With 7 Analysts on board and up almost 140% in the past twelve months this attractive water pure-play is a true ESG

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On May 13, **H2O Innovations (TSXV: HEO | OTC: HEOFF | FSE: DB: H3O1)** announced fiscal third-quarter financial results for the month ending March 31, 2021.

The company started the year off strong with quarterly revenue up 8.6% year-over-year and net earnings hitting C$2.1 million in the quarter, up from a loss of C$3.1 million in the same fiscal period last year.

H2O beat analysts' consensus revenue and earnings estimates as revenue hit C$39.2 million in the quarter, up from C$36.1 million in the same quarter last year, with revenue increases coming from both organic growth and through acquisitions.

Gross profit margins remained strong at 28%, consistent with the margins last year, and adjusted EBITDA reached C$4.5 million or 11.5% of revenues, compared to C$3.8 million, or 10.5 % of revenues, for the same fiscal period last year.

Most importantly, operational cash flows hit a record C$10.2 million in the quarter up from C$0.9 million in the comparable quarter of the previous fiscal year.

Understanding H2O

H2O is a Canadian wastewater treatment solutions company that designs, builds, and supports facilities based on membrane

filtration technologies for municipal, industrial, energy, and natural resources end-users.

H2O operates through three main business segments:

1. *Water Technologies and Services (WTS)*, which designs and builds custom water, wastewater, and water reuse systems and treatment plants, with more than 750 systems installed in North America;
2. *Specialty Products (SP)*, which develops specialized chemicals and consumables from its subsidiaries, such as **Maple**, **PWT**, **Genesys**, and **Piedmont**, and distributes through a network of over 100 partners; and,
3. *Operation and Maintenance (O&M)*, which operates more than 275 facilities in 12 states in the U.S. and two Canadian provinces.

Figure 1: Three main business segments – Water Technologies and Services (WTS), Specialty Products (SP), and Operation and Maintenance (O&M)



Source:

Solid Pipeline of New Sales and Renewals

Earlier this month, **H2O** announced winning two new projects and renewed four operation and maintenance contracts in the O&M business segment, with a total value of C$3.3 million. With these contracts, the total O&M backlog increased to C$63.5 million.

The new contracts comprise the operation, maintenance, and management of a Municipal water treatment facility in Texas and the operation and maintenance of an effluent treatment facility at an agriculture-food processing plant in Alberta, Canada.

H2O also renewed four municipal O&M contracts in Vermont with the first contract renewed for over five years, the second and third contracts extended for five years, and the fourth contract was renewed until March 2022.

M&A Driving Growth

As part of its 3-year strategic plan announced in December 2020, **H2O** commented that it intended to complete between two to four acquisitions within the next 30 months.

In February 2021, the company closed the acquisition of the remaining 76% of **Genesys Membrane Products (GMP)** in Spain that it originally had taken a 24% ownership stake in through the acquisition of **Genesys** in the United Kingdom in 2019.

GMP reported revenue of approximately €5.00 million (C$7.75 million) in 2020 of which 24% was already accounted for in H2O financials.

GMP expands the company's specialty chemical products and laboratory services to an international distributor network that focuses on Latin America, primarily within the mining industry.

In July 2020, **H2O** announced a C$3.7 million acquisition of **Gulf Utility Service (GUS)**, a U.S. water utilities company. **GUS** booked revenue of approximately US$5.0 million and EBITDA of US$0.6 million in 2019.

In the recent quarter, over 95% of the revenue growth was from its recent M&A activity; the **GUS** acquisition contributed C$1.3 million in additional revenue and the acquisition of **GMP** in February contributed an additional C$1.5 million in revenue.

Biden's Infrastructure Plan Adding Billions to a Hundred-Billion-Dollar Market

In April, the U.S. legislators passed the “Drinking Water and Wastewater Infrastructure Act of 2021” that authorizes almost US$35 billion over five years to a variety of programs focused on safe drinking water, wastewater treatment, sewer overflows, and stormwater management.

This Act is only the first part of President Biden’s US$111 billion plan for water infrastructure improvements as a component of the American Jobs Plan.

In H2O’s recent quarterly conference call, CEO Frédéric Dugré stated, “*we want to reiterate that we welcome very positively the $30 billion water-related infrastructure plan announced earlier by President Biden at the end of April. We believe many opportunities will emerge from this stimulus plan, notably for new water reuse projects in order to fight back the growing water scarcity mode in Southern states*.”

Even without these new U.S. government funding initiatives, the global water market is expected to grow from US$854.0 billion this year to US$914.9 billion by 2023, according to the latest report published by **Global Water Intelligence (GWI)**.

GWI’s Global Water and Wastewater Treatment market consist of both operating and capital expenditures by utilities and industrial water users on water and wastewater.

The Water and Wastewater Treatment market experienced renewed activity and high growth due to declining water qualities and growing demand for cost-efficient and environmentally friendly water technologies and services.

However, several challenges hinder the Water and Wastewater Treatment market, including high capital costs for equipment, outdated and inefficient water infrastructures. Companies such as **H2O** benefit as governments look to reduce costs by shifting

operations to third-party Water and Wastewater Treatment companies.

Final Thoughts

As Environmental, Social, and Governance (ESG) investing causes a shift towards finding long-term financial returns that are aligned with social values, H2O remains an attractive water pure-play with a strong balance sheet, a large sales backlog, and profits.

H2O’s stock is currently trading at C$2.40 per share, up almost 140% in the past twelve months. Seven analysts cover the company, all with a “Buy” rating, and price targets ranging from C$3.25 to C$4.00. Currently, H2O has a market cap of C$197.4 million.