

# Falck Renewables

Italy | Utilities | MCAP EUR 277.9m

11 March 2016

**Buy** (Buy)

**Target Price** EUR 1.50  
**Current Price** EUR 1.0  
**Up/downside** 57.3%  
**Change in TP** none  
**Change in EPS** -0.7% 2016E

## 2015 guidance beaten

Falck Renewables released very good 2015 results, with EUR152m EBITDA, up 12.6% YOY, well above guidance. The company will propose a DPS of EUR0.045, with a 4.7% dividend yield. The new CEO, just appointed, will present a new business plan in autumn. We consider the stock undervalued and reiterate our EUR1.5 TP and Buy rating.

### Results ahead of estimates

EBITDA guidance, raised in November to EUR137-142m (from EUR132-137m previously), was beaten, with EUR152m, well above our EUR138m estimate, up 12.6% YOY, mainly thanks to good wind conditions in the UK (+12% vs. average), the positive impact of forex (GBP/EUR +11% YOY) and the improved plant management, despite weaker wind in Italy and weaker prices. Our net debt estimate (recently improved) of EUR627m was almost reached with EUR630m (EUR567m without derivatives, 99% non-recourse and 89% hedged). The net profit came out at EUR5.3m (vs. our EUR3.8m), including some one-offs: c. -EUR20m of provisions and writedowns at the EBIT level and c. EUR7m of positive one-offs at the net profit level, thanks to the recalculation of the deferred tax fund (following the budget law in Italy that introduces a lower corporate tax rate - from 27.5% to 25% - as of 2017, as well as the UK lower taxes) and thanks to the current taxes on retained losses previously not recognised (connected with the Sicilian projects). The DPS came out at EUR0.045 (we estimated EUR0.047, the average of last two years' DPS), with a 4.7% yield.

### Cautious outlook for 2016

No explicit guidance came out, due to the current volatility of prices both in Italy and the UK (-9% YOY YTD) and to the forex volatility (-9% YOY YTD, too). We believe that our estimate of a EUR142m EBITDA for 2016, -6.5% YOY, could be reached, also considering that two new wind farms could enter into operation in UK in Q4 2016 (c. 33MW) and that the company is working to cut costs.

### Positive stance confirmed

We confirm our EUR1.5 TP and our Buy rating, given the huge upside and an interesting dividend yield. A new CEO, Mr. Toni Volpe, has recently been appointed (22 February), who will present an update on the company's strategy and business plan in autumn. We do not have any new projects in our estimate, with the exception of the projects under construction. The company has currently 726MW in installed capacity (93% in wind, 47% in Italy and 44% in the UK).

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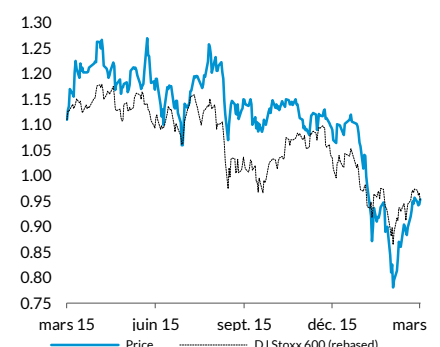
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#### Market data

Bloomberg: FKR IM	Reuters: AA4.MI
Market cap (EURm)	278
Free float	37%
No. of shares outstanding (m)	291
Avg. daily volume('000)	633
YTD abs performance	-13.8%
52-week high/low (EUR)	1.27/0.78

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
Sales (m)	254.1	273.2	279.4
EBITDA adj (m)	142.4	156.1	160.2
EBIT adj (m)	71.3	84.2	89.2
Net profit adj (m)	6.7	13.4	18.9
Net fin. debt (m)	678.1	633.9	562.1
FCF (m)	-32.6	59.8	87.5
EPS adj. and fully dil.	0.02	0.05	0.06
Consensus EPS	0.02	0.04	na
Net dividend	0.05	0.05	0.05

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
P/E adj and ful. dil.	41.5	20.8	14.7
EV/EBITDA	7.0	6.1	5.6
EV/EBIT	13.9	11.4	10.0
FCF yield	-10.0%	18.3%	26.8%
Dividend yield	4.7%	4.7%	4.7%
Net fin. debt/EBITDA	4.8	4.1	3.5
Gearing	130.0%	119.2%	102.7%
ROIC	4.0%	4.7%	5.2%
EV/IC	0.9	0.9	0.9



**Table 1: Main quarterly data (EURm)**

	FY 2014	FY 2015	YOY	FY 2015E	Act/Est	Q4 2014	Q4 2015	YOY	QOQ	Q4 2015E
Revenues	248	271	9.0%	255	6.4%	84	71	-15.2%	34.8%	55
EBITDA	135	152	12.6%	138	10.7%	46	42	-7.2%	70.5%	28
margin	54.5%	56.3%		54.1%		54.7%	59.8%			50.5%
EBIT	71	66	-6.3%	66	0.9%	31	31	0.0%	nm	15
margin	28.5%	24.5%		25.8%		37.1%	43.7%			27.2%
Net Profit	3.4	5	55.9%	4	38.9%					
Dividend (EUR)	0.062	0.045	-27.4%	0.047	-4.3%					
Net debt	638	630	-1.3%	627	0.4%	638	630	-1.3%	1.9%	627

Source: Company data, Kepler Cheuvreux

**Table 2: Main data (EURm)**

	2011	2012	2013	2014	2015	2016E	2017E	2018E	CAGR 2015-18E
Sales	249	275	276	258	271	254	273	279	1.1%
EBITDA	142	158	157	135	152	142	156	160	1.7%
margin	57.0%	57.5%	56.9%	52.4%	56.3%	56.0%	57.1%	57.3%	
EBIT	79	(21)	79	71	66	71	84	89	10.4%
margin	31.9%	-7.8%	28.7%	27.5%	24.5%	28.0%	30.8%	31.9%	
Net Profit	19	(85)	15	3	5	7	13	19	59.0%
Net Debt	826	843	756	638	629	678	633	562	-3.7%

Source: Company data, Kepler Cheuvreux

# Key financials

FY to 31/12 (EUR)	2011	2012	2013	2014	2015	2016E	2017E	2018E
<b>Per share data</b>								
EPS adjusted	0.06	-0.29	0.05	0.01	0.02	0.02	0.05	0.06
EPS adj and fully diluted	0.06	-0.29	0.05	0.01	0.02	0.02	0.05	0.06
% Change	3442.3%	-chg	+chg	-77.5%	39.7%	42.5%	99.8%	41.2%
EPS reported	0.06	-0.29	0.05	0.01	0.02	0.02	0.05	0.06
Cash flow per share	0.02	0.27	0.31	0.22	0.37	0.24	0.30	0.33
Book value per share	1.53	1.18	1.28	1.61	1.62	1.60	1.60	1.62
Dividend per share	0.03	0.00	0.03	0.06	0.05	0.05	0.05	0.05
Number of shares, YE (m)	291.41	291.41	291.41	291.41	291.41	291.41	291.41	291.41
<b>Valuation</b>								
P/E adjusted	18.2	na	19.6	106.2	70.1	41.5	20.8	14.7
P/E adjusted and fully diluted	18.2	na	19.6	106.2	70.1	41.5	20.8	14.7
P/BV	0.8	0.8	0.8	0.8	0.7	0.6	0.6	0.6
P/CF	48.2	3.4	3.3	5.5	3.1	4.0	3.2	2.8
Dividend yield (%)	2.4%	0.0%	3.2%	5.1%	4.0%	4.7%	4.7%	4.7%
FCF yield (%)	-42.3%	6.2%	21.0%	2.3%	12.0%	-10.0%	18.3%	26.8%
EV/Sales	4.5	4.0	3.8	3.9	3.7	3.9	3.5	3.2
EV/EBITDA	7.9	7.0	6.7	7.5	6.5	7.0	6.1	5.6
EV/EBIT	14.1	na	13.4	14.3	14.9	13.9	11.4	10.0
<b>Income Statement (EURm)</b>								
Sales	248.7	274.6	275.9	257.7	270.7	254.1	273.2	279.4
% Change	34.7%	10.4%	0.5%	-6.6%	5.1%	-6.1%	7.5%	2.3%
EBITDA adjusted	141.7	158.0	157.0	135.0	152.4	142.4	156.1	160.2
EBITDA margin (%)	57.0%	57.5%	56.9%	52.4%	56.3%	56.0%	57.1%	57.3%
EBIT adjusted	79.2	-21.4	79.3	70.8	66.3	71.3	84.2	89.2
EBIT margin (%)	31.9%	-7.8%	28.7%	27.5%	24.5%	28.0%	30.8%	31.9%
Net financial items & associates	-42.0	-46.4	-48.5	-49.2	-42.5	-45.1	-45.3	-41.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	-17.4	-17.6	-15.9	-12.6	-5.1	-10.5	-15.6	-19.3
Net profit from continuing operations	19.9	-85.4	15.0	9.0	18.7	15.7	23.4	28.9
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	19.9	-85.4	15.0	9.0	18.7	15.7	23.4	28.9
Net profit reported	18.9	-85.4	15.0	3.4	4.7	6.7	13.4	18.9
Net profit adjusted	18.9	-85.4	15.0	3.4	4.7	6.7	13.4	18.9
<b>Cash Flow Statement (EURm)</b>								
Cash flow from operating activities	7.1	77.3	89.8	65.4	106.4	69.4	87.8	97.5
Capex	-178.0	-58.3	-17.5	-55.9	-60.0	-102.0	-28.0	-10.0
Free cash flow	-170.9	19.0	72.4	9.5	46.4	-32.6	59.8	87.5
Acquisitions & Divestments	0.0	0.0	0.0	110.0	0.0	0.0	0.0	0.0
Dividend paid	-1.9	-8.2	0.0	-9.3	-18.1	-13.1	-13.1	-13.1
Others	136.8	-88.9	15.1	7.4	-20.1	17.5	17.5	0.0
Change in net financial debt	-36.0	-78.1	87.5	117.6	8.3	-28.2	64.2	74.4
<b>Balance Sheet (EURm)</b>								
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets	1,098.6	1,035.0	1,012.8	965.7	973.2	1,004.0	960.1	899.1
Financial & other non-current assets	171.0	133.0	124.5	162.7	176.9	179.5	182.1	184.7
Total shareholders' equity	451.8	343.7	378.8	499.8	519.0	521.6	531.8	547.6
Pension provisions	4.2	4.4	4.4	4.5	5.1	4.8	4.9	5.0
Liabilities and provisions	1,077.8	1,132.9	1,054.1	993.8	908.5	956.4	914.7	843.6
Net debt	769.3	847.5	760.0	642.5	634.8	682.8	638.8	567.1
Working capital requirement	61.8	77.6	56.0	68.4	67.9	85.4	92.8	95.2
Invested Capital	1,160.4	1,112.6	1,068.8	1,034.2	1,041.1	1,089.3	1,052.9	994.3
<b>Ratios</b>								
ROE (%)	4.9%	-21.7%	4.2%	0.8%	1.0%	1.4%	2.9%	4.0%
ROIC (%)	4.0%	-1.0%	3.5%	2.8%	3.5%	4.0%	4.7%	5.2%
Net fin. debt / EBITDA (x)	5.4	5.3	4.8	4.7	4.1	4.8	4.1	3.5
Gearing (%)	169.3%	245.3%	199.5%	127.7%	121.4%	130.0%	119.2%	102.7%

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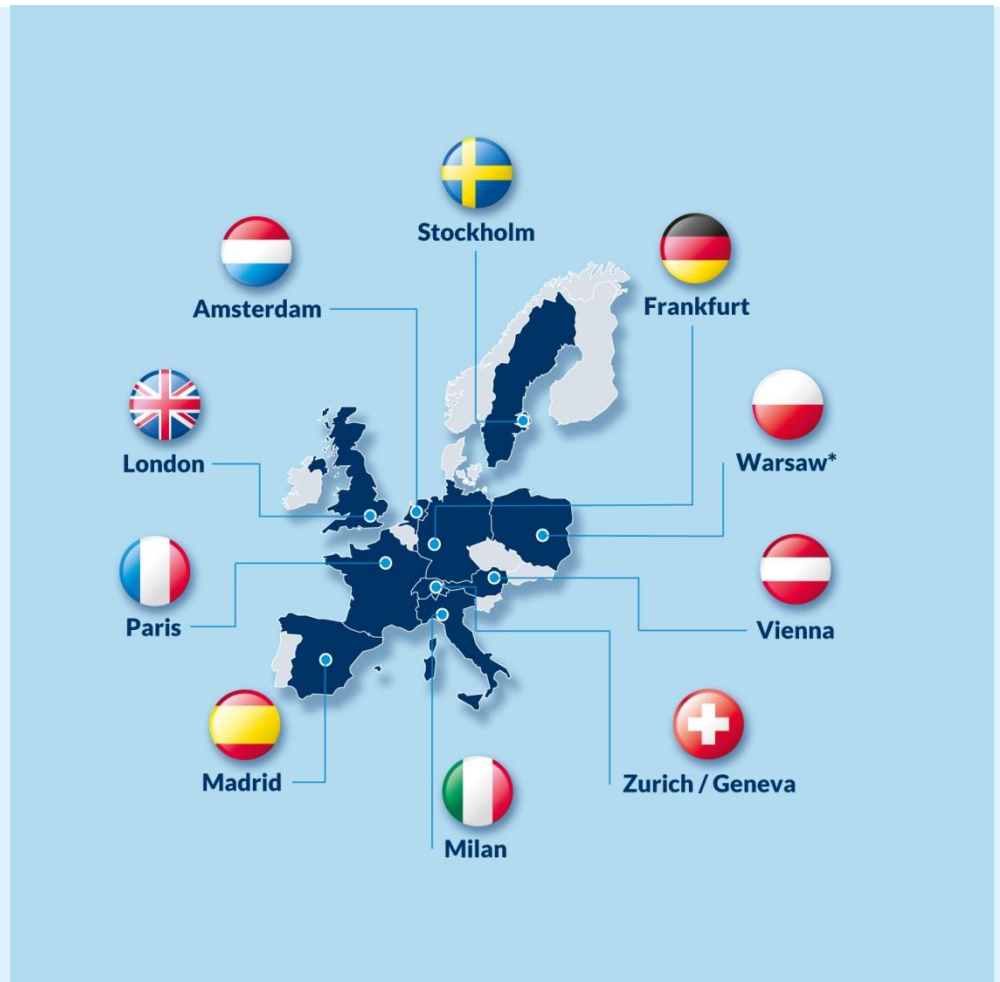
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