

# Renewi

All divisions on track

Management's unchanged guidance and ongoing focus on debt reduction were the financial headlines for Renewi at the halfway point of FY20. Continued progress in the company's largest division plus ATM appearing to be closer to resolving soil remediation issues are the two key pre-close messages, in our view. Other divisions are also performing in line with management expectations. Valuation multiples remain low in conventional terms with earnings and dividend growth expected to resume in FY21 on our estimates.

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	6.2	9.5
03/19	1,780.7	63.1	6.0	1.7	6.1	4.6
03/20e	1,703.5	47.4	4.5	1.7	8.2	4.6
03/21e	1,758.3	69.0	6.5	2.7	5.6	7.5

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

## Adapting and responding to market challenges

The end H120 update reiterated the AGM message regarding ongoing progress in the **Commercial** division sustained by firmer pricing and synergy benefits. There are likely to be general market effects from trading difficulties at AEB in the Netherlands (most obviously, reduced incinerator capacity and reduced refuse derived fuel or RDF intake) as the supply chain adjusts. Renewi's contractual positions and other mitigating actions taken lead management to believe that there will be little impact on the company during FY20.

Encouragingly, **ATM** appears to be clearing soil testing hurdles to satisfy the regulator in Holland and a re-opening of the market is expected although no firm date is provided. Additionally, ATM has developed potential markets for separated/graded soil components sufficiently to invest in processing capacity in this area; once certified, these products will aid diversification in end market application and revenue generation for the company.

Apart from a new service agreement at Derby, no further detailed comments were made on **UK Municipal** or **Monostreams**, which are performing in line with board expectations. This perhaps indicates greater stability in these two divisions following portfolio adjustments and some management changes, respectively.

Other corporate activities, ie green financing initiatives and business disposals, are as previously reported save for confirmation that the Canadian Municipal disposal completed and the initial C\$82m/c €55m proceeds were received prior to the period end.

## Valuation: Single-digit multiples, c 5% dividend yield

Renewi's share price is broadly flat year-to-date and yet to regain the year high of 37p seen just prior to the FY19 results announcement in May. On our unchanged estimates, the company's P/E and EV/EBITDA (adjusted for pensions cash) compress to 5.2x and 3.8x respectively by FY22 with a prospective FY20 dividend yield of 4.6%.

H120 pre close update

Industrial support services

2 October 2019

**Price** 32.55p

**Market cap** £260m

€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 3.8 13.6 (42.3)

Rel (local) 2.6 15.2 (41.1)

52-week high/low 60.0p 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

Reym disposal completion End October (tbc)

H120 results 7 November

Euronext Amsterdam secondary listing H220e tbc

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**Exhibit 1: Financial summary**

	m	2012	2013	2014	2015	2016	2017	2018	2018	2019	2020e	2021e	2022e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>	<b>Sterling</b>	<b>Sterling</b>	<b>Sterling</b>	<b>Sterling</b>	<b>Sterling</b>	<b>Sterling</b>	<b>Sterling</b>	<b>Sterling</b>	<b>Euros</b>	<b>Euros</b>	<b>Euros</b>	<b>Euros</b>	<b>Euros</b>
Revenue	750.1	614.6	633.4	601.4	614.8	779.2	1,565.7	1,760.3	1,780.7	1,703.5	1,758.3	1,793.1	1,793.1
Cost of Sales	(622.9)	(511.6)	(528.3)	(506.1)	(517.8)	(653.3)	(1,276.9)	(1,419.2)	(1,470.4)	(1,395.2)	(1,440.0)	(1,468.5)	(1,468.5)
Gross Profit	127.2	103.0	105.1	95.3	97.0	125.9	288.8	341.1	310.3	308.3	318.3	324.6	324.6
EBITDA	105.0	88.4	88.5	72.6	69.2	81.6	156.9	176.3	179.7	164.4	183.8	190.3	190.3
Optg Profit (before GW and except.)	53.4	44.9	45.6	34.3	33.4	36.5	69.1	82.5	85.5	75.2	93.1	98.1	98.1
Net Interest	(10.8)	(10.8)	(12.6)	(11.4)	(11.2)	(10.3)	(14.2)	(15.0)	(14.4)	(18.8)	(15.0)	(14.5)	(14.5)
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)	(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	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)	(6.4)
Non Trading & Exceptionals	(2.9)	(37.8)	(20.2)	(40.3)	(21.8)	(85.0)	(95.7)	(108.4)	(145.1)	(65.0)	0.0	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	47.4	69.0	74.6	74.6
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)	(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	47.4	69.0	74.0	74.0
Profit Before Tax (statutory)	29.9	(10.1)	7.6	(20.5)	(2.5)	(61.4)	(50.0)	(52.8)	(89.0)	(24.6)	62.0	67.6	67.6
Tax - headline	(4.2)	(1.1)	(5.8)	2.3	(1.5)	0.5	2.6	1.4	12.4	(11.6)	(16.6)	(17.9)	(17.9)
Profit After Tax (norm)	26.6	22.8	23.2	20.5	19.3	20.1	39.1	47.2	47.5	35.8	52.5	56.7	56.7
Profit After Tax	25.7	(11.2)	1.8	(18.2)	(4.0)	(60.9)	(47.4)	(51.5)	(76.6)	(36.2)	45.5	49.7	49.7
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	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	4.5	6.5	7.1	7.1
EPS - Renewi norm (p/c) FD	6.0	5.0	5.1	4.4	4.2	3.7	4.8	5.4	6.0	4.4	6.5	7.0	7.0
EPS - (p/c)	5.7	(7.9)	(6.3)	(3.8)	(0.9)	(11.4)	(5.9)	(6.8)	(11.7)	(4.6)	5.7	6.2	6.2
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	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	18.1
EBITDA Margin (%)	14.0	14.4	14.0	12.1	11.3	10.5	10.0	10.0	10.1	9.7	10.5	10.6	10.6
Operating Margin (before GW and except.) (%)	7.1	7.3	7.2	5.7	5.4	4.7	4.4	4.7	4.8	4.4	5.3	5.5	5.5

**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	1,385.1	1,393.8	1,401.0	1,401.0
Intangible Assets	271.4	251.8	211.1	173.8	194.5	603.3	606.3	699.3	605.6	573.9	562.9	551.9	551.9
Tangible Assets	390.9	375.3	322.7	282.9	297.0	587.4	623.0	710.8	629.1	606.3	626.0	644.2	644.2
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	204.9
Current Assets	233.6	247.3	265.1	224.0	177.0	348.2	366.2	418.0	533.3	415.8	436.6	443.3	443.3
Stocks	10.5	11.0	9.4	6.9	6.8	19.9	23.3	26.6	26.0	24.7	25.5	26.0	26.0
Debtors	163.3	160.9	151.5	156.3	135.5	253.4	279.0	318.4	456.9	340.7	346.9	351.2	351.2
Cash	59.8	75.4	104.2	60.8	34.7	74.9	63.9	73.0	50.4	50.4	64.3	66.1	66.1
Current Liabilities	(238.7)	(248.9)	(229.6)	(277.4)	(227.2)	(483.2)	(545.8)	(631.0)	(758.3)	(637.2)	(637.4)	(618.7)	(618.7)
Creditors	(226.5)	(230.7)	(226.3)	(202.4)	(224.8)	(466.8)	(532.9)	(616.3)	(639.6)	(608.7)	(608.9)	(615.2)	(615.2)
Short term borrowings	(12.2)	(18.2)	(3.3)	(75.0)	(2.4)	(16.4)	(12.9)	(14.7)	(118.7)	(28.5)	(28.5)	(3.5)	(3.5)
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)	(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)	(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)	(408.0)
Net Assets	370.6	326.3	275.2	251.4	186.0	440.2	382.4	436.3	319.5	269.8	300.3	334.0	334.0

**CASH FLOW**

Operating Cash Flow	109.9	67.7	78.6	55.8	72.2	27.9	128.4	143.6	86.8	130.2	166.3	181.0	181.0
Net Interest	(13.4)	(11.5)	(13.2)	(12.8)	(12.8)	(19.0)	(16.9)	(19.1)	(17.7)	(18.8)	(15.0)	(14.5)	(14.5)
Tax	(7.1)	1.9	(1.6)	(5.7)	(4.8)	(5.3)	(6.7)	(7.6)	(13.2)	(11.6)	(16.6)	(17.9)	(17.9)
Net Capex	(74.8)	(50.1)	(27.1)	(37.2)	(25.8)	(41.2)	(81.2)	(92.3)	(99.4)	(106.1)	(105.8)	(105.8)	(105.8)
Acquisitions/disposals	(19.6)	(59.2)	(54.1)	(67.3)	18.2	39.5	(4.1)	(4.8)	22.7	106.0	0.0	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	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)	(15.9)
Net Cash Flow	(18.3)	(64.5)	(30.9)	(80.8)	33.6	123.3	(4.3)	(7.3)	(50.9)	86.2	13.9	26.8	26.8
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	461.8	447.9	447.9
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	0.0
Other	19.5	93.4	55.3	78.7	(71.2)	(354.6)	(10.5)	(0.0)	(1.1)	4.0	(0.0)	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	552.0	461.8	447.9	421.1	421.1
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	95.4

Source: Company accounts, Edison Investment Research. Estimates are for continuing businesses only.

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