



Claudia Introvigne  
+39 02 8550 7220  
claudia.introvigne@keplercm.com

Price  
EUR1.02

Target  
EUR1.2

Previous  
Buy

Buy

## Estimates raised after strong Q4

We confirm our positive stance on the company after the release of strong Q4 results and the new 2012-14 business plan targets, which are above our cautious estimates. We raise our TP from EUR1.1 to EUR1.2 thanks to lower net debt. Buy confirmed.

Italy | Utilities

# Falck Renewables

TARGET PRICE CHANGE

2 April 2012

Reuters FKR.MI  
Bloomberg FKR IM  
Index DJ Stoxx 600

### Extel Europe 2012

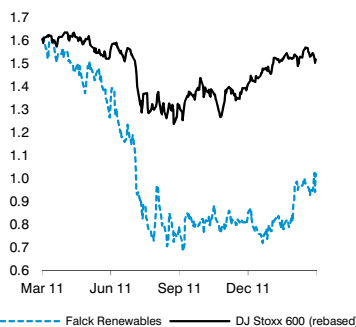
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## Latest financials

Market cap (EURm)	298
Free float	29%
Shares outstanding (m)	291
Daily trade volume ('000)	1,393
YTD abs. performance	20%
52-week high (EUR)	1.6
52-week low (EUR)	0.7
Enterprise value (EURm)	1,094
Net debt (EURm)	785

(EUR)	2012E	2013E	2014E
Sales	270.4	279.7	288.0
EBITDA	152.4	162.2	172.5
EBIT	93.3	99.4	107.2
Pretax profit	47.5	51.9	58.9
Net profit (adj)	24.1	26.5	30.4
EPS (adj)	0.08	0.09	0.10
DPS	0.02	0.02	0.02
P/E	12.3	11.2	9.8
EV/sales	4.0	4.0	3.9
EV/EBITDA	7.2	7.0	6.5
EV/EBIT	11.7	11.4	10.5
Net div. yield	1.8%	2.0%	2.2%

Financial year end: 31 December



## In brief

- > Strong Q4 results
- > Appealing targets
- > Estimate upgrade thanks to lower debt
- > TP up from EUR1.1 to EUR1.2, Buy confirmed

## In detail

### Strong Q4 results

Q4 EBITDA reached EUR48m, +79% YOY and 15% above our estimates thanks to the higher cost efficiencies. FY 2011 EBITDA reached EUR142m, +49% YOY, thanks to the new wind farms that entered into operation. FY 2011 net profit reached EUR19m, lower than our expectations due to the provisions connected to the bad debt (EUR4m) and to the recent problems in the bankruptcy procedure of the Sicilian waste company (EUR12.2m). Net debt reached EUR765m, +3% QOQ but much better than our expectations thanks to better working capital management. The board proposed a EUR0.0284 DPS (3% yield, ex date 28 May, 55% above our expectations).

### Appealing targets

According to the company's current business plan, installed capacity should grow to around 950MW by 2014 (1.1GW in the old plan) and EBITDA to EUR190m (EUR230m in the old plan), after EUR0.5bn of cumulated capex (EUR1.1bn of cumulated capex in the old plan). The payout ratio will be over 30% (no dividend policy in the previous plan). We confirm our extremely cautious estimates, not including new projects lacking authorisation in our estimates and valuation. Our estimates are consequently at a discount to targets (smaller discount of the new targets vs. the previous ones): we estimate a FY 2014 EBITDA of EUR173m (9% discount, while we previously had a 25% discount) after EUR413m of cumulated capex, to reach 800MW of installed capacity. We confirm our cautious 22% payout ratio in our estimates.

### Estimates raised thanks to lower debt

We increase our EPS 2012-14 by 7% on average thanks to the better working capital management (lower average net debt).

### TP up from EUR1.1 to EUR1.2

Our SOP-based target price goes up from EUR1.1 to EUR1.2 thanks to the lower net debt (implying a fair EV/EBITDA 2012E of 7x and EV/MW 2012E of 1.5x). Note that we set a very cautious 9.5% WACC due to the small size of the company.

**Table 1: Falck renewables: main data (EURm)**

	FY 10	FY 11	YOY	FY 11E	Act/Est	Q4 10	Q4 11	YOY	QOQ	Q4 11E
Revenues	185	249	34.7%	247	0.6%	53	80	52.2%	47.0%	79
EBITDA	95	142	49.2%	136	4.0%	27	48	78.6%	69.3%	42
margin	51.5%	57.0%		55.1%		51.3%	60.2%			53.4%
EBIT	49	79	63.2%	86	-7.8%	10	21	120.3%	30.0%	28
margin	26.3%	31.8%		34.7%		18.1%	26.2%			35.2%
Net Profit	0	19	nm	24	-21.6%	-8	1	nm	nm	6
Dividend (EUR)	0.01	0.03	136.7%	0.02	55.2%					
Net debt	729	765	5.0%	809	-5.4%	729	765	5.0%	3.0%	809

Source: Company data, Kepler Capital Markets

**Table 2: Falck Renewables: estimate revision (EURm)**

	2012E old	2012E new	2013E old	2013E new	2014E old	2014E new	2015E old	2015E new
Sales	270	270	280	280	288	288	300	300
EBITDA	152	152	162	162	173	173	194	194
EBIT	93	93	72	72	95	95	95	95
Net profit	23	24	25	27	28	30	39	41
EPS (EUR)	0.08	0.08	0.08	0.09	0.10	0.10	0.13	0.14
DPS (EUR)	0.017	0.018	0.019	0.020	0.021	0.023	0.030	0.031
Net Debt	849	786	885	819	881	814	878	809

Source: Kepler Capital Markets

**Table 3: Falck Renewables: main data (EURm)**

	2011	2012E	2013E	2014E	2015E	CAGR 2010-15E
Sales	249	270	280	288	300	4.8%
EBITDA	142	152	162	173	194	8.2%
margin	57.0%	56.4%	58.0%	59.9%	64.7%	
EBIT	79	93	99	107	127	12.4%
margin	31.9%	34.5%	35.5%	37.2%	42.2%	
Pre tax profit	37	47	52	59	79	20.5%
Net Profit	19	24	27	30	41	21.6%
EPS (EUR)	0.06	0.08	0.09	0.10	0.14	21.6%
DPS (EUR)	0.028	0.018	0.020	0.023	0.031	2.3%
Net Debt	765	786	819	814	809	1.4%

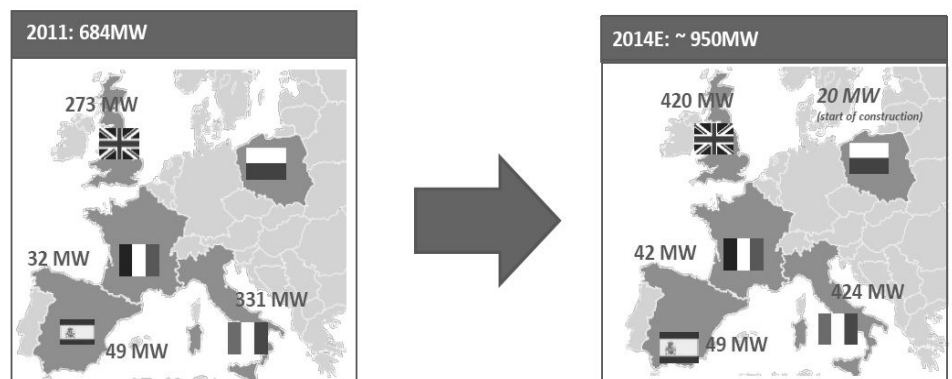
Source: Kepler Capital Markets

**Table 4: Falck Renewables: SOP**

<b>(EURm)</b>			
Wind			984
	Italy	DCF (WACC 9.5%)	610
	Scotland	DCF (WACC 9.5%)	284
	England	6x EV/EBITDA 12E	43
	France and Spain	6x EV/EBITDA 12E	47
Waste		DCF (WACC 10%)	126
Solar		4x EV/MW	64
Biomass		2.5x EV/MW	35
Holding costs		6x EV/EBITDA normalised	-75
<b>Enterprise Value</b>			<b>1,134</b>
Net Debt (FY11)			-765
Minorities		book value	-7
Investments		book value	1
<b>Equity Value</b>			<b>362</b>
Number of shares			291
<b>Target price (EUR)</b>			<b>1.2</b>

Source: Kepler Capital Markets

**Chart 1: Falck Renewables: 2012-2014 business plan**



- Installed capacity in 2014 approx. 950 MW
- Major investments in the most profitable market – UK
- Exploit new countries like Poland

Source: Company data

**Chart 2: Falck Renewables: Pipeline**

Country / MW	MW authorized/ under construction	Pipeline already included in BP	Pipeline under development
UK	80 wind	70 wind	~ 700 wind ~ 30 wte/biomass
Italy	22 wind	30 wind 30 wte/biomass 10 solar	~ 40 solar ~ 45 wte/biomass
Poland	0	20 wind	~ 80 wind
France	10 wind		~ 50 wind
<b>Total</b>	<b>112 MW</b>	<b>160 MW</b>	<b>~ 1,000 MW</b>

Source: Company data

## Key financials

## Falck Renewables

<b>Rating</b>	<b>Buy</b>	Market cap	EUR298m	Bloomberg	FKR IM	<b>Top Shareholders</b>		Claudia Introvigne
<b>Target price</b>	<b>EUR1.20</b>	EV	EUR1,094m	Reuters	FKR.MI	Falck Spa	60.0%	claudia.introvigne@keplercm.com
<b>Price</b>	<b>EUR1.02</b>	Float	29%			William Heller	8.0%	+39 02 8550 7220

## 31 December

Income statement (EURm)	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
<b>Sales</b>	na	na	153.0	185.0	184.6	248.7	270.4	279.7	288.0
Change (%)	na	na	na	20.9%	-0.2%	34.7%	8.7%	3.4%	3.0%
<b>EBITDA adjusted</b>	na	na	72.0	95.0	94.6	141.7	152.4	162.2	172.5
EBITDA margin (%)	na	na	47.1%	51.4%	51.2%	57.0%	56.4%	58.0%	59.9%
<b>EBIT adjusted</b>	na	na	47.7	56.3	48.5	89.4	93.3	99.4	107.2
EBIT margin (%)	na	na	31.2%	30.4%	26.3%	36.0%	34.5%	35.5%	37.2%
Net financial	na	na	-13.4	-27.2	-35.8	-42.7	-46.5	-48.2	-49.0
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	-10.2	0.0	0.0	0.0
<b>Pretax profit</b>	0.0	0.0	35.8	29.0	13.9	37.3	47.5	51.9	58.9
Income tax	na	na	-16.7	-7.5	-11.5	-17.4	-21.4	-23.4	-26.5
Tax rate (%)	na	na	48.6%	25.9%	90.3%	47.6%	45.7%	45.6%	45.5%
Minorities	na	na	-1.9	-4.8	-2.1	-1.0	-2.0	-2.0	-2.0
Reported net earnings	0.0	0.0	17.2	16.6	0.3	18.9	24.1	26.5	30.4
Adjustments	na	na	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Adjusted net earnings (group)</b>	0.0	0.0	17.2	16.6	0.3	18.9	24.1	26.5	30.4
Change (%)	na	na	+chg	-3.4%	-98.2%	6275.0%	27.7%	10.1%	14.6%
Cash flow statement (EURm)	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Net earnings	0.0	0.0	19.2	21.4	2.4	19.9	26.1	28.5	32.4
D&A	na	na	24.3	38.7	46.0	62.5	59.1	62.8	65.3
Change in TWC	na	na	0.0	8.0	-23.3	-75.2	-42.7	-8.9	-10.3
Others	na	na	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Operating cash flow</b>	0.0	0.0	41.5	63.4	23.1	6.1	40.5	80.4	85.4
Capex	na	na	-155.8	-141.3	-89.0	-178.0	-58.0	-110.0	-75.0
<b>Free cash flow</b>	0.0	0.0	-114.3	-77.9	-65.9	-171.9	-17.5	-29.6	10.4
Disposals	na	na	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial investments	na	na	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividends	na	na	0.0	0.0	0.0	-1.9	-4.2	-5.3	-5.8
Equity issued net of buy back	na	na	0.0	0.0	0.0	129.9	0.0	0.0	0.0
Others	na	na	-17.0	-80.0	-100.0	7.0	0.0	0.0	0.0
<b>Net debt change</b>	0.0	0.0	411.3	152.3	165.5	36.0	20.3	33.6	-5.9
Balance sheet (EURm)	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Intangible assets	na	na	176.2	176.2	176.2	169.9	169.9	169.9	169.9
Property, plant & equipment	na	na	636.3	769.7	947.1	1,098.6	1,097.5	1,144.7	1,154.4
Financial assets	na	na	1.2	1.2	1.2	1.1	1.8	2.5	3.2
Cash and cash equivalents	na	na	256.2	221.7	92.8	96.9	96.9	96.9	96.9
Current and other assets	na	na	96.7	119.4	125.5	167.3	282.2	289.9	296.7
Total shareholders' equity	0.0	0.0	327.6	342.4	335.3	451.8	473.8	497.0	523.6
Pension provisions	na	na	43.0	43.0	2.9	3.4	3.5	3.6	3.7
Financial liabilities	na	na	667.5	785.3	821.9	862.0	882.3	915.9	910.0
Other liabilities & provisions	na	na	128.9	118.7	182.6	216.6	288.7	287.4	283.8
Net debt	0.0	0.0	411.3	563.6	729.1	765.1	785.4	819.0	813.1
Capital employed	na	na	766.9	892.3	1,092.9	1,313.4	1,354.9	1,411.1	1,431.1
Ratios	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
Capex/D&A (%)	na	na	642.3%	365.0%	193.4%	340.3%	98.2%	175.1%	114.8%
ROE (%)	na	na	na	5.1%	0.1%	4.9%	5.3%	5.6%	6.1%
ROCE (%)	na	na	na	6.8%	4.9%	7.4%	7.0%	7.2%	7.5%
Net debt/EBITDA (%)	na	na	571.3%	593.2%	771.1%	539.8%	515.4%	505.0%	471.2%
Net debt/equity (%)	na	na	125.5%	164.6%	217.4%	169.3%	165.8%	164.8%	155.3%
Per share (EUR)	2006	2007	2008	2009	2010	2011	2012E	2013E	2014E
EPS adjusted	na	na	0.99	0.06	0.00	0.06	0.08	0.09	0.10
EPS reported	na	na	0.99	0.06	0.00	0.06	0.08	0.09	0.10
CFPS	na	na	-0.71	-0.48	-0.41	-0.59	-0.06	-0.10	0.04
BVPS	na	na	1.98	2.05	2.03	1.53	1.60	1.67	1.75
DPS	0.00	0.00	0.00	0.00	0.01	0.03	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	2011	2012E	2013E	2014E
P/E	ns	ns	4.6	48.6	2,244.9	18.2	12.3	11.2	9.8
P/BV	na	na	2.3	1.4	1.1	0.8	0.6	0.6	0.6
P/CF	na	na	na	na	na	na	na	na	28.6
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.5%	2.4%	1.8%	2.0%	2.2%
FCF yield	na	na	-15.4%	-17.3%	-17.9%	-50.0%	-5.9%	-9.9%	3.5%
EV/sales	na	na	7.8	5.8	6.0	4.5	4.0	4.0	3.9
EV/EBITDA	na	na	16.7	11.2	11.7	7.9	7.2	7.0	6.5
EV/EBIT	na	na	25.1	18.9	22.8	12.5	11.7	11.4	10.5
EV/capital employed	na	na	na	1.3	1.1	0.9	0.8	0.8	0.8

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Stock	ISIN	Disclosure (See Below)	Currency	Price
Falck Renewables	IT0003198790	nothing to disclose	EUR	1.02

Source: Factset closing prices of 30/03/2012

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

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**We did not disclose the rating to the issuer before its publication and dissemination.**

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Rating breakdown	A	B
Buy	57.5%	0.0%
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Total	100.0%	0.0%

Source: Kepler Capital Markets

A: % of all research recommendations

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**Amsterdam**

Kepler Capital Markets Benelux  
De Entree 89  
Toren A 19<sup>th</sup> Floor  
1101 BH Amsterdam Zuid-Oost  
+31 20 563 2365

**Frankfurt**

Kepler Capital Markets Germany  
Taunusanlage 18  
60325 Frankfurt  
+49 69 756960

**Geneva**

Kepler Capital Markets SA  
Chemin du Joran 10  
1260 Nyon  
+41 22361 5151

**London**

Kepler Capital Markets UK  
Providian House  
16-18 Monument Street  
EC3R 8AJ London  
+44 203 350 5000

**Madrid**

Kepler Capital Markets Espana  
Alcala 95  
28009 Madrid  
+3491 4365100

**Milan**

Kepler Capital Markets Italia  
Corso Europa 2  
20122 Milano  
+39 02 855 07 1

**Munich**

Kepler Capital Markets Germany  
Maximilianstrasse 35A  
80539 Munich  
+49 89 24218147

**New York**

Kepler Capital Markets Inc.  
600 Lexington Avenue  
10022 New York, NY USA  
+1 2127107600

**Paris**

Kepler Capital Markets France  
112 Avenue Kleber  
75016 Paris  
+33 1 53653500

**Vienna**

Kepler Capital Markets Austria  
Regus Vienna Stock Exchange  
Schottenring 16/2  
1010 Vienna  
+43 1 537124147

**Zurich**

Kepler Capital Markets Switzerland  
Stadelhoferstrasse 22  
Postfach  
8024 Zurich  
+41 433336666

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