Renewi

H123 results

Standing up to end-market pressures

Industrial support services

Renewi's rating reflects the historical volatility in margin performance and profits. If management can deliver on its full year guidance, performance from the restructured group should be far more resilient, which should start to improve the valuation.

Year end	Revenue (€m)	PBT* (€m)	EPS* ©	DPS ©	P/E (x)	Yield (%)
03/21	1,694	48	45	0	14.2	N/A
03/22	1,869	105	98	0	6.5	N/A
03/23e	1,899	97	87	0	7.3	N/A
03/24e	1,959	93	84	5	7.6	0.8

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

H123 results overview

Sales increased 4% to €952m y-o-y, driven by pricing increases. Underlying EBIT increased 16% to €75.2m with operating margins of 7.9%, up from 7.1%. Underlying PBT of €61.6m was up 20% and underlying EPS increased 17% to 56c. Core net debt increased to €388m (March 2022: €303m) reflecting the Paro acquisition (€66m) and growth capital investments (€16m) with a net debt to EBITDA ratio of 1.7x. The Commercial division increased revenues by 4% despite volume decline of c 9% (Netherlands -7%, Belgium -13%) due to higher recyclate prices. Margins increased from 9.6% to 9.9%, due to tight cost control and inflationary pass through. Specialities division revenues grew 11% with underlying operating profit of €11.3m, up from €1.7m driven by non-recurring items, particularly relating to UK Municipal, as well as improvements in Coolrec (electrical waste recycling) and Maltha (glass recycling). Mineralz & Water revenues were flat at €93.3m and underlying operating profit decreased to €2.6m from €4.0m y-o-y, primarily due to accounting changes increasing the depreciation charge, with the waterside business performing well, offsetting softer soil volumes. The group recycling rate increased to 68.4% (March 2022: 67.2%), showing progress towards the target of 75%.

Outlook and forecasts

Management guidance is unchanged despite the strong H1 as management negotiates the more challenging macroeconomic environment and inflationary pressures. FY23 profit forecast is unchanged. FY24 operating profit is reduced by €10m, primarily due to economic weakness and recyclate price softness affecting the Commercial division (PBT down from €103m to €93m). Given the economic outlook, level of debt (net debt EBITDA ratio c 2.0x) and future capital commitments, we see a reinstatement of the dividend as less likely in this financial year.

Valuation: Shares discounting economic headwinds

As discussed in our October update note, the recent offer for Biffa, the only remaining UK peer, equates to £10.91 per Renewi share, even after adjusting for a 30% acquisition premium. The forward P/E of c 7x also suggests value if the management guidance can be achieved.

17 November 2022

Price	**555p**
Market cap	**£444m**
	£/€1.15
Net debt (€m, ex-PPP/PFI finance and IFRS 16 leases) at end-September 2022	388m
Shares in issue	80.1m
Free float	98.8%
Code	RWI
Primary exchange	LSE
Secondary exchange	Euronext Amsterdam

Share price performance

%	1m	3m	12m
Abs	9.9	(33.6)	(32.5)
Rel (local)	1.9	(31.4)	(30.0)
52-week high/low		851p	489p

Business description

Renewi is a leading waste-to-product company in some of the world's most advanced circular economies, with operations primarily in the Netherlands, Belgium and the UK. Its activities span the collection, processing and resale of industrial, hazardous and municipal waste.

Next events

Q323 update	TBC

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Edison profile page

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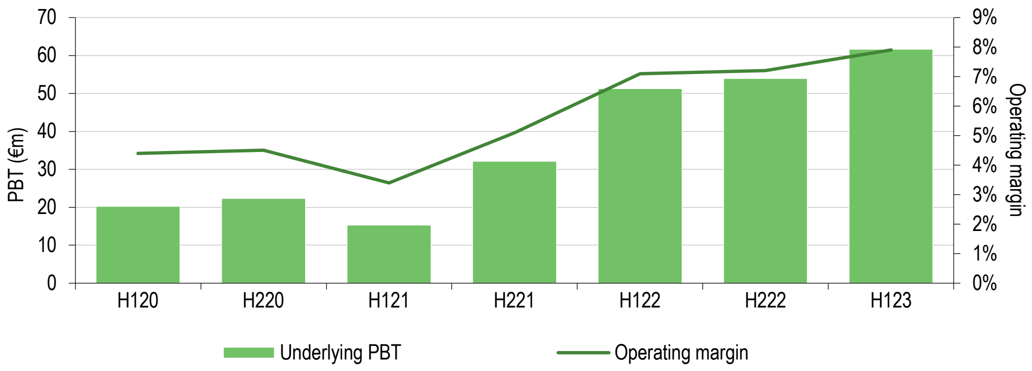
Results overview

H123 sales increased 4% to €952m, driven by pricing increases. Underlying EBIT increased 16% to €75.2m with operating margins of 7.9%, up from 7.1%. This generated underlying PBT of €61.6m and continuing the positive trend seen over recent reporting periods (Exhibit 1). Underlying EPS was 56c, up 17% y-o-y.

Exhibit 1: Renewi performance



Source: Renewi

Commercial division

Exhibit 2: Commercial division half-yearly results

	H120	H220	H121	H221	H122	H222	H123
Sales (€m)	595.0	654.2	595.0	645.6	670.6	689.9	694.4
Operating profit (€m)	29.4	49.2	29.4	47.4	64.7	71.0	68.4
Operating margin (%)	4.9	7.5	4.9	7.3	9.6	10.3	9.9

Source: Renewi

Waste volumes treated by Renewi have been affected by lower economic activity and a shift from recycling to incineration where waste to energy plants benefit from the higher energy pricing; Netherlands volumes fell 7%, Belgium dropped 13%. Despite this, inbound revenues remained steady due to positive pricing, while outbound revenues increased thanks to higher recyclate prices. However, recyclate prices have generally eased since Q1 with glass, steel, paper and plastics weaker, although above historical levels, which suggests a headwind for H2, albeit wood pricing remains strong.

Management remains confident on pricing as cost inflation impacts across the sector. In addition, the Paro acquisition will start to be integrated over the second half. The first of three investments in advanced sorting lines in Belgium, totalling €60m, has been completed and will be commissioned in H2; this is a key element of management's growth strategy.

Mineralz & Water division

Exhibit 3: Mineralz & Water half-yearly results

	H120	H220	H121	H221	H122	H222	H123
Sales (€m)	90.4	90.4	90.4	92.4	93.6	100.3	93.3
Operating profit (€m)	2.3	3.3	2.3	(2.0)	4.0	1.8	2.6
Operating margin (%)	2.5	3.7	2.5	(2.2)	4.3	1.8	2.8

Source: Renewi

The waterside business continues to perform well, with 22% growth in volumes and good margins reported by management. However, overall divisional performance continues to be affected by

ATM, while depreciation, following recent investment, was also higher. ATM has now fully realigned to producing sand, gravel and filler for the asphalt and concrete sector rather than decontaminated soil. Further certification is still required before commercial volumes can be achieved. The legacy thermally cleaned soil inventory was 0.6mt (down marginally from 0.7mt), absorbing a further €1.1m (H122 €3.4m) of exceptional charges. Management remains confident of a potential €20m EBIT for the division.

Specialities division

Exhibit 4: Specialities half-yearly results

	H120	H220	H121	H221	H122	H222	H123
Sales (€m)	149.4	173.8	149.4	151.3	168.0	182.1	186.3
Operating profit (€m)	0.0	(1.3)	0.0	2.4	1.7	2.4	11.3
Operating margin (%)	0.0	(0.7)	0.0	1.6	1.0	1.3	6.1

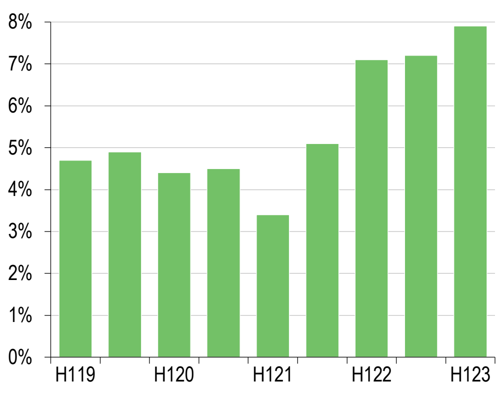
Source: Renewi

The step change in operating profit was primarily due to one-off items (€8.7m of the €9.6m improvement), particularly the change in accounting and provisioning for onerous contracts (€4.2m vs €0.5m). Coolrec (electrical waste recycling) and Maltha (glass recycling) continued to improve their performance, both generating double-digit operating margins in the period.

Margin and cost analysis

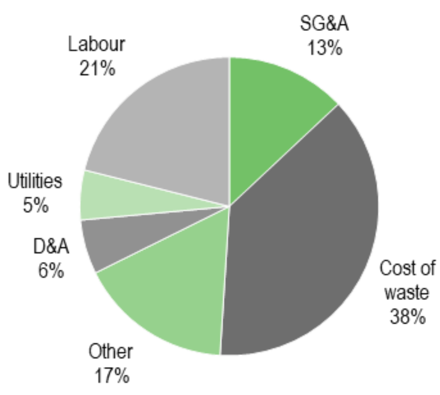
Operating margins have been increasing, with underlying margins of 7.9% in H123. Given the slowing economic situation and cost inflation, there will be concerns about the sustainability of these returns, as there are for most companies. Exhibit 6 provides a breakdown of Renewi's operating costs. Management suggests that over half of these costs are variable. Note that the union labour agreement in the Netherlands is for a wage increase of 7.5% from January and will impact across the sector, while Renewi has some further hedging benefits within its utilities. The Renewi 2.0 restructuring programme will continue to focus on efficiency at the SG&A level. Adding that management estimates that over half the cost base is flexible and pricing has been positive as cost issues impact across the sector supports management expectations for robust margin performance.

Exhibit 5: Underlying operating margin



Source: Renewi

Exhibit 6: Cost breakdown



Source: Renewi

Exceptionals

Exceptionals primarily reflect the historical issues of the group. Of particular note in the first half were the changes in long-term provisions due to inflation and changes to discount rates.

Exhibit 7: Non-trading and exceptional items (€m)

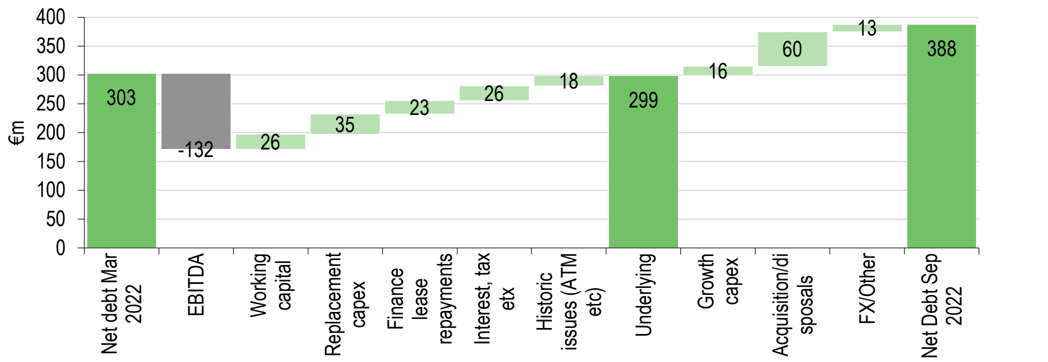
	H123	H122
Renewi 2.0 business improvement programme	(2.0)	(4.0)
Portfolio management/disposals	5.5	
Inflationary/discount rate changes to provisions (primarily UK Municipal)	6.4	
Software configuration		(1.7)
Finance exceptional (Cumbria PPP interest rate swap)	1.6	(0.1)
Amortisation of acquired intangibles	(1.5)	(1.6)
Operational exceptionals net	10.0	7.4
Tax impact of exceptionals and exceptional tax items	(1.9)	(5.4)
Total	8.1	2.0

Source: Renewi

Cash flow

Adjusted free cash flow from operations was €21.8m, converting to free cash flow of €4.1m after the cost of legacy issues (COVID-19 tax deferral €9.9m, legacy ATM soil offtake €1.1m and UK Municipal contracts €6.7m). Post-expansionary capex of €16.0m and acquisitions/disposals (primarily Paro) of €60.1m meant core net debt increased to €388m and led to a net debt/EBITDA ratio of 1.7x.

Exhibit 8: Core net debt progression



Source: Renewi, Edison Investment Research

Outlook

After a positive first half, management's guidance for the full year remains unchanged, reflecting the uncertainties in the economic environment and the potential impact on waste volumes along with the generally weaker recyclate prices. The company has reduced the expected capex (replacement and growth) for the year by c €20m to c €120m due to timing and delivery phasing. Management expect leverage on core net debt/EBITDA ratio of 2.0x at the year-end (covenant limits 3.5x).

Forecasts

We have left FY23 forecast unchanged with the exception of EPS which is reduced by 3.6% due to a higher expected tax rate. We have reduced FY24 operating profit by €10m primarily due to lower profits expected in the Commercial division, in particular due to recyclate cost. Given the economic outlook, level of debt (net debt EBITDA ratio c 2.0x) and future capital commitments, we see a reinstatement of the dividend as less likely in this financial year.

Exhibit 9: Forecast changes

€m	2023			2024		
	Old	New	Change	Old	New	Change
Revenues	1,906	1,899	-0.4%	1,959	1,927	-1.6%
Normalised operating profit	129	128	-0.3%	138	128	-7.3%
Normalised operating profit margin	6.8%	6.8%	0.0%	7.1%	6.7%	-0.4%
Normalised PBT	97	97	-0.2%	103	93	-10.1%
Reported PBT	84	84	-0.2%	90	79	-11.6%
Normalised basic EPS ©	90	87	-3.6%	96	84	-12.0%
Dividend per share ©	5	0	-100.0%	10	5	-50.0%
Closing core net debt/(cash)	403	415	3.1%	437	462	5.7%

Source: Edison Investment Research

Exhibit 10: Financial summary

Year to March (€m)	2021	2022	2023e	2024e	2025e
INCOME STATEMENT					
Revenue	1,693.6	1,869.2	1,898.5	1,927.1	2,006.3
Cost of Sales	(1,408.5)	(1,512.5)	(1,543.5)	(1,564.8)	(1,625.1)
Gross Profit	285.1	356.7	355.0	362.3	381.2
EBITDA	202.2	261.5	252.4	252.6	265.6
Operating profit (before amort. And excepts.)	73.0	133.6	128.4	128.3	139.1
Amortisation of acquired intangibles	(3.3)	(3.4)	(5.0)	(5.5)	(6.0)
Exceptionals	(33.6)	(6.2)	(8.0)	(8.0)	0.0
Reported operating profit	36.1	124.0	115.4	114.8	133.1
Net Interest	(26.8)	(28.8)	(31.4)	(35.3)	(39.3)
Joint ventures & associates (post tax)	1.6	0.5	0.0	0.0	0.0
Profit Before Tax (norm)	47.8	105.3	97.0	93.0	99.8
Profit Before Tax (reported)	10.9	95.7	84.0	79.5	93.8
Reported tax	(5.4)	(20.3)	(21.0)	(19.9)	(23.5)
Profit After Tax (norm)	35.8	78.8	71.3	68.3	73.4
Profit After Tax (reported)	5.5	75.4	63.0	59.6	70.4
Minority interests	(0.1)	(0.9)	(2.0)	(1.0)	(1.0)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Net income (normalised)	35.7	77.9	69.3	67.3	72.4
Net income (reported)	5.4	74.5	61.0	58.6	69.4
Average Number of Shares Outstanding (m)	79.5	79.7	80.0	80.0	80.0
EPS – normalised ©	45	98	87	84	90
EPS – normalised fully diluted ©	45	98	86	84	90
EPS – basic reported ©	7	93	76	73	87
Dividend ©	0.0	0.0	0.0	5.0	10.0
Revenue growth (%)		10.4	1.6	1.5	4.1
Gross Margin (%)	16.8	19.1	18.7	18.8	19.0
EBITDA Margin (%)	11.9	14.0	13.3	13.1	13.2
Normalised Operating Margin	4.3	7.1	6.8	6.7	6.9
BALANCE SHEET					
Fixed Assets	1,612.3	1,565.9	1,596.9	1,648.1	1,672.6
Intangible Assets	594.9	592.8	585.1	577.4	569.7
Tangible and Right-of-use Assets	794.5	767.4	806.1	865.0	897.2
Investments & other	222.9	205.7	205.7	205.7	205.7
Current Assets	355.7	385.9	389.3	392.0	415.8
Stocks	20.6	22.5	24.5	24.6	25.6
Debtors	247.7	269.3	274.3	276.9	299.7
Cash & cash equivalents	68.8	63.6	60.0	60.0	60.0
Other	18.6	30.5	30.5	30.5	30.5
Current Liabilities	(646.7)	(732.7)	(673.8)	(675.8)	(692.9)
Creditors	(546.2)	(528.4)	(518.4)	(520.4)	(537.5)
Tax and social security	(13.8)	(24.2)	(24.2)	(24.2)	(24.2)
Short term borrowings	(47.8)	(148.9)	(100.0)	(100.0)	(100.0)
Other	(38.9)	(31.2)	(31.2)	(31.2)	(31.2)
Long Term Liabilities	(1,083.7)	(880.9)	(998.2)	(1,005.0)	(994.0)
Long term borrowings	(689.1)	(518.7)	(676.0)	(722.8)	(740.8)
Other long term liabilities	(394.6)	(362.2)	(322.2)	(282.2)	(253.2)
Net Assets	237.6	338.2	314.2	359.4	401.5
Minority interests	(6.1)	(7.0)	(7.0)	(7.0)	(7.0)
Shareholders' equity	231.5	331.2	307.2	352.4	394.5
CASH FLOW					
Operating Cash Flow	202.2	261.5	252.4	252.6	265.6
Working capital	82.4	(59.9)	(17.0)	(0.8)	(6.7)
Exceptional & other	(31.1)	(17.1)	(49.1)	(44.5)	(33.5)
Tax	(14.8)	(7.6)	(45.7)	(39.6)	(41.5)
Net operating cash flow	238.7	176.9	140.6	167.7	184.0
Capex	(57.6)	(77.3)	(105.0)	(135.5)	(111.1)
Acquisitions/disposals	(2.7)	(3.2)	(58.0)	0.0	0.0
Net interest	(15.9)	(17.2)	(29.6)	(34.0)	(38.0)
Equity financing	(1.2)	(1.6)	(5.0)	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	(8.0)
Net Cash Flow	161.3	77.6	(57.0)	(1.8)	27.0
Opening net debt/(cash)	(456.9)	(343.7)	(303.1)	(415.1)	(461.9)
FX	(6.4)	7.6	0.0	0.0	0.0
Other non-cash movements	(41.7)	(44.6)	(55.0)	(45.0)	(45.0)
Closing core net debt/(cash)	(343.7)	(303.1)	(415.1)	(461.9)	(479.9)
Finance Leases (FRS16)	(236.7)	(221.9)	(221.9)	(221.9)	(221.9)
PPP non-recourse	(87.6)	(79.1)	(79.1)	(79.1)	(79.1)
Closing net debt/(cash)	(668.0)	(604.1)	(716.1)	(762.9)	(780.9)

Source: Renewi, Edison Investment Research

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