EDISON

Renewi

H122 results and innovation focus

Focusing on H122 growth and innovation strategy

Industrial support services

H122 results were confidently presented and capitalised on a helpful recyclate pricing tailwind in the period, resulting in a further c 15% uplift in our EPS estimate for FY22. Renewi's share price has performed well this year, but visible growth opportunities suggest there is further upside.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
03/20	1,775.4	54.3	53.6	5.2	15.7	0.6
03/21	1,693.6	47.1	44.7	0.0	18.8	N/A
03/22e	1,812.6	79.5	73.6	0.0	11.4	N/A
03/23e	1,862.8	78.5	72.5	17.9	11.6	2.1

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

Recovering volumes and recyclate pricing tailwind

A positive H122 report from Renewi included year-on-year uplifts of 11% in revenue and 125% in EBIT with drivers including a favourable recyclate price environment and good cost control and all three divisions increased their profit contributions. While this was admittedly against a COVID-19 hit trading comparator, we note that waste volumes have substantially recovered to pre-COVID-19 levels now though they still lag slightly overall. Core net debt (pre IFRS 16) edged down slightly to €336m at the period end, representing c 1.8x EBITDA on a trailing 12-month basis. Based on the H1 performance and outlook for the remainder of the year, Renewi again raised expectations after allowing for some moderation in recyclate prices. We have increased our FY22 earnings estimate by c 15% chiefly driven by upgraded Commercial expectations. We have made no material changes to subsequent years.

Long-term environmental growth drivers

Waste sector fundamentals in Europe are favourable. Among other things, the EU Green Deal is placing a greater onus on the circular economy – and the re-use of secondary materials – as a key driver of reducing greenhouse gas emissions to meet long-term targets. The latest iteration of Renewi's strategy plays into this, targeting an increase in the quality and value added to the waste streams it processes through investment in innovation and amplifying this through increasing organisational efficiency. Coupled with a restoration of volumes at ATM, these initiatives are intended to add €60m to FY20 earnings by 2025. As a leading collector and processor of a broad range of waste streams in Europe, Renewi is ideally placed to capitalise on long-term secular growth trends in the industry.

Valuation: Conservative view of growth prospects

With a year-to-date share price rise of c 70%, Renewi has significantly outperformed the FTSE All-Share Index. Having settled back a little after a strong run, the company is trading on headline P/Es and EV/EBITDAs of 11.4x and 5.7x respectively. In our view, the share price is discounting very conservative levels of future profitability against Renewi's stated strategic targets and in the context of the likely increase in demand for recycled and re-useable secondary materials.

20 December 2021

Price	**719p**
Market cap	**£575m**
	€1.17/£
Core group ongoing net debt (ex-PPP/PFI finance and IFRS 16 leases, €m) at end September 2021	336
Shares in issue	80.0m
Free float	98.8%
Code	RWI
Primary exchange	LSE
Secondary exchange	Euronext Amsterdam

Share price performance

%	1m	3m	12m
Abs	(12.9)	24.7	99.5
Rel (local)	(12.2)	21.4	78.9
52-week high/low		840p	372p

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

FY22 year end	March 2022

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Edison profile page

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H122 results overview

The significant uplift in Renewi's H1 profitability was substantially driven by Commercial operations. The other two divisions also improved their EBIT contributions, which in aggregate broadly matched the reported increase in central costs. Renewi ended H122 with €336m core net debt (pre IFRS 16) – a reduction of c €8m from the beginning of the year – representing c 1.8x EBITDA on a trailing 12-months basis. No dividend was declared for the period, but this is said to be under review in the context of growth investment (including the innovation pipeline and ATM recovery) among other things.

Exhibit 1: Renewi divisional and interim splits

Year end March, €m	H121	H221	FY21	H122	% chg y-o-y
Group revenue	**821.4**	**872.2**	**1693.6**	**915.6**	**11.5%**
Commercial Waste	595.0	645.6	**1240.6**	670.6	12.7%
Netherlands	396.8	431.6	**828.4**	442.3	11.5%
Belgium	198.5	214.4	**412.9**	228.9	15.3%
Intra-segment	-0.3	-0.4	**-0.7**	-0.6	
Mineralz & Water	90.4	92.4	**182.8**	93.6	3.5%
Specialities	149.4	151.4	**300.8**	168.0	12.4%
Inter-company adjustment	-13.4	-17.2	**-30.6**	-16.6	23.9%
Group operating profit	**28.3**	**44.7**	**73.0**	**63.8**	**125.4%**
Commercial Waste	29.4	47.4	**76.8**	64.7	120.1%
Netherlands	21.1	32.6	**53.7**	43.2	104.7%
Belgium	8.3	14.8	**23.1**	21.5	159.0%
Mineralz & Water	2.3	-2.0	**0.3**	4.0	73.9%
Specialities	0.0	2.4	**2.4**	1.7	N/M
Group central services	-3.4	-3.1	**-6.5**	-6.6	94.1%

Source: Renewi

Commercial: Excellent margin performance

The Commercial division delivered low double-digit revenue increases year-on-year – including a stronger rebound from Belgium, which was hit harder by COVID-19 – and both country operations achieved EBIT margins in excess of 9% and 9.6% on a combined basis. Core volumes are understood to have been broadly flat year-on-year in the Netherlands but were up by 13% in Belgium, so there was a significant pricing effect supporting higher revenues also. Looking at Exhibit 2, we believe that the pricing of inbound waste was stable to slightly firmer on average, while the benefits of higher recyclate pricing show clearly in the c 81% (c €44m) increase in outbound revenues.

Exhibit 2: Commercial division – revenue stream splits

	H121	H221	FY21	H122	Change €m	% change, y-o-y
Total revenue (by type)	**595.0**	**645.6**	**1,240.6**	**670.6**	**+75.6**	**+13%**
Inbound	510.1	522.1	**1,032.2**	535.6	+25.5	+5%
Outbound	53.9	76.5	**130.4**	97.8	+43.9	+81%
On-Site	18.2	23.1	**41.3**	25.7	+7.5	+41%
Other	12.8	23.9	**36.7**	11.5	-1.3	-10%

Source: Renewi

We believe that the above revenue analysis also broadly holds taking a longer perspective, against the largely pre COVID-19 FY20. Compared to H120, divisional volumes were still 4–5% lower in H122 (comprising c 3% in the Netherlands and c 7% in Belgium) while inbound and outbound revenues were up 2% and 44% respectively. Mix obviously has some impact on average pricing and we believe that the higher proportion of bulky waste would have benefited H122 against both prior H1 periods.

Operational gearing in Belgium (from recovering volumes), a boost from recyclate prices (especially in the Netherlands) and some retained benefits from cost reduction actions taken in FY21 to mitigate COVID-19 business effects all contributed to the significant EBIT margin uplift in H122. In context, divisional margins have historically been in the 6–7% range, with Belgium typically higher than in the Netherlands. Hence, it is possible that 200–300bp of the divisional EBIT margin move from COVID-19 hit H121 (4.9%) to H122 (9.6%) was generated from higher recyclate prices, which were at/near all-time highs. We flag this primarily to acknowledge that some of the H121 performance is likely to be temporary in nature assuming, as the company has, the recyclate prices normalise back to their medium-term averages at some point. Obviously, the rate at which this reverts cannot be accurately forecast, though we believe that Renewi guidance assumes this occurs by the end of FY22. While that represents a headwind to year-on-year progress in FY23, the benefits from strategic investment under the Renewi 2.0 and Innovation programmes (see later) should increasingly feed into earnings; in the case of the Commercial division, we would specifically highlight new organics/bioenergy and Belgian mixed waste sorting capacity as being particularly significant.

Mineralz & Water: ATM operations begin to normalise

This division is primarily focused on the treatment of heavily contaminated organic materials (such as soil, mineral waste) and water. Cleaned soil and water can be reused – within environmental regulations – and the extracted materials can be further processed to add value (eg soils into graded building materials and fly ash into building products), made inert for landfill or used in energy generation (eg organic sludges). At c 80% of the total volume handled, Mineralz & Water's recycling rate is the highest of Renewi's three divisions.

In H122, divisional revenues rose modestly year-on-year and versus H120 on a like-for-like basis we believe, while EBIT increased by over €1m to €4m (also against both comparative periods). **ATM** delivered all of the profit uplift from a combination of increased soil processing plant throughput and utilisation, reduced third-party soil storage costs and, to a lesser extent, initial sales of separated gravel from secondary processing. Partly offsetting this, c 400,000 tonnes of thermally treated soil (TGG) was placed – at a cost to the business – for permitted re-use. After a hiatus in the soil placement (and, hence, treatment) market, this represented a step towards normalising operations again, albeit at much lower than optimal volumes both inbound and outbound. The aim is to place the remaining c 900,000 tonnes of TGG and migrate to a value-added model whereby treated soil is graded into certified gravel, sand and filler components, which generate revenue income. A further step is anticipated in H222 – ie placing around a quarter of TGG inventory and progressing certification and business development for other lines – though the rate of new soil intake has been slower than anticipated earlier in the year. The other main divisional company **Mineralz** (around half of sales) performed broadly in line with H121 by balancing out reduced landfill activity (retaining Maasvlakte, having closed a smaller Belgian site to new deposits during FY21) with increased metals recyclate revenue generated from the Tisselt site. This pattern is also evident in the overall divisional revenue split figures shown in Exhibit 3.

Exhibit 3: Mineralz & Water – revenue stream splits

	H121	H221	2021	H122	Change €m	Change %
Total revenue (by type)	**90.4**	**92.4**	**182.8**	**93.6**	**+3.2**	**+3.5%**
Inbound	73.0	63.3	**136.3**	70.0	-3.0	-4.1%
Outbound	17.4	29.1	**46.5**	23.6	+6.2	+35.6%

Source: Renewi

Specialities: Improving operational performance

This division is comprised of three independent companies. **UK Municipal** is the largest (accounting for around two-thirds of revenue) and operates waste treatment facilities under five long-term contract arrangements for local councils. **Coolrec** recycles fridges and small domestic appliances, producing secondary materials including metals and plastics for re-use. **Maltha** is a majority-controlled joint venture with O-I, which recycles glass into cullet for reuse in the glass-making process. Coolrec and Maltha are both multi-site businesses operating largely in western Europe.

Divisional revenue and EBIT both showed a recovery versus the COVID-19 affected H121 – with all three businesses experiencing Q121 closures – but also performed above H120 levels. A c 10% y-o-y revenue increase has helped to drive an underlying operating performance improvement at **UK Municipal** sites. That said, at the EBIT level, higher recyclate prices were beneficial but household volume increases – boosted to some extent by lockdowns/increased working from home – have also led to higher levels of residual waste and disposal costs. With onerous contract provision releases slightly below the prior year, our sense is that underlying UK Municipal returns are stable or gradually improving. (Although beyond the end of our estimate period we note that the smallest and largest operating contracts are scheduled to end first, ie Argyll & Bute in 2026, ELWA in 2027.) **Coolrec** was already undertaking some site restructuring before COVID-19 began to have an impact; positive operational leverage from these actions with a strong volume recovery and exposure to rising recyclate prices for secondary materials resulted in revenue growth above that for the division and achieved a c 10% EBIT margin. Consequently, we estimate that it was the main driver of divisional profit growth in H122. With increased market share to come in Belgium through contractual arrangements, the associated volume uplift should serve to further reinforce operational gearing benefits. Lastly, **Maltha** in FY21 suffered from lockdowns and associated constraints on the leisure and hospitality sectors causing glass usage to drop feeding back to glass producer activity and demand for cullet. Belgium is its largest country operation and the sharp volume contraction and recovery was evident in H122 revenue. Note that Maltha would not have benefited from rising recyclate prices in the same way that other group operations have.

In aggregate, at the divisional level the above features were reflected in faster outbound revenue growth compared to inbound. Revenues rebounded by c 10% in the two largest country markets (ie UK and the Netherlands) and by around double this rate across the other countries combined. In a group context, the positive EBIT contribution from Specialities for the second consecutive half year period though modest is notable.

Stable net debt outlook and cash for investment

Renewi ended H122 with €336m core net debt (pre IFRS 16), a reduction of c €8m from the beginning of the year. The chief operating cash flow features were:

- **EBITDA (pre IFRS 16) of c €103m** represented a year-on-year uplift of c €33m, largely following the operating profit increase noted earlier.
- **Working capital saw an outflow of €42m**, which substantially reflected a favourable creditor position at the start of the year normalising in the first half, a period that included the implementation of a new procurement system. (Note that H121 cash flows benefited from c €54m permitted tax payment deferral under Dutch government COVID-19 support schemes; this significantly boosted a c €5m underlying inflow in the period.)
- **Other net operating cash outflows** (the largest of which is UK Municipal onerous contract provisions) **were c €8m** under our analysis, a reduction from €14m in the first half of FY21.

Taken together, **group operating cash inflow in H122 was c €53m**, which was c 10% below H121 on an underlying basis (plus the prior year tax benefit in the reported cash flow statements). This said, COVID-19 impacts initially and high recyclate prices latterly mean that we would caution against drawing strong trend conclusions owing to these temporary business distortions.

Otherwise, it is worth commenting on **group capital expenditure**, which is set to rise across a number of projects designed to add processing capability and increase the value that can be generated from waste volumes handled. Management identified €29.7m net replacement and

€7.5m growth capex spend in H122. While this understandably represented an increase on H121 – when cash preservation actions were clearly required – the c €37m total is not high in a historical context. In the post Shanks/van Gansewinkel merger period, net spend was commonly at or above €40m in any six-month period though the focus then concerned integration and consolidation of the enlarged group. The current strategic phase has a greater orientation towards growth and we discuss some of the active and intended projects in more detail in a later section. For the record, net cash outflows relating to lease liabilities were c €3m in H122, marginally below H121 (and lease liabilities on the balance sheet at the period end were c €242m in total). This section has focused only on what we consider to have been the most significant cash flow features in the first half of FY22 rather than a comprehensive line-by-line analysis.

Cash flow outlook: management anticipates that core net debt (pre IFRS16 basis) will be broadly flat going forward and remaining below 2x EBITDA absent any material M&A. Such activity could lead to a short period above this threshold, though this is not currently anticipated we believe. As described above, the reinvestment of cash generated into growth projects is a key strategic focus, as discussed later in the report. We have modelled capex at or above €100m in each of our three estimate years, including over €120m in FY23. As a rule of thumb, c €80–85m is considered to be a typical replacement spend per annum, so the margin above this indicates what is being earmarked for growth. As projects come onstream, the realised benefits could represent upside to earnings in due course, and we will keep progress here under review. We have factored in a return to paying dividends in FY23, though the decision to do so will be considered against the development of capex plans and after allowing for cash outflows relating to the deferred tax repayment profile and ATM soil placement costs (c €45m and c €20m outstanding respectively, to be spread over two to three years).

At the end of H122, stated group liquidity headroom was €492m, comprising c €412m undrawn revolving credit facility (RCF) capacity and a c €79m cash position at that time. Save for a €100m green retail bond maturing in June 2022, Renewi has no material refinancing scheduled before 2023/24 and has positioned itself well to fund its stated growth plans.

FY22 boosted by recyclate price support

The spike in recyclate prices and the benefit to FY22 trading thus far has been acknowledged and helped to drive a further increase in management guidance at the time of reporting H122 results. This is reflected in our c 17% PBT increase (and 15% EPS uplift) for the current year; we have raised our EBIT expectations for all three divisions, partly offset by higher central costs also. We have not assumed that the windfall benefits of higher recyclate prices are sustained and have left subsequent years' estimates substantially unchanged. (A lower current depreciation run rate and higher balance sheet cash – and hence higher gross debt and interest costs – are the chief elements behind other variations seen in Exhibit 4.) Consequently, FY22 upgrades also flatten the expected rate of progress thereafter though maintaining FY22 profitability in FY23 would be a creditable outturn in our view. Behind these headline numbers, operational improvements from the Renewi 2.0 business optimisation programme and a growing impact from growth investment gradually feeding in support a rising level and quality of earnings in our view.

Exhibit 4: Renewi revised estimates

	EPS, fully diluted, normalised (€)*			PBT, normalised (€m)*			EBITDA (€m)**		
	Old	New	% chg.	Old	New	% chg.	Old	New	% chg.
FY22e	64.1	73.6	+14.8%	68.1	79.5	+16.8%	183.4	183.9	+0.3%
FY23e	73.6	72.5	-1.4%	78.2	78.5	+0.5%	195.0	186.7	-4.2%
FY24e	80.2	77.9	-2.9%	85.1	84.3	-0.9%	203.4	195.5	-3.9%

Source: Edison Investment Research. Note: *IFRS 16 basis. **Pre-IFRS 16.

In the following sections, we draw out some of the investment themes highlighted by Renewi at its capital markets event in October, which focused on the company's innovation programme.

A new strategic phase: Focus on innovation

In 2020, three years after completing the then Shanks Group's merger with van Gansewinkel, Renewi presented its next strategic phase to investors, with a three-to-five-year time horizon. The COVID-19 pandemic has had no subsequent impact on this strategy. In brief, the three primary workstreams – each targeting c €20m EBIT uplifts – are:

- **Renewi 2.0** – improving business efficiency/digitalisation,
- **ATM** – returning to historical levels of activity and
- **Mission 75** – increasing the proportion of waste recycled to 75% of all waste processed

Renewi's October capital markets event focused on its **innovation pipeline**, which addresses the third of these workstreams, higher recycling targets, both quantitatively and qualitatively. In other words, the company is targeting investment in technical innovation to increase both the volume of waste recycled and the value of that processed waste by improving its quality and purity.

Background: at time of setting the Mission 75 recycling target, c 65% of waste handled by the group was recycled. However, only c 16% or group revenues were generated from the sale of processed waste as a secondary material (see Exhibit 5, 'Outbound' lower panel). We believe that waste derived fuel accounted for a significant proportion of this in Commercial and Specialities.

Exhibit 5: Divisional splits – post processing waste outcome & revenue by source

FY21 data	Commercial	Mineralz & Water	Specialities	Total
Outcome % of waste taken in (by volume)				
Recycled	61%	82%	63%	**66%**
Waste derived fuel	11%	N/A	26%	**10%**
Energy from waste incineration	23%	1%	3%	**16%**
Landfill/disposal	5%	17%	7%	**8%**
% of revenue				
Inbound	83%	75%	70%	**80%**
Outbound	11%	25%	30%	**16%**
On-Site	3%	N/A	N/A	**2%**
Other	3%	N/A	N/M	**2%**

Source: Renewi published sources, re-presented by Edison Investment Research

Business model: As a reminder, in crude terms, Renewi generates profit from collection and gate fee income less waste sorting/processing costs and, at the end of the process, either plus net proceeds from selling secondary materials or less additional disposal costs (such as incineration or external landfill). All of the waste taken in generates revenue (through inbound collection and gate fees) but the processed waste can represent a secondary revenue stream or cost. A couple of examples:

- Coolrec (Specialities) receives gate fees for the intake of end of life refrigerators and separates valuable materials (such as plastics and metals), which are recycled and re-sold after secondary processing. In this case, profit is generated from combined gate fee and secondary materials receipts less primary/secondary processing and other disposal costs.
- ATM (Mineralz & Water) recognises revenues when soil intake is processed but up until recently, placing thermally treated soil offtake for re-use has been a business cost. Hence, initial gate fees must cover both processing and disposal costs plus a margin to be profitable.

Clearly, not all waste generates a secondary income stream; as well as some disposal costs, Renewi consumes some of the energy/fuel generated on its own account (and actually in all three divisions). Consequently, the top panel of Exhibit 5 does not map directly onto the lower panel.

As Exhibit 5 showed, outbound (or secondary) revenues accounted for c 16% of the group total in FY21. The equivalent values (before inter divisional adjustments) along with some of the higher volume waste streams are shown in Exhibit 6 (This list is not exhaustive; organic compost, electricity/energy and building materials are examples of other outbound revenue generators.)

Exhibit 6: FY21 Divisional outbound revenues and volume driver examples

	Commercial		Mineralz & Water	Specialities	Group total
Outbound revenues (€m)	**136**		**46**	**90**	**272**
Volume (k tonne)	**Netherlands**	**Belgium**			
Paper	310	145		20	475
Metals	110	37	45	18	210
Plastics	41	26		36	103
Wood	580	264			844

Source: Renewi FY21 results presentation, pages 53–57

Each category above is a generic aggregation, which, in reality, is comprised of a number of different material grades or metal types. It should be noted that Renewi is not fully exposed to market pricing for secondary materials as it uses a dynamic pricing mechanism in many cases, which inversely links inbound fees to indexed prices, which tempers the effect of significant fluctuations. We estimate that residual exposure is in the 40–50% range.

It is clear the Commercial division collects and processes the broadest range and largest volumes and consequently it is where the highest number of potential innovation projects exist. Exhibit 7 shows the disclosed list of opportunities from when the new strategy was launched, updated for the recent capital markets day (CMD).

Exhibit 7: Renewi's innovation pipeline

Project		Investment	Partner	June 2020*	Oct 2021*
Commercial					
Advanced residual waste sorting	BE	€60m	Stand-alone	N/A	€€€€€
Expansion in bio-gas production***	NL - organics	€21m	Stand-alone	€	unchanged
Transition bio-gas from electricity to bio-LNG***	NL - organics		SHELL	€€	unchanged
Upgraded feedstock for chemical recycling of plastics	BE - plastics		Multiple	€€ - €€€€€	€ - €€€
Polyurethane recycling	BE - plastics	€10m	Chemical recycler	€ - €€€	unchanged
Expansion of plastic recycling	BE - plastics		Stand-alone	N/A	€€
Expansion of mattress recycling	NL (in JV)	< €5m	IKEA	€€€	unchanged
Upgraded wood flake supply for low-carbon steel	NL	N/A	ArcelorMittal	€€ - €€€€	unchanged
Cellulose from diapers and incontinence products	NL	N/A	FMCG major	€ - €€€	**
Mineralz & Waste					
Sand, gravel & filler at ATM for construction materials	Build. materials	€17m	Stand-alone	€€€€€	€€€
Next generation bottom ash conversion to construction materials	Build. materials	€2m	Energy-from-waste major	€€€	**

Source: Renewi, capital markets event. Note: *Indicative EBIT returns where each € symbol represents €2m. **These two projects have been returned to an earlier stage. ***Inter-linked projects.

We discuss some of the above projects that were showcased at the CMD shortly but make a few general observations ahead of that. Firstly, Renewi's innovation focus is a dynamic and embedded process underpinned by a stage gate approach overseen by dedicated management that co-ordinates and aligns divisional with group development. The pipeline composition is subject to change; compared to June 2020 for example Exhibit 7 includes two new projects (ie advanced residual waste sorting and expansion of plastic recycling) while two others have returned to earlier stages of approval (ie cellulose recycling and next generation bottom ash conversion) and expected returns are also subject to revision.

We note also that the pipeline is a mix of Renewi stand-alone projects and those in conjunction with a development partner that typically but not exclusively represents an offtake customer. In the former case the development know-how is fully retained by Renewi – and could in principle be transferred to other sites – while joint partnerships could provide opportunities to expand with international customers. Exhibit 6 provides indicative expected investment and returns for each project and we will re-visit the financial considerations later.

Innovation pipeline case studies

Background: there are both environmental and financial drivers that support Renewi's increased focus on process innovation. Within the framework of the UN Paris Agreement[1] the EU is committed to a target of achieving carbon neutrality by 2050 and, as part of this pathway, to reducing greenhouse gas emissions by 40% (between 1990 and 2030). The migration from fossil fuels to renewable energy generation forms a significant part of this as does energy efficiency in general. The implications are however economy-wide and the management of waste forms an integral part. Given that Renewi is a leading player in its markets and its facilities process large volumes of waste annually, the company is ideally positioned to facilitate a further increase in the proportion of recycled waste for re-use at the expense of less environmentally-friendly alternatives (ie incineration and/or disposal via landfill).

In Renewi's primary markets, the Netherlands and Belgium are among Europe's most advanced countries with regards to environmental standards. The UK is also relatively advanced but less so that the other two nations currently. State mechanisms to encourage positive environmental behaviours and discourage negative ones include legislation, regulation, taxation and permit controls. Ultimately, the aim is to achieve a circular economy in which materials have multiple uses through several waste cycles in order to reduce the demand for new primary resources.

The following sections highlight projects that are well advanced in Renewi's innovation pipeline:

- **Advanced waste sorting** (Commercial – Belgium)
- **Biogases & energy generation** (Commercial – Netherlands)
- **Plastics recycling** (Commercial – Netherlands)
- **Secondary building materials** (Mineralz & Waste – ATM)

We then go on to discuss the financial ramifications of this to Renewi in both investment and expected returns terms as well as highlighting how the company is itself taking steps to improve/reduce its own carbon footprint.

Regulatory driver: Advanced waste sorting

In Belgium, the Flemish government issued a Material Decree on the sustainable management of material cycles and waste almost 10 years ago. Vlarema 8 is the latest legislative amendment (passed on 2 July 2021). Among other things, waste producers are obliged to separate waste into 24 defined flows with the aim of increasing the proportion that can be recycled and re-used and so reduce the volume of residual mixed waste that has to be disposed. Moreover, heightened reporting responsibilities are such that waste processors are required to record and report on sorting errors; in our view this represents an opportunity for more advanced sorting as a solution to reduce residual waste volume and as a result strengthen producer/processor commercial relationships.

The largest project shown in Exhibit 7 is €60m spend on advanced sorting lines at three existing Renewi locations in Flanders to separate waste into more refined streams and reduce mixed residual waste content. This has a value to clients by reducing both the onus for on-site sorting and potential exposure to fines for non-compliance. Interestingly this project was not flagged in Renewi's original June 2020 pipeline, so we assume it was in the background and conditional on Vlarema 8 coming into force, which it now has. The lines are to come onstream over a two-to-three-year period overall, with the first of the three lines expected to be commissioned during 2022 and with total annual processing capacity of 400k tonnes. Some of this is likely to represent replacement for the existing 500k tonne capability, which equates to Flanders' commercial market share of around one-third. Note that Vlarema 8 only applies to the Flanders at this stage, though management expects the other Belgian regions to follow.

[1] UN Climate Change Conference (COP21), December 2015

Positive energy: Biogases and energy generation

According to the EU's Smart and Sustainable Mobility Strategy, transport accounts for around one-quarter of its total greenhouse gas (GHG) emissions. Consequently, an increase in the uptake of low carbon fuels and zero emission vehicles among other things is seen as an important part of reducing GHG production to meet Green Deal commitments. So, de-carbonising heavy-duty transportation is an EU-wide challenge and BioLNG (produced from processing organic waste) is seen as a fuel to reduce (harmful gas and particulate) emissions in a renewable way. BioLNG EuroNet data shows that Europe already has a 'blue corridor' of LNG retail stations substantially spread from Poland across to France (with initial sites in Spain and Turkey also). In total, there appear to be around 140 of these locations – with Italy having the most (49) – including 19 in the Netherlands and 10 in Belgium currently. As LNG (the cleanest fossil fuel) and Bio-LNG are considered to be interchangeable fuel types, there is already an established and growing network of fuelling locations, which stimulates demand and investment in fleets and vehicle development.

Renewi already has a significant position in the Netherlands organic waste sector, taking in streams from the horticultural, household and food industry sectors and generating revenues through de-packaging and the sale of compost materials and green electricity from biogases produced. Renewi has expanded its digester/biogas production capacity and partners have co-located plant to purify and liquify methane gas into bio-LNG (by Nordsol) to be distributed into the fuel network (by Shell). This infrastructure is the first of its kind in the Netherlands and was officially opened in October. The initial investment required was €14m with a further €7m earmarked for FY25 to acquire the facility once proven. This is a clear example of additional valorisation of existing waste streams, into a growth subsector that is fully aligned with EU GHG reduction targets.

Higher quality plastics: Plastics recycling

Renewi has stated that only c 29% of plastics consumed in the EU are subsequently recycled (and possibly only half of this is re-used) based on EU data. Moreover, with plastic consumption expected to continue to grow, in the absence of increased recycling activity the volume of plastic waste would also grow unabated. The EU Circular Economy Action Plan 2020 identifies plastics and packaging as some of its key focus product value chains and the direction of travel – increasing re-use (reducing incineration, landfill and exports), raising the proportion of recycled materials in products and driving demand for higher-quality recycled materials – is clear. Momentum for this is being created by a combination of consumer demand pull, brand owners and government and supply chain initiatives and mandatory requirements for recycled plastics content are anticipated.

Renewi's Commercial and specialist waste businesses currently collect and process 100,000 tonnes of rigid plastics annually making it a leader in its core Netherlands and Belgian markets. Hence, with substantial control over waste flows – typically in mixed form – these companies are ideally placed to refine sorting processes to extract different grades of plastics more precisely and supply recycled materials to industrial users who are likely to have an increased requirement for them. Consequently, investment in advanced plastics recycling capacity has been made already with a further, larger one to come, as follows:

- **Ghent** (Commercial, Belgium) – a new building and plastics sorting, grinding and washing plant was installed in FY21 to produce higher purity polyethylene and polypropylene regrinds,
- **Waalwijk** (Coolrec, Netherlands) – in June 2021 a new electrostatic separator came onstream for mixed plastic waste streams to produce other higher purity polymer grades,
- **Acht** (Commercial, Netherlands) – a new hard plastics sorting facility is under development and expected to open early 2023.

A total investment of €10m has been flagged for these facilities, Acht being the largest and still to come. Renewi's broad network provides access to waste flows in the first instance but also permits pre-sorting (ie plastics from non-plastics) and the direction of narrower waste streams to specialised processing locations. We would expect higher purity plastics grades to attract higher customer pricing, a clear illustration of adding and retaining value within Renewi through investment. The development of the recycled plastics market is underway and while it will take time to become embedded – through EU initiatives, manufacturer product development and supply chain capabilities –Renewi is clearly already aligned with this trend and investing ahead of it.

Transformational process: Secondary building materials

Heightened ESG and sustainable business strategies are driving companies to record, report on and track greenhouse gas emissions and their carbon footprint. This not only applies to controllable factors (such as operational emissions and third-party energy provision, classified as scope 1 and scope 2 respectively) but also emissions generated by their supply chain (scope 3). These factors are now also integral to the development of building regulations and planning approvals. Consequently, developers and contractors are reflecting this back down their materials supply chain to be able to report these footprint metrics at project level (for both the build and lifecycle phases). Materials such as sand and gravel – used in their primary, intermediate or in finished product forms – are ubiquitous in the industry and can be carbon intensive in extraction and manufacturing.

Mineralz has an existing presence in the building and construction sector through its processing of incinerator bottom ash from which it first recovers any metals present and then produces enhanced intermediate building materials from the residue. These can be used in a number of applications – such as concrete products, foundations and as a substrate – typically as a partial substitute for sand and gravel applications, variously marketed under the FORZ brand. Its sister Mineralz & Waste company ATM has traditionally supplied cleaned soils used in groundworks but has been developing secondary processing capability to separate treated soil intake into graded building material components gravel, sand and filler. The €10m initial investment for this has substantially occurred already through the installation of in-line graduated sieving processes and storage silos for the lighter filler materials. While there are additional processing costs involved, the crucial point to note is that this potentially transforms the business model by replacing a business cost (ie soil placement) with an income stream from materials sales from substantially the same inputs.

In order to sell these graded materials, they must be certified for use; to generalise somewhat, applications requiring more demanding performance characteristics (such as strength, durability or structural integrity) are likely to have a more stringent test and approval threshold but also be where higher pricing can be achieved. Consequently, we expect a rolling application/approval process by which higher value added markets become accessible and achieved unit prices – and the spread over processing costs – grow over time. (Other factors such as the ease of substitution, the price of alternative materials and prescribed minimum/maximum levels are also likely to influence levels of demand.) We understand that gravel produced at ATM already has some certifications and initial sales have taken place. When operating at full capacity, ATM's 1m tonne processing capability is expected to produce gravel, sand and filler in the ratio of 40:50:10. Note that this is a secondary process and additive to ATM's traditional soil treatment activity and the revenue and earnings generated from it, notwithstanding the uneven market conditions that it is seeing currently. Renewi's investment plans include provision for a further c €7m spend spread over FY23 and FY24, which we imagine is subject to gaining market traction for secondary materials such that additional processing capability is required.

Innovation programme: Financial summary

We now summarise the committed investment programme relating to the innovation projects described above and the phasing of that spend together with management's expected returns.

The programme was first presented to the investment community with the FY20 results and some €19m was spent during the FY21 year, the largest component of which related to additional processing and storage capability at ATM as described above. Spend in the current year will include an advanced sorting line in Flanders and the bio-LNG facility near Amsterdam, which is now operational as stated earlier. Further advanced sorting capacity investment will be the primary driver behind an expected growth capex peak for the current programme in FY24.

Exhibit 8: Renewi – committed investments & returns

Investments	Total €m	FY21	FY22	FY23	FY24	FY25	FY26
Organics	**21**	6	8			7	
Building materials	**17**	10		3	4		
Plastics	**10**	3		7			
Advanced sorting	**60**		13	32	15		
Other	**2**		2				
	110	19	23	42	19	7	
Expected EBIT	**>20**	-4	-2	2	9	19	>20

Source: Renewi. Note that FY26 is included in Exhibit 8 to show when the target EBIT run rate is expected to be achieved. The investment column is left intentionally blank as the capex programme for these projects will have completed by then, but we would expect new projects/further growth capex plans to be feeding in by that time.

Total expected programme spend amounts to €110m and Renewi has an expectation that this will yield incremental EBIT of at least €20m EBIT on an annualised basis – accelerating from FY24 and particularly into FY25 – with a flagged pre-tax return on investment in the 16–20% range. As explained earlier, the projects are spread across Commercial (in both the Netherlands and Belgium), Mineralz & Water (chiefly ATM) and Specialities (ie Coolrec) but we expect the majority of it to accrue in the former division.

In context, the base year being used to measure this increment and other (see below) is FY20 when the group delivered EBIT of €75.5m for continuing businesses, excluding Reym, which was sold during that year.

Valuation: Making the case for growth

On our estimates, Renewi is trading on headline P/E and EV/EBITDA (pre IFRS 16, adjusted for pensions cash) multiples for the current year of 11.4x and 5.7x respectively, falling to 10.8x and 5.5x on the same basis by FY24.

If we made an adjustment for the release of Specialities' onerous contract provisions (we estimate €14m in FY22 reducing to €10m in FY24), the above metrics become 13.6x and 6.2x for this year, reducing to 11.9x and 5.8x by FY24 on this basis. So, as we expect underlying profitability to improve and onerous contract provisions (OCP) released to be lower in FY24 compared to FY22, the difference between the calculation methods narrows.

Renewi does not pay a dividend but is keeping this under review in parallel with progressing its growth investment plans.

Moving from industry consolidation to growth

The waste industry has perhaps been perceived historically as mature. Certainly, in Renewi's largest markets (the Netherlands, Belgium and the UK) significant volume growth is not anticipated and the rate of GDP progress is considered to be a reasonable marker for the sector. That said, we should also point out that apart from during the strict initial lockdown periods of COVID-19 in 2020, waste volumes have proved to be relatively robust overall (albeit with some subsector variations) with respective governments classifying waste management as a key industry.

At the company-specific level, Renewi's recent history has substantially been focused on the Shanks/van Gansewinkel post-merger integration (including non-core business disposals). Consequently, a one-time 'cut costs to grow earnings' angle before reverting to mature market growth may have been the dominant investment proposition perspective. However, the current three-pronged invest to grow strategy means such a viewpoint is out of date, in our opinion. The growing appetite for recycling and material re-use – requiring increased processing, a reduction in residual waste and production of more valuable waste streams in both volume and per unit terms – represents a clear growth opportunity on which Renewi is well positioned to capitalise.

In making the case for Renewi as a growth story, we acknowledge this is not particularly visible in near-term estimates, partly due to the current year boost to earnings from recyclate prices (which is not expected to recur at present levels as outlined earlier). It is also the case that earnings momentum from the current strategic phase is loaded towards the end of our estimate horizon and beyond. As a reminder, Renewi is running three primary workstreams (**Renewi 2.0, ATM** core volume/earnings recovery and the **Mission 75,** innovation-led targeted uplift in recycling rates), each targeting c €20m incremental EBIT uplifts. We now present our estimates alongside Renewi's outlined expected benefits from these three workstreams.

Exhibit 9: Comparing Edison EBIT estimates to targeted gains from strategic programmes

€m	Base year				
Target EBIT net gains	**FY20A**	**FY21A**	**FY22E**	**FY23E**	**FY24E**
1. Innovation/Mission 75	N/A	-4	-2	2	9
2. Renewi 2.0	N/A	1	5	12	20
3. ATM recovery*	N/A	-5	0	8	13
Total EBIT impact		**-8**	**3**	**22**	**42**
Add to base year EBIT	75.5	68	79	97	117
Edison EBIT estimates	75.5	73.0	105.5	105.8	112.1
Variance	N/A	+5.1	+27.0	+8.5	-5.2

Source: Company, Edison Investment Research. Note: *Edison projected EBIT recovery profile back towards €20m.

Exhibit 9 shows actual reported EBIT for FY20 and FY21; the first year forms the base from which the targeted gains are expected to be additive. (In COVID-19 affected FY21, actual EBIT was ahead of the 'steady state plus programme gains' benchmark, indicating improvements in other areas also.)

Moving to our estimate years, targeted gains are fairly modest in FY22 but our EBIT estimate for the current year is c €27m above the implied level. Recall that recyclate prices have boosted profits in the year to date and at the interim stage management flagged a c €24m incremental contribution. Bear in mind this was a year-on-year comparison (ie versus H121) so the H120 delta is likely to have been higher. On this basis, our FY22 EBIT estimate looks reasonable.

Our FY23 EBIT estimate is also above the 'base year plus programme gains' level by €8.5m (c 9%). Subject to market conditions, some residual benefit from recyclate pricing (less than FY22 as prices retrace from record highs but still above FY20 levels) and the possibility of a faster recovery in ATM soil volumes than we have modelled means that this variance should not be particularly exposed to downside risk either.

By FY24, our estimate is tracking slightly below the 'steady state plus targeted gains' run rate. In this year, Exhibit 9 shows a contribution of €42m from the three strategic programmes. Recall that all three are targeting the delivery of an incremental €20m annualised uplift. Consequently, further progress from the Innovation and ATM recovery streams are implicitly anticipated, although we do not publish estimates beyond FY24. Taking a broader view, other factors obviously come into play such as market conditions, the ability to retain added value and broader EU initiatives so the additive nature of the extra investment driven profitability is clearly not a given. We would argue that Renewi has most control over its internally focused Renewi 2.0 and therefore these targets have the least risk. This forms around half of the FY23 and FY24 EBIT uplift targets.

Having outlined the case for growth, we make a final valuation observation. Our FY24e EBIT of c €112m equates to €196m headline EBITDA (pre IFRS 16) or c €184m on an adjusted basis (ie after pension cash contributions and before OCP). Using a DCF methodology[2] we consider the current 719p share price is discounting steady state EBITDA generation of c €181m (or c €173m after OCP[3]), which is approaching €15m below our FY24e estimate. We have already pointed to further upside potential through the successful delivery of the three strategic workstreams in Exhibit 8 and also longer-term drivers for the increasing use of recycled, secondary materials in the EU. We acknowledge that further investment and cash outflow may be required to support value-added processing capability but a flat long-term EBIT/EBITDA profile at, or below, FY24e levels seems highly unlikely and overly pessimistic, in our opinion.

As shown in Exhibit 10, a sustained EBITDA at our projected FY24e (ie c €195m) and WACC of 6.25% generates a share price of 874p, c 22% above current levels.

Exhibit 10: DCF analysis

	EBITDA* €m				
	185	**190**	**195**	**200**	**205**
WACC%					
5.75%	874	935	995	1,056	1,116
6.00%	817	875	932	990	1,048
6.25%	764	819	874	930	985
6.50%	716	769	821	874	927
6.75%	671	721	772	822	873

Source: Edison Investment Research. *EBITDA is on a headline basis (pre IFRS16, unadjusted) and DCF calculations assume that EBITDA generated is flat beyond our estimate years (ie from FY25 onwards) at the levels shown. The table body contains a DCF-derived Renewi share price for each EBITDA/WACC pair.

The above table provides an indication of the sensitivity of the share price outcomes to different EBITDA/WACC combinations either side of our central example. As a final example, delivering and retaining all of the €60m targeted benefits and adding them to the FY20 base year EBIT equates to c €135m or €220m EBITDA (IFRS16 unadjusted). Using this as an input would generate a Renewi price of 1,150p per share.

[2] DCF uses published FY22–FY24 estimates and assumes 'steady state' EBITDA from FY25 onwards (with neutral working capital and capex = depreciation), with a WACC of 6.3% and stock beta of 1.0x

[3] Our DCF assumes that outstanding OCP on the FY24e balance sheet are released evenly over the FY25–FY30 years to a zero balance in the latter year.

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Exhibit 11: Financial summary

m's	2018	2018	2019	2020	2021	2022e	2023e	2024e
March	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS	**Sterling**	**Euros**	**Euros**	**Euros**	**Euros**	**Euros**	**Euros**	**Euros**
Revenue	1,565.7	1,760.3	1,780.7	1,775.4	1,693.6	1,812.6	1,862.8	1,928.2
Cost of Sales	(1,276.9)	(1,419.2)	(1,470.4)	(1,467.5)	(1,408.5)	(1,489.3)	(1,535.2)	(1,584.3)
Gross Profit	288.8	341.1	310.3	307.9	285.1	323.3	327.6	343.9
EBITDA	156.9	176.3	179.7	167.1	159.8	183.9	186.7	195.5
Operating Profit (before GW and except.)	69.1	82.5	85.5	87.6	73.0	105.5	105.8	112.1
Net Interest	(14.2)	(15.0)	(14.4)	(18.5)	(14.0)	(12.8)	(13.8)	(14.3)
Other Finance	(5.1)	(7.1)	(8.4)	(15.7)	(13.5)	(13.5)	(13.5)	(13.5)
JV/Associates	2.3	2.6	0.4	0.9	1.6	0.3	0.0	0.0
Intangible Amortisation	(5.8)	(6.7)	(6.4)	(6.4)	(3.3)	(3.3)	(3.3)	(3.3)
Non Trading & Exceptional Items	(95.7)	(108.4)	(145.1)	(107.1)	(25.9)	(13.0)	(12.0)	(6.0)
Profit Before Tax (Edison norm)	52.1	63.0	63.1	54.3	47.1	79.5	78.5	84.3
Pension net finance costs	(0.6)	(0.7)	(0.6)	(0.2)	0.3	(0.1)	0.0	0.0
Profit Before Tax (Renewi norm)	51.5	62.3	62.5	54.1	47.4	79.4	78.5	84.3
Profit Before Tax (statutory)	(50.0)	(52.8)	(89.0)	(59.4)	18.2	63.1	63.2	75.0
Tax - headline	2.6	1.4	12.4	(1.1)	(7.2)	(14.9)	(19.6)	(21.1)
Profit After Tax (norm)	39.1	47.2	47.5	41.0	35.5	59.6	58.9	63.3
Profit After Tax	(47.4)	(51.5)	(76.6)	(60.5)	11.0	48.2	43.6	54.0
Average Number of Shares Outstanding (m)	80.0	80.0	79.7	79.5	79.5	8.0	8.0	8.0
EPS - Edison norm (p/c) FD	48.6	58.7	60.3	53.6	44.7	73.6	72.5	77.9
EPS - Renewi norm (p/c) FD	48.0	54.0	59.7	53.5	45.0	73.5	72.5	77.9
EPS - (p/c)	(59.1)	(67.8)	(116.5)	(98.0)	13.9	59.5	53.6	66.6
Dividend per share (p/c)	30.5	34.6	16.8	5.2	0.0	0.0	17.9	20.8
Gross Margin (%)	18.4	19.4	17.4	17.3	16.8	17.8	17.6	17.8
EBITDA Margin (%)	10.0	10.0	10.1	9.4	9.4	10.1	10.0	10.1
Operating Margin (before GW and except.) (%)	4.4	4.7	4.8	4.9	4.3	5.8	5.7	5.8
BALANCE SHEET								
Fixed Assets	1,456.3	1,669.2	1,439.6	1,616.8	1,617.8	1,606.2	1,649.0	1,666.3
Intangible Assets	606.3	699.3	605.6	610.1	602.2	599.7	592.3	584.9
Tangible Assets (inc RoU assets)	623.0	710.8	629.1	790.9	794.5	799.7	849.9	874.6
Investments	227.0	259.1	204.9	215.8	221.1	206.8	206.8	206.8
Current Assets	366.2	418.0	533.3	503.3	338.4	395.8	388.1	415.1
Stocks	23.3	26.6	26.0	20.7	20.6	21.8	22.5	23.2
Debtors	279.0	318.4	456.9	288.1	266.3	305.0	311.6	319.7
Cash	63.9	73.0	50.4	194.5	51.5	69.0	54.0	72.3
Current Liabilities	(545.8)	(631.0)	(758.3)	(635.2)	(644.6)	(730.5)	(732.6)	(736.7)
Creditors	(532.9)	(616.3)	(639.6)	(618.4)	(632.3)	(620.3)	(622.4)	(626.5)
Short term borrowings	(12.9)	(14.7)	(118.7)	(16.8)	(12.3)	(110.2)	(110.2)	(110.2)
Long Term Liabilities	(894.3)	(1,019.9)	(895.1)	(1,249.6)	(1,068.6)	(966.9)	(961.0)	(962.0)
Long term borrowings	(489.7)	(558.9)	(483.7)	(634.9)	(382.8)	(305.0)	(325.0)	(345.0)
Other long term liabilities	(404.6)	(461.0)	(411.4)	(614.7)	(685.8)	(661.9)	(636.0)	(617.0)
Net Assets	382.4	436.3	319.5	235.3	243.1	304.6	343.5	382.7
CASH FLOW								
Operating Cash Flow	128.4	143.6	86.8	167.8	258.2	167.9	177.6	198.0
Net Interest	(16.9)	(19.1)	(17.7)	(27.0)	(20.6)	(20.0)	(21.0)	(21.5)
Tax	(6.7)	(7.6)	(13.2)	(10.1)	(14.8)	(13.8)	(19.9)	(19.6)
Net Capex	(81.2)	(92.3)	(99.4)	(73.4)	(62.3)	(100.9)	(127.0)	(104.0)
Acquisitions/disposals	(4.1)	(4.8)	22.7	81.0	2.4	0.8	0.0	0.0
Equity Financing	0.6	0.6	(2.7)	0.6	0.4	1.2	0.0	0.0
Dividends	(24.4)	(27.6)	(27.4)	(8.6)	0.0	0.0	(4.7)	(14.7)
Net Cash Flow	(4.3)	(7.3)	(50.9)	130.3	163.3	35.2	5.1	38.3
Opening core net debt/(cash)	423.9	492.7	500.0	552.0	457.2	343.6	346.2	381.2
IFRS16 lease capital repayments	0.0	0.0	0.0	(38.5)	(40.4)	(40.0)	(40.0)	(40.0)
Other	(10.5)	(0.0)	(1.1)	3.0	(9.3)	2.1	0.0	0.0
Closing core net debt/(cash)	438.7	500.0	552.0	457.2	343.6	346.2	381.2	382.9
Closing PPP/PFI non-recourse net debt	82.9	94.6	95.4	90.0	87.8	79.6	79.6	79.6
IFRS16 Lease finance				202.7	247.8	245.7	250.7	255.7

Source: Company data, Edison Investment Research. Note: *EPS for continuing businesses in FY20 was 51c and the 54c figure shown includes discontinued operations. Please note that the company's shares underwent a 10:1 consolidation on 19 July 2021.

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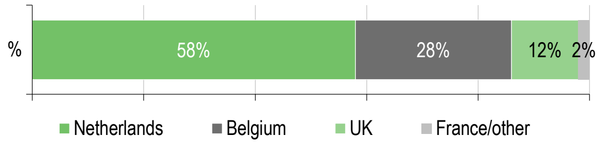
Revenue by geography (FY21)



Management team

CEO: Otto de Bont

Otto became CEO in April 2019 having previously held the position of MD Commercial Waste Netherlands. Prior to Renewi, he worked for United Technologies (at Otis, Carrier and Chubb) and General Electric's Plastics and Security divisions.

CFO: Toby Woolrych

Toby joined Shanks Group as CFO in 2012 and continued as CFO of the enlarged Renewi group following the Shanks/Van Gansewinkel merger in 2017. He previously held a number of senior roles at Medicom International and Johnson Matthey before becoming CFO/COO at Acta and CFO at Consort Medical before joining Shanks. He is also a chartered accountant.

Chairman: Ben Verwaayen

Joined the Renewi board as chairman in April 2020. Formerly CEO of Alcatel-Lucent and BT, vice chairman at Lucent Technologies and president of KPN and chairman of a number of other companies and industry bodies. Currently NED at OFCOM and Akamai Technologies and a founding partner at Keen Venture Partners.

Principal shareholders	(%)
Paradice Investment Management	7.9%
Spice One Investment Cooperatief UA	5.0%
Coast Capital Management	3.9%
Avenue Group	3.4%
Janus Henderson Gorup	3.2%

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