

Renewi

Disposal

Exit from Canada announced

Selling the Canadian Municipal operations is consistent with Renewi's strategy of simplifying its business portfolio and deleveraging the balance sheet. The completion of this transaction and possibly one other that has been flagged will allow investors to focus on the company's positions, operational improvements and growth aspirations for its core markets. Progress here is likely to be reflected in a re-rating in our view.

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	6.9	8.6
03/19	1,780.7	63.1	6.0	1.7	6.7	4.2
03/20e	1,833.5	49.7	4.7	1.7	8.6	4.2
03/21e	1,890.3	71.5	6.8	2.7	5.9	6.8

Note: *PBT and EPS (fully diluted) are normalised, excluding pension net finance costs, amortisation of acquired intangibles and exceptional items. Canada Municipal excluded.

Bringing greater focus on core operations

The prospective disposal of the Canada Municipal operations was referenced by management at the end of FY19. The 17 June announcement represents a swift crystallisation of this intention with the proposed sale to Convent Capital, subject to change of control approval from the customer base. This move provides a clean exit from Canada (where the former Shanks Group had operated since 2007) and the Municipal division now solely comprises UK operations. (Note that this was already effectively the case in our estimates given that Canada was classified as discontinued with the FY19 results.) Separately, we assume that other discussions are still progressing with regard to Reym (part of the Hazardous Waste division), although no further update was provided on this.

Favourable leverage effect

Subject to expected completion by the end of September, the terms include initial consideration of c €56m in cash (and we believe that c €4m finance leases are also attached to the operations). On this basis, Renewi flags an associated disposal loss of c €12m; this could effectively be offset by potential deferred consideration and other recoveries of the same amount, which are substantially dependent on the new owner securing additional project financing. Allowing for a small capex reduction also, our end-FY20 core net debt projection (excluding deferred receipts) is now c €527m, equivalent to c 3x EBITDA in the year. The transaction brings a small benefit to earnings estimates via a reduced P&L net interest charge

Valuation: Newsflow driving upside

Renewi's share price has rallied well from the lows seen in March and is marginally ahead ytd, although it is some way from levels seen a year ago. Incorporating modestly higher earnings estimates, Renewi's P/E rating is at similar levels to our post-FY19 results [note](#) at 8.6x, while the EV/EBITDA (adjusted for pensions cash) has reduced to 5.0x. The initial share price response to the disposal announcement was favourable; successfully concluding this disposal and that of Reym, together with robust trading newsflow, should support further improvement in the share price in our view.

Industrial support services

19 June 2019

Price 34.3p

Market cap £275m

£/€1.12

Core group ongoing net debt (ex-PPP/PFI finance, €m) at end March 2019 552

Shares in issue 800.1m

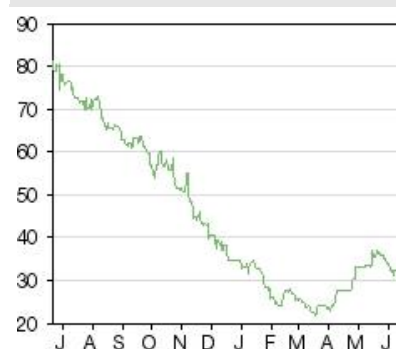
Free float 99.5%

Code RWI

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (5.2) 53.7 (60.1)

Rel (local) (6.0) 51.4 (58.6)

52-week high/low 81.2p 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 event

FY19 final DPS 0.5p ex dividend 27 June 2019

AGM 11 July 2019

FY19 final DPS to be paid 26 July 2019

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Exhibit 1: Financial summary

	m's	2012	2013	2014	2015	2016	2017	2018	2018	2019	2020e	2021e	2022e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
		Sterling	Sterling	Sterling	Sterling	Sterling	Sterling	Sterling	Euros	Euros	Euros	Euros	Euros
PROFIT & LOSS													
Revenue		750.1	614.6	633.4	601.4	614.8	779.2	1,565.7	1,760.3	1,780.7	1,833.5	1,890.3	1,927.1
Cost of Sales		(622.9)	(511.6)	(528.3)	(506.1)	(517.8)	(653.3)	(1,276.9)	(1,419.2)	(1,470.4)	(1,501.6)	(1,548.2)	(1,578.3)
Gross Profit		127.2	103.0	105.1	95.3	97.0	125.9	288.8	341.1	310.3	331.9	342.1	348.8
EBITDA		105.0	88.4	88.5	72.6	69.2	81.6	156.9	176.3	179.7	173.9	194.3	200.8
Optg Profit (before GW and except.)		53.4	44.9	45.6	34.3	33.4	36.5	69.1	82.5	85.5	78.2	97.1	102.1
Net Interest		(10.8)	(10.8)	(12.6)	(11.4)	(11.2)	(10.3)	(14.2)	(15.0)	(14.4)	(19.5)	(16.5)	(16.0)
Other Finance		(6.4)	(3.9)	(2.9)	(1.5)	(1.6)	(2.2)	(5.1)	(7.1)	(8.4)	(9.0)	(9.0)	(9.0)
JV/Associates		0.1	0.3	0.3	0.8	1.0	2.0	2.3	2.6	0.4	0.0	0.0	0.0
Intangible Amortisation		(3.7)	(2.5)	(2.3)	(1.9)	(1.8)	(2.1)	(5.8)	(6.7)	(6.4)	(6.4)	(6.4)	(6.4)
Non-Trading & Exceptional Items		(2.9)	(37.8)	(20.2)	(40.3)	(21.8)	(85.0)	(95.7)	(108.4)	(145.1)	(37.0)	0.0	0.0
Profit Before Tax (Edison norm)		36.3	30.5	30.4	22.2	21.6	26.0	52.1	63.0	63.1	49.7	71.5	77.1
Pension net finance costs		0.2	(0.3)	(0.3)	(0.5)	(0.5)	(0.3)	(0.6)	0.0	0.0	0.0	0.0	(0.6)
Profit Before Tax (Renewi norm)		36.5	30.2	30.1	21.7	21.1	25.7	51.5	63.0	63.1	49.7	71.5	76.5
Profit Before Tax (statutory)		29.9	(10.1)	7.6	(20.5)	(2.5)	(61.4)	(50.0)	(52.8)	(89.0)	5.7	64.5	70.1
Tax - headline		(4.2)	(1.1)	(5.8)	2.3	(1.5)	0.5	2.6	1.4	12.4	(12.2)	(17.2)	(18.5)
Profit After Tax (norm)		26.6	22.8	23.2	20.5	19.3	20.1	39.1	47.2	47.5	37.5	54.4	58.6
Profit After Tax		25.7	(11.2)	1.8	(18.2)	(4.0)	(60.9)	(47.4)	(51.5)	(76.6)	(6.5)	47.4	51.6
Average Number of Shares Outstanding (m)		448.0	448.3	448.9	449.1	449.5	536.3	799.9	799.9	796.7	796.7	796.7	796.7
EPS - Edison norm (p/c) FD		5.9	5.1	5.1	4.5	4.3	3.7	4.9	5.9	6.0	4.7	6.8	7.3
EPS - Renewi norm (p/c) FD		6.0	5.0	5.1	4.4	4.2	3.7	4.8	5.4	6.0	4.6	6.7	7.3
EPS - (p/c)		5.7	(7.9)	(6.3)	(3.8)	(0.9)	(11.4)	(5.9)	(6.8)	(11.7)	(0.9)	5.9	6.4
Dividend per share (p/c)		3.05	3.05	3.05	3.05	3.05	3.05	3.05	3.46	1.68	1.68	2.73	2.90
Gross Margin (%)		17.0	16.8	16.6	15.9	15.8	16.2	18.4	19.4	17.4	18.1	18.1	18.1
EBITDA Margin (%)		14.0	14.4	14.0	12.1	11.3	10.5	10.0	10.0	10.1	9.5	10.3	10.4
Operating Margin (before GW and except.) (%)		7.1	7.3	7.2	5.7	5.4	4.7	4.4	4.7	4.8	4.3	5.1	5.3
BALANCE SHEET													
Fixed Assets		751.6	772.1	744.4	737.3	670.4	1,420.9	1,456.3	1,669.2	1,439.6	1,450.1	1,458.8	1,466.0
Intangible Assets		271.4	251.8	211.1	173.8	194.5	603.3	606.3	699.3	605.6	596.9	585.9	574.9
Tangible Assets		390.9	375.3	322.7	282.9	297.0	587.4	623.0	710.8	629.1	648.3	668.0	686.2
Investments		89.3	145.0	210.6	280.6	178.9	230.2	227.0	259.1	204.9	204.9	204.9	204.9
Current Assets		233.6	247.3	265.1	224.0	177.0	348.2	366.2	418.0	533.3	460.4	483.6	487.5
Stocks		10.5	11.0	9.4	6.9	6.8	19.9	23.3	26.6	26.0	26.6	27.4	27.9
Debtors		163.3	160.9	151.5	156.3	135.5	253.4	279.0	318.4	456.9	383.5	390.5	395.4
Cash		59.8	75.4	104.2	60.8	34.7	74.9	63.9	73.0	50.4	50.4	65.7	64.1
Current Liabilities		(238.7)	(248.9)	(229.6)	(277.4)	(227.2)	(483.2)	(545.8)	(631.0)	(758.3)	(717.0)	(717.7)	(694.3)
Creditors		(226.5)	(230.7)	(226.3)	(202.4)	(224.8)	(466.8)	(532.9)	(616.3)	(639.6)	(623.8)	(624.5)	(631.1)
Short term borrowings		(12.2)	(18.2)	(3.3)	(75.0)	(2.4)	(16.4)	(12.9)	(14.7)	(118.7)	(93.2)	(93.2)	(63.2)
Long Term Liabilities		(375.9)	(444.2)	(504.7)	(432.5)	(434.2)	(845.7)	(894.3)	(1,019.9)	(895.1)	(894.0)	(892.8)	(891.7)
Long term borrowings		(253.8)	(234.5)	(253.8)	(140.8)	(224.9)	(482.4)	(489.7)	(558.9)	(483.7)	(483.7)	(483.7)	(483.7)
Other long-term liabilities		(122.1)	(209.7)	(250.9)	(291.7)	(209.3)	(363.3)	(404.6)	(461.0)	(411.4)	(410.3)	(409.1)	(408.0)
Net Assets		370.6	326.3	275.2	251.4	186.0	440.2	382.4	436.3	319.5	299.6	331.9	367.6
CASH FLOW													
Operating Cash Flow		109.9	67.7	78.6	55.8	72.2	27.9	128.4	143.6	86.8	123.2	176.3	191.2
Net Interest		(13.4)	(11.5)	(13.2)	(12.8)	(12.8)	(19.0)	(16.9)	(19.1)	(17.7)	(19.5)	(16.5)	(16.0)
Tax		(7.1)	1.9	(1.6)	(5.7)	(4.8)	(5.3)	(6.7)	(7.6)	(13.2)	(12.2)	(17.2)	(18.5)
Net Capex		(74.8)	(50.1)	(27.1)	(37.2)	(25.8)	(41.2)	(81.2)	(92.3)	(99.4)	(112.6)	(112.3)	(112.3)
Acquisitions/disposals		(19.6)	(59.2)	(54.1)	(67.3)	18.2	39.5	(4.1)	(4.8)	22.7	56.0	0.0	0.0
Equity Financing		0.0	0.4	0.2	0.1	0.3	136.5	0.6	0.6	(2.7)	0.0	(0.0)	0.0
Dividends		(13.3)	(13.7)	(13.7)	(13.7)	(13.7)	(15.1)	(24.4)	(27.6)	(27.4)	(13.5)	(15.0)	(15.9)
Net Cash Flow		(18.3)	(64.5)	(30.9)	(80.8)	33.6	123.3	(4.3)	(7.3)	(50.9)	21.5	15.3	28.4
Opening core net debt/(cash)		207.4	206.2	177.3	152.9	155.0	192.6	423.9	492.7	500.0	552.0	526.5	511.2
HP finance leases		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		19.5	93.4	55.3	78.7	(71.2)	(354.6)	(10.5)	(0.0)	(1.3)	4.0	0.0	0.0
Closing core net debt/(cash)		206.2	177.3	152.9	155.0	192.6	423.9	438.7	500.0	552.2	526.5	511.2	482.7
Closing PPP/PFI non-recourse net debt		52.0	100.1	151.2	222.6	91.1	87.1	82.9	94.6	95.4	95.4	95.4	95.4

Source: Company accounts, Edison Investment Research

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