

# Renewi

Divisional update

## Decisive steps in UK Municipal

A review of onerous UK Municipal contracts (flagged on 12 February) has quantified net exceptional costs totalling £73m (including c £49m for three long-term ongoing PFI operating contracts, the remainder for exiting two other operations). There is no change to our headline estimates or any material impact on group net debt or annual cash flows as a result. These actions will allow investors to re-focus on the important merger integration programme, now entering its second year and continuing on track. By the time this completes in FY20, Renewi's P/E rating will have reduced to 11.0x at the current share price.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	614.8	21.6	4.3	3.1	20.8	3.4
03/17	779.2	26.0	3.7	3.1	24.2	3.4
03/18e	1,531.4	51.0	4.8	3.1	18.5	3.4
03/19e	1,547.3	70.6	6.6	3.1	13.5	3.4

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

## Taking a prudent view on longer-term contracts

The larger exceptional charge portion relates to longer duration contracts. In effect, future profit expectations have reduced and long-term contract accounting requires the full life impact to be recognised and discounted back. The resulting onerous contract provisions for Wakefield (to 2038) and Barnsley, Doncaster and Rotherham (BDR, 2040) equates to £30m and £27m respectively. If one assumed these changes were evenly spread over the remaining term, this would equate to an annual provision release of £2.5-3.0m, though we would expect it to be larger in earlier years, tapering down towards the end point. These revised expectations have been driven by operational experience at the facilities (both now into their third year of operation) and changes with regard to market offtake conditions and certain subsidies. Separately, a £3m favourable contractor settlement at Wakefield and a £5m provision release relating to Cumbria (2034) from improved operational performance together represent credits that partly offset the larger charges.

## Exiting other smaller Municipal contracts

Renewi has also removed potential future uncertainties regarding two further operations by taking the decision to exit them in FY19. A smaller onerous contract charge for the Dumfries and Galloway PFI operating contract (2029, £9m) and pre-exit provisions and non-cash asset write-downs (both of £8m) for the Westcott Park anaerobic digestion facility will also be included in FY18 exceptionals.

## Valuation: P/E multiple approaching 11x

Headline estimates are unchanged overall as UK Municipal run rates now converge with our model. On this basis, Renewi's closing year P/E and EV/EBITDA (adjusted for pensions cash) multiples are 18.5x and 7.6x, respectively. By FY20, as the Shanks/VGG merger process completes, these metrics reduce to 11.0x and 6.0x respectively at the current share price. UK Municipal has been something of a distraction to investors but should be less so following the announced actions and the merger integration progress should come more to the fore.

## Industrial support services

9 March 2018

**Price** 89.4p

**Market cap** £715m

€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	(6.9)	(10.2)	(5.9)
Rel (local)	(7.8)	(8.4)	(5.6)
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	4 April
FY18 results	May tbc

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**Exhibit 1: Financial summary**

	£'ms	2011	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>											
Revenue		717.3	750.1	614.6	633.4	601.4	614.8	779.2	1,531.4	1,547.3	1,576.4
Cost of Sales		(601.9)	(622.9)	(511.6)	(528.3)	(506.1)	(517.8)	(653.3)	(1,263.4)	(1,276.5)	(1,300.5)
Gross Profit		115.4	127.2	103.0	105.1	95.3	97.0	125.9	268.0	270.8	275.9
EBITDA		100.0	105.0	88.4	88.5	72.6	69.2	81.6	161.2	186.3	201.3
Operating Profit (before GW and except.)		49.7	53.4	44.9	45.6	34.3	33.4	36.5	71.4	95.5	109.5
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)	(4.1)	(4.1)
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)	(103.0)	(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)	(57.8)	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)	(68.7)	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)	(8.6)	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	12.0	12.8
Operating Margin (before GW and except.) (%)		6.9	7.1	7.3	7.2	5.7	5.4	4.7	4.7	6.2	6.9
<b>BALANCE SHEET</b>											
Fixed Assets		767.9	751.6	772.1	744.4	737.3	670.4	1,420.9	1,448.8	1,441.7	1,435.0
Intangible Assets		289.6	271.4	251.8	211.1	173.8	194.5	603.3	576.6	571.0	560.4
Tangible Assets		397.5	390.9	375.3	322.7	282.9	297.0	587.4	639.2	637.7	641.6
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	366.4	370.6
Stocks		9.9	10.5	11.0	9.4	6.9	6.8	19.9	18.7	18.3	18.5
Debtors		179.7	163.3	160.9	151.5	156.3	135.5	253.4	270.4	275.2	279.1
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)	(470.7)	(447.4)
Creditors		(237.1)	(226.5)	(230.7)	(226.3)	(202.4)	(224.8)	(466.8)	(452.0)	(454.1)	(456.4)
Short term borrowings		(39.3)	(12.2)	(18.2)	(3.3)	(75.0)	(2.4)	(16.4)	(13.3)	(16.6)	9.0
Long Term Liabilities		(338.2)	(375.9)	(444.2)	(504.7)	(432.5)	(434.2)	(845.7)	(984.4)	(979.3)	(975.1)
Long term borrowings		(222.6)	(253.8)	(234.5)	(253.8)	(140.8)	(224.9)	(482.4)	(551.1)	(551.1)	(551.1)
Other long term liabilities		(115.6)	(122.1)	(209.7)	(250.9)	(291.7)	(209.3)	(363.3)	(433.3)	(428.2)	(424.0)
Net Assets		397.4	370.6	326.3	275.2	251.4	186.0	440.2	361.2	358.1	383.0
<b>CASH FLOW</b>											
Operating Cash Flow		99.4	109.9	67.7	78.6	55.8	72.2	27.9	102.1	149.2	181.6
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	(54.1)	(3.3)	25.6
Opening core net debt/(cash)		319.7	207.4	206.2	177.3	152.9	155.0	192.6	423.9	491.4	494.7
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	491.4	494.7	469.1
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: Company, Edison Investment Research

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