



# Consolidated Water Co. (CWCO)

Updated November 29<sup>th</sup>, 2022 by Samuel Smith

## Key Metrics

<b>Current Price:</b>	\$14.4	<b>5 Year CAGR Estimate:</b>	9.5%	<b>Market Cap:</b>	\$224.6M
<b>Fair Value Price:</b>	\$10.5	<b>5 Year Growth Estimate:</b>	14.0%	<b>Ex-Dividend Date:</b>	12/30/22
<b>% Fair Value:</b>	138%	<b>5 Year Valuation Multiple Estimate:</b>	-6.2%	<b>Dividend Payment Date:</b>	01/31/23
<b>Dividend Yield:</b>	2.4%	<b>5 Year Price Target</b>	\$20	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	F	<b>Rating:</b>	Hold

## Overview & Current Events

Consolidated Water was founded in 1973 as a private water utility in Grand Cayman. The company uses a desalination process that helps provide water where naturally potable water is scarce or does not exist. Consolidated Water has since grown to a \$224.6 million market capitalization. It serves a wide variety of international customers.

Consolidated Water reported third quarter results on 11/14/22. Total revenue increased 53% to \$25.1 million. Retail revenue increased 20% to \$6.3 million. Bulk revenue increased 26% to \$8.7 million. Services revenue increased 172% to \$8.7 million. Net income from continuing operations attributable to company stockholders was \$824,000 or \$0.05 per share and the company paid a quarterly cash dividend of \$0.085 per share (\$0.34 on an annualized basis), totaling \$1.2 million in dividends in the third quarter of 2022. As of September 30, 2022, cash and cash equivalents totaled \$51.1 million, up \$2.0 million from \$49.1 million as of June 30, 2022, with working capital at \$71.1 million, debt of only \$0.2 million, and stockholders' equity totaling \$158.8 million. The company secured a \$10 million revolving credit line with Scotia Bank to assist with short-term financing and working capital needs.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$0.64	\$0.58	\$0.42	\$0.51	\$0.27	\$0.41	\$0.75	\$0.80	\$0.57	\$0.13	<b>\$0.55</b>	<b>\$1.06</b>
<b>DPS</b>	\$0.30	\$0.30	\$0.30	\$0.30	\$0.30	\$0.31	\$0.34	\$0.36	\$0.34	\$0.34	<b>\$0.34</b>	<b>\$0.65</b>
<b>Shares<sup>1</sup></b>	14.6	14.7	14.7	14.8	14.9	14.9	15.0	15.1	15.2	15.2	<b>15.3</b>	<b>16.0</b>

Consolidated Water's earnings-per-share history has been volatile thanks to its focus on the Caribbean.

Consolidated Water's earnings growth story was previously all about the Rosarito project coming online as it would have brought an enormous increase in capacity and would have given it access to a significant and growing US city (San Diego), in addition to an area in Mexico where it currently has no presence. Consolidated Water spent tens of millions of dollars on it, but ultimately, the State of Baja California, Mexico terminated the contract.

We believe that over time, Consolidated Water will raise its dividend roughly in line with earnings-per-share growth. That should drive some investor confidence as well after so many years with a flat payout. While the company's positioning as a water utility insulated it from most of the fallout from the coronavirus outbreak, their retail sales to resorts in the Cayman Islands have been hit pretty hard which hurt their earnings in 2020 and 2021. Moving forward, these headwinds are expected to dissipate and the company is expected to get back on track with a very robust 14% annualized earnings per share growth rate over the next half decade.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2026
<b>Avg. P/E</b>	26.9	22.4	12.4	22.0	28.3	22.7	44.8	29.0	20.4	84.6	<b>26.2</b>	<b>19.0</b>
<b>Avg. Yld.</b>	1.7%	2.3%	5.8%	2.7%	3.9%	3.3%	1.0%	1.6%	2.9%	3.1%	<b>2.4%</b>	<b>3.2%</b>

<sup>1</sup> Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Consolidated Water's price-to-earnings multiple has been all over the place due to its erratic earnings, but we choose a fair value multiple estimate of 19x given the fact that interest rates are rising. Given their Price-to-Normalized-Earnings ratio of 26.2, this implies a major headwind to total returns going forward if the company's valuation reverts to our fair value estimate over a 5-year holding period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2026
Payout	46.9%	51.7%	71.4%	58.8%	111%	75.6%	45.3%	45.0%	59.6%	261%	61.8%	61.3%

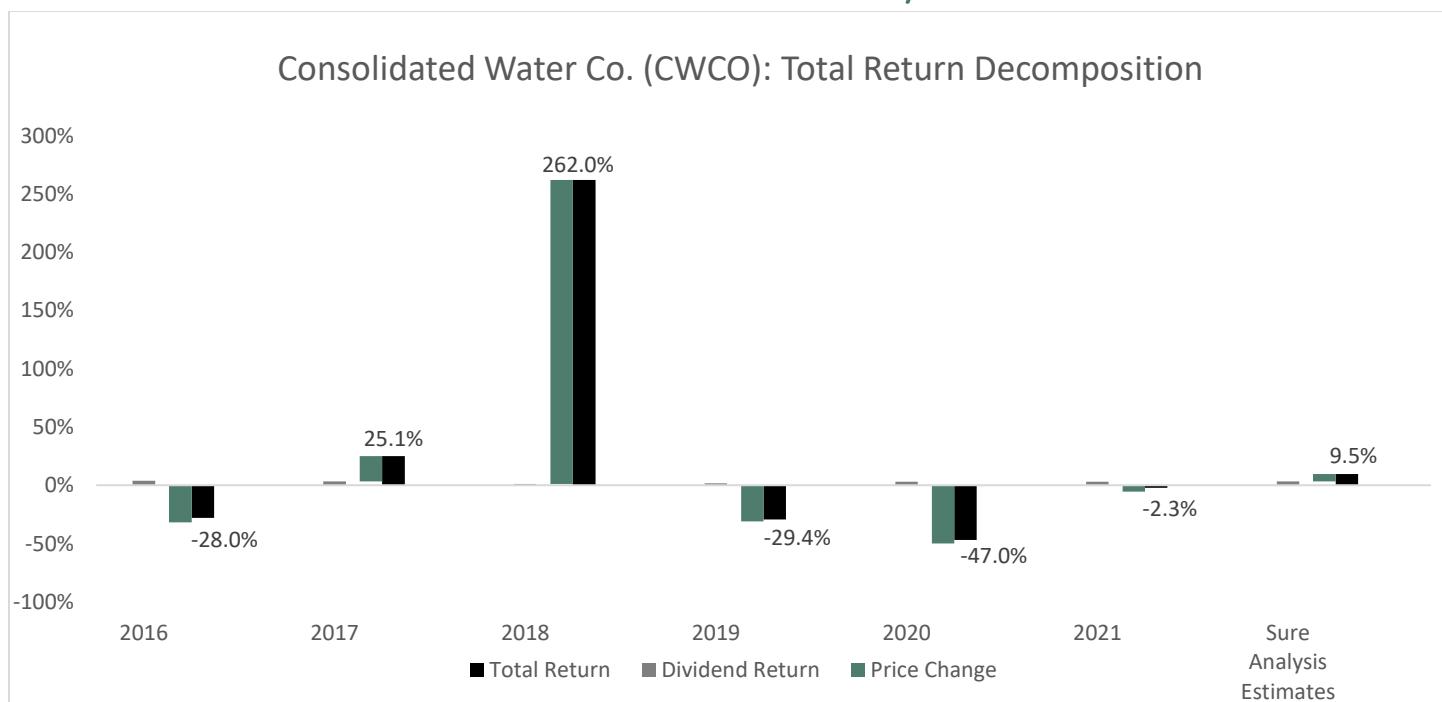
Consolidated Water's quality metrics have greatly improved in the past decade as it has increased its gross margins significantly, reduced leverage down to virtually nothing and as a result, produced enormous interest coverage ratios. We also see ample coverage for the dividend despite the projected increases as these trends work to boost earnings-per-share over time.

Consolidated Water's competitive advantage is its strong hold on the small markets where it operates. While Consolidated Water seems fairly recession-resistant given that its services are a need and not a want, investors should be cautious of its ability to hold up well during downturns as during the last recession, its earnings-per-share fell nearly 47% peak-to-trough. That being said, we believe it is much better positioned this time due to its stronger balance sheet, diversification, and strong growth tailwinds.

## Final Thoughts & Recommendation

Consolidated Water has a very clean balance sheet. We see total annualized returns of 9.5% moving forward, consisting of the current 2.4% dividend yield and 14% annualized earnings per share growth, offset somewhat by meaningful multiple compression. The stock offers strong growth potential and a well-supported current yield along with a fairly low risk business model. However, expected total returns are not quite strong enough to warrant a Buy given that the valuation multiple looks quite rich. Given these factors, we rate the stock a Hold.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	65	64	66	57	58	59	66	69	73	67
Gross Profit	22	24	23	23	24	24	27	28	27	24
Gross Margin	33.6%	36.8%	35.8%	40.8%	41.9%	40.4%	40.7%	41.1%	36.9%	35.2%
SG&A Exp.	14	16	17	15	17	17	17	16	17	17
D&A Exp.	8	5	6	6	7	7	7	7	7	7
Operating Profit	7	8	6	8	6	5	8	11	8	5
Operating Margin	11.4%	12.0%	9.9%	14.8%	9.6%	9.0%	12.2%	16.4%	11.5%	7.7%
Net Profit	9	9	6	8	4	6	11	12	4	1
Net Margin	14.2%	13.5%	9.6%	13.2%	6.8%	10.3%	17.2%	17.7%	5.1%	1.3%
Free Cash Flow	7	2	(3)	14	4	11	(10)	12	16	5
Income Tax			-	-	(1)	(1)	(0)	0	0	(0)

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	150	165	160	162	164	165	173	192	180	177
Cash & Equivalents	34	34	36	45	39	45	31	42	44	40
Accounts Receivable	13	19	12	9	17	15	23	23	22	28
Inventories	2	1	2	2	2	2	2	3	3	3
Goodwill & Int. Ass.	5	5	4	4	15	11	10	18	17	14
Total Liabilities	14	24	16	13	9	9	9	14	11	11
Accounts Payable	6	7	6	5	5	4	5	4	3	3
Long-Term Debt	7	5	9	7	0	1	-	0	0	0
Shareholder's Equity	134	139	141	145	146	148	155	164	161	158
LTD/E Ratio	0.05	0.04	0.06	0.05	0.00	0.00	-	0.00	0.00	0.00

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	6.0%	5.4%	3.8%	4.7%	2.4%	3.7%	6.7%	6.7%	2.0%	0.5%
Return on Equity	7.1%	6.3%	4.5%	5.3%	2.7%	4.2%	7.5%	7.6%	2.3%	0.5%
ROIC	6.3%	5.9%	4.2%	4.9%	2.6%	3.9%	7.0%	7.1%	2.1%	0.5%
Shares Out.	14.6	14.7	14.7	14.8	14.9	14.9	15.0	15.1	15.2	15.2
Revenue/Share	4.48	4.34	4.44	3.85	3.87	3.96	4.36	4.54	4.77	4.37
FCF/Share	0.48	0.13	(0.19)	0.96	0.29	0.70	(0.65)	0.77	1.03	0.36

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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