
Analysts' Ideas of the Week – West Mountain Deploys Largest TPS System to Date

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Sid Rajeev, B.Tech, MBA, CFA
Head of Research

West Mountain Deploys Largest TPS System to Date

On December 18, West Mountain Environmental Corp. (TSXV: WMT) announced the commissioning of two units of their new Thermal Phase Separation (“TPS”) system - the TPS2-3EC. The units have an annual treatment capacity of 40,000 tonnes each, up from 30,000 tonnes from the previous version (TPS2-2EC). The Hangzhou project now has three TPS units with total capacity of 110,000 tonnes per year. Management states that the Hangzhou project **“represents one of the largest indirect thermal desorption systems operating in the world today.”**

The following table shows the soil treated by WMT until Q3-2014. **The addition of the two new units will result in a major increase in revenues in 2015.**

	Tonnes	\$ / t
Q4-2012	1,259	\$84.35
Q1-2013	5,207	\$85.61
Q2-2013	5,672	\$101.51
Q3-2013	5,253	\$97.43
Q4-2013	5,869	\$73.20
Q1-2014	3,930	\$48.64
Q2-2014	5,023	\$43.93
Q3-2014	5,830	\$45.32
Total	38,043	

The following table shows segmented revenues and gross margins in the first three quarters of 2014.

	Q1-2013	Q1-2014	Q2-2013	Q2-2014	Q3-2013	Q3-2014	2013 (9M)	2014 (9M)
China								
Revenues	\$445,782	\$191,150	\$494,043	\$220,647	\$470,846	\$264,192	\$1,410,671	\$675,989
COGS (excl amortization)	\$335,719	\$80,224	\$214,954	\$68,136	\$219,463	\$97,789	\$770,136	\$246,149
Gross Margin	25%	58%	56%	69%	53%	63%	45%	64%
Canada								
Revenues	\$0	\$0	\$81,724	\$11,581	\$40,943	\$13,288	\$122,667	\$24,869
COGS (excl amortization)	\$202,991	\$148,571	\$129,971	\$158,514	\$194,024	\$167,614	\$526,986	\$474,699
Gross Margin	n/a	n/a	-59%	-1269%	-374%	-1161%	-330%	-1809%
Total Revenues	\$445,782	\$191,150	\$575,767	\$232,228	\$511,789	\$277,480	\$1,533,338	\$700,858
COGS (excl amortization)	\$538,710	\$228,795	\$344,925	\$226,650	\$413,487	\$265,403	\$1,297,122	\$720,848
Gross Margin	-21%	-20%	40%	2%	19%	4%	15%	-3%

Our revenue forecast for 2014 is \$1.14 million, and for 2015 is \$3.02 million. The company was in a strong cash position at the end of Q3, with \$3.69 million in cash, and \$3.59 million in working capital.

Liquidity Analysis	2012	2013	Q3-2014	Industry
Cash	\$162,499	\$497,144	\$3,690,465	
Working Capital	(547,920)	-\$2,197,017	3,585,646	
Current Ratio	0.37	0.23	8.00	1.50
Debt / Capital	10.6%	62.8%	55.8%	13.2%
EBIT Interest Coverage Ratio	(36.3)	(10.8)	(2.8)	2.4

With regard to the company's other two projects, management now expects the oily sludge treatment at the Zhoushan facility to be commissioned before year-end. The facility is designed to process 50,000 tonnes per year of oily sludge. Management expects the Changqing project to be operational by April 2015. In their recent MD&A, management also indicated that they are evaluating opportunities in Jiangsu, Zhejiang, Sichuan and Guandong in China, and in South America and the Middle East.

Our fair value estimate on WMT's shares is \$0.56 per share. We have a BUY rating, with a speculative risk rating.

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