

Falck Renewables

Italy | Utilities | MCAP EUR 257.9m

13 May 2016

Buy (Buy)

Target Price EUR 1.20
Current Price EUR 0.89
Up/downside 35.6%
Change in TP -20.00%
Change in EPS -44.3% 2016E

Weak results and guidance

Falck Renewables released weak results and the guidance was below our expectations. A new business plan will be presented in November. Meanwhile, we cut our EPS by 35% on average in 2016-18 and our TP from EUR1.5 down to EUR1.2. Buy confirmed in view of the still appealing upside.

A weak start of the year

EBITDA came in at EUR43m, down 22% YOY and accounting for 29% of our previous 2016 forecast (a low contribution considering Q1 is usually the strongest quarter of the year for the wind power business). The EBITDA was weak, due to weaker prices in Italy (green certificate price is calculated based on the power price of the previous year, while electricity prices are the current electricity price, which is 24% lower YOY) and the UK, due to weaker wind (-7.4% YOY) caused by a tough comparison (Q1 2015 was exceptionally good in terms of wind production). Net debt improved to EU589m (we expected EUR610m), down 6.5% QOQ.

Leading to weak guidance

2016 guidance for the EBITDA is EUR130m (-3/+2%) and we previously expected EUR142m (too optimistically).

We cut our estimates and valuation

Including weaker prices, especially in the UK, we cut our 2016 estimates as follows: EBITDA from EUR142m to EUR133m, net profit from EUR6.7m to EUR3.7m. We also cut our longer-term estimate, with a -35% for the 2016-2018E EPS on average. As a consequence, we cut our TP from EUR1.5 down to EUR1.2.

Buy confirmed

The new CEO, Mr. Toni Volpe, was appointed on 22 February, and will present an update on the company's strategy and business plan in November. We do not include any new projects in our estimates, with the exception of those already under construction. The company currently has installed capacity of 726MW (93% in wind, 47% in Italy and 44% in the UK). Thanks to its appealing upside, we confirm our Buy rating.

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Market data

Bloomberg: FKR IM	Reuters: AA4.MI
Market cap (EURm)	258
Free float	37%
No. of shares outstanding (m)	291
Avg. daily volume('000)	140
YTD abs performance	-20.0%
52-week high/low (EUR)	1.27/0.78

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
Sales (m)	241.0	257.3	262.9
EBITDA adj (m)	132.8	144.5	148.1
EBIT adj (m)	61.6	72.6	77.0
Net profit adj (m)	3.7	8.5	14.2
Net fin. debt (m)	677.9	637.7	570.3
FCF (m)	-32.5	56.0	83.1
EPS adj. and fully dil.	0.01	0.03	0.05
Consensus EPS	0.02	0.04	0.06
Net dividend	0.05	0.05	0.05

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
P/E adj and ful. dil.	69.1	30.4	18.2
EV/EBITDA	7.3	6.5	6.0
EV/EBIT	15.8	12.9	11.4
FCF yield	-10.7%	18.5%	27.4%
Dividend yield	5.1%	5.1%	5.1%
Net fin. debt/EBITDA	5.1	4.4	3.9
Gearing	131.2%	122.2%	107.0%
ROIC	3.8%	4.6%	5.1%
EV/IC	0.9	0.9	0.9



Table 1: Q1 results

EURm	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	YOY	QOQ	Q1 16E	Act/Est
Revenues	87	61	53	71	73	-15.5%	3.2%	71	2.9%
EBITDA	55	31	25	42	43	-22.0%	0.5%	43	-1.3%
Margin	63.0%	50.4%	47.3%	59.8%	58.2%			60.7%	
EBIT	37	9	5	31	26	-29.8%	-17.1%	26	-1.7%
Margin	42.3%	15.5%	9.1%	43.7%	35.1%			36.8%	
Pre-tax profit	13	-4	-5	1	16			15	
Net debt	614	623	618	630	589	-4.1%	-6.5%	610	-3.4%

Source: Company data, Kepler Cheuvreux

Table 2: Estimates revision

EURm	2016E old	2016E new	2017E old	2017E new	2018E old	2018E new
Sales	254	241	273	257	279	263
EBITDA	142	133	156	144	160	148
EBIT	71	62	84	73	89	77
Net profit	6.7	3.7	13.4	8.5	18.9	14.2
EPS (EUR)	0.02	0.01	0.05	0.03	0.06	0.05
DPS (EUR)	0.045	0.045	0.045	0.045	0.045	0.045
Net Debt	678	677	633	637	562	570

Source: Kepler Cheuvreux

Table 3: Trends in 2016E

	Q1 15	Q1 16	YOY	Apr-Dec 15	Apr-Dec 16E	YOY
Revenues	87	73	-15.5%	184	168	-8.8%
EBITDA	55	43	-22.0%	98	90	-7.8%
Margin	63.0%	58.2%		53.1%	53.7%	
EBIT	37	26	-29.8%	45	36	-20.6%
Margin	42.3%	35.1%		24.6%	21.4%	
Pre-tax profit	13	16	20.9%	-8	1	nm
Net debt	614	589	-4.1%	630	677	7.5%

Source: Company data, Kepler Cheuvreux

Table 4: Sum of the Parts valuation

EURm	Method	Value	
Wind		924	
	Italy	DCF (WACC 9%)	405
	Scotland	DCF (WACC 9%)	339
	England	1.5x EV/MW 2015E	88
	France and Spain	1.4x EV/MW 2015E	91
Waste	7x EV/EBITDA	63	
Solar	3x EV/MW	48	
Biomass	2.5x EV/MW	35	
Holding costs	6x EV/EBITDA normalised	-	
Services	5x EV/EBITDA 2016E	20	
Enterprise Value		985	
Net Debt (2015 excluding derivatives)		-	
Minorities	our valuation after the partnership	-	
Investments		24	
Equity Value		354	
Number of shares		291	
Target price		1.2	

Source: Kepler Cheuvreux

Key financials

FY to 31/12 (EUR)	2011	2012	2013	2014	2015	2016E	2017E	2018E
Per share data								
EPS adjusted	0.06	-0.29	0.05	0.01	0.02	0.01	0.03	0.05
EPS adj and fully diluted	0.06	-0.29	0.05	0.01	0.02	0.01	0.03	0.05
% Change	3442.3%	-chg	+chg	-77.5%	39.7%	-20.6%	127.7%	66.9%
EPS reported	0.06	-0.29	0.05	0.01	0.02	0.01	0.03	0.05
Cash flow per share	0.02	0.27	0.31	0.22	0.37	0.24	0.29	0.32
Book value per share	1.53	1.18	1.28	1.61	1.62	1.59	1.57	1.58
Dividend per share	0.03	0.00	0.03	0.06	0.05	0.05	0.05	0.05
Number of shares, YE (m)	291.41	291.41	291.41	291.41	291.41	291.41	291.41	291.41
Valuation								
P/E adjusted	18.2	na	19.6	106.2	70.1	69.1	30.4	18.2
P/E adjusted and fully diluted	18.2	na	19.6	106.2	70.1	69.1	30.4	18.2
P/BV	0.8	0.8	0.8	0.8	0.7	0.6	0.6	0.6
P/CF	48.2	3.4	3.3	5.5	3.1	3.7	3.1	2.8
Dividend yield (%)	2.4%	0.0%	3.2%	5.1%	4.0%	5.1%	5.1%	5.1%
FCF yield (%)	-42.3%	6.2%	21.0%	2.3%	12.0%	-10.7%	18.5%	27.4%
EV/Sales	4.5	4.0	3.8	3.9	3.7	4.0	3.7	3.4
EV/EBITDA	7.9	7.0	6.7	7.5	6.5	7.3	6.5	6.0
EV/EBIT	14.1	na	13.4	14.3	14.9	15.8	12.9	11.4
Income Statement (EURm)								
Sales	248.7	274.6	275.9	257.7	270.7	241.0	257.3	262.9
% Change	34.7%	10.4%	0.5%	-6.6%	5.1%	-11.0%	6.8%	2.2%
EBITDA adjusted	141.7	158.0	157.0	135.0	152.4	132.8	144.5	148.1
EBITDA margin (%)	57.0%	57.5%	56.9%	52.4%	56.3%	55.1%	56.1%	56.3%
EBIT adjusted	79.2	-21.4	79.3	70.8	66.3	61.6	72.6	77.0
EBIT margin (%)	31.9%	-7.8%	28.7%	27.5%	24.5%	25.6%	28.2%	29.3%
Net financial items & associates	-42.0	-46.4	-48.5	-49.2	-42.5	-45.1	-45.4	-41.5
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	-17.4	-17.6	-15.9	-12.6	-5.1	-5.8	-8.7	-11.4
Net profit from continuing operations	19.9	-85.4	15.0	9.0	18.7	10.7	18.5	24.2
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	19.9	-85.4	15.0	9.0	18.7	10.7	18.5	24.2
Net profit reported	18.9	-85.4	15.0	3.4	4.7	3.7	8.5	14.2
Net profit adjusted	18.9	-85.4	15.0	3.4	4.7	3.7	8.5	14.2
Cash Flow Statement (EURm)								
Cash flow from operating activities	7.1	77.3	89.8	65.4	106.4	69.5	84.0	93.1
Capex	-178.0	-58.3	-17.5	-55.9	-60.0	-102.0	-28.0	-10.0
Free cash flow	-170.9	19.0	72.4	9.5	46.4	-32.5	56.0	83.1
Acquisitions & Divestments	0.0	0.0	0.0	110.0	0.0	0.0	0.0	0.0
Dividend paid	-1.9	-8.2	0.0	-9.3	-18.1	-13.1	-13.1	-13.1
Others	136.8	-88.9	15.1	7.4	-20.1	-2.6	-2.6	0.0
Change in net financial debt	-36.0	-78.1	87.5	117.6	8.3	-48.2	40.3	70.0
Balance Sheet (EURm)								
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets	1,098.6	1,035.0	1,012.8	965.7	973.2	1,004.0	960.1	899.1
Financial & other non-current assets	171.0	133.0	124.5	162.7	176.9	179.5	182.1	184.7
Total shareholders' equity	451.8	343.7	378.8	499.8	519.0	516.6	522.0	533.0
Pension provisions	4.2	4.4	4.4	4.5	5.1	4.8	4.9	5.0
Liabilities and provisions	1,077.8	1,132.9	1,054.1	993.8	908.5	954.5	916.3	849.5
Net debt	769.3	847.5	760.0	642.5	634.8	682.7	642.5	575.3
Working capital requirement	61.8	77.6	56.0	68.4	67.9	80.3	86.7	88.8
Invested Capital	1,160.4	1,112.6	1,068.8	1,034.2	1,041.1	1,084.3	1,046.8	987.9
Ratios								
ROE (%)	4.9%	-21.7%	4.2%	0.8%	1.0%	0.8%	1.8%	3.1%
ROIC (%)	4.0%	-1.0%	3.5%	2.8%	5.0%	3.8%	4.6%	5.1%
Net fin. debt / EBITDA (x)	5.4	5.3	4.8	4.7	4.1	5.1	4.4	3.9
Gearing (%)	169.3%	245.3%	199.5%	127.7%	121.4%	131.2%	122.2%	107.0%

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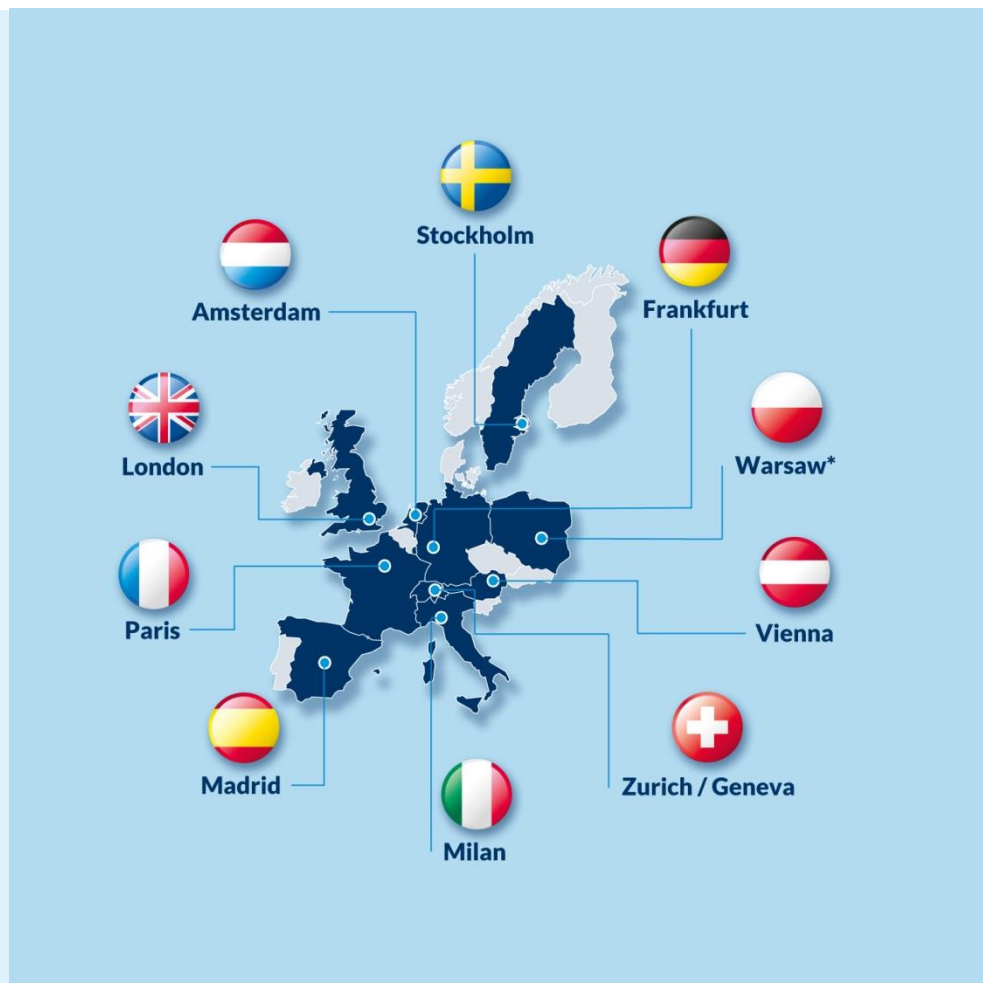
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