

WINDLAB LTD

BUY

Kennedy Phase I reaches financial close. Entrée to a very substantial main?

Utilities / Renewable Electricity

19 October 2017

COMPANY UPDATE

Ticker	WND
Stock Price	\$1.550
Target Price	\$2.80
Forecast Capital Return	80.6%
Forecast Dividend Yield	0.0%
Estimated Total Return - 12 Mth Forward	80.6%

Company market data

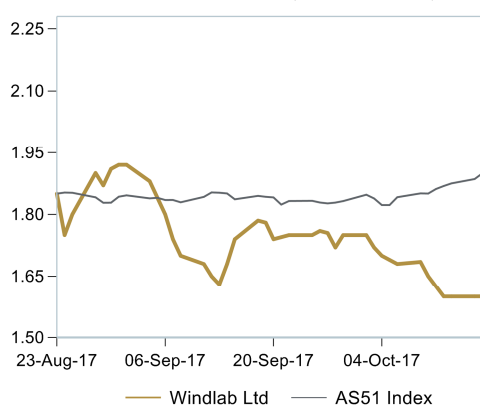
Market Cap.	\$104.2m
Free Float (%)	61.2
Enterprise Value	\$79.8m
52 Week Range	\$1.55 - \$1.92
Shares Out.	67.2m
Avg. Daily Value	\$0.4m

Estimates changes	2016a	2017e	2018e	2019e
Core NPAT - <i>old</i>	7.8	9.7	13.6	20.7
Core NPAT - <i>new</i>	7.8	9.6	14.6	20.8
% Change	0.0	(0.9)	7.1	0.4
Core EPS dil. (€) - <i>old</i>	11.6	13.9	20.3	30.8
Core EPS dil. (€) - <i>new</i>	11.6	14.3	21.7	30.9
% Change	0.0	2.9	7.1	0.4
DPS (€) - <i>old</i>	0.0	0.0	0.0	0.0
DPS (€) - <i>new</i>	0.0	0.0	0.0	0.0
% Change	-	-	-	-

All figures are in AUD unless otherwise specified.

Share price performance

Windlab Ltd vs. AS51 (rebased index)



Analyst

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EVENT

WND has announced the financial close of its Kennedy Energy Park Phase I (KEP I) project and reaffirmed its prospectus revenue forecast for CY17. KEP I is a 43MW wind, 15MW solar, 2MW battery storage hybrid project in North Queensland.

IMPACT

Upfront development fee + ongoing management fees. As part of KEP I achieving financial close, WND will receive a development fee of \$5.4m as well as asset management fees of \$600k during construction and \$900k per annum during operations, for a 20 year term. The development fee (and \$23.5m of IPO proceeds) will be applied towards maintaining WND's 50% equity interest in KEP I, alongside 50:50 joint venture partner, Eurus Energy.

Implied capex of \$161.5m slightly higher than expected (prospectus: \$154m) however it is understood project is still expected to achieve target returns.

Construction imminent, full KEP I operations expected before end of CY18.

Prospectus revenue forecast for CY17 of \$23.2m reaffirmed (Moelis: \$23.1m) following financial close of KEP I and 453MW Coopers Gap in August 2017.

INVESTMENT VIEW

The commencement of full operations at the 30MW Kiata wind farm later this year (WND interest: 25%) and KEP I at the end of CY18 combined with the growing asset management fees will increase WND's proportion of recurring revenue from ~16% in CY17e to ~40% in CY19e. Further, we see KEP I as a potential entrée to the larger Kennedy Phase II project which is being developed 80km north of KEP I and has a potential capacity of 1,200MW.

Whilst we are cognisant of the Federal Government's new energy policy released earlier in the week, we note that 1) full details of the policy remain scarce, 2) the existing RET will remain in place until 2030, 3) the VIC, QLD and SA state governments have independently proposed renewable targets (eg. QLD: 50% by 2030), and 4) the rapidly falling costs of renewables are likely to negate the need for subsidies for high quality projects. We believe that WND's proprietary wind energy assessment technology, Windscape™, provides it a technological edge in identifying higher quality wind resources that are likely to be developed ahead of competing projects.

Maintain BUY rating and 12 month price target moves to \$2.80/share (from \$2.88/share, largely due to the slight increase in KEP I capex).

Y/E Dec 31	2016a	2017e	2018e	2019e
EBITDA	10.0	14.7	20.7	29.1
EV/EBITDA	7.9x	5.4x	3.9x	2.7x
Core NPAT	7.8	9.6	14.6	20.8
Core EPS (Diluted) (€)	11.6	14.3	21.7	30.9
P/E	13.4x	10.8x	7.1x	5.0x
EPS growth	323.7%	23.2%	52.0%	42.2%
DPS (€)	0.0	0.0	0.0	0.0
Yield	0.0%	0.0%	0.0%	0.0%
DPS growth	-	-	-	-
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%

All figures are in AUD.

Windlab Ltd (WND)

Market Cap: \$104m

Last Price: \$1.550

Target Price: \$2.80

Buy

Y/E Dec 31

Profit and Loss (\$m)	2015a	2016a	2017e	2018e	2019e
Revenue	9.1	17.1	23.0	28.8	36.1
<i>Growth</i>	77.1%	87.7%	34.9%	25.1%	25.2%
EBITDA	2.2	10.0	14.7	20.7	29.1
<i>Growth</i>	56.6%	359.8%	45.9%	41.4%	40.4%
Dep'n & Amort	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)
EBIT	1.8	9.8	14.4	20.5	28.8
<i>Growth</i>	85.0%	433.6%	47.4%	42.2%	40.6%
Net Interest Expense	0.0	(0.4)	(0.7)	(0.3)	(0.1)
Profit Before Tax	1.8	9.4	13.7	20.1	28.6
Tax	0.0	(1.6)	(4.1)	(5.5)	(7.9)
<i>Tax Rate (%)</i>	(0.4%)	17.0%	30.0%	27.5%	27.5%
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT (Underlying)	1.8	7.8	9.6	14.6	20.8
<i>Growth</i>	97.8%	323.7%	23.2%	52.1%	42.2%
One-Off Items	(0.5)	(4.4)	0.0	0.0	0.0
NPAT (Reported)	1.3	3.4	9.6	14.6	20.8
EPS (Underlying) (¢)	2.7	11.6	14.3	21.7	30.9
<i>Growth</i>	97.8%	323.7%	23.2%	52.0%	42.2%

Balance Sheet (\$m)	2015a	2016a	2017e	2018e	2019e
Cash	0.7	8.6	13.4	16.7	16.9
Inventory	13.5	10.4	13.4	12.8	15.3
Current Receivables	0.7	1.0	2.0	3.2	3.2
PPE	0.5	0.3	0.3	0.3	0.4
Intangibles	0.0	0.0	0.0	0.0	0.0
Other	4.3	14.1	14.1	30.2	40.7
Total Assets	19.7	34.4	43.2	63.2	76.5
Current Payables	0.7	2.2	4.2	6.7	6.6
ST Debt	8.0	0.0	0.0	0.0	0.0
LT Debt	0.2	15.0	4.6	4.6	0.0
Provisions	0.6	1.1	1.1	1.6	1.6
Other	0.7	2.2	4.2	6.7	6.6
Total Liabilities	10.5	21.0	12.6	15.6	10.9
Net Assets	9.2	13.4	30.6	47.6	65.6
Equity & Reserves	18.8	19.7	27.3	29.8	27.0
Retained Profits	(10.7)	(7.5)	2.1	16.7	37.5
Shareholders' Equity	8.1	12.2	29.4	46.5	64.4
Minorities	1.1	1.2	1.2	1.2	1.2
Total Equity	9.2	13.4	30.6	47.6	65.6

Cashflow (\$m)	2015a	2016a	2017e	2018e	2019e
Cash EBITDA	1.1	1.9	14.4	7.1	15.8
Net Interest	(1.5)	(0.8)	(0.7)	(0.3)	(0.1)
Tax	0.0	0.0	(4.1)	(5.5)	(7.9)
Δ in Working Capital	(0.9)	4.2	(1.9)	1.9	(2.6)
Other	4.1	(4.0)	0.0	0.5	0.0
Operating Cash Flow	2.7	1.4	7.7	3.6	5.1
<i>Growth</i>	(166.2%)	(50.0%)	461.2%	(52.8%)	40.6%
Capex	(0.2)	(0.3)	(0.2)	(0.3)	(0.4)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	(25.2)	0.0	0.0
Investing Cash Flow	(0.2)	(0.3)	(25.4)	(0.3)	(0.4)
Equity Raised	0.0	0.0	36.4	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	(2.9)	6.7	(11.4)	0.0	(4.6)
Other	0.0	0.0	(2.5)	0.0	0.0
Financing Cash Flow	(2.9)	6.7	22.5	0.0	(4.6)
FX / Non Cash Items	0.0	0.1	0.0	0.0	0.0
Change in Cash	(0.4)	7.9	4.8	3.3	0.2
Free Cash Flow	2.5	1.1	7.5	3.3	4.8

Valuation Summary	
Current Mkt Capitalisation	104.2
Shares on Issue	67.2
Last Price	1.550
12 Mth Target Price	2.80
Total Estimated 12 Mth Return	80.6%
12 Mth Fwd Capital Return	80.6%
12 Mth Fwd Dividend Yield	0.0%

Valuation Ratios	2015a	2016a	2017e	2018e	2019e
EPS (Underlying) (¢)	2.7	11.6	14.3	21.7	30.9
<i>Growth</i>	97.8%	323.7%	23.2%	52.0%	42.2%
P/E (x)	56.6x	13.4x	10.8x	7.1x	5.0x
Small Industrials (ex Fin's)	0.0x	0.0x	16.0x	17.7x	16.0x
Premium / (Discount)	nm	nm	(32.2%)	(59.6%)	(68.6%)
EV/EBITDA (x)	36.6x	7.9x	5.4x	3.9x	2.7x
Small Industrials (ex Fin's)	0.0x	0.0x	11.0x	11.2x	10.2x
Premium / (Discount)	nm	nm	(50.5%)	(65.5%)	(73.2%)
DPS (¢)	0.0	0.0	0.0	0.0	0.0
<i>Growth</i>	-	-	-	-	-
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Payout Ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	0.0%	0.0%	0.0%	0.0%	0.0%
NTA	8.1	12.2	29.4	46.5	64.4
NTA/Share (\$)	0.12	0.18	0.44	0.69	0.96

Performance Ratios	2015a	2016a	2017e	2018e	2019e
ROA	9.0%	28.8%	24.8%	27.4%	29.7%
ROE	24.7%	76.5%	46.1%	38.5%	37.4%
ROIC	10.7%	44.4%	48.5%	51.9%	49.6%
Net Debt (Cash) (\$m)	7.5	6.4	(8.8)	(12.2)	(16.9)
Net Debt/EBITDA (x)	3.4x	0.6x	(0.6x)	(0.6x)	(0.6x)
ND/(ND + Equity) (%)	44.8%	32.4%	(40.6%)	(34.4%)	(34.8%)
Interest Cover (x)	0.0x	25.5x	13.4x	61.8x	35.8x
Working Capital	13.1	8.5	10.5	8.0	10.7
Working Capital/Sales (%)	143.5%	50.0%	45.5%	27.9%	29.6%

Cash Flow Metrics	2015a	2016a	2017e	2018e	2019e
FCF/Share (\$)	0.04	0.02	0.11	0.05	0.07
Price/FCPS (x)	41.6x	93.9x	13.9x	31.1x	21.9x
Free Cash Flow Yield (%)	2.4%	1.1%	7.2%	3.2%	4.6%
Gross Cash Conversion	196.4%	21.3%	85.3%	45.9%	45.1%
Capex/Sales (%)	(2.7%)	(1.5%)	(1.0%)	(1.0%)	(1.0%)
Capex/Depreciation (x)	0.7x	0.9x	0.9x	1.1x	1.1x

Margins	2015a	2016a	2017e	2018e	2019e
EBITDA	24.0%	58.8%	63.6%	71.9%	80.6%
EBIT	20.1%	57.2%	62.5%	71.0%	79.7%
NPAT	20.2%	45.6%	41.6%	50.6%	57.5%

Valuation Methodology	
WACC (%)	8.6%
Discounted Cash Flow Valuation	n/a
Sum-of-the-Parts Valuation	2.47
Average Valuation	2.47
12 Mth Target Price	2.80

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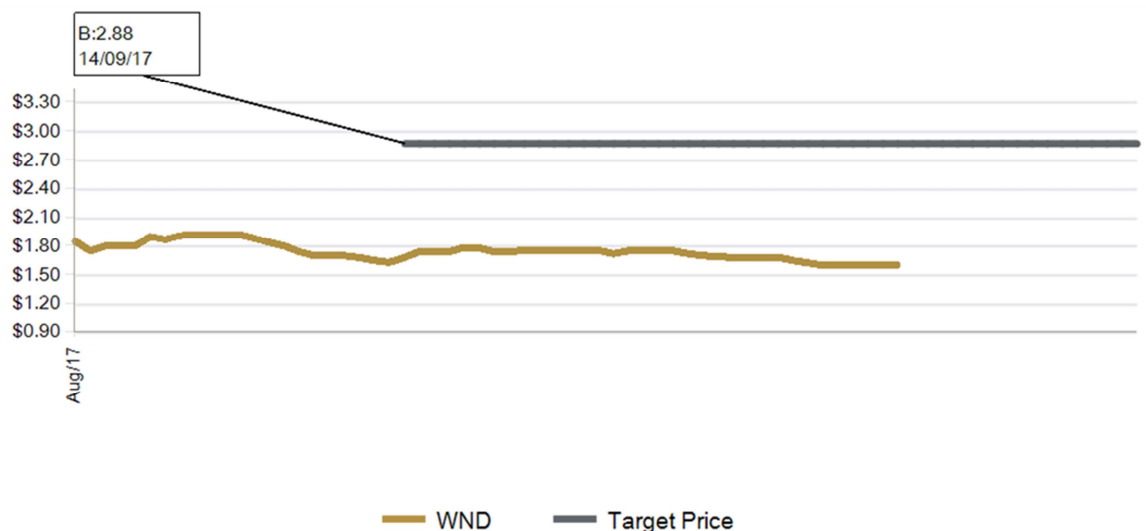
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Distribution of Ratings as at 19 October 2017

SELL	HOLD	BUY
0.0%	34.0%	66.0%

Rating and Price Target History: Windlab Ltd (WND) as of 18/10/2017


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