

Falck Renewables

ITALY / Utilities/Renewables

Company update

BUY (Unchanged)

Target: € 1.8 (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	0.67 - 1.56
Daily Volumes (mn)	1.12

PERFORMANCE

	1M	3M	12M
Absolute	6.4%	13.1%	-38.6%
Rel. to FTSE all shares	10.7%	29.1%	-4.0%

MAIN METRICS

	2011	2012E	2013E
REVENUES	249	275	288
EBITDA	142	157	169
NET INCOME	19	21	24
Adj. EPS - € cents	10.6	7.1	8.4
DPS ord - € cents	1.9	2.1	2.9

FKR

	2011	2012E	2013E
P/E adj	nm	12.4 x	10.6 x
EV/EBITDA rep	7.8 x	6.9 x	6.2 x

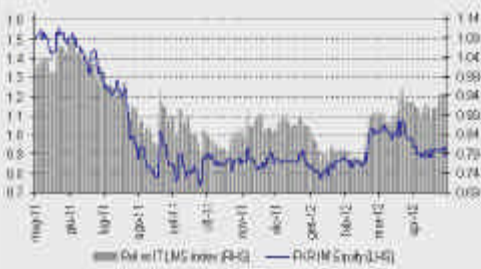
REMUNERATION

	2011	2012E	2013E
Div. Yield ord	2.2%	2.4%	3.3%
FCF yield	-35.0%	13.2%	20.7%

INDEBTEDNESS

	2011	2012E	2013E
Net fin position	-827	-795	-747
Debt/EBITDA	5.8 x	5.1 x	4.4 x
Interests cov	3.3 x	3.5 x	3.8 x

PRICE ORD LAST 365 DAYS



ANALYSTS

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May 15, 2012

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BOOMING ON ALL LINES

1Q numbers show Falck Renew's growth potential, with operating profit up +46% YoY (vs +36% exp.), improved profitability (65% Ebitda margin vs 63% exp.) and cash generation (-30 € mn debt vs +20 € mn exp). All guidance is confirmed for the FY, installations seem to be on track and delivery of corporate cost reduction/efficiencies is expected. We confirm our estimates and valuation (BUY - 1.8 €).

■ Above estimate on all lines. Ebitda up +46% YoY.

Falck Renewables reported healthy operating results for 1Q12, above estimates on almost all lines. Profitability improved significantly with 46% YoY Ebitda growth and the implied margin moving from 60% to 65%:

- **Sales at 78.4 € mn (+35% YoY)** vs 75 € mn exp;
- **Ebitda at 51.4 € mn (+46% YoY)** vs 48.1 € mn exp;
- **Ebit at 36.8 € mn (+52.8% YoY)** vs 31.1 € mn exp;
- **Pbt at 26.7 € mn (+73% YoY)** vs 22.4 € mn exp;
- **Debt at 797 € mn (826 € mn at the end of 2011)** vs 846 € mn exp.

The reasons for these positive numbers lie with the significant growth in installed capacity to 684 MW vs 526 MW in 1Q11 and production, at 528 GW (+47% YoY). Efficiencies in terms of corporate costs also helped to better numbers.

■ All guidance conservatively confirmed.

- **Falck Renew have confirmed all guidance provided in the strategy plan, in particular the tgt for >155 € mn Ebitda in 2012 (we are at 157 € mn; +11% YoY).**
- **Recent approval of the new decree regarding incentives is considered a strong positive (no retroactive measures and confirmed profitability of existing assets).** The rules for new asset construction will probably lead to the cancellation of the 11 MW additional rooftop projects expected this year, but we see this as a positive (we hadn't account for it) as the cancellation will bring some 20-30 € mn savings in terms of debt (which is good considering the need for equity).

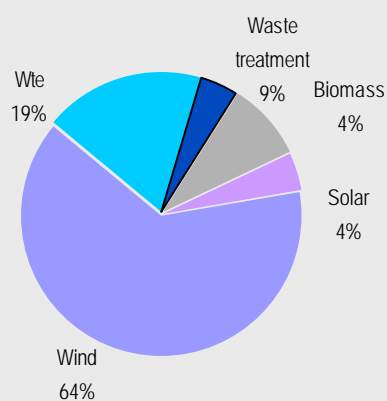
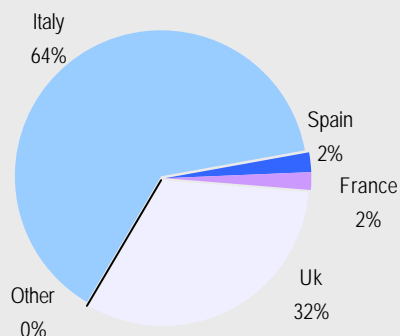
Although numbers are better than expected we prefer to confirm our FY forecasts for the time being, as volatile wind conditions (first week of May has been indicated below budget) could still alter the yearly forecast. In any event, the first 3 months have significantly increased visibility on our estimates.

■ Confirming tgt at 1.8 €/share and BUY recommendation.

1. **Fkr will post attractive growth rates with Ebitda +8% and NI +15% through 2014, backed by a visible increase in installed capacity.** Our estimates are conservative (no pipeline) and could consequently be subject to improvement (considering good delivery in previous years);
2. **New regulation approvals in Italy have removed the main concern regarding the sustainability of the group returns (no retroactive measures and incentives confirmed for existing assets);**
3. **Valuation is attractive at 10.6x PE and 6.2x EV/Ebitda in 2013, backed by visible growth (mainly full contribution from 2011 assets) and good diversification (considering the company's presence in Italy, Spain, France and 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 - 2011**GEOGRAPHICAL EXPOSURE - 2011**

MAIN FIGURES € mn	2010 PF	2011	2012E	2013E	2014E	2015E
REVENUES	185	249	275	288	299	303
Growth	0%	35%	11%	5%	4%	1%
EBITDA	95	142	157	169	177	179
Growth	0%	50%	11%	8%	5%	1%
Adj EBITDA (Incl JV)	95	142	157	169	177	179
Growth	0%	50%	11%	8%	5%	1%
EBIT	49	79	93	102	108	107
Growth	-14%	63%	17%	10%	6%	-1%
PBT	14	37	48	58	64	65
Growth	-52%	169%	28%	21%	11%	2%
NET INCOME	0	19	21	24	29	29
Growth	-98%	6273%	10%	17%	18%	2%
Adj. NET INCOME	0	31	21	24	29	29
Growth	-98%	10373%	-33%	17%	18%	2%
MARGIN	2010 PF	2011	2012E	2013E	2014E	2015E
Ebitda Margin	51.2%	57.0%	57.0%	58.6%	59.3%	58.9%
Ebitda adj Margin	51.2%	57.0%	57.0%	58.6%	59.3%	58.9%
Ebit margin	26.3%	31.9%	33.8%	35.5%	36.2%	35.2%
Pbt margin	7.5%	15.0%	17.4%	20.0%	21.4%	21.5%
Ni rep margin	0.2%	7.6%	7.5%	8.4%	9.6%	9.6%
Ni adj margin	0.2%	12.5%	7.5%	8.4%	9.6%	9.6%
SHARE DATA	2010 PF	2011	2012E	2013E	2014E	2015E
EPS - € cents	0.2	6.5	7.1	8.4	9.8	10.0
Growth	-	nm	nm	17%	18%	2%
Adj. EPS - € cents	0.2	10.6	7.1	8.4	9.8	10.0
Growth	-	nm	nm	17%	18%	2%
DPS ord - € cents	1.2	1.9	2.1	2.9	3.9	0.0
BVPS - €	2.0	1.5	1.6	1.6	na	na
VARIOUS - € mn	2010 PF	2011	2012E	2013E	2014E	2015E
Oper capital employed	1,063	1,314	1,305	1,285	1,284	1,217
FCF	-154	-90	34	53	37	103
Capital expenditures	-200	-308	-54	-44	-65	-1
Working capital	20	62	60	60	60	60
INDEBTNESS - €mn	2010 PF	2011	2012E	2013E	2014E	2015E
Net fin position	-730	-827	-795	-747	-716	-621
D/E	2.28 x	1.86 x	1.73 x	1.56 x	na	na
Debt/EBITDA	7.7 x	5.8 x	5.1 x	4.4 x	4.0 x	3.5 x
Interests cov	2.6 x	3.3 x	3.5 x	3.8 x	4.0 x	4.3 x
MARKET RATIOS	2010 PF	2011	2012E	2013E	2014E	2015E
P/E ord	nm	13.6 x	12.4 x	10.6 x	9.0 x	8.8 x
P/E ord Adj	nm	8.3 x	12.4 x	10.6 x	9.0 x	8.8 x
PBV	1.1 x	0.6 x	0.6 x	0.5 x	0.5 x	0.5 x
P/CF	12.2 x	4.3 x	4.4 x	4.0 x	3.7 x	3.6 x
EV FIGURES	2010 PF	2011	2012E	2013E	2014E	2015E
EV/Sales rep	5.9 x	4.5 x	3.9 x	3.6 x	3.4 x	3.1 x
EV/EBITDA rep	11.5 x	7.8 x	6.9 x	6.2 x	5.8 x	5.2 x
EV/EBIT	22.5 x	14.0 x	11.7 x	10.2 x	9.4 x	8.8 x
EV/CE	1.0 x	0.8 x	0.8 x	0.8 x	0.8 x	0.8 x
REMUNERATION	2010 PF	2011	2012E	2013E	2014E	2015E
Div. Yield ord	0.6%	2.2%	2.4%	3.3%	4.4%	0.0%
FCF yield	-44.0%	-35.0%	13.2%	20.7%	14.6%	40.2%
ROE	0.1%	4.2%	4.5%	5.1%	5.7%	5.7%
ROCE	3.0%	3.9%	4.6%	5.2%	5.5%	5.7%

Source: EQUITA SIM estimates and company data

BOOMING RESULTS.

Falck Renewables reported healthy operating results for the 1Q2012, above estimate on almost all line. Profitability is significantly improved with a +46%YoY growth in Ebitda and an implied margin moving from 60% to 65%:

- **Sales at 78.4 €mn (+35%YoY)** vs 75 €mn exp
- **Ebitda at 51.4 €mn (+46% YoY)** vs 48.1 €mn exp
- **Ebit at 36.8 €mn (+52.8% YoY)** vs 31.1 €mn exp
- **Pbt at 26.7 €mn (+73% YoY)** vs 22.4 €mn exp
- **Debt at 797 €mn (826 €mn at the end of 2011)** vs 846 €mn exp

In the following table a summary of the reported results (Fkr doesn't report net income on the 1st and 3rd quarter.

FKR: 1Q results - € mn					
Results	EXPECTED			REPORTED	
	1Q 11	1Q 12	YoY%	1Q12	YoY%
Installed capacity - MW	526	684	30%	684	30.0%
Total production - GWh	358	500	40%	528	47.5%
Revenues - € mn	58	75	29%	78	34.8%
Ebitda - € mn	35	48	36%	51	45.8%
Ebit - € mn	24	31	29%	37	52.8%
Pre tax profit - € mn	15	22	45%	27	72.8%
Net income reported - € mn	na	na	nm	na	nm
Net income adjusted - € mn	na	na	nm	na	nm
Nfp (ex derivatives) - € mn**	-765.2	-786	nm	-732	nm
Nfp (incl derivatives) - € mn**	-826.1	-846	nm	-797	nm

**YE and current

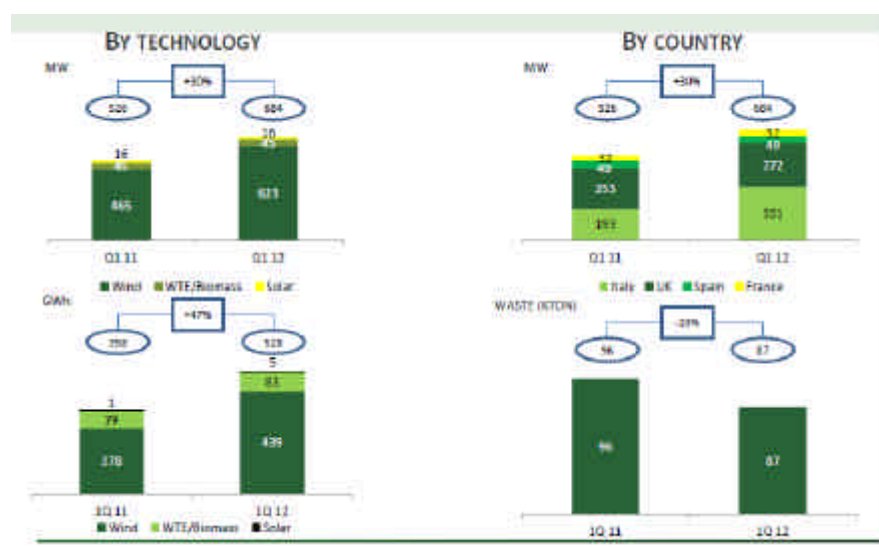
Source: EQUITA SIM estimates

■ Good progress in installed capacity.

As expected, the main driver of Falck Renewables's performance, is the relevant growth in installed capacity which has taken the overall production up +47% Yoy to 528 GWh vs 358 GWh reported in the 1Q2011. More in details, **Falck renew has moved from 526 MW installed at the end of 1q2011 to 684 MW installed at the end of 1 q 2011.**

In the following table a summary of the change in installed capacity.

FKR: Capacity and production



Source: Company data

- Falck renew provided also good indications on the capacity under construction
- 22 MW of the Petralia plant in Italy, should be ended in June this year
 - 10 MW of the TY-Ru plant in France, should contribute within year end.

As a consequence we believe that our estimate of 716 MW of installed capacity by the end of the year is currently highly visible.

In the following table a summary of the expected capacity evolution for the coming years.

FKR: Capacity evolution 2011-2014 - MW							
	2011	2012	2013	2014	Additions Equita - MW	Additions Strategy - MW	MW 2014 - STRATEGY
Wind	623	655	690	735	112	232	855
Wte	31	31	31	31	0	30	61
Biomass	14	14	14	14	0	0	14
Solar	16	16	16	16	0	10	26
Total - MW	684	716	751	796	112	272	956
Growth - MW	-	32	35	45	112		
Under construction: Petralia (1H 2012)		22					
Under construction: Ty-Ru (2H 2012)		10					
Under Construction: Nutberry (1H 2013)		15		47			
Fully authorized: Kingsburb (1H 2013)			20				
Fully authorized: Spaldington Airfield (1Q 2014)			15				
Fully authorized: West Browncastle (1Q 2014)			30	65			

Source: Company data and EQUITA SIM estimates

Although the reported numbers are significantly ahead of expectations, we are not applying relevant changes to our estimates as volatility of wind is too high (first week of May is indicated below budget from the management). Anyway we believe that our expectations for the FY are now more visible.

■ Guidance confirmed.

Falck renew has confirmed all the guidance on the strategy plan presentation and in particular the estimate of a >155 €mn for the current year (vs our 157 €mn). Although results of the 1q area above estimates, we are confirming our Fy expectations as the volatility of the wind during the year is still high at the time being (first week of April is indicated below budget from the company). Anyway we believe that the visibility for 2012 profits have significantly increased.

In the following table a summary of our main expectations from the group.

FKR: Main figures € mn						
	2010	2011	2012	2013	2014	2015
REVENUES	185	249	275	288	299	303
Growth	0%	35%	11%	5%	4%	1%
EBITDA	95	142	157	169	177	179
Growth	0%	50%	11%	8%	5%	1%
Margin	51.2%	57.0%	57.0%	58.6%	59.3%	58.9%
EBIT	49	79	93	102	108	107
Growth	-14%	63%	17%	10%	6%	-1%
Margin	26.3%	31.9%	33.8%	35.5%	36.2%	35.2%
PBT	14	37	48	58	64	65
Growth	-52%	169%	28%	21%	11%	2%
Margin	7.5%	15.0%	17.4%	20.0%	21.4%	21.5%
NET INCOME	0	19	21	24	29	29
Growth	-98%	6273%	10%	17%	18%	2%
Margin	0.2%	7.6%	7.5%	8.4%	9.6%	9.6%
Adj. NET INCOME	0	31	21	24	29	29
Growth	-98%	10373%	-33%	17%	18%	2%
Margin	0.2%	12.5%	7.5%	8.4%	9.6%	9.6%

Source: Company data and EQUITA SIM estimates

TARGET (1.8€/share) AND RECOMMENDATION (BUY) CONFIRMED.

1. **Fkr will post attractive growth rates with Ebitda +8% and NI +15% through 2014, backed by a visible increase in installed capacity.** Our estimates are conservative (no pipeline) and could consequently be subject to improvement (considering good delivery in previous years);
2. **New regulation approval in Italy have removed the main concern on the sustainability of the group return** (no retroactive measure and confirmed incentive to existing assets)
3. **Valuation is now attractive at 10.6x PE and 6.2x EV/Ebitda in 2013, backed by visible growth** (mainly full contribution from 2011 assets) **and good diversification** (considering the company's presence in Italy, Spain, France and UK).

VALUATION				
	CAPACITY	VALUATION	Implied multiples	
Wind assets	735 MW	1,231	Ev/Ebitda 2012	9.0 x
Waste To Energy plants	31 MW	114	Ev/Ebitda 2012	7.2 x
Biomass plants	14 MW	42	Ev/Ebitda 2012	5.6 x
Waste treatment business	168 Kt	16	Ev/Ebitda 2012	5.1 x
Solar assets	16 MW	56	Ev/Ebitda 2012	7.7 x
Holding costs	-	-85	Ev/Ebitda 2012	nm
CORE BUSINESS VALUATION	-	1,375	Ev/Ebitda 2012	8.8 x
Other operating assets	-	10	Book Value	
Financial assets	-	2	Book Value	
Nfp end of 2010	-	0	nm	
Nfp end of 2011	-	-826	End of 2011	
Minorities	-	-14	Book Value	
Provisions	-	-11	Book Value	
EQUITY VALUE	-	536	implied PE 2012	25.9 x
Capital increase	-	0		
EQUITY VALUE	-	536		
shares out	-	291		
TARGET PRICE	-	1.8		

Source: EQUITA SIM estimates

MARKET RATIOS						
	2010	2011	2012	2013	2014	2015
P/E	1186.9 x	nm	12.4 x	10.6 x	9.0 x	8.8 x
P/E adj	1186.9 x	nm	12.4 x	10.6 x	9.0 x	8.8 x
PBV	1.1 x	0.6 x	0.6 x	0.5 x	0.5 x	0.5 x
P/CF	12.2 x	4.3 x	4.4 x	4.0 x	3.7 x	3.6 x

EV FIGURES						
	2010	2011	2012	2013	2014	2015
EV/Sales rep	5.9 x	4.5 x	3.9 x	3.6 x	3.4 x	3.1 x
EV/EBITDA rep	11.5 x	7.8 x	6.9 x	6.2 x	5.8 x	5.2 x
EV/EBITDA adj (Incl JV)	11.5 x	7.8 x	6.9 x	6.2 x	5.8 x	5.2 x
EV/CE	1.0 x	0.8 x	0.8 x	0.8 x	0.8 x	0.8 x

REMUNERATION						
	2010	2011	2012	2013	2014	2015
Div. Yield ord	0.6%	2.2%	2.4%	3.3%	4.4%	0.0%
FCF yield	-44.0%	-35.0%	13.2%	20.7%	14.6%	40.2%
ROE	0.1%	4.2%	4.5%	5.1%	5.7%	5.7%
ROCE	3.0%	3.9%	4.6%	5.2%	5.5%	5.7%

INDEBTNESS						
	2010	2011	2012	2013	2014	2015
NFP	-730	-827	-795	-747	-716	-621
D/E	2.28	1.86	1.73	1.56	na	na
Debt/EBITDA	7.7 x	5.8 x	5.1 x	4.4 x	4.0 x	3.5 x
Interests cov	2.6 x	3.3 x	3.5 x	3.8 x	4.0 x	4.3 x

Source: EQUITA SIM estimates

P&L	2010 PF	2011	2012E	2013E	2014E	2015E
REVENUES	185	249	275	288	299	303
Growth	0%	35%	11%	5%	4%	1%
Total opex	-90	-107	-118	-119	-122	-125
Growth	0%	19%	10%	1%	2%	2%
Margin	-49%	-43%	-43%	-41%	-41%	-41%
EBITDA	95	142	157	169	177	179
Growth	0%	50%	11%	8%	5%	1%
Margin	51%	57%	57%	59%	59%	59%
Depreciation& amortization	-47	-53	-62	-65	-67	-70
Provisions	-1	-15	-2	-2	-2	-2
Depreciation&provision	-48	-68	-64	-67	-69	-72
EBIT	49	79	93	102	108	107
Growth	-14%	63%	17%	10%	6%	-1%
Margin	26%	32%	34%	36%	36%	35%
Net financial profit/Expenses	-36	-43	-45	-45	-44	-42
Profits/exp from equity inv	na	na	na	na	na	na
Other financial profit/Exp	1	1	0	0	0	0
Total financial expenses	-35	-42	-45	-45	-44	-42
Non recurring pre tax	0	0	0	0	0	0
PBT	14	37	48	58	64	65
Growth	-52%	169%	28%	21%	11%	2%
Taxes	-12	-17	-22	-26	-27	-28
Tax rate	-83%	-47%	-46%	-46%	-42%	-42%
Minority interests	-2	-1	-5	-7	-8	-8
Non recurring post tax	0	0	0	0	0	0
NET INCOME	0	19	21	24	29	29
Growth	-98%	nm	10%	17%	18%	2%
Margin	0%	8%	8%	8%	10%	10%
Adj. NET INCOME	0	31	21	24	29	29
Growth	-98%	nm	-33%	17%	18%	2%
Margin	0%	12%	8%	8%	10%	10%
CF Statement	2010 PF	2011	2012E	2013E	2014E	2015E
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	-6	-9
Rights issue	na	na	na	na	na	na
Other	na	na	na	na	na	na
(Increase) Decrease in Net Debt	-166	-97	32	48	31	95

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 out come from the legal procedures on the Sicilian business

SENSITIVITY

		Risk free				
		5.10%	5.60%	6.10%	6.60%	7.10%
Cost of debt	5.00%	2.03	1.98	1.92	1.87	1.81
	5.50%	1.95	1.89	1.84	1.78	1.73
	6.00%	1.86	1.81	1.76	1.70	1.65
	6.50%	1.78	1.73	1.68	1.63	1.58
	7.00%	1.70	1.65	1.60	1.55	1.50

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 >= 7.5%	ETR >= 10%	ETR >= 15%
HOLD	-5% <ETR< 7.5%	-5% <ETR< 10%	0% <ETR< 15%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

The methods preferred by EQUITA SIM to evaluate and set a value on the stocks forming the subject of the publication, and therefore the Expected Total Return in 12 months, are those most commonly used in market practice, i.e. multiples comparison (comparison with market ratios, e.g. P/E, EV/EBITDA, and others, expressed by stocks belonging to the same or similar sectors), or classical financial methods such as discounted cash flow (DCF) models, or others based on similar concepts. For financial stocks, EQUITA SIM also uses valuation methods based on comparison of ROE (ROEV – return on embedded value – in the case of insurance companies), cost of capital and P/BV (P/EV – ratio of price to embedded value – in the case of insurance companies).

MOST RECENT CHANGES IN RECOMMENDATION AND/OR IN TARGET PRICE (OLD ONES IN BRACKETS):

Date	Rec.	Target Price (€)	Risk	Comment
	nil			

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	COMPANIES COVERED	COMPANIES COVERED WITH BANKING RELATIONSHIP
BUY	41.4%	55.8%
HOLD	50.0%	38.5%
REDUCE	8.6%	5.8%
NOT RATED	0.0%	0.0%