

BUY

Executive Summary

Price:	385p
Shares in issue:	17.4m
52 week high/low:	450p/310p
Market cap:	£67m
Market:	AIM
Broker:	Dowgate/RBC
Ticker:	WATR.L
Target:	850p

Performance	1m	3m	12m
Absolute (%)	(5)	(4)	10
Rel Index (%)	(4)	(4)	2
Relative to FTSE All Share			

Activities

Water Intelligence is an environmental services and technology company focused on detecting, finding and remediating water leaks using minimally invasive technology solutions.

Management

Dr Patrick DeSouza	Exec Chairman
Pat La Marco	CFO
Will Knell	ALD CEO

Major Shareholders, %

Patrick DeSouza	25.1
Plain Sight Systems	12.5
Canaccord	11.0
Berenberg	6.5
Amati	4.2

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Dallas Reacquisition & Appointment of ALD CEO

Water Intelligence has announced the reacquisition of the Dallas franchise and appointment of its owner Will Knell as CEO of ALD, we raise our 2025 EPS forecast by +9%. The Group has announced the reacquisition of Dallas for \$12m, with \$5m on closing, \$2.5m next year, the balance in cash based on profit targets and stock options over 4yrs. The LTM revenues/profits were \$6m/\$0.9m and to achieve the full payout would require profits of \$2.3m by 2027. The acquisition is strategically attractive i) franchise owner Will Knell has been appointed CEO of ALD ii) there are significant synergies from corporate ownership of both Dallas and Forth Worth and iii) ALD will move its headquarters to Dallas and build a training centre echoing the one in Bridgepoint, Connecticut. We raise our Revenue/EBITDA estimates by \$500k/\$50k for 2024E and in 2025E, the first full year of the reacquisition, by \$6m/\$1m. This feeds through to a +9% increase in our PBT/EPSc/EPCp forecasts to \$11.2m/44.5c/34.2p for 2025E. Further, given the development of the Next 50 growth plan which was unveiled at the September interims, we believe our 2025E estimates are conservative. We view the shares as significantly undervalued at 11x 2025E earnings and under 6x EV/EBITDA and raise our price target to 850p.

- Dallas Reacquisition.** Water Intelligence has announced the reacquisition of the Dallas franchise for \$12m (\$5m on closing, \$2.5m in 2025 and the balance in cash based on profit targets, and options for 200,000 ordinary shares at exercise prices from \$6.25/480p to \$10.00/770p which vest over the next four years. The strategic rationale has three key points. First, Will Knell who owns the Dallas franchise will become CEO of American Leak Detection (85% of WI operations) bringing the experience that has made the fast-growing Dallas franchise the largest in the ALD network. Second, the formation of a Dallas – Fort Worth metroplex will bring significant synergies. Third, the ALD headquarters will relocate to Dallas and the group plans to build a training centre, echoing the Bridgepoint, Connecticut facility.
- Forecasts.** We raise our Revenue and EBITDA estimates by \$500k/\$50k for 2024E and by \$6m/\$1m in 2025E. This feeds through to a +9% increase in our PBT/EPSc/EPCp forecasts to \$11.2m/44.5c/34.2p for 2025E.
- Next 50.** We detailed the Next 50 growth plan in our Interim Results note, in summary it comprises i) accelerated growth in existing water leak detection & repair ii) organic growth from new proprietary technology-led solutions iii) franchise reacquisitions and acquisitions to add products & geographic scale and iv) returning capital to shareholders, notably through buybacks.

Financial Summary

Year to December (\$m)	2022	2023	2024E	2025E
Revenues	71.3	76.0	81.6	93.5
Normalised PBT	7.8	8.7	9.6	11.2
Normalised EPS, c	29.5	36.0	38.3	44.5
Normalised EPS, p	24.6	29.1	30.1	34.2
Net cash/(debt)	6.2	1.3	(6.2)	(3.8)
Adjusted P/E, x	15.7	13.2	12.8	11.2

Source: Company data, Dowgate Capital estimates

Profit & Loss

Year to December	2022	2023	2024E	2025E
Revenues				
Franchise royalty income	6.7	6.7	6.6	6.7
Franchise related activities	10.6	11.2	10.6	10.8
US corporate operated locations	47.3	50.5	55.5	65.3
Int'l corporate operated locations	6.7	7.6	8.9	10.6
Group Revenues	71.3	76.0	81.6	93.5
Growth, %	31	7	7	15
Adjusted EBITDA				
Adjusted EBITDA	12.4	13.5	15.1	17.0
Margin, %	17.4	17.8	18.5	18.2
Depreciation				
Depreciation	3.2	3.4	4.3	4.2
Adjusted Operating Profit	9.2	10.0	10.8	12.8
Operating margin, %	12.9	13.1	13.3	13.7
Net interest				
Net interest	(1.4)	(1.3)	(1.2)	(1.6)
Share Based Payments				
Share Based Payments	(0.4)	(0.6)	(0.4)	(0.4)
Normalised PBT	7.8	8.7	9.6	11.2
Headline PBT	7.3	8.1	9.2	10.8
Tax charge - Normalised				
Tax charge - Normalised	(2.6)	(2.4)	(2.9)	(3.5)
Tax rate, %	33.8	28.0	30.0	31.0
Normalised Earnings				
Normalised Earnings	5.1	6.3	6.7	7.7
Average shares in issue, m	17.4	17.4	17.4	17.4
Normalised EPS, c	29.5	36.0	38.3	44.5
Normalised EPS (diluted), c	27.6	35.0	37.5	43.5
Normalised EPS, p	24.6	29.1	30.1	34.2
Normalised EPS (diluted), p	23.0	28.3	29.4	33.5
Dividend per share, c				
Dividend per share, c	0.0	0.0	0.0	0.0

Source: Company data, Dowgate Capital estimates

Cash Flow & Balance Sheet

Year to December	2022	2023	2024E	2025E
Cash Flow, \$m				
Operating Profit	9.2	10.0	10.8	12.8
Depreciation	3.2	3.4	4.3	4.2
Working Capital	(1.0)	(0.1)	(0.2)	0.0
Other	(1.3)	(0.9)	(1.2)	0.0
Cash from Operations	10.1	12.3	13.7	17.0
Interest	(1.2)	(0.7)	(1.2)	(1.6)
Taxation	(1.7)	(0.9)	(1.1)	(3.5)
Net Cash from Operating Activities	7.3	10.7	11.3	11.9
Acquisitions	(6.3)	(10.3)	(2.0)	(0.4)
Capex & Leases	(1.2)	(2.8)	(3.2)	(3.0)
Reacquisition of Franchises	(1.6)	(4.2)	(7.0)	0.0
Net Cash used in Investing Activities	(9.1)	(17.3)	(12.2)	(3.4)
Issue of Shares	(0.5)	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0
Notes/FX & Other	(7.0)	1.7	(6.7)	(6.1)
Net Cash from Financing Activities	(7.5)	1.7	(6.7)	(6.1)
Net Flow	(9.3)	(4.9)	(7.6)	2.4
Closing Net Cash/ (Debt)	6.2	1.3	(6.2)	(3.8)
Deferred consideration	(12.6)	(8.3)	(11.8)	(5.7)
Net Cash/(Debt) including DC	(6.4)	(7.0)	(18.0)	(9.5)

Source: Company data, Dowgate Capital estimates

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Recommendation 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 30/9/2024

	Corporate	Corporate, %	Total	Total, %
Buy	428	100	428	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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