Falck Renewables

ITALY / Utilities/Renewables

Company update

BUY *(Unchanged)*

Target: € 1.47 *(Unchanged)*

Risk: High

STOCK DATA	Ord
Price €	0.9
Bloomberg code	FKR IM
Market Cap. (€ mn)	257
Free Float	29%
Shares Out. (mn)	291.4
52-week range	0.65 - 1.11
Daily Volumes (mn)	0.55

PERFORMANCE	1M	3M	12M
Absolute	20.7%	19.5%	-18.0%
Rel. to FTSE all shares	3.8%	3.3%	-9.4%

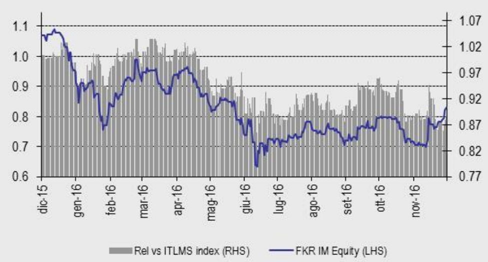
MAIN METRICS	2014	2015E	2016E
REVENUES	248	271	263
EBITDA	135	152	125
NET INCOME	3.4	5.3	5.3
Adj. EPS - € cents	1.2	4.2	1.8
DPS ord - € cents	6.2	4.5	4.9

FKR	2015	2016E	2017E
P/E adj	nm	48.3 x	26.9 x
EV/EBITDA rep	6.1 x	7.5 x	6.9 x

REMUNERATION	2015	2016E	2017E
Div. Yield ord	5.1%	5.6%	6.0%
FCF yield	10.0%	7.0%	2.1%

INDEBTEDNESS	2014	2015E	2016E
Net fin position	-638	-631	-626
Debt/EBITDA	4.7 x	4.1 x	5.0 x
Interests cov	2.7 x	3.4 x	3.1 x

PRICE ORD LAST 365 DAYS



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December 21, 2016 # 504

EQUITA SIM SpA

BACK TO GROWTH IN CORE BUSINESS

The strategy plan presented in the past weeks is a step in the right direction. The expected growth in installed capacity leads us to an average +30% increase in Net Income through 2021 and to the confirmation of the positive view BUY, with a 1.47€sh target (+67% upside). Despite some expected short term uncertainties (due to inevitable development costs) we believe the risk reward profile has improved significantly, leaving FKR well positioned in the industry.

■ Back to growth in the core business, with attractive dividend yield

After years of postponement (which has led to the CEO substitution at the beginning of the year), the new management team has recently defined the strategy for the period 2017-2021**. With an expansion of +58% in capacity through 2021** (France, Italy, Uk, Netherland and Nordics with +478 MW to 1300 MW **for a total investment of 702 €mn) as well a strong focus in the construction of a large pipeline in core "wind/solar" and relevant expected savings in both O&M and G&A**, Falck is aiming to achieve through 2021:

1. **a +11% Cagr of Ebitda** (at 166 €mn in 2019 and 201 €mn in 2021)
2. **a +34% Cagr of Net Income Pre Minorities** (at 45€ mn in 2021)
3. **a stable indebtedness** at 4.5x d/ebitda through the period

Aware of the fact that a strategy devoted to growth requires inevitable short term "Development Costs" (indicated in -8.5€mn per year already from 2017) **Falck has also proposed a generous dvd policy with an +8.5% cagr of dps through 2021. Yield will range from 6% already in 2017 up to 7.2% in 2021** thus making FKR's profile attractive also in the short term

■ Risk reward profile is improved. Tgt of 1.47€/sh confirmed

Taking a more conservative approach (in terms of pipeline development and energy prices), **we are only giving to Falck the benefit of around 60% of the presented plan, increasing our Ni forecast by around +30% in 2017-2021. This significantly improves the risk/reward profile of the group and the multiple valuation** (PE reduces by -30% to 12x in 2019-2020) **despite the reference target price is only confirmed at 1.47€/sh.** The value creation from the new asset, in fact, is basically compensated by the higher development costs and the higher wacc expected short term.

■ BUY confirmed. The judgement on the plan is positive

Our final judgement on the overall strategy plan is positive and we are consequently confirming our BUY recommendation. The Renewable industry has significantly changed in the past 4-5 years, becoming progressively more "global", less subsidized and increasingly crowded of both industrial and financial players. **A stable presence in this industry requires the ability to play different technologies at international level and constant investments in pipeline/asset expansion** (also to compensate for the expected loss of incentives in the coming years). **Falck renewables's steps are consequently correct and will allow to preserve a good position in the industry, while offering a good mix of growth and remuneration.** If on one side, the strong capital commitment (-702 €mn expected capex) and the inevitable expected higher development costs (around 8.5€mn per year) implies short term risk, on the other side, the ability to deliver showed in the past years and the good achieved fcf generation (which has supported a strong deleverage) deserve some credibility. **Finally the very high dividend remuneration offers also a short term appeal despite the main driver of the plan will deploy mainly beyond 2018.**

MAIN FIGURES € mn	2013	2014	2015	2016E	2017E	2018E
REVENUES	**276**	**248**	**271**	**263**	**286**	**297**
Growth	0%	-10%	9%	-3%	9%	4%
EBITDA	**157**	**135**	**152**	**125**	**137**	**147**
Growth	-1%	-14%	13%	-18%	9%	7%
Adj EBITDA (Incl JV)	**157**	**135**	**152**	**125**	**137**	**147**
Growth	-1%	-14%	13%	-18%	9%	7%
EBIT	**79**	**71**	**66**	**56**	**64**	**72**
Growth	-471%	-11%	-6%	-16%	14%	13%
PBT	**31**	**22**	**24**	**18**	**29**	**39**
Growth	-145%	-30%	10%	-23%	58%	35%
NET INCOME	**15.1**	**3.4**	**5.3**	**5.3**	**9.5**	**15.5**
Growth	-119%	-78%	57%	1%	80%	62%
Adj. NET INCOME	**22.9**	**3.4**	**12.1**	**5.3**	**9.5**	**15.5**
Growth	-388%	-85%	262%	-56%	80%	62%
MARGIN	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Ebitda Margin	56.8%	54.5%	56.3%	47.7%	48.0%	49.3%
Ebitda adj Margin	56.8%	54.5%	56.3%	47.7%	48.0%	49.3%
Ebit margin	28.7%	28.5%	24.5%	21.2%	22.3%	24.2%
Pbt margin	11.2%	8.7%	8.8%	6.9%	10.1%	13.0%
Ni rep margin	5.5%	1.3%	1.9%	2.0%	3.3%	5.2%
Ni adj margin	8.3%	1.3%	4.5%	2.0%	3.3%	5.2%
SHARE DATA	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
EPS - € cents	5.2	1.2	1.8	1.8	3.3	5.3
Growth	-119%	nm	nm	1%	80%	62%
Adj. EPS - € cents	7.9	1.2	4.2	1.8	3.3	5.3
Growth	-388%	nm	nm	-56%	80%	62%
DPS ord - € cents	3.2	6.2	4.5	4.9	5.3	5.8
BVPS - €	1.3	1.6	1.6	1.6	1.6	1.6
VARIOUS - € mn	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Oper capital employed	1,181	1,159	1,176	1,172	1,181	1,173
FCF	92	128	26	18	5	28
Capital expenditures	-58	-91	-53	-62	-67	-50
Working capital	57	69	68	66	72	80
INDEBTNESS - €mn	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Net fin position	-757	-638	-631	-626	-635	-622
D/E	2.03 x	1.36 x	1.33 x	1.35 x	1.38 x	1.35 x
Debt/EBITDA	4.8 x	4.7 x	4.1 x	5.0 x	4.6 x	4.2 x
Interests cov	3.2 x	2.7 x	3.4 x	3.1 x	3.7 x	4.1 x
MARKET RATIOS	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
P/E ord	nm	76.5 x	48.6 x	48.2 x	26.8 x	16.5 x
P/E ord Adj	nm	76.5 x	21.1 x	48.2 x	26.8 x	16.5 x
PBV	0.7 x	0.5 x	0.5 x	0.6 x	0.6 x	0.6 x
P/CF	4.2 x	6.1 x	4.5 x	5.5 x	4.8 x	4.2 x
EV FIGURES	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
EV/Sales rep	3.8 x	3.7 x	3.5 x	3.6 x	3.3 x	3.2 x
EV/EBITDA rep	6.6 x	6.9 x	6.1 x	7.5 x	6.9 x	6.4 x
EV/EBIT	13.1 x	13.1 x	14.1 x	16.8 x	14.9 x	13.1 x
EV/CE	0.9 x	0.8 x	0.8 x	0.8 x	0.8 x	0.8 x
REMUNERATION	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**
Div. Yield ord	3.6%	7.0%	5.1%	5.6%	6.0%	6.6%
FCF yield	35.7%	49.9%	10.0%	7.0%	2.1%	11.0%
ROE	4.1%	0.7%	1.1%	1.1%	2.1%	3.4%
ROCE	4.0%	3.7%	3.4%	2.9%	3.2%	3.7%

Source: EQUITA SIM estimates and company data

WIND: Cabezo San Roque plant

WASTE TO ENERGY: Trezzo Plant

BUSINESS DESCRIPTION

Falck Renewables SpA develops, designs, constructs and manages energy production from renewables sources. The expertise of Falck Renewables SpA covers the entire life cycle of a project, from preliminary activities (pre-feasibility and feasibility studies, technical/economic evaluation, optimum design of the plant, and financial plan) and executions (preparation of the contract technical specifications and contractual documents, negotiation and assignment of contracts, construction supervision), through to operation and maintenance and energy portfolio management activities.

The group is active in wind, photovoltaic, waste treatment and is present in Italy, Uk, Spain & France with a total installed capacity of around 822 MW (mainly Italy and Uk). FKR has also diversified in the SERVICES activities around the globe (through the acquisition of Vector Cuatro)

■ Business model & market drivers

Revenues mainly derive from the sale of electricity as well as from the incentives paid for the development of the industry. Main drivers affecting group performance are:

- Electricity prices, as the main reference for the sales to final customer
- Commodities prices (Oil, Coal and Gas), as main input cost in the process of electricity generation for the main traditional "thermo" power assets (the price setters in the country)
- Regulation as the main reference framework for the incentives attribution to the renewables sources.
- Volatility in natural resources availability, as renewables player FKRr's performance also mainly derives from the wind, solar , biomass and Wte

■ Main Challanges

The main difficulties of the group will be:

- to replicate the successful business model at international level
- to follow in advance the different country development, adapting the structure to each regional difference

Strength/Opportunities	Weaknesses/Threat
• Diversification among countries and technologies to the benefit of lower risk exposure to incentives and production constraints • Critical mass and relevant dimension to get better access to the upstream technology market (turbines and panels) • International footprint allowing the exploitation of the new regional frontier entering the renewables world	• Possible changes in reference regulatory systems are possible due to international financial crisis • Overrun costs in the installation processes not mitigated by incentives evolution • Significant delays in project installation • Deterioration of the financing conditions considering the industry remains capital intensive

BACK ON THE RIGHT PATH.

After years of delay, and following the appointment of the new CEO (Toni Volpe) some months ago, Falck Renewables has finally presented its updated strategy plan for the year 2017-2021.

The plan entails a strong discontinuity vs the attitude of the group during the past 3 years, with a renewed commitment towards "growth" in the core business (Wind & Solar), **the aim to additionally expand the business in new geographical areas (**Us, Netherland and Nordics), **the confirmed attention towards the overall O&M cost reduction and a significantly increased dividend remuneration** (among the highest in the industry).

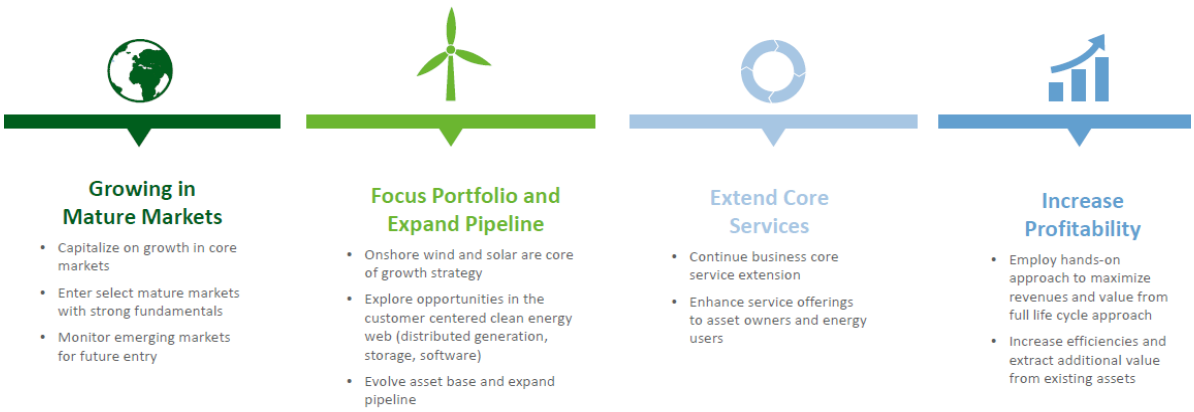
While we agree that the plan generates some uncertainties, especially in the short term, on the quality of the pipeline construction and the higher required investments commitment, **we believe it is the right path for a group like Falck, which has an already consolidated international presence, in a fragmented market worldwide.**

■ Pipeline expansion, extension of core services and higher profitability

While in the past 2-3 years Falck has simply managed the existing assets and the residual installations in UK, with no official strategy update, the investor day provided for a renewed commitment towards the business growth, through 4 main pillars:

1. **Growth in mature markets,** with expansion of the asset base in countries with already consolidated presence (France, Italy and Uk), but also with expansion in selected new markets (Netherland, Nordics, Ireland). **Falck Renewables expects to increase installed capacity by +58% (+478 MW to 1300 MW) through 2021 with an overall investments of 702 €mn across the 2017-2021 period.**
2. **Focused portfolio and expansion of pipeline.** With Falck concentrated only on core "Wind" and "Solar" and the relative pipeline re-construction (envisaged some 8.5 €mn development cost each year)
3. **Extended core services.** With the aim to additionally reinforce the activity of Vector Cuatro, taking the group to double the managed asset from 2100 MW Up to 4500 MW worldwide
4. **Increased profitability** thanks to higher efficiencies and extraction of additional value from existing assets (O&M/MW expected to decrease by -15% and G&A/MW expected to decrease by -28%)

STRATEGY PLAN: MAIN STRATEGIC PILLARS



Source: company presentation

As indicated by Falck Renewables, the above mentioned drivers will lead to substantial growth through 2021 or:

1. **a +11% Cagr of Ebitda** (Expected 166 €mn in 2019 and 201 €mn in 2021)
2. **a +34% Cagr of Net Income Pre Minorities** (at 45€ mn in 2021)
3. **a +8.5% Cagr of Dps** from 4.9€c to 6.3 €c (with yield ranging from 6% to 7.4%
4. **An overall average 4.7x D/Ebitda in the period.**

In the following table a summary of the main strategy targets. As you can see the expected turnaround is significant

MAIN STRATEGY TARGETS

	2016	2017	2018	2019	2020	2021	Cagr 21/17
Installed capacity owned	822	858	na	1002	na	1300	478
Asset managed globally (Vector Cuatro)	2100	na	na	na	na	4500	2400
Ebitda	130	132	na	166	na	201	11%
Net Income Pre-Minorities	13	14	na	na	na	45	34%
Nfp	-618	-616	na	-767	na	-941	nm
D/Ebitda	-4.8 x	-4.7 x	na	-4.6 x	na	-4.7 x	nm
Dps (year of cash flow) - €c	4.5	4.9	5.3	5.8	6.3	na	nm
Implied yield	5.3%	5.8%	6.2%	6.8%	7.4%	na	nm

As you can see, the plan is particularly ambitious and significantly above market expectations in the mid/long run.

■ Expansion of the asset base

While focusing on the core Wind and Solar assets (with Italian Wte still remaining core, but with no expected asset expansion), **Falck Renewables will finalize the construction of the residual assets in Uk while in the meantime building up a pipeline of project that will allow:**

- **A consolidation of the presence in the already existing markets** (mainly Italy and France)
- **An Expansion in new countries** (mainly Us Solar, Netherland and the Nordics)

For an overall assets growth in the region of +480 MW.

In the following picture a summary of the expected asset expansion

EXPECTED EXPANSION OF THE ASSET BASE

Source: company presentation

As indicated above, the expected asset expansion will cost around 700 €mn of capital expenditure in the period.

Increased profitability

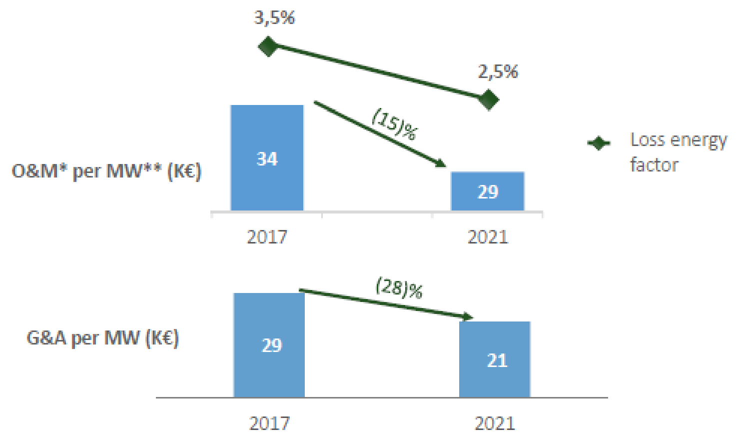
The whole Renewable industry has made significant steps towards the reduction of the overall operating costs. Falck also has moved first steps in this directions in the last 2 years, with a relevant reduction of the Holding costs, the progressive renegotiations of the O&M contracts, the internalization of some of the maintenance activities and the expansion in the "Service" business (with Vector Cuatro) which has allowed the group to start manage a global fleet of 1.3 GW worldwide.

One of the main drivers presented in the strategy plan is the significant additional reduction of the overall Opex cost in the period, thanks to a mix of:

- **Technical performance improvements** (wind alignments, blades improvements and power upgrades)
- **Availability improvements** (also thanks to the predictive maintenance implementation)
- **Management improvements** (with changed spare parts procurements and more efficient site management)

Falck aims to reduce the General & Administrative/MW expenses by around -28% and the O&M/MW expenditures by around -15% over the period, as well as the loss energy factor from 3.5% down to 2.5%.

EXPECTED OPEX IMPROVEMENTS



Source: company presentation

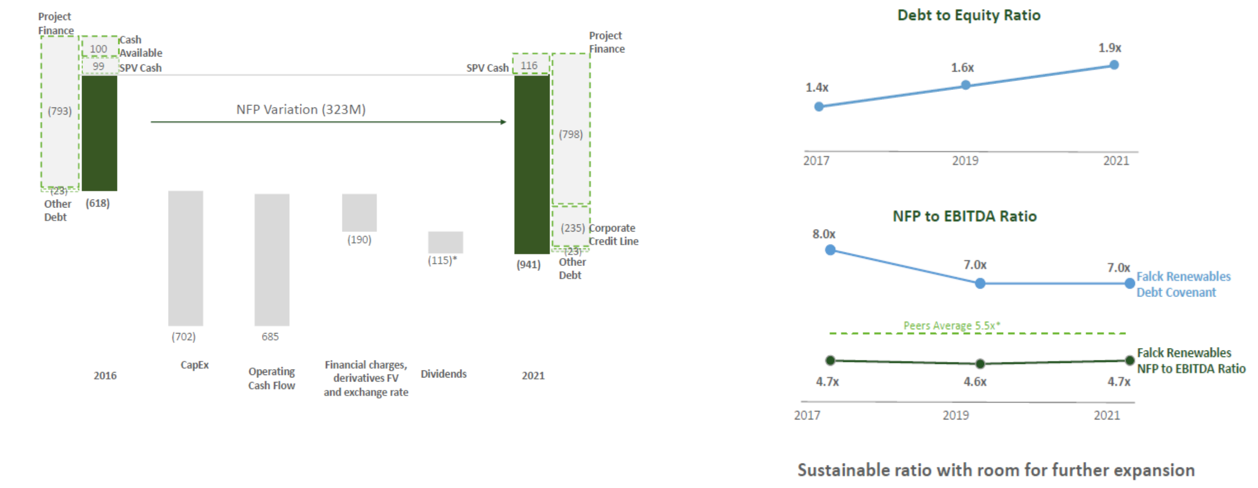
This will allow both a higher profitability on the already existing plants, as well as a better bidding process in next tender offers at international level.

Stable indebtedness

Despite the above described growth requires significant investments (in the range of 702 €mn over the period), the overall indebtedness of the group is expected to remain stable at around 4.7x d/Ebitda

On the back of the already large installed base, and the liability management interventions in the past year, in fact, Falck renewable's cash generation is adequate to sustain both the expected investments of the period and the dividend flow. In the following table a summary of the expected cash generation over the period

INDEBTEDNESS AND CASH GENERATION



Source: company presentation

■ Higher Shareholder's remuneration

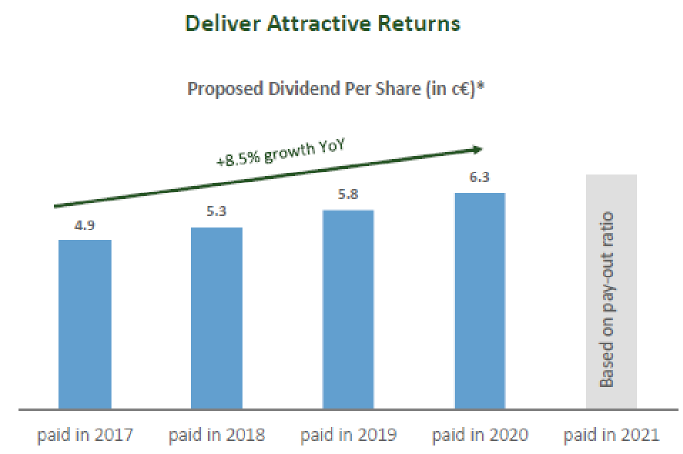
As anticipated above, the expansion of the asset base and a strategy devoted to growth, requires some short term consequences, in terms of the inevitable "Development Costs" for an adequate pipeline development, and the higher associated charges due to the relevant investments in capacity expansion.

Il light of the above, Falck Renewables has decided to "compensate" shareholder's for the Short Term negative outlook, with a more generous dividend policy which envisage an 8.5% cagr of dps through 2021.

2016 results will pay a 4.9€c Dps in 2017 (Yield of 5.6%) while 2019 results will pay a dps of 6.3€c in 2020 (Yield of 7.2%), definitively among the highest in the sector and in the overall Italian market. This return is particularly attractive as it is indicated for a long period of time (2016-2017-2018-2019). Beyond 2019, Falck will go back to a more traditional "payout ratio", which will be anyway "Attractive" if the development phase prove to be profitable.

In the following table a summary of the expected dps profile:

DIVIDEND POLICY



Source: company presentation

■ Conclusion: On the right path

Our final judgement on the overall strategy plan is positive. The Renewable industry has significantly changed in the past 4-5 years, becoming progressively more "global", less subsidized and increasingly crowded of both industrial and financial players. **A stable presence in this industry requires the ability to play different technologies at international level and constant investments in pipeline/asset expansion (also to compensate for the expected loss of incentives in the coming years). Falck renewables's steps are consequently correct and inevitable to maintain a good position in the industry, offering a good mix of growth and remuneration.**

If on one side, the strong capital commitment (-702 €mn expected capex) and the inevitable expected higher development costs (around 8.5€mn per year) implies short term risk, on the other side, the ability to deliver showed in the past years and the good achieved fcf generation (which has supported a strong deleverage) deserve some credibility. **Finally the very high dividend remuneration offers also a short term appeal despite the main driver of the plan will deploy mainly beyond 2018.**

A MORE CONSERVATIVE APPROACH, ALTHOUGH THE BENEFITS OF THE CHANGES WILL BE RELEVANT

Although the ability to "delivery" of Falck Renewable has been remarkable in the past years (with targets fulfilled and plants construction almost always ahead of schedule), **and despite the new management has a strong experience in the renewable space** (having managed Enel Green Power Us business in his previous experiences), **as usual we prefer to remain more conservative than the group's guidance, assuming a less rapid developme**nt (only 300 MW vs 480 MW expected**) with a lower expected achieved returns**.

We believe, in fact, that:

- **The "re-construction" of a "high-Quality" pipeline** (Falck is not assuming M&A so far) **at global level will require more time** as with the decrease of incentives, the higher required load factors will increase competition on the "best Site" (especially in wind)
- **The industry has become a bit overcrowded of financial entities thus increasing competition also in the bidding process of the upcoming tenders,** thus lowering returns as much as possible towars the Wacc cost (while Falck assumes returns from 150-300 bps points above wacc)
- **The power prices forecasts will be lower than those envisaged by Falck** in Europe (we are more in the 40-45 €/MW range vs 45-55 €/MWh range of Falck)
- **The currency environment (in Uk) is currently better than expected** with the EurGbp fixing now at 0.85 vs the 0.91-0.95 assumed by Falck

As a consequence of the above described new strategy plan, we are significantly changing our expected profits growth for the coming year to account for:

- The introduction of the development costs dedicated to the pipeline construction in the region of 8.5 €mn per year
- New regional area with associated development in the Us Solar and Netherland and Nordics wind, with much higher expected capex
- A Higher dividend as per the announced policy

In the following table a summary of the applied changes. As you can see we are remaining below group's expectations. We are, on the contrary more positive on 2017 figures as the current EURGBP exchange ratio is much better than the one assumed by Falck renewable

CHANGE IN ESTIMATES

		2016	2017	2018	2019	2020	2021
	Old Revenues	261	289	294	291	286	292
Sales - € mn		**276**	**248**	**271**	**263**	**286**	**297**
	Chg	6%	-14%	-8%	-10%	0%	2%
	Old Ebitda	126	146	150	151	149	151
Ebitda - € mn		**125**	**137**	**147**	**158**	**163**	**182**
	Chg	-	-6%	-2%	4%	9%	20%
Strategy targets		130	132	-	166	-	201
	Old Net income pre minorities	11.0	18.5	21.3	23.3	24.9	20.0
Net Income pre minorities - € mn		**12.5**	**17.8**	**24.0**	**29.7**	**31.7**	**40.4**
	Chg	14%	-4%	12%	27%	27%	102%
Strategy targets		13	14	-	-	-	45
	Old Net income	3.8	10.2	12.8	14.7	16.2	20.0
Net Income - € mn		**5.3**	**9.5**	**15.5**	**21.2**	**22.8**	**31.2**
	Chg	40%	-6%	21%	44%	41%	56%
	Old Nfp	-72	-29	-12	0	0	0
Capex - € mn		**-62**	**-67**	**-50**	**-106**	**-131**	**-85**
Cumulated capex in the period			439				
Strategy targets			702				
	Old Nfp	-633	-585	-512	-423	-334	-330
Nfp - € mn		**-638**	**-631**	**-626**	**-635**	**-622**	**-654**
	D/ebitda	-5.1 x	-4.6 x	-4.3 x	-4.0 x	-3.8 x	-3.6 x
Strategy targets		-618	-626	-	-737	-	-941
	Dps old - €cents	4.0	4.0	4.0	4.0	4.0	4.0
	change	-	13%	23%	33%	45%	58%
DPS - €cents (year of competence)		**6.20**	**4.50**	**4.90**	**5.30**	**5.80**	**6.30**
	Implied dvd yield	7.3%	5.3%	5.8%	6.2%	6.8%	7.4%
Strategy targets		6.20	4.50	4.90	5.30	5.80	6.30

Source: Company data and EQUITA SIM estimates

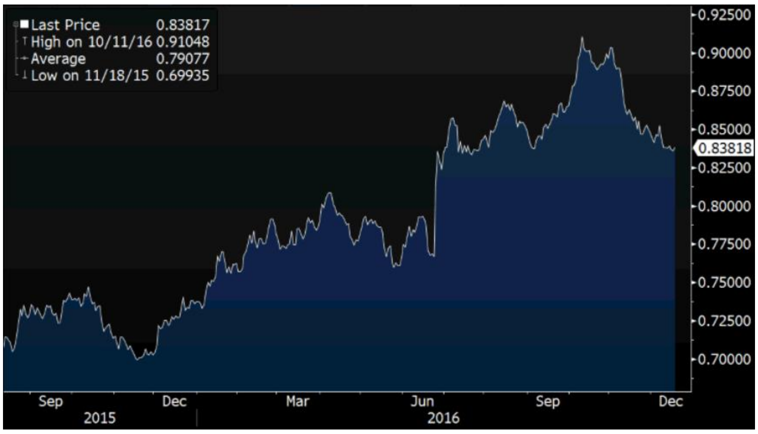
- **2017 guidance are weak but eur/gbp exchange rate may prove to be better than expected.**

As anticipated above, and in exchange of a stronger long term growth and capacity expansion, the short term outlook is impacted by the expected development costs, required to build up a stronger pipeline of projects. **As indicated by Falck, the expected annual Development costs are expected to be in the range of 8.5 €mn per year, starting from 2017.**

Mainly as consequence of this element, the guidance over the 2017 figure is particularly weak with a stated expected Ebitda of 132 €mn and a Net income (before minorities) of 13 €mn. This unfavourably compares with our expectations, that didn't include the development costs (as we were only assuming Falck to operate in "continuity" considering the strategy plan was missing since 3 years).

Despite the figures appears very low, we signal that the assumption used by Falck with regards the EurGbp exchange rate, is particularly conservative. Falck is in fact assuming a 0.91€/Gbp rate vs the current 0.83€/gbp registered in the market. The Pound has in fact significantly recovered in the past month (as showed in the following graph)

EUR GBP CURRENCY MOVEMENT



Source: Bloomberg

As we don't make forecast on the currency evolution, we assume the spot rates as a base for our numbers, which lead us to a higher figures vs the guidance indicated by the company.

POSITIVE VIEW CONFIRMED (BUY). TGT PRICE NOT SIGNIFICANTLY AFFECTED: 1.47 € (+67% upside)

As anticipated above, we are confirming our positive view and the BUY recommendation, significantly increasing the expected profits beyond 2018. Despite the higher expected growth for the coming years, anyway, **we are not significantly changing our target price assumption, which is set at 1.47 €/Sh, offering a 67% upside on current prices, and implying a 20x PE as measured on 2019**

While we give credibility to the management team and the company to be able to implement a turnaround in the coming 3-4 years we also believe that:

- **Entering new countries from scratch will be particularly difficult,** thus requiring to lower the expected returns to favour the expansion
- **Any eventual acquisition will not be value accretive.** As already observed in other situation (see Erg as an example) the M&A in the renewable space is very competitive thus preventing to achieve significant extra-return over wacc.
- **The 8.5€mn development costs expected in the coming year will compensate for part of the value creation at <60% success rate**
- **Recent interests rate increase has partially increased the group's Wacc**
- **We are only assuming 60% of the plan to be realized**

Anyway, despite the overall strategy plan (under our very conservative assumptions) **doesn't generate relevant value creation, it significantly improves the multiple profile of the group. The very high Dvd Yield and the improved PE ratio makes our target price, and the overall equity story, more appealing in light of a better risk reward profile.**

In the following table a summary of the group's sum of the parts and the main valuation metrics

FALCK RENEWABLES - SOTP				
Sum of the Parts	**MW**	**EV**	**Metric**	
WIND ASSETS	892.6	1322.0	€m/MW...	1.48
WASTE TO ENERGY	20	22.7	€m/MW...	1.14
BIOMASS	14	49.9	Dcf plant	
WASTE TREATMENT	168	8.0	Dcf plant	
SOLAR	61.12	24.5	€m/MW...	0.40
SERVICES	nm	22.0	Ev Ebitda...	8.0 x
Adjustments to valuation	nm	-294.0	Holding , Development, Opex and WC	
CORE BUSINESS VALUATION - € mn	**nm**	**1155.2**	**Various**	
Financial assets	nm	23.5	Book value multiple	
Net financial position end of 2016	nm	-625.8	Expected end of 2016	
Minorities	nm	-103.3	Expected end of 2016	
Provisions	nm	-25.5	Expected end of 2016	
EQUITY VALUE	**0**	**424.1**		
TARGET PRICE-...		**1.47**		

In The following table the main valuation metrics

MARKET RATIOS						
	2015	**2016**	**2017E**	**2018E**	**2019E**	**2020E**
P/E	48.4 x	48.1 x	26.8 x	16.5 x	12.1 x	11.2 x
P/E adj	21.1 x	48.1 x	26.8 x	16.5 x	12.1 x	11.2 x
PBV	0.5 x	0.6 x	0.6 x	0.6 x	0.6 x	0.5 x
P/CF	4.5 x	5.4 x	4.8 x	4.2 x	3.8 x	3.7 x

Source: Company data and EQUITA SIM estimates

EV FIGURES						
	2015	**2016**	**2017E**	**2018E**	**2019E**	**2020E**
EV/Sales rep	3.5 x	3.6 x	3.3 x	3.2 x	3.3 x	3.4 x
EV/EBITDA rep	6.1 x	7.5 x	6.9 x	6.4 x	6.2 x	6.4 x
EV/EBITDA adj (Incl JV)	6.1 x	7.5 x	6.9 x	6.4 x	6.2 x	6.4 x
EV/CE	0.8 x	0.8 x	0.8 x	0.8 x	0.8 x	0.8 x

Source: Company data and EQUITA SIM estimates

REMUNERATION						
	2015	**2016**	**2017E**	**2018E**	**2019E**	**2020E**
Div. Yield ord	5.1%	5.6%	6.0%	6.6%	7.2%	7.2%
FCF yield	10.0%	7.0%	2.1%	11.0%	-6.1%	-14.7%
ROE	1.1%	1.1%	2.1%	3.4%	4.6%	4.9%
ROCE	3.4%	2.9%	3.2%	3.7%	4.0%	4.0%

Source: Company data and EQUITA SIM estimates

INDEBTNESS						
	2015	**2016**	**2017E**	**2018E**	**2019E**	**2020E**
NFP	-631	-626	-635	-622	-654	-710
D/E	1.33	1.35	1.38	1.35	1.41	1.51
Debt/EBITDA	4.1 x	5.0 x	4.6 x	4.2 x	4.2 x	4.4 x
Interests cov	3.4 x	3.1 x	3.7 x	4.1 x	4.4 x	4.3 x

Source: Company data and EQUITA SIM estimates

We believe that the group is moving towards the right direction. After years of missing strategy updates, the group has finally taken the correct path towards the return to growth. Of course this implies some cost, both in terms of expected development costs, and in terms of higher capex for the coming years. Despite that, we believe the group has enough expected fcf generation to sustain the development of the coming years and thus ensuring an attractive overall shareholder's remuneration.

We believe Falck renewables:

1. **FKR remains well-positioned in the industry with high quality assets and good diversification in the Services and Waste business**. We expect a +7% cagr of Ebitda and +23% in Net Income through 2021, driven by the new asset development (+300MW in the period)**;**
2. **Offers one of the highest dvd remuneration in the industry,** with yield going from 5.6% this year up to 7.2% in 2021 backed by solid cash generation as demonstrated in the past year
3. **Has a positive track record** with installations ahead of schedule and a management team with strong experience at international level

SENSITIVITY

		SENSITIVITY				
				risk free		
		1.4%	1.6%	1.8%	2.3%	2.8%
EV/EBITDA services	6.0	1.55	1.54	1.54	1.52	1.51
	7.0	1.51	1.51	1.50	1.49	1.48
	8.0	1.48	1.47	1.47	1.45	1.44
	9.0	1.44	1.44	1.43	1.42	1.41
	10.0	1.41	1.40	1.40	1.38	1.37

Source: EQUITA SIM estimates

STATEMENT OF RISK

The primary elements that could positively/negatively impact FALCK RENEWABLES stock include:

- Changes in the sector's regulatory framework;
- Changes in the main economic drivers for utility services and power generation (such as oil price, coal price, power generation price, etc)
- Significant increase in interest rates
- Volatility in natural resources (wind)

P&L	2013	2014	2015	2016E	2017E	2018E
REVENUES	**276**	**248**	**271**	**263**	**286**	**297**
Growth	0%	-10%	9%	-3%	9%	4%
Total opex	-119	-113	-118	-138	-149	-151
Growth	2%	-5%	5%	16%	8%	1%
Margin	-43%	-46%	-44%	-52%	-52%	-51%
EBITDA	**157**	**135**	**152**	**125**	**137**	**147**
Growth	-1%	-14%	13%	-18%	9%	7%
Margin	57%	54%	56%	48%	48%	49%
Depreciation& amortization	-64	-62	-66	-67	-71	-73
Provisions	-13	-3	-20	-2	-2	-2
Depreciation&provistion	**-77**	**-65**	**-86**	**-69**	**-73**	**-75**
EBIT	**79**	**71**	**66**	**56**	**64**	**72**
Growth	-471%	-11%	-6%	-16%	14%	13%
Margin	29%	29%	24%	21%	22%	24%
Net financial profit/Expenses	-48	-50	-45	-40	-38	-36
Profits/exp from equity inv	na	na	na	na	na	na
Other financial profit/Exp	0	1	3	2	2	2
Total financial expenses	**-48**	**-49**	**-43**	**-38**	**-35**	**-33**
Non recurring pre tax	0	0	0	0	0	0
PBT	**31**	**22**	**24**	**18**	**29**	**39**
Growth	-145%	-30%	10%	-23%	58%	35%
Taxes	**-16**	**-13**	**-5**	**-6**	**-11**	**-15**
Tax rate	-52%	-58%	-21%	-31%	-38%	-38%
Minoritiy interests	**0**	**-6**	**-13**	**-7**	**-8**	**-8**
Non recurring post tax	0	0	0	0	0	0
NET INCOME	**15.1**	**3.4**	**5.3**	**5.3**	**9.5**	**15.5**
Growth	-119%	-78%	57%	1%	80%	62%
Margin	5%	1%	2%	2%	3%	5%
Adj. NET INCOME	**22.9**	**3.4**	**12.1**	**5.3**	**9.5**	**15.5**
Growth	-388%	-85%	262%	-56%	80%	62%
Margin	8%	1%	4%	2%	3%	5%

CF Statement	2012	2013	2014	2015E	2016E	2017E
Cash Flow from Operations	na	na	59	86	78	84
(Increase) decrease in OWC	na	na	-11	1	2	-6
(Purchase of fixed assets)	na	na	-47	-80	-62	-67
(Other net investments)	na	na	0	0	0	0
(Distribution of dividends)	-2	-6	-9	-18	-13	-14
Rights issue	na	na	0	0	0	0
Other	na	na	127	19	0	-6
(Increase) Decrease in Net Debt	**-16**	**86**	**119**	**8**	**5**	**-9**

Source: EQUITA SIM estimates and company data

INFORMATION PURSUANT TO ARTICLE 69 ET SEQ. OF CONSOB (Italian securities & exchange commission) REGULATION no. 11971/1999

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In the past EQUITA SIM has published studies on Falck Renewables

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BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
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Date	Rec.	Target Price (€)	Risk	Comment
22 March 2016	BUY (BUY)	1.6 (1.8)	High	Change in estimates

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	COMPANIES COVERED	COMPANIES COVERED WITH BANKING RELATIONSHIP
BUY	43.1%	56.4%
HOLD	56.3%	43.6%
REDUCE	0.6%	0.0%
NOT RATED	0.0%	0.0%

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