

Consolidated Water Co. Ltd. (CWCO)

University of Wisconsin–Milwaukee | Lubar College of Business | Investment Management Certificate Program

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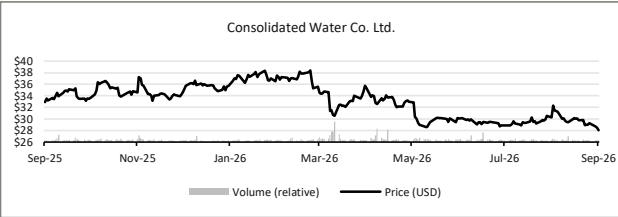
Recommendation: BUY

Value Fit
Philosophy Fit

7 / 10
5 / 5
09/11/2026

WISCONSIN VALUE FUND LENS — Maximize return by buying improving companies at reasonable valuations.

Performance level — ROIC (FY2026E) vs. ke	22.6% vs 6.6% → Above ke
Change in performance — ΔROIC	+7.4 pts, FY2026E vs FY2025A → Improving
Lifecycle phase	Phase III — highest expectations
Valuation gap — target vs. price	+14.1% → Price below our value



BUSINESS DESCRIPTION

Consolidated Water Co. Ltd. engages in the development and operation of seawater desalination plants and water distribution systems. It operates through the following segments: Retail, Bulk, Services, Manufacturing, and Corporate. The Retail segment operates the water utility for the Seven Mile Beach and West Bay areas of Grand Cayman Islands. The Bulk segment supplies potable water to government utilities in Grand Cayman and the Bahamas. The Services segment designs, constructs, and sells water infrastructure, and provides management and operating services to third parties. The Manufacturing segment focuses on the manufacture and service of custom and specialized water-related products applicable to commercial, municipal and industrial water production, supply, and treatment. The Corporate segment consists of various expenses of general and administrative nature to the firm. The company was founded in 1973 and is headquartered in George Town, Cayman Islands.

INVESTMENT THESIS

CWCO runs two businesses under one ticker. The Cayman retail licenses and the government take-or-pay bulk contracts throw off utility-grade cash. The services arm is lumpy project work. The market prices the combination as a single steady earnings stream, and that is the mistake. The \$204M Hawaii contract puts \$147M of revenue through FY26 and FY27 alone, pushing sales up about 50% and EBITDA margin toward 24%, then falls away to a 22-year O&M tail worth \$2.6M a year. The bulls' 30% upside and the bears' \$20 target are really one argument: is a two-year construction spike worth 28 to 32 times earnings? We take the spike at face value but hold the terminal multiple at the 22.1x peer median. That choice, not the earnings, is what makes this a buy. At the 15 to 17 times CWCO has historically traded at, the target is \$29 and the upside about 3%.

MARKET SNAPSHOT

Current Price	\$28.04	Market Cap (\$B)	\$0.4	Beta	0.40
52-Week Range	\$28 – \$38	Inst. Ownership	66.3%	Insider Own.	5.5%
Shares Out. (mm)	15.9	Short Interest (% float)	4.2%	Dividend Yield	2.0%
Consensus L-T Growth	n/a	Payout Ratio	55.7%	Cost of Equity	6.6%
Price Target	\$32.00	Upside to Target	14.1%	Value Range	\$28 – \$34

VALUATION SUMMARY — equity DCF, FCFE discounted at ke

Method	Value / Share	Upside	Terminal Assumption
Equity DCF – terminal P/E	\$33.66	20.0%	22.1x P/E
Equity DCF – terminal P/S	\$32.87	17.2%	2.9x P/S
Equity DCF – terminal P/B	\$31.98	14.1%	1.7x P/B
Equity DCF – constant growth	\$28.38	1.2%	2.0% g, 6.6% ke
Average of methods	\$31.72	13.1%	Equal-weighted
Analyst price target	\$32.00	14.1%	Blue = analyst override

PHILOSOPHY FIT — Five pillars · Score: 5 / 5

1. Fundamental improvement & valuation discipline	ΔROIC +7.4 pts; price is 0.88x our average value	Fit?	Yes
2. Investing through company cycles	Phase III; EBIT margin 13.8% → 15.0%		Yes
3. Initial position sizing & risk limits	Initial position sized within fund limits; risk limits set at entry		Yes
4. Capital allocation discipline	Net debt/invested capital -52.1%; net debt/EBIT -6.6x		Yes
5. Identifiable catalysts & conservative underwriting	Three catalysts, each with something to watch; terminal multiple at the 22.1x peer median		Yes

VALUE CRITERIA — 10-Point Checklist · Score: 7 / 10

1. Catalyst / Investment Drivers	Pass?	Yes
Driver 1 — Hawaii Desalination Mega-Project	The Hawaii design-build-operate contract is worth \$204M over 24 years, but \$147M of it lands in the FY26-FY27 construction phase at \$70-75M a year, roughly half again on top of the FY24 base. EBIT margin goes from 13.8% in FY2025A to a peak of 20.0% in FY2027E, and ROIC reaches 22.6% in FY2026E. Once building stops it drops to a 22-year O&M contract worth \$2.6M a year, which is why revenue falls -15.0% in FY2028E.	
Driver 2 — Pivot to Recurring O&M Services	Buying PERC Water turned CWCO from a plant operator into a contractor that can design and build. Management says the point of that is to turn construction wins into recurring O&M work. Outside Hawaii, O&M revenue is already around \$29M and needs very little capital behind it, with another \$15-16M of US design-build expected to start in FY26. How much of that converts into long-term O&M is what decides whether FY2028 is a cliff or a plateau.	
Driver 3 — Utility Base & Sunbelt / Islands Volume Growth	The Cayman retail licenses are exclusive and the bulk contracts are take-or-pay, so the municipalities pay for a minimum volume whether they use it or not. That is the floor underneath the services volatility. Water use in the Cayman Islands has been growing about 8% a year, and desalination demand across Texas, Florida and California is growing faster still.	
What does management say?	Management keeps leverage deliberately low so it can bid on projects without worrying about rates, and the balance sheet holds net cash rather than net debt. The emphasis is on turning design-build wins into multi-year O&M agreements rather than buying scale.	

2. Low P/E Ratio	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	Yes
EPS (model)	\$1.95	\$1.13	\$1.17	\$1.73	\$2.11	\$1.33	
P/E at current price	14.4x	24.8x	24.0x	16.2x	13.3x	21.1x	
Peer median P/E (FactSet, subject excl.)	22.1x	FY2026E P/E vs. peer median		(27%)			
3. Low Price / Cash Flow							No
FCFE / share	-\$0.07	\$3.24	\$2.03	\$0.60	\$1.93	\$1.76	
Price / FCFE	NM	8.7x	13.8x	47.0x	14.5x	16.0x	
Peer median P/CF (FactSet, subject excl.)	11.6x	Price / FCFE (today) vs. peer median		+20%			
4. Low Price / Book Value	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	No
Book value / share	\$11.87	\$13.26	\$13.92	\$15.12	\$16.68	\$17.48	
Price / Book	2.4x	2.1x	2.0x	1.9x	1.7x	1.6x	
ROE (EOY book)	16.4%	8.5%	8.4%	11.4%	12.7%	7.9%	

5. Financial Soundness							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Total debt (\$mm)	3	3	3	3	3	3	
Net debt (\$mm)	-40	-96	-121	-121	-142	-160	
Total debt / equity (gross)	1.4%	1.6%	1.4%	1.3%	1.1%	1.1%	
Total debt / assets (gross)	1.2%	1.4%	1.2%	1.0%	1.0%	0.9%	
Net debt / invested capital	-20.4%	-43.5%	-52.1%	-48.2%	-51.5%	-55.6%	
Net debt / EBIT	-1.1x	-5.3x	-6.6x	-3.6x	-3.5x	-6.1x	
Tax rate	10.1%	Book equity (\$mm)		222			
6. Positive Earnings Dynamics							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Sales growth	91.5%	(25.7%)	(1.4%)	50.0%	3.0%	(15.0%)	
EBIT margin	20.6%	13.5%	13.8%	17.0%	20.0%	15.0%	
EPS growth	262.2%	(42.0%)	3.6%	47.8%	22.3%	(37.2%)	
7. Business Strategy & Segment Mix							Yes
Strategy	A contracted water utility (retail and bulk) funds a design-build-operate services arm, with construction wins converted into recurring O&M agreements rather than growth bought through acquisitions.						
Segment / geography mix	Services 38%, Bulk Water 25%, Retail Water 24%, Manufacturing 13%. Cayman Islands and Bahamas for retail and bulk; Hawaii, California, Colorado, Texas and Florida for services and manufacturing.						
8. Capable Management & Insider Ownership							No
Insider ownership	5.5%	Inst. ownership		66.3%	Dividends + buybacks, % of NOPAT (FY1E)		29.3%
Insider activity / governance	Recent net insider selling, and insider ownership is only 5.5%, so alignment depends on how pay is structured.						
9. Valuation — Value Creation (ROIC vs. ke)							Yes
ROIC (FY1E)	22.6%	Cost of equity (ke)		6.6%	EVA spread (ROIC – ke)		16.0%
Price target / upside	\$32.00	14.1%		Value / share range (low–high)		\$28 – \$34	
10. Uses of Capital — allocation discipline							Yes
Reinvestment 66% of NOPAT, dividends 29% in FY2026E; no buybacks and no large M&A. Full detail in the Uses of Capital table below.							
VALUE FIT SCORE — criteria met 7 / 10							

FINANCIAL SUMMARY (\$mm except per share)							
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	LAGR 2023–2028
Sales	180	134	132	198	204	173	(0.8%)
Gross margin	34.4%	34.1%	36.0%	31.0%	32.0%	35.0%	
EBIT	37	18	18	34	41	26	(6.9%)
Net income	31	18	19	28	34	21	(7.2%)
EPS (basic)	\$1.95	\$1.13	\$1.17	\$1.73	\$2.11	\$1.33	(7.4%)
Dividend / share	\$0.35	\$0.40	\$0.50	\$0.53	\$0.55	\$0.58	
FCFE / share	-\$0.07	\$3.24	\$2.03	\$0.60	\$1.93	\$1.76	(287.9%)
Invested capital	196	220	232	251	276	288	7.9%
ROIC	19.9%	13.4%	15.2%	22.6%	26.6%	17.8%	
NOPAT margin	17.0%	12.1%	12.4%	14.5%	17.0%	12.8%	
Sales / NWC	3.85x	3.91x	7.00x	7.14x	7.14x	7.69x	
Sales / NFA	1.69x	1.55x	1.48x	2.00x	2.00x	1.70x	
Sales / invested capital (ex cash)	1.17x	1.11x	1.23x	1.56x	1.56x	1.39x	
USES OF CAPITAL — full range, as % of cash generated (NOPAT)							
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	Avg 2023–2028
NOPAT before reinvestment (\$mm)	31	16	16	29	35	22	
Uses, as % of NOPAT							
CapEx, R&D & content (Δ NFA)	17.8%	(125.2%)	14.1%	35.3%	8.6%	0.0%	(8.2%)
Working capital (Δ NWC)	88.2%	(77.9%)	(93.9%)	31.0%	2.4%	(27.2%)	(12.9%)
Dividends	17.9%	39.0%	48.5%	29.3%	25.4%	41.6%	33.6%
Share buybacks	(6.4%)	(71.6%)	(6.2%)	0.0%	0.0%	0.0%	(14.0%)
Debt repaid (neg. = borrowing)	(0.7%)	(4.9%)	2.6%	–	–	–	(0.5%)
Cash & securities build	(26.5%)	351.3%	148.9%	0.6%	60.7%	81.3%	102.7%
Interest & other (residual)	9.5%	(10.8%)	(14.0%)	3.8%	2.9%	4.3%	(0.7%)
Total uses of capital	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Discipline — reinvestment, % of NOPAT	106.1%	(203.1%)	(79.8%)	66.3%	11.0%	(27.2%)	(21.1%)
Dividends + buybacks, % of NOPAT	11.5%	(32.5%)	42.2%	29.3%	25.4%	41.6%	19.6%

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Framework: the full range of capital allocation — CapEx/R&D/brand, dividends, buybacks, cash and debt. Cautious at the top of the cycle; invest for the future at the bottom, without over-levering. Total ties to 100% by construction, with interest and unallocated items in the residual.

COMPS OVERVIEW (current multiples, FactSet)						
Ticker	Company	P/E	P/S	P/B	P/CF	EV/EBIT
CWCO	Consolidated Water Co. Ltd.	27.9x	3.5x	2.0x	11.4x	24.4x
AWK	American Water Works Company, Inc.	24.2x	5.2x	2.4x	11.7x	21.9x
WTRG	Essential Utilities, Inc.	21.4x	4.6x	1.7x	11.6x	20.6x
CWT	California Water Service Group	22.0x	2.8x	1.7x	9.0x	22.5x
SIW	H2O America	22.3x	3.3x	1.4x	11.0x	20.3x
MSEX	Middlesex Water Company	22.1x	5.2x	2.1x	18.3x	24.4x
Median	Peer median (subject excluded)	22.1x	4.6x	1.7x	11.6x	21.9x
CWCO	Subject, at current price	24.0x	3.4x	2.0x	13.8x	17.8x
Premium / (discount) to peer median		+9%	(27%)	+19%	+20%	(18%)

Note: CWCO appears in its own peer list (AutoTearSheet-5PageID14:D19). It is excluded from the median, but replace that slot with a real peer to use all six.

KEY RISKS	
1.	Single-project concentration. Hawaii is 27% of revenue, and Hawaii, California and Colorado are slow, strict places to permit water infrastructure. Permitting friction, design changes or local opposition would take out the 50.0% FY2026E revenue ramp. Watch permit milestones and construction draws.
2.	Manufacturing swings and stretched capacity. Manufacturing revenue roughly halved on order timing and pulled consolidated net income down more than 10% in recent quarters. Bidding and building at once in California, Colorado, Florida and Hawaii asks a lot of a team whose record includes the Tortola problem. Watch segment orders and site headcount.
3.	De-rating. At 2.0x book and 3.4x sales against peer medians of 1.7x and 4.6x, CWCO trades like a large regulated utility while being unrated, yielding under 2% and worth less than \$500M. Back at the 15 to 17 times it historically earned, the stock is about \$20, or -28.7% from here.
Sell triggers: Hawaii permitting slips more than six months; completed US design-build jobs fail to attach O&M; manufacturing orders keep falling and drag consolidated EBITDA margin under 19%.	