EDISON

Renewi

Growth catalysts in place

Initiation of coverage

Industrial support services

Renewi was formed upon the completion of the merger between Shanks and Van Gansewinkel (VGG) in February 2017. The new company is well placed strategically with its 'waste-to-products' strategy capitalising on the trend towards a circular economy and, in the short term, its shareholders should benefit from a recovery in its core Dutch waste market and from the €40m in expected cost synergies We forecast underlying three year EBITDA CAGR of 10.9% the bulk of which is driven by merger synergies and note the attraction of the 3.9% dividend yield. Our fair value per share of 102p offers 27.5% upside to current levels.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	614.8	23.7	4.9	3.5	16.3	4.4
03/17	779.2	29.0	5.4	3.1	14.8	3.9
03/18e	1,483.7	39.7	3.9	3.1	20.5	3.9
03/19e	1,519.0	70.3	6.8	3.1	11.8	3.9

Note: *PBT and EPS (fully diluted) are normalised, excluding amortisation of acquired intangibles and exceptional items. Underlying PBT and EPS figures differ significantly from reported figures due to large exceptional items.

Near and long-term catalysts in place

After an extended period of contraction, the Dutch waste market, accounting for the largest single business within Renewi, has returned to growth as the economy has recovered, boosted in particular by stronger construction activity. The company's earnings prospects are further enhanced by the €40m in synergies identified by management to be extracted from the combined entity by FY20. Over the longer term we expect Renewi's strategic focus on 'waste-to-products' to reward shareholders and facilitate government sustainability agendas. Finally, 'commercial effectiveness' or, in other words, the continued focus on profitability inherited from Shanks, will benefit shareholders as this core skillset is applied to the combined entity.

FY19 and FY20 will see a significant earnings uplift

FY18 will be a transitional year for Renewi as the business combination begins in earnest and exceptional charges (see Exhibit 18) are no longer a drag on cash flow. We expect to see a meaningful uplift in operating profitability in FY19 and FY20., We forecast underlying (Edison definition) EPS growing from 3.90p in FY18e to 8.29p in FY20e.

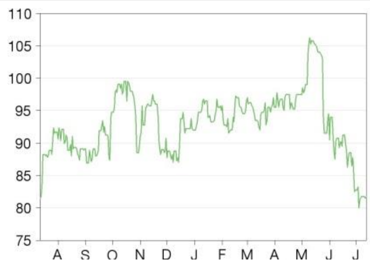
Valuation: 102p per share and 27.5% upside

Considering Renewi's strong outlook and the expected synergies to come from merger integration we believe the share price is undervalued. We take an average of a DCF-based valuation of 99p per share and a multiple-derived fair value of 104p per share to arrive at our fair value per share of 102p. We note that the current dividend offers investors a yield of 3.9% and, with a significant expected increase in underlying EPS, the payout could resume growing in the near future.

13 July 2017

Price	**80p**
Market cap	**£640m**
	€1.13/£
Net debt (£m) at 31 March 2017	424
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	(8.4)	(15.7)	0.3
Rel (local)	(7.1)	(16.3)	(10.4)
52-week high/low		106.3p	80.0p

Business description

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

Next events

Interims (H118)	November 2017

Analysts

Jamie Aitkenhead +44 (0)20 3077 5746

Roger Johnston +44 (0)20 3077 5722

industrials@edisongroup.com

Edison profile page

Renewi is a research client of Edison Investment Research Limited

Investment summary

Upon completion of the merger between Shanks and Van Gansewinkel (VGG) on 28 February 2017, Renewi became the leading player in the Benelux waste market. Its scale, vertical integration and waste-to-products model, which aligns well with trends in the emerging ‘circular economy’, give it a platform for profitable growth that will deliver benefits as end-market recovery continues. The €40m in annual cost synergies already identified for implementation by FY20 are a key driver of our forecast underlying three-year EBITDA CAGR of 10.9%.

Valuation: 102p per share and 27.5% upside

Renewi currently trades at a discount to the waste sector. Its global peers trade on a one-year forward EV/EBITDA of 8.7x, while its closest listed UK peers average 8.9x, so Renewi’s current 6.5x multiple implies a significant discount. While we acknowledge Renewi has been challenged by operational and end-market issues in recent years, the platform is in place for higher growth and, provided management continues to deliver, the stock should rerate. We arrive at our 102p fair value per share by averaging two valuation methodologies: our DCF (WACC 7.5%, terminal growth 1%) implies a fair value of 99p per share; and our conservative 8.0x one-year forward (FY19e) EBITDA model gives a fair value of 104p per share.

Financials: Rapid EBITDA growth with conservative leverage

Our forecast 10.9% underlying (pro forma) EBITDA growth over the next three years is attractive in a typically GDP plus or minus sector. Between FY18e and FY20e, we expect to see underlying EPS double and net debt/EBITDA drift downwards from 3.3x in FY18e to 2.3x in FY20e. This comes despite Renewi’s high dividend payout (yield 3.9%) and capex requirement. Therefore, while management will be preoccupied with integrating the two businesses in the coming year or two, we forecast cash returns to the extent that further substantial organic or inorganic investments would be possible by FY20e. We do not explicitly include revenue synergies in our forecasts. This would provide further upside.

Sensitivities: End markets remain important

Although through the worst of the Dutch waste market’s troubles, investors should remain conscious of this and other risks inherent in Renewi’s business model:

- **Macroeconomics:** Renewi, through its exposure to commercial waste streams in the Netherlands and Belgium, has significant revenue exposure to the economic cycle. Particular sectors such as the Dutch construction sector carry a high level of cyclicality and have meaningfully damaged Renewi’s earnings and outlook in the past as GDP has declined.
- **Currency:** Given 73.5% of FY17 revenues were earnt in euros and the company reports in sterling, Renewi has significant earnings sensitivity to currency movements. According to management, a 1c move in the sterling to euro exchange rate moves revenue by £10m, EBITDA by £1.3m, trading profits by £0.6m and PBT by £0.4m.
- **Commodities prices:** Renewi has made a concerted effort to reduce commodity risk by including, for instance, dynamic pricing in its customer contracts, which shares the risks and rewards with the waste producer.
- **Counterparty risk:** As currently witnessed in its Municipal business, there is counterparty risk in Renewi’s contracts with local authorities in the UK, which have exerted pressure on management to look to renegotiate contracts.

Company description: Growth catalysts in place

We believe Renewi – as a newly merged entity of Shanks and VGG – has the requisite scale, end-market exposure and skillset to grow profitably in the coming years. Furthermore we believe the equity story can be boiled down to four specific catalysts that will drive returns: the stock's exposure to recovering markets in the Netherlands, its capabilities in waste-to-products, planned synergies from the merger and the culture of commercial effectiveness inherited from Shanks.

Number one and high revenue exposure to recovering end-markets

The waste market in the Netherlands and Belgium is in the process of recovering after several years during which the economy remained soft, construction activity was at record lows and there was excess capacity in Dutch incineration. These factors, which depressed volumes and prices, have reversed and Renewi, as the waste operator with the largest market share in Benelux (and which accounted for 73.0% of Renewi's pro forma FY17 revenues) is especially well-placed to benefit from the recovery. FY17 results in Benelux Commercial Waste were strong and we expect growth to continue.

Waste-to-products: Green credentials and alternative revenues

Renewi is a market leader in the production of secondary recyclates. Secondary recyclates from paper to cardboard and glass and metals, when separated and processed from waste streams, can be sold to a range of industrial users as inputs. This serves the twin objectives of meeting government recycling targets and diversifying revenues. Sorting and processing technologies can be complex, with Renewi's Monostreams division a specialist operator. Strategically therefore this capability provides Renewi incremental diversified revenue streams, technological barriers to entry and the ability to provide complex integrated waste management solutions to demanding corporate customers.

Delivering planned merger benefits increases NPV by 36%

Renewi has begun the process of realising €40m in annualised cost savings by FY20e (FY18e target of €12m). The two companies share operational footprints, especially in the Netherlands and Belgium with synergies expected from VGG's heritage as a collections company and Shanks' background in waste processing. A three-year structured integration programme overseen by a new executive team will, we believe, deliver the €40m in synergy targets with the potential for further upside and further benefits such as revenue synergies. Based on our FY20e revenue forecasts, €40m of synergies equates to a 2.2% improvement on underlying EBITDA margins and accounts for c 17% of FY20e EBITDA. We calculate the NPV of the synergies is £376m/47p per share and increases our NPV by 36%. A significant amount of senior resource has been added to Renewi to execute synergies, including a group integration director, and we increasingly view integration and business optimisation as a core competency for the group.

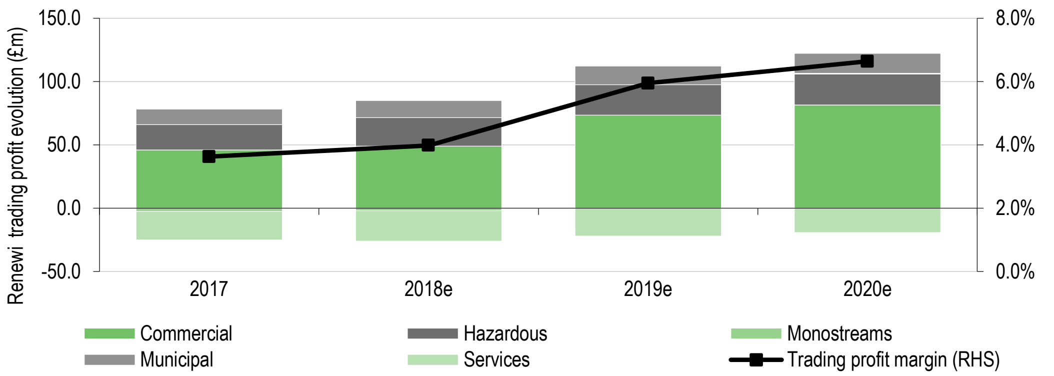
Commercial effectiveness drives long-term profitability

A skillset developed within Shanks, commercial effectiveness applied discipline to the management of existing customers and targeting of new business. By analysing key data, Shanks was able to eliminate or upsell loss-making contracts. The same skillset enabled the company to target profitable niches for business development. The result was that Shanks was able to squeeze higher returns out of its existing contract portfolio and ensure new business enhanced profitability. While not explicitly included in Renewi's merger plans, we believe this capability will have an increasingly important role to play as the merger evolves.

Operations and forecasts

At the time of the merger, Renewi management put in place a new divisional structure that more closely resembles customer groupings and needs: Commercial, Hazardous, Municipal and Monostreams. We forecast a material increase in trading profit by FY20e primarily driven by the synergies programme, but also underpinned by revenue growth and underlying margin expansion especially from FY18e onwards as the business integration develops.

Exhibit 1: Renewi pro forma trading profit split and trading profit margin evolution



Source: Renewi accounts, Edison Investment Research

Commercial: The main driver and in recovery mode

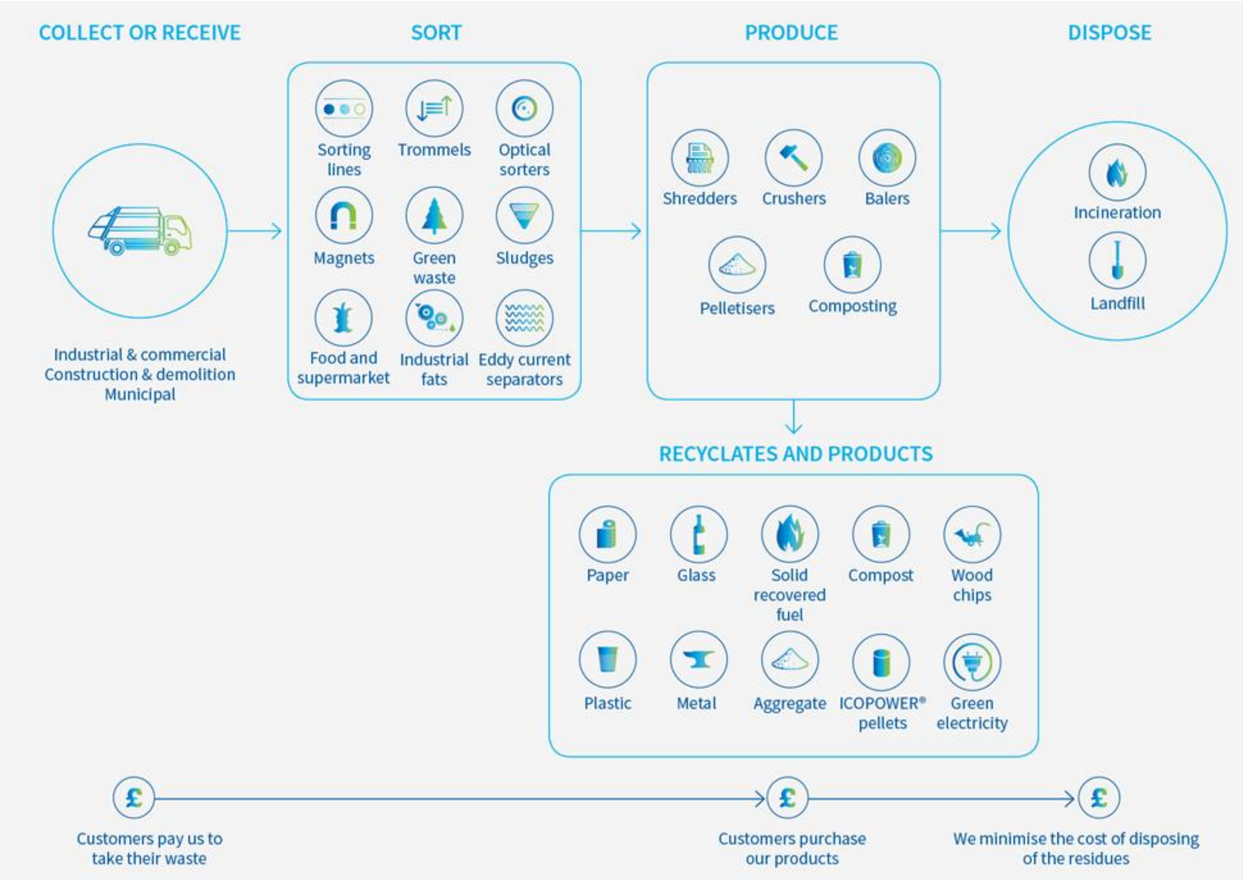
Representing 63% of pro forma FY17 revenues, with exposure to the Benelux commercial, construction, demolition and municipal collection markets, the new Commercial division is currently focused on implementing the merger and delivering synergies and margin expansion against a backdrop of recovering end markets.

The unit is a combination of VGG Collection and the former Shanks Commercial division and is a leader in waste management in Benelux. Operationally, it is active across the value chain from collection to sorting, processing and ultimate disposal via incineration or landfill. Consistent with Renewi's 'waste-to-products' strategy, the Commercial division recovers and resells products such as paper, cardboard, wood and plastics. More specialist products are processed by the Monostreams division. The Commercial division is active in three main end-markets:

- **Industrial and commercial (I&C):** I&C deals with pre-sorted waste and mixed waste, comprising waste sources from factories, hospitals, offices, shops and restaurants. It has several initiatives in place with customers to increase separation at source, which reduces its costs and enhances the quality of recycled products. Excess capacity in the Dutch incineration market between 2011 and 2015 put severe pressure on prices and margins, however utilisation levels have recovered and so has the pricing environment in the sector. The introduction of dynamic pricing – altering the collection price for waste depending on the resale commodity value of recovered recyclates - on gate fees has derisked the model by passing on secondary recyclate price risk to waste producers.
- **Construction and demolition (C&D):** C&D waste arises from residential, commercial and infrastructure construction. This former Shanks business was profoundly challenged by the fact that Dutch construction activity hit a 63-year low in 2014. While a volume recovery is underway, many major customers are still suffering from historically low margins.

- **Domestic:** With an operational focus on municipal waste collection, the Domestic segment services local authorities by either a service agreement or a public-private partnership. Contract durations tend to be much shorter than in UK municipal contracts, which can be beneficial in providing opportunities to exit unprofitable contracts. Further contrasts include the collection-only nature of the Benelux municipal market plus the fact that the waste remains the property of the municipality.

Exhibit 2: Renewi's Commercial business model



Source: Renewi

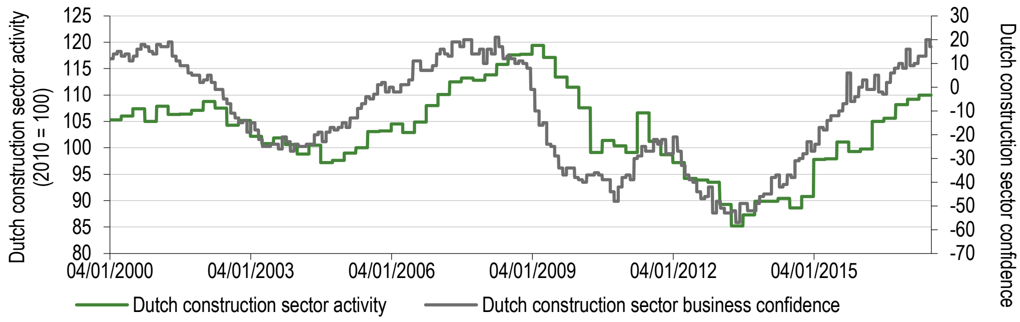
FY17: Strong signs of recovery

Both the Belgian and Dutch Commercial Waste businesses within Shanks witnessed trading profit growth in FY17 in local currency, with the 27% increase converting to 47% growth in sterling due to the weakness in the pound. Trading margins increased from 5.2% to 6.5% across the whole business. The strong results were led by end-market recoveries in C&D and I&C in the Netherlands, while the Belgian growth was more muted. Margins expanded due to top-line growth as well as 'self-help initiatives'.

Outlook: Continuing growth

Recovery in Benelux (especially Netherlands) commercial waste is a key component of the earnings story to FY20e. There are clear economic data that support the continuation of the positive trends already witnessed in this market. Exhibit 3 shows a long-term view of the Dutch construction sector in terms of both output and business sentiment from key operators in the sector. As can be seen, the most recent trough in activity and sentiment was in late 2013 and early 2014. Since then, both sentiment and activity levels have recovered significantly. In late 2015, sentiment moved into positive territory and has continued on an upwards trajectory, with positive sentiment now in line with previous market peaks in 2000 and 2008. Construction sector activity has some way to go to reach previous highs but with sentiment continuing to improve (it has been a very reliable lead indicator until now), together with positive economic newsflow from the eurozone, we are confident Renewi can continue its current positive growth trajectory in its key Netherlands waste business.

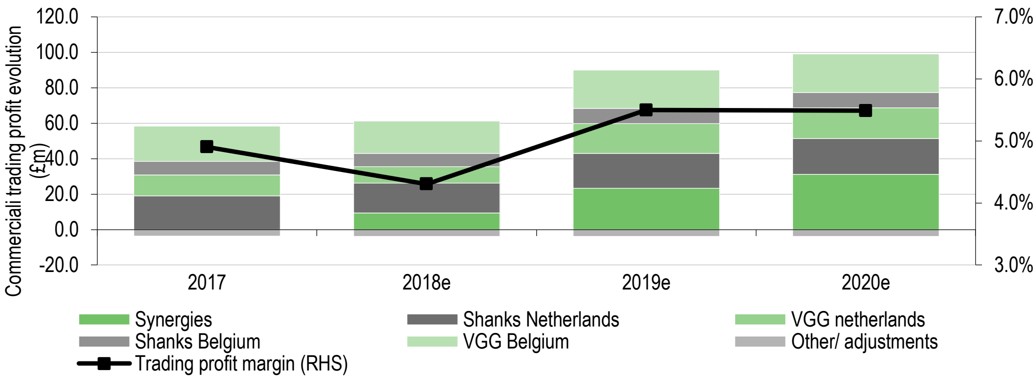
Exhibit 3: Dutch construction sector activity and business confidence



Source: Bloomberg data as at 3 July 2017

Management guides to underlying growth in FY18 driven by end market recovery. There is a slight risk that merger integration could be a drag on performance over the year. However, after merger synergies and currency are taken into account, we forecast the Commercial division to grow underlying trading profit by 6.9% in FY18 vs FY17. Over the longer term, we forecast a three-year trading profit CAGR of 21.1% driven by a mixture of recovering end markets, benefits of scale allowing Renewi to gain share by offering competitively priced integrated services and finally the positive impact of continued efficiencies to FY20.

Exhibit 4: Commercial division – pro forma trading profit and margin evolution

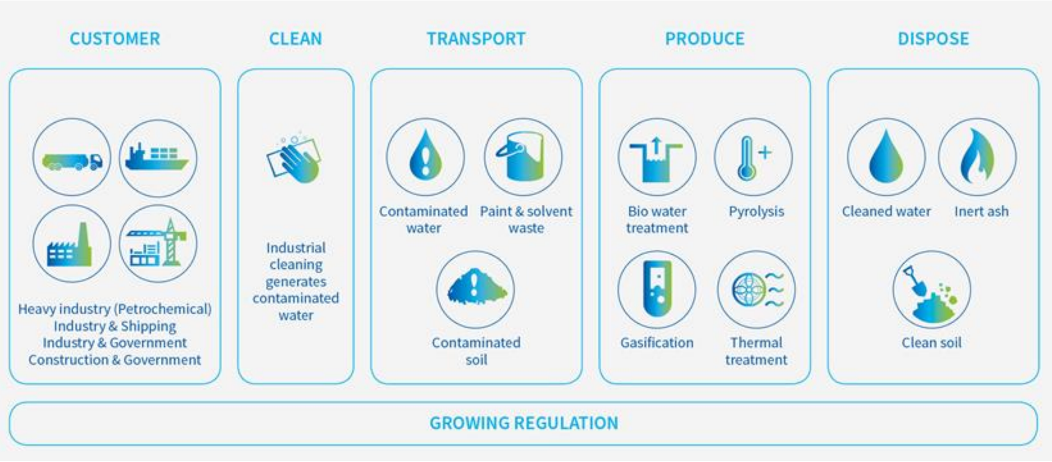


Source: Renewi accounts, Edison Investment Research

Hazardous: Highly profitable despite softness in oil

Accounting for 12% of pro forma FY17 revenues and with operations primarily in the Netherlands, the high-margin Hazardous division specialises in industrial cleaning. It is a combination of Shanks Hazardous Waste and VGG's Industrial Services division (VGIS). The division has struggled in recent years with slower revenue growth as the core end-market (more than 50% of revenues) of oil and gas has contracted, but other key verticals include heavy industry and the food industry. It has treatment facilities for contaminated soil and water and can provide integrated waste solutions for companies managing hazardous waste streams that require permitting and environmental control. Long-term drivers include contaminated soil arising from brownfield land development in the Netherlands.

Exhibit 5: Renewi's Hazardous waste business model



Source: Renewi

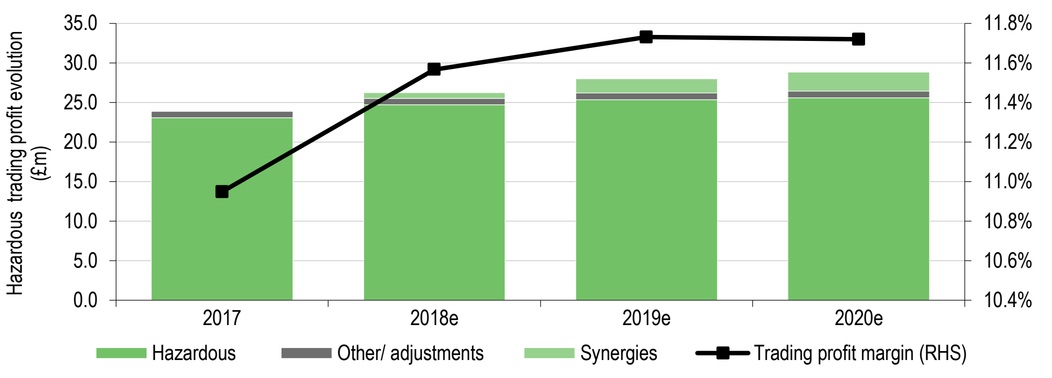
FY17: Oil soft but new initiatives contributing positively

Shanks' Hazardous division reported a strong increase in trading profit – 9% in euros and 24% in sterling – with soil treatment strength and cost reductions more than offsetting continued softness in oil and gas. New technologies such as ultrasonic cleaning also contributed. Trading margins increased from 11.4% to 12.1% year-on-year.

Outlook: Pipeline, self-help and innovation underpin growth

Management expects growth in FY18. A strong pipeline of soil and water intake, plus currency tailwinds help to drive our assumed FY18e trading profit growth of 12.2%. The oil and gas sector is forecast to remain soft for the foreseeable future. However, as environmental legislation becomes more stringent, so hazardous waste treatment capabilities should lead to further growth. This plus a more general economic recovery in Renewi's key end markets drive our three-year trading profit CAGR of 7.2%.

Exhibit 6: Hazardous division – pro forma trading profit and margin evolution

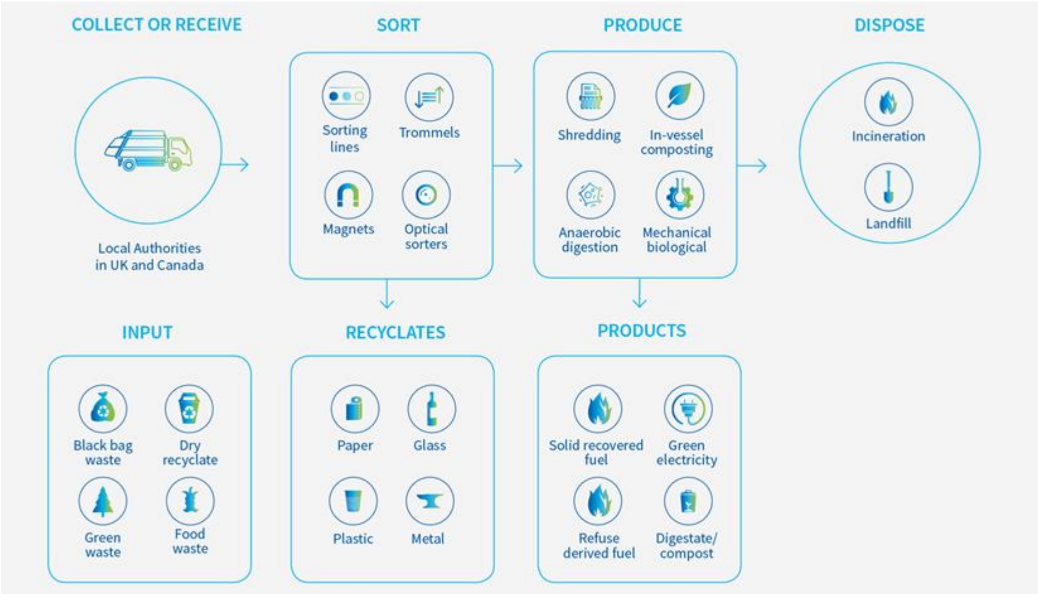


Source: Renewi accounts, Edison Investment Research

Municipal: Industry-wide issues in UK being addressed

The former Shanks Municipal Division contributed 14% of pro forma FY17 revenues and provides local authorities in the UK and Canada with integrated waste management solutions. In recent years, a series of issues around the construction of waste treatment facilities and problems with local authorities have led to loss-making years. Management is taking actions to tackle the issues facing the Municipal division. A recovery programme and new management team have been put in place. The recovery plan seeks to increase capacity utilisation at waste processing facilities, which will help to cover high fixed costs and generate more power. In addition, the new team aims to enhance the quality and therefore achievable price of the recovered fuel as well as renegotiating offtake agreements for refuse derived fuel (RDF) and solid recovered fuel (SRF).

Exhibit 7: Renewi's Municipal business model



Source: Renewi

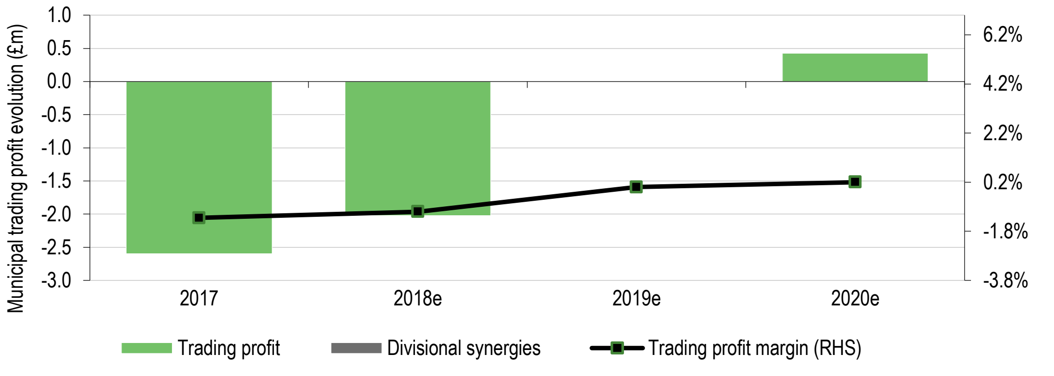
FY17: UK Municipal challenged and recovery plan put in place

The UK Municipal business swung from a £7.8m profit in FY16 to a £4.2m loss in FY17. Over the year, the Canadian business also saw a 15% decline in trading profit to £1.7m. Trading margins declined to -1.8% from 5.1% in FY16. Several of Renewi's UK treatment facilities, including Wakefield, BDR (Barnsley, Doncaster, Rotherham) and Westcott Park experienced a range of issues over the course of the year. The plant under construction in Derby (where Renewi is not the EPC contractor, which therefore limits the negative impact although it delays the cash flows) is facing ongoing delays due to the exit of a technology supplier.

Outlook: Bleeding to be stopped but minimal upside in the short term

We forecast the Municipal division will return to profitability in FY19 as the recovery plan takes effect. However, we remain cautious about profitability and growth prospects thereafter for several reasons. Firstly, Municipal customers continue to experience pressure from central government on costs. Also, an increasing number of listed waste companies (Viridor/Pennon, Augean) are experiencing similar profitability issues with waste-to-energy plants. Namely, capacity utilisation has to be very high for such assets to break even. On the whole, we believe in management's ability to arrest the deterioration in operations witnessed in FY17, but we do not expect a meaningful return to operating profit contribution within our forecast period. However, with the right management team in place, we can see Renewi recovering some value from this business in the medium to long term.

Exhibit 8: Municipal division – pro forma trading profit and margin evolution

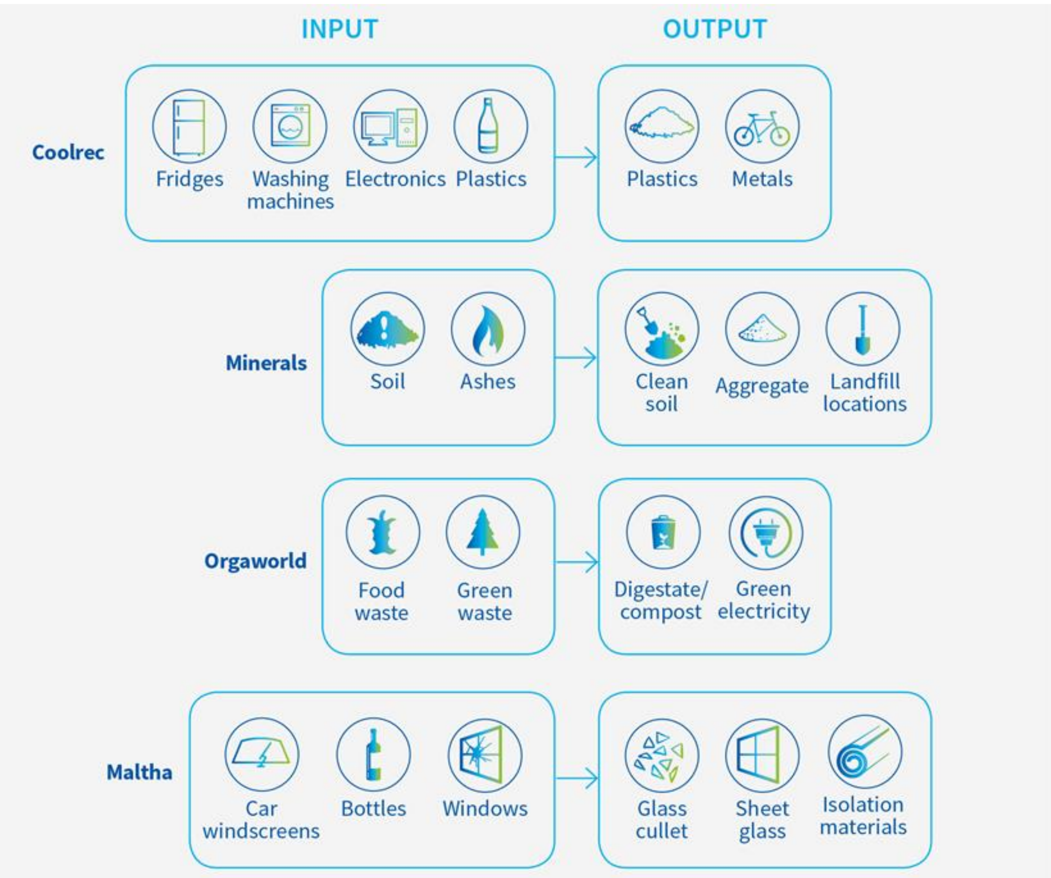


Source: Renewi accounts, Edison Investment Research

Monostreams: Revenue diversification

With international operations spanning Benelux, France, Germany, Hungary and Portugal, the new Monostreams division is a combination of three former VGG divisions – Coolrec, Maltha and Minerals – and a former Shanks unit – Orgaworld. The combined division contributed 11% of Renewi's pro forma FY17 revenues. Monostreams' core activity is the production and sale of recycled materials such as glass cullet, plastic chips/ granulates and fertilisers. It is the number 1 in Europe in recycling and trading of glass 'cullet', the number 1 handler of mineral waste in the Netherlands and number 2 in organic waste processing in the Netherlands.

Exhibit 9: Renewi's Monostreams business model

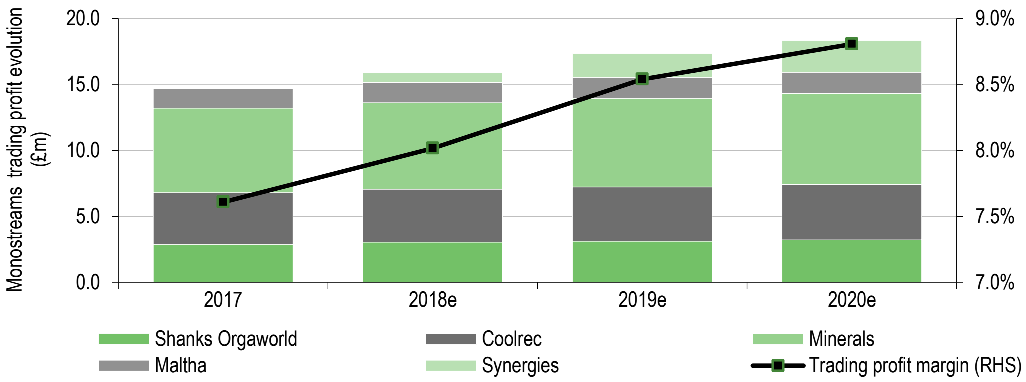


Source: Renewi

Outlook: FY18 – the first year as a division

Management guides to growth in FY18 in all four of Monostream's businesses. We forecast 10.3% growth in FY18 trading profit and, based on the strong outlook for these services, factor in a three-year trading profit CAGR of 8.4%. Given the fact that the unit was merged from various entities from within Shanks and VGG, there is little historical data.

Exhibit 10: Monostreams division – pro forma trading profit and margin evolution



Source: Renewi accounts, Edison Investment Research

Group trading profit to grow at 24.4% CAGR

Pulling together each of our segmental forecasts gives us the earnings forecasts contained in Exhibit 11. Three-year EBITDA CAGR of 10.9% and trading profit CAGR of 24.4% are exceptionally attractive in a sector context. However, we would add a note of caution that, of the near £50m in additional trading profit implied by our FY20 forecast in comparison to that reported in FY17, £34m is from planned synergies rather than underlying business performance. Of course, the objective of the merger was to extract synergies; however, this indicates how difficult Renewi's end markets and competitive landscape are.

Exhibit 11: Renewi divisional forecast table

	2017	2018e	2019e	2020e	Comments
£/€	1.19	1.17	1.17	1.17	
Commercial	933.8	953.4	975.2	997.5	18E/17A: 2.1%; 3Y cagr 2.2%
Hazardous	182.8	188.7	190.8	193.0	18E/17A: 3.2%; 3Y cagr 1.8%
Monostreams	161.9	169.3	173.5	177.8	18E/17A: 4.5%; 3Y cagr 3.2%
Municipal	207.6	202.4	207.5	212.7	18E/17A: -2.5%; 3Y cagr 0.8%
Services	(22.6)	(30.0)	(27.9)	(28.6)	
Group Revenues (£m)	**1463.5**	**1483.7**	**1519.0**	**1552.4**	**18E/17A: 1.4%; 3Y cagr 2.0%**
Commercial	104.9	103.9	136.9	146.1	18E/17A: -0.9%; 3Y cagr 11.7%
Hazardous	31.5	32.9	34.2	35.0	18E/17A: 4.4%; 3Y cagr 3.6%
Monostreams	25.0	26.7	28.3	29.5	18E/17A: 6.9%; 3Y cagr 5.6%
Municipal	1.0	-0.5	1.0	1.6	18E/17A: -150.6%; 3Y cagr 16.8%
Services	(12.1)	(12.5)	(10.4)	(7.3)	
Group EBITDA	**150.3**	**150.5**	**189.9**	**204.9**	**18E/17A: 0.2%; 3Y cagr 10.9%**
% margin	10.3%	10.1%	12.5%	13.2%	
Commercial	45.9	49.1	73.6	81.4	18E/17A: 6.9%; 3Y cagr 21.1%
Hazardous	20.0	22.4	23.9	24.7	18E/17A: 12.2%; 3Y cagr 7.2%
Monostreams	12.3	13.6	14.8	15.7	18E/17A: 10.3%; 3Y cagr 8.4%
Municipal	-2.6	-2.0	0.0	0.4	18E/17A: -22.2%; 3Y cagr -154.7%
Services	(22.5)	(24.0)	(22.8)	(20.0)	
Group trading profit	**53.1**	**59.1**	**89.5**	**102.2**	**18E/17A: 11.2%; 3Y cagr 24.4%**
% margin	3.6%	4.0%	5.9%	6.6%	

Source: Renewi accounts, Edison Investment Research

Management

In 2012, the current management team were installed at Shanks during a period of turbulence for the waste industry and the European economy as a whole. They have brought experience and leadership from a number of industries and helped the group weather macroeconomic headwinds. The merger marks a new phase during which significant management time will be spent ensuring a successful business combination and, crucially, €40m of synergies are extracted over the next three years.

Chairman: Colin Matthews

Previously CEO of Heathrow Airport, Hays and Severn Trent, Colin Matthews currently chairs Highways England Company Ltd. His earlier career spanned the aviation, infrastructure and motor industries.

Chief Executive Officer: Peter Dilnot

CEO of Shanks since 2012, Peter Dilnot has previously held roles at the Danaher Corporation and the Boston Consulting Group. He has also been an officer in the British Army.

Chief Financial Officer: Toby Woolrych

CFO since joining Shanks in 2012, Toby Woolrych previously held roles at Arthur Andersen, Johnson Matthey and Consort Medical.

Integration Director: Geert Glimmerveen

Previously head of the Netherlands division for VGG, Geert Glimmerveen, has previous experience in integration, strategy, operational excellence and continuous improvement. He has also worked for McKinsey and Company.

Sensitivities

We highlight the following risks as the main drivers of Renewi's earnings and valuation.

- **Macroeconomics:** Renewi, through its exposure to commercial waste streams in the UK, the Netherlands and Belgium, has significant revenue exposure to the economic cycle. Particular sectors such as the Dutch construction sector carry a high level of cyclicality and have meaningfully damaged Renewi's earnings and outlook in the past as GDP has declined.
- **Currency:** Given 73.5% of FY17 revenues were earnt in euros and the company reports in sterling, Renewi has significant earnings sensitivity to currency movements. According to management, a 1c move in the sterling to euro exchange rate moves revenue by £10m, EBITDA by £1.3m, trading profits by £0.6m and PBT by £0.4m.
- **Commodities prices:** Renewi has made a concerted effort to reduce commodity risk by including, for instance, dynamic pricing in its customer contracts, which shares the risks and rewards with the waste producer.
- **Counterparty risk:** As currently witnessed in its Municipal business, there is counterparty risk in Renewi's contracts with local authorities in the UK, which have exerted pressure on management to renegotiate contracts.

Valuation

Our 102p per share fair value estimate is an average of a DCF-based analysis (99p) and a multiple-driven model (104p). It implies 27.5% upside to the current price of 80p.

We believe it is prudent to include provisions and the pension deficit in our EV calculations shown in the Valuation section. Liabilities totalling £188.2m in relation to provisions for site restoration (including landfill capping) are carried on the balance sheet. Also, pension liabilities relating to pension schemes from both Shanks and VGG, which total £26.9m, are carried on the balance sheet. We include liabilities from both provisions and pension liabilities in our enterprise value calculations.

DCF: Fair value of 99p (WACC 7.5%, terminal growth 1%)

We explicitly forecast five years of cash flow in our DCF, which we discount using a post-tax WACC of 7.5%. We assume a terminal growth rate of 1%. We believe our WACC is prudent. We use a cost of debt of 5.0% despite Renewi issuing a 2019 bond at 4.23% and a 2022 bond at 3.65%.

Exhibit 12: Renewi discounted cash flow analysis

DCF valuation	[GBPm]	£m	p/share				
EV (GBPm)		1,410.0	176.3				
FY17 Net debt (GBPm)		423.9	66.3				
FY17 other pensions and provisions		195.1					
Current number of shares (m)		799.8					
Fair value (GBPm)		791.0	98.9				
Current market cap (GBPm)		639.8	80.0				
Upside / (downside) (%)		23.6%					
DCF		**2018e**	**2019e**	**2020e**	**2020e**	**2021e**	**Terminal Value**
EBIT		59.1	89.5	102.2	104.7	107.3	
Less cash taxes		(8.4)	(15.9)	(19.7)	(20.2)	(20.7)	
Tax rate		14.3%	17.8%	19.3%	19.3%	19.3%	
NOPLAT		50.6	73.6	82.5	84.5	86.7	
Working Capital		(5.8)	(9.2)	(0.8)	(0.8)	(0.8)	
Add back depreciation		87.7	96.1	97.8	99.7	101.7	
Less capex		(110.0)	(86.5)	(88.0)	(90.6)	(93.3)	
Free cash flow		22.5	74.0	91.5	92.8	94.2	95.2
FCF growth			228.3%	23.7%	1.5%	1.5%	1.0%
WACC		7.5%	7.5%	7.5%	7.5%	7.5%	7.5%
Year		0.0	1.0	2.0	3.0	4.0	
Discount factor		1.00	0.93	0.87	0.80	0.75	0.75
Discount cash flow		22.5	68.8	79.2	74.7	70.5	1,094.2
NPV		1,410.0	1,387.4	1,318.6	1,239.5	1,164.7	1,094.2
EV/EBITDA		9.6x	7.6x	7.1x	6.9x	6.7x	

Source: Edison Investment Research

We also include a DCF sensitivity table to show the sensitivity of our valuation to changes in the discount rate and the terminal growth rate.

Exhibit 13: WACC sensitivity table (p/share)

		Discount rate (post-tax, nominal)				
		5.5%	6.5%	7.5%	8.5%	9.5%
Terminal growth	0.0%	136.4	103.6	79.5	61.1	46.6
	0.5%	154.6	116.0	88.5	67.9	51.8
	1.0%	176.8	130.8	**98.9**	75.5	57.7
	1.5%	204.5	148.4	111.0	84.3	64.2
	5.0%	1,923.2	599.7	331.0	215.5	151.2

Source: Edison Investment Research

We also conducted a sensitivity analysis based on Renewi's execution on its synergy plans. We find that if Renewi delivered €0 in synergies (unlikely as they had already delivered €4m by year end) then our fair value would drop to 52p per share. Conversely, if management delivered €80m in synergies by FY20e, then our fair value would increase to 146p per share. Exhibit 14 shows the results of the analysis.

Exhibit 14: Valuation sensitivity to synergies realised by FY20e		
NPV Sensitivity to synergies		
Synergies by FY20e (€m)	NPV (£m)	Implied FV per share (£pence) after liabilities
0	1033	52
20	1222	75
40	**1410**	**99**
60	1598	122
80	1786	146

Source: Edison Investment Research

Multiple-based analysis: Fair value of 104p at 8.0x EBITDA

We take account of several listed international and UK waste management peers in arriving at a fair EV/EBITDA multiple on which to base our multiple-derived model. We pay closer attention to the UK-listed names such as Augean and Biffa (especially given Augean's focus on hazardous waste).

Exhibit 15: Renewi peer comparison

Company	Share price (local)	Year-end	Market cap (local m)	Dividend yield	Current P/E	Next P/E	Current EV/ EBIT	Next EV/ EBIT	Net debt to +1y EBITDA
Veolia Environnement	18.7	December	10,552	4.3%	18.1x	15.4x	5.6x	5.4x	2.3x
Suez	16.2	December	9,925	4.0%	20.4x	16.8x	6.5x	5.9x	2.9x
Cleanaway Waste Management	1.4	June	2,190	1.2%	30.6x	25.5x	8.3x	7.9x	1.0x
Waste Management	73.4	December	32,438	2.2%	23.1x	21.2x	10.5x	10.0x	2.3x
Clean Harbors	56.1	December	3,210	1.8%	83.2x	46.7x	10.0x	9.0x	3.0x
Covanta Holding	13.4	December	1,756	3.1%	-147.3x	79.8x	10.5x	9.2x	6.2x
Waste Connections	64.7	December	17,044	0.0%	31.0x	27.6x	14.4x	13.3x	2.5x
Average global				**2.4%**	**8.5x**	**33.3x**	**9.4x**	**8.7x**	**2.9x**
Biffa	220.0	March	550	3.0%	12.4x	11.5x	8.9x	8.6x	1.6x
Augean	63.5	December	65	1.9%	10.2x	8.8x	8.9x	8.6x	0.7x
Average UK				**2.5%**	**11.3x**	**10.2x**	**8.9x**	**8.6x**	**1.1x**
Renewi	**80.3**		**641**	**3.9%**	**20.5x**	**11.4x**	**7.5x**	**6.0x**	**3.3x**

Source: Edison Investment Research, Bloomberg data. Note: Prices as at 4 July 2017.

We apply a conservative one-year forward EV/EBITDA of 8.0x in arriving at our multiple-derived fair value per share of 104p. The calculation is shown in Exhibit 16.

Exhibit 16: Renewi multiple-driven valuation

Input EV/EBITDA (x)	**8.0x**	**8.0x**	**8.0x**
EBITDA (GBPm)	150.5	189.9	204.9
EV (GBPm)	1,204	1,521	1,640
Net Debt (Edison definition) (GBPm)	499	498	463
Other pensions and provisions	195	195	195
Equity fair value (GBPm)	511	829	981
Equity fair value per share (pence per share)	63.8	103.6	122.7

Source: Edison Investment Research

Financials

We expect significant EBITDA and operating cash flow growth from Renewi in the coming years as its earnings catalysts – end-markets, waste-to-products, synergies and commercial effectiveness – combine to enhance returns. Furthermore, at 3.3x FY18e net debt to EBITDA (its covenants are triggered at 3.75x), it has the room to maintain current assets and invest in future growth.

Trading update positive

Renewi's AGM trading update, released on 13 July 2017 reaffirms our investment thesis. Recovery in the Dutch construction sector together with a broader-based economic recovery in Benelux as a whole, and stronger recyclate prices, are driving a strong performance in the Commercial division.

Hazardous waste has started the year well while Monostreams is trading in-line with management expectations. The Municipal business is recovering in-line with expectations. Encouragingly also, synergies are being implemented ahead of schedule with €7m already achieved in the year. On the whole management guided to Renewi trading ahead of expectations for the year.

Earnings: Synergies, Municipal and Commercial drive growth

We forecast Renewi will grow underlying earnings substantially over the coming years with three-year underlying EBITDA CAGR of 10.9% and trading profit CAGR of 24.4%. We assume the company delivers on its targets of €40m in synergies by FY20. This accounts for the bulk of the EBITDA and trading profit uplift over our forecast period with the rest driven primarily by continued end-market recovery in the Commercial division.

We forecast net interest will stay steadily around the c £25m level across our forecast period (management guides to £25m in net interest charges in FY18) and our underlying tax rate assumption is 25% owing to the bulk of taxable profit being generated in the Netherlands and Belgium where corporation tax levels are higher than in the UK. Based on this set of assumptions, we forecast underlying (Edison definition: pre-amortisation) earnings per share will climb from 3.90p in FY18 to 8.29p in FY20. In other words, EPS will double between FY18 and FY20.

The company's stated dividend policy is to maintain the dividend at current levels until it is back within the range of 2.0-2.5x covered. We forecast dividends will remain steady at 3.05p per share in FY18 and FY19.

In Exhibit 16 we outline our divisional synergy breakdown forecasts, which are based on management's headline guidance, which we allocate to each division based on group revenue share. The €40m in synergies can be further divided into:

- **€12m direct cost savings:** These savings involve site closures, rationalisation and route optimisation. Where Shanks and VGG both have local capacity, sites will be closed. This is particularly prevalent in the Randstad, where both groups have a strong presence. Route optimisation also accounts for a portion of these synergies. Fewer trucks can undertake the same routes both groups carried out before resulting in higher 'lifts per kilometre'.
- **€8m scale benefits:** Procurement benefits from scale and higher negotiating power in recyclates and other offtakes will account for €8m of the synergies according to management.
- **€20m head office and back office:** The €4m of achieved synergies announced at FY17 came from savings from the VGG board and advisory board. Further significant savings will be made at senior level where one management team will replace two. Additionally, back office functions will be streamlined as the merger integrations continue.

Exhibit 17: Edison forecast of Renewi synergy targets, £m and €m

Synergies	[£m]	2017	2018e	2019e	2020e
£/€			1.17	1.17	1.17
Cost synergy targets (cumulative) (£m)			**10.3**	**25.6**	**34.2**
Allocated to Commercial (£m)			8.0	20.0	26.7
Allocated to Hazardous (£m)			0.6	1.5	2.1
Allocated to Municipal (£m)			0.0	0.0	0.0
Allocated to Monostream (£m)			0.6	1.5	2.1
Allocated to Central Services (£m)			1.0	2.6	3.4
Cost synergy targets (cumulative) (€m)			**12.0**	**30.0**	**40.0**
Allocated to Commercial (€m)			9.4	23.4	31.2
Allocated to Hazardous (€m)			0.7	1.8	2.4
Allocated to Municipal (€m)			0.0	0.0	0.0
Allocated to Monostream (€m)			0.7	1.8	2.4
Allocated to Central Services (€m)			1.2	3.0	4.0

Source: Edison Investment Research

Exhibit 18 outlines all of the historical non-trading and exceptional items that have obscured underlying results. Our forecasts include management guidance on acquisition costs and synergy delivery costs. This results in non-trading and exceptional items that total £31.5m, £27.2m and £11.1m at the operating profit line over FY18e, FY19e and FY20e, respectively.

Exhibit 18: Renewi non-trading and exceptional items

NON-TRADING ITEMS	GBP (m)	2016	2017	2018e	2019e	2020e
Continuing Operations						
Restructuring costs		2.4	2.4	0.0	0.0	0.0
Total		2.4	2.4	0.0	0.0	0.0
Portfolio management activity						
Acquisition costs		0.8	18.9	0.0	0.0	0.0
Synergy delivery costs		0.0	4.5	17.0	17.0	4.3
Integration costs		0.0	2.9	9.4	5.1	1.7
Industrial Cleaning disposal in Belgium		3.7	0.4	0.0	0.0	0.0
Disposals in the Netherlands		0.0	(0.3)	0.0	0.0	0.0
Wakefield equity and subordinated debt disposal		5.0	0.0	0.0	0.0	0.0
Total		**9.5**	**26.4**	**26.4**	**22.1**	**6.0**
Other items						
Onerous contract provisions		5.0	28.2	0.0	0.0	0.0
Municipal contract issues		4.9	5.3	0.0	0.0	0.0
Costs relating to a fire		0.0	1.6	0.0	0.0	0.0
ATM waterside contamination		1.3	0.0	0.0	0.0	0.0
ATM soil revenue recognition		1.0	0.0	0.0	0.0	0.0
Profit on disposal of land (Vliko)		(2.7)	0.0	0.0	0.0	0.0
Prior period exceptional provision releases		(0.1)	0.0	0.0	0.0	0.0
Total		9.4	35.1	0.0	0.0	0.0
Exceptional finance costs		0.0	11.6	0.0	0.0	0.0
Impairment of assets and goodwill		0.5	9.5	0.0	0.0	0.0
Amortisation of acquisition intangibles		1.8	2.1	5.1	5.1	5.1
Change in FV of derivatives at FV through P&L		(0.1)	0.0	0.0	0.0	0.0
Non-trading and exceptional items in EBIT		23.6	75.5	31.5	27.2	11.1
Non-trading and exceptional items in loss before tax		23.5	87.1	31.5	27.2	11.1
Tax on non-trading and exceptional items		(0.8)	(6.4)	0.0	0.0	0.0
Non-trading and exceptional items in loss after tax		22.7	80.7	31.5	27.2	11.1
Discontinued operations		(0.4)	0.5	0.0	0.0	0.0
Total non-trading and exceptional items in loss after tax		**22.3**	**81.2**	**31.5**	**27.2**	**11.1**

Source: Renewi accounts, Edison Investment Research

Cash flow

We estimate that there will be a net cash outflow for FY18e of £75m. We forecast underlying EBITDA for the year of £151m. Thereafter a net working capital outflow of £6m, a net interest charge of £25m, tax of £8m, capital expenditure of £110m, a cash dividend cost of £24m, plus £50m in other non-trading and exceptional items in relation to merger integration in aggregate account for the cash outflow. This increases net debt from £424m on 31 March 2017 to £499m at FY18e, according to our forecasts.

Capex

The Commercial and Hazardous divisions account for the bulk of capex. In FY17 (pre-VGG), the two divisions comprised 77% of reported capex. In Commercial, around half of capex is invested in trucks and containers with the other half invested in processing plants. This is further split between maintenance and larger individual investments. Big ticket items highlighted by management for FY18 include €4m on a chemical waste shed and €6m on the costs of rebranding. We forecast £110m will be invested in capex in FY18, in line with management guidance. Thereafter, we expect capex to trend at 90% of depreciation.

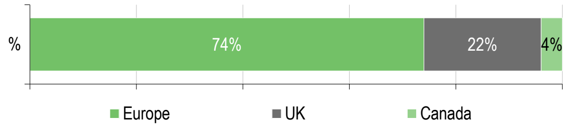
Balance sheet

Renewi's pro forma net debt to EBITDA was 2.8x at FY17. Our forecast FY18 net debt to EBITDA ratio of 3.3x is in line with management guidance for the year of well below Renewi's peak debt covenant of 3.75x EBITDA. After FY18 as the synergies benefit Renewi's cash flow and the one-time exceptional integration costs roll off, we forecast net debt to EBITDA will decline to 2.3x by FY20, in line with management guidance of 2.0-2.5x in FY20.

Exhibit 19: Financial summary

£m	2016	2017	2018e	2019e	2020e
Year-end March 31st	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	614.8	779.2	1,483.7	1,519.0	1,552.4
EBITDA	69.2	81.6	150.5	189.9	204.9
Operating Profit (before amort. and except.)	36.0	39.8	62.9	93.9	107.2
Intangible Amortisation	(2.6)	(3.3)	(3.8)	(4.4)	(5.0)
Exceptionals	(23.6)	(75.5)	(31.5)	(27.2)	(11.1)
Other	0.0	0.0	0.0	0.0	0.0
Operating Profit	9.8	(39.0)	27.6	62.3	91.1
Net Interest	(13.3)	(12.8)	(25.3)	(25.8)	(23.4)
Associated company	1.0	2.0	2.1	2.2	2.3
Profit Before Tax (norm)	23.7	29.0	39.7	70.3	86.1
Profit Before Tax (FRS 3)	(2.5)	(49.8)	4.4	38.8	69.9
Tax	(1.5)	0.5	(8.4)	(15.9)	(19.7)
Profit After Tax (norm)	22.2	29.5	31.2	54.4	66.4
Profit After Tax (FRS 3)	(4.0)	(49.3)	(4.1)	22.8	50.3
Minority interest	0.0	(0.3)	(0.0)	0.1	0.2
Net Income (norm)	22.2	29.2	31.2	54.5	66.6
Net Income (FRS 3)	(4.0)	(49.6)	(4.1)	22.9	50.5
Average Number of Shares Outstanding (m)	449.5	536.3	799.8	799.8	799.8
EPS (pence per share) - normalised	4.9	5.5	3.9	6.8	8.3
EPS (pence per share) - normalised and fully diluted	4.9	5.4	3.9	6.8	8.3
EPS (pence per share) - (IFRS)	(0.9)	(11.4)	(0.5)	2.9	6.3
Dividend per share (pence per share)	3.5	3.1	3.1	3.1	3.5
EBITDA Margin (%)	11.3	10.5	10.1	12.5	13.2
Operating Margin (before GW and except.) (%)	5.9	5.1	4.2	6.2	6.9
BALANCE SHEET					
Fixed Assets	670.4	1,420.9	1,441.5	1,429.8	1,417.3
Intangible Assets	194.5	603.3	599.5	595.1	590.1
Tangible Assets	297.0	587.4	609.7	600.1	590.3
Investments	10.8	15.8	17.9	20.1	22.4
Other	168.1	214.4	214.4	214.4	214.4
Current Assets	163.9	328.8	343.5	352.2	394.1
Stocks	6.8	19.9	18.3	18.2	18.5
Debtors	122.4	234.0	325.2	332.9	340.2
Cash	34.7	74.9	0.1	1.1	35.4
Current Liabilities	(230.4)	(485.3)	(569.1)	(567.6)	(574.4)
Creditors	(203.3)	(409.3)	(493.1)	(491.6)	(498.4)
Short term borrowings	(2.4)	(16.4)	(16.4)	(16.4)	(16.4)
Other	(24.7)	(59.6)	(59.6)	(59.6)	(59.6)
Long Term Liabilities	(346.3)	(760.7)	(740.7)	(740.7)	(740.7)
Long term borrowings	(224.9)	(482.4)	(482.4)	(482.4)	(482.4)
Employee benefits	(10.7)	(26.9)	(26.9)	(26.9)	(26.9)
Other long term liabilities	(110.7)	(251.4)	(231.4)	(231.4)	(231.4)
Net Assets	257.6	503.7	475.2	473.7	496.3
CASH FLOW					
Operating Cash Flow	72.2	27.9	93.3	153.5	193.1
Net Interest	(12.8)	(19.0)	(25.3)	(25.8)	(23.4)
Tax	(4.8)	(5.3)	(8.4)	(15.9)	(19.7)
Capex	(34.4)	(44.0)	(110.0)	(86.5)	(88.0)
Acquisitions/disposals	27.0	53.3	0.0	0.0	0.0
Financing	(62.4)	40.0	0.0	0.0	0.0
Dividends	(13.7)	(15.1)	(24.4)	(24.4)	(27.6)
Net Cash Flow	(28.9)	37.8	(74.8)	1.0	34.4
Opening net debt/(cash)	377.6	192.6	423.9	498.7	497.7
HP finance leases initiated	0.0	0.0	0.0	0.0	0.0
Other	213.9	(269.1)	0.0	0.0	(0.0)
Closing net debt/(cash)	192.6	423.9	498.7	497.7	463.4

Source: Renewi, Edison Investment Research

Contact details	Revenue by geography
Renewi PLC Dunedin House Auckland Park Mount Farm Milton Keynes Buckinghamshire MK1 1BU +44 (0)1908 650580 www.renewi.com	

Management team	
Chairman: Colin Matthews	**Chief Executive Officer: Peter Dilnot**
Previously CEO of Heathrow Airport, Hays and Severn Trent, Colin Matthews currently chairs Highways England Company Ltd. His earlier career spanned the aviation, infrastructure and motor industries.	CEO of Shanks since 2012, Peter Dilnot has previously held roles at the Danaher Corporation and the Boston Consulting Group. He has also been an officer in the British Army.
Chief Financial Officer: Toby Woolrych	**Integration Director: Geert Glimmerveen**
CFO since joining Shanks in 2012, Toby Woolrych had previously held roles in Arthur Andersen, Johnson Matthey and Consort Medical.	Previously head of the Netherlands division for VGG, Geert Glimmerveen has previous experience in integration, strategy, operational excellence and continuous improvement. He previously worked for McKinsey and Company.

Principal shareholders	(%)
Kabouter Management LLC	9.05
FMR LLC	5.84
Paradice Investment Management	4.83
Cross Ocean partners	4.26
Aberforth Partners	3.79

Companies named in this report

Veolia Environnement (VIE), Suez Environnement (SEV), Cleanaway Waste Management Ltd (CWY), Waste Management Inc (WMI), Clean Harbors Inc (CLH), Covanta Holdings (COVA), Waste Connections Inc (WCN), Biffa (BIFF), Augean (AUG), Pennon (Viridor) (PNN)

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
295 Madison Avenue, 18th Floor
10017, New York
US

Sydney +61 (0)2 8249 8342
Level 12, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia