

Renewi

AGM update

So far, so good

The recent AGM update was consistent with FY18 commentary; guidance and our estimates are unchanged. Year-to-date progress is clearly visible in three divisions where market conditions appear to be favourable. In the fourth (Hazardous), new customer demand is successfully building; management's expectation remains for this to start to be met during H2, subject to regulatory clearance. Flagged merger integration benefits for FY19 are as before. The intention to move to euro-based reporting with the H119 results is entirely logical and reflects the company's primary source of profitability.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/17	779.2	26.0	3.7	3.1	18.8	4.4
03/18	1,565.7	52.1	4.9	3.1	14.4	4.4
03/19e	1,589.9	70.6	6.6	3.1	10.6	4.4
03/20e	1,622.2	86.7	8.2	3.5	8.6	4.9

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

FY19 starts in line with existing guidance

Brief updates were provided on each of the four divisions. The largest of these is Commercial, where the initial roll-out experience for a new IT platform has been favourable in Belgium (where completion is expected by year end) and is now underway in the Netherlands (a larger, more complex market with roll-out variations). As a backdrop, local volume and pricing conditions appear to be good albeit with some tightness in incinerator capacity. Reference to calmer paper and plastics recyclate pricing is helpful but perhaps less significant for Renewi than other operators. In Hazardous, management has reiterated an expectation that ATM soil remediation operations should resume full production during H2; there is clear demand building although regional authority regulators remain a hurdle. Elsewhere, the Monostreams and Municipal divisions are both trading ahead of the prior year thus far and Municipal's Ottawa facility is moving to an improved volume footing following a revised customer agreement. At the group level, we are reminded that Renewi is on track to realise €30m of merger integration benefits by the end of FY19 (ie an incremental €15m in this financial year).

Valuation: Curious retracement

Having responded well to the FY18 results announcement at the end of May, Renewi's share price has retraced back towards 52-week lows pre-results. Even adjusting for the final dividend (ex 2.1p DPS on 28 June) this reversal looks curious in the light of unchanged estimates, which offer a three-year EPS CAGR to 2021 in excess of 20%. A PEG of 0.7x and the FY21 P/E and EV/EBITDA (adjusted for pensions cash) of 8.0x and 4.7x respectively suggest little credit is being given for the growth profile and greater operational cohesion to be realised. An expected FY19 4.4% dividend yield adds to the total return potential.

Industrial support services

24 July 2018

Price **69.7p**
Market cap **£558m**

£/€1.12

Net debt (£m) at end March 2018 438.7

Core group net debt (ex PPP/PFI finance)

Shares in issue 800.1m

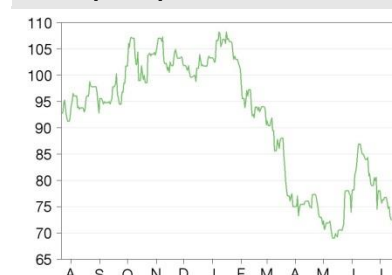
Free float 99.5%

Code RWI

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (11.3) (6.9) (22.0)

Rel (local) (11.8) (10.4) (24.3)

52-week high/low 108.2p 69.0p

Business description

Renewi is a waste-to-product company with operations primarily in the UK, the Netherlands and Belgium 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

FY18 final DPS 2.1p to be paid 27 July 2018

H1 trading ends September

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Exhibit 1: Financial summary

£m	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e
March	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue	614.6	633.4	601.4	614.8	779.2	1,565.7	1,589.9	1,622.2	1,659.6
Cost of Sales	(511.6)	(528.3)	(506.1)	(517.8)	(653.3)	(1,276.9)	(1,296.6)	(1,323.0)	(1,353.5)
Gross Profit	103.0	105.1	95.3	97.0	125.9	288.8	293.3	299.2	306.1
EBITDA	88.4	88.5	72.6	69.2	81.6	156.9	181.7	201.3	207.9
Operating Profit (before GW and except.)	44.9	45.6	34.3	33.4	36.5	69.1	92.4	108.5	113.9
Net Interest	(10.8)	(12.6)	(11.4)	(11.2)	(10.3)	(14.2)	(16.2)	(16.2)	(16.0)
Other Finance	(3.9)	(2.9)	(1.5)	(1.6)	(2.2)	(5.1)	(7.9)	(7.9)	(7.9)
JV/Associates	0.3	0.3	0.8	1.0	2.0	2.3	2.3	2.3	2.3
Intangible Amortisation	(2.5)	(2.3)	(1.9)	(1.8)	(2.1)	(5.8)	(5.8)	(5.8)	(5.8)
Non Trading & Exceptional Items	(37.8)	(20.2)	(40.3)	(21.8)	(85.0)	(95.7)	(30.0)	(9.3)	0.0
Profit Before Tax (Edison norm)	30.5	30.4	22.2	21.6	26.0	52.1	70.6	86.7	92.3
Pension net finance costs	(0.3)	(0.3)	(0.5)	(0.5)	(0.3)	(0.6)	(0.6)	(0.6)	(0.6)
Profit Before Tax (Renewi norm)	30.2	30.1	21.7	21.1	25.7	51.5	70.0	86.1	91.7
Profit Before Tax (FRS 3)	(10.1)	7.6	(20.5)	(2.5)	(61.4)	(50.0)	34.2	71.0	85.9
Tax - headline	(1.1)	(5.8)	2.3	(1.5)	0.5	2.6	(17.0)	(20.6)	(21.5)
Profit After Tax (norm)	22.8	23.2	20.5	19.3	20.1	39.1	52.9	65.5	70.1
Profit After Tax (FRS 3)	(11.2)	1.8	(18.2)	(4.0)	(60.9)	(47.4)	17.1	50.4	64.3
Average Number of Shares Outstanding (m)	448.3	448.9	449.1	449.5	536.3	799.9	800.1	800.1	800.1
EPS - Edison norm (p) FD	5.1	5.1	4.5	4.3	3.7	4.9	6.6	8.2	8.7
EPS - Renewi norm (p) FD	5.0	5.1	4.4	4.2	3.7	4.8	6.5	8.1	8.7
EPS - FRS 3 (p)	(7.9)	(6.3)	(3.8)	(0.9)	(11.4)	(5.9)	2.1	6.3	8.0
Dividend per share (p)	3.05	3.05	3.05	3.05	3.05	3.05	3.05	3.45	3.60
Gross Margin (%)	16.8	16.6	15.9	15.8	16.2	18.4	18.4	18.4	18.4
EBITDA Margin (%)	14.4	14.0	12.1	11.3	10.5	10.0	11.4	12.4	12.5
Operating Margin (before GW and except.) (%)	7.3	7.2	5.7	5.4	4.7	4.4	5.8	6.7	6.9
BALANCE SHEET									
Fixed Assets	772.1	744.4	737.3	670.4	1,420.9	1,456.3	1,463.2	1,463.6	1,458.3
Intangible Assets	251.8	211.1	173.8	194.5	603.3	606.3	600.1	590.4	578.5
Tangible Assets	375.3	322.7	282.9	297.0	587.4	623.0	636.1	646.2	652.8
Investments	145.0	210.6	280.6	178.9	230.2	227.0	227.0	227.0	227.0
Current Assets	247.3	265.1	224.0	177.0	348.2	366.2	371.7	353.6	401.4
Stocks	11.0	9.4	6.9	6.8	19.9	23.3	23.1	23.4	23.9
Debtors	160.9	151.5	156.3	135.5	253.4	279.0	284.8	289.1	294.1
Cash	75.4	104.2	60.8	34.7	74.9	63.9	63.9	41.0	83.4
Current Liabilities	(248.9)	(229.6)	(277.4)	(227.2)	(483.2)	(545.8)	(567.5)	(526.1)	(525.1)
Creditors	(230.7)	(226.3)	(202.4)	(224.8)	(466.8)	(532.9)	(525.3)	(526.1)	(525.1)
Short term borrowings	(18.2)	(3.3)	(75.0)	(2.4)	(16.4)	(12.9)	(42.2)	0.0	0.0
Long Term Liabilities	(444.2)	(504.7)	(432.5)	(434.2)	(845.7)	(894.3)	(892.3)	(891.2)	(897.1)
Long term borrowings	(234.5)	(253.8)	(140.8)	(224.9)	(482.4)	(489.7)	(489.7)	(489.7)	(489.7)
Other long term liabilities	(209.7)	(250.9)	(291.7)	(209.3)	(363.3)	(404.6)	(402.6)	(401.5)	(407.4)
Net Assets	326.3	275.2	251.4	186.0	440.2	382.4	375.1	399.9	437.4
CASH FLOW									
Operating Cash Flow	67.7	78.6	55.8	72.2	27.9	128.4	126.4	178.7	200.3
Net Interest	(11.5)	(13.2)	(12.8)	(12.8)	(19.0)	(16.9)	(16.2)	(16.2)	(16.0)
Tax	1.9	(1.6)	(5.7)	(4.8)	(5.3)	(6.7)	(13.0)	(18.6)	(20.5)
Net Capex	(50.1)	(27.1)	(37.2)	(25.8)	(41.2)	(81.2)	(102.0)	(99.0)	(94.5)
Acquisitions/disposals	(59.2)	(54.1)	(67.3)	18.2	39.5	(4.1)	0.0	0.0	0.0
Equity Financing	0.4	0.2	0.1	0.3	136.5	0.6	0.0	0.0	0.0
Dividends	(13.7)	(13.7)	(13.7)	(13.7)	(15.1)	(24.4)	(24.4)	(25.6)	(26.8)
Net Cash Flow	(64.5)	(30.9)	(80.8)	33.6	123.3	(4.3)	(29.3)	19.3	42.4
Opening core net debt/(cash)	206.2	177.3	152.9	155.0	192.6	423.9	438.7	468.0	448.7
HP finance leases initiated	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	93.4	55.3	78.7	(71.2)	(354.6)	(10.5)	0.0	(0.0)	(0.0)
Closing core net debt/(cash)	177.3	152.9	155.0	192.6	423.9	438.7	468.0	448.7	406.3
Closing PPP/PFI non-recourse net debt	100.1	151.2	222.6	91.1	87.1	82.9	82.9	82.9	82.9

Source: Company accounts, Edison Investment Research

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