

Renewi

H120 results

Accentuating positives

As trailed at the pre-close stage, further Commercial progress and tangible evidence that ATM can become a more positive contributor to group earnings were Renewi's strongest H120 messages. Disposals are facilitating group de-leveraging. FY20 guidance is unchanged; our estimates are c 16% lower in all years now from a number of model adjustments including a better representation of underlying UK Municipal run rates. However, single-digit earnings multiples for this strategically well-placed business should attract investor attention.

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	6.0	9.9
03/19	1,780.7	63.1	6.0	1.7	5.8	4.8
03/20e	1,680.7	39.7	3.7	1.7	9.4	4.7
03/21e	1,719.6	58.1	5.5	2.5	6.4	7.0

Note: *PBT and EPS (fully diluted) are normalised, excluding pension net finance costs, amortisation of acquired intangibles and exceptional items. Estimates are now on an IFRS 16 basis and for continuing businesses only.

Core Commercial strength, more stability elsewhere

Renewi's **Commercial** division was the standout performer in H1, showing growth in revenue, underlying EBIT and margin (in both the Netherlands and Belgium), despite some market challenges. The **Hazardous** division's result included Reym performing well before its disposal (after the period end) and although reduced soil volume management affected ATM's performance, it was slightly better than expectations. We note 'increasing confidence' of improved production volumes here in 2020. **Monostreams** was mixed, as previously announced with profitability down 16% overall, with **UK Municipal** revenue and profit also lower, the latter entirely due to the adverse Derby contract effect. Overall, true underlying/ongoing group EBIT was down c €4m (or 10%) in line with management expectations. The dividend payout has been rebalanced with the declaration of 0.45p for H120 and the intention to maintain the full year at 1.45p. A working capital inflow, controlled capex spend and initial disposal proceeds (Municipal Canada only) all contributed to a reduction in core net debt to €514m or 2.88x EBITDA (down from 3.06x at the end of FY19). There will be further disposal proceeds in H2 but the gearing ratio is expected to remain stable at the year end, before declining 'steadily' in the following two years.

The next phase of strategy is being framed now; the key elements are i) ongoing de-leveraging, ii) further portfolio simplification and cost reduction actions and iii) focus on secondary materials. More detail is expected during H2. Separately, our earnings estimates have been lowered by 16%, to include among other things more appropriate UK Municipal loss expectations (revisited post the Canada exit).

Valuation: Rising scope for a re-rating

A reduction in net debt is probably the key initial trigger for rising investor interest and progress is being made. There is more to do here but backed by more robust operational performance, the scope for a re-rating (FY20 P/E 9.4x and 5.1x EV/EBITDA ex pensions cash) is rising in our view. The next strategic phase is clearly compatible with the rising importance of environmental considerations.

Industrial support services

15 November 2019

Price **30.2p**

Market cap **€242m**

€1.16/€

Core group ongoing net debt (ex-PPP/PFI finance & IFRS 16 leases, €m) at end September 2019 **514**

Shares in issue **800.1m**

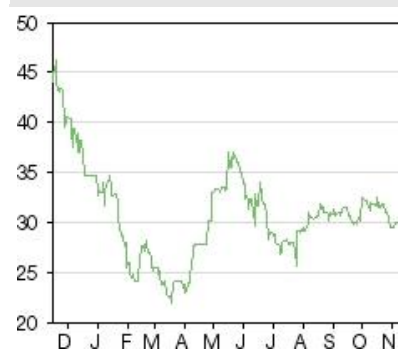
Free float **99.5%**

Code **RWI**

Primary exchange **LSE**

Secondary exchange **N/A**

Share price performance



% **1m 3m 12m**

Abs **(5.7) (2.3) (33.7)**

Rel (local) **(6.8) (5.1) (36.3)**

52-week high/low **46.2p 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

H120 DPS 0.45p ex dividend **29 November**

H120 DPS to be paid **10 January**

Euronext Amsterdam secondary listing **H220e tbc**

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Exhibit 1: Financial summary

	m's	2018	2018	2019	2020e	2021e	2022e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
		Sterling	Euros	Euros	Euros	Euros	Euros
March							
PROFIT & LOSS							
Revenue		1,565.7	1,760.3	1,780.7	1,680.7	1,719.6	1,754.3
Cost of Sales		(1,276.9)	(1,419.2)	(1,470.4)	(1,395.0)	(1,427.3)	(1,456.1)
Gross Profit		288.8	341.1	310.3	285.7	292.3	298.2
EBITDA		156.9	176.3	179.7	154.6	171.5	177.8
Operating Profit (before GW and except.)		69.1	82.5	85.5	74.0	89.4	94.2
Net Interest		(14.2)	(15.0)	(14.4)	(18.0)	(16.0)	(16.0)
Other Finance		(5.1)	(7.1)	(8.4)	(16.0)	(15.2)	(15.2)
JV/Associates		2.3	2.6	0.4	(0.3)	0.0	0.0
Intangible Amortisation		(5.8)	(6.7)	(6.4)	(6.6)	(6.6)	(6.6)
Non Trading & Exceptional Items		(95.7)	(108.4)	(145.1)	(61.3)	0.0	0.0
Profit Before Tax (Edison norm)		52.1	63.0	63.1	39.7	58.1	63.0
Pension net finance costs		(0.6)	(0.7)	(0.6)	(0.2)	(0.2)	(0.2)
Profit Before Tax (Renewi norm)		51.5	62.3	62.5	39.5	57.9	62.8
Profit Before Tax (statutory)		(50.0)	(52.8)	(89.0)	(28.4)	51.3	56.2
Tax - headline		2.6	1.4	12.4	(3.4)	(14.0)	(15.1)
Profit After Tax (norm)		39.1	47.2	47.5	29.9	44.2	47.9
Profit After Tax		(47.4)	(51.5)	(76.6)	(31.9)	37.4	41.1
Average Number of Shares Outstanding (m)		799.9	799.9	796.7	794.6	794.6	794.6
EPS - Edison norm (p/c) FD		4.9	5.9	6.0	3.7	5.5	6.0
EPS - Renewi norm (p/c) FD		4.8	5.4	6.0	3.7	5.5	6.0
EPS - (p/c)		(5.9)	(6.8)	(11.7)	(4.0)	4.7	5.1
Dividend per share (p/c)		3.05	3.46	1.68	1.65	2.45	2.68
Gross Margin (%)		18.4	19.4	17.4	17.0	17.0	17.0
EBITDA Margin (%)		10.0	10.0	10.1	9.2	10.0	10.1
Operating Margin (before GW and except.) (%)		4.4	4.7	4.8	4.4	5.2	5.4
BALANCE SHEET							
Fixed assets		1,456.3	1,669.2	1,439.6	1,569.8	1,558.7	1,546.1
Intangible assets		606.3	699.3	605.6	598.9	589.0	579.1
Tangible assets (inc Right of Use assets)		623.0	710.8	629.1	763.6	762.4	759.7
Investments		227.0	259.1	204.9	207.3	207.3	207.3
Current Assets		366.2	418.0	370.9	376.1	372.6	381.6
Stocks		23.3	26.6	26.0	24.7	25.2	25.7
Debtors		279.0	318.4	294.5	274.7	280.6	286.1
Cash		63.9	73.0	50.4	76.7	66.8	69.8
Current Liabilities		(545.8)	(631.0)	(717.8)	(586.4)	(590.5)	(602.7)
Creditors		(532.9)	(616.3)	(599.1)	(567.8)	(571.9)	(584.1)
Short term borrowings		(12.9)	(14.7)	(118.7)	(18.6)	(18.6)	(18.6)
Long Term Liabilities		(894.3)	(1,019.9)	(895.1)	(1,080.9)	(1,038.2)	(995.4)
Long term borrowings		(489.7)	(558.9)	(483.7)	(548.6)	(548.6)	(548.6)
Other long term liabilities		(404.6)	(461.0)	(411.4)	(532.3)	(489.6)	(446.8)
Net Assets		382.4	436.3	197.6	278.5	302.7	329.6
CASH FLOW							
Operating Cash Flow		128.4	143.6	86.8	140.0	180.7	195.7
Net Interest		(16.9)	(19.1)	(17.7)	(28.6)	(22.2)	(22.2)
Tax		(6.7)	(7.6)	(13.2)	(3.4)	(14.0)	(15.1)
Net Capex		(81.2)	(92.3)	(99.4)	(94.7)	(105.8)	(105.8)
Acquisitions/disposals		(4.1)	(4.8)	22.7	101.3	0.0	0.0
Equity Financing		0.6	0.6	(2.7)	0.3	0.0	0.0
Dividends		(24.4)	(27.6)	(27.4)	(8.6)	(13.2)	(14.2)
Net Cash Flow		(4.3)	(7.3)	(50.9)	106.3	25.5	38.4
Opening core net debt/(cash)		423.9	492.7	500.0	552.0	490.5	500.4
IFRS16 lease capital repayments		0.0	0.0	0.0	(35.4)	(35.4)	(35.4)
Other		(10.5)	(0.0)	(1.1)	(9.4)	0.0	0.0
Closing core net debt/(cash)		438.7	500.0	552.0	490.5	500.4	497.4
Closing PPP/PFI non-recourse net debt		82.9	94.6	95.4	89.3	89.3	89.3
IFRS16 Lease finance					144.0	102.4	60.8

Source: Company accounts, Edison Investment Research. Note: Estimates are on an IFRS 16 basis and for continuing businesses only.

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