

Falck Renewables

Italy | Utilities | MCAP EUR 216.2m

05 August 2016

Buy

Target Price EUR 0.90
Current Price EUR 0.74
Up/downside 21.3%
Change in TP none
Change in EPS 32.0% 2016E

Results above estimates despite negative scenario

Despite Brexit, poor wind conditions in the UK and weak prices in Italy and the UK, Falck released Q2 results ahead of our estimates. The next catalyst will be the business plan presentation, on 29 November. Thanks to 21% upside on our cautious EUR0.9 TP, we confirm our Buy rating.

Q2 results above our expectations

Q2 EBITDA came out at EUR29m, down 6% YOY but better than our EUR26m estimate. H1 EBITDA came in at EUR71m, down 16% YOY, representing 54% of our 2016 estimate. H1 EBITDA decrease was due to both volumes and prices: 1) volumes: weak wind conditions in the UK (32% of H1 EBITDA) resulted in -19% YOY UK wind production (despite an increase in UK installed capacity from 318MW to 352MW), but were offset by good wind conditions in Italy (68% of H1 EBITDA), with wind plants' production (292MW) up +24% YOY; 2) prices were weaker both in Italy (-8% YOY) and in UK (-12% YOY). Brexit had only a 2% impact on H1 EBITDA (EUR1.4m). H1 net profit, on the contrary, increased from EUR8.7m up to EUR9m (+3%), well above our EUR5m estimate, mainly thanks to much lower minorities (6 out of 10 UK wind farms are held by Pension Denmark with a 49% stake). Net debt at end-June reached EUR589m (we expected EUR593m), stable QOQ, after EUR31m of quarterly capex and the payment of dividends, also thanks to EUR27m positive impact from Brexit (43% of the net debt is in pounds).

Guidance confirmed, despite the difficult scenario

2016 guidance for EBITDA is confirmed EUR130m (-3%+2%). A new business plan will be presented on 29 November by the new CEO, Toni Volpe: the company is strongly working on the construction of a further 61MW in UK (25MW will enter into production in October 2016 and 36MW in March 2017), on cost reduction (to fully recover the Brexit impact on the EBITDA), on new more favourable financing agreements, and also on external growth (more details during the plan presentation).

EPS hike thanks to lower minorities, TP confirmed

Following the weak results in UK, also the minorities' line was weak (-EUR2m versus -EUR6m in H1 2015): we thus decrease our minorities' estimate and increase our 2016E net profit from EUR3.8m to EUR5m. We confirm our positive view on the stock, which has been too strongly penalised due to Brexit (-33% YTD performance).

Claudia Introvigne

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Market data

| | |
|-------------------------------|-----------------|
| Bloomberg: FKR IM | Reuters: AA4.MI |
| Market cap (EURm) | 216 |
| Free float | 37% |
| No. of shares outstanding (m) | 291 |
| Avg. daily volume (EURm) | 0.4 |
| YTD abs performance | -32.9% |
| 52-week high/low (EUR) | 1.24/0.65 |

| FY to 31/12 (EUR) | 12/16E | 12/17E | 12/18E |
|-------------------------|--------|--------|--------|
| Sales (m) | 238.6 | 254.4 | 259.8 |
| EBITDA adj (m) | 131.0 | 142.3 | 145.8 |
| EBIT adj (m) | 59.8 | 70.4 | 74.8 |
| Net profit adj (m) | 5.0 | 10.9 | 16.5 |
| Net fin. debt (m) | 624.7 | 581.7 | 511.9 |
| FCF (m) | 19.7 | 59.1 | 85.9 |
| EPS adj. and fully dil. | 0.02 | 0.04 | 0.06 |
| Consensus EPS | 0.01 | 0.03 | 0.05 |
| 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. | 43.6 | 19.8 | 13.1 |
| EV/EBITDA | 6.7 | 5.9 | 5.3 |
| EV/EBIT | 14.6 | 11.9 | 10.4 |
| FCF yield | 7.8% | 23.2% | 33.8% |
| Dividend yield | 6.1% | 6.1% | 6.1% |
| Net fin. debt/EBITDA | 4.8 | 4.1 | 3.5 |
| Gearing | 121.1% | 111.4% | 95.8% |
| ROIC | 3.7% | 4.6% | 5.1% |
| EV/IC | 0.8 | 0.8 | 0.8 |

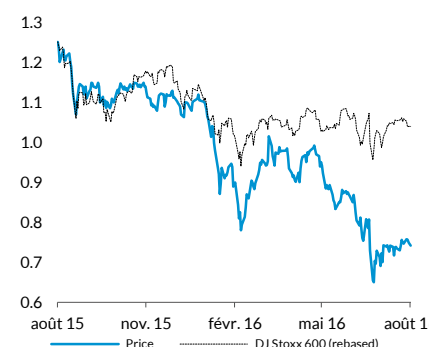


Table 1: Interim results (EURm)

| | H1 15 | H1 16 | YOY | Q2 15 | Q2 16 | YOY | Q2 16E | Act/Est |
|------------|-------|-------|--------|-------|-------|-------|--------|---------|
| Revenues | 147 | 129 | -12.6% | 61 | 55 | -8.6% | 51 | 9.5% |
| EBITDA | 85 | 71 | -16.2% | 31 | 29 | -6.0% | 26 | 12.0% |
| Margin | 57.8% | 55.4% | | 50.4% | 51.8% | | 50.6% | |
| EBIT | 46 | 36 | -22.4% | 9 | 10 | 6.2% | 9 | 16.1% |
| Margin | 31.3% | 27.8% | | 15.5% | 18.1% | | 17.0% | |
| Net profit | 9 | 9 | 3.0% | | | | | |
| Net debt | 623 | 589 | -5.5% | 623 | 589 | -5.5% | 593 | -0.7% |

Source: Company data, Kepler Cheuvreux

Table 2: Estimate revision (EURm)

| | 2016E old | 2016E new | 2017E old | 2017E new | 2018E old | 2018E new |
|------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 241 | 239 | 257 | 254 | 263 | 260 |
| EBITDA | 133 | 131 | 144 | 142 | 148 | 146 |
| EBIT | 62 | 60 | 73 | 70 | 77 | 75 |
| Net profit | 3.8 | 5.0 | 8.6 | 10.9 | 14.4 | 16.5 |
| EPS (EUR) | 0.01 | 0.02 | 0.03 | 0.04 | 0.05 | 0.06 |
| DPS (EUR) | 0.045 | 0.045 | 0.045 | 0.045 | 0.045 | 0.045 |
| Net Debt | 676 | 624 | 634 | 581 | 565 | 511 |

Source: Kepler Cheuvreux

Key financials

| FY to 31/12 (EUR) | 2011 | 2012 | 2013 | 2014 | 2015 | 2016E | 2017E | 2018E |
|--|---------|---------|---------|---------|---------|---------|--------|--------|
| Per share data | | | | | | | | |
| EPS adjusted | 0.06 | -0.29 | 0.05 | 0.01 | 0.02 | 0.02 | 0.04 | 0.06 |
| EPS adj and fully diluted | 0.06 | -0.29 | 0.05 | 0.01 | 0.02 | 0.02 | 0.04 | 0.06 |
| % Change | 3442.3% | -chg | +chg | -77.5% | 39.7% | 5.5% | 120.6% | 51.3% |
| EPS reported | 0.06 | -0.29 | 0.05 | 0.01 | 0.02 | 0.02 | 0.04 | 0.06 |
| Cash flow per share | 0.02 | 0.27 | 0.31 | 0.22 | 0.37 | 0.24 | 0.29 | 0.32 |
| Book value per share | 1.53 | 1.18 | 1.28 | 1.61 | 1.62 | 1.59 | 1.59 | 1.60 |
| 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 |
| Valuation | | | | | | | | |
| P/E adjusted | 18.2 | na | 19.6 | 106.2 | 70.1 | 43.6 | 19.8 | 13.1 |
| P/E adjusted and fully diluted | 18.2 | na | 19.6 | 106.2 | 70.1 | 43.6 | 19.8 | 13.1 |
| P/BV | 0.8 | 0.8 | 0.8 | 0.8 | 0.7 | 0.5 | 0.5 | 0.5 |
| P/CF | 48.2 | 3.4 | 3.3 | 5.5 | 3.1 | 3.1 | 2.5 | 2.3 |
| Dividend yield (%) | 2.4% | 0.0% | 3.2% | 5.1% | 4.0% | 6.1% | 6.1% | 6.1% |
| FCF yield (%) | -42.3% | 6.2% | 21.0% | 2.3% | 12.0% | 7.8% | 23.2% | 33.8% |
| EV/Sales | 4.5 | 4.0 | 3.8 | 3.9 | 3.7 | 3.7 | 3.3 | 3.0 |
| EV/EBITDA | 7.9 | 7.0 | 6.7 | 7.5 | 6.5 | 6.7 | 5.9 | 5.3 |
| EV/EBIT | 14.1 | na | 13.4 | 14.3 | 14.9 | 14.6 | 11.9 | 10.4 |
| Income Statement (EURm) | | | | | | | | |
| Sales | 248.7 | 274.6 | 275.9 | 257.7 | 270.7 | 238.6 | 254.4 | 259.8 |
| % Change | 34.7% | 10.4% | 0.5% | -6.6% | 5.1% | -11.9% | 6.6% | 2.1% |
| EBITDA adjusted | 141.7 | 158.0 | 157.0 | 135.0 | 152.4 | 131.0 | 142.3 | 145.8 |
| EBITDA margin (%) | 57.0% | 57.5% | 56.9% | 52.4% | 56.3% | 54.9% | 55.9% | 56.1% |
| EBIT adjusted | 79.2 | -21.4 | 79.3 | 70.8 | 66.3 | 59.8 | 70.4 | 74.8 |
| EBIT margin (%) | 31.9% | -7.8% | 28.7% | 27.5% | 24.5% | 25.1% | 27.7% | 28.8% |
| Net financial items & associates | -42.0 | -46.4 | -48.5 | -49.2 | -42.5 | -44.3 | -41.0 | -36.9 |
| 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 | -5.6 | -10.0 | -12.9 |
| Net profit from continuing operations | 19.9 | -85.4 | 15.0 | 9.0 | 18.7 | 10.0 | 19.4 | 25.0 |
| 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 | 10.0 | 19.4 | 25.0 |
| Net profit reported | 18.9 | -85.4 | 15.0 | 3.4 | 4.7 | 5.0 | 10.9 | 16.5 |
| Net profit adjusted | 18.9 | -85.4 | 15.0 | 3.4 | 4.7 | 5.0 | 10.9 | 16.5 |
| Cash Flow Statement (EURm) | | | | | | | | |
| Cash flow from operating activities | 7.1 | 77.3 | 89.8 | 65.4 | 106.4 | 69.7 | 85.1 | 93.9 |
| Capex | -178.0 | -58.3 | -17.5 | -55.9 | -60.0 | -50.0 | -26.0 | -8.0 |
| Free cash flow | -170.9 | 19.0 | 72.4 | 9.5 | 46.4 | 19.7 | 59.1 | 85.9 |
| 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 | -1.5 | -3.0 | 0.0 |
| Change in net financial debt | -36.0 | -78.1 | 87.5 | 117.6 | 8.3 | 5.1 | 43.0 | 72.8 |
| Balance Sheet (EURm) | | | | | | | | |
| 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 | 952.0 | 906.1 | 843.2 |
| Financial & other non-current assets | 171.0 | 133.0 | 124.5 | 162.7 | 176.9 | 178.4 | 181.4 | 184.4 |
| Total shareholders' equity | 451.8 | 343.7 | 378.8 | 499.8 | 519.0 | 515.8 | 522.1 | 534.1 |
| 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 | 900.9 | 859.9 | 790.7 |
| Net debt | 769.3 | 847.5 | 760.0 | 642.5 | 634.8 | 629.5 | 586.6 | 516.9 |
| Working capital requirement | 61.8 | 77.6 | 56.0 | 68.4 | 67.9 | 79.3 | 85.5 | 87.6 |
| Invested Capital | 1,160.4 | 1,112.6 | 1,068.8 | 1,034.2 | 1,041.1 | 1,031.3 | 991.7 | 930.8 |
| Ratios | | | | | | | | |
| ROE (%) | 4.9% | -21.7% | 4.2% | 0.8% | 1.0% | 1.1% | 2.4% | 3.6% |
| ROIC (%) | 4.0% | -1.0% | 3.5% | 2.8% | 5.0% | 3.7% | 4.6% | 5.1% |
| 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% | 121.1% | 111.4% | 95.8% |

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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.

Disclosure checklist - Potential conflict of interests

| Stock | ISIN | Disclosure (See Below) | Currency | Price |
|------------------|--------------|------------------------|----------|-------|
| Falck Renewables | IT0003198790 | nothing to disclose | EUR | 0.74 |

Source: Factset closing prices of 05/08/2016

Companies mentioned

| Stock | Disclosure (See Below) |
|-------|------------------------|
| | nothing to disclose |

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Name of the Research Analyst(s) : Claudia Introvigne

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Kepler Cheuvreux rating distribution – Q2 2016

| Rating breakdown | A | B |
|-------------------------------------|--------|--------|
| Buy | 50.9% | 53.7% |
| Hold | 34.8% | 32.6% |
| Reduce | 12.1% | 8.4% |
| Not Rated/Under Review/Accept Offer | 2.2% | 5.3% |
| Total | 100.0% | 100.0% |

Source: Kepler Cheuvreux

A: % of all research recommendations

B: % of issuers to which Investment Banking Services are supplied

12 months rating history

The below table shows the history of recommendations and target prices changes issued by Kepler Cheuvreux research department (Equity and Credit) over a 12 months period.

| Company Name | Date | Business Line | Rating | Target Price | Closing Price |
|------------------------|------------------|-----------------|--------|--------------|---------------|
| Falck Renewables (EUR) | 05/11/2015 08:13 | Equity Research | Buy | 1.50 | 1.14 |
| | 13/05/2016 08:05 | Equity Research | Buy | 1.20 | 0.88 |
| | 29/06/2016 08:42 | Equity Research | Buy | 0.90 | 0.65 |

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

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Equity research

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Hold: The expected upside is below 10% (the expected upside could be higher in light of the company's risk profile).

Reduce: There is an expected downside.

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Credit research

Rating system (issuer or instrument level)

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Hold: The analyst has a stable credit fundamental opinion on the issuer and/or performances of the debt securities over a 6 months period.

Sell: The analyst expects of a widening of the credit spread to some or all debt securities of the issuer and/or a negative fundamental view over a 6 months period.

Not covered: Kepler Cheuvreux' credit research team does not provide formal, continuous coverage of this issuer and has not assigned a rating to the issuer.

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| Location | Regulator | Abbreviation |
|--|---|--------------|
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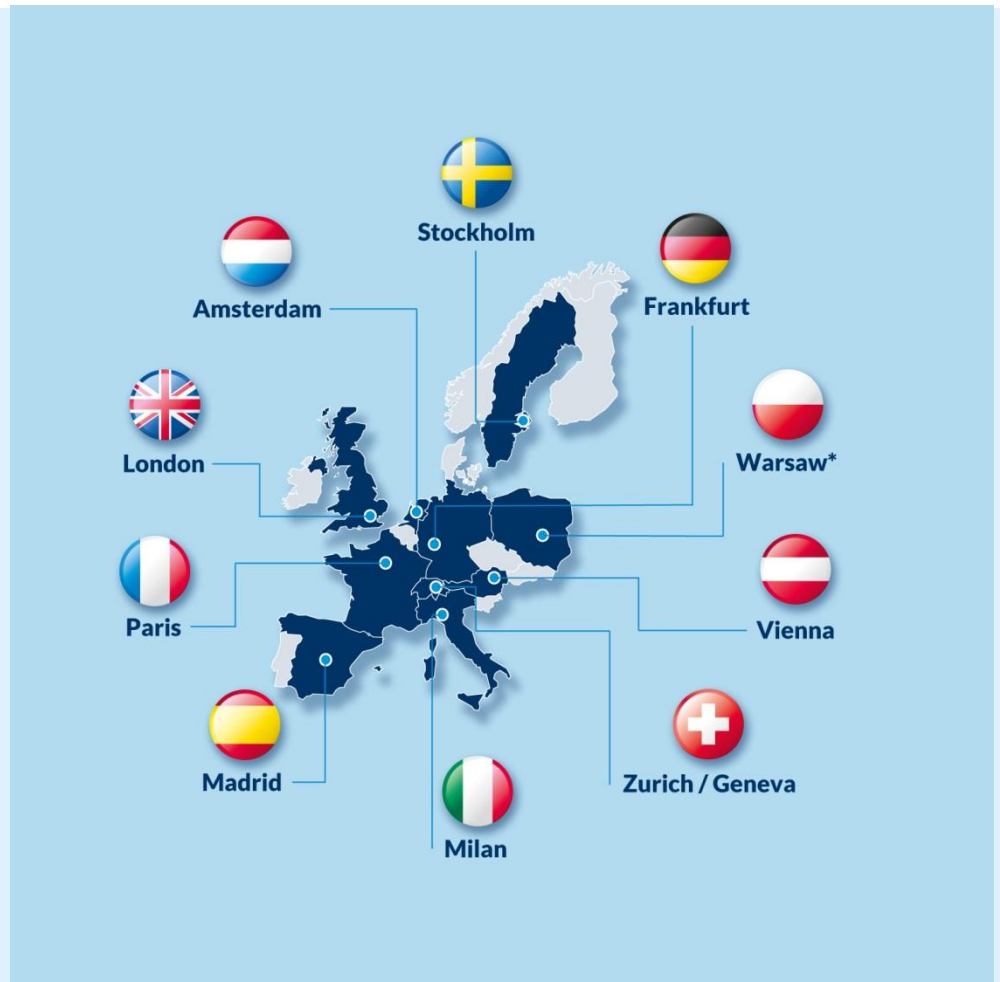
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