

# Falck Renewables

Italy | Utilities | MCAP EUR 215.6m

30 November 2016

## Buy

Target Price	EUR 1.10 (0.90)
Current Price	EUR 0.74
Up/downside	48.6%
Change in TP	22.2%
Change in EPS	28.1% 2016E

## A new vision with a 2021 roadmap

Falck's new CEO presented the company's new strategy and targets, which are ambitious but clearly show a long-term growth strategy, to be sustained by strong financial metrics and attractive dividends. We only include the first phase of growth (from 822MW to 1GW in 2019), while we are more cautious on the next phase up to 1.3GW by 2021. TP raised to EUR1.1, Buy reiterated.

### Tomorrow: more diversification ahead

From 822MW of installed capacity, EUR130m of EBITDA, EUR13m of net profit before minorities and EUR618m of net debt in 2016 (we were already in line), the company targets to reach 1.3GW of installed capacity, EUR201m of EBITDA, EUR45m of net profit before minorities and EUR941m of net debt, after EUR702m of cumulated capex (EUR1.5m of capex per MW in the wind business), in 2021. The targeted growth will happen through both technological and geographical diversification: wind could grow from 796MW in 2017 up to 1,141MW in 2021, while solar could grow from 16MW in 2017 to 116MW in 2021; in terms of geographies, the main growth could come from Northern Europe and the Nordics, while from 2019 the group could also enter North America (60MW targeted in 2021).

### Visibility on dividends and appealing yields

The company targets a stable net debt/EBITDA of c. 4.7x throughout the plan, which is well below the 7x set as a covenant. Also, thanks to its financial strength, the dividend policy is now based on a defined DPS, which is EURO.049 in 2016 (vs. our previous assumption of EURO.045 flat in 2016-21), with an appealing 6.6% yield, EURO.053 in 2017, EURO.058 in 2018 and EURO.063 in 2019 (8.5% growth YOY). Dividends could be based on a payout ratio from 2020 (we now estimate flat dividends at EURO.063 from 2020E onwards).

### We trust in the mid-term targets: TP up to EUR1.1

The plan clearly shows that there is a pipeline (in 2017 the net pipeline is of 150MW), and that the company has a clear strategy to enter new geographies. We believe that the mid-term targets of 2017 (EUR132m of EBITDA) and 2019 (1GW of installed capacity, EUR166m of EBITDA) could be feasible, and we more or less align our estimates with them (EBITDA 2019E from EUR141m up to EUR159m). As a result, we lift our TP from EURO.9 up to EUR1.1 (also thanks to less cautious WACC assumptions, from 9% down to 7.8%).

### Claudia Introvigne

Equity Research Analyst

cintrovigne@keplercheuvreux.com

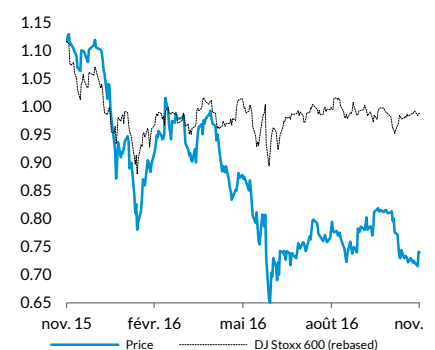
+39 02 8550 7220

#### 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)	0.2
YTD abs performance	-33.1%
52-week high/low (EUR)	1.13/0.65

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
Sales (m)	253.1	266.9	274.9
EBITDA adj (m)	130.5	134.4	139.5
EBIT adj (m)	59.3	59.9	63.2
Net profit adj (m)	9.1	9.4	8.8
Net fin. debt (m)	622.5	664.5	702.7
FCF (m)	21.9	-24.7	-19.8
EPS adj. and fully dil.	0.03	0.03	0.03
Consensus EPS	0.02	0.04	0.05
Net dividend	0.05	0.05	0.06

FY to 31/12 (EUR)	12/16E	12/17E	12/18E
P/E adj and ful. dil.	23.7	23.0	24.5
EV/EBITDA	6.7	6.8	6.9
EV/EBIT	14.7	15.3	15.1
FCF yield	8.6%	-9.8%	-7.8%
Dividend yield	6.6%	7.2%	7.8%
Net fin.debt/EBITDA	4.8	4.9	5.0
Gearing	120.2%	128.5%	136.3%
ROIC	3.1%	3.3%	3.4%
EV/IC	0.8	0.9	0.9



### Today: a renewables company, focused on wind in Italy and the UK

Today, Falck Renewables is a renewables company with 822MW of installed capacity, focused on the wind generation business, mainly in Italy and the UK.

Moreover, it manages 1,300MW for third parties through its ownership in the service company Vectorcuatro, bought in 2014.

In 2013, it signed an agreement to sell a minority interest in UK wind farms for the creation of a co-investment partnership with Copenhagen Infrastructure I K/S.

We did not estimate any growth for the company, which has had a new CEO since last February (our EUR142m EBITDA flat from 2018E onwards only included the full contribution of the two wind farms under construction in UK – 61MW).

**Table 1: Business plan and our estimates**

	Business plan	KECH new estimate
<b>Installed capacity</b>		
2017	858	824
2019	1002	990
2021	1303	990
<b>EBITDA</b>		
2017	132	134
2019	166	159
2021	201	159
<b>Net profit before minorities</b>		
2017	na	13
2019	na	26
2021	45	31
<b>Net debt</b>		
2017	626	664
2019	767	666
2021	941	517
<b>Cumulated capex</b>	702	269
<b>Dividend policy</b>	EUR0.049 in 2016 and 8.5% YOY growth till 2019	EUR0.049 in 2016 and 8.5% YOY growth till 2019

Source: Company data, Kepler Cheuvreux

**Table 2: Sum-of-the -parts valuation**

		<b>Method</b>	<b>Value</b>
Wind			1,018
	<i>Italy</i>	<i>DCF (WACC 8%)</i>	382
	<i>Scotland</i>	<i>DCF (WACC 8%)</i>	473
	<i>England</i>	<i>1.2x EV/MW 2017E</i>	84
	<i>France and Spain</i>	<i>1.2x EV/MW 2017E</i>	78
Waste		7x EV/EBITDA	61
Solar		2x EV/MW	32
Biomass		3x EV/MW	42
Development and holding costs		5x EV/EBITDA 2017E	- 140
Services		5x EV/EBITDA 2017E	10
<b>Enterprise Value</b>			<b>1,022</b>
Net Debt 2016			-622
Minorities	our valuation after the partnership		-105
Investments			24
Funds			-10
<b>Equity Value</b>			<b>309</b>
Number of shares			291
<b>Target price</b>			<b>1.1</b>

Source: 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	0.03	0.03	0.03
EPS adj and fully diluted	0.06	-0.29	0.05	0.01	0.02	0.03	0.03	0.03
% Change	3442.3%	-chg	+chg	-77.5%	39.7%	93.9%	2.7%	-5.8%
EPS reported	0.06	-0.29	0.05	0.01	0.02	0.03	0.03	0.03
Cash flow per share	0.02	0.27	0.31	0.22	0.37	0.25	0.29	0.30
Book value per share	1.53	1.18	1.28	1.61	1.62	1.61	1.59	1.57
Dividend per share	0.03	0.00	0.03	0.06	0.05	0.05	0.05	0.06
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	23.7	23.0	24.5
P/E adjusted and fully diluted	18.2	na	19.6	106.2	70.1	23.7	23.0	24.5
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	3.0	2.5	2.5
Dividend yield (%)	2.4%	0.0%	3.2%	5.1%	4.0%	6.6%	7.2%	7.8%
FCF yield (%)	-42.3%	6.2%	21.0%	2.3%	12.0%	8.6%	-9.8%	-7.8%
EV/Sales	4.5	4.0	3.8	3.9	3.7	3.4	3.4	3.5
EV/EBITDA	7.9	7.0	6.7	7.5	6.5	6.7	6.8	6.9
EV/EBIT	14.1	na	13.4	14.3	14.9	14.7	15.3	15.1
<b>Income Statement (EURm)</b>								
Sales	248.7	274.6	275.9	257.7	270.7	253.1	266.9	274.9
% Change	34.7%	10.4%	0.5%	-6.6%	5.1%	-6.5%	5.4%	3.0%
EBITDA adjusted	141.7	158.0	157.0	135.0	152.4	130.5	134.4	139.5
EBITDA margin (%)	57.0%	57.5%	56.9%	52.4%	56.3%	51.6%	50.4%	50.7%
EBIT adjusted	79.2	-21.4	79.3	70.8	66.3	59.3	59.9	63.2
EBIT margin (%)	31.9%	-7.8%	28.7%	27.5%	24.5%	23.4%	22.4%	23.0%
Net financial items & associates	-42.0	-46.4	-48.5	-49.2	-42.5	-37.3	-36.9	-39.4
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	-9.9	-9.7	-10.0
Net profit from continuing operations	19.9	-85.4	15.0	9.0	18.7	12.1	13.4	13.8
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	12.1	13.4	13.8
Net profit reported	18.9	-85.4	15.0	3.4	4.7	9.1	9.4	8.8
Net profit adjusted	18.9	-85.4	15.0	3.4	4.7	9.1	9.4	8.8
<b>Cash Flow Statement (EURm)</b>								
Cash flow from operating activities	7.1	77.3	89.8	65.4	106.4	71.9	85.5	87.2
Capex	-178.0	-58.3	-17.5	-55.9	-60.0	-50.0	-110.2	-107.0
Free cash flow	-170.9	19.0	72.4	9.5	46.4	21.9	-24.7	-19.8
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	-14.3	-15.4
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	7.3	-42.0	-35.2
<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	952.0	987.7	1,018.3
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	518.0	517.1	515.4
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	906.3	953.0	992.4
Net debt	769.3	847.5	760.0	642.5	634.8	627.3	669.4	707.7
Working capital requirement	61.8	77.6	56.0	68.4	67.9	79.3	81.7	84.7
Invested Capital	1,160.4	1,112.6	1,068.8	1,034.2	1,041.1	1,031.3	1,069.4	1,103.0
<b>Ratios</b>								
ROE (%)	4.9%	-21.7%	4.2%	0.8%	1.0%	1.9%	2.0%	1.9%
ROIC (%)	4.0%	-1.0%	3.5%	2.8%	5.0%	3.1%	3.3%	3.4%
Net fin. debt / EBITDA (x)	5.4	5.3	4.8	4.7	4.1	4.8	4.9	5.0
Gearing (%)	169.3%	245.3%	199.5%	127.7%	121.4%	120.2%	128.5%	136.3%

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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 30/11/2016

## 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 – Q3 2016

Rating breakdown	A	B
Buy	50%	53%
Hold	36%	38%
Reduce	13%	6%
Not Rated/Under Review/Accept Offer	1%	3%
Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

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

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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)	13/05/2016 07:05	Equity Research	Buy	1.20	0.88
	29/06/2016 07:42	Equity Research	Buy	0.90	0.65

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

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Location	Regulator	Abbreviation
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**Amsterdam**

Kepler Cheuvreux Benelux  
Johannes Vermeerstraat 9  
1071 DK Amsterdam  
+31 20 573 06 66

**Frankfurt**

Kepler Cheuvreux Germany  
Taunusanlage 18  
60325 Frankfurt  
+49 69 756960

**Geneva**

Kepler Cheuvreux SA  
Route de Crassier 11  
1262 - Eysins  
Switzerland  
+41 22361 5151

**London**

Kepler Cheuvreux UK  
5th Floor  
95 Gresham Street  
London EC2V 7NA  
+44 20 7621 5100

**Madrid**

Kepler Cheuvreux Espana  
Alcala 95  
28009 Madrid  
+3491 4365100

**Milan**

Kepler Cheuvreux Italia  
Via C. Cornaggia 10  
20123 Milano  
+39 02 855 07 1

**Paris**

Kepler Cheuvreux France  
112 Avenue Kleber  
75016 Paris  
+33 1 53653500

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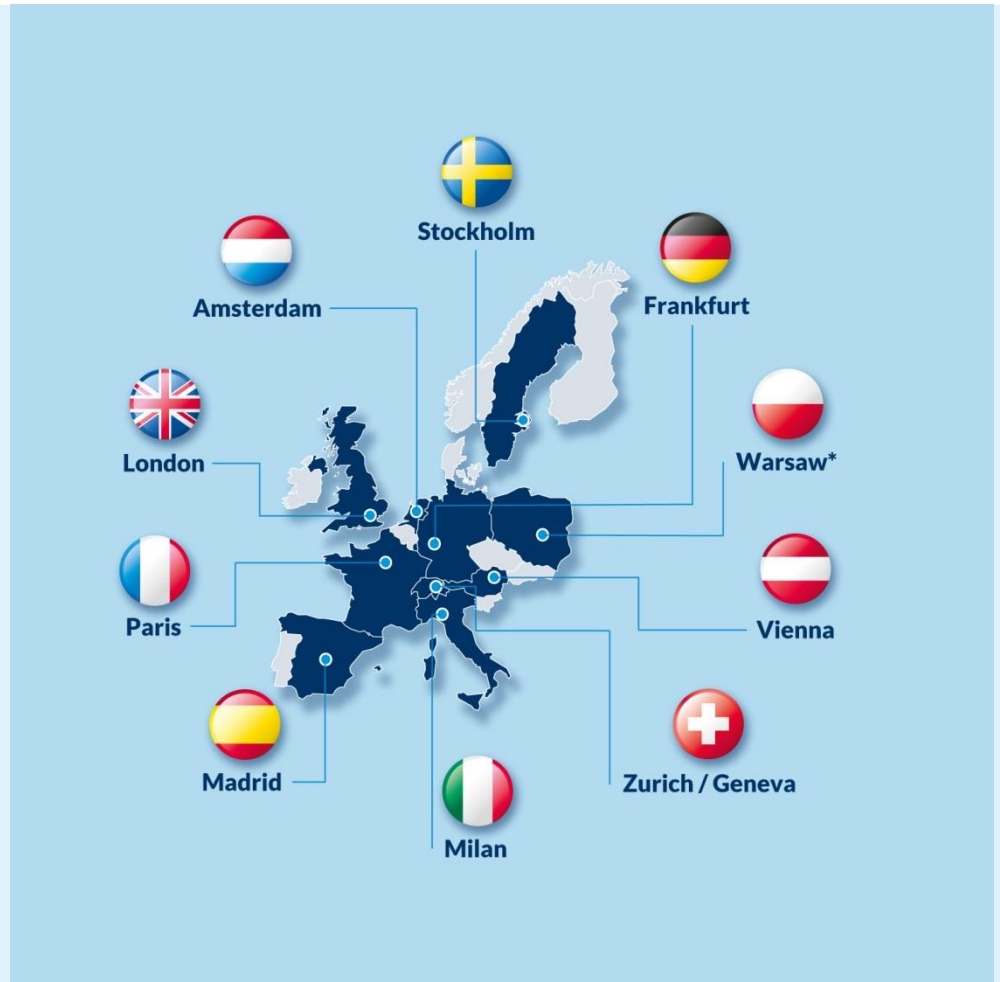
Kepler Cheuvreux Nordic  
Regeringsgatan 38  
10393 Stockholm  
+468 723 5100

**Vienna**

Kepler Cheuvreux Vienna  
Schottenring 16/2  
Vienna 1010  
+43 1 537 124 147

**Zurich**

Kepler Cheuvreux Switzerland  
Stadelhoferstrasse 22  
Postfach  
8024 Zurich  
+41 433336666



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**North America**

**Boston**

Kepler Capital Markets, Inc  
225 Franklin Street, Floor 26  
Boston, MA 02110  
+1 617-217-2615

**San Francisco**

Kepler Capital Markets, Inc  
50 California Street, Suite 1500  
San Francisco, CA 94111  
+1 415- 439-5253

**New York**

Kepler Capital Markets, Inc.  
Tower 49  
12 East 49th Street, Floor 36,  
10017 New York, NY USA  
+1 212-710-7600