

Falck Renewables (FKR-IT)

M&A Boosting Valuation.

Buy

Last (€)	0,905
Valuation Range (€)	1.4 - 1.6
Market Cap.(€m)	264
Av. Daily Vol.(m sh)	0,43
Free Float	40,0%
YTD	-2,64%

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- We consider Falck Renewables as an interesting name to watch in 2015 as M&A should help unlock the underlying value of the existing assets portfolio. M&A should involve the disposal of minority stakes of the current wind assets in UK and Italy (excluding 272.8MW already sold to the “Pension Denmark” infrastructural fund). Proceeds should be partially used to reduce debt and partially reinvested into new initiatives boosting the asset rotation and diversification.
- According to our valuation, FKR may be able to cash-in up to €160m from the disposal of the 49% stake of its 337MW wind capacity in UK and Italy, according to our valuation. This represents a best-case scenario, however we think it’s realistic to expect that €100m may be completed in FY2015 thanks to the agreement signed in 2014 with “Pension Denmark”.
- FKR’s high gearing has been a burden for the stock valuation since the capital increase 2011. Assuming that FKR will be able to complete €100m disposals, the new Debt/EBITDA’15 ratio would drop to 3.7x from current 4.5x, in line with EGP (3.7x) and EDP Renovaveis (3.6x).
- We expect the management to present an update of the business plan in the coming months, including some details on the time-table of the capex required for new initiatives in UK (i.e. Wind and WTE).
- We confirm our BUY recommendation, leaving our €1.4-1.6/share target unchanged. FKR is trading at 20% discount vs. peers on 2015 multiples. This could be only partially justified by the high debt and lower liquidity of the stock.

	Sales (€m)	EBITDA (€m)	vs. Cons	Net Profit (€m)	EPS(old) (€)	EPS(new) (€)	vs.Cons	P/E(x)	EV/EBITDA (x)	DPS(€)	DIV Yield
2012	275	158		-79		0.11		7.9	7.0	0.00	22.8%
2013	276	157		15		0.10		8.8	6.7	0.03	3.6%
2014 E	253	132	1.8%	3	0.58	0.02	-263.8%	42.5	7.0	0.01	1.2%
2015 E	265	140	-6.5%	10	0.56	0.03	-20.8%	26.5	6.5	0.02	1.9%
2016 E	273	146	-5.9%	12	0.65	0.04	-16.8%	22.3	6.0	0.02	2.2%

Est 3 Yr Sales CAGR:	-1%	Shares Outstanding (m):	291
Est 3 Yr EPS CAGR:	-33%	Mkt Cap (€m):	258

Share price performance	YTD	1 month	3 months	12 months
Absolute	-2,64%	0,56%	-1,36%	-33,55%
Relative to STOXX 600	-23,8%	-20,79%	-25,59%	-37,02%

FKR-IT: Summarised P&L Account and key ratios

€m	2011	2012	2013	2014E	2015E	2016E
Sales	249	275	276	253	265	273
EBITDA	142	158	157	132	140	146
Depreciation & Amort.	63	179	78	69	64	66
EBIT	79	-21	79	63	77	80
Net Interest Cost	-37	-47	-47	-49	-49	-49
Associates	1	1	0	2	2	2
Impairment & Other	-6	0	-1	0	0	0
Discontinued operations	37	-68	31	17	30	34
PBT	-17	-18	-16	-9	-15	-17
Taxes	0	0	0	0	0	0
Minorities	1	-6	0	5	5	5
Net Profit	19	-79	15	3	10	12
EPS	0.11	0.11	0.10	0.02	0.03	0.04
Sales growth	9%	10%	0%	-8%	5%	3%
EBITDA growth	9%	11%	-1%	-16%	6%	4%
Net Profit growth	2%	-520%	-119%	-78%	198%	19%
EBITDA margin	57%	58%	57%	52%	53%	53%
EBIT margin	32%	-8%	29%	25%	29%	29%
Net Pr. Margin	8%	-29%	5%	1%	4%	4%
Interest Cover (1) (x)	-2.2	0.5	-1.7	-1.3	-1.6	-1.6

FKR-IT: Summarised Balance Sheet and key ratios

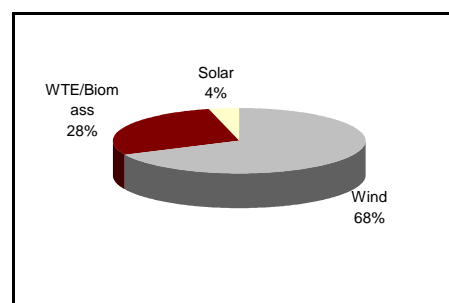
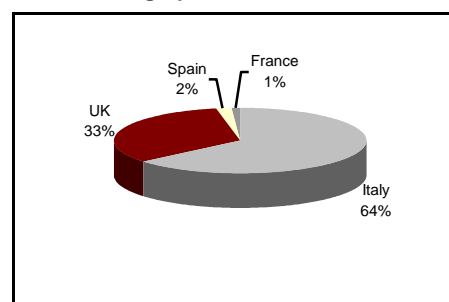
€m	2011	2012	2013	2014E	2015E	2016E
Fixed assets	1113	1044	1019	913	900	875
Goodwill	117	89	86	86	86	86
Inventories	4	3	5	5	5	5
Trade Receivables	103	115	131	131	138	142
Cash + S/T Inv. + other	197	230	196	301	320	354
Total Assets	1534	1481	1437	1437	1448	1462
Sharehold. Equity	452	344	379	378	389	401
L-T Financial Debt	917	955	865	865	865	865
S-T Financial Debt	44	74	64	64	64	64
Trade Payables	62	57	73	73	73	75
Provisions + Other	59	51	56	56	56	56
Total Liabilities	1534	1481	1437	1437	1448	1462
Net Debt	826	843	757	651	633	599
WACC	4.9%	5.1%	5.7%	6.3%	6.4%	6.7%
Net Debt/Equity	182.8%	245.2%	199.8%	172.4%	162.5%	149.2%
ROCE (2)	9.1%	-1.3%	10.6%	9.3%	11.3%	12.1%
ROE	4.2%	-23.1%	4.0%	0.9%	2.5%	2.9%
ROCE/WACC (x)	1.9	-0.3	1.9	1.5	1.8	1.8

FKR-IT: Simplified Cash Flow Statement and key ratios

€m	2011	2012	2013	2014E	2015E	2016E
Net Profit	19	-79	15	3	10	12
+ Depreciation & Amort.	63	179	78	69	64	66
+/- Other	-322	-41	31	3	-2	2
= Operating CF	-241	59	124	75	72	80
- Chg in Working Capital	68	7	-23	-1	7	3
- CAPEX of which	-10	-58	-58	-70	-50	-40
Expansionary CPX	0	0	0	0	0	0
- Dividends	-3	-9	0	-9	-3	-5
= FCF	-251	2	66	5	21	39
FCF Yld (M.Cp)	-69.3%	0.9%	22.5%	1.9%	8.2%	15.2%
FCF Yld (EV)	-21.0%	0.2%	6.2%	0.5%	2.3%	4.5%
FCF (3)	-251	2	66	5	21	39
FCF Yld (M.Cp)	-69.3%	0.9%	22.5%	1.9%	8.2%	15.2%
FCF Yld (EV)	-21.0%	0.2%	6.2%	0.5%	2.3%	4.5%

FKR-IT: EV Valuations

€m	2012E	2013E	2014E
+ Mkt Cap	264	264	264
+ Net Debt	651	633	599
- Non-core assets	0	0	0
+/- Other	12	17	22
= EV	927	913	884
EV/Sales (x)	3.7	3.4	3.2
EV/EBITDA (x)	7.0	6.5	6.1
EV/EBIT (x)	14.6	11.9	11.1
EV/IC (x)	0.9	0.9	0.9

FKR-IT: Divisional Sales Breakdown**FKR-IT: Geographical Sales Breakdown****Debt Structure (€m)**

Total Debt in the B.Sheet	1008,0
Short Term	44,0
Long Term: maturing in	964,0
24 months	n.a
36 months	n.a
more than 36 months	n.a
Cost Range	n.a
Rating (Moody's)	
Short term	n.a.
Long term	n.a.
Estimated Off B/S Liabilities	None

FKR-IT: Share Information

Outstanding no. shares (m)	291
Market Cap (€ m)	255
Avg daily volume (m sh, last 3 m)	n.a.
Free float %	40,0%
Major shareholders	
Falck family	60,0%
W. Heller	6,0%
Canada pension	2,4%
Management shares option scheme	
% of Capital	None
Nearest to vest	n.a.



1. Asset Rotation.

- **FKR is planning to sell minorities in UK and Italy following the same scheme of 2014 deal with Pension Denmark fund.**
- **Disposals may reach €160m. We think it's realistic to expect that at least €100m may be finalized in FY2015.**

FKR current asset base includes 726MW installed capacity, including 675MW wind in UK, Italy, France and Spain, 16MW Solar PV, 20MW WTE and 15MW Biomass.

We believe management is committed to dispose minority stakes (up to 49%) of non-programmable renewable power generation assets (i.e. Wind, Solar) in order to reduce leverage and accelerate asset rotation. This was the case of the deal signed in 2014 with Copenhagen Infrastructure Partners (infrastructural branch of Pension Denmark) involving the disposal of a 49% stake into 272.8MW wind capacity in UK for €185.2m.

Assets For Sale.

We have calculated the possible equity valuation of the Italian and UK wind assets (excluding the 272.8MW already disposed), starting from our DCF model valuation and subtracting the expected NFP of vehicles at 31/12/2014 (net of derivatives).

Italy Wind (all):

- Total Capacity: 292MW.
- Average Age: 4.5 years.
- Incentive scheme: Green Certificate, before 2013.
- EV valuation: €550m
- Implied EV/MW: €1.88m
- Net Financial Position: €310m
- 49% Equity Value: €118m

UK Wind (Nutberry, West Browncastle):

- Total Capacity: 45MW
- Average Age: 1 year.
- Incentive scheme: ROCs
- EV valuation: 92m
- Implied EV/MW: €2.1m
- Net Financial Position: €4.7m
- 49% Equity Value: €42m

The infrastructural fund CIP (Copenhagen Infrastructure Partners) has already expressed its intention to invest further €100m in FKR renewable assets portfolio. In a preliminary agreement signed in 2014 CIP has committed for the acquisition of minority stakes in Italian and UK wind assets, including 35MW under construction in UK (i.e. Kingsburn and Spaldington). CIP is also committed to investing further €125m in new initiatives in the broader renewable energy sector, including WTE, Biomass and Wind. **We think it's realistic to expect that at least the first step (€100m) will be completed in 2015.**



New Initiatives.

According to the latest presentation we have, the company has in plan to install 101MW additional wind capacity in the UK by 2018. The total capex required should be around €150-170m. Following the expected commission date of each project:

- Spaldington (12.5MW): 4Q2015
- Kingsburn (22.5MW): 1H2016
- Assel Valley (30MW): 2H2017
- Auchrobert (36MW): 1Q2018

Moreover, FKR has in plan to develop a new WTE plant in UK through the acquisition of 51% of the SPV called Verus Energy Oak Limited ("VEOL") that owns the authorization to construct a new plant in Waste to Energy in West Bromwich (UK). The plant envisages energy recovery through the thermal treatment of RDF (Refuse Derived Fuel: i.e. solid fuel obtained from non-hazardous waste) and uses bubbling type fluid bed stage gasification technology to do so. Given the technological solution adopted, defined as "Advanced Conversion Technology" in the United Kingdom, the production of electricity by the plant will benefit from a favourable incentive regime as compared with other waste-to-energy production technologies.

Should the investment be decided, following completion of the due diligence investigations still underway and the verification of bankability, the project will presumably have the following details:

- Location: West Bromwich (8 km west of Birmingham)
- Input Capacity: 130,000 tons/year of Refuse Derived Fuel (RDF)
- Plant Nominal Capacity: 16.2 MW
- Total Capex expected: approx. GBP 80m
- Revenues expected: approx. GBP 20 - 21m
- EBITDA expected : approx. GBP 9 - 10m
- IRR: approx. 10-12%.

2. Estimates Update.

We expect 2014 EBITDA to reach €131.8m after factoring in the impact of the downtime in Trezzo, partially offset by the expected reimbursement from insurance in Q4. We understood that the plant has produced some 73GWh in FY2014, about 50% less than FY2013. Going forward we expect a sharp increase of 2015 EBITDA due to the contribution of new wind capacity in UK, assuming a more normalized wind condition.

Figure 1: P&L/Sales Breakdown

	2012	2013	2014E	2015E	2016E
Wind	180.9	187.7	187.4	194.3	201.0
yoy %	27%	4%	0%	4%	3%
WTE-Biomss-Solar	93.7	88.1	65.3	70.8	72.4
yoy %	-12%	-6%	-26%	8%	2%
Sales	274.6	275.9	252.7	265.1	273.4
yoy %	10%	0%	-8%	5%	3%
EBITDA	158.0	156.8	131.8	140.2	145.8
Margin %	57.5%	56.9%	52.2%	52.9%	53.3%
EBIT	-21.4	79.3	63.0	76.5	80.0
Margin %	-7.8%	28.7%	24.9%	28.9%	29.3%
Net Profit	-79.2	15.1	3.0	9.7	11.6
Margin %	-28.9%	5.5%	1.2%	3.7%	4.2%

Source: Company data & Fidentiis estimates

Figure 2: Balance Sheet

	2012	2013	2014E	2015E	2016E
Net Working capital	116	95	93	107	112
Fixed assets	1044	1019	913	900	875
Goodwill	89	86	86	86	86
Equity	344	379	378	389	401
Net Debt	843	757	651	633	599
Net Invested Capital	1187	1136	1029	1023	1000

Source: Company data & Fidentiis estimates

Figure 3: Cash Flow Statement

	2012	2013	2014E	2015E	2016E
Initial NFP	826.1	842.8	756.8	651.5	633.2
Change in scope of Cons.	-14.1	0.0	110.0	0.0	0.0
Net income/loss	-85.5	15.0	8.0	14.7	16.6
Depreciation & Amortization	43.8	64.1	66.1	63.7	65.8
Change in working capital	115.2	44.6	-109.0	-6.7	-2.7
Operationing Cash Flow	59.5	123.6	75.1	71.7	79.7
Capex	-57.2	-57.8	-70.5	-50.5	-40.5
Free Cash Flow	2.3	65.8	4.7	21.2	39.2
Capital increases	-13.8	20.2	0.0	0.0	0.0
Dividends	-8.8	-0.1	-9.3	-2.9	-4.9
Other adjustments	17.7	0.0	0.0	0.0	0.0
Change in NFP	-16.7	86.0	105.3	18.3	34.3
Final NFP	842.8	756.8	651.5	633.2	598.9

Source: Company data & Fidentiis estimates

3. Valuation.

■ **BUY confirmed, Valuation range of €1.4-1.6/share unchanged.**

We updated our SOP valuation factoring in the new scenario in terms of energy prices and interest rates. We are not including in our SOP any valuation from the future pipeline. We are now using a DFC-based model (rather than EV/MW multiple) to evaluate each asset, assuming a WACC of 7.0% (Risk free rate: 1.8%; Risk Premium: 5%; Beta levered: 2.4)

Figure 4: Sum Of The Parts - FKR

Division	EV	2013 Net Debt	Equity	FKR stake	Pro-quota Equity Value	Value per share
WTE – Trezzo	29.8	2.9	26.9	85.0%	22.9	0.1
Biomass – Rende	30.1		30.1	100.0%	30.1	0.1
Solar	48.0		48.0	100.0%	48.0	0.2
Wind – Italy	547.2		547.2	100.0%	547.2	1.9
Wind – UK (51% owned)	432.7	162.8	269.9	51.0%	137.7	0.5
Wind – UK (100% owned)	102.9		102.9	100.0%	102.9	0.4
Wind – France	43.1		43.1	100.0%	43.1	0.1
Wind – Spain	5.7		5.7	100.0%	5.7	0.0
Total Motorway Business	1,240		1,074	87.3%	938	3.2
Holding Net Debt					-591	-2.0
Pension Denmark Cash-in					139	0.8
Other Activities (6x EV/EBITDA '14)					-68	-0.2
Other Equity Investments	EV	Net Debt	Equity	FKR stake	Pro-quota Equity Value	Value per Share
Fruzzo WTE	118.4	20	98.4	49%	48.2	0.2
La Muela			25.0	26%	6.5	0.0
Totale Equity Investments					54.5	0.2
Provisions					-45.0	-0.2
Equity Fair Value					427	1.5

Source: Fidentiiis Estimates

Market Multiples.

Falck Renewables is trading at 20% discount on EV/EBITDA'15 and PE'15 median. This in our view could be only partially justified by the higher gearing and the lower liquidity of the stock.

Figure 5: Renewable Energy Peers.

	Price	Mkt. Cap.	Number of Shares	EV/Sales			EV/EBITDA			EV/EBIT			PE		
				14E	15E	16E	14E	15E	16E	14E	15E	16E	14E	15E	16E
Falck Renewables Spa	0.9	255	291.4	3.5	3.3	3.1	6.9	6.4	5.9	14.5	11.8	10.8	96.7	28.6	23.3
Alerion Clean Power Spa	2.8	121	44.0	6.4	5.7	5.4	9.9	8.7	7.9	46.2	25.1	21.6	183.3	68.8	25.0
Enel Green Power Spa	1.6	8,175	5000.0	5.3	5.1	4.7	8.1	7.9	7.1	13.3	13.4	11.8	16.2	16.4	14.9
EDP Renovaveis S/A	5.4	4,747	872.3	6.5	5.6	5.1	9.5	8.0	7.3	18.7	15.4	13.3	42.7	33.3	25.9
Median				6.4	5.6	5.1	9.5	8.0	7.3	18.7	15.4	13.3	42.7	33.3	25.0
Mean				6.1	5.5	5.1	9.2	8.2	7.4	26.1	18.0	15.6	80.7	39.5	21.9

Source: Factset, Company data, Fidentiiis' calculations



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Current market price is the reference price of the day prior to the publication of the report.

Recommendation history and target price trends – Falck Renewables

Date of publication	Recommendation	Target price (EUR)
21/05/2012	Buy	1.3-1.5
24/05/2013	Buy	1.0-1.2
08/08/2013	Buy	1.0-1.2
03/12/2013	Buy	1.4-1.6
19/12/2013	Buy	1.4-1.6

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	BUY	HOLD	SELL
As a percentage of total	47%	32%	21%

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