

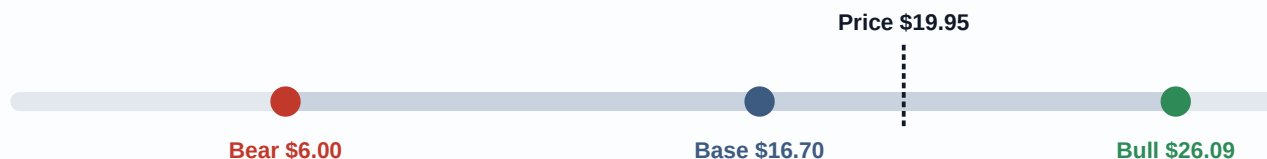
Initiated 2026-10-04 · Price \$19.95 (as of 2026-10-02 close, stockanalysis) · Mkt cap \$2.76bn (138.3mm Class A + B shares) · Energy / oilfield water services & infrastructure · Model: verified

Rating: Hold — Conviction: Medium

Select is becoming a contracted produced-water network: Water Infrastructure revenue is guided up 25–30% in 2026, backed by a new 128mm-barrel minimum volume commitment. But the stock is up ~84% in a year, the base case sits below the price, and the price leans on war-propped ~\$100 Brent. Hold: the business is improving, but the risk/reward is lopsided to the downside.

Conviction tests (3a-v-c): T1 pass (Hold at both +1pp and -1pp) · T2 fail (Gordon method alone, base -29% with bull only +7%, reads Sell; exit method alone -3% reads Hold) · T3 pass · T4 pass

MODEL VALUE RANGE VS PRICE



Business overview

Select sells water logistics to E&P operators. Q2 2026 revenue was \$395.8mm. **Water Services** (\$198.2mm, 23% gross margin before D&A) sources, transfers and handles flowback water for well completions. **Water Infrastructure** (\$101.6mm, 58% margin) gathers, recycles and disposes of produced water through pipelines and saltwater disposal wells, mostly under long-term acreage dedications and MVCs. It handles about 1.5mm bbl/d. **Chemical Technologies** (\$96.0mm, 20% margin) sells completion chemicals, mainly friction reducers and surfactants. Earnings turn on (1) Permian completions (Services, Chemicals), (2) produced-water volumes and contracted infrastructure additions, and (3) crude exposure via skim oil, about \$1mm/month between \$65 and \$95 oil (Q2 call).

Competition

In produced-water infrastructure, the closest listed peer is **WaterBridge (WBI)**. It handled 2.6mm bbl/d in Q2 2026 (+6% q/q) at a 53% adjusted EBITDA margin, guides 2026 adjusted EBITDA to \$435–475mm, and has just bought Ranger Water Midstream (~70 Mbpd) in Lea County (Q2 2026 release, 2026-08-05). WBI, **Western Midstream** (owner of Aris Water) and **NGL Energy Partners** compete with Select's ~1.5mm bbl/d for the same Delaware Basin dedications; **LandBridge (LB)** controls disposal surface acreage. Services and Chemicals compete on price per completion against fragmented private players; **TETRA (TTI)** is the closest listed comparable. Pressure would show up first as lower Services pricing in a slowdown, then as lost dedications on new acreage. The market values WBI at 14.3x trailing EBITDA and TTI at 10.9x (stockanalysis, 2026-10-02).

Bull case

1. **Infrastructure compounding under contract** — the 128mm-bbl Northern Delaware MVC (7-year, pipeline in service within 12 months), 16 new SWDs and a growing backlog support management's "double-digit growth into 2027" after a +25–30% 2026. Plays out if Permian produced-water volumes keep rising with basin production. *Model: seg:Water Infrastructure:growth, ebitda_margin*
2. **Mix shift and re-rating toward a water midstream** — Infrastructure carries 56–58% margins against 21–23% in Services. As it grows from ~22% toward ~30% of revenue, consolidated margin rises and the market could value Select closer to WBI's 14x than to a services multiple. Plays out if contracted volumes are visibly the earnings base by 2027. *Model: ebitda_margin, exit_ev_ebitda*
3. **Surfactant adoption in Chemicals** — surfactants are used in <10% of completions but grew ~50% y/y (Q2 call), and Chemicals hit record revenue in Q2. Plays out if completion intensity (lateral length, fluid per well) keeps rising. *Model: seg:Chemical Technologies:growth*

Bear case

1. **Completions downturn when oil normalizes** — Services is still ~50% of revenue and fell 13% in FY2025 when oil was lower. Brent near \$100 reflects a Middle East war in its eighth month and a G7 stock release (macro log, 2026-10-02). A ceasefire or demand slowdown that returns oil to the \$60s would cut 2027 completions, Services and Chemicals revenue, and skim-oil income. Plays out if Brent falls below ~\$70 for more than a quarter. *Model: seg:Water Services:growth, seg:Chemical Technologies:growth, ebitda_margin*
2. **Capital intensity** — 2026 net capex guidance was raised to \$250–290mm from \$175–225mm in February. FY2025 free cash flow was –\$89.6mm and Q2 2026 FCF was \$17.0mm, funded partly by a \$201mm equity raise at \$12.75. Plays out if new projects earn below the cost of capital or build costs overrun. *Model: capex_pct_rev*
3. **Valuation leaves no cushion** — 11.6x FY2025 adjusted EBITDA on the model's basis, a forward P/E of 38.6x, and a ~84% one-year gain. A cycle turn would de-rate it toward services multiples. Plays out with any guide-down. *Model: exit_ev_ebitda, wacc*
4. **Disposal regulation** — since 2025-06-01 the Texas RRC caps injection pressure and daily volume on new and amended Permian SWD permits, slowing disposal capacity additions and raising cost per barrel. Plays out if permits are denied or curtailed in Select's core areas. *Model: seg:Water Infrastructure:growth*

Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV / FY2025 adj. EBITDA (model basis: mkt cap – cash + funded debt + TRA, ex-leases)	11.6x	n/a (unverified)	—	Model inputs; Q2 2026 release; Q1 10-Q, 2026-10-04
EV / TTM EBITDA (stockanalysis definition, lease-inclusive)	11.9x	n/a (unverified)	WBI 14.3x · TTI 10.9x · LB 45.3x (land/royalty model, not comparable)	stockanalysis, 2026-10-02
Forward P/E (consensus, stockanalysis)	38.6x	n/a (unverified)	WBI 32.5x · TTI 22.2x · LB 37.1x	stockanalysis, 2026-10-02
FCF (operating CF – capex + asset sales, company definition)	FY2025 –\$89.6mm; Q2 2026 +\$17.0mm	FY2024 +\$61.6mm	—	FY2025 and Q2 2026 releases

Model-implied value range (from `model-summary.json`; generic module with a three-segment build, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$6.00 · Base \$16.70 · Bull \$26.09 per share, i.e. implied returns of –69.9% / –16.3% / +30.8% vs \$19.95. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits about a third of the way from base to bull, so the market is pricing infrastructure growth and some re-rating, but not the full bull case. The base return is negative but the call is Hold, not Sell: the exit method alone (\$19.30, –3%) sits at the price and the bull case keeps real upside. The bear case is still more than twice as far away as the bull.

Re-rating. The two base methods differ by more than 10%. The **exit-multiple method (\$19.30)** uses 9.5x Year-5 EBITDA, which is after stock comp, against 11.6x today on adjusted EBITDA. That is an ~18% de-rating, partly a stock-comp basis effect. The **Gordon method**

(\$14.10) at a 10.8% WACC implies a lower terminal multiple still. The gap is the exit method embedding a higher terminal multiple than the Gordon cash flows support.

Balance sheet: net leverage 0.9x FY2025 adj. EBITDA (model), falling to ~0.5x on the base path in 2027. EBITDA/interest ~15x. Liquidity \$277.8mm (\$33.4mm cash + \$244.4mm revolver availability, 2026-06-30). Debt: \$250.0mm amortizing term loan (maturity not verified; the model assumes 2030) and a \$12.9mm agricultural loan. Ratings: n/a (unrated; none found).

Model note: Built and LibreOffice-verified (3,740 formula cells match). Historical EBITDA is company Adjusted EBITDA, which adds back ~\$20mm/yr of non-cash comp. Forward margins are stated after stock comp, so FY0 and Y1 differ in basis by ~1.4pp, deliberately. Unverified inputs: none flagged **est**. Debt coupon (6.5%) and maturity (2030) are judgments that don't affect value. Assumptions without basis: none. Scenario consistency: all OK. No EPS guidance to compare (Base Y1 EPS \$0.72). No tail sensitivity: no customer or product is ≥50% of revenue and the bear case is a break, not a plateau.

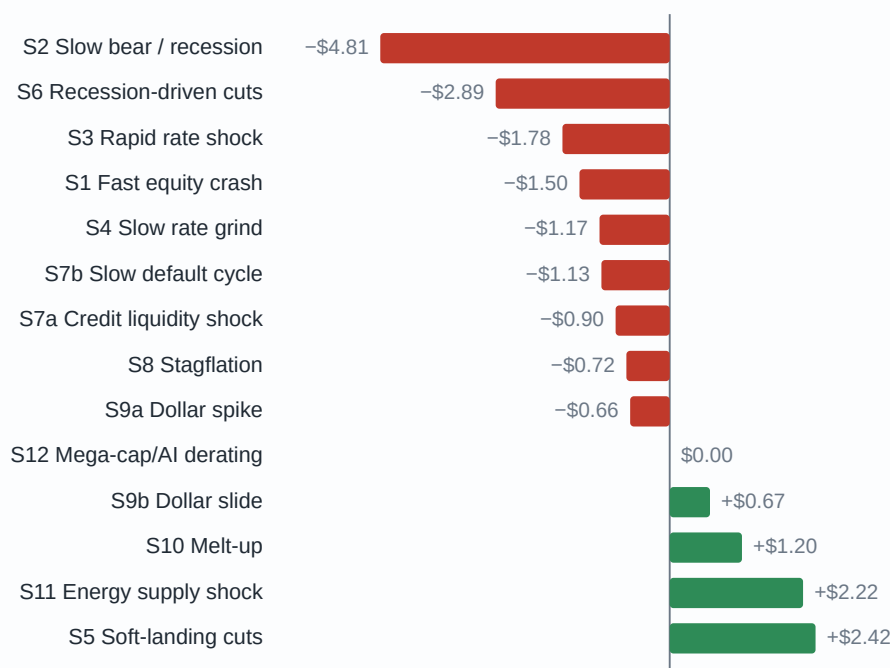
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	–	Energy-linked small cap de-rates; no operating channel over weeks	Med	–\$1.50
S2 Slow bear / recession	–	Oil demand and completions fall, so Services and Chemicals deleverage while contracted infrastructure cushions. Smaller than Base – Bear (\$10.70) on purpose: a recession is transitory, while the bear case is a lasting completions downturn plus a de-rating	High	–\$4.81
S3 Rapid rate shock	–	Higher discount rate on long-lived infrastructure cash flows; floating debt is small	Med	–\$1.78
S4 Slow rate grind	–	Same channel, grinding	Med	–\$1.17
S5 Soft-landing cuts	+	Lower discount rate, steady oil demand	Med	+\$2.42
S6 Recession-driven cuts	–	Activity cuts outweigh lower rates	Med	–\$2.89
S7a Credit liquidity shock	–	Forced selling only; ~0.9x leverage and an undrawn revolver	Low	–\$0.90
S7b Slow default cycle	–	Smaller levered E&P customers cut completions; receivable risk	Med	–\$1.13
S8 Stagflation	±	Higher oil supports activity and skim oil; cost inflation and a higher discount rate offset	Low	–\$0.72
S9a Dollar spike	–	Strong dollar weighs on oil and US completions; domestic, no FX translation	Low	–\$0.66
S9b Dollar slide	+	Mirror: weaker dollar supports oil and activity	Low	+\$0.67
S10 Melt-up	+	Momentum extends to energy small caps	Med	+\$1.20
S11 Energy supply shock	+	Oil spike lifts completions, water-transfer demand and skim-oil revenue	Med	+\$2.22
S12 Mega-cap/AI derating	0	No material effect, not modeled (data-center water work is ~\$6mm/quarter)	Low	+\$0.00

Currently active/on watch per the playbook: S3 active (10Y 5.28%, 2026-10-02 macro log); S8, S10, S11 on watch. S11 is the one that matters here: it is a positive for WTTR, and its reversal is the bear case.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: Infrastructure grows $\geq 15\%$ in 2027 guidance with FY2027 net capex guided below ~\$200mm (FCF inflecting), or the price falls toward the base case without a change in the contract backlog. **Downgrades if:** Brent falls below \$70 for a quarter and Services/Chemicals guidance drops $\geq 10\%$ q/q, or 2026 net capex exceeds \$290mm without new MVCs.

Watch items

- **W1:** Q3 2026 adjusted EBITDA vs the \$90–94mm guide — a miss below \$90mm — Q3 release — early Nov 2026 — *Model: ebitda_margin*
- **W2:** Water Infrastructure FY2026 growth at the high end of 25–30% and 2027 "double-digit" confirmed — Q4/FY2026 release — Feb 2027 — *Model: seg:Water Infrastructure:growth*
- **W3:** FY2027 net capex guide vs ~\$200mm (base path ~13% of revenue) — Q4/FY2026 release — Feb 2027 — *Model: capex_pct_rev*
- **W4:** Brent and Permian completions after any Middle East ceasefire — Services revenue down $\geq 10\%$ q/q — quarterly releases — *Model: seg:Water Services:growth*

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Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.