



A solid quarter

Clean TeQ Water Ltd (ASX:CNQ) completed a solid December quarter, growing its quarterly cash receipts from \$1.6m to \$3.8m. Driving the growth was progress being made across several of the company's projects.

Distribution agreement with NESR

In November, the company entered into a 5-year exclusive distribution agreement with the National Energy Services Reunited Corp (NESR) to promote the company's unique water treatment and reuse solutions to oil and gas companies in the Middle East. The deal can be viewed as an expansion trigger for CNQ to promote its HIROX technology to prospective customers in the Middle East and North Africa (MENA). It is expected to translate into further contract wins over the medium term.

Distribution pact to promote BIONEX technology

In November, CNQ signed an exclusive 3-year distribution agreement with MCC Energy Conservation and Environmental Protection (MCC Environment) to promote its BIONEX technology. CNQ will work with its partner to promote its green technology across the steel sector in China, helping steel producers to reduce their operating costs and carbon footprint. The first large scale plant is scheduled to be commissioned in the coming weeks.

Launch of new PHOSPHIX technology

The company also launched the new PHOSPHIX technology to enhance its portfolio by helping municipalities and industrial customers in removing and recycling phosphorus from their wastewater while cutting the operating cost to half. We believe CNQ's innovative technology, along with the launch of new products, will create opportunities to grow its business in key markets across the globe.

Townsville Project Update

Townsville City Council will issue a new tender due to change in the scope of the Recycled Water Treatment Facility project. CNQ intends to participate in the new tender, given its experience and understanding of the project.

Valuation range of A\$1.83 per share

In our research update on CNQ from November 2021, available [here](#), we valued the company at A\$1.83 per share in the base case and A\$2.37 per share in the bull case, using the relative valuation model. Following the distribution agreement with NESR and MCC Environment, we reiterate our A\$1.83 per share valuation.

Share Price: A\$0.625

ASX: CNQ

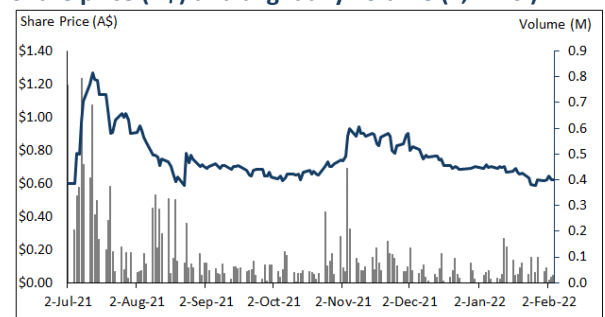
Sector: Industrials

7 February 2022

Market Cap. (A\$ m)	44.7
# shares outstanding (m)	27.9
# share fully diluted (m)	44.7
Market Cap Full. Dil. (A\$m)	27.9
Free Float	69.4%
12-months high/low (A\$)	1.45 / 0.50
Avg. 12M daily volume ('1000)	0.11
Website	cleanteqwater.com

Source: Company, Pitt Street Research

Share price (A\$) and avg. daily volume (k, r.h.s.)



Source: Refinitiv, Pitt Street Research

Valuation metrics	
Valuation per share (\$A)	1.83

Source: Pitt Street Research

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Please refer to page 5 for details on share price catalysts and risks.



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Distribution pact with NESR to promote HIROX technology in MENA

CNQ has entered into an exclusive 5-year distribution agreement with NESR to promote its unique water treatment and reuse solutions to oil and gas companies in the Middle East. NESR is one of the largest oilfield services providers in the MENA and Asia Pacific regions with a well-established water conservation and management business focused on improving water availability and reuse in the oil and gas sector. CNQ's portfolio of water technologies will be a competitive edge to NESR in this sector.

The agreement follows the August 2021 signing of the first joint project in which Clean TeQ and NESR will deliver and install a HIROX (High Recovery Reverse Osmosis) plant to treat bore water for re-use for a multinational oil company. This technology allows for ultra-high recovery of water with minimum waste, resulting in substantial operational cost savings for customers, while reducing their carbon footprint. This specific project is expected to have 80% less waste brine production than traditional technologies.

Going forward, oil and gas companies are expected to increase their investment in environmental solutions to reduce their environmental footprint to address regulatory concerns as well as lower their operating costs. Accordingly, we believe that CNQ's technology, combined with NESR's presence in the MENA region, will allow the company to capitalise on these opportunities.

As part of the agreement, CNQ and NESR plan to jointly invest in alternative delivery models including build, own and operate (BOO), where both companies will invest in building the plant and sell the treated water to the end-user under long-term agreements. This can be an attractive opportunity and can generate recurring revenues in the future. This deal can be viewed as an expansion of the company's ability to promote its technology portfolio to prospective customers in the MENA region, further translating into contract wins over the medium term.

Distribution agreement with Chinese steel leader to demonstrate its BIONEX technology

CNQ has signed an exclusive 3-year distribution agreement with MCC Environment to promote its green technology across the steel sector in China, where MCC Environment holds a substantial market share. MCC Environment is a state-owned Chinese EPC company, focused on providing equipment and design services related to waste processing and recycling.

Under the deal, CNQ will work with MCC Environment to promote its BIONEX technology, which is used to remove nitrate from wastewater effluent without membranes and minimal brine production. This technology helps to lower operating costs and to minimise the environmental footprint. Further, MCC Environment will become a non-exclusive distributor of the BIONEX technology for urban and rural sewage treatment outside of the steel sector.

The distribution agreement has resulted from a successful pilot project at a Tianjin steel factory. Following the pilot project and the agreement, CNQ will design a large-scale treatment facility at the Tianjin Steel site, beginning 2022. CNQ believes the partnership with MCC environment will open new opportunities as companies in the steel sector in China are expected to increase their investments in water treatment to meet the increasingly

Distribution pact with NESR will help CNQ to demonstrate its HIROX technology to oil and gas companies in MENA region

Distribution agreement with MCC Environment will help CNQ to open opportunities for its BIONEX technology in the steel industry in China



stringent effluent regulations and to reduce carbon emissions by installing more energy-efficient water technologies.

New phosphate removal technology will help reduce operating cost and carbon footprint

Launch of New Phosphate Removal and Recovery Technology

The company has launched its new PHOSPHIX technology to enhance its product portfolio by enabling municipalities and industrial customers to remove and recycle phosphorus from their wastewater. PHOSPHIX technology uses a combination of Continuous Ionic Filtration (CIF®) technology and chemical precipitation, which selectively removes phosphate from water and recovers a solid phosphorus product that is suitable for reuse.

High phosphate concentration discharges have led to irreversible ecological damage worldwide, resulting in strict regulations to protect the environment across the globe. CNQ's technology is likely to serve as a viable solution for end users to reduce footprints. Additionally, they will be able to benefit from much lower chemical consumption resulting in up to 50% lower operating cost. The cost cutting achieved through this technology makes phosphate recycling a more economically viable solution for treating water across industries, compared to precipitation systems. We believe CNQ's innovative technology, coupled with the launch of new products, should open up new opportunities for the company across the globe.

CLEAN-IX technology will help customers to lower resource consumption

Demonstration of CLEAN-IX Metal Recovery Technology

CNQ has been engaged by EnviroCopper to demonstrate its one-of-a-kind CLEAN-IX® metal recovery technology to extract copper from a leachate produced at the Kapunda project in South Australia. The technology will be beneficial for customers as it can produce highly concentrated product streams suitable for final product formation with lower resource consumption as compared to the traditional process. Successful demonstration of this technology will provide wider opportunities for CNQ, in our view.

Recycled water from BIONEX plant in China

CNQ produced the first water from its BIONEX plant in Ordos, China in December 2021. The plant has been designed to filter nitrate from 12,000 m³/day of coal mine pit water to below 1 ppm, complying with local regulations governing the disposal of mine water. The final step will be commissioning of a brine circuit, which will have BIOCLENS technology, ensuring the plant will not produce any waste brine volume, while minimizing chemical consumption. CNQ intends to build many plants in China, especially in sensitive areas such as the Yellow river basin, which covers the Northern provinces of China in which this plant is located as well.

CNQ optimistic about its chances to win the new tender

Townsville Project Update

After previously engaging with CNQ in 2019 for an initial A\$920k scope of work for detailed design and procurement of long lead items for a recycled water treatment facility for which CNQ had won a public tender, Townsville Council delayed the award of the contract and commencement of work due to COVID-19 (council budgetary issues) and last month announced changes to the scope of the project and a consequential legal requirement to issue a new



tender. Essentially, the tender has been split in two with the first phase focused on an expanded scope of civil works without the full recycling plant. The full recycling plant is expected to follow in a next phase.

However, the company will participate in the new water treatment tender in cooperation with a civil contractor. It is optimistic on its chances to win the new tender given the experience and understanding of the project having conducted extensive testing on the site.

Valuation for CNQ of A\$1.83 per share

In our research update on CNQ from November 2021, available [here](#), we valued the company at A\$1.83 per share in the base case and A\$2.37 per share in the bull case, using a relative, peer group, valuation.

Fair value of A\$1.83 per share reiterated

Catalysts

We have identified the following, potential near-term events as important facilitators for the share price:

- Successful results from current pilot programmes,
- A contract win from Townsville City Council,
- Commencement of new pilot-scale projects in existing and new markets,
- Faster-than-expected commercialization of the Graphene Membrane.

Risks

We see the following as key risks to our investment thesis:

- **Uptake risk:** There is a risk that CNQ may not be able to gain traction in its target markets. There is no guarantee that CNQ will be able to secure a specific number of customer contracts and thereby generate revenues over the short, medium and long terms.
- **Delay risk:** Pilot programmes could take longer than expected to complete. This could push back the timing of expected revenues and cashflows.
- **Commercial risk:** There is no guarantee that the completion of pilot programmes will lead to one or more large-scale projects. This risk can result in CNQ generating lower than expected revenues.
- **Competition risk:** There is the “what if” scenario where new and/or existing competitors come up with better and cheaper products that seek to address the same market opportunity as CNQ. If this risk materialises, it can hamper CNQ’s market share growth and margins.
- **Regulation risk:** Demand for CNQ’s products is highly sensitive to changes in the global regulatory environment. Although regulation currently works in favour of CNQ, any future changes could impact the business either positively or negatively.
- **Funding risk:** If one or more of the above risks eventuate, it could take CNQ longer to become operating free cashflow positive. This would mean CNQ would need to tap the equity and/or debt markets for additional capital.



Appendix – Analyst Certification

Marc Kennis has been covering the semiconductor sector as an analyst since 1997.

- Marc obtained an MSc in Economics from Tilburg University, Netherlands, in 1996 and a post graduate degree in investment analysis in 2001.
- Since 1996, he has worked for a variety of brokers and banks in the Netherlands, including ING and Rabobank, where his main focus has been on the technology sector, including the semiconductor sector.
- After moving to Sydney in 2014, he worked for several Sydney-based brokers before setting up TMT Analytics Pty Ltd, an issuer-sponsored equity research firm.
- In July 2016, with Stuart Roberts, Marc co-founded Pitt Street Research Pty Ltd, which provides issuer-sponsored research on ASX-listed companies across the entire market, including technology companies.

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