

Renewi

Q3 trading update

Recyclate prices drive further FY22 upgrade

Renewi's Q3 update flagged a continuation of favourable recyclate prices and incremental windfall gains reflected in increased FY22 guidance. In a historical context, these earnings benefits are likely to be temporary – cash benefit is retained of course – and the rating perhaps suggests that investors are not fully focused on the more significant and sustainable strategic profit uplift being targeted by FY25.

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
03/20	1,775.4	54.3	53.6	5.2	14.9	0.7
03/21	1,693.6	47.1	44.7	0.0	16.9	N/A
03/22e	1,812.6	94.0	87.1	0.0	8.7	N/A
03/23e	1,862.8	78.5	72.5	17.9	10.4	2.4

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

Secondary materials prices remain firm in Q3

Renewi's Q3 update included substantially similar trading features to those seen in the first half. Some further volume disruption in the Netherlands and Belgium relating to local lockdown conditions in the period was noted, but this has been more than compensated for by sustained strength in recyclate prices, further boosting the expected contribution from the Commercial Waste division in particular. Elsewhere, Mineralz & Water income streams are as previously reported. A flagged legislative update on the use of recycled materials in secondary mineral products would be welcome in principle – providing suppliers and users alike with greater clarity regarding applications – although the timing and conclusions of such a review are indeterminate at this stage. At the end of December, pre-IFRS 16 net debt had reduced further to just over €300m, leaving plenty of headroom for the company's [strategic investment programme](#).

Taking windfall gains and investing for growth

The company has set out a clear, three-pronged growth strategy and is robustly maintaining the near- (€5m EBIT benefit from Renewi 2.0 in FY22) and medium-term (€60m EBIT increment versus FY20 by FY25) expectations set out previously. For FY22, EBIT guidance has again been raised to 'at least €120m'; the uplift in our estimates to this level is essentially driven by the inferred €14m further recyclate margin contribution in H2 flagged in the update. With no estimate changes beyond FY22 at this stage, headline earnings progression is distorted by the expected c €40m y-o-y gain from higher recyclate prices in FY22. Permanent gains from strategic investment should more than replace these windfall benefits in due course and we would expect this to be recognised in the company's rating.

Valuation: Earnings and share price moves opposed

Since hitting an 840p 12-month high in November (following H122 results), Renewi's share price has re-traced by almost 25% to current levels. As a result, the company is sitting on FY23e P/E and EV/EBITDA multiples of 10.4x and 5.3x respectively. No H121 dividend was declared and no timing guidance issued for a return to making payments; the position is being kept under review in the context of wider group capital allocation requirements.

Industrial support services

17 February 2022

Price 636p

Market cap £509m

€1.19/€

Core group ongoing net debt (ex-PPP/PFI finance and IFRS 16 leases, €m) at end December 2021 301

Shares in issue 80.0m

Free float 98.8%

Code RWI

Primary exchange LSE

Secondary exchange Euronext Amsterdam

Share price performance



% 1m 3m 12m

Abs (10.8) (23.1) 50.2

Rel (local) (10.7) (24.4) 35.7

52-week high/low 840.0p 397.5p

Business description

Renewi is a leading waste-to-product company in some of the world's most advanced circular economies with operations primarily in the Netherlands, Belgium and the UK. Its activities span the collection, processing and resale of industrial, hazardous and municipal waste.

Next events

FY22 year end March 2022

Analyst

Toby Thorrington +44 (0)20 3077 5721

industrials@edisongroup.com

[Edison profile page](#)

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

Exhibit 1: Financial summary

	m	2018	2018	2019	2020	2021	2022e	2023e	2024e
March		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS		Sterling	Euros	Euros	Euros	Euros	Euros	Euros	Euros
Revenue		1,565.7	1,760.3	1,780.7	1,775.4	1,693.6	1,812.6	1,862.8	1,928.2
Cost of Sales		(1,276.9)	(1,419.2)	(1,470.4)	(1,467.5)	(1,408.5)	(1,489.3)	(1,535.2)	(1,584.3)
Gross Profit		288.8	341.1	310.3	307.9	285.1	323.3	327.6	343.9
EBITDA		156.9	176.3	179.7	167.1	159.8	198.4	186.7	195.5
Operating Profit (before GW and except.)		69.1	82.5	85.5	87.6	73.0	120.0	105.8	112.1
Net Interest		(14.2)	(15.0)	(14.4)	(18.5)	(14.0)	(12.8)	(13.8)	(14.3)
Other Finance		(5.1)	(7.1)	(8.4)	(15.7)	(13.5)	(13.5)	(13.5)	(13.5)
JV/Associates		2.3	2.6	0.4	0.9	1.6	0.3	0.0	0.0
Intangible Amortisation		(5.8)	(6.7)	(6.4)	(6.4)	(3.3)	(3.3)	(3.3)	(3.3)
Non-Trading & Exceptional Items		(95.7)	(108.4)	(145.1)	(107.1)	(25.9)	(13.0)	(12.0)	(6.0)
Profit Before Tax (Edison norm)		52.1	63.0	63.1	54.3	47.1	94.0	78.5	84.3
Pension net finance costs		(0.6)	(0.7)	(0.6)	(0.2)	0.3	(0.1)	0.0	0.0
Profit Before Tax (Renewi norm)		51.5	62.3	62.5	54.1	47.4	93.9	78.5	84.3
Profit Before Tax (statutory)		(50.0)	(52.8)	(89.0)	(59.4)	18.2	77.6	63.2	75.0
Tax - headline		2.6	1.4	12.4	(1.1)	(7.2)	(18.5)	(19.6)	(21.1)
Profit After Tax (norm)		39.1	47.2	47.5	41.0	35.5	70.5	58.9	63.3
Profit After Tax		(47.4)	(51.5)	(76.6)	(60.5)	11.0	59.1	43.6	54.0
Average Number of Shares Outstanding (m)		80.0	80.0	79.7	79.5	79.5	8.0	8.0	8.0
EPS - Edison norm (p/c) FD		48.6	58.7	60.3	53.6*	44.7	87.1	72.5	77.9
EPS - Renewi norm (p/c) FD		48.0	54.0	59.7	53.5	45.0	87.1	72.5	77.9
EPS - (p/c)		(59.1)	(67.8)	(116.5)	(98.0)	13.9	73.2	53.6	66.6
Dividend per share (p/c)		30.5	34.6	16.8	5.2	0.0	0.0	17.9	20.8
Gross Margin (%)		18.4	19.4	17.4	17.3	16.8	17.8	17.6	17.8
EBITDA Margin (%)		10.0	10.0	10.1	9.4	9.4	10.9	10.0	10.1
Operating Margin (before GW and except.) (%)		4.4	4.7	4.8	4.9	4.3	6.6	5.7	5.8
BALANCE SHEET									
Fixed Assets		1,456.3	1,669.2	1,439.6	1,616.8	1,617.8	1,606.2	1,649.0	1,666.3
Intangible Assets		606.3	699.3	605.6	610.1	602.2	599.7	592.3	584.9
Tangible Assets (inc RoU assets)		623.0	710.8	629.1	790.9	794.5	799.7	849.9	874.6
Investments		227.0	259.1	204.9	215.8	221.1	206.8	206.8	206.8
Current Assets		366.2	418.0	533.3	503.3	338.4	410.3	399.0	426.0
Stocks		23.3	26.6	26.0	20.7	20.6	21.8	22.5	23.2
Debtors		279.0	318.4	456.9	288.1	266.3	305.0	311.6	319.7
Cash		63.9	73.0	50.4	194.5	51.5	83.5	64.9	83.2
Current Liabilities		(545.8)	(631.0)	(758.3)	(635.2)	(644.6)	(734.1)	(732.6)	(736.7)
Creditors		(532.9)	(616.3)	(639.6)	(618.4)	(632.3)	(623.9)	(622.4)	(626.5)
Short term borrowings		(12.9)	(14.7)	(118.7)	(16.8)	(12.3)	(110.2)	(110.2)	(110.2)
Long Term Liabilities		(894.3)	(1,019.9)	(895.1)	(1,249.6)	(1,068.6)	(966.9)	(961.0)	(962.0)
Long term borrowings		(489.7)	(558.9)	(483.7)	(634.9)	(382.8)	(305.0)	(325.0)	(345.0)
Other long-term liabilities		(404.6)	(461.0)	(411.4)	(614.7)	(685.8)	(661.9)	(636.0)	(617.0)
Net Assets		382.4	436.3	319.5	235.3	243.1	315.5	354.3	393.6
CASH FLOW									
Operating Cash Flow		128.4	143.6	86.8	167.8	258.2	182.4	177.6	198.0
Net Interest		(16.9)	(19.1)	(17.7)	(27.0)	(20.6)	(20.0)	(21.0)	(21.5)
Tax		(6.7)	(7.6)	(13.2)	(10.1)	(14.8)	(13.8)	(23.5)	(19.6)
Net Capex		(81.2)	(92.3)	(99.4)	(73.4)	(62.3)	(100.9)	(127.0)	(104.0)
Acquisitions/disposals		(4.1)	(4.8)	22.7	81.0	2.4	0.8	0.0	0.0
Equity Financing		0.6	0.6	(2.7)	0.6	0.4	1.2	0.0	0.0
Dividends		(24.4)	(27.6)	(27.4)	(8.6)	0.0	0.0	(4.7)	(14.7)
Net Cash Flow		(4.3)	(7.3)	(50.9)	130.3	163.3	49.7	1.4	38.3
Opening core net debt/(cash)		423.9	492.7	500.0	552.0	457.2	343.6	331.7	370.3
IFRS 16 lease capital repayments		0.0	0.0	0.0	(38.5)	(40.4)	(40.0)	(40.0)	(40.0)
Other		(10.5)	(0.0)	(1.1)	3.0	(9.3)	2.1	0.0	0.0
Closing core net debt/(cash)		438.7	500.0	552.0	457.2	343.6	331.7	370.3	372.0
Closing PPP/PFI non-recourse net debt		82.9	94.6	95.4	90.0	87.8	79.6	79.6	79.6
IFRS 16 Lease finance					202.7	247.8	245.7	250.7	255.7

Source: Company data, Edison Investment Research. Note: *EPS for continuing businesses in FY20 was 51c and the 54c figure shown includes discontinued operations. Please note that the company's shares underwent a 10:1 consolidation on 19 July 2021.

General disclaimer and copyright

This report has been commissioned by Renewi and prepared and issued by Edison, in consideration of a fee payable by Renewi. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out of or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2022 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

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
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia