Consolidated Water Co. (CWCO)

Updated May 25th, 2023 by Samuel Smith

Key Metrics

Current Price:	$19.4	**5 Year CAGR Estimate:**	8.6%	**Market Cap:**	$314 M
Fair Value Price:	$18.2	**5 Year Growth Estimate:**	7.8%	**Ex-Dividend Date:**	06/30/23[1]
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Dividend Payment Date:**	07/28/23[2]
Dividend Yield:	1.8%	**5 Year Price Target**	$27	**Years Of Dividend Growth:**	0
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	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 $314 million market capitalization. It serves a wide variety of international customers.

On May 15th, Consolidated Water Co. announced its financial results for Q1. In the first quarter of 2023, the company experienced significant growth in its financial performance. Total revenue increased by a remarkable 68% to reach $32.9 million. Within this, retail revenue saw a 23% increase, reaching $7.8 million, while bulk revenue increased by 22% to $9.0 million. Services revenue showed the most substantial growth, rising by 168% to $12.7 million. Manufacturing revenue also saw an increase, reaching $3.4 million. Net income from continuing operations attributable to the company stockholders reached $4.1 million, up 75% from the same period last year, equating to $0.26 per basic and fully diluted share. The company also paid a quarterly cash dividend of $0.085 per share ($0.34 annualized). The company's cash and cash equivalents grew slightly to $51.1 million as of March 31, 2023.

On the operational front, the company observed positive developments in its retail segment in Grand Cayman, with a 20% increase in the volume of water sold. This growth was mainly attributed to the recovery of tourist activity, as 2022 experienced lower levels of tourism due to the lingering impact of the COVID-19 pandemic. Additionally, the company acquired the remaining 39% interest in PERC Water, its subsidiary that focuses on developing, designing, building, operating, and managing water infrastructure facilities in the Southwestern U.S. As a result, the company became the sole owner of PERC Water. Notably, the construction progress of an advanced water treatment plant in Goodyear, Arizona, led by PERC Water, contributed $6.4 million in revenue for the company during the first quarter of 2023, part of an $82 million project.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$0.58	$0.42	$0.51	$0.27	$0.41	$0.75	$0.80	$0.57	$0.13	$0.62	***$0.96***	***$1.40***
DPS	$0.30	$0.30	$0.30	$0.30	$0.31	$0.34	$0.36	$0.34	$0.34	$0.34	***$0.34***	***$0.70***
Shares[3]	14.7	14.7	14.8	14.9	14.9	15.0	15.1	15.2	15.3	15.7	***15.7***	***16.0***

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.

---

[1] Estimated date

[2] Estimated date

[3] 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.

Consolidated Water Co. (CWCO)

Updated May 25th, 2023 by Samuel Smith

We believe that over time, Consolidated Water will raise its dividend faster than its earnings-per-share growth as it moves its payout ratio closer to 50%. That should drive some investor confidence as well after so many years with a flat payout. We project a strong 7.8% annualized earnings per share growth rate over the next half decade beyond 2023.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	22.4	12.4	22.0	28.3	22.7	44.8	29.0	20.4	84.6	26.2	***20.2***	***19.0***
Avg. Yld.	2.3%	5.8%	2.7%	3.9%	3.3%	1.0%	1.6%	2.9%	3.1%	2.1%	***1.8%***	***2.6%***

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 20.2, this implies a minor 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	51.7%	71.4%	58.8%	111%	75.6%	45.3%	45.0%	59.6%	262%	54.8%	***35.4%***	***50.0%***

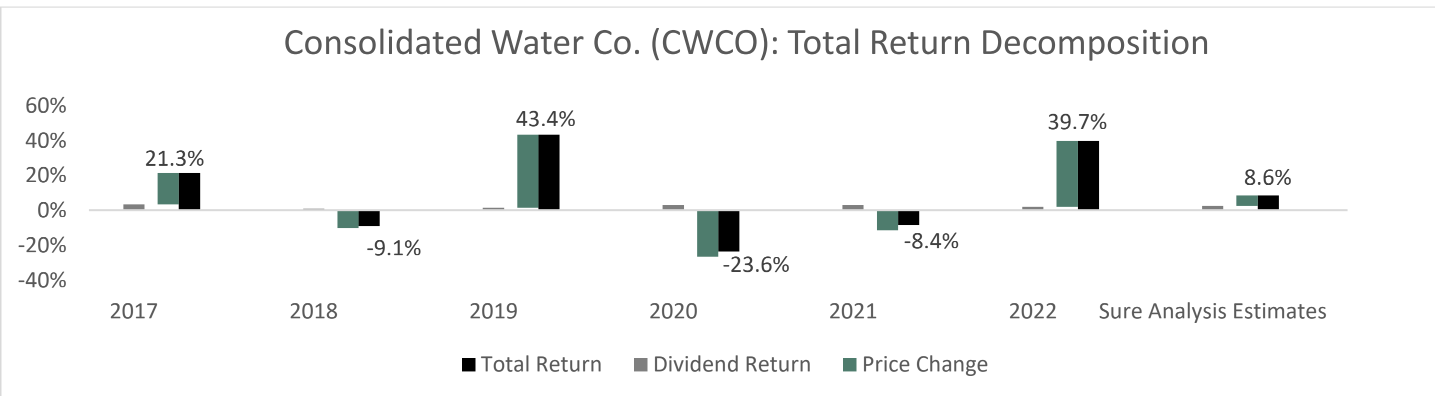
Consolidated Water's quality metrics have greatly improved in the past decade as it has increased its gross margins significantly, reduced leverage down to virtually nothing and as a result, produced enormous interest coverage ratios. We also see ample coverage for the dividend despite the projected 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 8.6% moving forward, consisting of the current 1.8% dividend yield and 7.8% annualized earnings per share growth along with minor tailwinds from valuation multiple expansion. The stock offers solid growth potential and a well-supported current yield along with a fairly low risk business model. However, the expected annualized total returns are not quite strong enough to warrant a Buy given that the valuation multiple looks a bit rich. Given these factors, we rate the stock a Hold.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Consolidated Water Co. (CWCO)

Updated May 25th, 2023 by Samuel Smith

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	64	66	57	58	59	66	69	73	67	94
Gross Profit	24	23	23	24	24	27	28	27	24	30
Gross Margin	36.8%	35.8%	40.8%	41.9%	40.4%	40.7%	41.1%	36.9%	35.2%	32.3%
SG&A Exp.	16	17	15	17	17	17	16	17	17	20
D&A Exp.	5	6	6	7	7	7	7	7	7	6
Operating Profit	8	6	8	6	5	8	11	8	5	9
Operating Margin	12.0%	9.9%	14.8%	9.6%	9.0%	12.2%	16.4%	11.5%	7.7%	9.9%
Net Profit	9	6	8	4	6	11	12	4	1	6
Net Margin	13.5%	9.6%	13.2%	6.8%	10.3%	17.2%	17.7%	5.1%	1.3%	6.2%
Free Cash Flow	2	(3)	14	4	11	(10)	12	16	5	14
Income Tax		-	-	(1)	(1)	(0)	0	0	(0)	0

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	165	160	162	164	165	173	192	180	177	193
Cash & Equivalents	34	36	45	39	45	31	42	44	40	51
Accounts Receivable	19	12	9	17	15	23	23	22	28	27
Inventories	1	2	2	2	2	2	3	3	3	6
Goodwill & Int. Ass.	5	4	4	15	11	10	18	17	14	13
Total Liabilities	24	16	13	9	9	9	14	11	11	25
Accounts Payable	7	6	5	5	4	5	4	3	3	9
Long-Term Debt	5	9	7	0	1	-	0	0	0	0
Shareholder's Equity	139	141	145	146	148	155	164	161	158	160
LTD/E Ratio	0.04	0.06	0.05	0.00	0.00	-	0.00	0.00	0.00	0.00

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.4%	3.8%	4.7%	2.4%	3.7%	6.7%	6.7%	2.0%	0.5%	3.2%
Return on Equity	6.3%	4.5%	5.3%	2.7%	4.2%	7.5%	7.6%	2.3%	0.5%	3.7%
ROIC	5.9%	4.2%	4.9%	2.6%	3.9%	7.0%	7.1%	2.1%	0.5%	3.5%
Shares Out.	14.7	14.7	14.8	14.9	14.9	15.0	15.1	15.2	15.2	15.7
Revenue/Share	4.34	4.44	3.85	3.87	3.96	4.36	4.54	4.77	4.37	6.11
FCF/Share	0.13	(0.19)	0.96	0.29	0.70	(0.65)	0.77	1.03	0.36	0.90

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