

Renewi

Trading update

In-line trading update

Having reported good progress in the seasonally stronger H1, Renewi's latest update for H2 to date reaffirms management expectations for the year. Importantly, the merger integration programme is very much on track and the next significant phases are underway. A UK Municipal contract review has been flagged, but our estimates are unchanged in all respects ahead of more detailed year-end update commentary. Share price weakness has brought forward valuation attractions, in our view.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	614.8	21.6	4.3	3.1	21.5	3.3
03/17	779.2	26.0	3.7	3.1	25.0	3.3
03/18e	1,531.4	51.0	4.8	3.1	19.2	3.3
03/19e	1,554.3	70.6	6.6	3.1	14.0	3.3

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

Focusing on operational improvements

Overall group trading performance so far in the second half has met management expectations. Similarly, each of the four divisions appears to be demonstrating their usual seasonal characteristics, with operational improvements a key focus. At the same time they have also shown an ability to cope with some adverse market developments (eg soil treatment volume reduction, reduced waste export to China) while also moving forward through the integration programme, commissioning a new Canadian Municipal facility and extending the glass recycling JV (Maltha). The company has given early notification of onerous contract reviews regarding UK Municipal operations. The outcome of this will be known before the year end and the extent of any related exceptional items may or may not be partly offset by lower than expected FY18 integration costs incurred.

Integration progressing, contract reviews pending

We are reminded that FY18 integration benefits will be at least in line with the €12m flagged for the year and there is no change on guidance for a total expected €40m annualised benefits by FY20. Moving the Commercial division operations onto common IT platforms is a significant workstream for FY19, with region-by-region roll-out expected to commence during the year. Our estimates are unchanged in all respects at this stage. UK Municipal onerous contract reviews are likely to result in modest underlying estimate changes in due course and we will address this when more detail is available at the year end.

Valuation: Reasonable value, benefits to come

Renewi's share price has eased back along with the wider UK equity market since the middle of January and now sits towards the lower end of its six-month trading range (93p-108p). While not immune to cyclical trends, the company's significant exposure to growing European economies and with sizeable internal integration gains to come should be a relative attraction to investors in our view. On our estimates the FY19e P/E has fallen to 14.0x with an EV/EBITDA multiple (adjusted for pensions cash) of 6.8x already representing reasonable value on a nearer-term horizon.

Industrial support services

15 February 2018

Price **92.5p**
Market cap **£740m**

€1.13/£

 Net debt (£m) at September 2017 436
 Core group net debt (ex PPP/PFI finance)

Shares in issue 799.8m

Free float 99.5%

Code RWI

Primary exchange LSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(13.4)	(8.9)	(0.8)
Rel (local)	(6.8)	(6.5)	(1.0)

52-week high/low 108.2p 80.0p

Business description

Renewi is a waste-to-product company with operations primarily in the UK, the Netherlands and Belgium. Its activities span the collection, processing and resale of industrial, hazardous and municipal waste.

Next events

FY18 year-end trading update March 2018 tbc

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Renewi *Renewi is a research client of Edison Investment Research Limited*

Exhibit 1: Financial summary

	£m	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS											
Revenue		717.3	750.1	614.6	633.4	601.4	614.8	779.2	1,531.4	1,554.3	1,588.4
Cost of Sales		(601.9)	(622.9)	(511.6)	(528.3)	(506.1)	(517.8)	(653.3)	(1,263.4)	(1,282.3)	(1,310.4)
Gross Profit		115.4	127.2	103.0	105.1	95.3	97.0	125.9	268.0	272.0	278.0
EBITDA		100.0	105.0	88.4	88.5	72.6	69.2	81.6	161.2	184.8	199.8
Operating Profit (before GW and except.)		49.7	53.4	44.9	45.6	34.3	33.4	36.5	71.4	94.0	108.0
Net Interest		(14.2)	(10.8)	(10.8)	(12.6)	(11.4)	(11.2)	(10.3)	(19.9)	(23.0)	(21.0)
Other Finance		(0.3)	(6.4)	(3.9)	(2.9)	(1.5)	(1.6)	(2.2)	(2.6)	(2.6)	(2.6)
JV/Associates		0.0	0.1	0.3	0.3	0.8	1.0	2.0	2.1	2.2	2.3
Intangible Amortisation		(3.9)	(3.7)	(2.5)	(2.3)	(1.9)	(1.8)	(2.1)	(5.8)	(5.8)	(5.8)
Non-Trading & Exceptional Items		(10.1)	(2.7)	(38.1)	(20.5)	(40.8)	(22.3)	(85.3)	(30.0)	(25.9)	(9.9)
Profit Before Tax (norm)		35.2	36.3	30.5	30.4	22.2	21.6	26.0	51.0	70.6	86.7
Profit Before Tax (FRS 3)		21.2	29.9	(10.1)	7.6	(20.5)	(2.5)	(61.4)	15.2	38.9	71.0
Tax - headline		0.7	(4.2)	(1.1)	(5.8)	2.3	(1.5)	0.5	(11.0)	(17.7)	(21.7)
Profit After Tax (norm)		25.9	26.6	22.8	23.2	20.5	19.3	20.1	38.3	53.0	65.0
Profit After Tax (FRS 3)		21.9	25.7	(11.2)	1.8	(18.2)	(4.0)	(60.9)	4.3	21.3	49.3
Average Number of Shares Outstanding (m)		448.0	448.0	448.3	448.9	449.1	449.5	536.3	799.8	799.8	799.8
EPS - normalised (p)		5.8	5.9	5.1	5.1	4.5	4.3	3.7	4.8	6.6	8.1
EPS - FRS 3 (p)		4.9	5.7	(7.9)	(6.3)	(3.8)	(0.9)	(11.4)	0.6	2.6	6.1
Dividend per share (p)		2.88	3.05	3.05	3.05	3.05	3.05	3.05	3.05	3.05	3.45
Gross Margin (%)		16.1	17.0	16.8	16.6	15.9	15.8	16.2	17.5	17.5	17.5
EBITDA Margin (%)		13.9	14.0	14.4	14.0	12.1	11.3	10.5	10.5	11.9	12.6
Operating Margin (before GW and except.) (%)		6.9	7.1	7.3	7.2	5.7	5.4	4.7	4.7	6.0	6.8
BALANCE SHEET											
Fixed Assets		767.9	751.6	772.1	744.4	737.3	670.4	1,420.9	1,464.8	1,457.7	1,451.0
Intangible Assets		289.6	271.4	251.8	211.1	173.8	194.5	603.3	584.6	579.0	568.4
Tangible Assets		397.5	390.9	375.3	322.7	282.9	297.0	587.4	647.2	645.7	649.6
Investments		80.8	89.3	145.0	210.6	280.6	178.9	230.2	233.0	233.0	233.0
Current Assets		244.1	233.6	247.3	265.1	224.0	177.0	348.2	362.1	367.2	371.9
Stocks		9.9	10.5	11.0	9.4	6.9	6.8	19.9	18.7	18.3	18.6
Debtors		179.7	163.3	160.9	151.5	156.3	135.5	253.4	270.4	275.9	280.3
Cash		54.5	59.8	75.4	104.2	60.8	34.7	74.9	73.0	73.0	73.0
Current Liabilities		(276.4)	(238.7)	(248.9)	(229.6)	(277.4)	(227.2)	(483.2)	(465.3)	(467.5)	(441.7)
Creditors		(237.1)	(226.5)	(230.7)	(226.3)	(202.4)	(224.8)	(466.8)	(452.0)	(452.5)	(453.8)
Short term borrowings		(39.3)	(12.2)	(18.2)	(3.3)	(75.0)	(2.4)	(16.4)	(13.3)	(15.0)	12.1
Long Term Liabilities		(338.2)	(375.9)	(444.2)	(504.7)	(432.5)	(434.2)	(845.7)	(927.4)	(926.3)	(925.2)
Long term borrowings		(222.6)	(253.8)	(234.5)	(253.8)	(140.8)	(224.9)	(482.4)	(555.1)	(555.1)	(555.1)
Other long term liabilities		(115.6)	(122.1)	(209.7)	(250.9)	(291.7)	(209.3)	(363.3)	(372.3)	(371.2)	(370.1)
Net Assets		397.4	370.6	326.3	275.2	251.4	186.0	440.2	434.2	431.1	456.0
CASH FLOW											
Operating Cash Flow		99.4	109.9	67.7	78.6	55.8	72.2	27.9	98.1	150.8	183.1
Net Interest		(9.3)	(13.4)	(11.5)	(13.2)	(12.8)	(12.8)	(19.0)	(24.0)	(23.0)	(21.0)
Tax		(4.1)	(7.1)	1.9	(1.6)	(5.7)	(4.8)	(5.3)	(9.0)	(15.7)	(19.7)
Net Capex		(67.3)	(74.8)	(50.1)	(27.1)	(37.2)	(25.8)	(41.2)	(99.0)	(89.5)	(90.9)
Acquisitions/disposals		2.5	(19.6)	(59.2)	(54.1)	(67.3)	18.2	39.5	0.0	0.0	0.0
Equity Financing		0.1	0.0	0.4	0.2	0.1	0.3	136.5	0.1	0.0	0.0
Dividends		(11.9)	(13.3)	(13.7)	(13.7)	(13.7)	(13.7)	(15.1)	(24.4)	(24.4)	(24.4)
Net Cash Flow		9.4	(18.3)	(64.5)	(30.9)	(80.8)	33.6	123.3	(58.1)	(1.7)	27.1
Opening core net debt/(cash)		319.7	207.4	206.2	177.3	152.9	155.0	192.6	423.9	495.4	497.1
HP finance leases initiated		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		102.9	19.5	93.4	55.3	78.7	(71.2)	(354.6)	(13.4)	(0.0)	(0.0)
Closing core net debt/(cash)		207.4	206.2	177.3	152.9	155.0	192.6	423.9	495.4	497.1	470.0
Closing PPP/PFI non-recourse net debt		0.0	52.0	100.1	151.2	222.6	91.1	87.1	84.8	84.8	84.8

Source: Renewi accounts, Edison Investment Research

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