

Company update

BUY (Unchanged)

Target: € 1.75 (Prev €1.56)

Risk: High

STOCK DATA

	Ord
Price €	1.3
Bloomberg code	FKR IM
Market Cap. (€ mn) **	368
Free Float	29%
Shares Out. (mn)	291.4
52-week range	0.77 - 1.34
Daily Volumes (mn)	1.72

PERFORMANCE

	1M	3M	12M
Absolute	-3.7%	21.2%	31.5%
Rel. to FTSE all shares	1.4%	18.0%	16.2%

MAIN METRICS

	2012	2013E	2014E
REVENUES	275	262	272
EBITDA	158	142	146
NET INCOME	-79	10	10
Adj. EPS - € cents	1.3	3.5	4.0
DPS ord - € cents	0.0	1.2	1.4

FKR

	2012	2013E	2014E
P/E adj	nm	36.1 x	31.3 x
EV/EBITDA rep	7.8 x	8.7 x	8.4 x

REMUNERATION

	2012	2013E	2014E
Div. Yield ord	0.0%	1.0%	1.1%
FCF yield	-3.8%	3.2%	40.9%

INDEBTEDNESS

	2012	2013E	2014E
Net fin position	-843	-837	-686
Debt/EBITDA	5.3 x	5.9 x	4.7 x
Interests cov	3.4 x	2.8 x	3.0 x

PRICE ORD LAST 365 DAYS



ANALYSTS

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A NEW CYCLE AHEAD

Falck Renewables has finally closed the announced sale of a minority stake in UK wind assets. The deal went through at a much higher price than expected (€2mn/MW vs €1.7mn/MW) and gives rise to a very attractive partnership with a leading infrastructure fund in Denmark (Copenhagen Infrastructure I K/S) as well as a sizeable cash-in (€185mn, or 50% market cap). Our reference target price is up by +15% to €1.75 although we believe this may be subject to additional upside considering Fkr now has a completely “new” profile (thanks to the infrastructure partner, backed by the pension fund “Pension Danmark”), which lends greater credibility to expectations for future investments in Wind/WTE/Biomass mainly in the UK.

■ A very good deal

Fkr has closed the announced deal involving its UK wind asset base. Fkr has:

- **sold a 49% stake in 273MW of its UK wind parks to “Copenhagen Infrastructure I K/S (CII)”**. The sale is worth €546.2mn in terms of EV, with a €185mn equity value and an implied EV of €2mn/MW, some +15% above our expectations (€1.7mn/MW);
- **negotiated a commitment by CII to invest an additional roughly €225mn** in energy assets in Fkr’s pipeline in the coming years.

We definitely view this deal positively. The deal has a mix of good price and future development possibilities. In our view:

1. **the sale price is particularly high and helps to crystallise the group’s asset value. At €2mn/MW, the sale is some +17% above our expectations and triggers an increase in our target price in the region of +15% to €1.75 (vs current €1.56 per share);**
2. **the cash-in is particularly generous at €185mn, or some 54% of current outstanding market share. This reduces overall debt from 6x D/EBITDA (end of 2013) to around 4.7x D/EBITDA post-deal (excluding some 40 €mn of subordinated loans)**
3. **“CII” is also an attractive partner (infrastructure fund) from a financial point of view (as it is backed by the Denmark pension fund “Pension Danmark”), which provides better visibility on future growth through investment in the group’s pipeline (€225mn).**

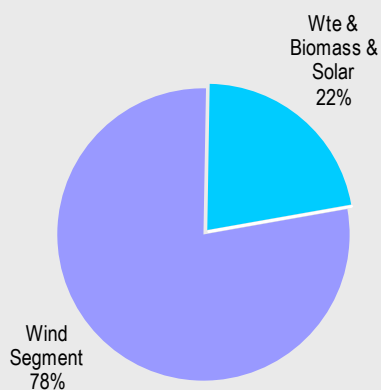
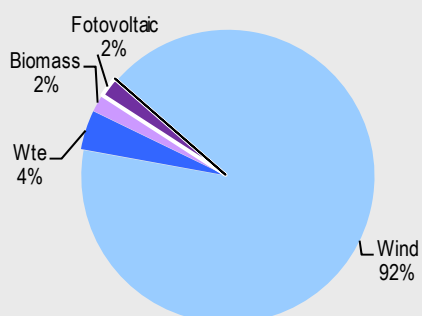
■ Increased target price. Buy confirmed

As highlighted above, the closed deal triggers an improvement in our reference target price from €1.56 per share to €1.75 (+15%). Our new target price implies 40% upside on the current price and a 18x PE and 9x 2015 EV/EBITDA, backed by an expected NI CAGR of 30% through 2017. Furthermore, we believe the deal opens up new investment opportunities as it provides visibility on Fkr’s pipeline in wind/biomass/WTE in the UK in the coming years. **We confirm our BUY recommendation:**

1. **remains well-positioned in the industry** with high load factor assets in UK and Italy and good diversification in the waste business. **We expect a +7% EBITDA CAGR and a +35% NI CAGR through 2017;**
2. **still trades at a 20-25% discount to construction costs, or €1.4mn/MW vs €1.8 mn/MW;**
3. **might actually derive some benefits from its additional development in Waste/Biomass in UK.**

BUSINESS DESCRIPTION

Falck Renewables SpA develops, designs, constructs and manages energy production plants in the renewable segment. The expertise of Falck Renewables SpA covers the entire life cycle of a project, from preliminary activities (pre-feasibility and feasibility studies, technical/economic evaluation, optimum design of the plant, and financial plan) and executions (preparation of the contract technical specifications and contractual documents, negotiation and assignment of contracts, construction supervision), through to operation and maintenance and energy portfolio management activities. The group is active in wind, photovoltaic, vegetable biomass, urban and special waste treatment and is present in Italy, Uk, Spain & France.

EBITDA COMPOSITION - 2012**GEOGRAPHICAL EXPOSURE - 2012**

MAIN FIGURES € mn	2010 PF	2011	2012	2013E	2014E	2015E
REVENUES	185	249	275	262	272	296
Growth	0%	35%	10%	-4%	4%	9%
EBITDA	95	142	158	142	146	163
Growth	0%	50%	11%	-10%	3%	12%
Adj EBITDA (Incl JV)	95	142	158	142	146	163
Growth	0%	50%	11%	-10%	3%	12%
EBIT	49	79	-21	75	81	90
Growth	-14%	63%	-127%	-450%	8%	12%
PBT	14	37	-68	24	33	50
Growth	-52%	169%	-282%	-135%	36%	52%
NET INCOME	0	19	-79	10	10	19
Growth	-98%	6273%	-520%	-113%	2%	81%
Adj. NET INCOME	1	29	4	10	12	20
Growth	-96%	4445%	-87%	161%	15%	72%
MARGIN	2010 PF	2011	2012	2013E	2014E	2015E
Ebitda Margin	51.2%	57.0%	57.5%	54.2%	53.7%	55.2%
Ebitda adj Margin	51.2%	57.0%	57.5%	54.2%	53.7%	55.2%
Ebit margin	26.3%	31.9%	-7.8%	28.6%	29.7%	30.5%
Pbt margin	7.5%	15.0%	-24.7%	9.2%	12.0%	16.8%
Ni rep margin	0.2%	7.6%	-28.8%	3.9%	3.8%	6.3%
Ni adj margin	0.3%	11.8%	1.4%	3.9%	4.3%	6.8%
SHARE DATA	2010 PF	2011	2012	2013E	2014E	2015E
EPS - € cents	0.2	6.5	-27.2	3.5	3.6	6.5
Growth	-	nm	nm	-113%	2%	81%
Adj. EPS - € cents	0.4	10.1	1.3	3.5	4.0	6.9
Growth	-	nm	nm	161%	15%	72%
DPS ord - € cents	1.2	1.9	0.0	1.2	1.4	2.6
BVPS - €	2.0	1.5	1.2	1.2	na	na
VARIOUS - € mn	2010 PF	2011	2012	2013E	2014E	2015E
Oper capital employed	1,090	1,314	1,234	1,242	1,253	1,226
FCF	-182	-63	-14	12	150	58
Capital expenditures	-200	-178	-58	-114	-72	-39
Working capital	20	62	77	54	56	61
INDEBTNESS - €mn	2010 PF	2011	2012	2013E	2014E	2015E
Net fin position	-758	-827	-843	-837	-686	-632
D/E	2.37 x	1.86 x	2.45 x	2.36 x	1.90 x	1.68 x
Debt/EBITDA	8.0 x	5.8 x	5.3 x	5.9 x	4.7 x	3.9 x
Interests cov	2.6 x	3.3 x	3.4 x	2.8 x	3.0 x	4.0 x
MARKET RATIOS	2010 PF	2011	2012	2013E	2014E	2015E
P/E ord	nm	19.5 x	-4.6 x	36.0 x	35.5 x	19.6 x
P/E ord Adj	nm	12.5 x	94.2 x	36.0 x	31.2 x	18.2 x
PBV	1.1 x	0.8 x	1.1 x	1.0 x	1.0 x	1.0 x
P/CF	28.3 x	5.6 x	12.9 x	7.3 x	7.4 x	5.9 x
EV FIGURES	2010 PF	2011	2012	2013E	2014E	2015E
EV/Sales rep	6.1 x	4.9 x	4.5 x	4.7 x	4.5 x	4.0 x
EV/EBITDA rep	11.8 x	8.6 x	7.8 x	8.7 x	8.4 x	7.3 x
EV/EBIT	23.0 x	15.4 x	-57.7 x	16.4 x	15.2 x	13.2 x
EV/CE	1.0 x	0.9 x	1.0 x	1.0 x	1.0 x	1.0 x
REMUNERATION	2010 PF	2011	2012	2013E	2014E	2015E
Div. Yield ord	0.6%	1.5%	0.0%	1.0%	1.1%	2.0%
FCF yield	-51.8%	-17.0%	-3.8%	3.2%	40.9%	15.7%
ROE	0.1%	4.2%	-23.0%	2.9%	2.9%	5.0%
ROCE	2.7%	3.6%	-1.0%	3.6%	3.9%	4.4%

Source: EQUITA SIM estimates and company data

A COMPLETED CYCLE. A NEW CYCLE.

Falck Renewables has finally closed the preannounced sale of a minority stake in UK wind assets. The deal went through at a much higher price than expected (€2mn/MW vs €1.7mn/MW) and gives rise to a very attractive partnership with a leading infrastructure fund in Denmark (Copenhagen Infrastructure I K/S), prepared to bring an additional €225mn of investments in the coming years.

The cash-in from the sale is sizeable (€185mn, or 54% of current market cap) and significantly reduces overall group debt from 6x D/EBITDA expected at the end of 2013 to around 4.5x post-deal (expected to finalize 1Q14).

Our reference target price has consequently increased by +15% to €1.75 but we believe the group now has a completely “new” profile with an attractive infrastructure partner (backed by the pension fund “Pension Danmark”), which lends credibility to Fkr’s expected investment in Wind/WTE/Biomass mainly in the UK (which we didn’t fully factor in because of the lacking capital requirements).

We are thus confirming our positive view on a company whose delivery has been very successful in the past 3-4 years (construction of the biggest wind park in Italy, diversification in UK through valuable assets, significant debt reduction and expansion of the equity story). The group has officially completed the strategy of the last few years and simultaneously kicked off the future investment strategy under attractive conditions.

A VERY GOOD DEAL

Announced at the strategy presentation and rumoured for many months now, Falck Renewables has finally closed a very interesting deal involving its UK wind park asset base.

The group has:

- **sold a 49% stake in 273MW of its UK wind parks to the infrastructure fund “Copenhagen Infrastructure I K/S (CII)”**. The sale is worth €546.2mn in terms of EV and a €185mn equity value, with an implied EV of €2mn/MW, some +17% above our expectations (€1.7mn/MW)
- **negotiated a commitment from CII to invest an additional roughly €100mn in the coming years** in UK wind projects (from Fkr’s pipeline) and some €125mn in other energy segments (we believe Fkr’s WTE/Biomass projects in UK).

We definitely view the deal positively. The deal offers a mix of a good price and future development, in our view:

1. **the sale price is particularly high and helps to crystallise the group’s asset value**. At €2mn/MW, the sale is some +17% above our expectations and triggers an increase in our target price in the region of +15% to €1.75 (vs current €1.56 per share);
2. **the cash-in is particularly generous at €185mn, or some 54% of current outstanding market share** (and significantly above the group’s corporate debt in the region of 140 €mn excluding the corporate loans);
3. **the group’s overall nfp moves from 6x D/EBITDA expected at the end of 2013 to around 4.7x D/EBITDA post-deal**, almost in line with the main reference peers in the segment;
4. **“CII” is also an attractive partner** (infrastructure fund) from a financial point of view (backed by the Denmark pension fund “Pension Danmark”), which provides visibility on future growth through investment in the group’s pipeline (€225mn).

TARGET PRICE PROVISIONALLY INCREASED TO €1.75. BUY CONFIRMED

As highlighted above, the closed deal triggers an improvement in our reference target price from €1.56 per share to €1.75 (+15%). We also believe that the deal opens up new investment opportunities as it provides visibility on Fkr's pipeline in wind/biomass/WTE in the UK thanks to the expected capital commitment of its partner in the coming years. We believe Fkr will hold a presentation to highlight the new opportunities in the coming days, thus possibly providing some additional upside on our new target price.

In the following table is a summary of the changes to our reference valuation

FKR: CHANGE IN VALUATION					
VALUATION	CAPACITY	OLD	NEW	%chg	Implied multiples
Of which UK disposed - pre	273	472	-	nm	1.7 €mn/MW EV
Of which UK disposed - post	273	-	546	16%	2.0 €mn/MW EV
Other	462	811	811	0%	1.8 €mn/MW EV
Wind assets	735 MW	1,282	1,357	6%	1.8 €mn/MW EV
Waste/Biomass/Treatment Italy	45 MW	129	129	0%	4.4 x Ev/ebitda 2014
Waste/Biomass UK	15 MW	45	45	0%	5.0 x Ev/ebitda 2017
Solar assets	16 MW	31	31	0%	1.9 €mn/MW EV
Services division		50	50	0%	5.0 x Ev/ebitda 2017
Holding costs	-	-140	-140	0%	9.3 x Ev/ebitda 2014
CORE BUSINESS VALUATION	-	1,397	1,471	5%	9x Ev/Ebitda 2016
Nfp end of 2013 (adj incl cash in)	-	-835	-650		Cash in of the sale 185 € mn
Provisions & Minorities (adj incl sale)	-	-62	-247		Minorities as sale price 185 € mn
Value at risk Sicilia	-	-64	-64	0%	Reimbursement request from Sicilia
EQUITY VALUE	-	436	511	15%	implied PE 2016 18.7 x
Capital increase	-	0	0		
EQUITY VALUE	-	436	511	15%	
shares out	-	291	291		
TARGET PRICE	-	1.56	1.75	15%	

Source: EQUITA SIM estimates

Our new target price implies 40% upside on the current price and 18.7x PE and 9x 2016 EV/EBITDA, backed by an expected NI CAGR of 30% through 2017.

In the following tables are the main reference metrics of the group adjusted for the changed minorities contribution after the sale of the stake to CII.

FKR: MAIN REFERENCE METRICS						
MARKET RATIOS	2012	2013	2014E	2015E	2016E	2017E
P/E	-4.6 x	36.1 x	35.5 x	19.6 x	13.4 x	10.0 x
P/E adj	94.2 x	36.1 x	31.3 x	18.2 x	12.8 x	9.7 x
PBV	1.1 x	1.0 x	1.0 x	1.0 x	0.9 x	0.9 x
P/CF	12.9 x	7.3 x	7.4 x	5.9 x	5.1 x	4.5 x
EV FIGURES	2012	2013	2014E	2015E	2016E	2017E
EV/Sales rep	4.5 x	4.7 x	4.5 x	4.0 x	3.5 x	3.2 x
EV/EBITDA rep	7.8 x	8.7 x	8.4 x	7.3 x	6.5 x	5.9 x
EV/EBITDA adj (Incl JV)	7.8 x	8.7 x	8.4 x	7.3 x	6.5 x	5.9 x
EV/CE	1.0 x	1.0 x	1.0 x	1.0 x	1.0 x	0.9 x
REMUNERATION	2012	2013	2014E	2015E	2016E	2017E
Div. Yield ord	0.0%	1.0%	1.1%	2.0%	3.0%	3.5%
FCF yield	-3.8%	3.2%	40.9%	15.7%	18.2%	21.5%
ROE	-23.0%	2.9%	2.9%	5.0%	6.9%	8.7%
ROCE	-1.0%	3.6%	3.9%	4.4%	5.0%	5.7%
INDEBTNESS	2012	2013	2014E	2015E	2016E	2017E
NFP	-843	-837	-686	-632	-569	-498
D/E	2.45	2.36	1.90	1.68	1.44	1.18
Debt/EBITDA	5.3 x	5.9 x	4.7 x	3.9 x	3.2 x	2.7 x
Interests cov	3.4 x	2.8 x	3.0 x	4.0 x	4.7 x	5.8 x

Source: Company data and EQUITA SIM estimates

In light of the above, we are confirming our positive view on Falck Renewables and our BUY recommendation.

1. **Fkr has successfully closed its investment cycle in the past 4 years** with the positive delivery of complex projects (including construction of the biggest wind park in Italy, progressive internationalisation in UK with valuable assets, reduced debt and achieved disposals of important assets). **The new partner opens up the new cycle for the group on the pipeline development in both wind and WTE/biomass in the UK;**
2. **remains well-positioned in the industry** with high load factor assets in the UK and Italy and good diversification in the waste business. **We expect a +6% EBITDA CAGR and a +26% NI CAGR through 2017;**
3. **still trades at a 20-25% discount to construction costs**, or €1.4mn/MW vs €1.8mn/MW;
4. **might actually derive some benefits from its additional development in Waste/Biomass in the UK.**

FKR: PEERS METRICS

PEERS COMPARISON	PE			EV/EBITDA			DVD YIELDS			D/EBITDA		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
Edp Renovaveis	24.2 x	21.0 x	17.0 x	7.5 x	7.1 x	6.4 x	1.1%	1.3%	1.8%	3.9 x	3.9 x	2.9 x
Enel green Power	18.2 x	16.5 x	12.7 x	8.1 x	8.3 x	7.2 x	1.6%	1.8%	2.4%	3.0 x	3.1 x	2.6 x
Falck Renewables	35.0 x	30.3 x	17.7 x	8.6 x	8.4 x	7.2 x	1.0%	1.2%	2.1%	5.9 x	4.4 x	3.6 x
Greentech	101.9 x	39.7 x	22.3 x	12.1 x	10.1 x	8.2 x	0.0%	0.0%	0.0%	5.7 x	5.2 x	4.5 x
Theolia	nm	86.1 x	nm	9.8 x	11.8 x	10.5 x	0.0%	0.0%	0.0%	7.8 x	9.8 x	9.9 x
Average Renewables	44.8 x	38.7 x	17.4 x	9.2 x	9.1 x	7.9 x	0.8%	0.9%	1.3%	5.3 x	5.3 x	4.7 x

Source: Company data and EQUITA SIM estimates

SENSITIVITY

		SENSITIVITY				
		risk free				
		3.4%	3.9%	4.4%	4.9%	5.4%
EV/EBITDA uk biomass & services	3.0 x	1.62	1.62	1.62	1.61	1.61
	4.0 x	1.69	1.69	1.68	1.68	1.68
	5.0 x	1.75	1.75	1.75	1.74	1.74
	7.0 x	1.88	1.88	1.88	1.87	1.87
	8.0 x	1.95	1.95	1.94	1.94	1.94

Source: EQUITA SIM estimates

STATEMENT OF RISK

The primary elements that could positively/negatively impact FALCK RENEWABLES stock include:

- Changes in the sector's regulatory framework;
- Changes in the main economic drivers for utility services and power generation (such as oil price, coal price, power generation price, etc)
- Significant increase in interest rates
- Negative outcome from the legal procedures on the Sicilian business

P&L	2010 PF	2011	2012	2013E	2014E	2015E
REVENUES	185	249	275	262	272	296
Growth	0%	35%	10%	-4%	4%	9%
Total opex	-90	-107	-117	-120	-126	-133
Growth	0%	19%	9%	3%	5%	5%
Margin	-49%	-43%	-42%	-46%	-46%	-45%
EBITDA	95	142	158	142	146	163
Growth	0%	50%	11%	-10%	3%	12%
Margin	51%	57%	58%	54%	54%	55%
Depreciation& amortization	-20	-63	-61	-62	-63	-71
Provisions	-1	-15	-119	-5	-2	-2
Depreciation&provision	-20	-78	-179	-67	-65	-73
EBIT	49	79	-21	75	81	90
Growth	-14%	63%	-127%	-450%	8%	12%
Margin	26%	32%	-8%	29%	30%	30%
Net financial profit/Expenses	-36	-43	-47	-51	-48	-40
Profits/exp from equity inv	na	na	na	na	na	na
Other financial profit/Exp	1	1	1	0	0	0
Total financial expenses	-35	-42	-46	-51	-48	-40
Non recurring pre tax	0	0	0	0	0	0
PBT	14	37	-68	24	33	50
Growth	-52%	169%	-282%	-135%	36%	52%
Taxes	-12	-17	-18	-12	-15	-21
Tax rate	-83%	-47%	26%	-51%	-45%	-42%
Minority interests	-2	-1	6	-2	-8	-10
Non recurring post tax	0	0	0	0	0	0
NET INCOME	0	19	-79	10	10	19
Growth	-98%	6273%	-520%	-113%	2%	81%
Margin	0%	8%	-29%	4%	4%	6%
Adj. NET INCOME	1	29	4	10	12	20
Growth	-96%	4445%	-87%	161%	15%	72%
Margin	0%	12%	1%	4%	4%	7%
CF Statement	2010 PF	2011	2012	2013E	2014E	2015E
Cash Flow from Operations	na	na	na	na	na	na
(Increase) decrease in OWC	na	na	na	na	na	na
(Purchase of fixed assets)	na	na	na	na	na	na
(Other net investments)	na	na	na	na	na	na
(Distribution of dividends)	-11	-7	-2	-6	0	-4
Rights issue	na	na	na	na	na	na
Other	na	na	na	na	na	na
(Increase) Decrease in Net Debt	-193	-69	-16	6	150	54

Source: EQUITA SIM estimates and company data

INFORMATION PURSUANT TO ARTICLE 69 ET SEQ. OF CONSOB (Italian securities & exchange commission) REGULATION no. 11971/1999

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EXPECTED TOTAL RETURN FOR THE VARIOUS CATEGORIES OF RECOMMENDATION AND RISK PROFILE

RECOMMENDATION/RATING	Low Risk	Medium Risk	High Risk
BUY	ETR >= 10%	ETR >= 15%	ETR >= 20%
HOLD	-5% <ETR< 10%	-5% <ETR< 15%	0% <ETR< 20%
REDUCE	ETR <= -5%	ETR <= -5%	ETR <= 0%

The methods preferred by EQUITA SIM to evaluate and set a value on the stocks forming the subject of the publication, and therefore the Expected Total Return in 12 months, are those most commonly used in market practice, i.e. multiples comparison (comparison with market ratios, e.g. P/E, EV/EBITDA, and others, expressed by stocks belonging to the same or similar sectors), or classical financial methods such as discounted cash flow (DCF) models, or others based on similar concepts. For financial stocks, EQUITA SIM also uses valuation methods based on comparison of ROE (ROEV – return on embedded value – in the case of insurance companies), cost of capital and P/BV (P/EV – ratio of price to embedded value – in the case of insurance companies).

MOST RECENT CHANGES IN RECOMMENDATION AND/OR IN TARGET PRICE (OLD ONES IN BRACKETS):

Date	Rec.	Target Price (€)	Risk	Comment
23 May 2013	BUY (BUY)	1.4 (1.7)	High	Change in estimates

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EQUITY RATING DISPERSION AS OF SEPTEMBER 30, 2013 (art. 69-quinquies c. 2 lett. B e c. 3 reg. Consob 11971/99)

	COMPANIES COVERED	COMPANIES COVERED WITH BANKING RELATIONSHIP
BUY	44.9%	50.0%
HOLD	46.0%	44.2%
REDUCE	8.5%	5.8%
NOT RATED	0.6%	0.0%