EDISON

Renewi

Expectations raised

H121 results

Industrial support services

H121 ended strongly for Renewi, recovering from earlier COVID-19 impacts that turned out to be less than management had previously anticipated. Relatively more resilient waste markets and actions taken to control cash flows and reduce costs contributed to this outturn. We have moved estimates ahead in all three forecast years.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
03/19	1,780.7	63.1	6.0	1.7	4.6	6.2
03/20	1,775.4	54.3	5.4	0.5	5.1	1.8
03/21e	1,587.1	22.2	2.0	0.0	13.8	N/A
03/22e	1,691.3	46.4	4.3	0.0	6.4	N/A
03/23e	1,754.5	69.8	6.6	0.6	4.2	2.2

Note: *PBT and EPS (fully diluted) are normalised, excluding pension net finance costs, amortisation of acquired intangibles and exceptional items. FY20- are on an IFRS 16 basis.

Managing through COVID-19-disrupted markets

Group revenue and EBITDA for the period were both down just 3% although underlying EBIT fell c 25% year-on-year. Within the divisions, Commercial volumes recovered well in Q2 versus Q1 and although EBIT was lower, and effectively drove the overall group result, a €29.4m contribution was impressive in the circumstances. Mineralz & Water (M&W) made a small profit, with signs of momentum picking up at ATM. Specialties broke even overall and group central service costs were squeezed down. It is early days in the implementation of Renewi's new strategy but there are indications of progress already in the three main strands (Renewi 2.0 cost reduction, investment in process innovation and recovery at ATM). Core net debt was €381m at the end of H1; adjusting for COVID-19-related deferred tax benefits underlying cash inflow was a positive c €10–15m. Reduced capex, no final FY20 dividend and much reduced exceptional outflows all contributed to this outturn. No H121 dividend was declared, as expected.

FY21 outlook and lower finance costs raise estimates

Management remains cautious against a background of the latest lockdowns but is still very positive about the medium-/longer-term business drivers. This said, FY21 is flagged as likely to be materially ahead of previous expectations. Consequently, we have raised our current year divisional and group EBIT estimates, with lower expected interest costs contributing to higher PBT and EPS projections in all three of our estimate years. Specifically, our earnings forecasts have more than doubled for FY21 and increased by 6–10% in the following two years.

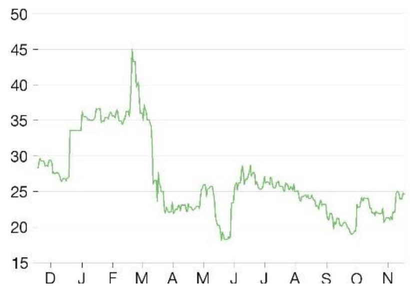
Valuation: Improving risk/reward

Renewi's share price picked up ahead of the H121 results announcement but has not continued to do so since, despite positive management messaging, and is at a similar level to the end of March when the outlook was much more uncertain. On our revised estimates, the FY22e P/E and EV/EBITDA multiples are 6.4x and 4.2x respectively. With markets stabilising, debt under control and a new strategy starting to be implemented, the risk/reward balance looks to be on an improving trend, in our view.

18 November 2020

Price	**24.6p**
Market cap	**£197m**
	€1.12/£
Core group ongoing net debt (ex-PPP/PFI finance and IFRS 16 leases, €m) at end September 2020	381
Shares in issue	800.1m
Free float	98.8%
Code	RWI
Primary exchange	LSE
Secondary exchange	Euronext Amsterdam

Share price performance



%	1m	3m	12m
Abs	11.8	0.4	(15.8)
Rel (local)	3.5	(4.5)	(5.4)
52-week high/low		45.0p	18.1p

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

FY21 end	March 2021

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Edison profile page

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H121 results overview

After an uncertain start, trading performance and visibility improved as H121 progressed and to a greater extent than management had anticipated. Actions taken to reduce costs and contain cash outflows resulted in a lower net-debt position at the end of the period and a stable group financing position.

Exhibit 1: Renewi interim divisional splits (€m)

€m	H120	H121	% change y-o-y
Group revenue	**850.7**	**821.4**	**-3.4**
Commercial Waste	630.8	595.0	-5.7
Netherlands (inc Orgaworld)	408.5	396.8	-2.9
Belgium	222.9	198.5	-10.9
Intra-segment	-0.6	-0.3	
Mineralz & Water	74.6	90.4	21.2
Specialities	159.1	149.4	-6.1
Inter-company adjustment	-13.8	-13.4	-2.9
Group operating profit	**37.8**	**28.3**	**-25.1**
Commercial Waste	40.7	29.4	-27.8
Netherlands (inc Orgaworld)	26.1	21.1	-19.2
Belgium	14.6	8.3	-43.2
Mineralz & Water	2.5	2.3	-8.0
Specialities	-0.2	0.0	
Group central services	-5.2	-3.4	

Source: Company

Commercial Waste: Volumes recover as H121 progressed

The Commercial division is the leading operator of waste collection services and sorting and processing facilities in the Netherlands (now including Orgaworld) and Belgium. The primary waste sectors served are industrial and commercial, domestic, construction and demolition (Netherlands only) and Hazardous (Belgium only). Of the c 13m tonnes processed per year, c 65% is recycled generating a secondary revenue stream.

The division experienced an initial impact from COVID-19 lockdowns at the beginning of FY21 but maintained full operational capacity throughout, with limited use of furlough schemes, and saw volumes recover well as the half progressed. Restrictions in the **Netherlands** were less severe but this pattern was reflected there with year-on-year volumes in Q1 down 6% and Q2 down 3% and we presume that in broad terms, this applied to both received waste and secondary materials produced. Revenue in the Netherlands was c 3% lower year-on-year, which indicates there was some improvement in average pricing in overall terms; given that recyclate income was down by 20%, entirely a market pricing effect, the inference is that inbound/gate fees were raised to compensate. A combination of dynamic pricing agreements (which inversely link intake charges with market recyclate prices such as cardboard, plastics, metals) and annual price reviews were responsible for this average pricing uplift. For the same reason, we understand there has been less market pressure on incineration costs; Renewi typically has volume contracts in place for significant proportions of its expected non-recyclable waste streams. With regard to the mix of waste streams handled in the Netherlands, bulk/domestic subsector volumes were c 30% up year-on-year in H1, reflecting more home working we believe. Construction/demolition volumes were also slightly ahead, commercial slightly behind while roller bin waste was down more substantially (c 25%) with core hospitality and leisure customer trade much reduced. In general terms, the Netherlands sector trends were also seen in **Belgium,** although its more restrictive lockdown (with higher apparent COVID-19 mortality rates and guidelines more similar to the UK in closing down non-essential businesses) amplified year-on-year volume shortfalls. Core volumes fell by 18%, comprising a drop of 24% in Q1 and a 10% decrease in Q2, which signifies a marked recovery as the half progressed.

With revenue tracking c 11% below H120, positive average pricing effects on inbound waste helped to dampen the underlying volume performance, as seen in the Netherlands. Nevertheless, some capacity is being taken out in Belgium with the closure of two lines, in Ghent and Houthalen, with the associated cost reported as a H121 exceptional item. This is part of a wider structural cost-reduction programme at group level aiming to generate c €18m of savings this year.

Divisional level profitability reduced c 28% on a c 6% lower revenue base. The percentage decline in the Netherlands was less than in Belgium although in value terms the movements were similar, including higher depreciation in the former case. Overall, the divisional EBIT margin was 160bp lower at 4.9%.

M&W: ATM rebuilding soil activities

M&W has a broad soil treatment service capability (including thermal and washing processes) based in the Netherlands, with a developing model to produce graded building materials as an additional revenue stream. This division also undertakes specialist water, chemical and sludge processing services and operates three landfill sites (one in the Netherlands, two in Belgium).

Physical soil treatment volumes at ATM ramped up in H1 (c 300,000 tonnes of thermally treated soil, or TGG, produced +43%) and was one of the key drivers behind the M&W revenue uplift seen in H1. This activity pulled through untreated soil inventory and freed up hitherto full storage space, permitting the intake of new volumes from the market. Water and chemical/sludge treatment volumes were both down y-o-y (by 10% and 5% respectively); other things being equal this would infer that soil-related revenues actually rose by more than the c €16m divisional headline revenue increase. This was made up of c €10m from inbound volume (+c 15% y-o-y) and €6m from treated outbound (+c 53%). Information in the H121 results presentation showed that soil-related revenues were well ahead y-o-y throughout the first half (Q1+15%, Q2 +87% y-o-y), albeit from a relatively low base. In addition, Mineralz activity was constrained in Q1 but came back strongly in Q2 (-22% and +24% y-o-y respectively), with landfill income especially positive.

Soil shipments from ATM rose during H1 and almost 200,000 tonnes of thermally treated soil was placed in the period. We believe that the majority of this was TGG with relatively small amounts of graded volumes for use in building materials. Hence, most of this tonnage would have had an associated disposal cost which, along with carrying third-party offsite soil storage costs (previously treated as an exceptional cost), represented a headwind in H1. Nevertheless, divisional EBITDA increased by almost €2m to €10m (11.1% margin) in H1. After a slightly bigger rise in depreciation (by €2.1m to €7.7m, due to bringing the Maasvlakte landfill site extension onstream), M&W EBIT came in slightly lower than in H120.

The M&W division is understood to have 1m+ tonnes of TGG in its outbound business development pipeline which generates a disposal cost. In the newly developed business stream of graded gravel, sand and filler materials, Renewi is seeking to maximise product quality certification following processing to achieve the highest possible revenue per tonne and is investing in storage silos for separated fine filler materials.

Specialities: Solid UK Municipal performance

This division contains two niche European waste stream processors and producers of recycled secondary materials (recycling glass and white goods) as well as Renewi's UK Municipal waste processing operations, with all three companies operating independently.

Collectively, volumes in this division were possibly the most resilient in the group during the COVID-19 lockdown periods with Q1 tracking just 2% lower y-o-y and then 2% ahead in Q2. That said, the period was not without its challenges with temporary UK household waste recycling centres and European customer glass furnace closures (affecting UK Municipal and Maltha respectively) included within these figures.

In revenue terms, UK Municipal is the largest business in this division; taking the geographic split as a proxy, in euros revenue rose by almost 9% (slightly more in sterling). That said, the quarterly volume performance (Q1: +24%, Q2: +12%) suggests firmer underlying activity levels. In simple terms, this is likely to reflect increased numbers of people working from home or furloughed and generating more domestic waste for recycling while doing so. This is consistent with Biffa's recent H1 results announcement which showed headline Municipal revenues +5.5% y-o-y (and Industrial and Commercial revenue -27.7% for the same period).

In Europe, Maltha (glass recycling) and Coolrec (white goods – principally fridges – and small electrical appliance recycling) are both exposed to the Belgian market, which experienced more severe lockdown conditions, as seen in the Commercial Waste division. Maltha (volume y-o-y, Q1: -22%, Q2: -8%) was hindered by closures across the leisure and hospitality industries generating less bottle waste. Coolrec's volumes (Q1: -7%, Q2: +15% y-o-y) reflected the initial closure of container parks/recycling centres and then pent-up demand effects on reopening. Outbound revenues (ie sale of materials recovered, processed and sold for re-use) were down by almost 30% for the division from a combination of lower overall volumes and some softness in recyclate prices.

The division as a whole broke even and all three constituent companies recorded a similar outturn in our view. For UK Municipal, this would represent a noteworthy improvement compared to prior years, especially after taking into account some central cost reallocation under the new divisional structure. Our only other observation is to note that the outstanding 25% minority in the Barnsley, Doncaster & Rotherham entity was acquired after the period end.

Net-debt reduction and stable group financing position

According to the pre-close statement, core net debt[1] stood at €407m at the end of August (compared to c €457m at the end of FY20) and this reduced further to €381m by the half-year end. Around €68m positive cash inflow was the primary driver here and most of the remaining movement was due to favourable FX translation of sterling borrowings.

H121 operating cash inflow before working capital effects was a robust €75m, which was similar to and slightly ahead of the levels generated in the prior year and from a slimmer corporate structure. Lower profitability was compensated for by reduced cash leakage from non-trading outflows. Specifically, underlying EBITDA was €88.5m while released UK Municipal onerous contract provisions reduced to c €8m and other cash exceptional costs of €4m related to initial actions under the new Renewi 2.0 strategy programme. Pension deficit cash recovery payments of c €2m were in line with H120. There was also an **underlying working capital inflow of c €5m** with a favourable net payables/receivables movement, including larger than normal individual line item movements due the COVID-19-affected pattern of trading. In addition, **tax payment deferrals** under government coronavirus support schemes boosted the reported working capital inflow by **a further €54m** (in addition to the €6m recorded on the FY20 balance sheet). As a result, the **total group operating cash inflow was €134m** for the first half as a whole and double the H120 level.

Further down the cash flow statement, the most significant items were:

- Lower average debt levels and, as a result, cost of borrowing resulted in lower interest costs (down by €4m to €13m including lease interest).
- Net capex was constrained to €27m (compared to owned asset depreciation of c €38m), the majority of which was of a replacement nature save for some growth spend in M&W (ie ATM silos and Maasvlakte landfill capacity expansion).
- IFRS 16 lease capital repayments of c €20m

[1] Pre-IFRS 16 lease liabilities of €210.1m (end March €202.7m) and non-recourse PPP entity funding of €84.2m (€90m)

A number of smaller items made up the remaining net cash outflows, leaving the c €68m overall group inflow noted earlier.

COVID-19 response review: FY20 ended in the early phase of lockdowns in Renewi's main markets triggered by the developing COVID-19 pandemic. With significant uncertainty prevalent at this time, Renewi had €195m cash drawn down (from total facilities of over €700m) contributing to €252m liquidity headroom under existing facilities at that time. No change in the scale of borrowing arrangements has been made subsequently, although the existing 3.5x net debt: EBITDA covenant was relaxed to 5.5x in September 2020 and 6.0x in March 2021 before reverting to 3.5x in September 2021 in agreement with banking partners.

The COVID-19 impact on trading has been less material than management initially estimated. This is partly due to business resilience and recovery seen in most segments but also due to actions taken to reduce operating and staff costs (amounting to €10m, captured in EBIT). In addition, the decisions not to declare an FY20 final dividend and to restrict capex (saving €10m and €22m respectively) led to combined cash outflow savings of €42m in H1.

The group core net debt:EBITDA multiple on a trailing 12-month basis measured in September was barely changed at 3.1x (after adding back the temporary tax deferral benefit) versus 2.98x for FY20. In an unprecedented trading period, this stability is commendable.

Amended banking terms explicitly allowed for secondary COVID-19 outbreaks in calendar 2020, which is effectively what is being seen now. The group liquidity position had increased to €325m at the end of H1 and we take reduced cash on hand (now below €100m) as a sign of increased comfort levels with current borrowing levels in the context of more settled market conditions.

Cash flow outlook: taking the deferred tax position first, the discrete COVID-19 related €60m is to be repaid in 36 monthly instalments from July 2021, so there will be no unwinding of this benefit in FY21. Management has inferred higher capex in H2 (taking the total to c €75m for the year) as well as some exceptional costs relating to Renewi 2.0, expected to be less than €5m. We should add that significant reductions in ATM's existing treated ungraded soil inventory would also represent a cost and cash drag, although this is unlikely to complete during the current financial year. Allowing for these factors and H2 trading being at typically seasonally lower activity levels in a normal year, we expect end FY21 core net debt to nudge above €400m again with 3.2x net debt:EBITDA level slightly above the half-year stage. Beyond this, our model projects this multiple reducing to 2.7x and then 2.3x at the end of FY22 and FY23 respectively. Management's stated medium-term target is to reduce core net debt to EBITDA to below 2x. Renewi's next scheduled financing event is a €100m retail bond redemption in June 2022. The company's RCF and term loan – which together approach €500m of the €700m facilities on hand – run to May 2023 with an option to extend by a further year.

FY21 trading and lower finance costs raise estimates

We raised FY21 estimates by €4m with the half-year update, leaving subsequent years unchanged (from when they were set in June) at that time. Management has raised its FY21 cost-saving projection (from €15m originally – with €10m achieved in H1 – to a revised €18m) contributing to a 'full year performance materially ahead of previous expectations'. Resilience in Commercial and greater stability within Specialities cause us to raise our FY21 EBIT estimate by c €8m to c €52m. We have also revised down interest costs, which benefits all three of our forecast years.

Exhibit 2: Renewi revised estimates

	EPS, fully diluted, normalised (p)			PBT, normalised (£m)			EBITDA (£m)		
	Old*	New	% chg.	Old*	New	% chg.	Old*	New	% chg.
FY21e	0.9	2.0	+118	10.6	22.2	+110	125.5	133.3	+6.2
FY22e	3.9	4.3	+10.6	42.2	46.4	+10.3	159.1	159.0	N/A
FY23e	6.2	6.6	+6.0	66.1	69.8	+5.8	183.0	182.9	N/A

Source: Edison Investment Research. Note: EBITDA = banking covenant basis, pre-IFRS 16 (ie excluding depreciation on Right of Use assets).

Exhibit 3: Financial summary

m's	2018	2018	2019	2020	2021e	2022e	2023e
March	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS	**Sterling**	**Euros**	**Euros**	**Euros**	**Euros**	**Euros**	**Euros**
Revenue	1,565.7	1,760.3	1,780.7	1,775.4	1,587.1	1,691.3	1,754.5
Cost of Sales	(1,276.9)	(1,419.2)	(1,470.4)	(1,467.5)	(1,317.3)	(1,399.6)	(1,447.5)
Gross Profit	288.8	341.1	310.3	307.9	269.8	291.7	307.0
EBITDA	156.9	176.3	179.7	167.1	133.3	159.0	182.9
Operating Profit (before GW and except.)	69.1	82.5	85.5	87.6	52.3	76.5	98.9
Net Interest	(14.2)	(15.0)	(14.4)	(18.5)	(18.5)	(18.0)	(17.0)
Other Finance	(5.1)	(7.1)	(8.4)	(15.7)	(12.1)	(12.1)	(12.1)
JV/Associates	2.3	2.6	0.4	0.9	0.5	0.0	0.0
Intangible Amortisation	(5.8)	(6.7)	(6.4)	(6.4)	(3.4)	(3.4)	(3.4)
Non Trading & Exceptional Items	(95.7)	(108.4)	(145.1)	(107.1)	(17.2)	(10.0)	(6.0)
Profit Before Tax (Edison norm)	52.1	63.0	63.1	54.3	22.2	46.4	69.8
Pension net finance costs	(0.6)	(0.7)	(0.6)	(0.2)	0.2	0.0	0.0
Profit Before Tax (Renewi norm)	51.5	62.3	62.5	54.1	22.4	46.4	69.8
Profit Before Tax (statutory)	(50.0)	(52.8)	(89.0)	(59.4)	1.8	33.0	60.4
Tax - headline	2.6	1.4	12.4	(1.1)	(2.6)	(11.1)	(16.8)
Profit After Tax (norm)	39.1	47.2	47.5	41.0	16.8	35.3	53.1
Profit After Tax	(47.4)	(51.5)	(76.6)	(60.5)	(0.8)	21.9	43.7
Average Number of Shares Outstanding (m)	799.9	799.9	796.7	794.9	795.2	795.2	795.2
EPS - Edison norm (p/c) FD	4.9	5.9	6.0	5.4	2.0	4.3	6.6
EPS - Renewi norm (p/c) FD	4.8	5.4	6.0	5.4	2.1	4.3	6.6
EPS - (p/c)	(5.9)	(6.8)	(11.7)	(9.8)	(0.2)	2.7	5.4
Dividend per share (p/c)	3.05	3.46	1.68	0.52	0.00	0.00	0.56
Gross Margin (%)	18.4	19.4	17.4	17.3	17.0	17.3	17.5
EBITDA Margin (%)	10.0	10.0	10.1	9.4	8.4	9.4	10.4
Operating Margin (before GW and except.) (%)	4.4	4.7	4.8	4.9	3.3	4.5	5.6
BALANCE SHEET							
Fixed Assets	1,456.3	1,669.2	1,439.6	1,616.8	1,577.4	1,578.8	1,583.7
Intangible Assets	606.3	699.3	605.6	610.1	607.3	599.8	592.3
Tangible Assets (inc RoU assets)	623.0	710.8	629.1	790.9	777.4	786.3	798.7
Investments	227.0	259.1	204.9	215.8	192.7	192.7	192.7
Current Assets	366.2	418.0	533.3	503.3	392.2	399.7	425.0
Stocks	23.3	26.6	26.0	20.7	18.6	19.7	20.4
Debtors	279.0	318.4	456.9	288.1	280.1	294.0	303.2
Cash	63.9	73.0	50.4	194.5	93.5	86.0	101.4
Current Liabilities	(545.8)	(631.0)	(758.3)	(635.2)	(598.0)	(611.8)	(624.5)
Creditors	(532.9)	(616.3)	(639.6)	(618.4)	(584.3)	(598.1)	(610.8)
Short term borrowings	(12.9)	(14.7)	(118.7)	(16.8)	(13.7)	(13.7)	(13.7)
Long Term Liabilities	(894.3)	(1,019.9)	(895.1)	(1,249.6)	(1,149.3)	(1,122.5)	(1,096.3)
Long term borrowings	(489.7)	(558.9)	(483.7)	(634.9)	(503.7)	(503.7)	(503.7)
Other long term liabilities	(404.6)	(461.0)	(411.4)	(614.7)	(645.6)	(618.8)	(592.6)
Net Assets	382.4	436.3	319.5	235.3	222.4	244.2	287.9
CASH FLOW							
Operating Cash Flow	128.4	143.6	86.8	167.8	171.8	144.6	177.2
Net Interest	(16.9)	(19.1)	(17.7)	(27.0)	(24.9)	(24.4)	(23.4)
Tax	(6.7)	(7.6)	(13.2)	(10.1)	(10.5)	(5.4)	(11.1)
Net Capex	(81.2)	(92.3)	(99.4)	(73.4)	(74.9)	(87.3)	(92.3)
Acquisitions/disposals	(4.1)	(4.8)	22.7	81.0	2.2	0.0	0.0
Equity Financing	0.6	0.6	(2.7)	0.6	(0.1)	0.0	0.0
Dividends	(24.4)	(27.6)	(27.4)	(8.6)	0.0	0.0	0.0
Net Cash Flow	(4.3)	(7.3)	(50.9)	130.3	63.6	27.4	50.4
Opening core net debt/(cash)	423.9	492.7	500.0	552.0	457.2	423.9	431.4
IFRS16 lease capital repayments	0.0	0.0	0.0	(38.5)	(35.0)	(35.0)	(35.0)
Other	(10.5)	(0.0)	(1.1)	3.0	4.7	0.0	0.0
Closing core net debt/(cash)	438.7	500.0	552.0	457.2	423.9	431.4	416.0
Closing PPP/PFI non-recourse net debt	82.9	94.6	95.4	90.0	84.2	84.2	84.2
IFRS16 Lease finance				202.7	215.1	219.6	224.1

Source: Company data, Edison Investment Research. Note: *EPS for continuing businesses in FY20 was 5.1c and the 5.4c figure shown includes discontinued operations.

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New Zealand

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