# Renewi

Full year results

## Resilient platform to accelerate growth

Industrial support services

**Increasing European legislation for recycling and recycled content provides a positive backdrop for Renewi as a waste treatment company (63.6% of waste treated was recycled in FY23). Stable FY23 results in a more challenging economic environment offer a solid platform for the management to deliver on its new target to grow sales (and profit given the margin expectations) by c 50% over the next five years.**

| Year end | Revenue (€m) | PBT* (€m) | EPS* (c) | DPS (c) | P/E (x) | Yield (%) |
|---|---|---|---|---|---|---|
| 03/22 | 1,869 | 105.3 | 98 | 0 | 6.3 | N/A |
| 03/23 | 1,892 | 103.7 | 90 | 0 | 6.9 | N/A |
| 03/24e | 1,925 | 92.4 | 81 | 5 | 7.6 | N/A |
| 03/25e | 2,007 | 104.0 | 92 | 10 | 6.8 | 1.6 |

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

## Resilient performance in more difficult markets

Economic slowdown affected volumes in the Netherlands and Belgium, which, combined with inflationary pressures, provided significant headwinds. Pricing and cost actions largely compensated, enabling overall profitability to be maintained (EBIT €132.9m vs €133.6m in FY22). Earnings per share declined 8% due to the higher tax charge and minorities. Cash generation was positive despite continued growth investment in circular innovations (primarily additional sorting lines), development of end products at ATM and the Renewi 2.0 digitisation programme. Underlying net debt increased from €303m to €371m due primarily to the acquisition of Paro in the year.

## Medium-term strategy update

Management revealed a medium-term (FY28) target to add c €1bn of revenues (c 50%) at 'high single digit margins or better' (FY23 margin 7.0%) to be achieved half through organic growth and half from acquisitions. Management pointed to €400m of internally generated growth ideas, while c 20% market share suggests consolidation opportunities in the Netherlands and Belgium. Management will also consider specialist recycling acquisitions (eg electricals), in other territories.

## Outlook and forecasts

Management guidance is unchanged with the addition of the intention to pay a dividend in FY24. However, we have adjusted our numbers, primarily at the EPS level to reflect higher tax rate and minorities; FY24 EBIT €128m to €129m, PBT €93m to €92m, EPS €0.84 to €0.81. Our dividend expectation is unchanged at €0.05 a share.

## Valuation

Our European peer group comparison provides a valuation of 913p after taking into account 154p per share for the UK municipal contract provisions. Our DCF valuation, using a cost of capital of 9.5% and terminal growth rate of 2%, comes to 926p. This suggests a significant valuation gap, which we would expect to narrow as the consistency of earnings and growth initiatives come through.

**30 May 2023**

| | |
|---|---|
| **Price** | **540p** |
| **Market cap** | **£442m** |
| | €1.15/£ |
| Net debt pre-PPPs and leases at 31 March 2023 | €371m |
| Shares in issue | 80.3m |
| Free float | 98.8% |
| Code | RWI |
| Primary exchange | LSE |
| Secondary exchange | Amsterdam Euronext |

### Share price performance


| % | 1m | 3m | 12m |
|---|---|---|---|
| Abs | 10.5 | (22.1) | (21.4) |
| Rel (local) | (4.0) | (18.6) | (21.2) |
| 52-week high/low | | 851.0p | 489.0p |

### 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

| | |
|---|---|
| AGM | 13 July |
| Half year results | 9 November |

### Analyst


David Larkam +44 (0)20 3077 5700

industrials@edisongroup.com

Edison profile page


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# FY23 results

## Overall

The results were similar to the record FY22, despite more difficult trading conditions from a weaker economic environment and inflationary pressures in the key Netherlands and Belgium markets along with softening recyclate pricing from Q2. Sales increased 1%, due to the Paro acquisition, and margins decreased marginally from 7.1% to 7.0% leaving operating profit flat. PBT was down 1% but earning per share down 8% due to an increased tax rate due to geographical profit mix and higher minority interests (strong performance from Maltha). Underlying cash generation was positive but net debt (before UK Public Private Partnership debt and finance leases) increased to €371m due to the Paro acquisition.

## Commercial Waste division

**Exhibit 1: Commercial division results (€m)**

| | FY21 | FY22 | H1 | H2 | FY23 |
|---|---|---|---|---|---|
| **Revenue:** | | | | | |
| Netherlands | 828.4 | 896.2 | 459.3 | 472.7 | 932 |
| Belgium | 412.9 | 466.9 | 235.1 | 233.3 | 468.4 |
| Intersegment | (0.7) | (2.6) | (1.6) | (1.5) | (3.1) |
| Revenue | 1,240.6 | 1360.5 | 694.4 | 702.9 | 1397.3 |
| **Operating margin:** | | | | | |
| Netherlands | 6.5% | 10.4% | 8.8% | 7.7% | 8.3% |
| Belgium | 5.6% | 9.1% | 12.0% | 10.4% | 11.2% |
| Operating margin | 6.2% | 10.0% | 9.9% | 8.7% | 9.3% |
| **Operating profit:** | | | | | |
| Netherlands | 53.7 | 93.1 | 40.3 | 36.6 | 76.9 |
| Belgium | 23.1 | 42.6 | 28.1 | 24.3 | 52.4 |
| Operating profit | 76.8 | 135.7 | 68.4 | 60.9 | 129.3 |

Source: Renewi

The Netherlands performance decreased due to delays in price increases, reflecting contract terms, and cost actions as the market softened as well as mix, including higher exposure to weaker recyclates (eg paper). Trading at the Paro acquisition, now called Renewi Westport, was disrupted by integration issues, reporting a small loss for the period. Belgium revenue was flat with an improved mix as low-margin business was exited, which, with pricing and cost actions undertaken early, enabled further margin progression. Investment in an advanced sorting line in Ghent is expected to assist in the current year with a similar facility at Puurs also under construction.

## Mineralz & Water division

**Exhibit 2: Mineralz & Water division results (€m)**

| | FY21 | FY22 | H1 | H2 | FY23 |
|---|---|---|---|---|---|
| Revenue | 182.8 | 193.9 | 93.3 | 97.6 | 190.9 |
| Operating margin | 0.2% | 3.0% | 2.8% | -2.2% | 0.3% |
| Operating profit | 0.3 | 5.8 | 2.6 | (2.1) | 0.5 |

Source: Renewi

The Mineralz & Water division's performance was affected by one-off costs concerning an operating issue in the water business in Q4, offsetting positive volumes, and continued costs associated with the legacy TGG (thermally treated soil) stockpile and disposal. The residual soil has been reduced from 1,500kt in 2020 to 600kt and, while little progress was made in FY23, contracts are in place for 130kt and in finalisation for a further 300kt supporting management aims to fully resolve this issue before the end of FY25. In conjunction, development continues to progress the sand, gravel and filler lines to enable future conversion to products that can be used primarily in the concrete industry.

## Specialities division

**Exhibit 3: Specialities division results (€m)**

| | FY21 | FY22 | H1 | H2 | FY23 |
|---|---|---|---|---|---|
| Revenue | 300.7 | 350.1 | 186.3 | 162.3 | 348.6 |
| Operating margin | 0.8% | 1.2% | 6.1% | 3.6% | 4.9% |
| Operating profit | 2.4 | 4.1 | 11.3 | 5.8 | 17.1 |

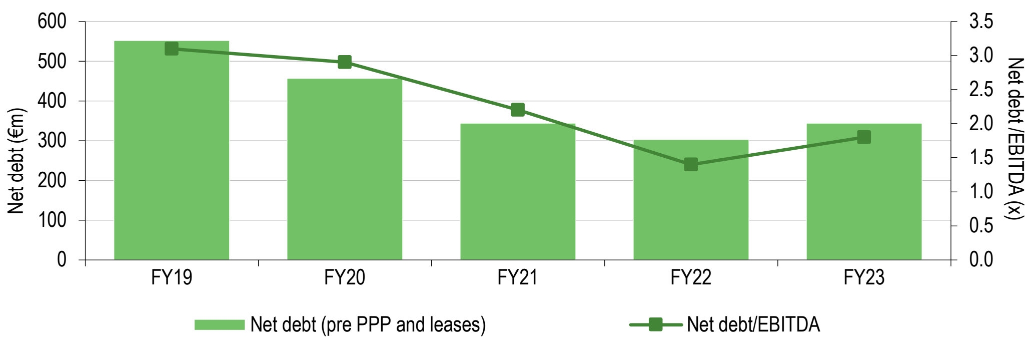
Source: Renewi

The Specialities division's strong performance was driven by 'excellent' performances in the specialist recycling operations, Maltha (glass) and Coolrec (electricals), along with IAS37 accounting changes benefiting UK Municipals performance by €5m. The specialist recycling businesses continue to build strong customer relationships, including agreements with Playmobil and Electrolux, as companies increase the level of recycled content in their products and are therefore looking to secure high-quality, long-term supply. The UK Municipals public private partnership (PPP) provisions were increased by €27m to reflect inflation, additional cost and lower volume impacts with a further €52m adjustment made to the opening provision to reflect the adoption of IAS37 requiring central costs for managing the contracts to be provided for.

## Cash flow

Cash generation before acquisitions (€60.5m including debt) was positive but continues to be held back by a number of factors. These include provision spend (COVID-19 tax deferrals €19.7m, UK Municipals €12.2m and ATM soil offtake €1.2m), investment in growth projects (growth capex €30.8m, Renewi 2.0 and other €4.1m) as well as maintenance capex and working capital outflows reversing COVID-19 restraints. Net debt was €371m (excluding €69m UK PPP debt and €255m leases associated with the vehicle fleet and long leaseholds for waterside properties in the Netherlands) with net debt/EBITDA of 1.8x. FY24 cash flow will be similarly affected. However, a number of these issues (COVID-19 tax deferral catch up, additional capex and Renewi 2.0) will be significantly reduced or completed in the year, enabling improved cash generation in FY25.

**Exhibit 4: Debt progression**




Source: Renewi

## Strategic progress

Management has previously targeted €60m of additional EBIT by FY26, of which €20m has been delivered to date. The digitalisation/restructuring programme Renewi 2.0 is largely complete, with €20m run-rate benefits expected to be achieved in FY24 at a cost of €28m against the budgeted €40m. The associated investment in digital is also starting to deliver significant commercial benefits.

The €100m capex programme in circular innovations has seen €60m deployed with the key project, three advanced sorting lines in Belgium, which are due to post their first meaningful commercial revenues in FY24. The final element, the turnaround of ATM, is around one year behind schedule but still on target for at least €20m benefit by FY26. A further element of the strategy is to increase the recycling rate to 75%. The reported rate increased from 61.8% to 63.6% although it is worth noting the adoption of international standards has seen a reduction in the reported rate (due primarily to the classification of water evaporation).

## Outlook and strategy

Management's expectations for the current year are unchanged. In the Commercial division, volumes are expected to follow economic patterns and, while profitability will benefit from cost and pricing actions, there will be a headwind from lower recyclate prices, which benefited Q123. Mineralz & Water should return to more normal trading in the absence of the one-off costs in water. More interesting were management's comments on medium-term targets to add c €1bn or c 50% to revenue by 2028 at 'high single digit margins as a minimum', which compare to group returns of 7.0% in FY23. This is to come from a combination of organic growth and acquisitions. The corporate activity strategy includes consolidation within the key Netherlands and Belgium markets (current market share c 20%) along with specialist businesses in other territories. Management guidance is for €100m a year acquisition spend, the group has over €300m of available liquidity, along with the intention to maintain a strong balance sheet with net debt/EBITDA around 2x.

# Forecasts

Management has not changed guidance. However, we have adjusted our forecasts, primarily EPS, factoring in a higher tax rate to reflect the mix of profits, increased balance towards Belgium, and higher minorities reflecting their improved performance in FY23.

**Exhibit 5: Forecast changes (€m)**

| | FY24e | | | FY25e | | |
|---|---|---|---|---|---|---|
| | Old | New | Change | Old | New | Change |
| Revenues | 1,927 | 1,925 | -0.1% | 2,006 | 2,007 | 0.0% |
| Normalised operating profit | 128 | 129 | 0.9% | 139 | 147 | 5.6% |
| Normalised operating profit margin | 6.7% | 6.7% | 0.1% | 6.9% | 7.3% | 0.4% |
| Normalised PBT | 93 | 92 | -0.6% | 100 | 104 | 4.2% |
| Reported PBT | 79 | 82 | 3.0% | 94 | 98 | 4.5% |
| Normalised basic EPS (c) | 84 | 81 | -3.5% | 90 | 92 | 1.4% |
| Dividend per share (c) | 5 | 5 | 0.0% | 10 | 10 | 0.0% |
| Closing core net debt/(cash) | 462 | 429 | -7.1% | 480 | 441 | -8.1% |
| Closing PPP/PFI lease finance | 222 | 255 | 14.8% | 222 | 255 | 14.8% |
| Closing net debt/(cash) | 763 | 753 | -1.3% | 781 | 765 | -2.0% |

Source: Edison Investment Research

## Valuation

Our peer group valuation looks across Europe, reflecting the lack of UK-listed peers. Note that we have adjusted our valuation to reflect the provisions associated with the UK Municipal onerous contracts (€142m or 154p a share as per note 13 in the financial release). This provides an average price of 913p a share.

**Exhibit 6: P/E based peer valuation**

| | Market cap | P/E | | |
|---|---|---|---|---|
| Company | £m | 2023e | 2024e | 2025e |
| Befessa | 1,326 | 16.5 | 13.3 | 13.1 |
| Groupe Pizzono | 163 | 10.5 | 16.0 | 15.3 |
| Lassila & Tikanoja | 337 | 13.2 | 11.6 | 10.9 |
| Mo-Bruk | 186 | 9.2 | 8.2 | 7.2 |
| Seche | 691 | 14.8 | 13.8 | 11.5 |
| Veolia | 16,986 | 15.0 | 12.4 | 11.5 |
| Cabka | 144 | 32.8 | 15.8 | 10.5 |
| Average | | 16.0 | 13.0 | 11.4 |
| Renewi EPS (c) | | 81.0 | 92.0 | 104.0 |
| Renewi valuation per share (c) | | 1295 | 1197 | 1189 |
| Provisions per share (c) | | (178) | (178) | (178) |
| Renewi valuation per share (c) | | 1118 | 1019 | 1011 |
| Renewi valuation per share (p) | | 972 | 886 | 879 |

Source: Refinitiv (24 May 2023), Edison Investment Research

Our DCF valuation is not adjusted for the provisions as these are taken into account within the cash flow forecasts. Exhibit 7 provides a valuation relative to the cost of capital and terminal growth rate. A cost of capital of 9.5% and a conservative terminal growth rate of 2% translate to a valuation of 926p a share.

**Exhibit 7: DCF valuation sensitivity, p/share**

| | Terminal growth rate | | | |
|---|---|---|---|---|
| Cost of capital | 1.0% | 2.0% | 3.0% | 4.0% |
| **11.0%** | 633 | 690 | 762 | 853 |
| **10.5%** | 693 | 760 | 843 | 953 |
| **10.0%** | 760 | 838 | 937 | 1,070 |
| **9.5%** | 835 | 926 | 1,045 | 1,208 |
| **9.0%** | 920 | 1,028 | 1,172 | 1,374 |
| **8.5%** | 1,016 | 1,146 | 1,322 | 1,577 |
| **8.0%** | 1,127 | 1,283 | 1,502 | 1,831 |

Source: Edison Investment Research

**Exhibit 8: Financial summary**

| €m | 2022 | 2023 | 2024e | 2025e | 2026e |
|---|---|---|---|---|---|
| Year to 31 March (€m) | IFRS | IFRS | IFRS | IFRS | IFRS |
| **INCOME STATEMENT** | | | | | |
| Revenue | 1,869.2 | 1,892.3 | 1,924.9 | 2,007.1 | 2,092.3 |
| Cost of Sales | (1,512.5) | (1,538.4) | (1,563.0) | (1,625.7) | (1,694.7) |
| Gross Profit | 356.7 | 353.9 | 361.9 | 381.3 | 397.5 |
| EBITDA | 261.5 | 257.0 | 254.9 | 274.8 | 294.6 |
| Operating profit (before amort. and excepts.) | 133.6 | 133.6 | 132.9 | 129.4 | 146.9 |
| Amortisation of acquired intangibles | (3.4) | (5.0) | (5.5) | (6.0) | (6.0) |
| Exceptionals | (6.2) | (5.6) | (5.0) | 0.0 | 0.0 |
| Reported operating profit | 124.0 | 122.3 | 118.9 | 140.9 | 155.6 |
| Net Interest | (28.8) | (29.2) | (37.1) | (42.9) | (44.1) |
| Joint ventures & associates (post tax) | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Profit Before Tax (norm) | 105.3 | 103.7 | 92.4 | 104.0 | 117.5 |
| Profit Before Tax (reported) | 95.7 | 93.1 | 81.9 | 98.0 | 111.5 |
| Reported tax | (20.3) | (26.5) | (20.5) | (24.5) | (27.9) |
| Profit After Tax (norm) | 78.8 | 75.6 | 67.9 | 77.0 | 86.9 |
| Profit After Tax (reported) | 75.4 | 66.6 | 61.4 | 73.5 | 83.6 |
| Minority interests | (0.9) | (3.7) | (2.5) | (3.0) | (3.0) |
| Net income (normalised) | 77.9 | 71.9 | 65.4 | 74.0 | 83.9 |
| Net income (reported) | 74.5 | 62.9 | 58.9 | 70.5 | 80.6 |
| Av. Shares outstanding (m) | 79.7 | 80.3 | 80.5 | 80.7 | 81.0 |
| EPS - normalised (c) | 98 | 90 | 81 | 92 | 104 |
| EPS - normalised fully diluted (c) | 98 | 89 | 81 | 91 | 103 |
| EPS - basic reported (c) | 93 | 78 | 73 | 87 | 100 |
| Dividend (c) | 0.0 | 0.0 | 5.0 | 10.0 | 12.5 |
| Revenue growth (%) | 10.4 | 1.2 | 1.7 | 4.3 | 4.2 |
| Gross Margin (%) | 19.1 | 18.7 | 18.8 | 19.0 | 19.0 |
| EBITDA Margin (%) | 14.0 | 13.6 | 13.2 | 13.7 | 14.1 |
| Normalised Operating Margin | 7.1 | 7.0 | 6.7 | 7.3 | 7.7 |
| **BALANCE SHEET** | | | | | |
| Fixed Assets | 1,565.9 | 1,686.2 | 1,730.7 | 1,767.9 | 1,794.8 |
| Intangible Assets | 592.8 | 636.3 | 630.8 | 625.3 | 619.8 |
| Tangible and Right-of-use Assets | 767.4 | 871.0 | 921.0 | 963.7 | 996.1 |
| Investments & other | 205.7 | 178.9 | 178.9 | 178.9 | 178.9 |
| Current Assets | 385.9 | 399.3 | 403.6 | 423.6 | 444.8 |
| Stocks | 22.5 | 25.2 | 27.2 | 28.4 | 29.6 |
| Debtors | 269.3 | 289.6 | 294.6 | 313.5 | 333.4 |
| Cash & cash equivalents | 63.6 | 62.7 | 60.0 | 60.0 | 60.0 |
| Other | 30.5 | 21.8 | 21.8 | 21.8 | 21.8 |
| Current Liabilities | (732.7) | (665.4) | (695.6) | (713.3) | (731.5) |
| Creditors | (528.4) | (521.8) | (518.8) | (536.5) | (554.7) |
| Tax and social security | (24.2) | (31.2) | (31.2) | (31.2) | (31.2) |
| Short term borrowings | (148.9) | (66.8) | (100.0) | (100.0) | (100.0) |
| Other | (31.2) | (45.6) | (45.6) | (45.6) | (45.6) |
| Long Term Liabilities | (880.9) | (1,072.8) | (1,039.1) | (1,011.2) | (963.8) |
| Long term borrowings | (518.7) | (681.6) | (712.9) | (725.0) | (702.6) |
| Other long term liabilities | (362.2) | (391.2) | (326.2) | (286.2) | (261.2) |
| Net Assets | 338.2 | 347.3 | 399.6 | 467.0 | 544.3 |
| Minority interests | (7.0) | (10.1) | (10.1) | (10.1) | (10.1) |
| Shareholders' equity | 331.2 | 337.2 | 389.5 | 456.9 | 534.2 |
| **CASH FLOW** | | | | | |
| Operating Cash Flow | 261.5 | 257.0 | 254.9 | 274.8 | 294.6 |
| Working capital | (59.9) | (23.8) | (10.0) | (2.3) | (2.9) |
| Exceptional & other | (17.1) | (23.6) | (71.0) | (41.0) | (26.0) |
| Tax | (7.6) | (21.2) | (24.5) | (27.1) | (30.5) |
| Net operating cash flow | 176.9 | 188.4 | 149.4 | 204.4 | 235.1 |
| Capex | (77.3) | (118.1) | (125.0) | (120.0) | (115.0) |
| Acquisitions/disposals | (3.2) | (60.7) | 0.0 | 0.0 | 0.0 |
| Net interest | (17.2) | (21.3) | (37.7) | (43.5) | (44.7) |
| Equity financing | (1.6) | (4.7) | 0.0 | 0.0 | 0.0 |
| Dividends | 0.0 | 0.0 | 0.0 | (8.0) | (8.0) |
| Net Cash Flow | 77.6 | (16.4) | (13.2) | 32.9 | 67.4 |
| Opening net debt/(cash) | (343.7) | (303.1) | (370.7) | (428.9) | (441.0) |
| FX | 7.6 | (0.2) | 0.0 | 0.0 | 0.0 |
| Other non-cash movements | (44.6) | (51.0) | (45.0) | (45.0) | (45.0) |
| Closing net debt/(cash) | (303.1) | (370.7) | (428.9) | (441.0) | (418.6) |
| Finance Leases (FRS16) | (221.9) | (254.8) | (254.8) | (254.8) | (254.8) |
| PPP non-recourse | (79.1) | (69.3) | (69.3) | (69.3) | (69.3) |
| Closing net debt/(cash) | (604.1) | (694.8) | (753.0) | (765.1) | (742.7) |

Source: Renewi, Edison Investment Research estimates

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London | New York | Frankfurt
20 Red Lion Street
London, WC1R 4PS
United Kingdom