

Falck Renewables (FKR-IT)

Buy

Wind of Change: Fresh Money From UK Assets Disposal.

Last (€)	1,22
Valuation Range (€)	1.3 - 1.5
Market Cap.(€m)	355
Av. Daily Vol.(m sh)	1,26
Free Float	40,0%
YTD	25,63%

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- The company announces that it has reached an agreement with Copenhagen Infrastructure Partners for the sale of the 49% stake of 272.8MW wind assets in UK. The 100% EV valuation of the assets amounts to €546.2m, which implies an EV/MW multiple of €2m/MW. The total cash in for FKR from the disposal of 49% equity is €185.2m plus an earn-out option up to GBP 10m depending on the performances of the target companies in the 2014-18 period. Cash is 100% available for FKR (there isn't any pledge on it).
- The agreement also includes the constitution of a partnership for the development of further renewable projects in UK including:
 - €100m commitment for the construction of current FKR wind pipeline in the UK (49% of which will be put by the Infrastructure fund).
 - €125m commitment for the development of future projects in the broader renewable energy sector (CIP development to be defined).
- The deal is good for FKR in our view as it allows the company to unlock a significant amount of equity for the development of new projects, getting the residual NPV of the assets cashed upfront instead of waiting for cash to be generated year after year for the entire useful life of the assets. The deal fixes a €2m/MW valuation for 272.8MW of UK wind assets, which is slightly below with our DCF valuation of €2.1m/MW (excluding 2013 contribution). This is not an exciting valuation, but the deal aimed to find a developing partner rather than a simple buyer. CIP will be involved with €49m equity commitment for the realization of FKR wind pipeline plus further joint developments in the renewable energy sector.
- We updated our estimates factoring in the €185m impact of the cash-in from asset disposal on Net Financial Position expected in 2014. We don't expect any material impact of the deal on the P&L. Our new valuation range is €1.4-1.6/share resulting from our new SOP valuation of €1.5/share. We confirm our BUY recommendation. FKR is trading at 7.1x EV/EBITDA'14 vs. EGP 7.6x.

	Sales (€m)	EBITDA (€m)	vs. Cons	Net Profit (€m)	EPS(old) (€)	EPS(new) (€)	vs.Cons	P/E(x)	EV/EBITDA (x)	DPS(€)	DIV Yield
2011	248.7	142.0		19.0		0.07		18.7	7.6	0.01	1.0%
2012	274.6	159.5		-78.8		-0.27		-4.5	6.9	0.03	2.3%
2013 E	271.8	141.9	1.3%	8.0	0.04	0.03	5.0%	44.5	8.0	0.02	1.6%
2014 E	281.6	148.2	2.9%	16.5	0.05	0.06	135.1%	21.6	7.1	0.02	1.6%
2015 E	287.5	149.5	-8.9%	16.6	0.07	0.06	-16.8%	21.4	7.2	0.01	1.1%

Est 3 Yr Sales CAGR:	1,4%	Shares Outstanding (m):	291
Est 3 Yr EPS CAGR:	-152,9%	Mkt Cap (€m):	355

Share price performance	YTD	1 month	3 months	12 months
Absolute	25,63%	-2,7%	27,26%	27,53%
Relative to STOXX 600	6,91%	-28,78%	-8,47%	8,52%

FKR-IT: Summarised P&L Account and key ratios

€m	2010	2011	2012	2013E	2014E	2015E
Sales	185	249	275	272	282	287
EBITDA	95	142	159	142	148	149
Depreciation & Amort.	-46	-62	-180	-73	-71	-74
EBIT	49	80	-21	69	77	75
Net Interest Cost	-36	-36	-47	-47	-43	-41
Associates	0	0	0	0	0	0
Impairment & Other	0	0	0	0	0	0
PBT	1	-6	0	0	0	0
Taxes	14	38	-68	22	34	34
Discontinued operations	-12	-18	-17	-13	-15	-15
Minorities	-2	-1	6	-1	-2	-2
Net Profit	0	19	-79	8	16	17
EPS	0.00	0.07	-0.27	0.03	0.06	0.06
Sales growth	14.5%	34.7%	10.4%	-1.0%	3.6%	2.1%
EBITDA growth	-0.8%	49.3%	12.3%	-11.0%	4.4%	0.9%
Net Profit growth	-97.9%	5259.6%	-514.3%	-110.1%	106.2%	1.1%
EBITDA margin	51.5%	57.1%	58.1%	52.2%	52.6%	52.0%
EBIT margin	26.6%	32.1%	-7.5%	25.5%	27.4%	26.3%
Net Pr. Margin	0.2%	7.7%	-28.7%	2.9%	5.8%	5.8%
Interest Cover (1) (x)	1.4	2.2	-0.4	1.5	1.8	1.8

FKR-IT: Summarised Balance Sheet and key ratios

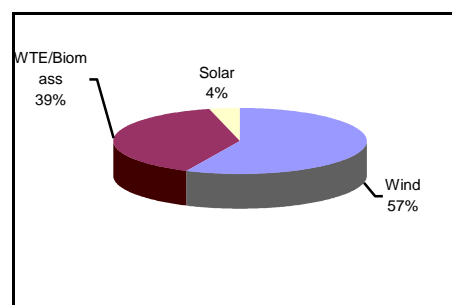
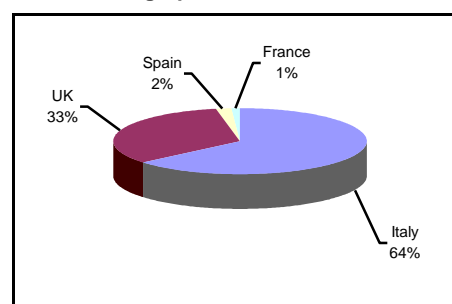
€m	2010	2011	2012	2013E	2014E	2015E
Fixed assets	1005	1152	1007	982	871	871
Goodwill	120	115	110	105	100	96
Inventories	4	4	5	5	5	5
Trade Receivables	73	103	154	161	239	285
Cash + S/T Inv. + other	101	96	96	96	96	96
Total Assets	1302	1469	1372	1349	1311	1353
Sharehold. Equity	328	443	344	346	406	418
L-T Financial Debt	619	880	893	838	750	770
S-T Financial Debt	213	44	44	44	44	44
Trade Payables	107	62	76	86	92	100
Provisions + Other	36	40	14	35	18	20
Total Liabilities	1302	1469	1372	1349	1311	1353
Net Debt	731	828	842	786	698	719
WACC	6.4%	6.4%	6.4%	6.4%	6.4%	6.4%
Net Debt/Equity	222.9%	187.0%	244.9%	227.3%	171.8%	171.9%
ROCE (2)	0.8%	3.3%	-2.2%	2.5%	3.8%	3.7%
ROE	89.8%	77.6%	97.2%	88.8%	72.3%	72.3%
ROCE/WACC (x)	0.1	0.5	-0.3	0.4	0.6	0.6

FKR-IT: Simplified Cash Flow Statement and key ratios

€m	2010	2011	2012	2013E	2014E	2015E
Net Profit	0	19	-79	8	16	17
+ Depreciation & Amort.	46	62	180	73	71	74
+/- Other	0	0	0	0	185	0
= Operating CF	46	81	101	81	273	91
- Chg in Working Capital	18	-72	-58	23	-91	-39
- CAPEX of which	-177	-178	-58	-43	-140	-70
Expansionary CPX	-177	-178	-58	-43	-140	-70
- Dividends	-12	-2	-8	-6	-6	-5
= FCF	-125	-171	-24	55	36	-23
FCF Yld (M.Cp)	-56.2%	-68.2%	-5.9%	17.0%	11.7%	-5.0%
FCF Yld (EV)	-11.5%	-13.9%	3.9%	10.5%	5.8%	0.5%
FCF (3)	64	9	43	104	182	52
FCF Yld (M.Cp)	18.1%	2.5%	12.1%	29.3%	51.1%	14.6%
FCF Yld (EV)	6.5%	2.4%	8.5%	10.8%	19.5%	6.9%

FKR-IT: EV Valuations

€m	2012E	2013E	2014E
+ Mkt Cap	356	356	356
+ Net Debt	786	698	719
- Non-core assets	-9	-9	-9
+/- Other	2	4	7
= EV	1135	1049	1072
EV/Sales (x)	4.2	3.7	3.7
EV/EBITDA (x)	8.0	7.1	7.2
EV/EBIT (x)	16.4	13.6	14.2
EV/IC (x)	1.0	0.9	0.9

FKR-IT: Divisional Sales Breakdown**FKR-IT: Geographical Sales Breakdown****Debt Structure (€m)**

Total Debt in the B.Sheet	869,0
Short Term	44,0
Long Term: maturing in	825,0
24 months	n.a
36 months	n.a
more than 36 months	n.a
Cost Range	n.a
Rating (Moody's)	
Short term	n.a.
Long term	n.a.
Estimated Off B/S Liabilities	None

FKR-IT: Share Information

Outstanding no. shares (m)	291
Market Cap (€ m)	355
Avg daily volume (m sh, last 3 m)	n.a.
Free float %	40,0%
Major shareholders	
Falck family	60,0%
W. Heller	6,0%
Canada pension	2,4%
Management shares option scheme	
% of Capital	None
Nearest to vest	n.a.

(1) calculated as EBIT/Int. expenses (2) calculated as ROCE after taxes (*) Source: company data and Fidentii estimates

1. Valuation update.

- **BUY confirmed. Valuation range is now €1.4-1.6/share vs. old €1.0-1.2/share. FKR is now trading at 7.1x EV/EBITDA'14 vs. 7.6x EGP.**

We updated our SOP valuation factoring in the 51% valuation of 272.8MW Wind UK assets implied in the transaction with CIP, worth €278.6m (equal to 51% of €546.2m 100% EV valuation). We are not including in our SOP any value from the pipeline, despite the realization of the UK authorized pipeline is now more likely after the agreement with GIP which will contribute with 49% equity to finance the projects. We reiterate our BUY rating on the stock. FKR is trading at 7.1x EV/EBITDA'14 post-deal, vs. EGPW 7.6x.

Figure 1: SOTP of Asset in Operations

Division	€mn	per €/MW	% owned	Valuation	WACC %
WTE - Trezzo	114	3.7	85%	DCF 13y - No TV	8.5%
WTE - Granarolo	83	3.9	49%	DCF 20y + TV	8.5%
Biomass - Rende	30	2.4	100%	DCF 15y - No TV	8.5%
Waste Management - Gorle	30	-	100%	DCF 20y - No TV	8.5%
Wind UK (51% owned)	278.6	2.0	51%	Transaction	5.8%
Wind UK (15MW Nutberry)	35	2.3	100%	DCF 25y - No TV	5.8%
Wind Italy	402	1.5	100%	DCF 23y - No TV	7.2%
Wind France	42	1.3	100%	DCF 18y - No TV	6.1%
Wind Spain	51	1.0	50%	DCF 11y - No TV	8.0%
Solar - Italy	80	4.9	100%	DCF 20y - No TV	6.1%
Corporate Costs and Others	-59	-	100%	NPV of Holding Costs	6.5%
Total EV, actual consolidation	1,078	3.7			
Equity Participations	1	0.0		Book Value	
NFP exp. 2013 (before deal)	-780	-2.7		Our Estimates	
Cash-in from UK Assets Disposal	185	0.6		Transaction	
Provisions	-47	-0.2		Book Value	
Equity Value	435	1.5			
Current Mkt. Cap	355	1.2			
% up/(down) side potential	22%	22%			

Source: Company data & Fidentis estimates

On Copenhagen Infrastructure I.

Copenhagen Infrastructure I is established in 2012 and is managed by Copenhagen Infrastructure Partners. The limited partners (PensionDanmark) have committed DKK 6.0 bn (€800m) equity to be invested for energy-related infrastructure investments in Europe and North America. The two largest investment in which CII at the moment are:

- US \$200m financing commitment for the realization of the first off-shore wind farm in US (Cape Wind) of 468MW peak power.
- GBP £128m equity commitment for the realization of a new 40MW biomass power plant in UK (Lincolnshire) jointly with BWSC. The total value of the investment is GBP 160m, and BWSC will also be in charge of the realization and the management of the plant.

PensionDanmark A/S manages labour market pensions with DKK 145bn (€19.4bn) assets under management. PensionDanmark currently has DKK 6bn directly invested in infrastructure (via CIP) and expects to invest a further DKK 12bn in infrastructure over the next four years. The majority will be in energy-related infrastructure and half will be invested via CIP.

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Current market price is the reference price of the day prior to the publication of the report.

Recommendation history and target price trends – Falck Renewables

Date of publication	Recommendation	Target price (EUR)
21/05/2012	Buy	1.3-1.5
24/05/2013	Buy	1.0-1.2
08/08/2013	Buy	1.0-1.2
03/12/2013	Buy	1.4-1.6

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Rating allocation

	BUY	HOLD	SELL
As a percentage of total	44%	27%	29%

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