

## Company update

**BUY** (Unchanged)

**Target: € 1.4** (Prev. € 1.7)

Risk: High

### STOCK DATA

	Ord
Price €	0.8
Bloomberg code	FKR IM
Market Cap. (€ mn) **	246
Free Float	29%
Shares Out. (mn)	291.4
52-week range	0.77 - 1.17
Daily Volumes (mn)	1.09

### PERFORMANCE

	1M	3M	12M
Absolute	0.5%	-14.8%	-3.7%
Rel. to FTSE all shares	-1.5%	-21.6%	-30.7%

### MAIN METRICS

	2012	2013E	2014E
REVENUES	275	262	269
EBITDA	158	135	137
NET INCOME	-79	5	2
Adj. EPS - € cents	1.3	1.9	0.9
DPS ord - € cents	0.0	0.6	0.3

### FKR

	2012	2013E	2014E
P/E adj	nm	43.5 x	93.0 x
EV/EBITDA rep	7.0 x	8.5 x	8.5 x

### REMUNERATION

	2012	2013E	2014E
Div. Yield ord	0.0%	0.8%	0.4%
FCF yield	-5.7%	-26.8%	39.8%

### INDEBTEDNESS

	2012	2013E	2014E
Net fin position	-843	-914	-817
Debt/EBITDA	5.3 x	6.8 x	6.0 x
Interests cov	3.4 x	2.7 x	2.6 x

### PRICE ORD LAST 365 DAYS



### ANALYSTS

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May 27, 2013

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## A NEW TURNAROUND

*FKR's strategy presentation provided mixed messages. On the negative side, the outlook for 2013 came out with weaker guidance on operating results. On the positive side, the decision to go ahead with the sale of the UK assets to finance a turnaround in the business with new investments in Wte/Biomass in the UK, the development of the Services business (internalization of O&M and sales of greenfield projects) as well as debt reduction. We are reducing 2013-14 Ebitda by -15% and increasing 2015-2017 Ebitda by 5%. Target is reduced to 1.4€ (-17%) and our BUY recommendation is confirmed.*

### ■ Mixed messages: poor 2013-14, good re-positioning beyond 2015.

After many months of a communications "black out" to the market (due to the legal issues relating to the Sicilian Wte business), Falck renewables has published its FY2012 results, 1Q13 figures and an update of the strategy presentation for the period 2013-2017.

While the "reported" figures didn't provide relevant catalysts (as they were almost in line with expectations), the strategy presentation pointed to a "turnaround" in the business, with:

- A negative outlook in the short term, with 2013 Ebitda expected at €136mn or -14% YoY (vs €154mn forecasted) due to weaker operating performance (lower CIP6 prices in Wte, higher unbalancing costs in Wind and worse exchange ratio) and the higher cost of structure due to the legal costs in Sicily, the advisory for the sale of the UK assets and the costs of the new business development.
- Positive messages in terms of "re-positioning" of the group in its reference markets (finalization of core investments in wind), in new business opportunities (development of wte/biomass in the UK and services), debt reduction (through the sale of minority stakes in UK wind) and, consequently, a much better outlook beyond 2015. Ebitda is indicated at € 225 mn (vs €170mn exp) with a Cagr of +13% vs 2013.

### ■ Lower short-term profits, better mid-term outlook

In light of the above and from an operating perspective we are:

1. Reducing Ebitda 2013-14 by -15% to account for the expected extra costs of business development and the worse regulatory framework
2. Increasing Ebitda 2016-17 by +5%/+8% (accounting for the new contribution of Wte/Biomass in the UK and the expected on O&M)
3. Reducing Net Income 2013-14 by -14 € mn (60%) and increasing it by +30% from 2015 onwards

**We have also reduced our reference target in the region of -17% to €1.4 per share due to the lower profit contribution and the introduction of a provision for the value at risk in Sicily (€64mn). Our new target price offers an upside of 60% on current prices and implies a 10.1x ev/ebitda as measured on 2014**

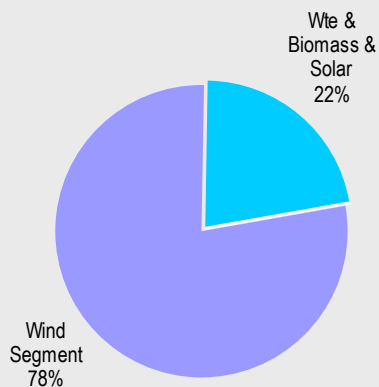
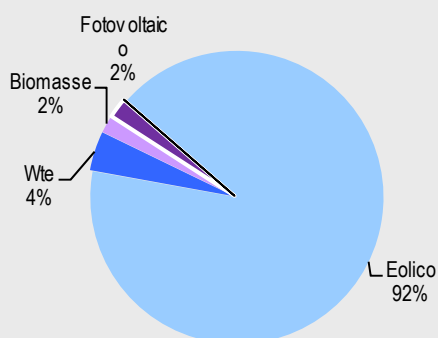
### ■ BUY confirmed.

We have confirmed our BUY for Fkr as we believe the group:

1. **Remains well positioned in the industry** with good assets in the UK and Italy and with good diversification in the waste business.
2. **Still trades at 20-25% discount versus construction costs** or 1.4 €mn/MW vs €1.8 mn/MW
3. **Might benefit from the sale of UK assets**, which will favour both better value assessment of the wind parks as well as debt reduction
4. **Might effectively draw benefits from additional development in the Waste/Biomass in the UK.**

**BUSINESS DESCRIPTION**

Falck Renewables SpA develops, designs, constructs and manages energy production plants in the renewable segment. 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, vegetable biomass, urban and special waste treatment and is present in Italy, Uk, Spain & France.

**EBITDA COMPOSITION - 2012****TECHNOLOGIES - 2012**

MAIN FIGURES € mn	2010 PF	2011	2012	2013E	2014E	2015E
<b>REVENUES</b>	<b>185</b>	<b>249</b>	<b>275</b>	<b>262</b>	<b>269</b>	<b>296</b>
Growth	0%	35%	10%	-5%	3%	10%
<b>EBITDA</b>	<b>95</b>	<b>142</b>	<b>158</b>	<b>135</b>	<b>137</b>	<b>161</b>
Growth	0%	50%	11%	-14%	1%	18%
<b>Adj EBITDA (Incl JV)</b>	<b>95</b>	<b>142</b>	<b>158</b>	<b>135</b>	<b>137</b>	<b>161</b>
Growth	0%	50%	11%	-14%	1%	18%
<b>EBIT</b>	<b>49</b>	<b>79</b>	<b>-21</b>	<b>71</b>	<b>73</b>	<b>90</b>
Growth	-14%	63%	-127%	-431%	3%	23%
<b>PBT</b>	<b>14</b>	<b>37</b>	<b>-68</b>	<b>20</b>	<b>21</b>	<b>41</b>
Growth	-52%	169%	-282%	-129%	5%	99%
<b>NET INCOME</b>	<b>0</b>	<b>19</b>	<b>-79</b>	<b>5</b>	<b>2</b>	<b>13</b>
Growth	-98%	6273%	-520%	-107%	-57%	483%
<b>Adj. NET INCOME</b>	<b>1</b>	<b>29</b>	<b>4</b>	<b>6</b>	<b>3</b>	<b>14</b>
Growth	-96%	4445%	-87%	45%	-53%	419%
<b>MARGIN</b>	<b>2010 PF</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Ebitda Margin	51.2%	57.0%	57.5%	51.7%	50.7%	54.5%
Ebitda adj Margin	51.2%	57.0%	57.5%	51.7%	50.7%	54.5%
Ebit margin	26.3%	31.9%	-7.8%	27.1%	27.1%	30.3%
Pbt margin	7.5%	15.0%	-24.7%	7.6%	7.7%	13.9%
Ni rep margin	0.2%	7.6%	-28.8%	2.0%	0.9%	4.5%
Ni adj margin	0.3%	11.8%	1.4%	2.2%	1.0%	4.6%
<b>SHARE DATA</b>	<b>2010 PF</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
EPS - € cents	0.2	6.5	-27.2	1.8	0.8	4.6
Growth	-	nm	nm	-107%	-57%	483%
Adj. EPS - € cents	0.4	10.1	1.3	1.9	0.9	4.7
Growth	-	nm	nm	45%	-53%	419%
DPS ord - € cents	1.2	1.9	0.0	0.6	0.3	1.8
BVPS - €	2.0	1.5	1.2	1.2	na	na
<b>VARIOUS - € mn</b>	<b>2010 PF</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Oper capital employed	1,090	1,314	1,234	1,280	1,292	1,267
FCF	-182	-63	-14	-66	98	50
Capital expenditures	-200	-178	-58	-114	-72	-39
Working capital	20	62	77	74	76	83
<b>INDEBTNESS - €mn</b>	<b>2010 PF</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Net fin position	-758	-827	-843	-914	-817	-769
D/E	2.37 x	1.86 x	2.45 x	2.62 x	na	na
Debt/EBITDA	8.0 x	5.8 x	5.3 x	6.8 x	6.0 x	4.8 x
Interests cov	2.6 x	3.3 x	3.4 x	2.7 x	2.6 x	3.3 x
<b>MARKET RATIOS</b>	<b>2010 PF</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
P/E ord	nm	13.0 x	-3.1 x	46.3 x	107.2 x	18.4 x
P/E ord Adj	nm	8.4 x	63.0 x	43.5 x	93.0 x	17.9 x
PBV	1.1 x	0.6 x	0.7 x	0.7 x	0.7 x	0.7 x
P/CF	28.3 x	3.8 x	8.6 x	5.6 x	6.1 x	4.4 x
<b>EV FIGURES</b>	<b>2010 PF</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
EV/Sales rep	6.1 x	4.4 x	4.1 x	4.4 x	4.3 x	3.8 x
EV/EBITDA rep	11.8 x	7.7 x	7.0 x	8.5 x	8.5 x	7.0 x
EV/EBIT	23.0 x	13.8 x	-52.0 x	16.3 x	16.0 x	12.6 x
EV/CE	1.0 x	0.8 x	0.9 x	0.9 x	0.9 x	0.9 x
<b>REMUNERATION</b>	<b>2010 PF</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Div. Yield ord	0.6%	2.3%	0.0%	0.8%	0.4%	2.2%
FCF yield	-51.8%	-25.4%	-5.7%	-26.8%	39.8%	20.2%
ROE	0.1%	4.2%	-23.0%	1.5%	0.7%	3.7%
ROCE	2.7%	3.6%	-1.0%	3.3%	3.4%	4.2%

Source: EQUITA SIM estimates and company data

## **NEW TURNAROUND: a brief summary**

After many months of “black out” in terms of communications to the market (due to the legal issues related to the Sicilian Wte business) Falck renewables has communicated last week the FY2012 results, the 1Q13 numbers and the update of the strategy presentation for the period 2013-2017.

While the “reported” numbers didn’t provide for relevant catalysts (as they were almost in line with expectations) the strategy presentation pointed to a “turnaround” in the business, with negative messages in the short term (poor outlook for 2013-2014) and positive messages in terms of “repositioning” of the group in the reference markets (finalization of core investments in wind), new business opportunities (development of wte/biomass in UK and services division), debt reduction (through the sale of minorities stake in UK wind) and, consequently, much better outlook beyond 2015 (vs our expectations).

In light of the above considerations and from an operating perspective we are:

1. Reducing Ebitda 2013-14 by -15%. Increasing Ebitda 2016-17 by +5%/+8%
2. Reducing Net Income 2013-14 by 14 € mn (60%) and increasing it by +30% from 2015
3. Reducing valuation by -17% to 1.4 € per shares.

**We have confirmed our BUY recommendation on Fkr mainly in light of the valuation (upside is in the region of 60% on our target) which we found attractive in terms of both discount to the construction costs (20-25%) and because we believe the disposal of the UK assets within the year could represent a potential positive catalyst for the group.**

## **FY12 AND 1Q 13 REPORTED NUMBERS: almost in line with expectation**

**As highlighted above, the FY12 and 1Q13 numbers didn’t represent a relevant catalyst for Falck renewables as they came out almost in line with expectations, with nice YoY growth at operating level (due to better productions on extended asset base and favourable wind resources in Italy) and progressive debt reduction.**

### **Fy 12 results:**

The publication of the FY12 results has been postponed because of the clarifications needed in the Sicilian Wte business, after the unfavourable decision taken by the Administrative court of Palermo and the investigation conducted by the Fiscal Police. Falck Renew has decided to fully write down all the assets related to this business, with a provision of around 100 € mn.

**The provision is non-cash (and all the assets are already included in the net financial position) and didn’t cause any consequence on the Corporate Loan covenants.**

### **Our judgement on the FY 12 results is consequently positive:**

- **Asset base grew by 5% to 716 MW and production by+15%** thanks to both the extended wind parks and the favourable wind resources
- **Ebitda is reported in the region of € 158 mn or +11% YoY**
- **Net income adjusted** (excluding the 100 € mn provision) **is reported at €21 mn (9.4%) above our expectations**
- **Debt is decreasing to € -757 mn** (ex-derivatives) and despite the €58 mn capital expenditures run in the year.

In the following table a summary of the reported results and a comparison with our expectations:

FKR: FY12 RESULTS					
Results	2011	EXPECTED		REPORTED	
		2012	YoY%	2012	YoY%
Installed capacity - MW	684	716	4.7%	716	4.7%
Total production - GWh	1,560	1,750	12%	1,793	14.9%
Revenues - € mn	249	277	12%	275	10.4%
Ebitda - € mn	142	158	12%	158	11.4%
Ebit - € mn	79	85	7%	-21	Nm
Pre tax profit - € mn	37	39	5%	-68	Nm
Net income reported - € mn	19	15	-20%	-79	Nm
Net income adjusted - € mn	19	15	-20%	21	9.4%
Nfp (ex derivatives) - € mn**	-765	-760	5 €mn	-757	8 €mn

\*\*YE and current

Source: EQUITA SIM estimates and company data

### 1Q13 results:

Also first quarter results didn't provide for relevant messages, with numbers in line with expectations:

- Asset base grew by 5% to 716 MW and production by +9.5% thanks to both the extended wind parks and the favourable wind resources (mainly in Italy)
- Ebitda is reported in the region of € 52 mn or +0.5% YoY
- Net income is reported at €22 mn (-17%)
- Debt is decreasing to € -742 mn (ex-derivatives) slightly worse than our expectations

In the following table a summary of the reported results and a comparison with our expectations:

FKR: 1Q13 RESULTS					
Results	1Q 12	EXPECTED		REPORTED	
		1Q 13	YoY%	1Q13	YoY%
Installed capacity - MW	684	716	5%	716	4.7%
Total production - GWh	528	560	6%	578	9.5%
Revenues - € mn	78	75	-4%	83	5.2%
Ebitda - € mn	51	52	1%	52	0.4%
Pre tax profit - € mn	27	20	-25%	22	-16.9%
Nfp (ex derivatives) - € mn**	-757.1	-720	nm	-742	nm

\*\*YE and current

Source: EQUITA SIM estimates and company data

### THE SICILIAN AFFAIR ON HOLD FOR MANY YEARS

As mentioned above, the FY12 results have been postponed due to pending decisions on the Wte business in Sicily. Falck Renewables, won the contract for the construction of 3 Wte in Sicily in 2002 and, after the tender was awarded, the group made investments in the region for a total amount of around 100 € mn. Construction activity was stopped in 2007, after the European Court of Justice ruled on some errors in the award procedures, made up by the Sicilian Region.

As a consequence of the suspension, a legal battle began between Fkr and the Sicily region, and it has mounted steadily in past years:

1. On one side Fkr was seeking reimbursement of the costs incurred (105€ mn) and the loss of profits (163 € mn) for a total amount of 268 € mn
2. On the other side the Sicilian Regional Administration was seeking 64 € mn in compensation due to the breach of conventions

Several legal disputes are in course in different courts and the situation has progressively changed throughout the whole of 2013. On 10<sup>th</sup> May 2013, one of the several disputes mentioned above, resulted in a ruling against Falck Renewables (the Administrative court of Palermo rejected Fkr's request). As a consequence, and considering the increased complexity and uncertainty related to the litigations, the group has decided to write down all the assets with a 100 € mn provision reported against 2012 results.

**FKR: SICILIA LEGAL SITUATION**

**SICILY PROJECTS RECAP**

- ⚖ **Claim against Sicilian Region:** Costs incurred of ~ € 105m + Loss of Profit of ~ €163m claimed by Tifeo, Platani and Pea (23,27%) for a total amount of ~ € 268m .
- ⚖ **Compensation claimed by Regional Administration:** request of compensation of ~ €64m due to the breach of Conventions by the project companies.
- ⚖ **Claim before the Palermo Regional Administrative Court (Tar Palermo):** on 10 May 2013 the Court denied the claim submitted by the Falck Renewables Group companies challenging decree no. 548/2010 issued by the Regional Councilperson for Energy and Public Utilities and the President of the Region of Sicily. The companies intend to challenge the aforementioned Court decisions before the Administrative Court of Justice for the Region of Sicily (Consiglio di Giustizia Amministrativa per la Regione Sicilia).
- ⚖ **Two appeals are pending before the Court of Cassation** initiated by Falck Renewables Group companies in order to definitely state, inter alia, the jurisdiction of the ordinary Court (i.e. Court of Milan).
- ⚖ With regard to the **investigation conducted by the Public Prosecutor of Palermo**, related to the 2002 tenders for the creation of integrated waste management systems in Sicily, some key persons amongst the management of the Falck Group were summoned for summary information by the *Guardia di Finanza* of Palermo (Tax Police).

Considering the increase of the complexity and the uncertainty related to the litigations against the Sicilian Region it is not possible to assess either the outcome of the litigations or the duration.

Source: Company presentation

Considering that the write down didn't have any impact on the corporate loan covenants, we welcome the decision of Falck, as it provides for a less risky position and finally reduces the relevance of an item that has affected the whole 2012 figures, quarter after quarter. We believe the legal dispute will last for many years and that writing down all the assets is the right decision.

**FKR: COVENANTS COVERAGE**

**CORPORATE LOAN COVENANTS**

- ⚖ Falck Renewables Spa entered into a loan agreement for **€ 165m** with a pool of leading banks on 14 January 2011.
- ⚖ The loan will mature on **30 June 2015**
- ⚖ The contract requires covenants to be met every six months : the covenants comprise the **NFP/EBITDA** and **NFP/Equity**.

**ALL COVENANTS WERE SATISFIED AT 31 DECEMBER 2012**

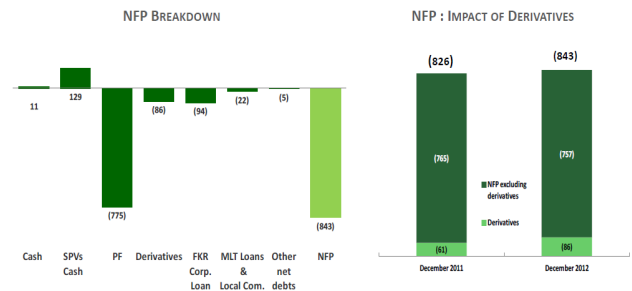
⚖ <b>NFP/Equity</b> expected by contract:	<b>Actual:</b>
✓ 31 December 2012 → 2,54	→ 2,45
✓ 30 June 2013 → 3,09	
✓ 31 December 2013 → 2,98	
✓ 30 June 2014 → 3,18	
✓ 31 December 2014 → 2,97	

Source: Company presentation

**FKR: DEBT EVOLUTION**

**FINANCIAL HIGHLIGHTS: NET FINANCIAL POSITION**

Euro millions



Net Financial Position breakdown by currency for year ended 2012 : 74% Euro and 26% GBP

**THE 2013-2017 STRATEGY PLAN: a turnaround in the business**

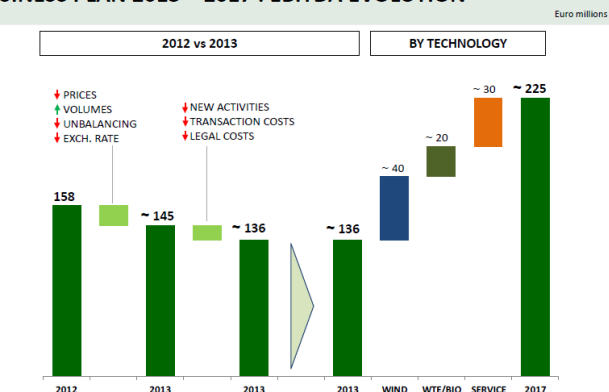
The most attractive elements of Fkr’s presentation is, of course, the 2013-2017 strategy presentation. The group, in fact, included significant changes in the reference strategy with a turnaround in the business, a weak outlook in the short term and better visibility for the business evolution in the mid-term.

We would point out the following elements as the main reference of the strategy plan:

1. **A weaker outlook for the year 2013-2014.** With a guidance on operating figures significantly below our expectations (Ebitda at 136-137 € mn vs 154-160 € mn expected).
2. **A repositioning of the group** based on the finalization of the authorized wind parks mainly in the UK (around 60 MW), the construction of Wte/Biomass parks in the UK (around 30-40 MW), the development of the “services” division which will take care of the internalization of O&M opex on the existing parks (but also to be sold to third parties - 10 € mn savings on Ebitda), and the sales of greenfield licences (15 € mn Ebitda in wind and wte technologies)
3. **A better outlook beyond 2015** with guidance significantly above our expectations (Ebitda 2017 at 225 € mn vs 170 € mn expected)
4. **Progressive debt reduction**, due in part to the decision to sell minority stakes in UK wind parks and to finance the expected growth in the new business

**FKR: BUSINESS PLAN STRATEGY**

**BUSINESS PLAN 2013 – 2017 : EBITDA EVOLUTION**



Source: Company presentation

**FKR: DEBT EVOLUTION**

**BUSINESS PLAN 2013 – 2017 : MAIN ASSUMPTIONS**

1. **Existing Business**
  - Completion and operation of authorized wind projects in UK
  - Extensions of operating wind farms in Italy
  - Impacts of unbalancing costs & CEC-CIP6 calculations
  - No further growth expected in Solar sector (Pv)
2. **Growth**
  - Focus on Programmable sources
  - Hybridization of plants
  - Service Business: Greenfield Development, Performance and Asset M.gt, Dispatching & Unbalancing, Forecast Services
3. **Asset Rotation**
  - Sale of 49% stake in UK qualified operating assets
  - Use of proceeds: partial decrease of NFP and support of the growth

The following table summarises the main reference metrics for the 2013-2017 plan and includes a comparison with our expectations.

**STRATEGY PRESENTATION SUMMARY**

	2013			2017		
	Equita Old	Falck	% delta	Equita Old	Falck	% delta
Wind - € mn	133	130	-2%	150	170	14%
Wte/Biomass Italy - € mn	26	20	-23%	25	25	1%
Wte/Biomass Uk - € mn	0	0	nm	0	15	nm
Solar - € mn	8	9	-13%	9	9	0%
Services - € mn	0	0	nm	0	25	nm
Holding - € mn	-12	-14	0%	-11	-20	82%
<b>Like for like Ebitda - € mn</b>	<b>155</b>	<b>145</b>	<b>-6%</b>	<b>173</b>	<b>225</b>	<b>30%</b>
One off costs (legal, Transaction, Development) - € mn	0	-8	nm	0	0	nm
<b>EBITDA - € mn</b>	<b>155</b>	<b>136</b>	<b>-12%</b>	<b>173</b>	<b>225</b>	<b>30%</b>

Source: EQUITA SIM estimates and company data

As shown in the table above, the presented targets are some -12% below expectations in 2013 and some 30% above expectations in 2017.

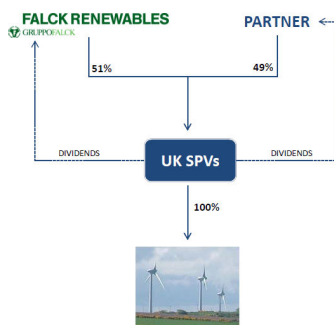
Despite the 2013 (and probably 2014) figures being particularly weak, we highlight that the difference stems principally from higher structural costs due to the development of the new businesses (Wte in the UK and Services), the legal costs of the Sicilian affair and the advisory costs for the envisaged sales of UK assets. By contrast, almost all divisions are significantly above our expectations as measured on 2017.

From the strategy presentation we welcome:

1. **The greater commitment to disposing minority stakes in UK assets:** this will allow for better crystallization of the value of wind assets, a debt reduction (60% of proceeds will be used for debt repayment) as well as the financing of the additional capex. As indicated by the group, the disposal should take place within the next 12 months, with a preference for industrial partners that will also join Fkr in future development. No indications have been provided, but we believe the sales could refer to around 270 € mn of assets, probably generating around 110 € mn “Equity” cash contribution to debt reduction
2. **The confirmation of the additional Wind assets coming on stream in the coming years** (around 80 MW in the UK and around 35 MW in Italy thanks to extension of existing parks). **The expected growth in Ebitda is 40 € mn in the period**

**FKR: DISPOSAL OF UK ASSETS**

**SALE OF MINORITY STAKE IN UK WIND ASSETS**



- Sale of a qualified minority stake (up to 49%) of UK SPVs
- Financial partnership for co-development in projects pipelines
- Finalization of a “short list” underway.
- Completion: end 2013/early 2014

**Proceeds**

- Partial reimbursement of Corporate Credit Loan
- Focus on growth plan and related activities

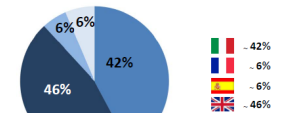
**FKR: WIND STRATEGY**

**WIND SECTOR – BUSINESS PLAN 2013 - 2017**

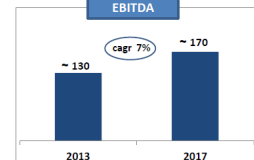
**SUMMARY**

- Sale 49% of UK assets;
- Co-investment with a new partner after assets disposal;
- Construction and operation of authorized MW (Nutberry, Spaldington, W. Browncastle and Kingsburn)
- Total installed capacity in 2017 ~ 770MW
- Cumulated Capex ~ € 145m

**2017: MW BY COUNTRY**



**EBITDA**



Source: Company presentation

3. **The aim to diversify the UK business further in the field of Biomass/Wte,** as this reduces exposure to wind activities and increases geographical exposure to the more visible UK regulations. Falck indicated the availability of 17 projects in the country, of which around 7 are already authorized. This is good news, as it creates visibility for the possible real business development opportunities. **The expected growth in Ebitda is 20 € mn**

4. **However, we remain more sceptical about the potential of the new “services” division,** which we understand will consist of both Greenfield development (sales of licences and authorizations) and engineering and general services provided to third parties as a consequence of the internalization of O&M activities. While we share the potential of the “savings” from the internalization of O&M (around 10 € mn), we struggle to see the third party services or license sales as particularly profitable. **The expected growth in Ebitda is in the region of 25 €mn**

**FKR: WTE/BIOMAS STRATEGY**

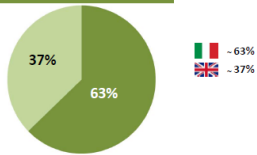
**WTE/BIOMASS SECTOR – BUSINESS PLAN 2013 - 2017**

Euro millions

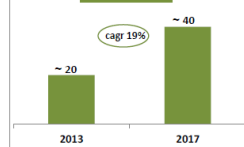
**SUMMARY**

- Strong capex plan to balance non programmable sources
- New technology mix with WTE, solar thermo (Rende site), anaerobic digestion and waste biomass plants
- UK and other countries
- Total installed capacity in 2017 ~ 81MW
- Cumulated Capex ~ € 250m

**2017: MW BY COUNTRY**



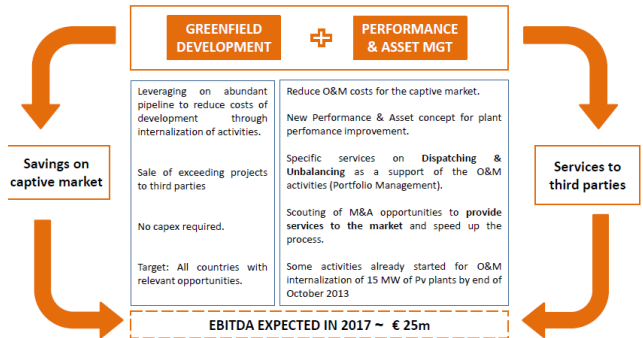
**EBITDA**



Source: Company presentation

**FKR: SERVICES STRATEGY**

**SERVICE SECTOR – BUSINESS PLAN 2013 - 2017**



**ADJUSTING ESTIMATES TO THE NEW STRATEGY**

As a consequence of the above, we have modified our FKR model to account for the lower guidance on 2013-2014 as well as the better-than-expected profits for the new business development. We have applied several changes as follows:

1. Introduced the expected one-off costs for 2013 as well as the lower expected profitability of the waste division in both 2013-2014 due to the change in the regulations for prices and cip6. Also we have assumed an impact from the unbalancing costs in the wind division, and lower electricity prices.
2. The development costs for the services division in 2013-2014 as well as the contribution of the Expected Savings on the O&M (around 10 € mn). As highlighted above, we remain more sceptical about the other services sales.
3. Introduced the benefit of 15 MW of new Wte/biomass development in the UK
4. Increased the holding costs to support the overall new structure
5. Deconsolidated around 9 € mn of minorities income from UK wind assets due to be disposed in the year.

The overall effect on our profits is:

1. A reduction of around -15% ebitda for 2013-2014 and an increase in the region of +3%+8% thereafter
2. A 60% reduction in Income in 2013-2014 and a +20%+49% increase thereafter.
3. An increase in debt due to the greater investment in the coming 2 years.

All the applied changes to P&L are summarized in the following table



	CHANGE IN ESTIMATES				
	2013	2014	2015	2016	2017
<b>Sales - € mn</b>	<b>262</b>	<b>269</b>	<b>296</b>	<b>326</b>	<b>340</b>
Old Ebitda	155	166	170	170	170
Legal costs Sicilia, Transaction costs UK	-5				
New "services" division contribution	-5	-5	0	7	10
New "Wte/Biomass" UK division	-3	-3	3	8	9
Higher Holding costs	-7	-7	-7	-7	-5
Worse market (Cip6, Rocs, Waste collection price)	0	-14	-5	-2	0
<b>Ebitda - € mn</b>	<b>135</b>	<b>137</b>	<b>161</b>	<b>176</b>	<b>184</b>
Reduction - %	-13%	-18%	-5%	3%	8%
<b>Strategy 13-17</b>	<b>136</b>				<b>225</b>
Old Net income	19	23	26	26	26
Change from operating	-14	-14	-3	5	13
<b>Net Income pre disposal of UK assets</b>	<b>5</b>	<b>9</b>	<b>22</b>	<b>31</b>	<b>38</b>
Reduction - %	-72%	-60%	-13%	21%	49%
Deconsolidation impact on minorities		-7	-9	-9	-9
<b>Net Income - € mn</b>	<b>5</b>	<b>2</b>	<b>13</b>	<b>22</b>	<b>29</b>
Old Nfp	-759	-740	-648	-648	-648
Sale of UK assets		110			
Change in capex profile and profits	-156	-187	-121	-65	28
<b>Nfp - € mn</b>	<b>-914</b>	<b>-817</b>	<b>-769</b>	<b>-713</b>	<b>-620</b>
<b>Nfp ex derivatives - € mn</b>	<b>-814</b>				<b>-520</b>
<b>Strategy nfp ex derivatives 13-17</b>	<b>na</b>				<b>-650</b>
Old Capex	-36	-73	-1	-1	-1
One off capex in the services division (acquisition)	-25				
Anticipated capex UK	-20	20			
Capex for the wte/biomass in UK	-33	-19	-38	-36	-5
<b>Capex - € mn</b>	<b>-114</b>	<b>-72</b>	<b>-39</b>	<b>-37</b>	<b>-6</b>
Cumulated capex in the period			-268		
<b>Strategy capex</b>			<b>-420</b>		

Source: EQUITA SIM estimates

As shown above, our estimate remains more cautious in terms of future development. We assume 184 €mn Ebitda vs 225 € mm in 2017 (we only assume Savings from Services, and only the authorized biomass plant in the UK or 15 MW vs 40 MW). We are also more cautious regarding Wind, only assuming development of the UK residual parks and no extension for the Italian ones. As a consequence, our debt position is also lower than that presented by FKR (we have around 160 € mn lower investment in the period.)

We believe no risk on the funding of the traditional operations is in place also in case of no disposal achievement

### REDUCING TARGET BY -17% TO 1.4 €. BUY CONFIRMED.

**As a consequence of the above, we have reduced our reference target price in the region of -17% to 1.4 € per share.** We have introduced the value of the newly-developed Wte/Biomass in the UK, the expected value of the savings from the internalization of the O&M and the lower value of the Italian waste business mainly as a consequence of the lower expected CIP6 prices.

In order to produce the most "conservative" approach, and because the request for a 64 € mn reimbursement from the Sicily region is still pending, we have reduced the valuation of the group by a corresponding amount, considering it as Value at Risk. We know the probability of it being paid is relatively low, but as there is no visibility/transparency on the issue, we prefer to maintain a more conservative approach.

The following table contains a summary of our Sotp for the group. Our new target price offers an upside of 60% at current prices and implies a 10.1x valuation as measured on Ev/Ebitda in 2014.

VALUATION						
	CAPACITY	OLD	VALUATION	%chg	Implied multiples	
Wind assets	735 MW	nm	1,228	-	Ev/Ebitda 2014	9.2 x
Waste/Biomass/Treatment Italy	45 MW	nm	131	-	Ev/Ebitda 2014	6.1 x
Waste/Biomass UK	15 MW	nm	54	-	Ev/Ebitda 2017	6.0 x
Solar assets	16 MW	nm	31	-	€ mn/MW	2.1
Services division		nm	60	-	Ev/Ebitda 2017	6.0 x
Holding costs	-	nm	-140	-	Ev/Ebitda 2014	7.0 x
<b>CORE BUSINESS VALUATION</b>	<b>-</b>	<b>1,378</b>	<b>1,365</b>	<b>-1%</b>	<b>Ev/Ebitda 2014</b>	<b>10.1 x</b>
Nfp end of 2012	-	-843	-843	-	End of 2011	
Provisions & Minorities	-	-40	-47	-	Book Value	
Value at risk Sicilia	-	0	-64	-	Reimbursement request from Sicilia	
<b>EQUITY VALUE</b>	<b>-</b>	<b>495</b>	<b>411</b>	<b>-17%</b>	<b>implied PE 2016</b>	<b>18.8 x</b>
Capital increase	-	0	0	-		
<b>EQUITY VALUE</b>	<b>-</b>	<b>495</b>	<b>411</b>	<b>-17%</b>		
shares out	-	291	291	-		
<b>TARGET PRICE</b>	<b>-</b>	<b>1.7</b>	<b>1.4</b>	<b>-17%</b>		

Source: EQUITA SIM estimates

We are confirming our BUY recommendation on Fkr as we believe the group:

1. Is well positioned in the business with good assets in the UK and Italy, with good diversification in the waste business.
2. Still trades at 20-25% discount for construction costs or 1.4 €mn/MW vs 1.8 €mn/MW
3. Might benefit from the sale of the UK assets, which will favour both better value assessment of the wind parks as well as debt reduction
4. Might effectively draw benefits from additional development in Waste/Biomass in the UK.

In the following table a comparison of the market Ev/Mw vs construction costs.

EV/MW AND CAPACITY						
	2012	2013	2014	2015	2016	2017
<b>WIND CAPACITY - MW</b>	<b>655</b>	<b>670</b>	<b>706</b>	<b>727</b>	<b>750</b>	<b>750</b>
<b>WTE GROSS CAPACITY - MW</b>	<b>31</b>	<b>31</b>	<b>31</b>	<b>31</b>	<b>31</b>	<b>31</b>
<b>BIOMASS GROSS CAPACITY - MW</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>SOLAR - MW</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>16</b>	<b>16</b>
<b>WTE BIOMASS UK - MW</b>		<b>0</b>	<b>0</b>	<b>10</b>	<b>15</b>	<b>15</b>
<b>TOTAL CAPACITY - MW</b>	<b>716</b>	<b>731</b>	<b>767</b>	<b>798</b>	<b>826</b>	<b>826</b>
<b>EV/MW</b>	<b>1.57</b>	<b>1.48</b>	<b>1.43</b>	<b>1.33</b>	<b>1.23</b>	<b>1.13</b>
<b>CONSTRUCTION COSTS</b>		<b>1.82</b>	<b>1.81</b>	<b>1.78</b>	<b>1.76</b>	<b>1.76</b>
<b>Discount vs construction cost</b>		<b>-18%</b>	<b>-21%</b>	<b>-25%</b>	<b>-30%</b>	<b>-36%</b>

Source: EQUITA SIM estimates and company data

In the following table a summary of the main reference metrics.

MARKET RATIOS						
	2012	2013	2014E	2015E	2016E	2017E
P/E	-3.1 x	46.3 x	107.2 x	18.4 x	11.3 x	8.5 x
P/E adj	63.0 x	43.5 x	93.0 x	17.9 x	11.1 x	8.4 x
PBV	0.7 x	0.7 x	0.7 x	0.7 x	0.6 x	0.6 x
P/CF	8.6 x	5.6 x	6.1 x	4.4 x	3.7 x	3.4 x

Source: EQUITA SIM estimates and company data

EV FIGURES						
	2012	2013	2014E	2015E	2016E	2017E
EV/Sales rep	4.1 x	4.4 x	4.3 x	3.8 x	3.3 x	2.9 x
EV/EBITDA rep	7.0 x	8.5 x	8.5 x	7.0 x	6.2 x	5.4 x
EV/EBITDA adj (Incl JV)	7.0 x	8.5 x	8.5 x	7.0 x	6.2 x	5.4 x
EV/CE	0.9 x	0.9 x	0.9 x	0.9 x	0.9 x	0.8 x

Source: EQUITA SIM estimates and company data

INDEBTNESS						
	2012	2013	2014E	2015E	2016E	2017E
NFP	-843	-914	-817	-769	-713	-620
D/E	2.45	2.62	na	na	na	na
Debt/EBITDA	5.3 x	6.8 x	6.0 x	4.8 x	4.1 x	3.4 x
Interests cov	3.4 x	2.7 x	2.6 x	3.3 x	3.7 x	4.0 x

Source: EQUITA SIM estimates and company data

REMUNERATION						
	2012	2013	2014E	2015E	2016E	2017E
Div. Yield ord	0.0%	0.8%	0.4%	2.2%	3.5%	3.5%
FCF yield	-5.7%	-26.8%	39.8%	20.2%	23.0%	40.2%
ROE	-23.0%	1.5%	0.7%	3.7%	5.8%	7.3%
ROCE	-1.0%	3.3%	3.4%	4.2%	4.9%	5.7%

Source: EQUITA SIM estimates and company data

## 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
- Negative outcome from the legal procedures on the Sicilian business

## SENSITIVITY

		risk free				
		3.1%	3.6%	4.1%	4.6%	5.1%
EV/EBITDA uk biomass & services	4.0 x	1.29	1.29	1.28	1.27	1.26
	5.0 x	1.36	1.35	1.34	1.34	1.33
	6.0 x	1.43	1.42	1.41	1.40	1.39
	7.0 x	1.49	1.48	1.47	1.47	1.46
	8.0 x	1.56	1.55	1.54	1.53	1.52

Source: EQUITA SIM estimates

P&L	2010 PF	2011	2012	2013E	2014E	2015E
<b>REVENUES</b>	<b>185</b>	<b>249</b>	<b>275</b>	<b>262</b>	<b>269</b>	<b>296</b>
Growth	0%	35%	10%	-5%	3%	10%
Total opex	-90	-107	-117	-126	-133	-135
Growth	0%	19%	9%	8%	5%	2%
Margin	-49%	-43%	-42%	-48%	-49%	-45%
<b>EBITDA</b>	<b>95</b>	<b>142</b>	<b>158</b>	<b>135</b>	<b>137</b>	<b>161</b>
Growth	0%	50%	11%	-14%	1%	18%
Margin	51%	57%	58%	52%	51%	55%
Depreciation& amortization	-20	-63	-61	-64	-63	-71
Provisions	-1	-15	-119	-1	-1	-1
<b>Depreciation&amp;provision</b>	<b>-20</b>	<b>-78</b>	<b>-179</b>	<b>-65</b>	<b>-64</b>	<b>-72</b>
<b>EBIT</b>	<b>49</b>	<b>79</b>	<b>-21</b>	<b>71</b>	<b>73</b>	<b>90</b>
Growth	-14%	63%	-127%	-431%	3%	23%
Margin	26%	32%	-8%	27%	27%	30%
Net financial profit/Expenses	-36	-43	-47	-51	-52	-48
Profits/exp from equity inv	na	na	na	na	na	na
Other financial profit/Exp	1	1	1	0	0	0
<b>Total financial expenses</b>	<b>-35</b>	<b>-42</b>	<b>-46</b>	<b>-51</b>	<b>-52</b>	<b>-48</b>
Non recurring pre tax	0	0	0	0	0	0
<b>PBT</b>	<b>14</b>	<b>37</b>	<b>-68</b>	<b>20</b>	<b>21</b>	<b>41</b>
Growth	-52%	169%	-282%	-129%	5%	99%
<b>Taxes</b>	<b>-12</b>	<b>-17</b>	<b>-18</b>	<b>-14</b>	<b>-10</b>	<b>-18</b>
Tax rate	-83%	-47%	26%	-68%	-50%	-43%
<b>Minority interests</b>	<b>-2</b>	<b>-1</b>	<b>6</b>	<b>-1</b>	<b>-8</b>	<b>-10</b>
Non recurring post tax	0	0	0	0	0	0
<b>NET INCOME</b>	<b>0</b>	<b>19</b>	<b>-79</b>	<b>5</b>	<b>2</b>	<b>13</b>
Growth	-98%	6273%	-520%	-107%	-57%	483%
Margin	0%	8%	-29%	2%	1%	5%
<b>Adj. NET INCOME</b>	<b>1</b>	<b>29</b>	<b>4</b>	<b>6</b>	<b>3</b>	<b>14</b>
Growth	-96%	4445%	-87%	45%	-53%	419%
Margin	0%	12%	1%	2%	1%	5%
<b>CF Statement</b>	<b>2010 PF</b>	<b>2011</b>	<b>2012</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>
Cash Flow from Operations	na	na	na	na	na	na
(Increase) decrease in OWC	na	na	na	na	na	na
(Purchase of fixed assets)	na	na	na	na	na	na
(Other net investments)	na	na	na	na	na	na
(Distribution of dividends)	-11	-7	-2	-6	0	-2
Rights issue	na	na	na	na	na	na
Other	na	na	na	na	na	na
<b>(Increase) Decrease in Net Debt</b>	<b>-193</b>	<b>-69</b>	<b>-16</b>	<b>-72</b>	<b>98</b>	<b>48</b>

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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**EXPECTED TOTAL RETURN FOR THE VARIOUS CATEGORIES OF RECOMMENDATION AND RISK PROFILE**

RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

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Date	Rec.	Target Price (€)	Risk	Comment
Nil				

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**EQUITY RATING DISPERSION AS OF MARCH 31, 2013 (art. 69-quinquies c. 2 lett. B e c. 3 reg. Consob 11971/99)**

	COMPANIES COVERED	COMPANIES COVERED WITH BANKING RELATIONSHIP
BUY	40.9%	41.2%
HOLD	50.9%	52.9%
REDUCE	7.6%	5.9%
NOT RATED	0.0%	0.0%