Renewi

Trading update

Trading in line, no change to guidance

Industrial support services

The agreed offer for Biffa will leave Renewi as the sole waste/recycling company listed on the UK market. The rating on Renewi shares is undemanding (FY23 P/E 7.2x) and a significant discount to the Biffa deal (FY23 P/E 18.1x). Add to this the reassuring trading update and the shares clearly offer two routes for capital appreciation.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
03/21	1,694	47.8	45	0.0	14.4	N/A
03/22	1,869	105.3	98	0.0	6.6	N/A
03/23e	1,906	97.2	90	5.0	7.2	0.8
03/24e	1,959	103.4	96	10.0	6.8	1.5

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

First half trading has been encouraging with underlying operating profit ahead of the prior year. Recyclate prices were positive in the period assisting profitability, albeit volumes in certain areas of Commercial waste, construction and green waste have been softer. Cost inflation, including energy and wages, is running at low double-digits in key operating countries, hence the focus on price pass-through and cost-saving mitigation strategies. Some recyclate prices (paper, plastics and metals) softened during Q2. This was expected, hence management guidance for the full year remains unchanged.

Core net debt (excluding PPP/PFI and finance leases) increased from €303m at the March 2022 year end to €390m at 30 September. This increase reflects the acquisition of Paro (for €67m), which completed on 1 August, and ongoing pipeline investments, some of which were deferred from the previous financial year. Net debt/EBITDA is expected to be under 1.8x (including Paro on a pro-forma basis). Half year results will be released on 10 November.

The Biffa offer has valuation implications for Renewi. Energy Capital Partners announced an agreed offer for Biffa at 410p a share on 27 September, valuing the equity at £1.3bn. This equated to a forward P/E of 18.1x, EV/EBIT of 9.4x and EV/EBITDA of 18.0x (adjusted for finance leases and provisions) based on consensus forecasts (source: Refinitiv). Translating this using our FY23 forecasts for Renewi provides a valuation range of £14.18 to £16.13 a share. Taking the lowest of these figures and adjusting for the 30% premium that ECP paid leads to an undisturbed share price of £10.91 for Renewi, suggesting significant upside potential.

3 October 2022

Price	**565p**
Market cap	**£452m**

Exchange rate £/€1.15

Core net debt (ex-PPP/PFI finance and IFRS 16 leases) at end September 2022	€390m
Shares in issue	80.0m
Free float	98.8%
Code	RWI
Primary exchange	LSE
Secondary exchange	Euronext Amsterdam

Share price performance

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.

Analyst

David Larkam +44 (0)20 3077 5700

industrials@edisongroup.com

Edison profile page

Renewi is a research client of Edison Investment Research Limited

General disclaimer and copyright

Australia

New Zealand

United Kingdom

United States

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia