

MORNING COMMENT

Water Intelligence

CORPORATE

Share Price 385p

Ticker WATR
 Index FTSE AIM
 Sector Support Services
 Market Cap £67.7m

Continued double digit profit growth; 2023E inline; good start to FY24E

WATR's detailed update this morning highlights continued delivery of double-digit profit growth. WATR is a supplier of in-demand technology-led water leak detection and related services across the whole of the US, with rarity / uniqueness in being a nationwide provider of these services, while also operating in international markets including the UK, Australia, and Canada. This morning's update highlights the challenges posed by rising rates and sticky inflation, with despite this WATR turning out a very respectable performance, generating (a) adjusted PBT up 14%, (b) strong performance from overseas locations (revenues +14%) and (c) net cash on the balance sheet (excluding deferred franchise reacquisition payments). The strong profit growth announced today is well aligned to historic double digit CAGR rates, and we note that margins have increased at the adj. PBT and EBITDA levels. As ever, WATR's market is characterised by good underlying levels of demand in a substantial market (considered to be \$US20bn-plus by industry sources in the US alone), and WATR benefits from being a national player. Acquisition of the Pittsburgh franchise, announced with this morning's update, represents an opportunity in a promising location and is for a low price. Technology investment is expected to generate further growth in the current year and beyond. We believe that the current WATR share price presents a genuine and convincing opportunity both in the near and medium terms.

- Solid progress** This morning's update from WATR represents very solid progress and remains in line with market expectations. Revenues at \$US76m (+7%) are marginally ahead of our \$US75.5m forecast, as is EBITDA at \$US13.4m (+9%), with adjusted PBT (ie stripping out non-cash expenses) increasing by as much as 14% to \$US8.7m. The 17.6% EBITDA margin is ahead YoY again (prior year: 17.3%), and the PBT margin is also lifted (11.5% plays prior year 10.9%). The company has generated cash, closing the year with a net cash position (excluding deferred franchise acquisition payments). We note that the company is flagging a good start to the year, with encouraging momentum.
- Franchises flat as before; other divisions making progress** As ever, there is a changing mix among the businesses, with International strengthening (+14%, up from +10% on a 10-month basis) and Corporate sales standing at +6% YoY. The insurance channel (Franchise-related) lifted sales by 6% as against the prior year, while Franchise royalty, unchanged, saw noteworthy reacquisitions such as Nashville, Tennessee and Covina, California, while underlying growth is stated to have been 3%.
- New investment** Previously, the company announced extensive new facilities at its Bridgeport, Connecticut, site. It has also invested in new proprietary products and commercialised a new water management system. Data acquisition and utilisation presents further client opportunities, and in addition, the Salesforce partnership is expected to yield fruit in the coming year.
- Low rating provides attractive entry point** Current forward ratings are low given continued double digit profit growth. During most of the past decade, WATR has commonly traded on 20x or above PEs versus a ratio of 12x currently. As the company continues to grow in line with its long-term strategy, which envisages the greatest possible reward from its end markets through adept management of franchise, reacquisition and corporate opportunities as it exploits a sizeable demand pipeline and continues to grow margins, we see compelling near and medium term upside from the shares, as demonstrated by Directors' ongoing decision to take their pay in shares rather than cash.

Marketing Communication

This document has not been prepared in accordance with legal requirements designed to promote the independence of investment research. Please refer to important disclosures towards the end of this document.

Under the Markets in Financial Instruments Directive II ("MiFID II"), this research is paid for by the subject issuer as declared in the disclosure and disclaimer pages of this document.

Analyst

Nick Spoliar
 +44 (0)20 7220 1761
nick.spoliar@whirelandcm.com

Charlie Cullen
 +44 (0)20 7220 1678
charlie.cullen@whirelandcm.com

Estimates (Dec)	2020A	2021A	2022A	2023E	2024E
Revenue (\$USm)	37.9	54.5	71.3	76.0	80.0
EBITDA (adj.) (\$USm)	6.8	9.1	12.4	13.4	14.2
Adj. PBT (\$USm)	5.06	6.92	7.8	8.7	9.6
EPS (USc) fd	22.9	27.6	31.4	35.3	39.1
PER (x)	21.0	17.4	15.3	13.6	12.3
EV/EBITDA (x)	12.9	6.8	6.7	6.1	5.7
Net cash (US\$m)	-1.9	15.8	6.4	1.4	3.0

Source: WHI Research

WH Ireland Limited, 24 Martin Lane, London, EC4R 0DR, tel. 020 7220 1666

WHIreland is authorised and regulated by The Financial Conduct Authority and is a member of The London Stock Exchange.

Important disclosures and certifications regarding companies that are the subject of this report can be found within the disclosures page at the end of this document.

Contacts

Research

Charlie Cullen		020 7220 1678	charlie.cullen@whirelandcm.com
John Cummins		020 7220 1755	john.cummins@whirelandcm.com
Matthew Davis		0113 394 6620	matthew.davis@whirelandcm.com
Brendan Long	Oil & Gas	020 7220 1694	brendan.long@whirelandcm.com
Paul Smith	Mining	0113 394 6609	paul.smith@whirelandcm.com
David Seers	Mining	0113 394 6610	david.seers@whirelandcm.com
Nick Spoliar		020 7220 1761	nick.spoliar@whirelandcm.com
Emma Ulker	Healthcare	020 7398 1141	emma.ulker@whirelandcm.com

Sales & Trading

Harry Ansell		020 7220 1670	harry.ansell@whirelandcm.com
Dan Bristowe		020 7220 1648	daniel.bristowe@whirelandcm.com
Stephen Frohlich		020 7220 0492	stephen.frohlich@whirelandcm.com
Beverley Gibbons		020 7220 0479	beverley.gibbons@whirelandcm.com
George Krokos		020 7398 1106	george.krokos@whirelandcm.com
Fraser Marshall		020 7220 0484	fraser.marshall@whirelandplc.com

Investor Relations

Laetitia Bradamante		020 7398 1136	laetitia.bradamante@whirelandcm.com
---------------------	--	---------------	-------------------------------------

Marketing Communication

This research report is disseminated by WH Ireland Limited (“WHI”) which is authorised and regulated by the Financial Conduct Authority (“FCA”) and is a member of the London Stock Exchange. This research report is intended for the sole use of the person for whom it is addressed and is not intended for private individuals or those classified as Retail Clients as defined by the Markets in Financial Instruments Directive 2004/39/EC (“MiFID”).

Non-independent research

This research report is marketing communications and is produced in accordance with the FCA’s Conduct of Business Sourcebook. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. However, WHI is required by the FCA to have policies in place to identify and manage the conflicts of interest which may arise in the production and dissemination of this research report, such management of conflicts include a firm wide ban of PA dealings in any issuer under research coverage.

Planned frequency of updates to recommendation

WHI does not have a schedule for issuing research recommendations, they are issued whenever the research analyst and members of the research team alone deem it relevant, but usually in the event of significant development.

Disclaimer

This research report has been approved under part IV article 19 of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “FPO”) by WHI for communication in the United Kingdom only to investment professionals as that term is defined in article 19(5) of the FPO. Its contents are not directed at, may not be suitable for and should not be relied on by anyone who is not an investment professional including retail clients. This research report is for distribution only as may be permitted by law. It is not directed to, or intended for distribution to or use by, any person or entity in any jurisdiction where doing so would be contrary to law or regulation or would subject WHI to any registration or licensing requirement within such jurisdiction. This research report is not an offer or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy. It does not constitute a personal recommendation and recipients must satisfy themselves that any dealing is appropriate in the light of their own understanding, appraisal of risk and reward, objectives, experience, and financial and operational resources.

The information herein is believed to be reliable and has been obtained from public sources believed to be reliable. WHI makes no representation or warranty, either express or implied, as to the accuracy or completeness of such information. Any opinions expressed in this research report may change without notice and may differ or be contrary to opinions expressed by other business areas of WHI. Any statements contained in this report attributed to a third party represent WHI’s interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. Investments involve risks, and investors should exercise prudence and their own judgement in making their investment decisions. The financial instruments described in this research report may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors, and trading in these instruments is considered risky. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument referred to in this research report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative.

The value of any investment or income may go down as well as up, and investors may not get back the full amount invested. Past performance is not necessarily a guide to future performance. WHI accepts no fiduciary duties to the reader of this research report and in communicating it WHI is not acting in a fiduciary capacity. Neither WHI nor any of its directors, employees or agents accepts any liability for any loss (including investment loss) or damage arising out of the use of all or any of the Information.

As of the month ending 31st January 2024 the distribution of all our published recommendations is as follows:

Recommendation	Total Stocks	Percentage %	Corporate	Percentage %
Corporate	68	100.0	68	100.0
Buy	0	0.0	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	68	100.0	68	100.0

WH Ireland Limited, 24 Martin Lane, London, EC4R 0DR, tel. 020 7220 1666

WHIreland is authorised and regulated by The Financial Conduct Authority and is a member of The London Stock Exchange.

Important disclosures and certifications regarding companies that are the subject of this report can be found within the disclosures page at the end of this document.

Valuation and Risks

For details relating to valuation and risks for subject issuers, please refer to the comments contained herein or in previously published research reports or sector notes.

Time and date of recommendation and financial instruments in the recommendation

The time and date when the production of this research recommendation is published is the date and time found in the header of the email carrying the research report.

Any prices stated in this document are for information purposes only, there is no representation that any transaction can or could have been effected at those prices. Different assumptions by any other source may yield substantially different results. Where a price of a financial instrument is quoted it will generally, in the absence of the contrary, be the closing mid-point price at the close of business the day before publication date.

A draft of this research report has been shown to the company following which factual amendments have been made.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of WHI and WHI accepts no liability whatsoever for the actions of third parties in this respect.

By accepting this document, you agree to be bound by the disclaimers stated above. Please refer to <https://www.whirelandplc.com/capital-markets/coi-for-research> for conflicts of Interest regarding Non-Independent Research.

Company/Issuer Disclosures

Company Name	Table of interest number	12-month recommendation history	Date
Water Intelligence (WATR)	1,2,3,4,5,8	Corporate	11.12.17

<https://www.whirelandplc.com/capital-markets/research-recommendations>

The WH Ireland Research & Corporate Events Portal is available at <https://www.whirelandplc.com/research-portal>