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Price
EUR0.77

Target
EUR1.1

Previous
None

Buy

Renewed interest

We initiate coverage on Falck Renewables with a Buy rating and EUR1.1 target price. We appreciate its geographical and technological diversification and fully funded growth plan. Our TP suggests 40% upside, even discounting cautious assumptions.

Italy | Utilities

Falck Renewables

INITIATION OF COVERAGE

1 February 2012

Reuters FKR.MI
Bloomberg FKR IM
Index DJ Stoxx 600

In brief

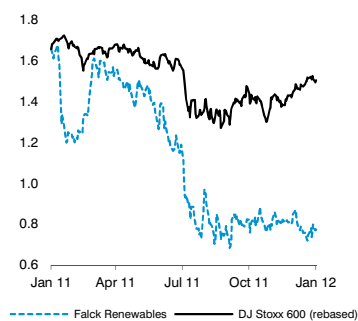
- > A well-diversified renewables company
- > Fast-growing, but we are more conservative than company targets
- > Cautious valuation assumptions lead to EUR1.1 target price
- > Risks

| Year end | Sales (EURm) | EBIT (EURm) | Net profit (EURm) | EPS (EUR) | P/E | P/BV | P/CF | EV/sales | EV/EBITDA | EV/EBIT | Div. yield (%) |
|-------------|--------------|-------------|-------------------|-----------|------|------|------|----------|-----------|---------|----------------|
| 31 Dec 2010 | 184.6 | 48.5 | 0.3 | 0.00 | nm | 1.1 | na | 6.2 | 12.1 | 23.6 | 0.5 |
| 2011E | 247.3 | 85.9 | 24.2 | 0.08 | 14.2 | 0.8 | na | 4.7 | 8.6 | 13.6 | 1.6 |
| 2012E | 270.4 | 93.3 | 22.5 | 0.08 | 10.0 | 0.5 | na | 4.0 | 7.1 | 11.7 | 2.2 |
| 2013E | 279.7 | 99.4 | 24.6 | 0.08 | 9.1 | 0.5 | na | 4.0 | 6.9 | 11.3 | 2.4 |
| 2014E | 288.0 | 107.2 | 28.4 | 0.10 | 7.9 | 0.4 | 26.8 | 3.9 | 6.5 | 10.5 | 2.8 |

Source: Kepler Capital Markets

Stock data

| | |
|---------------------------|-------|
| Market cap (EURm) | 225 |
| Free float | 29% |
| Shares outstanding (m) | 291 |
| Daily trade volume ('000) | 842 |
| YTD abs. performance | -9% |
| 52-week high (EUR) | 1.7 |
| 52-week low (EUR) | 0.7 |
| Enterprise value (EURm) | 1,087 |
| Net debt (EURm) | 849 |



In detail

A well-diversified renewables company

Falck Renewables (FKR) is a small renewables company diversified both geographically (mainly Italy and the UK) and technologically (mainly wind and waste), with 684MW of installed capacity at end-2011E, EUR136m EBITDA and EUR809m net debt.

Fast-growing, but we are more conservative than company targets

According to the company's business plan, its installed capacity should grow to around 1.1GW by 2014 and its EBITDA to EUR230m, after EUR1.1bn of cumulated capex. We set extremely cautious estimates, not including new projects lacking authorisation in our estimates and valuation. Our estimates are consequently at a discount to targets. We estimate FY 2014 EBITDA of EUR173m (25% discount) after EUR413m of cumulated capex, to reach 800MW of installed capacity.

Cautious valuation assumptions lead to EUR1.1 target price

Our SOP valuation returned an EV of EUR1.134bn (EV/EBITDA 2012E of 7.4x) and a target price of EUR1.1. We also set cautious assumptions in our WACC calculation (9.5%). If we applied an 8% WACC, our target price would jump to EUR1.6.

Risks

We consider the (undisclosed) covenants on debt (net debt/EBITDA at 5.9x in FY 2011E), a change in regulation and the uncertain climate risks.

Please refer to the last page of this report for "Important disclosures" and analyst(s) certifications.

Amsterdam Frankfurt Geneva London Madrid Milan New York Paris Zurich

Key financials

Falck Renewables

| | | | | | | | | | |
|---------------------|----------------|-------------------|------------------|------------------|---------------|--|--|--|--|
| Rating | Buy | Market cap | EUR225m | Bloomberg | FKR IM | Claudia Introvigne | | | |
| Target price | EUR1.10 | EV | EUR1,087m | Reuters | FKR.MI | claudia.introvigne@keplercm.com | | | |
| Price | EUR0.77 | Float | 29% | | | +39 02 8550 7220 | | | |

31 December

| Income statement (EURm) | 2006 | 2007 | 2008* | 2009* | 2010* | 2011E | 2012E | 2013E | 2014E |
|--------------------------------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales | na | na | 153.0 | 185.0 | 184.6 | 247.3 | 270.4 | 279.7 | 288.0 |
| Change (%) | na | na | na | 20.9% | -0.2% | 33.9% | 9.3% | 3.4% | 3.0% |
| EBITDA adjusted | na | na | 72.0 | 95.0 | 94.6 | 136.2 | 152.4 | 162.2 | 172.5 |
| EBITDA margin (%) | na | na | 47.1% | 51.4% | 51.2% | 55.1% | 56.4% | 58.0% | 59.9% |
| EBIT adjusted | na | na | 47.7 | 56.3 | 48.5 | 85.9 | 93.3 | 99.4 | 107.2 |
| EBIT margin (%) | na | na | 31.2% | 30.4% | 26.3% | 34.7% | 34.5% | 35.5% | 37.2% |
| Net financial | na | na | -13.4 | -27.2 | -35.8 | -39.2 | -49.7 | -52.0 | -53.0 |
| Associates | na | na | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-recurring items | na | na | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pre-tax profit | na | na | 35.8 | 29.0 | 13.9 | 47.8 | 44.7 | 48.5 | 55.4 |
| Income tax | na | na | -16.7 | -7.5 | -11.5 | -21.5 | -20.1 | -21.8 | -24.9 |
| Tax rate (%) | na | na | 48.6% | 25.9% | 90.3% | 46.1% | 46.2% | 46.1% | 45.9% |
| Minorities | na | na | -1.9 | -4.8 | -2.1 | -2.1 | -2.1 | -2.1 | -2.1 |
| Reported net earnings | na | na | 17.2 | 16.6 | 0.3 | 24.2 | 22.5 | 24.6 | 28.4 |
| Adjustments | na | na | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Adjusted net earnings (group) | na | na | 17.2 | 16.6 | 0.3 | 24.2 | 22.5 | 24.6 | 28.4 |
| Change (%) | na | na | +chg | -3.4% | -98.2% | 8090.3% | -7.2% | 9.3% | 15.5% |
| Cash flow statement (EURm) | 2006 | 2007 | 2008* | 2009* | 2010* | 2011E | 2012E | 2013E | 2014E |
| Net earnings | na | na | 19.2 | 21.4 | 2.4 | 26.3 | 24.6 | 26.7 | 30.5 |
| D&A | na | na | 24.3 | 38.7 | 46.0 | 50.3 | 59.1 | 62.8 | 65.3 |
| Change in TWC | na | na | 0.0 | 8.0 | -23.3 | -58.5 | -59.3 | -8.9 | -10.3 |
| Others | na | na | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating cash flow | na | na | 41.5 | 63.4 | 23.1 | 16.0 | 22.3 | 78.5 | 83.4 |
| Capex | na | na | -155.8 | -141.3 | -89.0 | -170.0 | -58.0 | -110.0 | -75.0 |
| Free cash flow | na | na | -114.3 | -77.9 | -65.9 | -154.0 | -35.7 | -31.5 | 8.4 |
| Disposals | na | na | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Financial investments & others | na | na | -17.0 | -80.0 | -100.0 | -55.0 | 0.0 | 0.0 | 0.0 |
| Dividends | na | na | 0.0 | 0.0 | 0.0 | -1.9 | -5.3 | -5.0 | -5.4 |
| Equity issued net of buyback | na | na | 0.0 | 0.0 | 0.0 | 129.9 | 0.0 | 0.0 | 0.0 |
| Net debt change | na | na | 411.3 | 152.3 | 165.5 | 80.1 | 40.1 | 35.5 | -3.9 |
| Balance sheet (EURm) | 2006 | 2007 | 2008* | 2009* | 2010* | 2011E | 2012E | 2013E | 2014E |
| Intangible assets | na | na | 176.2 | 176.2 | 176.2 | 176.2 | 176.2 | 176.2 | 176.2 |
| Property, plant & equipment | na | na | 636.3 | 769.7 | 947.1 | 1,066.8 | 1,065.7 | 1,112.9 | 1,122.6 |
| Financial assets | na | na | 1.2 | 1.2 | 1.2 | 2.3 | 3.5 | 4.6 | 5.7 |
| Cash and cash equivalents | na | na | 256.2 | 221.7 | 92.8 | 92.8 | 92.8 | 92.8 | 92.8 |
| Current and other assets | na | na | 96.7 | 119.4 | 125.5 | 202.5 | 270.9 | 278.6 | 285.4 |
| Total shareholders' equity | na | na | 327.6 | 342.4 | 335.3 | 459.6 | 478.9 | 500.6 | 525.6 |
| Pension provisions | na | na | 43.0 | 43.0 | 43.0 | 5.0 | 5.1 | 5.2 | 5.3 |
| Financial liabilities | na | na | 667.5 | 785.3 | 821.9 | 902.0 | 942.2 | 977.7 | 973.8 |
| Other liabilities & provisions | na | na | 128.9 | 118.7 | 142.5 | 174.0 | 183.0 | 181.6 | 178.0 |
| Net debt | na | na | 411.3 | 563.6 | 729.1 | 809.3 | 849.4 | 884.9 | 881.0 |
| Capital employed | na | na | 766.9 | 892.3 | 1,092.9 | 1,271.1 | 1,329.4 | 1,385.5 | 1,405.5 |
| Ratios | 2006 | 2007 | 2008* | 2009* | 2010* | 2011E | 2012E | 2013E | 2014E |
| Capex/D&A (%) | na | na | 642.3% | 365.0% | 193.4% | 338.1% | 98.2% | 175.1% | 114.8% |
| ROE (%) | na | na | na | 5.1% | 0.1% | 6.2% | 4.9% | 5.2% | 5.7% |
| ROCE (%) | na | na | na | 6.8% | 4.9% | 7.3% | 7.2% | 7.3% | 7.7% |
| Net debt/EBITDA (%) | na | na | 571.3% | 593.2% | 771.1% | 594.2% | 557.4% | 545.7% | 510.6% |
| Net debt/equity (%) | na | na | 125.5% | 164.6% | 217.4% | 176.1% | 177.4% | 176.8% | 167.6% |
| Per share (EUR) | 2006 | 2007 | 2008* | 2009* | 2010* | 2011E | 2012E | 2013E | 2014E |
| EPS adjusted | na | na | 0.99 | 0.06 | 0.00 | 0.08 | 0.08 | 0.08 | 0.10 |
| EPS reported | na | na | 0.99 | 0.06 | 0.00 | 0.08 | 0.08 | 0.08 | 0.10 |
| CFPS | na | na | -0.71 | -0.48 | -0.41 | -0.53 | -0.12 | -0.11 | 0.03 |
| BVPS | na | na | 1.98 | 2.05 | 2.03 | 1.54 | 1.60 | 1.67 | 1.75 |
| DPS | na | na | 0.00 | 0.00 | 0.01 | 0.02 | 0.02 | 0.02 | 0.02 |
| Year-end number of shares (m) | na | na | 161.9 | 161.9 | 161.9 | 291.4 | 291.4 | 291.4 | 291.4 |
| Valuation | 2006 | 2007 | 2008* | 2009* | 2010* | 2011E | 2012E | 2013E | 2014E |
| P/E | ns | ns | 4.6 | 48.6 | nm | 14.2 | 10.0 | 9.1 | 7.9 |
| P/BV | na | na | 2.3 | 1.4 | 1.1 | 0.8 | 0.5 | 0.5 | 0.4 |
| P/CF | na | na | na | na | na | na | na | na | 26.8 |
| Dividend yield | na | na | 0.0% | 0.0% | 0.5% | 1.6% | 2.2% | 2.4% | 2.8% |
| FCF yield | na | na | -15.4% | -17.3% | -17.9% | -44.8% | -15.9% | -14.0% | 3.7% |
| EV/sales | na | na | 7.8 | 5.8 | 6.2 | 4.7 | 4.0 | 4.0 | 3.9 |
| EV/EBITDA | na | na | 16.7 | 11.2 | 12.1 | 8.6 | 7.1 | 6.9 | 6.5 |
| EV/EBIT | na | na | 25.1 | 18.9 | 23.6 | 13.6 | 11.7 | 11.3 | 10.5 |
| EV/capital employed | na | na | na | 1.3 | 1.2 | 1.0 | 0.8 | 0.8 | 0.8 |

*pro-forma
Source: Kepler Capital Markets

Contents

Renewed interest

1 February 2012

| | |
|--|----|
| Key financials | 2 |
| Summing up | 4 |
| SWOT analysis | 4 |
| Key questions for management | 8 |
| Strategies | 8 |
| Financials | 8 |
| Outlook | 8 |
| Recent trends | 8 |
| Drivers and catalysts | 9 |
| Business plan | 9 |
| Catalysts | 11 |
| Constructing the forecast | 12 |
| Revenues and EBITDA | 12 |
| Net profit | 13 |
| Dividends | 13 |
| Financial position | 14 |
| Full financials | 16 |
| Valuation | 18 |
| SOP | 18 |
| Sensitivity analysis | 19 |
| Peer analysis | 19 |
| Company description | 20 |
| Company businesses | 20 |
| Company structure | 23 |
| Company history | 23 |
| Research ratings and important disclosures | 26 |
| Legal and disclosure information | 27 |

Summing up

We initiate coverage on Falck Renewables (FKR) with a Buy rating and EUR1.1 target price, as we appreciate its geographical and technical diversification, its limited exposure to regulatory risks and its financial structure, and discounting cautious estimates.

It is a young company, created on 15 November 2010 from the consolidation of Falck Group's renewable energy production business into Actelios. It is the only European company with a focus on wind and waste.

By the end of 2011, it is thought to have reached 684MW of installed capacity (90% in wind and 7% in waste to energy) and have 239 employees.

Its installed capacity is set to grow to around 1.1GW by 2014, according to its business plan, and its EBITDA to EUR230m (from EUR95m in FY 2010 and EUR136m in FY 2011E), after EUR1.1bn of cumulated capex.

We have chosen to be extremely cautious: in fact we have not included new projects lacking authorisation in our estimates and valuation, hence remaining at a significant discount to management targets. We estimate FY 2014 EBITDA of EUR173m (and EUR194m in FY 2015) after EUR413m of cumulated capex, in order to reach 800MW of installed capacity.

According to our estimates and valuation, its EV is EUR1.134bn (we consider an EV/EBITDA 2012 of 7.4x fair), while our target price is EUR1.1.

SWOT analysis

Table 1: Falck Renewables - SWOT analysis

| Strengths | Weakness |
|--|-------------------------------|
| Technological and geographical diversification | Lack of a track record |
| Financial coverage | Small cap with low free float |
| Cautious strategy in Italy | Low coverage |
| Experienced management team | Low dividend yield |
| Solid shareholder | |
| Opportunities | Threats |
| New business plan | Covenants |
| New projects | Impairment tests |
| Pending legal issues | Exchange rate |
| Potential partnerships | Regulation |
| | Climate |

Source: Kepler Capital Markets

Strengths

Technological and geographical diversification

The company is diversified, both geographically and technologically.

In terms of regions, its main areas are Italy, where it generates around 65% of its EBITDA (mainly from wind and waste, with 331MW of installed capacity), or EUR96m in FY 2011E (out of EUR136m of FY 2011E consolidated EBITDA and out of 684MW of total installed capacity,) and Scotland, where it generates 30% of its EBITDA (EUR54m in FY 2011E, all coming from 214MW of wind farms). The company also operates in Spain and France, and is looking for new opportunities in Poland.

The main technology is wind, with EUR117m of EBITDA in FY 2011E (86% of consolidated FY 2011E EBITDA) coming from 623MW of installed capacity. This is followed by waste, with EUR33m of FY 2011E EBITDA (24%) and 31MW of installed capacity (in Italy). The company also operates in solar energy and biomass in Italy.

This diversification can limit the risks of both geographical and technological exposure and also reduces regulatory and climate risk.

Technological diversification and geographical

| | |
|-----------------------------|--|
| Financial coverage | <p>Financial coverage</p> <p>On 14 January 2011, the company received EUR165m financing with a pool of banks (only EUR65m has been used so far) and in March 2011 it raised EUR130m of new capital (at EUR1 per share). The financing situation is currently improving, with a 5.9x net debt/EBITDA in FY 2011E, 1.8x debt/equity and around EUR100m of available credit lines. It should drop to 5.1x and 1.7x respectively in FY 2014E.</p> <p>The main financing method is non-recourse finance for the renewables projects and the company has a 13-year average duration on this type of financing.</p> |
| Cautious strategy in Italy | <p>Cautious strategy in Italy</p> <p>In Italy, the company chose to implement a cautious strategy: the current 331MW of Italian installed capacity (270MW wind, 31MW waste, 16MW solar, 14MW biomass) should grow to 358MW from FY 2013E, thanks to the new Petralia wind farm (in Sicily) alone, and to the 5.5MW in solar (we have chosen to include only half of the planned roof solar panels targeted by the company).</p> <p>Separately, the company's strategy is to invest in its already existing plants to increase their capacity, but currently, to remain on the cautious side, we have not included any of these projects in our estimates and valuation. For example, there may be projects to increase the installed capacity of its existing wind farms as well as to double the installed capacity of the Trezzo waste-to-energy plant from 20MW to 40MW, which could enter operation in 2015.</p> |
| Experienced management team | <p>Experienced management team</p> <p>The management team comprises technicians and experienced people with consolidated expertise deriving from their long experience in the renewable energy sector.</p> <p>CEO Manzoni is an engineer with significant managing experience in ABB and Siemens; he was also the chairman of Fiat Avio and the managing director of Atel Energia.</p> |
| Solid shareholder | <p>Solid shareholder</p> <p>The company's main shareholder is the Falck Group, which owns a 60% stake in the company.</p> <p>The Falck Group was founded on 26 January 1906 as a steel company and today mainly manages financial participations.</p> <p>William Heller is the second shareholder with a 7.99% stake in the company. He also founded Falck Renewables Wind in 2002 with Falck. He is currently a manager of the wind and solar business unit.</p> |
| New business plan | <p>Opportunities</p> <p>New business plan</p> <p>We have chosen to include just the already authorised projects in our estimates: in fact we estimate that installed capacity will only grow from 684MW at end-2011 to 850MW in 2015 (+5.5% CAGR), after EUR413m of cumulated capex, already fully financed.</p> <p>The business plan, presented at end-December 2010, targets around 1,100MW of installed capacity in 2014, after EUR1.2bn of cumulated capex. We expect an update of this business plan on 14 March together with the presentation of the Q4 2011 results. We assume the new business will be more cautious than the previous one, due to the difficult macro scenario, but we believe it could be a positive catalyst anyway, drawing attention to the story, the potential update regarding new projects and the company's positive track record.</p> |
| New projects | <p>New projects</p> <p>We have chosen to only discount the authorised projects, to keep a big discount versus the company's targets (27% in terms of installed capacity), and not to include any new projects in Poland and the UK, where it is sustaining development costs, seeking new opportunities.</p> |

| | |
|------------------------------|---|
| Pending legal issues | <p>Pending legal issues</p> <p>In 2003, Actelios (now the waste, solar and biomass businesses of FKR) won three projects to build three waste-to-energy plants in Sicily. In 2006, it launched a EUR250m capital increase to develop these three projects. The entire project (EUR1.2bn) was blocked by the Region of Sicily, but Actelios had already begun to invest in it. Currently, EUR130m in debt is related to this (EUR105m as capitalised costs and EUR30m as goodwill). The legal issue could be closed by 2015, as reported in H1 2011 financial statements, and we have not included any repayment in our valuation.</p> |
| Potential partnerships | <p>Potential partnerships</p> <p>We believe that a partnership with another company operating in the renewables business or with a strong financial partner could represent a further opportunity to gain critical mass, competitiveness and financial strength.</p> |
| Weaknesses | |
| Lack of track record | <p>Lack of track record</p> <p>The group was created after a consolidation project (Renewables Wind and Actelios) on 15 November 2010, thus there is no track record to act as a backbone for the company. Its experienced management and solid shareholder could offset this weakness, in our opinion.</p> |
| Small cap and low free float | <p>Small cap and low free float</p> <p>The company's market cap is currently slightly above EUR220m, with a 29% free float (below EUR70m), and this represents a limit to the interest of large investors.</p> |
| Low dividend yield | <p>Low dividend yield</p> <p>Despite being a utility, it is in a development stage, with a 5.9x net debt/EBITDA in FY 2011E, and a clear dividend policy has not been disclosed yet because the priority is to grow in the core business. We assume a 22% payout ratio in our estimates, which means a 2.3% yield in FY 2011, in line with Enel Green Power (Hold, TP EUR1.6), but well below the other Italian utilities (whose yields are above 6%).</p> |
| Threats | |
| Covenants | <p>Covenants</p> <p>The net debt has covenants based on net debt/EBITDA and on debt/equity, though their levels have not been disclosed. We estimate a FY 2011 net debt of EUR809m with a 5.9x net debt/EBITDA and a 1.8x debt/equity, which should decrease to 5.1x and 1.7x respectively in FY 2014.</p> |
| Impairment tests | <p>Impairment tests</p> <p>In 2010, its net profit was hit by a EUR4.8m writedown due to the impairment test on the Trezzo waste-to-energy plant. We have not included any further writedown in our estimates: the company has EUR119m of goodwill in its books, of which EUR30m related to the Sicilian waste project and the rest mainly to the wind farms.</p> |
| Exchange rate | <p>Exchange rate</p> <p>In FY 2011E, its EBITDA in pounds represented 45% of consolidated EBITDA. The company has revenues, costs and debt in pounds in the UK. We have included a 0.85 GBP/EUR exchange rate for 2011 and 0.90 from 2012 onward. A 10% rate variation implies roughly a 5% impact on our EBITDA estimate. We note that the exchange rate could be both a threat and an opportunity.</p> |
| Regulation | <p>Regulation</p> <p>The renewables business has revenues linked to the regulation approved in each country and Falck Renewables is mainly present in Italy and the UK.</p> <p>In Italy, the system is currently linked to the Green Certificates. We have included a EUR153/MWh remuneration from the sum of the Green Certificates and of the energy sold in our estimates: if we were to include a 5% discount, the impact on our valuation would be minus 13%.</p> |

In Scotland, sales are tied to PPAs (Purchase Power Agreements) with private companies for at least ten years, linked to inflation, so visibility is very high.

Climate

Climate
Wind energy is linked to the hours of wind over the year: in our estimates we have included the average hours expected by the company for each plant, but climate conditions can sometimes be unpredictable.

Key questions for management

Strategies

- What are the key countries the company is interested in for further growth?
- What are the key technologies the company is interested in for further growth?
- Do you believe potential partnerships could enhance the company's growth and profitability?
- What is your competitive advantage compared with other players?
- What IRR do you consider when you analyse new projects?

Financials

- Revenues depend on regulations in Italy: what is your view on the trend of Green Certificates and on electricity prices ahead?
- What is your long-term EBITDA margin target?
- Will margin growth be driven by acquisitions/partnerships or organic growth?
- Difficulties in accessing project financing could cause delays in financing new projects: what is your funding policy?
- Could the increase in the cost of debt cause a change in your development plan?
- Is there a policy to improve net working capital management?
- What is the long-term target in terms of net debt/EBITDA?
- Could you give details of the covenants you have on net debt?
- What is the current fixed/variable/project financing mix of debt, and for the future?
- Are you going to use next years' cash flow to sustain dividends? What are the future drivers of your dividend policy?

Outlook

- What are the FY 2012 targets for EBITDA and net debt?
- What is the base GDP scenario at the basis of your 2012 targets?
- What are your assumptions for prices in Italy and Scotland?
- When do you believe the Sicilian legal issue will be solved and how much could the company receive in terms of cash-in from the litigation?

Recent trends

- FY 2011 results on 14 March: has the difficult macro scenario affected the company's numbers?
- Are you revising your capex plan in the current macro scenario?

Drivers and catalysts

Business plan

Strategy

The company’s last business plan and strategy was presented at end-December 2010.

The strategy is to leverage the asset portfolio by enhancing portfolio management capabilities, to provide additional value and better risk management. Leveraging the asset portfolio could lead to a cautious strategy of only improving the additional installed capacity in some countries, such as Italy, where the regulatory risk could be higher.

In more detail, the strategic pillars linked to the different technologies are as follows:

- **Wind:** maximising investments over the business plan horizon (2011-14) from a rich pipeline and opportunistic situations. Currently, the company has 623MW of installed wind capacity (91% of the total installed capacity) and aims to reach more than 900MW in FY 2014 versus our estimated 732MW in FY 2014 (783MW in FY 2015E), which includes the already authorised wind farms in Italy (Sicily) and the UK.
- **Solar:** opportunistic use, taking advantage of “incentive windows”: the company recently announced the target to grow in Italy from the current 16MW in solar to 27MW by building 11MW of roof panels, of which we have chosen to cautiously include only 5.5MW.
- **WTE:** developing current projects (31MW of installed capacity in Italy, two WTE and one waste collection plant) and starting to monitor new markets (the UK and Poland) for opportunities, exploiting development synergies with wind. We have not included any new waste projects in our estimates and valuation.
- **Biomass:** developing mid-sized plants (7-15MW) fed by solid biomass mainly coming from local residues or dedicated long-term SRF (Short Rotation Forestry). We have not included any other projects in our estimates and valuation in addition to the current 14MW of the Rende biomass plant.

Chart 1: Falck Renewables - strategic pillars

| | | |
|----------------|---|---|
| WIND | Maximize investments over the business plan horizon from a rich pipeline and opportunistic situations. | Portfolio Management Leverage the asset portfolio by enhancing Portfolio Management capabilities to provide additional value and better risk management |
| SOLAR | Use as opportunistically, taking advantage of “incentive windows” (e.g. current tariffs for small scale Italian projects) | |
| WTE | Develop current projects and start monitoring interesting markets (UK and Poland) for opportunities, exploiting development synergies with wind | |
| BIOMASS | Develop medium size plants (7/15 MW) fed by solid biomass mainly coming from local residues or dedicated long term SRF ⁽¹⁾ <small>(1) Short Rotation Forestry</small> | |

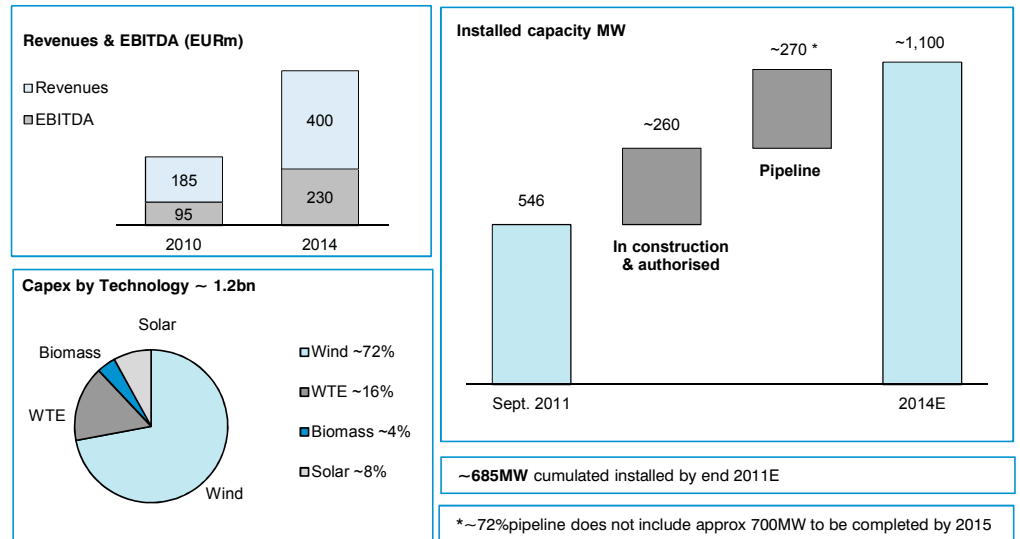
Source: Company data

Targets

In the business plan presentation of December 2010, amid a different macro scenario, the company’s targets were the following:

- **Revenues:** from EUR185m in FY 2010 to around EUR400m in FY 2014; we estimate EUR247m in FY 2011, EUR288m in FY 2014, but EUR300m in FY 2015.
- **EBITDA:** from EUR95m in FY 2010 (51% margin) to EUR230m in FY 2014 (57% margin); we estimate EUR136m in FY 2011 (55% margin), EUR173m in FY 2014 (60%), but EUR194m in FY 2015.
- **Cumulated capex:** EUR1.2bn in 2011-14 versus our EUR413m estimate.
- **Installed capacity:** from 685MW at end-FY 2011 (we estimate 684MW) to around 1,100MW at end-FY 2014 (we estimate 799MW at end-FY 2014)

Chart 2: Falck Renewables - 2014 targets



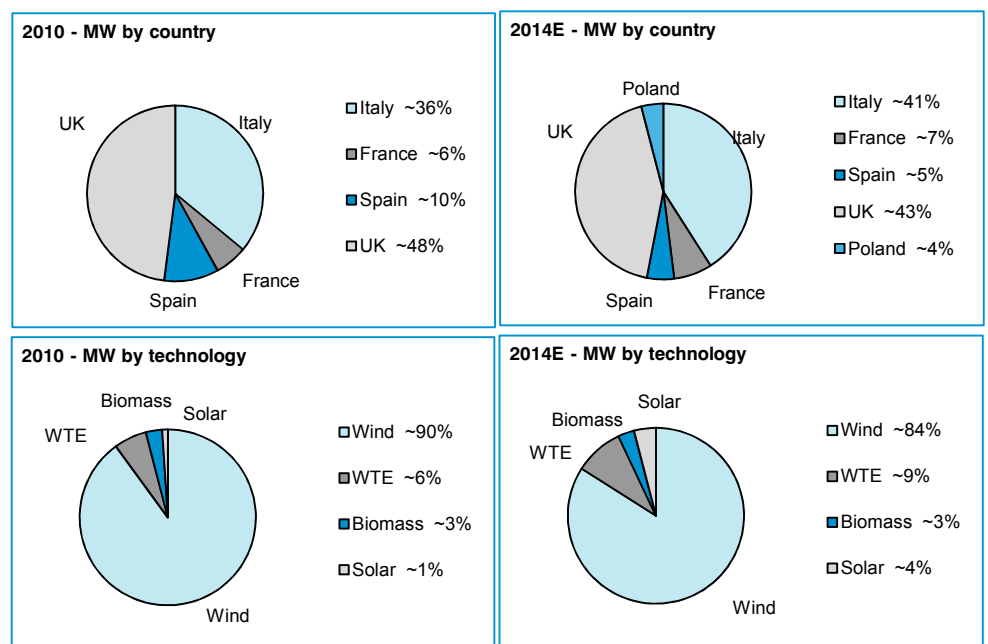
Source: Company data

According to the company's business plan, there should not be a huge difference in FY 2014 versus FY 2010 in terms of geographical and technological diversification.

The main technology should still be wind (90% in FY 2010 and 84% in FY 2014 in terms of installed capacity, vs. our unchanged 90% estimate), followed by waste-to-energy, which should grow from 6% to 9% (probably thanks to the additional 20MW from the repowering of the Trezzo WTE, not included in our estimates), while we estimate a 4% weight in FY 2014.

Italy is set to remain the main region, representing 36% of the installed capacity in FY 2010 and 41% in FY 2014 (we estimate 42%), followed by Scotland and England, representing 48% of the installed capacity in FY 2010 and 42% in FY 2014E (in line with our estimates).

Chart 3: Falck Renewables – 2014 targets: MW by country and technology



Source: Company data

Catalysts

The main catalyst, besides the communication of new authorisations for new projects or new partnerships, is likely to be Q4 2011 results, due on 14 March.

We also expect an update of the business plan targets together with Q4 results.

FY 2011 results

During the 9M 2011 presentation, management gave guidance of EUR130m EBITDA in 2011, meaning EUR36m of EBITDA in Q4 (there is no YOY comparison due to the short history of the company).

We estimate EUR136m EBITDA for FY 2011, or EUR42m of EBITDA in Q4 2011, thus 16% above the company's targets, which may have been cautious. The Q4 2011 results could be +56% YOY, according to our pro-forma estimates, mainly thanks to the start-up of the new Geopower wind farm (138MW in Sardinia).

Consequently, we believe that the good Q4 performance could represent a positive catalyst for the stock.

Chart 4: Falck Renewables - 2011 guidance (EURm)

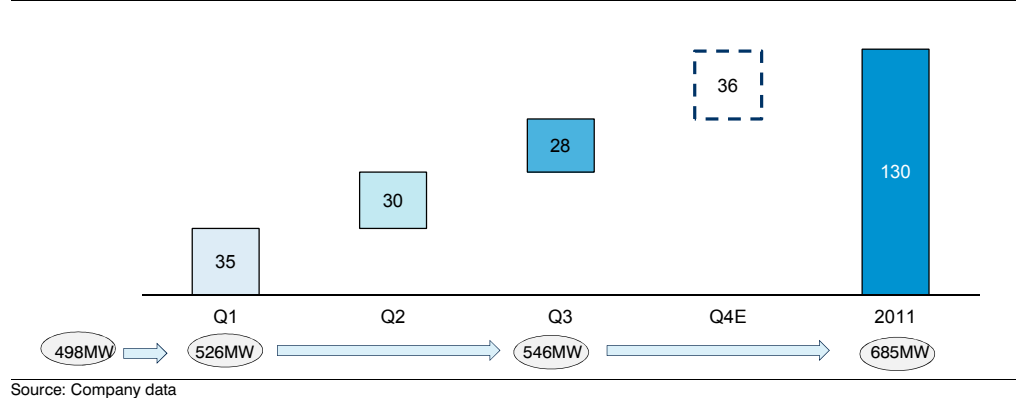


Table 2: Falck Renewables – quarterly result preview (EURm)

| | FY 10 | FY 11E | YOY | Q4 10* | Q3 11 | Q4 11E | YOY | QOQ |
|----------------|-------|--------|-------|--------|-------|--------|--------|-------|
| Revenues | 185 | 247 | 33.9% | 53 | 55 | 79 | 49.3% | 44.3% |
| EBITDA | 95 | 136 | 43.4% | 27 | 28 | 42 | 55.6% | 47.5% |
| Margin | 51.5% | 55.1% | | 51.3% | 52.3% | 53.4% | | |
| EBIT | 49 | 86 | 77.0% | 10 | 16 | 28 | 190.0% | 71.1% |
| Margin | 26.3% | 34.7% | | 18.1% | 29.7% | 35.2% | | |
| Net profit | 0.3 | 24 | nm | -8 | 5 | 6 | nm | 36.4% |
| Dividend (EUR) | 0.012 | 0.018 | 52.5% | | | | | |
| Net debt | 729 | 809 | 11.0% | 729 | 743 | 809 | 11.0% | 8.9% |

*pro-forma estimates
Source: Kepler Capital Markets

We estimate a EUR6m net profit in Q4 and a EUR24m net profit in FY 2011, without including any writedown on goodwill (Q4 2010 was affected by a EUR4.8m writedown due to the impairment test of the Trezzo waste-to-energy plant; the company has EUR119m of goodwill in total).

As for dividends, we assume a 22% payout ratio and estimate EUR0.018 DPS, with a 2.2% dividend yield.

We expect EUR809m net debt at end-2011, after EUR170m of capex.

Constructing the forecast

Revenues and EBITDA

We expect a +11.8% sales CAGR 2010-14, from the FY 2010 (pro-forma) EUR185m (EUR247m in FY 2011E) to EUR288m.

The growth should be 80%-driven by Italy, thanks to the Geopower wind farm (138MW in Sardinia, the biggest FKR wind farm), which wasn't operating in FY 2010, and to the new Petralia (Sicily) 22MW wind farm. Part of the Italian sales growth is likely to be offset by the end of the CIP6 incentives for the WTE plants (in 2014 for Trezzo and in 2014 for Granarolo).

The second country in terms of growth should be Scotland, where four wind farms are set to enter operation between FY 2014 and FY 2015, increasing Scotland's wind installed capacity from 214MW to 325MW. We assume a 0.90 GBP/EUR exchange rate from FY 2012 onward.

In our sales estimates, we assume flat prices for wind farms in all countries. In Scotland the PPAs give a lot of visibility; in Italy we assume a flat EUR153/MWh.

Regarding EBITDA, Italy is the most appealing country, with roughly an 85% margin in wind and 33% in waste on average, while Scotland's average margin is 80% (but there is higher visibility on sales here, given the PPA system).

In our EBITDA we also include the development costs for the new initiatives in Italy, the UK, France and Poland: these costs are set to peak in FY 2012-14E and then halve from a total of EUR26m down to EUR13m.

Table 3: Falck Renewables - main data by country (EURm)

| | 2011E | 2012E | 2013E | 2014E | CAGR 2011-14E |
|-------------------------|------------|------------|------------|------------|---------------|
| Italy | | | | | |
| MW | 330.5 | 345.9 | 358.0 | 358.0 | 2.7% |
| TWh | 1.5 | 1.8 | 1.8 | 1.8 | 5.2% |
| Sales | 159.9 | 181.3 | 185.4 | 182.7 | 4.6% |
| EBITDA | 95.6 | 110.0 | 116.2 | 115.3 | 6.5% |
| Capex | 126.0 | 22.5 | 0.0 | 0.0 | |
| Scotland | | | | | |
| MW | 213.8 | 213.8 | 228.8 | 278.8 | 9.3% |
| TWh | 0.6 | 0.6 | 0.7 | 0.7 | 7.0% |
| Sales | 67.5 | 67.0 | 71.0 | 79.2 | 5.5% |
| EBITDA | 53.6 | 52.9 | 55.7 | 64.9 | 6.6% |
| Capex | 40.0 | 22.0 | 90.0 | 75.0 | |
| England | | | | | |
| MW | 58.5 | 58.5 | 58.5 | 71.0 | 6.7% |
| TWh | 0.2 | 0.2 | 0.2 | 0.2 | 5.4% |
| Sales | 11.0 | 11.0 | 11.0 | 13.9 | 8.0% |
| EBITDA | 7.2 | 7.2 | 7.2 | 9.2 | 8.6% |
| Capex | 0.0 | 1.5 | 20.0 | 0.0 | |
| France and Spain | | | | | |
| MW | 81.3 | 91.3 | 91.3 | 91.3 | 3.9% |
| TWh | 0.1 | 0.1 | 0.1 | 0.1 | 11.2% |
| Sales | 8.9 | 11.1 | 12.2 | 12.2 | 11.2% |
| EBITDA | 6.4 | 7.9 | 8.6 | 8.6 | 10.5% |
| Capex | 4 | 12 | 0 | 0 | |
| Holding | | | | | |
| | -27 | -26 | -26 | -26 | -1.3% |
| Total | | | | | |
| MW | 684 | 709 | 737 | 799 | 5.3% |
| TWh | 2 | 3 | 3 | 3 | 5.9% |
| Sales | 247 | 270 | 280 | 288 | 5.2% |
| EBITDA | 136 | 152 | 162 | 173 | 8.2% |
| Capex | 170 | 58 | 110 | 75 | |

Source: Kepler Capital Markets

Table 4: Falck Renewables - main data by technology (EURm)

| | 2011E | 2012E | 2013E | 2014E | CAGR 2011-14E |
|----------------|------------|------------|------------|------------|---------------|
| Wind | | | | | |
| MW | 623.0 | 648.4 | 670.0 | 732.5 | 5.5% |
| TWh | 1.2 | 1.6 | 1.6 | 1.7 | 11.0% |
| Sales | 145.6 | 183.0 | 190.2 | 201.2 | 11.4% |
| EBITDA | 116.6 | 144.9 | 153.0 | 164.3 | 12.1% |
| Capex | 149.0 | 45.5 | 110.0 | 75.0 | |
| Solar | | | | | |
| MW | 16.0 | 16.0 | 21.5 | 21.5 | 10.4% |
| TWh | 0.0 | 0.0 | 0.0 | 0.0 | 1.6% |
| Sales | 8.5 | 10.2 | 12.3 | 12.3 | 13.2% |
| EBITDA | 7.7 | 9.0 | 10.7 | 10.7 | 11.8% |
| Capex | 21.0 | 12.5 | - | - | |
| Biomass | | | | | |
| MW | 14.0 | 14.0 | 14.0 | 14.0 | 0.0% |
| TWh | 1.0 | 1.0 | 1.0 | 1.0 | 0.0% |
| Sales | - | - | - | - | nm |
| EBITDA | 5.3 | 5.3 | 5.3 | 5.3 | 0.0% |
| Capex | - | - | - | - | |
| Waste | | | | | |
| MW | 31.0 | 31.0 | 31.0 | 31.0 | 0.0% |
| TWh | 0.2 | 0.2 | 0.2 | 0.2 | 0.0% |
| Sales | 72.2 | 56.1 | 56.1 | 53.4 | -9.6% |
| EBITDA | 33.2 | 18.7 | 18.7 | 17.8 | -18.8% |
| Capex | - | - | - | - | |
| Holding | (26.5) | (25.5) | (25.5) | (25.5) | -1.3% |
| Total | | | | | |
| MW | 684 | 709 | 737 | 799 | 5.3% |
| TWh | 2 | 3 | 3 | 3 | 5.9% |
| Sales | 226 | 249 | 259 | 267 | 5.7% |
| EBITDA | 136 | 152 | 162 | 173 | 8.2% |
| Capex | 170 | 58 | 110 | 75 | |

Source: Kepler Capital Markets

Table 5: Falck Renewables - main data (EURm)

| | 2010 pro-forma | 2011E | 2012E | 2013E | 2014E | CAGR 2010-14E |
|----------------|-------------------|-------|-------|-------|-------|------------------|
| Sales | 185 | 247 | 270 | 280 | 288 | 11.8% |
| EBITDA | 95 | 136 | 152 | 162 | 173 | 16.2% |
| margin | 51.2% | 55.1% | 56.4% | 58.0% | 59.9% | |
| EBIT | 49 | 86 | 93 | 99 | 107 | 21.9% |
| margin | 26.3% | 34.7% | 34.5% | 35.5% | 37.2% | |
| Pre tax profit | 14 | 48 | 45 | 48 | 55 | 41.4% |
| Net Profit | 0 | 24 | 23 | 25 | 28 | nm |
| EPS (EUR) | 0.00 | 0.08 | 0.08 | 0.08 | 0.10 | nm |
| DPS (EUR) | 0.012 | 0.018 | 0.017 | 0.019 | 0.021 | 15.6% |
| Net debt | 729 | 809 | 849 | 885 | 881 | 4.8% |

Source: Kepler Capital Markets

Net profit

After the increase of the average cost of debt from 5% in FY 2011E to 6% from FY 2012E onward, and assuming a 45% flat tax rate, we estimate EUR24m net profit for FY 2011, growing to EUR28m in FY 2014.

A comparison with the pro-forma of FY 2010 is difficult: FY 2010 closed at EUR0.3m due to a EUR4.8m writedown at the Trezzo WTE plant.

Dividends

We assume a 22% payout ratio

The company does not have a clear dividend policy, because for the moment its growth is more important than its dividend distribution.

Therefore, we cautiously assume a 22% payout ratio and the approval of a EUR0.018 DPS in FY 2011, with a 2.2% yield in line with the yield of Enel Green Power but below the yields of the Italian utilities (above 6% on average).

We also assume a 22% payout ratio from FY 2012 onward, lacking detailed indications on the dividend policy, due to the fact that the company is currently focused on growth.

Financial position

We expect the net debt to grow from EUR743m at end-September 2011 up to EUR809m at end-December 2011, with a net debt/EBITDA of 5.9x and D/E of 1.8x.

After EUR413m of cumulated capex in FY 2011-14E, we expect the net debt to reach EUR881m at end-2014, with a net debt/EBITDA of 5.1x and a debt/equity of 1.7x.

Capex

We assume EUR413m of cumulated capex in 2011-14, which should be used as follows:

- EUR227m in Scotland to increase the installed wind capacity from 214MW to 279MW in FY 2014E and 330MW in FY 2015E (vs. the 380MW targeted by the business plan).
- EUR185m in Italy to increase the installed wind capacity from 270MW to 285MW and the solar installed capacity from 16MW to 21.5MW (vs. the EUR27MW targeted by the business plan).

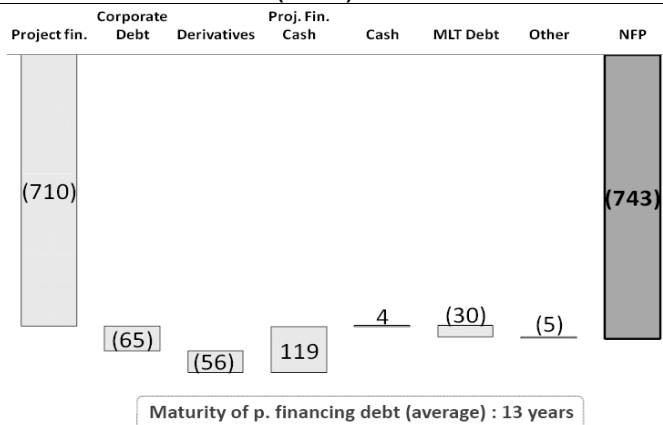
Cost of debt

Cost of debt is expected to grow from 5% in FY 2011 to 6% from FY 2012 onward, according to our assumptions.

Debt structure

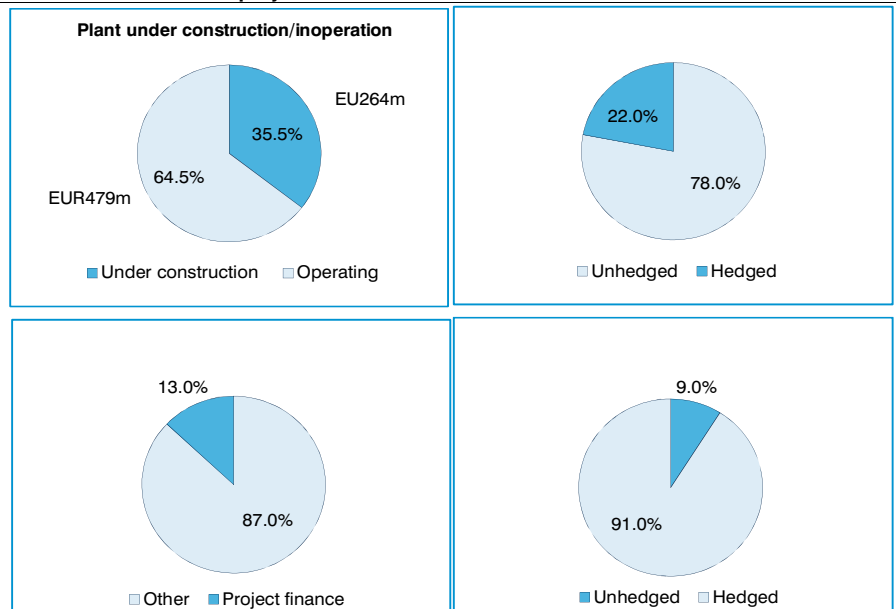
At end-September 2011, the main portion of debt (87%) was represented by project finance, which has a 13-year maturity.

Chart 5: Falck Renewables - debt structure (EURm)



Source: Company data

Chart 6: Falck Renewables - project finance



Source: Company data

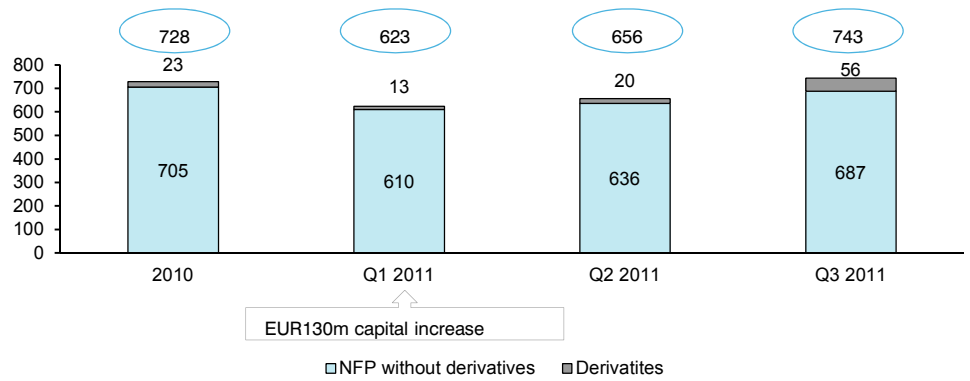
Capital increase

The financial structure was significantly improved in 2011, thanks to the launch of a EUR130m capital increase in March.

The capital increase occurred at EUR1.003 per share against the current EUR0.77 share price through the issue of 129.5m shares (44% of the current shares) and was entirely subscribed.

In the capital increase, Mediobanca (Buy, TP EUR5.8) and Unicredit (Hold, TP EUR3.5) were joint global coordinators and joint bookrunners, while MPS Capital Services was the co-bookrunner.

Chart 7: Falck Renewables - quarterly debt structure (EURm)



Source: Company data

Full financials

Table 6: Falck Renewables - profit & loss as reported (EURm)

| | 2010 pro-forma | 2011E | 2012E | 2013E | 2014E | CAGR 2010-14E |
|----------------------------|-------------------|--------|-------|-------|-------|------------------|
| Revenues | 185 | 247 | 270 | 280 | 288 | 11.8% |
| YOY growth | -0.2% | 33.9% | 9.3% | 3.4% | 3.0% | |
| Raw materials | -25 | -31 | -34 | -33 | -32 | |
| Staff costs | -19 | -22 | -22 | -23 | -23 | |
| Other costs | -46 | -58 | -62 | -62 | -60 | |
| Total costs | -90 | -111 | -118 | -118 | -115 | 6.4% |
| YOY growth | 0.1% | 23.3% | 6.2% | -0.4% | -1.7% | |
| EBITDA | 95 | 136 | 152 | 162 | 173 | 16.2% |
| YOY growth | -0.5% | 44.0% | 11.9% | 6.4% | 6.4% | |
| Depreciation | -46 | -50 | -59 | -63 | -65 | 9.1% |
| Amortization & others | 0 | 0 | 0 | 0 | 0 | |
| EBIT | 49 | 86 | 93 | 99 | 107 | 21.9% |
| YOY growth | -13.8% | 77.0% | 8.6% | 6.5% | 7.9% | |
| Net fin. income/(charges) | -36 | -39 | -50 | -52 | -53 | 10.3% |
| Other financials | 1 | 1 | 1 | 1 | 1 | 0.0% |
| Pre-tax profit | 14 | 48 | 45 | 48 | 55 | 41.4% |
| YOY growth | -52.1% | 245.0% | -6.6% | 8.5% | 14.3% | |
| Taxes | -12 | -22 | -20 | -22 | -25 | 21.3% |
| Tax rate | 82.9% | 45.0% | 45.0% | 45.0% | 45.0% | |
| Net profit bef. minorities | 2 | 26 | 25 | 27 | 30 | 89.4% |
| Minorities | -2 | -2 | -2 | -2 | -2 | 0.0% |
| Discontinued operations | | | | | | |
| Net profit | 0 | 24 | 23 | 25 | 28 | nm |
| YOY growth | -98.2% | nm | -7.2% | 9.3% | 15.5% | |

Source: Company data, Kepler Capital Markets

Table 7: Falck Renewables - profit & loss (weight on revenues)

| | 2010 pro-forma | 2011E | 2012E | 2013E | 2014E | Avg. 2011-14E |
|---------------------|-------------------|--------|--------|--------|--------|------------------|
| Revenues | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| EBITDA | 51.2% | 55.1% | 56.4% | 58.0% | 59.9% | 57.3% |
| EBIT | 26.3% | 34.7% | 34.5% | 35.5% | 37.2% | 35.5% |
| Net profit | 0.2% | 9.8% | 8.3% | 8.8% | 9.9% | 9.2% |
| Adjusted EBITDA | 51.2% | 55.1% | 56.4% | 58.0% | 59.9% | 57.3% |
| Adjusted EBIT | 26.3% | 34.7% | 34.5% | 35.5% | 37.2% | 35.5% |
| Adjusted net profit | 0.2% | 9.8% | 8.3% | 8.8% | 9.9% | 9.2% |

Source: Kepler Capital Markets

Table 8: Falck Renewables - data per share (EUR)

| | 2010 pro-forma | 2011E | 2012E | 2013E | 2014E | Avg. 2011-14E |
|--------------------|-------------------|---------|-------|-------|-------|------------------|
| Stated EPS | 0.00 | 0.08 | 0.08 | 0.08 | 0.10 | 0.09 |
| YOY growth | -98.2% | 8090.3% | -7.2% | 9.3% | 15.5% | |
| Adjusted EPS | 0.00 | 0.08 | 0.08 | 0.08 | 0.10 | 0.09 |
| YOY growth | -98.2% | 8090.3% | -7.2% | 9.3% | 15.5% | |
| Recurrent dividend | 0.012 | 0.018 | 0.017 | 0.019 | 0.021 | 0.02 |
| YOY growth | | 52.5% | -7.2% | 9.3% | 15.5% | |

Source: Kepler Capital Markets

Table 9: Falck Renewables - balance sheet (EURm)

| | 2010 | 2011E | 2012E | 2013E | 2014E | Avg. |
|----------------------------|-----------|--------|--------|--------|--------|----------|
| | pro-forma | | | | | 2011-14E |
| Tangible assets | 947 | 1067 | 1066 | 1113 | 1123 | 1092 |
| Intangible assets | 176 | 176 | 176 | 176 | 176 | 176 |
| Financial assets | 1 | 2 | 3 | 5 | 6 | 4 |
| Total fixed assets | 1124 | 1245 | 1245 | 1294 | 1305 | 1272 |
| Debtors | 73 | 148 | 216 | 224 | 230 | 205 |
| Weight on revenues | 39.3% | 60.0% | 80.0% | 80.0% | 80.0% | |
| Inventories | 4 | 5 | 5 | 6 | 6 | 5 |
| Weight on revenues | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | |
| Creditors | -107 | -125 | -134 | -133 | -130 | -131 |
| Weight on raw materials | 426.8% | 400.0% | 400.0% | 400.0% | 400.0% | |
| Working capital | -30 | 28 | 87 | 96 | 107 | 80 |
| Weight on revenues | -16.5% | 11.4% | 32.4% | 34.5% | 37.1% | |
| Tax assets | | | | | | |
| Severance indemnity fund | 3 | 3 | 4 | 4 | 4 | 4 |
| Weight on staff costs | -16% | -16% | -16% | -16% | -16% | |
| Other assets & liabilities | 6 | -25 | -25 | -25 | -25 | -25 |
| Capital employed | 1103 | 1252 | 1312 | 1369 | 1390 | 1331 |
| Shareholders' equity | 328 | 450 | 467 | 487 | 510 | 479 |
| Minorities | 7 | 9 | 11 | 14 | 16 | 13 |
| Total shareholders' fund | 335 | 460 | 479 | 501 | 526 | 491 |
| Medium & long-term debt | -609 | -649 | -669 | -687 | -685 | -672 |
| Short-term debt | -213 | -253 | -273 | -291 | -289 | -277 |
| Cash & equivalents | 93 | 93 | 93 | 93 | 93 | 93 |
| NFP (Debt)/Cash | -729 | -809 | -849 | -885 | -881 | -856 |
| Adjusted ROE | 0.1% | 6.2% | 4.9% | 5.2% | 5.7% | 5% |
| Adjusted ROCE post tax | 3.5% | 5.3% | 5.2% | 5.3% | 5.6% | 5% |
| Change in working capital | -23 | -59 | -59 | -9 | -10 | -34 |
| Receivable rotation (days) | 141 | 216 | 288 | 288 | 288 | 270 |
| Inventory rotation (days) | 7 | 7 | 7 | 7 | 7 | 7 |
| Debtor rotation (days) | 1536 | 1440 | 1440 | 1440 | 1440 | 1440 |
| Operating cycle (days) | 149 | 223 | 295 | 295 | 295 | 277 |
| Cash cycle (days) | -1388 | -1217 | -1145 | -1145 | -1145 | -1163 |
| Adjusted capital employed | 1093 | 1271 | 1329 | 1386 | 1406 | 1348 |

Source: Kepler Capital Markets

Table 10: Falck Renewables - cash flow statement (EURm)

| | 2010 | 2011E | 2012E | 2013E | 2014E | Avg. |
|-------------------------------------|-----------|-------|-------|-------|-------|----------|
| | pro-forma | | | | | 2011-14E |
| EBIT | 49 | 86 | 93 | 99 | 107 | 96 |
| Depreciation | 46 | 50 | 59 | 63 | 65 | 59 |
| Amortisation & others | 0 | 0 | 0 | 0 | 0 | 0 |
| Total internal sources | 95 | 136 | 152 | 162 | 173 | 156 |
| Taxes | -12 | -22 | -20 | -22 | -25 | -22 |
| Capex | -89 | -170 | -58 | -110 | -75 | -103 |
| Change in working capital | -23 | -59 | -59 | -9 | -10 | -34 |
| Total operational uses | -124 | -250 | -137 | -141 | -110 | -160 |
| Financial income/(charges) | -36 | -39 | -50 | -52 | -53 | -48 |
| Operating free cash flow | -65 | -153 | -35 | -31 | 9 | -52 |
| Change in shareholders' equity | 0 | 130 | 0 | 0 | 0 | 32 |
| (Acquisitions)/Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividends | 0 | -2 | -5 | -5 | -5 | -4 |
| Other sources/(uses) | -100 | -55 | 0 | 0 | 0 | -14 |
| Cash flow from other sources/(uses) | -100 | 73 | -5 | -5 | -5 | 14 |
| Change in (debt)/cash | -165 | -80 | -40 | -36 | 4 | -38 |
| NFP (Debt)/Cash | -728 | -808 | -849 | -884 | -880 | -855 |
| Cash/(Debt) per share (EUR) | | | | | | |
| Debt/Equity (x) | 2.2 | 1.8 | 1.8 | 1.8 | 1.7 | |
| Interest cover | 1.4 | 2.2 | 1.9 | 1.9 | 2.0 | |
| Net debt/Adj. EBITDA (x) | 7.7 | 5.9 | 5.6 | 5.5 | 5.1 | |

Source: Kepler Capital Markets

Valuation

EUR1.1 target price, Buy rating

We value the company's EV at EUR1.1m, with a target price of EUR1.1, which suggests +40% upside and supports our Buy rating.

Sum-of-the-parts

We have valued the company through our SOP valuation model based on the DCF applied to the different business lines (WACC at 9.5%). To remain on the cautious side, we have not included any growth in the pipeline from FY 2015 onward.

Our SOP-based model returned a EUR1.1 target price and EUR1.1bn EV, which implies a fair EV/EBITDA 2012E of 7.4x and EV/MW of 1.6x and EV/EBITDA 2013E of 6.6x and EV/MW of 1.4x.

In detail, we have valued the wind business (EUR984m or 87% of the total EV) with different valuations according to the different countries, using the DCF (WACC 9.5%, including a 6% risk free rate and a 4.5% risk premium) for Italy and Scotland and a 6x EV/EBITDA 2012E for the UK, France and Spain.

Our EUR610m EV for the Italian wind business implies a fair EV/EBITDA 2012E of 7.9x and represents 54% of the company's EV.

Our EUR284m EV for the Scottish wind business implies a fair EV/EBITDA 2012E of 5.4x and represents 25% of Falck Renewables' EV.

We have valued the rest of the wind businesses of the company at a 6x EV/EBITDA 2012E.

As a reference, we note that we are valuing the wind business at around a 10% discount versus the valuation given to Falck Renewable Wind when it was merged with Actelios (the valuation was equal to EUR1.1bn).

We have valued the waste business through the DCF, with a 9.5% WACC, obtaining a EUR126m EV or a fair 6.7x EV/EBITDA 2012E.

For the solar and biomass businesses, we assume a 4x and a 2.5x EV/MW multiple respectively.

As a reference, we note that we are valuing the waste, solar and biomass businesses almost in line with the valuation given to Actelios when it was merged with Falck Renewables Wind (the valuation was equal to EUR230m).

Table 11: Falck Renewables - SOP valuation (EURm)

| | | |
|---------------------------|-------------------------|--------------|
| Wind | | 984 |
| Italy | DCF (WACC 9.5%) | 610 |
| Scotland | DCF (WACC 9.5%) | 284 |
| England | 6x EV/EBITDA12E | 43 |
| France and Spain | 6x EV/EBITDA12E | 47 |
| Waste | DCF (WACC 9.5%) | 126 |
| Solar | 4x EV/MW | 64 |
| Biomass | 2.5x EV/MW | 35 |
| Holding costs | 6x EV/EBITDA normalised | -75 |
| Enterprise value | | 1,134 |
| Net debt end FY 2011E | | -809 |
| Minorities | book value | -7 |
| Investments | book value | 1 |
| Equity value | | 319 |
| Number of shares (m) | | 291 |
| Target price (EUR) | | 1.1 |

Source: Kepler Capital Markets

Sensitivity analysis

We have chosen to be very cautious in our valuation, due to the short track record of the company and its limited market cap.

Our valuation is very sensitive to different WACC assumptions: if, for example, we included an 8% WACC in place of our 9.5% WACC, the target price would be EUR1.6.

Table 12: Falck Renewables - Sensitivity analysis on different WACC assumptions

| WACC | TP |
|-------------|------------|
| 6% | 2.9 |
| 7% | 2.2 |
| 8% | 1.6 |
| 9% | 1.2 |
| 9.5% | 1.1 |
| 10% | 0.9 |
| 11% | 0.6 |

Source: Kepler Capital Markets

Peers analysis

We think the main listed European comparables to Falck Renewables are:

- The Portuguese EDP Renovaveis (EUR3.8bn market cap), focused on Spain and the US and on wind energy, with a 2010-13E EBITDA CAGR consensus of 15%, up to EUR1,042bn in FY 2013E.
- The Italian Enel Green Power (EUR7.8bn market cap), geographically and technologically diversified, with a 2010-13E EBITDA CAGR of 29.9%, up to EUR1.8bn in FY 2013E
- The Italian Alerion (EUR170m market cap), focused on wind energy in Italy, with a 2010-13E EBITDA CAGR consensus of 50%, up to EUR88m in FY 2013E.

The main differences between Falck Renewables and its peers are in our view:

1. Its growth prospects: we estimate a 2010-13E EBITDA CAGR of 19.7% for Falck Renewables while its bigger peers are expected to grow at a 13% CAGR, except Alerion, with a 50% CAGR, based on consensus.
2. The technologies: while its peers are mainly focused on wind energy (EGP also focused on hydro and geothermal), Falck Renewables has an important presence in waste, limiting the technological and regulatory risks of the renewable sources.

Falck Renewables stands at a (not justified in our view) discount to its peers.

Table 13: Falck Renewables - peers analysis

| | Market cap (EURm) | EV/EBITDA 2011E | EV/EBITDA 2012E | EV/EBITDA 2013E | EBITDA CAGR 2010-13E (%) |
|-------------------------------|----------------------|--------------------|--------------------|--------------------|-----------------------------|
| EDP Renovaveis | 3785 | 9.7x | 8.6x | 7.6x | 15.1 |
| Enel Green Power | 7754 | 7.6x | 7.6x | 7.1x | 11.1 |
| Alerion | 170 | 12.8x | 9.3x | 7.0x | 50.1 |
| Average | | 9.7x | 8.6x | 7.6x | 15.1 |
| Falck Renewables | 220 | 7.7x | 7.1x | 6.9x | 19.7 |
| FKR discount based on our SOP | | -21% | -17% | -9% | |

Source: Thomson Reuters Datastream, Kepler Capital Markets

Separately, we note that in December 2010, ERG (Buy, TP EUR12) decided to buy out the ERG Renew minorities at EUR0.97 per ERG Renew share, or at EV/EBITDA 2011E of 7.8x.

Company description

Falck Renewables is the company resulting from the consolidation of the renewable energy production business of Falck Group into Actelios. Its main shareholder is Falck, with a 60% stake.

Falck Renewables develops, designs, constructs and manages energy production plants with the aim of contributing to the population's energy requirements by producing clean energy from renewable sources, according to a precise business plan based on the diversification of production technologies and geographical areas. Thanks to this strategy, the company is flexible in its allocation of investments and has the possibility of mitigating risks and capitalising on market opportunities.

The combination of wind energy projects with photovoltaic, vegetable biomass and urban and special waste projects enables the company to obtain significant benefits by diversifying the risk profiles connected with the design, construction and management of the plants. The differentiation in the geographical location of the projects also reduces risks related to the laws and authorisation processes in each country and provides a greater degree of flexibility as regards the optimum allocation of investments.

The expertise of Falck Renewables 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 execution (preparation of the contractual technical specifications and contractual documents, negotiation and assignment of contracts, construction supervision), to operation and maintenance and energy portfolio management activities. A primary role is handed to development activities that, thanks to the expertise acquired both in Italy and overseas, includes technical, commercial, legal, regulatory, environmental and financial aspects.

Company businesses

Wind

Wind Energy is regarded as an energy source with "Zero Impact"; on the atmosphere; this is why it continues to grow in popularity throughout Europe and the world, consistent with the Kyoto Protocol and the recent European Programme to reduce CO₂ emissions.

Falck Renewables has an installed capacity of almost 500MW of wind energy in Italy, Spain, France and the UK – which places it among the biggest private wind energy operators in the market.

An additional portfolio of projects is currently in development phase. All projects are initially evaluated on the basis of the following preliminary criteria: 1) good wind levels; 2) land availability; 3) availability of connections to the distribution grid.

Falck Renewables is a successful company in the competitive and fast-growing wind energy market thanks to its strategy of working with local development partners in the early stages of the projects, its strong relations with land owners and, where possible, its use of local suppliers.

Falck's involvement in all aspects of a project from the initial development to the financing, construction and operational management of wind energy plants enables it to develop high potential projects that safeguard the requirements of local communities in all phases, completely respecting the environment.

Waste-to-energy

Falck Renewables believes waste-to-energy is the right answer to the problem of disposing waste, in complete harmony with the objective of safeguarding the environment.

Thanks to the best technologies in the market, waste-to-energy plants make it possible to use that fraction of waste that would otherwise be disposed of, producing electricity and heat energy as a consequence.

A tonne of waste used this way provides the equivalent energy of around two barrels of oil.

Thanks to the acquisition of two companies operating in the area of non-hazardous urban and special waste processing, Falck Renewables was already present in the waste-to-energy market with the Trezzo sull'Adda, Granarolo dell'Emilia and Fusina waste-to-energy plants. It is now further integrated into the waste disposal chain with a broader range of environmental services for the territory. The storage, treatment and recovery activities to be integrated with the waste-to-energy process will guarantee the standardisation of waste flows, improving their quality thanks to the increased level of uniformity.

In line with the recent industrial plan, the company intends to optimise its already operational waste-to-energy plants, develop and maximise a number of open projects, and begin monitoring several interesting markets (the UK and Poland).

Biomass

Biomass is organic material that can be used as fuel to produce energy. It is a clean, renewable and neutral resource in terms of CO₂ emissions: the quantity of carbon dioxide emitted during combustion to produce energy is equivalent to the amount absorbed during the growth of the biomass itself.

On the basis of the Rende biomass electricity plant, which has performed excellently over the years and is currently undergoing a complete revamp, Falck Renewables SpA is planning to develop projects fuelled by forest residues, wood chips or other wooden waste, increasing energy production from this renewable source.

Solar

The production of electricity through photovoltaic panels takes place without emitting any polluting substances, without recurring to combustible fossil fuels and with a zero level of noise pollution.

Falck Renewables continues to strengthen its activities in this sector, with over 16MW of solar energy plants already operating.

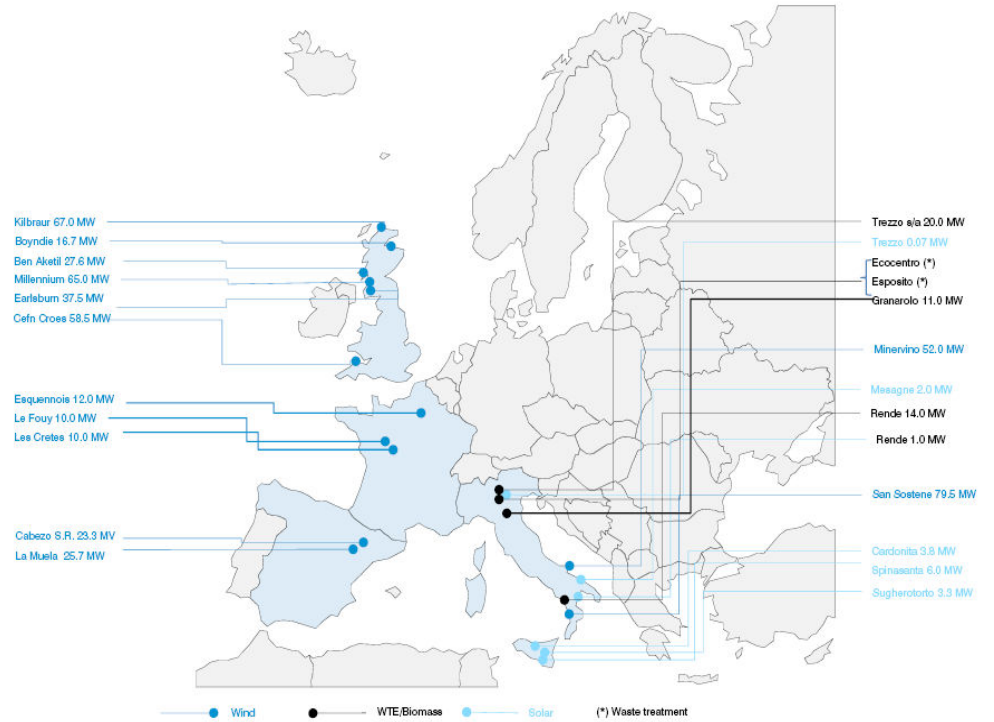
The already installed and operating plants are located in La Calce (1MW) and Notarpanaro (1MW), in the municipality of Mesagne in the province of Brindisi, in Rende (1MW) in the province of Cosenza and in Trezzo (0.07MW) in the province of Milan.

The authorised plants will be developed in Cardonita, Centuripe (3.78MW) in the province of Enna, in Spinasantà, Catania (5.99MW) and in Sugherotorto, Vittoria (3.3MW) in the province of Ragusa.

Scouting activities are proceeding for the development of further initiatives both in Italy and abroad.

Falck Renewables SpA is also interested in thermodynamic solar energy and has begun verification and analysis with potential technology partners to develop projects in Italy and abroad.

Chart 8: Falck Renewables - European operating plants*



* The Italian 193MW do not include Geopower's 138MW of wind energy

Source: Company data

Chart 9: Falck Renewables - plants under construction



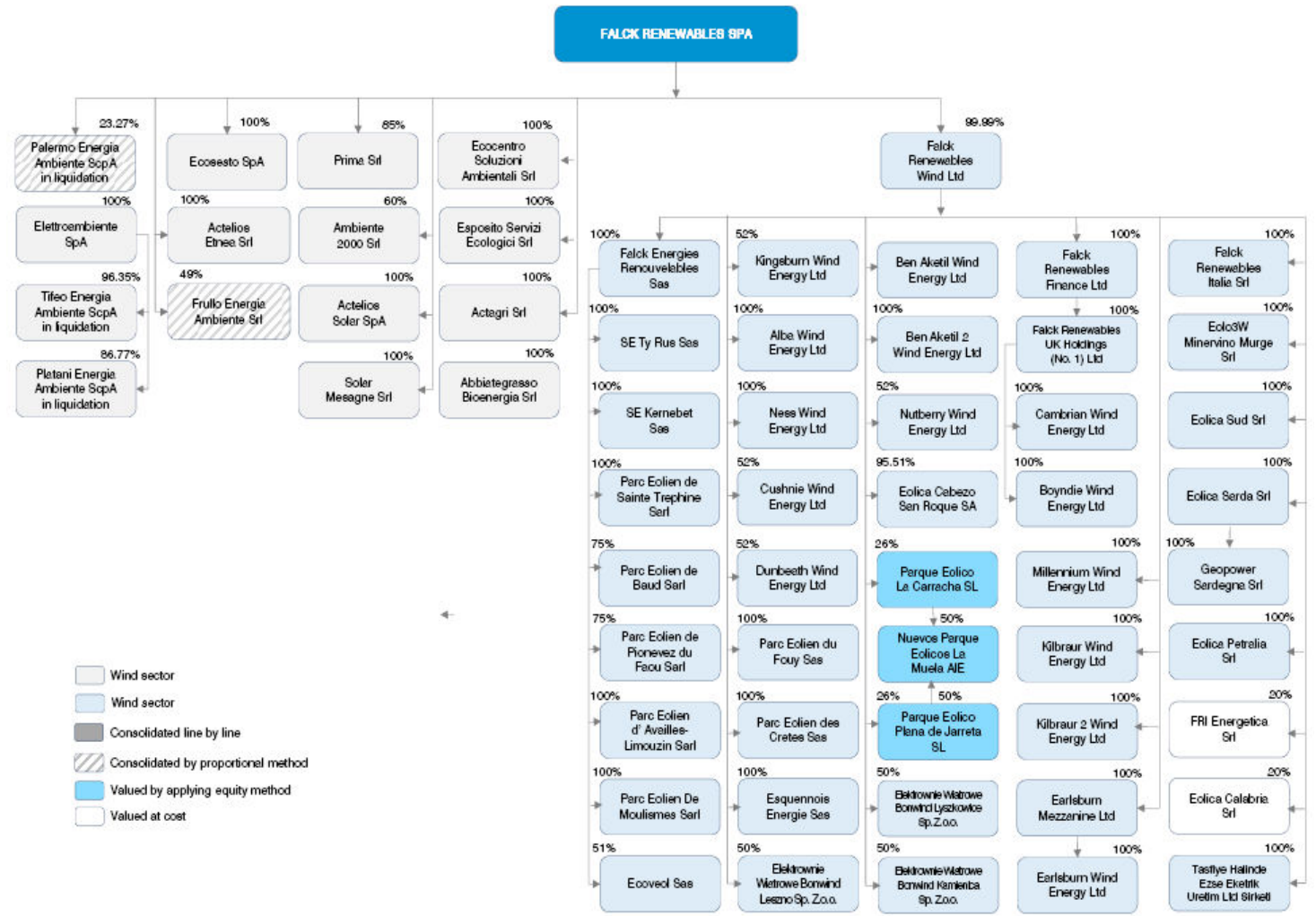
* The Geopower 138MW of wind energy have already been operating since 2011

Source: Company data

In 2011, the following new projects were authorised: West Browncastle in Scotland (30MW) and Spaldington in England (12.5MW).

Company structure

Chart 10: Falck Renewables - company structure



Source: Company data

Company history

Falck Renewables is the company resulting from the consolidation of Falck Group’s renewable energy production business into Actelios.

Chart 11: Falck Renewables - company history

| | | |
|--|-----------|---|
| | 1833 | Falck began its first activities in the steel industry |
| | 1917 | First hydro-electric plants built to supply steel works |
| | 1963 | Listing of Falck S.p.A. on the Milan Stock Exchange |
| | 1983 | Incorporation of Sondel (Falck Group) with 9 hydro-electric plants (330 MW) |
| | 1986 | Listing of Sondel S.p.A. on the Milan Stock Exchange |
| | 90's | Sondel becomes Italy's second largest independent power producer through expansion into gas based cogeneration and district heating |
| | 2002 | De-merger of Falck (exit of Sondel) and Cmi. New focus on renewable energy. Listing of Actelios S.p.A. (today Falck Renewables S.p.A.) on the Milan stock exchange and incorporation of Falck Renewables Wind Ltd focused on development of wind energy |
| | 2003/2008 | Separate development of the Business Units WTE-Biomass-Solar (Actelios), Wind (Falck Ren. Wind) and Bionenergy (Falck Bioenergy) |
| | 2010/2011 | "Consolidation Project" within Falck Renewables of the BU WTE & Biomass and Wind & Solar; Capital Increase to strengthen the financial structure of the new Group; disposal of the non core BU Bioenergy |

Source: Company data

Actelios

Actelios was founded on 22 February 2002 from the partial pro rata demerger of CMI and was listed on the MTA on the same date.

In 2002, the biomass business started in Italy through the purchase of a business that included a plant for the production of energy from biomass (14MW), located at Rende (CS). The WTE business started in the same year, following the completion of the construction of the waste-to-energy plant of Trezzo sull'Adda (MI) (20MW).

In 2004, the construction of the WTE plant at Granarolo dell'Emilia (BO) (22 MW) was completed.

The photovoltaic business was launched in 2007, with the aim to further diversify the activities in the renewables sector, in line with the new development opportunities offered by this market. In this context, the photovoltaic plant of Rende (CS) (1MW) started operating in July, followed in October by the photovoltaic plant of Trezzo sull'Adda (MI) (70 kW) built in front of the WTE plant, one of the first examples of an integrated plant.

The solar energy business development also continued in 2009 through the acquisition of a photovoltaic plant in November with a capacity of 1MW situated in Mesagne (BR). In February and March 2010, the authorisations were obtained for the construction of three new photovoltaic plants in Sicily at Cardonita (EN) (3.78MW), Spinasantà (CT) (5.99MW) and Sugherotorto (RG) (3.28MW), respectively.

In April 2010, works started for the full renovation of the biomass plant of Rende (CS) in order to take advantage of the tariff regime of Green Certificates.

On 15 June 2010, Actelios Group's activities were further developed in the photovoltaic industry, with the acquisition of a photovoltaic plant with a capacity of 1MW at Mesagne, which started full commercial operation in May 2010.

On 21 June 2010, in order to standardise the waste flow to its waste-to-energy plants and to ensure more integration in the waste disposal pipeline at the same time, Actelios Group completed the acquisition of 100% of the share capital of EcoCentro Soluzioni Ambientali S.r.l. and Esposito Servizi Ecologici S.r.l. respectively, companies involved in the treatment, storage and disposal of special waste.

Falck Renewables Wind

Falck Renewables Wind was founded as a limited company on 1 August 2002 by William Heller (current CEO and currently holding a 7.99% stake) and by the holding company Falck (currently holding a 60% stake). Falck Renewables was the company within the Falck Group responsible for the development, construction and operation of wind farms.

Since its start-up, Falck Renewables has adopted a strategy that envisages the penetration of markets providing the best combination of wind intensity, profitability, regulatory system and growth potential. In this context the UK, Italy and Spain have been, and are, the markets in which the combination of such factors is particularly favourable.

The production of wind energy started in 2003 through the acquisition of a minority interest (26%) in the companies that owned two wind farms situated in Spain, at Plana de Jarreta and La Carracha (which combined make the wind farm Muela with a capacity of 99MW). In the same year, Falck Renewables acquired a 95.51% stake in the project firm that owns the Cabezo San Roque wind farm in Spain (23.25MW), which started full commercial operation in February 2004.

In 2004, the company started its business in the UK with the acquisition of 100% of Cambrian Wind Energy Ltd, a company that owns the project for the development of the Cefn Croes wind farm in Wales (58.5MW), which started full commercial operation in March 2005.

In 2005 and 2006, the company continued its expansion in the UK market by commencing the works for the construction of the Boyndie wind farm in Scotland (current capacity 16.65MW), which started full commercial operation in June 2006, and the Earlsburn wind farm in Scotland (37.5MW), which began full commercial operation in December 2007.

In 2007, Falck Renewables launched the construction of the first wind farm in Italy, in the region of Apulia, at Minervino Murge (5MW), which started full commercial operation in March 2009, followed by the construction of the San Sostene wind farm – south ridge –, in the region of Calabria (42MW), which started full commercial operation in October 2009.

In the same year, the construction of the Ben Aketil wind farm in Scotland (23MW) was completed and started full commercial operation in December 2007, while construction started on the Millennium (50MW) and Kilbraur (47.5MW) wind farms in Scotland. Both farms started full commercial operation in 2008.

Later on in 2009, taking advantage of the new market growth opportunities and of the recent changes in the regulatory system related to renewable energy, Falck Renewables began operating in France through the acquisition, via the holding company Falck Energies Renouvelables, of three project firms owning the wind farms of Les Crêtes (10MW), Le Fouy (10MW) and Esquennois (12MW), already operating in Brittany.

In 2009, construction was started on the San Sostene wind farm – north ridge - for an envisaged installed capacity of 37.5MW. This wind farm started full commercial operation in September 2010. The construction of a wind farm in Sardinia began in the same year through the company Geopower for an envisaged installed capacity of 138MW. Full commercial operation is scheduled for the first half of 2012.

In 2009, Falck Renewables continued to develop new wind energy projects that materialised with the granting of the authorisations for the construction of a 15MW extension of the Millennium wind farm, a 20MW extension of the Kilbraur wind farm, as well as the extension of the Dunbeath (51MW), Kingsburn (20MW) and Nutberry (15MW) wind farms in Scotland, the Plouigneau (20MW) wind farm in France and Petralia Sottana (22.1MW) in Italy.

On 7 April 2010, Falck Renewables also acquired 50% of Elektrownie Wiatrowe Leszno Spolka, a Polish company, for the development of new projects in Poland, an emerging market in the sector of renewables that may hence contribute to further geographical diversification.

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| Stock | ISIN | Disclosure (See Below) | Currency | Price |
|--------------------|--------------|------------------------|----------|-------|
| Alerion Cleanpower | IT0004720733 | nothing to disclose | EUR | 4.13 |
| Edp Renovaveis | ES0127797019 | nothing to disclose | EUR | 4.40 |
| ENEL Green Power | IT0004618465 | nothing to disclose | EUR | 1.52 |
| ERG | IT0001157020 | nothing to disclose | EUR | 8.74 |
| Falck Renewables | IT0003198790 | nothing to disclose | EUR | 0.77 |
| Mediobanca | IT0000062957 | nothing to disclose | EUR | 4.49 |
| Unicredit | IT0000064854 | nothing to disclose | EUR | 3.79 |

Source: Factset closing prices of 31/01/2012

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| Rating breakdown | A | B |
|-------------------------------------|--------|------|
| Buy | 57.5% | 0.0% |
| Hold | 23.9% | 0.0% |
| Reduce | 15.9% | 0.0% |
| Not Rated/Under Review/Accept Offer | 2.7% | 0.0% |
| Total | 100.0% | 0.0% |

Source: Kepler Capital Markets

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