EDISON

Encavis

Renewable energy

Profits set for continuing growth

Encavis has established a strong track record, and consensus forecasts indicate the potential for further growth in FY18 and beyond. The macro environment for renewable energy remains favourable and Encavis is well placed, geographically and technologically, to exploit this trend.

H118 results continue the growth trend

Revenue of €122.8m (+8% vs H117) benefited from the expansion of the wind and solar portfolio. The increase was achieved against a strong meteorological H117. Operating EBITDA rose 7% to €94.0m versus €88.0m in H117 and was limited by an increase in costs for solar parks under construction, but will contribute to revenues in FY19. H118 built on a trend of growth established by Encavis, which has seen 2012–17 CAGR of >40% in revenue, >46% in EBITDA and >21% in DPS.

Confirmation of FY18 targets

As a result of the strong performance in H1, Encavis's management confirmed guidance for FY18 (first published in March and based on the portfolio as it then existed). Revenue is expected to exceed €240m (FY17: €222.4m), operating EBITDA to be more than €175m (FY17: €166.8m), operating EBIT above €105m (FY17: €100.4m) and operating earnings per share of €0.30. Encavis also confirmed its dividend policy of a 50% increase in the DPS by 2021, versus 2016, implying a DPS of €0.30 in 2021. Consensus estimates for FY18 appear broadly in line with guidance (revenue €243.8m and EBIT of €105.2m), while for 2017–20 as a whole they assume CAGR in revenue of c 8% and c 7% for EBIT, which are conservative by the standards of historic growth rates.

Outlook appears positive

Renewable generation continues to grow and Encavis has a strong track record of delivery. Risks are minimised by portfolio diversification and by acquiring only operational assets, assets under construction or assets ready to build (9 October acquisition of a 300MW Spanish solar park). Power purchase agreements or feed-in tariffs offer predictable and non-cyclical earnings and a solid platform for growth.

Valuation: Value and growth

On a P/E basis, Encavis trades at a discount to its peer group but a small premium to the wider market. However, it trades on a modest two-year PEG ratio of 0.7x versus the market multiple of 1.1x. It also offers a prospective yield above the market and its renewable peers.

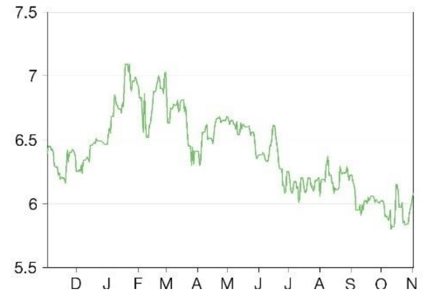
Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	222.4	40.8	0.20	0.20	30.4	3.3
12/18e	243.8	52.1	0.36	0.25	16.9	4.1
12/19e	263.9	61.4	0.41	0.27	14.8	4.4
12/20e	279.6	56.8	0.39	0.30	15.6	4.9

Source: Bloomberg at 10 October 2018

Price	**€6.08**
Market cap	**€787m**

Share price graph



Share details

Code	CAP
Shares in issue	129.4m
Net debt (€m) as at 30 June 2018	1,428

Business description

Encavis is a leading European independent power producer in the renewable sector. The group's core business is the acquisition and operation of solar parks and wind farms. Encavis is active in 10 European countries and has generating capacity of 1.9GW.

Bull

- Strong growth market for renewable energy.
- Renewable energy projects offer stable long-term returns.
- Falling costs make renewable generation increasingly competitive with fossil-fuelled generation.

Bear

- Retroactive adjustments to tariffs.
- Policy changes to current focus on reducing greenhouse gases.
- Specific project risk.

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