Flow	(0.2)	0.0	3.0	0.4
Closing Net Cash/ (Debt)	0.0	0.0	3.0	3.4

Source: Water Intelligence, Dowgate Capital estimates

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Recommendations definitions

We expected the indicated target price to be achieved within 12 months of the date of publication. Expected absolute returns:

- BUY is an expected return greater than 10%;
- HOLD is an expected return -10% to +10%;
- SELL is an expected return less than -10%.

Distribution of Investment Recommendations as per 30/9/2021

	Corporate No.	Corporate %	No.	%
Buy	216	100	216	100
Hold	0	0	0	0
Sell	0	0	0	0

Valuations, Key Assumptions and Risks

Details relating to valuation (including material information about proprietary models), key assumptions and risks are available by contacting compliance@dowgate.co.uk

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The company has seen a draft of the note and minor factual amendments have subsequently been made.

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