

# BayWa

**Consumer staples**
**9 December 2020**

## Investment to accelerate renewables growth

BayWa has previously flagged it was intending a capital increase with a partner to take advantage of the existing growth in the market for renewables energy. It has now announced that Energy Infrastructure Partners (EIP, formerly Credit Suisse Energy Infrastructure Partners) will take a 49% stake in the group's renewables business unit, BayWa r. e., in return for an equity contribution of €530m. Management expects the additional capital available will significantly accelerate earnings growth for both the group and the renewables business unit medium term.

## Renewables already group growth driver

Sales of completed energy projects more than doubled year-on-year in FY19 from 453MW to 912MW, which included 12 free-standing solar parks with a total output of 620MW, a floating solar park of 8MW and 10 wind farms with a combined output of 283MW. Projects were completed in Australia, Europe, Mexico and the US. At the end of FY19, the division also had 8GW of capacity under management. FY19 segmental sales rose by 29% to a record €1,975.3m and EBIT by 39% to a record €101.1m, 54% of the group total. Management expects 2020 project sales to total around 0.9GW, supporting segmental EBIT at similar levels to FY19.

## Transaction accelerates renewables growth

The International Energy Agency calculates that for the energy sector globally to reach net-zero emissions by 2050, new solar PV installations will need to grow from 110 GW annually to nearly 500GW and power sector investment to triple from \$760bn to \$2,200bn. However, participating in this growth is capital intensive, with BayWa investing an average of €1.5bn in the segment during FY19, which is 33% of the group total. Management expects the EIP investment will enable BayWa r.e. to scale up the project business to up to 3GW of project sales per year from 2025 onwards. The capital will also enable BayWa r.e. to develop its independent power provider activity, creating a recurring revenue stream from contracts to supply power from 2022 onwards. Management projections show this activity will represent 23% of segmental revenues by 2023 and sales of projects 56%, contributing to segmental EBIT of over €170m. By 2028, management intends to be selling around 3GW electricity per year from its own power generation assets.

## Valuation: Awaiting consensus updates

Consensus estimates have yet to be updated to reflect the transaction, which is expected to close in Q1 2021, precluding us forming a view on valuation at present.

### Consensus estimates

| Year end | Revenue (€m) | PBT (€m) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
|----------|--------------|----------|---------|---------|---------|-----------|
| 12/18    | 16,626       | 92.6     | 0.56    | 0.90    | 55.0    | 2.9       |
| 12/19    | 17,059       | 79.2     | 0.68    | 0.95    | 45.3    | 3.1       |
| 12/20e   | 16,843       | 94.8     | 1.05    | 0.88    | 29.3    | 2.9       |
| 12/21e   | 17,384       | 104.2    | 1.19    | 0.92    | 25.9    | 3.0       |

Source: Company data, Refinitiv

**Price** €30.8  
**Market cap** €1,047m

### Share price graph



### Share details

**Code** BYWA  
**Listing** Frankfurt, Munich, Xetra  
**Shares in issue** 34.0m

### Business description

BayWa has an international renewable energy business focused on solar and wind farms and trades oil and lubricants in Germany and Austria. It also trades agricultural produce and equipment within Europe and globally and is a retailer of building materials in Germany.

### Bull

- BayWa addresses the needs for the three primary human requirements of food, warmth and shelter, so underlying demand for the group's products is resilient to recessionary effects and is driven by a growing global population.
- Penetration of renewables market provides growth for energy activities as consumers globally shift to renewable sources of energy.
- Geographic diversity protects renewables activity from changes in government policy in individual countries.

### Bear

- Agricultural trading margins and demand for agricultural inputs, heating oil and building materials are affected by unusual weather.
- High levels of debt: €2.4.bn at end FY19 and 146% gearing (prior to equity investment).
- Low free float: 38.4%.

### Analyst

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