

# Renewi

Trading update

## Preparing the ground for earnings recovery

Trading so far in H220 has matched management expectations at the headline level and FY20 guidance is unchanged. Outlook caveats in Commercial cause us to temper our expected future growth rate here pending further updates. Despite this, we anticipate that Renewi will enter FY21 with a more progressive corporate agenda – starting with its Euronext listing at the end of January – centred on improving profitability of the continuing businesses. Despite our moderated earnings growth profile, in our view the investment proposition is strengthening.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
03/18	1,760.3	63.0	5.9	3.5	7.1	8.4
03/19	1,780.7	63.1	6.0	1.7	6.9	4.0
03/20e	1,675.7	39.7	3.7	1.7	11.1	4.0
03/21e	1,705.6	50.1	4.8	2.5	8.7	5.9

Note: \*PBT and EPS (fully diluted) are normalised, excluding pension net finance costs, amortisation of acquired intangibles and exceptional items. Estimates are now on an IFRS 16 basis and for continuing businesses only.

## Q3/FY20e in line but some caution on outlook

Overall Q3 trading was as expected, with Commercial trading tracking slightly lower than at the interim stage; construction-related activity represent c 20% of the division's Netherlands revenues on an annualised basis and potential regulatory changes on per/polyfluoroalkyl contamination appears to be causing some project delays. Firmer service pricing is also helping to offset ongoing low recycle prices. Elsewhere, management remains cautiously optimistic on ATM's progressive resumption of soil [treatment activity](#) while Monostreams and UK Municipal activities are said to have met management expectations and FY20 guidance is unchanged.

We have lowered our underlying FY21 and FY22 PBT estimates by €8m and €6m respectively, chiefly due to the current Commercial/construction outlook with a smaller Hazardous adjustment (backing out synergies attributable to the disposed Reym business). Our FY20 earnings projections are unchanged. However, FY20 net exceptional charges now rise by €22.5m to reflect additional ELWA contract costs (as guided, €10m asset impairment, c €15m onerous contract provisions) less an H1 provision reversal relating to agreements with Dutch incinerator AEB, which is fully operational again. Core net debt is tracking below 3x EBITDA and, if this remains the case at the year end, would represent a better outcome than we currently model.

## Valuation: Re-rating potential

Renewi's share price rallied strongly after its ATM announcement in December, reaching a 12-month high of 37.2p, settling back to current levels subsequently. Even after a share price rise of almost 30% in just over a month, Renewi's P/E for FY21 (year one of earnings recovery from trough FY20 levels) remains in single digits at 8.7x with a bank-debt based EV/EBITDA of 5.3x. Management aims to deliver forward earnings momentum from a simplified business with leading environmental credentials and reducing gearing levels. These are all desirable attributes from an investor perspective and, subject to delivery, in our view there is clear re-rating potential.

## Industrial support services

27 January 2020

**Price** 35.4p

**Market cap** £283m

€1.17/€

Core group ongoing net debt (ex-PPP/PFI finance and IFRS 16 leases, €m) at end September 2019 514

Shares in issue 800.1m

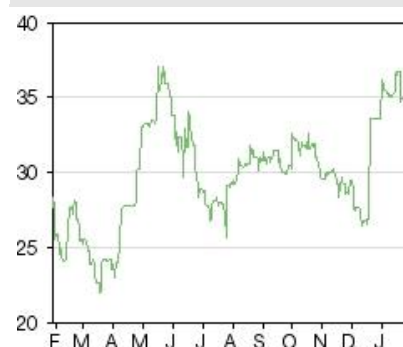
Free float 99.5%

Code RWI

Primary exchange LSE

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (0.3) 11.2 19.8

Rel (local) 0.3 6.4 6.8

52-week high/low 37.2p 21.9p

## Business description

Renewi is a waste-to-product company with operations primarily in the Netherlands, Belgium and the UK and was formed from the merger between Shanks Group and Van Gansewinkel Group in 2017. Its activities span the collection, processing and resale of industrial, hazardous and municipal waste.

## Next events

Euronext Amsterdam secondary listing 30 January

Year end March

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**Exhibit 1: Financial summary**

	€m	2018	2018	2019	2020e	2021e	2022e
March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>		<b>Sterling</b>	<b>Euros</b>	<b>Euros</b>	<b>Euros</b>	<b>Euros</b>	<b>Euros</b>
Revenue		1,565.7	1,760.3	1,780.7	1,675.7	1,705.6	1,740.3
Cost of Sales		(1,276.9)	(1,419.2)	(1,470.4)	(1,390.8)	(1,415.6)	(1,444.4)
Gross Profit		288.8	341.1	310.3	284.9	290.0	295.9
EBITDA		156.9	176.3	179.7	154.6	163.5	171.8
Operating Profit (before GW and except.)		69.1	82.5	85.5	74.0	81.4	88.2
Net Interest		(14.2)	(15.0)	(14.4)	(18.0)	(16.0)	(16.0)
Other Finance		(5.1)	(7.1)	(8.4)	(16.0)	(15.2)	(15.2)
JV/Associates		2.3	2.6	0.4	(0.3)	0.0	0.0
Intangible Amortisation		(5.8)	(6.7)	(6.4)	(6.6)	(6.6)	(6.6)
Non Trading & Exceptional Items		(95.7)	(108.4)	(145.1)	(93.8)	0.0	0.0
Profit Before Tax (Edison norm)		52.1	63.0	63.1	39.7	50.1	57.0
Pension net finance costs		(0.6)	(0.7)	(0.6)	(0.2)	(0.2)	(0.2)
Profit Before Tax (Renewi norm)		51.5	62.3	62.5	39.5	49.9	56.8
Profit Before Tax (statutory)		(50.0)	(52.8)	(89.0)	(60.9)	43.3	50.2
Tax - headline		2.6	1.4	12.4	(3.4)	(12.0)	(13.7)
Profit After Tax (norm)		39.1	47.2	47.5	29.9	38.1	43.3
Profit After Tax		(47.4)	(51.5)	(76.6)	(64.4)	31.3	36.5
Average Number of Shares Outstanding (m)		799.9	799.9	796.7	794.6	794.6	794.6
EPS - Edison norm (p/c) FD		4.9	5.9	6.0	3.7	4.8	5.4
EPS - Renewi norm (p/c) FD		4.8	5.4	6.0	3.7	4.7	5.4
EPS - (p/c)		(5.9)	(6.8)	(11.7)	(8.1)	3.9	4.6
Dividend per share (p/c)		3.05	3.46	1.68	1.65	2.45	2.68
Gross Margin (%)		18.4	19.4	17.4	17.0	17.0	17.0
EBITDA Margin (%)		10.0	10.0	10.1	9.2	9.6	9.9
Operating Margin (before GW and except.) (%)		4.4	4.7	4.8	4.4	4.8	5.1

**BALANCE SHEET**

Fixed Assets	1,456.3	1,669.2	1,439.6	1,559.8	1,548.7	1,536.1
Intangible Assets	606.3	699.3	605.6	598.9	589.0	579.1
Tangible Assets (inc RoU assets)	623.0	710.8	629.1	753.6	752.4	749.7
Investments	227.0	259.1	204.9	207.3	207.3	207.3
Current Assets	366.2	418.0	370.9	375.5	361.1	361.7
Stocks	23.3	26.6	26.0	24.6	25.0	25.5
Debtors	279.0	318.4	294.5	274.2	279.2	284.7
Cash	63.9	73.0	50.4	76.8	56.9	51.5
Current Liabilities	(545.8)	(631.0)	(717.8)	(589.2)	(594.8)	(609.5)
Creditors	(532.9)	(616.3)	(599.1)	(570.6)	(576.2)	(590.9)
Short term borrowings	(12.9)	(14.7)	(118.7)	(18.6)	(18.6)	(18.6)
Long Term Liabilities	(894.3)	(1,019.9)	(895.1)	(1,100.1)	(1,050.9)	(1,001.8)
Long term borrowings	(489.7)	(558.9)	(483.7)	(548.6)	(548.6)	(548.6)
Other long term liabilities	(404.6)	(461.0)	(411.4)	(551.5)	(502.3)	(453.2)
Net Assets	382.4	436.3	197.6	246.0	264.1	286.5

**CASH FLOW**

Operating Cash Flow	128.4	143.6	86.8	139.1	168.8	185.8
Net Interest	(16.9)	(19.1)	(17.7)	(28.6)	(22.2)	(22.2)
Tax	(6.7)	(7.6)	(13.2)	(3.4)	(12.0)	(13.7)
Net Capex	(81.2)	(92.3)	(99.4)	(94.7)	(105.8)	(105.8)
Acquisitions/disposals	(4.1)	(4.8)	22.7	101.3	0.0	0.0
Equity Financing	0.6	0.6	(2.7)	0.3	0.0	0.0
Dividends	(24.4)	(27.6)	(27.4)	(8.6)	(13.2)	(14.2)
Net Cash Flow	(4.3)	(7.3)	(50.9)	105.4	15.6	30.0
Opening core net debt/(cash)	423.9	492.7	500.0	552.0	490.4	510.3
IFRS16 lease capital repayments	0.0	0.0	0.0	(35.4)	(35.4)	(35.4)
Other	(10.5)	(0.0)	(1.1)	(8.4)	0.0	(0.0)
Closing core net debt/(cash)	438.7	500.0	552.0	490.4	510.3	515.7
Closing PPP/PFI non-recourse net debt	82.9	94.6	95.4	89.3	89.3	89.3
IFRS16 Lease finance				144.0	102.4	60.8

Source: Company accounts, Edison Investment Research. Note: Estimates are on an IFRS 16 basis and for continuing businesses only.

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