

Falck Renewables

Sponsored Research

Italy | Utilities

Investment Research



Company Flash Note

Reason: Rating change

17 September 2020

Accumulate

from Neutral

Share price: EUR **5.41**

closing price as of 16/09/2020

Target price: EUR **6.00**

from Target Price: EUR 5.10

Upside/Downside Potential **11.0%**

Reuters/Bloomberg

AA4.MIFKR IM

Market capitalisation (EURm) **1,575**

Current N° of shares (m) 291

Free float **40%**

Daily avg. no. trad. sh. 12 mth (k) 1,043

Daily avg. trad. vol. 12 mth (k) 19,846.06

Price high/low 12 months 6.19 / 3.40

Abs Perfs 1/3/12 mths (%) 0.00/-2.44/36.84

Key financials (EUR) 12/19 12/20e 12/21e

Sales (m) 373 359 376

EBITDA (m) 204 198 217

EBITDA margin 54.7% 55.0% 57.7%

EBIT (m) 114 109 120

EBIT margin 30.7% 30.5% 31.8%

Net Profit (adj.)(m) 48 36 45

ROCE 6.6% 5.6% 5.8%

Net debt/(cash) (m) 721 736 814

Net Debt Equity 1.2 1.2 1.2

Net Debt/EBITDA 3.5 3.7 3.8

Int. cover(EBITDA/Fin.int) 5.2 4.7 5.3

EV/Sales 6.0 6.7 6.7

EV/EBITDA 10.9 12.2 11.5

EV/EBITDA (adj.) 10.9 12.2 11.5

EV/EBIT 19.5 22.1 20.9

P/E (adj.) 28.7 43.2 35.2

P/BV 2.5 2.8 2.7

OpFCF yield -0.4% -0.7% -1.6%

Dividend yield 1.2% 1.3% 1.3%

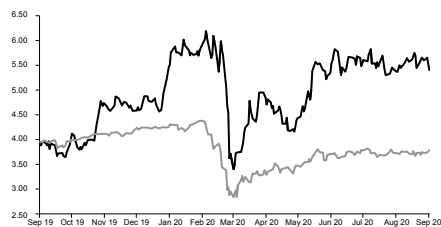
EPS (adj.) 0.17 0.13 0.15

BVPS 1.89 1.94 2.03

DPS 0.07 0.07 0.07

Shareholders

Falck SpA 60%;



Source: FactSet

— FALCK RENEWABLES — Stoxx Europe 600 (Rebased)

Analyst(s)

Emanuele Oggioni

emanuele.oggioni@bancaakros.it

+39 0243 444 237

Successful equity-linked “green bond placement: upgrade to Accumulate given lower equity risk premium

Falck Renewables has successfully placed a EUR 200m 5-year senior unsecured equity-linked “green bond”, 0.0% annual coupon, at an issue price of EUR 101.25 of its nominal value, which means an annual gross yield-to-maturity of -0.25%. We welcome this successful placement and we have upgraded our recommendation to Accumulate from Neutral and set our target price at EUR 6.0 per share. We have reduced our WACC to 3.8% from 4.8% thanks to: 1) the lower cost of debt; 2) a lower beta for each country; 3) the lower equity market risk premium, which socially responsible investors acknowledged for renewable stocks. We have obtained a new target price of EUR 6.0 per share, from EUR 5.10. We have not included any dilution for the time being given the very promising outlook for the company.

- ✓ Falck Renewables has successfully placed a EUR 200m 5-year senior unsecured equity-linked “green bond”, 0.0% annual coupon, at an issue price of EUR 101.25 compared to its nominal value, which means an annual gross yield-to-maturity of -0.25%. The settlement is expected to occur on or about 23 September 2020. The bond will be listed on the Vienna Stock Exchange.
- ✓ The conversion price will be EUR 7.22 per share, a premium of 35% above the reference share price of EUR 5.35, which is equal to the placement price of an ordinary share in the “concurrent delta placement”.
- ✓ The bond will be convertible into the issuer’s ordinary shares subject to the approval by the company’s shareholders during an extraordinary general meeting for a capital increase to be reserved solely to service the conversion of the bond.
- ✓ Falck SpA, which holds 60% of the share capital, will support and vote in favour of the shareholders’ resolutions. The conversion of the convertible bond will theoretically dilute the main shareholder to 54.79% from 60% in 2025.
- ✓ Falck Renewables confirms its commitment to sustainability as part of its core strategy. The net proceeds of the green equity-linked bonds will be used to finance and/or re-finance new or existing renewable energy assets with an expected substantial environmental impact (“eligible green assets”) in line with the 2018 “Green Bond Principles” published by the International Capital Markets Association (ICMA) and the May 2020 “Green Loan Principles published” by the Loan Market Association (LMA).
- ✓ This is the first Italian green equity-linked bond issue. Falck Renewables is taking advantage of the current favourable market conditions to reduce its cost of debt while extending its maturities.
- ✓ We have reduced our WACC to 3.8% from 4.8% thanks to: 1) the lower cost of debt; 2) a lower beta for each countries; 3) the lower equity market risk premium, which socially responsible investors acknowledged for renewable stocks. We have obtained a new target price of EUR 6.0 per share, from EUR 5.10.

Produced by:



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SOTP valuation update

We have upgraded our recommendation to Accumulate from Neutral and set our target price at EUR 6.0 per share. **We have reduced our WACC to 3.8% from 4.8% thanks to:**

- 1) the lower cost of debt;
- 2) a lower beta for each country;
- 3) the lower equity market risk premium, which socially responsible investors acknowledged for renewable stocks.

We have obtained a new target price of EUR 6.0 per share, from EUR 5.10. We have not included any dilution for the time being given the very promising outlook for the company.

Our fair value means some EUR 1.15m EV per MW as the blended and implied valuation. We remind investors that we have included some 75% of the new capacity planned for 2025 in our model (see “How we differ from Falck’s targets” in [our report after the business plan release](#)) and we assigned a value of EUR 0.7m per MW for the remaining projects in the pipeline (COD 2025). This valuation is in line with the latest solar deals in Europe (i.e. Galp’s deal on ACS’ solar assets, EF Solare on Renovalia and Hellenic Petroleum SA on Juwi Group) and at discount on the recent wind deals (Iberdrola on Infigen, Connor, Clark & Lunn Infrastructure on EDPR’s assets in the USA, Finerge on EDPR’ assets in Spain, Gulf Energy on Borkum Riffgrund 2,).

SOP (EURm)		2020
Wind UK	DCF	673.8
Wind Italy	DCF	410.4
Wind France	DCF	155.0
Wind Spain	DCF	21.2
Wind Norway	DCF	106.7
Wind Sweden	DCF	190.0
Solar USA	DCF	258.3
Solar Italy	DCF	115.4
WTE Italy	DCF	40.6
Biomass Italy	DCF	29.0
Services	Multiple EV/EBITDA @ 7x	39.9
Holding	Multiple EV/EBITDA @ 5x	(120.8)
Residual pipeline COD 2025	DCF	381.29
Additional projects COD 2030	DCF	287.62
EV		2,588.5
NFP 2020E (net of IFRS16)	NFP	(659.6)
Financial assets	BV	25.2
Minorities (estimated value)	1.6x P/BV	(102.4)
Provisions	BV	(95.3)
Equity value		1,756.3
N. of shares (m)		291.4
Equity per share (EUR)		6.03

Source: Banca Akros estimates, company data



We remind investors that our SOTP valuation is based on a DCF model for every single country and business unit, considering the residual useful asset life of each plant, with no terminal value and with a different WACC calculated on the basis of the plants' geographical area/tariff/financing conditions.

We think investors are assuming a longer and richer value for the future development projects in the pipeline. We have included 2 GW additional projects until 2030 (from 1 GW until 2025) in our latest report in August. Based on our forecast, 1 GW additional installed capacity could increase EBITDA by EUR 55-60m a year, WITH a cash-out of EUR 700-750m due to additional investments.



Falck Renewables: Summary tables

PROFIT & LOSS (EURm)	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Sales	293	376	373	359	376	411
Cost of Sales & Operating Costs	-143.7	-184.1	-169.1	-161.8	-159.4	-172.1
Non Recurrent Expenses/Income	0.0	7.2	0.0	0.0	0.0	0.0
EBITDA	149	191	204	198	217	239
EBITDA (adj.)*	149	184	204	198	217	239
Depreciation	-59.4	-64.8	-76.8	-81.6	-87.6	-93.4
EBITA	90.0	127	127	116	129	145
EBITA (adj)*	90.0	119	127	116	129	145
Amortisations and Write Downs	-14.7	-11.2	-12.8	-6.5	-9.8	-13.3
EBIT	75.3	115	114	109	120	132
EBIT (adj.)*	75.3	108	114	109	120	132
Net Financial Interest	-35.2	-40.9	-39.1	-42.3	-41.1	-41.4
Other Financials	0.0	0.0	0.0	0.0	0.0	0.0
Associates	2.3	2.7	2.7	2.3	2.8	6.4
Other Non Recurrent Items	0.0	0.0	0.0	0.0	0.0	0.0
Earnings Before Tax (EBT)	42.4	77.3	78.0	69.4	81.3	97.2
Tax	-10.4	-16.9	-14.8	-18.7	-20.3	-24.3
<i>Tax rate</i>	<i>24.4%</i>	<i>21.8%</i>	<i>19.0%</i>	<i>27.0%</i>	<i>25.0%</i>	<i>25.0%</i>
Discontinued Operations	0.0	0.0	0.0	0.0	0.0	0.0
Minorities	-11.7	-16.4	-14.8	-14.2	-16.3	-19.9
Net Profit (reported)	20.3	44.1	48.4	36.5	44.7	53.0
Net Profit (adj.)	20.3	39.2	48.4	36.5	44.7	53.0
CASH FLOW (EURm)	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Cash Flow from Operations before change in NWC	106	136	153	139	158	179
Change in Net Working Capital	-5.0	12.6	-27.0	-5.0	-5.0	-10.0
Cash Flow from Operations	101	149	126	134	153	169
Capex	-154.9	-51.3	-131.0	-145.1	-178.4	-161.5
Net Financial Investments	0.5	0.5	0.5	0.5	0.5	0.5
Free Cash Flow	-53.3	98.2	-4.7	-10.8	-24.6	8.5
Dividends	-14.3	-15.4	-18.4	-19.5	-20.1	-20.1
Other (incl. Capital Increase & share buy backs)	46.3	-34.4	-137.2	-33.5	-23.0	-18.7
Change in Net Debt	-21	48	-160	-64	-68	-30
NOPLAT	56.9	84.7	92.7	79.9	89.7	99.1
BALANCE SHEET & OTHER ITEMS (EURm)	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Net Tangible Assets	939	926	1,110	1,137	1,246	1,334
Net Intangible Assets (incl. Goodwill)	182	141	180	180	180	180
Net Financial Assets & Other	21.9	22.8	25.2	25.2	25.2	25.2
Total Fixed Assets	1,143	1,089	1,315	1,342	1,451	1,539
Inventories	4.9	5.8	30.1	30.6	31.1	32.0
Trade receivables	103	98.7	93.5	95.0	96.5	99.5
Other current assets	25.6	154.5	161.4	164.6	167.2	172.5
Cash (-)	-261.5	-220.0	-132.1	-130.1	-119.9	-114.9
Total Current Assets	395	479	417	420	415	419
Total Assets	1,539	1,568	1,732	1,762	1,866	1,958
Shareholders Equity	448	501	550	566	590	623
Minority	49.5	54.7	58.1	64.5	73.4	85.8
Total Equity	498	556	608	630	664	709
Long term interest bearing debt	758	691	774	785	847	882
Provisions	4.0	4.3	4.8	3.1	3.2	3.3
Other long term liabilities	76.3	79.9	96.1	92.2	96.6	105
Total Long Term Liabilities	838	776	875	881	946	991
Short term interest bearing debt	87.7	75.7	79.2	80.4	86.7	90.3
Trade payables	80.8	51.2	70.6	71.7	72.9	75.1
Other current liabilities	34.5	110	100	98.7	95.9	92.3
Total Current Liabilities	203	237	250	251	255	258
Total Liabilities and Shareholders' Equity	1,538.6	1,568.1	1,732.2	1,761.7	1,865.9	1,957.8
Net Capital Employed	1,161.7	1,187.3	1,429.2	1,461.3	1,577.2	1,675.5
Net Working Capital	18.4	98.2	114.2	119.8	126.0	136.6
GROWTH & MARGINS	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
<i>Sales growth</i>	<i>14.2%</i>	<i>28.1%</i>	<i>-0.7%</i>	<i>-3.7%</i>	<i>4.7%</i>	<i>9.2%</i>
EBITDA (adj.)* growth	9.6%	23.3%	10.7%	-3.2%	9.8%	10.1%
<i>EBITA (adj.)* growth</i>	<i>26.1%</i>	<i>32.7%</i>	<i>6.5%</i>	<i>-8.9%</i>	<i>11.6%</i>	<i>12.4%</i>
<i>EBIT (adj.)* growth</i>	<i>26.4%</i>	<i>43.8%</i>	<i>5.6%</i>	<i>-4.4%</i>	<i>9.3%</i>	<i>10.5%</i>



Falck Renewables: Summary tables

GROWTH & MARGINS	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Net Profit growth	222.6%	92.8%	23.5%	-24.6%	22.6%	18.5%
EPS adj. growth	n.m.	116.8%	9.8%	-24.6%	22.6%	18.5%
DPS adj. growth	8.2%	18.9%	6.3%	3.0%	0.0%	0.0%
EBITDA (adj)* margin	51.0%	49.1%	54.7%	55.0%	57.7%	58.1%
EBITA (adj)* margin	30.7%	31.8%	34.1%	32.3%	34.4%	35.4%
EBIT (adj)* margin	25.7%	28.8%	30.7%	30.5%	31.8%	32.2%
RATIOS	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Net Debt/Equity	1.2	1.0	1.2	1.2	1.2	1.2
Net Debt/EBITDA	3.9	2.9	3.5	3.7	3.8	3.6
Interest cover (EBITDA/Fin.interest)	4.2	4.7	5.2	4.7	5.3	5.8
Capex/D&A	209.0%	67.6%	146.2%	164.6%	183.3%	151.5%
Capex/Sales	52.8%	13.7%	35.1%	40.4%	47.4%	39.3%
NWC/Sales	6.3%	26.2%	30.6%	33.3%	33.5%	33.2%
ROE (average)	4.6%	8.3%	9.2%	6.5%	7.7%	8.7%
ROCE (adj.)	5.0%	7.3%	6.6%	5.6%	5.8%	6.0%
WACC	5.1%	5.3%	4.9%	4.8%	4.7%	4.8%
ROCE (adj.)/WACC	1.0	1.4	1.3	1.2	1.2	1.3
PER SHARE DATA (EUR)***	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Average diluted number of shares	291.4	291.4	291.4	291.4	291.4	291.4
EPS (reported)	0.07	0.15	0.17	0.13	0.15	0.18
EPS (adj.)	0.07	0.15	0.17	0.13	0.15	0.18
BVPS	1.54	1.72	1.89	1.94	2.03	2.14
DPS	0.05	0.06	0.07	0.07	0.07	0.07
VALUATION	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
EV/Sales	4.3	3.5	6.0	6.7	6.7	6.2
EV/EBITDA	8.4	6.8	10.9	12.2	11.5	10.7
EV/EBITDA (adj.)*	8.4	7.0	10.9	12.2	11.5	10.7
EV/EBITA	14.0	10.2	17.5	20.9	19.4	17.6
EV/EBITA (adj.)*	14.0	10.9	17.5	20.9	19.4	17.6
EV/EBIT	16.7	11.2	19.5	22.1	20.9	19.4
EV/EBIT (adj.)*	16.7	12.0	19.5	22.1	20.9	19.4
P/E (adj.)	31.1	15.5	28.7	43.2	35.2	29.7
P/BV	1.4	1.4	2.5	2.8	2.7	2.5
Total Yield Ratio	2.4%	2.7%	1.2%	1.3%	1.3%	
EV/CE	1.1	1.1	1.6	1.7	1.6	1.6
OpFCF yield	-8.5%	14.3%	-0.4%	-0.7%	-1.6%	0.5%
OpFCF/EV	-4.3%	7.5%	-0.2%	-0.5%	-1.0%	0.3%
Payout ratio	76.0%	41.7%	40.3%	55.1%	45.0%	38.0%
Dividend yield (gross)	2.4%	2.7%	1.2%	1.3%	1.3%	1.3%
EV AND MKT CAP (EURm)	12/2017	12/2018	12/2019	12/2020e	12/2021e	12/2022e
Price** (EUR)	2.17	2.35	4.76	5.41	5.41	5.41
Outstanding number of shares for main stock	291.4	291.4	291.4	291.4	291.4	291.4
Total Market Cap	632.4	683.4	1,387.1	1,575.1	1,575.1	1,575.1
Gross Financial Debt (+)	845.3	767.1	852.8	865.6	933.4	972.5
Cash & Marketable Securities (-)	-261.5	-220.0	-132.1	-130.1	-119.9	-114.9
Net Financial Debt	583.7	547.1	720.8	735.6	813.5	857.6
Lease Liabilities (+)						
Net Debt	583.7	547.1	720.8	735.6	813.5	857.6
Other EV components	40.9	67.4	119.5	106.9	116.7	129.1
Enterprise Value (EV adj.)	1,257.0	1,297.9	2,227.4	2,417.6	2,505.3	2,561.9

Source: Company, Banca Akros estimates.

Notes

* Where EBITDA (adj.) or EBITA (adj.) = EBITDA (or EBITA) -/+ Non Recurrent Expenses/Income and where EBIT (adj.) = EBIT -/+ Non Recurrent Expenses/Income - PPA amortisation

**Price (in local currency): Fiscal year end price for Historical Years and Current Price for current and forecasted years

***EPS (adj.) diluted = Net Profit (adj.) / Avg DIL. Ord. (+ Ord. equivalent) Shs. EPS (reported) = Net Profit reported / Avg DIL. Ord. (+ Ord. equivalent) Shs.

Sector: Utilities/Alternative Electricity

Company Description: Falck Renewables produces wind and solar energy, biomass energy, waste-to-energy; it is among the biggest "pure players" in the European renewables energy sector. Falck Renewables is currently present in Europe (Italy, UK, France, Spain, Norway and Sweden) and the USA with an installed capacity of 1.1 GW (of which some 83% wind).



Il presente documento è stato redatto da Emanuele Oggioni (socio AIAF) che svolge funzioni di analista presso Banca Akros SpA ("Banca Akros"), soggetto responsabile della produzione del documento stesso. **Esso è prodotto e distribuito dal giorno 17 September 2020, ore 10:41 italiane.**

L'analista di Banca Akros, che ha redatto il presente documento, ha maturato una significativa esperienza presso Banca Akros e altri intermediari.

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Banca Akros, nell'ultimo anno, ha pubblicato sulla società oggetto di analisi tre studi in data 5 e 6 agosto, 16 settembre 2020.

Ai sensi degli artt. 5 e 6 del Regolamento Delegato 2016/958, **Banca Akros ha specifici interessi nei confronti della società oggetto di analisi nel presente documento, in quanto specialista del titolo Falck Renewables, quotato sul segmento Star.**

Banca Akros è una banca autorizzata anche alla prestazione di servizi di investimento appartenente al Gruppo Banco BPM (il "Gruppo"), ed è soggetta all'attività di direzione e coordinamento di Banco BPM (la "Capogruppo"). La banca è iscritta all'albo delle Banche al n. 5328 ed è soggetta alla regolamentazione e alla vigilanza di Banca d'Italia e Consob.

La banca ha prodotto il presente documento solo ed esclusivamente per i propri clienti professionali ai sensi della Direttiva 2014/65/EU, del Regolamento Delegato 2016/958 e dell'Allegato 3 del Regolamento Intermediari Consob (Delibera Consob n. 20307).

Banca Akros rende disponibili informazioni sui conflitti di interesse, ai sensi delle disposizioni contenute nell'art. 20 del Regolamento EU 2014/596 (Regolamento sugli Abusi di Mercato) e in particolare ai sensi degli artt. 5 e 6 del Regolamento Delegato EU 2016/958, sul proprio sito internet:

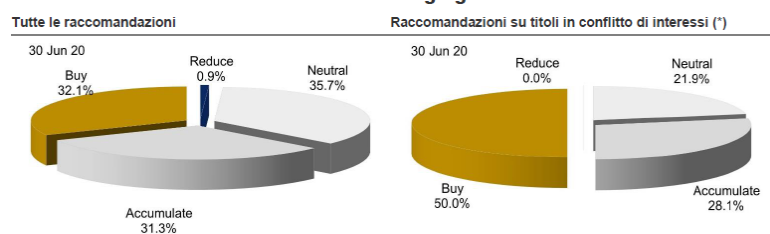
<http://www.bancaakros.it/menu-informativa/analisi-finanziaria-e-market-abuse.aspx>

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Percentuale delle raccomandazioni al 30 giugno 2020



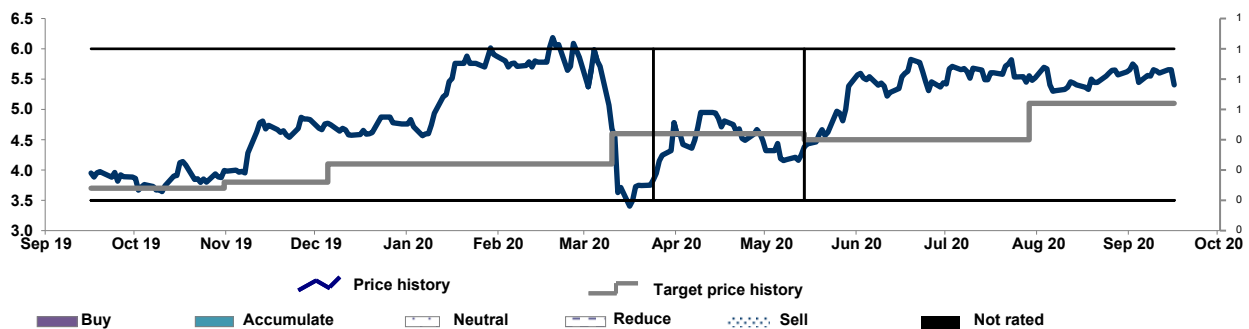
(*) Si informa che la percentuale degli emittenti in potenziale conflitto di interessi con Banca Akros è pari al 28.57% del totale degli emittenti oggetto di copertura

Recommendation history for FALCK RENEWABLES

Date	Recommendation	Target price	Price at change date
29-Jul-20	Neutral	5.10	5.56
14-May-20	Neutral	4.50	4.38
24-Mar-20	Accumulate	4.60	3.84
10-Mar-20	Neutral	4.60	4.68
05-Dec-19	Neutral	4.10	4.77
31-Oct-19	Neutral	3.80	3.99
29-Jul-19	Neutral	3.70	4.16
03-May-19	Neutral	3.10	3.16
11-Mar-19	Neutral	3.00	2.84
07-Jan-19	Accumulate	2.90	2.50
28-Nov-18	Accumulate	2.60	2.26
11-Jun-18	Buy	2.25	2.06
20-Dec-17	Buy	2.00	1.90
13-Oct-17	Buy	1.75	1.49

Source: Factset & ESN, price data adjusted for stock splits.

This chart shows Banca Akros continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. Current analyst: Emanuele Oggioni (since 27/11/2018)





ESN Recommendation System

The ESN Recommendation System is **Absolute**. It means that each stock is rated based on **total return**, measured by the upside/downside potential (including dividends and capital reimbursement) over a **12-month time horizon**. The final responsible of the recommendation of a listed company is the analyst who covers that company. The recommendation and the target price set by an analyst on one stock are correlated but not totally, because an analyst may include in its recommendation also qualitative elements as market volatility, earning momentum, short term news flow, possible M&A scenarios and other subjective elements.



The ESN spectrum of recommendations (or ratings) for each stock comprises 5 categories: **Buy (B)**, **Accumulate (A)**, **Neutral (N)**, **Reduce (R)** and **Sell (S)**.

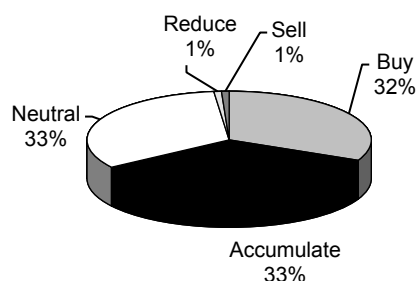
Furthermore, in specific cases and for a limited period of time, the analysts are allowed to rate the stocks as **Rating Suspended (RS)** or **Not Rated (NR)**, as explained below.

Meaning of each recommendation or rating:

- **Buy:** the stock is expected to generate total return of **over 15%** during the next 12-month
- **Accumulate:** the stock is expected to generate total return of **5% to 15%** during the next 12-month
- **Neutral:** the stock is expected to generate total return of **-5% to +5%** during the next 12-month
- **Reduce:** the stock is expected to generate total return of **-5% to -15%** during the next 12-month
- **Sell:** the stock is expected to generate total return **under -15%** during the next 12-month
- **Rating Suspended:** the rating is suspended due to: a) a capital operation (take-over bid, SPO, etc.) where a Member of ESN is or could be involved with the issuer or a related party of the issuer; b) a change of analyst covering the stock; c) the rating of a stock is under review by the Analyst.
- **Not Rated:** there is no rating for a stock when there is a termination of coverage of the stocks or a company being floated (IPO) by a Member of ESN or a related party of the Member.

Note: a certain flexibility on the limits of total return bands is permitted especially during higher phases of volatility on the markets

Banca Akros Ratings Breakdown



For full ESN Recommendation and Target price history (in the last 12 months) please see ESN Website [Link](#)

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Members of ESN (European Securities Network LLP)

 **CIC Market Solutions**
6, avenue de Provence
75441 Paris - Cedex 09
France
Phone: +33 1 5348 8193



 **GVC Gaesco Valores, S.V., S.A.**
C/- Fortuny, 17
28010 Madrid
Spain
Phone: +34 91 436 7813

