

Analysts' Ideas of the Week – Disappointing Q3 / Building Sales Pipeline

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Disappointing Q3 / Building Sales Pipeline

West Mountain Environmental Corp. (TSXV: WMT) recently announced their Q3-2015 (quarter ended September 30, 2015) results.

After reporting record revenues of \$1.24 million in Q2-2015 (quarter ended June 30, 2015), WMT experienced a major revenue decline in Q3. Q3 revenues were \$0.34 million, down 73% QOQ, but still up 21% YOY. The following table shows revenues and gross margins.

	Q3-2014	Q3-2015	2014 (9M)	2015 (9M)
China				
Revenues	\$264,192	\$269,160	\$675,989	\$2,405,956
COGS (excl amortization)	\$189,958	\$292,166	\$473,532	\$2,375,832
Gross Margin	28%	-9%	30%	1%
Canada				
Revenues	\$13,288	\$66,676	\$24,869	\$234,211
COGS (excl amortization)	\$75,440	\$25,082	\$246,031	\$131,119
Gross Margin	-468%	62%	-889%	44%
Total Revenues	\$277,480	\$335,836	\$700,858	\$2,640,167
COGS (excl amortization)	\$265,398	\$317,248	\$719,563	\$2,506,951
Gross Margin	4.4%	5.5%	-2.7%	5.0%

WMT had been undergoing the 70,000 tonne / Phase II operation of their contract with Dadi. The decline in revenues in Q3 was primarily because, during the quarter, Dadi advised them that soil remediation activities were nearing a close at the project site. WMT had so far only processed 48,889 tonnes of the 70,000 tonne contract. WMT is currently in negotiations with Dadi to settle the payment for the remaining 21,111 tonnes, which we estimate could be approximately \$1.00 - \$1.25 million.

Despite this setback, WMT continues to advance its other projects:

- WMT's partner, Jereh, has deployed two TPS units (15,000 tonnes per year each) for oilfield waste remediation demonstrations at sites in Daqing (Heilongjiang province) in northeast China, and the Sichuan province in southwest China. WMT and Jereh expect to receive commercial contracts upon the successful completion of these demonstration projects. WMT will receive 30% of the joint venture's net profits.
- In May 2015, WMT announced a contract with Beijing Construction and Engineering Group Co. ("BCEG"). The contract is for 7,500 tonne Phase I of a soil remediation project in Ningbo, Zhejiang province in China. WMT relocated one of its 40,000 – 50,000 tonne per year TPS units that was commissioned at the Dadi project in Hangzhou to the site in Ningbo. The project was commissioned in late September 2015, and is expected to be completed shortly. The company is in negotiations with BCEG to secure an additional 17,000 – 20,000 tonnes of soil.
- Industrial Sludge Treatment, a sub-contract agreement with Huaifu Environmental Engineering Company, in Changqing - The demonstration phase has commenced, and WMT is currently in negotiations with Huaifu to confirm the terms and conditions of their contract, and to secure payment for the work completed to date. Huaifu has been contracted by a major client in Changqing to build and operate a waste sludge treatment facility partially using WMT's TPS technology. According to management, if the demonstration is successful, the company may be able to expand to six additional locations in Shanxi province.

Management continues to actively target projects in various provinces in China, as well as the Middle East and South America.

At the end of Q3-2015, the company had \$1.62 million in cash. It also had US\$3 million in 6.5% p.a. convertible secured bonds held by Jereh maturing in March 2016. The conversion price is \$0.50 per share.

We are lowering our 2015 revenue estimate from \$4.53 million to \$3.22 million, and our 2016 revenue estimate from \$5.14 million to \$3.76 million. Our net loss forecast for FY2015 is \$2.83 million (EPS: -\$0.05) versus our previous estimate of \$2.88 million (EPS: -\$0.05). We have also adjusted our fair value estimate on WMT's share from \$0.55 to \$0.40 per share. We maintain our BUY rating and risk rating of 4.

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