

Falck Renewables

Italy | Utilities | MCAP EUR 369.8m

02 August 2017

Buy

| | |
|---------------------|------------------------|
| Target Price | EUR 1.50 (1.30) |
| Current Price | EUR 1.27 |
| Up/downside | 18.2% |
| Change in TP | 15.4% |
| Change in EPS | 22.3% 17E / 47.0% 18E |

TP raised after strong Q2 results

After a number of quarters ahead of our estimates and reassured by the credibility of the management, which is implementing a compelling business plan, we decided to decrease the WACC that we use to value Falck again, from 8% down to 7% (still higher than the 6% we use for ERG, due to its smaller size) and increase our TP from EUR1.3 up to EUR1.5. Buy confirmed.

Confident on the guidance, new plan on 12 December

The CEO confirmed the guidance, even after strong H1 results, due to the uncertainties on wind production and the potential increase of development costs in H2, following a potential capex acceleration. Guidance for 2017: EBITDA EUR132-136m (it could be upgraded in November), net debt EUR626m. A new plan will be out on 12 December.

New useful life: from 20 years to 22.5 years

After a deep analysis, made plant by plant by external experts, the average useful life of the wind and solar plants was increased from 20 years up to 22.5 years, with an impact of for EUR4.3m lower depreciation in H1 2017 (of which EUR4m related to the wind assets). Following the longer asset life, we increase our EBIT estimate by 11% on average in 2017-21E and our EPS by 24% (also thanks to lower provisions). We already have a terminal value in the wind business (15% of the FCFs) and cautiously keep our valuation.

Progress on pipeline to support future growth

The company is working to support its future growth: an agreement will be closed in the future weeks in Norway, where 70MW of new wind farms could enter operation at end-2019 (depending on the final investment decision) and where there are 125MW of options on projects under development. Moreover, Falck signed an agreement with a local developer in the Netherlands for greenfield projects. Vector Cuatro, the service company, reached 1.8GW of assets under management.

TP up to EUR1.5, Buy confirmed

The company is also progressing both in terms of operating results and in terms of deleveraging (and reassessing its cost of debt). The growth seems on the right path to being delivered. We thus re-assess our valuation methodology, decreasing our WACC from 8% down to 7%: we increase our TP from EUR1.3 up to EUR1.5, confirming our positive stance. Our valuation implies an EV/MW of 1.3x for the Italian wind farms, which have an average residual life of 15 years (of which 8.5 years with incentives).

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Market data

| | |
|-------------------------------|-----------------|
| Bloomberg: FKR IM | Reuters: AA4.MI |
| Market cap (EURm) | 370 |
| Free float | 37% |
| No. of shares outstanding (m) | 291 |
| Avg. daily volume (EURm) | 0.9 |
| YTD abs performance | 37.4% |
| 52-week high/low (EUR) | 1.30/0.72 |

| FY to 31/12 (EUR) | 12/17E | 12/18E | 12/19E |
|-------------------------|--------|--------|--------|
| Sales (m) | 266.9 | 274.9 | 270.1 |
| EBITDA adj (m) | 134.4 | 139.5 | 140.3 |
| EBIT adj (m) | 70.3 | 73.6 | 71.7 |
| Net profit adj (m) | 11.3 | 14.7 | 14.9 |
| Net fin. debt (m) | 556.1 | 591.5 | 647.5 |
| FCF (m) | 23.0 | -18.5 | -33.5 |
| EPS adj. and fully dil. | 0.04 | 0.05 | 0.05 |
| Consensus EPS | 0.03 | 0.04 | 0.08 |
| Net dividend | 0.05 | 0.06 | 0.06 |

| FY to 31/12 (EUR) | 12/17E | 12/18E | 12/19E |
|-----------------------|--------|--------|--------|
| P/E adj and ful. dil. | 32.8 | 25.1 | 24.8 |
| EV/EBITDA | 7.1 | 7.2 | 7.6 |
| EV/EBIT | 13.6 | 13.6 | 14.8 |
| FCF yield | 5.3% | -4.2% | -7.4% |
| Dividend yield | 4.2% | 4.6% | 5.0% |
| Net fin. debt/EBITDA | 4.1 | 4.2 | 4.6 |
| Gearing | 111.8% | 117.0% | 127.1% |
| ROIC | 4.3% | 4.4% | 4.0% |
| EV/IC | 1.0 | 1.0 | 1.0 |

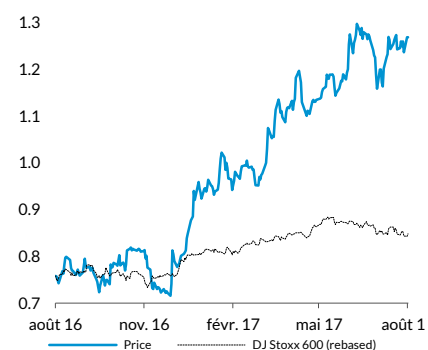


Table 1: Estimate revision

| EURm | 2017E Old | 2017E New | 2018E Old | 2018E New | 2019E Old | 2019E New | 2020E Old | 2020E New | 2021E Old | 2021E New |
|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 267 | 267 | 275 | 275 | 302 | 270 | 302 | 302 | 302 | 302 |
| EBITDA | 134 | 134 | 140 | 140 | 159 | 140 | 159 | 159 | 159 | 159 |
| EBIT | 60 | 70 | 63 | 74 | 84 | 72 | 84 | 91 | 85 | 92 |
| Net profit | 9.2 | 11.3 | 10.0 | 14.7 | 19.5 | 11.9 | 21.8 | 23.8 | 25.1 | 27.0 |
| EPS (EUR) | 0.03 | 0.04 | 0.03 | 0.05 | 0.07 | 0.04 | 0.07 | 0.08 | 0.09 | 0.09 |
| DPS (EUR) | 0.053 | 0.053 | 0.058 | 0.058 | 0.063 | 0.063 | 0.063 | 0.063 | 0.063 | 0.063 |
| Net Debt | 592 | 556 | 625 | 591 | 580 | 647 | 503 | 577 | 425 | 502 |

Source: Kepler Cheuvreux

Table 2: Main data

| EURm | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E | 2020E | 2021E | CAGR 2016-21E |
|------------|--------|--------|-------|-------|-------|--------|-------|-------|-------|-------|-------|------------------|
| Sales | 249 | 275 | 276 | 258 | 271 | 250 | 267 | 275 | 270 | 302 | 302 | 3.9% |
| EBITDA | 142 | 158 | 157 | 135 | 152 | 136 | 134 | 140 | 140 | 159 | 159 | 3.2% |
| Margin | 57.0% | 57.5% | 56.9% | 52.4% | 56.3% | 54.6% | 50.4% | 50.7% | 51.9% | 52.8% | 52.8% | |
| EBIT | 79 | (21) | 79 | 71 | 66 | 60 | 70 | 74 | 72 | 91 | 92 | 9.1% |
| Margin | 31.9% | -7.8% | 28.7% | 27.5% | 24.5% | 23.9% | 26.3% | 26.8% | 26.6% | 30.2% | 30.5% | |
| Net Profit | 19 | (85) | 15 | 3 | 5 | (4) | 11 | 15 | 12 | 24 | 27 | nm |
| EPS (EUR) | 0.065 | -0.293 | 0.051 | 0.012 | 0.016 | -0.014 | 0.039 | 0.050 | 0.041 | 0.082 | 0.093 | nm |
| DPS (EUR) | 0.0284 | 0 | 0.032 | 0.062 | 0.045 | 0.049 | 0.053 | 0.058 | 0.063 | 0.063 | 0.063 | 5.2% |
| Net Debt | 826 | 843 | 756 | 638 | 629 | 563 | 556 | 591 | 647 | 577 | 502 | -2.3% |

Source: Company data, Kepler Cheuvreux

Key financials

| FY to 31/12 (EUR) | 2012 | 2013 | 2014 | 2015 | 2016 | 2017E | 2018E | 2019E |
|--|---------|---------|---------|---------|--------|---------|---------|---------|
| Income Statement (EURm) | | | | | | | | |
| Sales | 274.6 | 275.9 | 257.7 | 270.7 | 249.6 | 266.9 | 274.9 | 270.1 |
| % Change | 10.4% | 0.5% | -6.6% | 5.1% | -7.8% | 6.9% | 3.0% | -1.7% |
| EBITDA adjusted | 158.0 | 157.0 | 135.0 | 152.4 | 136.2 | 134.4 | 139.5 | 140.3 |
| EBITDA margin (%) | 57.5% | 56.9% | 52.4% | 56.3% | 54.6% | 50.4% | 50.7% | 51.9% |
| EBIT adjusted | -21.4 | 79.3 | 70.8 | 66.3 | 59.6 | 70.3 | 73.6 | 71.7 |
| EBIT margin (%) | -7.8% | 28.7% | 27.5% | 24.5% | 23.9% | 26.3% | 26.8% | 26.6% |
| Net financial items & associates | -46.4 | -48.5 | -49.2 | -42.5 | -40.2 | -36.5 | -34.1 | -35.9 |
| Others | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Tax | -17.6 | -15.9 | -12.6 | -5.1 | -17.5 | -13.5 | -15.8 | -13.9 |
| Net profit from continuing operations | -85.4 | 15.0 | 9.0 | 18.7 | 1.9 | 20.3 | 23.7 | 22.9 |
| 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 | -85.4 | 15.0 | 9.0 | 18.7 | 1.9 | 20.3 | 23.7 | 22.9 |
| Net profit reported | -85.4 | 15.0 | 3.4 | 4.7 | -3.9 | 11.3 | 14.7 | 13.9 |
| Net profit adjusted | -85.4 | 15.0 | 3.4 | 4.7 | 11.1 | 11.3 | 14.7 | 14.9 |
| Cash Flow Statement (EURm) | | | | | | | | |
| Cash flow from operating activities | 77.3 | 89.8 | 65.4 | 106.4 | 122.0 | 93.2 | 88.5 | 90.8 |
| Capex | -58.3 | -17.5 | -55.9 | -60.0 | -92.5 | -70.2 | -107.0 | -124.3 |
| Free cash flow | 19.0 | 72.4 | 9.5 | 46.4 | 29.5 | 23.0 | -18.5 | -33.5 |
| Acquisitions & Divestments | 0.0 | 0.0 | 110.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.0 |
| Dividend paid | -8.2 | 0.0 | -9.3 | -18.1 | -13.1 | -14.3 | -15.4 | -16.9 |
| Others | -88.9 | 15.1 | 7.4 | -21.1 | 51.1 | -1.5 | 0.0 | 2.0 |
| Change in net financial debt | -78.1 | 87.5 | 117.6 | 7.3 | 67.4 | 7.2 | -33.9 | -47.4 |
| Balance Sheet (EURm) | | | | | | | | |
| Intangible assets | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Tangible assets | 1,035.0 | 1,012.8 | 965.7 | 973.2 | 957.6 | 968.7 | 1,009.8 | 1,065.6 |
| Financial & other non-current assets | 133.0 | 124.5 | 162.7 | 176.9 | 145.9 | 142.4 | 143.9 | 145.4 |
| Total shareholders' equity | 343.7 | 378.8 | 499.8 | 519.0 | 491.3 | 497.3 | 505.6 | 509.6 |
| Pension provisions | 4.4 | 4.4 | 4.5 | 5.1 | 5.4 | 4.9 | 5.0 | 5.1 |
| Liabilities and provisions | 1,132.9 | 1,054.1 | 993.8 | 908.5 | 995.9 | 1,004.8 | 1,041.9 | 1,093.3 |
| Net financial debt | 843.1 | 755.6 | 638.0 | 630.8 | 563.3 | 556.1 | 591.5 | 647.5 |
| Working capital requirement | 77.6 | 56.0 | 68.4 | 67.9 | 32.6 | 23.9 | 25.0 | 27.6 |
| Invested Capital | 1,112.6 | 1,068.8 | 1,034.2 | 1,041.1 | 990.3 | 992.6 | 1,034.8 | 1,093.2 |
| Per share data | | | | | | | | |
| EPS adjusted | -0.29 | 0.05 | 0.01 | 0.02 | 0.04 | 0.04 | 0.05 | 0.05 |
| EPS adj and fully diluted | -0.29 | 0.05 | 0.01 | 0.02 | 0.04 | 0.04 | 0.05 | 0.05 |
| % Change | -chg | +chg | -77.5% | 39.7% | 135.4% | 2.0% | 30.3% | 1.4% |
| EPS reported | -0.29 | 0.05 | 0.01 | 0.02 | -0.01 | 0.04 | 0.05 | 0.05 |
| Cash flow per share | 0.27 | 0.31 | 0.22 | 0.37 | 0.42 | 0.32 | 0.30 | 0.31 |
| Book value per share | 1.18 | 1.28 | 1.61 | 1.62 | 1.56 | 1.55 | 1.55 | 1.53 |
| Dividend per share | 0.00 | 0.03 | 0.06 | 0.05 | 0.05 | 0.05 | 0.06 | 0.06 |
| Number of shares, YE (m) | 291.41 | 291.41 | 291.41 | 291.41 | 291.41 | 291.41 | 291.41 | 291.41 |
| Ratios | | | | | | | | |
| ROE (%) | -21.7% | 4.2% | 0.8% | 1.0% | 2.4% | 2.5% | 3.3% | 3.3% |
| ROIC (%) | -1.0% | 3.5% | 2.8% | 5.0% | 3.2% | 4.3% | 4.4% | 4.0% |
| Net fin. debt / EBITDA (x) | 5.3 | 4.8 | 4.7 | 4.1 | 4.1 | 4.1 | 4.2 | 4.6 |
| Gearing (%) | 245.3% | 199.5% | 127.7% | 121.5% | 114.7% | 111.8% | 117.0% | 127.1% |
| Valuation | | | | | | | | |
| P/E adjusted | na | 19.6 | 106.2 | 70.1 | 22.1 | 32.8 | 25.1 | 24.8 |
| P/E adjusted and fully diluted | na | 19.6 | 106.2 | 70.1 | 22.1 | 32.8 | 25.1 | 24.8 |
| P/BV | 0.8 | 0.8 | 0.8 | 0.7 | 0.5 | 0.8 | 0.8 | 0.8 |
| P/CF | 3.4 | 3.3 | 5.5 | 3.1 | 2.0 | 4.0 | 4.2 | 4.1 |
| Dividend yield (%) | 0.0% | 3.2% | 5.1% | 4.0% | 5.8% | 4.2% | 4.6% | 5.0% |
| FCF yield (%) | 6.2% | 21.0% | 2.3% | 12.0% | 10.2% | 5.3% | -4.2% | -7.4% |
| EV/Sales | 4.0 | 3.8 | 3.9 | 3.7 | 3.3 | 3.6 | 3.6 | 3.9 |
| EV/EBITDA | 7.0 | 6.7 | 7.5 | 6.5 | 6.1 | 7.1 | 7.2 | 7.6 |
| EV/EBIT | na | 13.4 | 14.3 | 14.9 | 13.9 | 13.6 | 13.6 | 14.8 |

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Prices in this report are taken as of the previous day's close (to the date of this report) on the home market unless otherwise stated.

Companies mentioned

| Stock | ISIN | Currency | Price |
|------------------|--------------|----------|-------|
| Falck Renewables | IT0003198790 | EUR | 1.27 |

Source: Factset closing prices of 01/08/2017

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|------------------|---------------------|
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| Rating Breakdown | A | B |
|-------------------------------------|------|------|
| Buy | 45% | 50% |
| Hold | 35% | 35% |
| Reduce | 17% | 9% |
| Not Rated/Under Review/Accept Offer | 3% | 6% |
| Total | 100% | 100% |

Source: KEPLER CHEUVREUX

A: % of all research recommendations

B: % of issuers to which material services of investment firms are supplied

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|------------------------|------------------|-----------------|--------|--------------|---------------|
| Falck Renewables (EUR) | 30/11/2016 08:45 | Equity Research | Buy | 1.10 | 0.74 |
| | 10/03/2017 09:10 | Equity Research | Buy | 1.30 | 1.07 |

Credit research does not issue target prices. Left intentionally blank.

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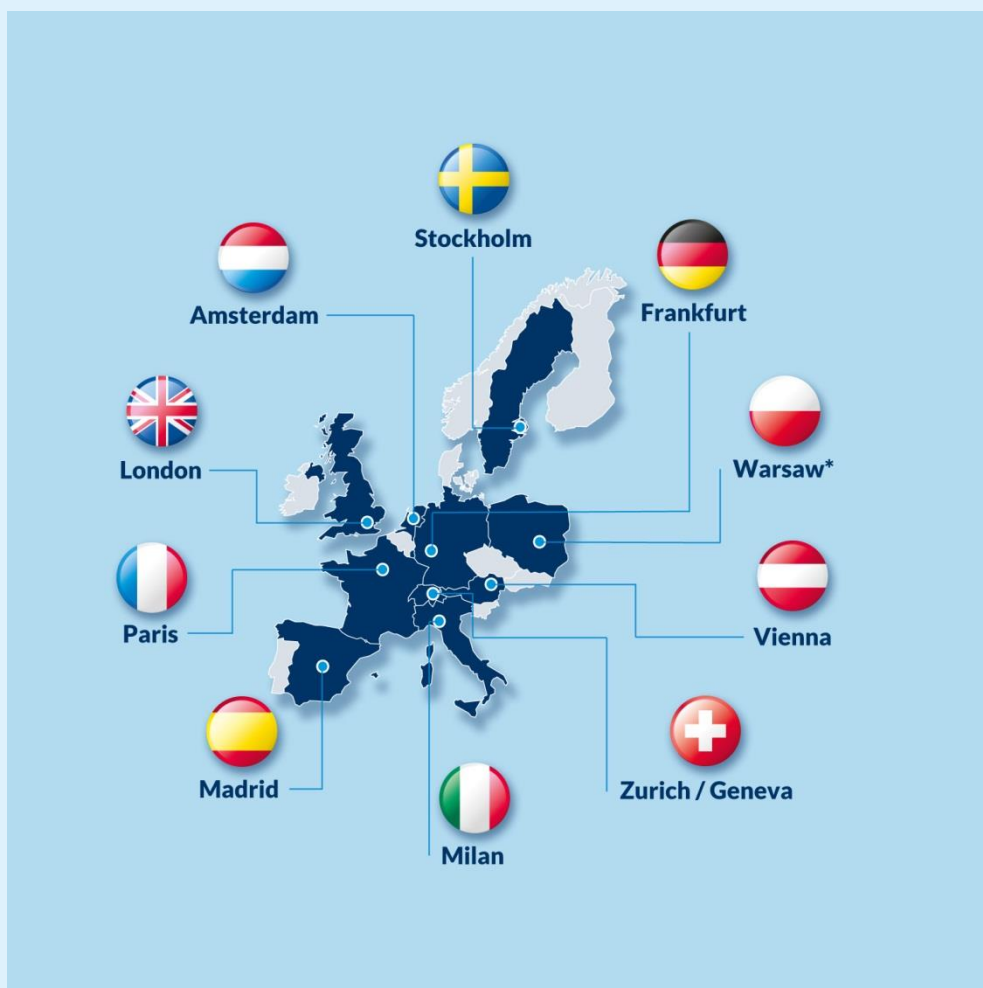
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