

Renewi

Guidance unchanged at the end of H1

Existing guidance for FY19 has been maintained. As before, this is partly dependent on ATM resuming full production by the end of October and an update on this will come with the H119 results, which are scheduled for 8 November. Otherwise, a better Municipal performance appears to be compensating for slight Q2 softness in other sub-sectors. Share price performance YTD is at odds with trading newsflow and H119 results may serve to remind investors of the value opportunity on offer.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/17	779.2	26.0	3.7	3.1	15.2	5.4
03/18	1,565.7	52.1	4.9	3.1	11.6	5.4
03/19e	1,589.9	70.6	6.6	3.1	8.5	5.4
03/20e	1,622.2	86.7	8.2	3.5	6.9	6.1

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

Some Q2 variations, on track overall

Trading newsflow has been positive for Municipal year to date with improving operational performance in both the UK and Canada and successful exits from two facilities in Scotland. Hazardous trading has matched management's expectations (see below) as has Monostreams, save for two glass reprocessing sites in the Maltha JV where challenges were noted. The important Commercial division implicitly saw slightly lower y-o-y volumes in Q2 – admittedly against a strong comparator – and is progressing the roll out of its route optimisation projects (Belgium underway, Netherlands about to start).

In ATM, Renewi continues to work towards restoring regulatory permitting for its thermal soil remediation process and to develop alternative revenue streams. Our estimates already factor in a lower FY19 Hazardous Waste contribution, due to a weaker year for ATM. As third-party approval is required, there is scope for some contribution slippage here. However, in the context of our c £92m existing FY19 group EBIT estimate, this is unlikely to be material in our view.

When Renewi's H119 results are announced they will be reported in euros for the first time; we will then migrate our estimates across from sterling. The company is assessing potential further merger synergies (above the original €40m target by FY20) and more detail may also emerge in November.

Valuation: Low rating for growth and yield

Our FY19 estimates have remained unchanged over the last 12 months but Renewi's share price has almost halved – down 46% – over this time. We note that there was a post-FY18 results rally in June; this support has since waned but we would expect the share price to respond positively to prospective 'on track' messaging with the H119 results. The level indicates a current year P/E of just 8.5x falling to 6.5x by FY21 (with EV/EBITDA moving from 5.1x to 4.2x over the same period). Moreover, the dividend yield is now 5.4%, suggesting an attractive total return opportunity.

H119 pre-close update

Industrial support services

2 October 2018

Price **56.4p**

Market cap **£451m**

£/€1.12

Net debt (£m) at end March 2018 438.7

Core group net debt (ex PPP/PFI finance)

Shares in issue 800.1m

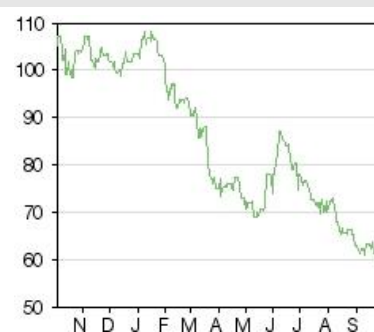
Free float 99.5%

Code RWI

Primary exchange LSE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (12.4) (23.5) (42.1)

Rel (local) (11.0) (22.4) (43.6)

52-week high/low 108.2p 57.0p

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

H119 results 8 November

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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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