

# WINDLAB LTD

HOLD

Lakeland financial close delayed again. Downgrade to HOLD.

Utilities / Renewable Electricity

7 November 2018

## COMPANY UPDATE

Ticker	WND
Stock Price	\$1.180
Target Price	\$1.350
Forecast Capital Return	14.4%
Forecast Dividend Yield	0.0%
Estimated Total Return - 12 Mth Forward	14.4%

### Company market data

Market Cap.	\$79.8m
Free Float (%)	41.5
Enterprise Value	\$74.4m
52 Week Range	\$1.18 - \$1.84
Shares Out.	67.6m
Avg. Daily Value	\$0.2m

Estimates changes	2017a	2018e	2019e	2020e
Core NPAT - <i>old</i>	10.2	12.1	15.1	92.2
Core NPAT - <i>new</i>	10.2	(4.6)	28.0	73.6
% Change	0.0	(138.1)	85.3	(20.2)
Core EPS dil. (€) - <i>old</i>	15.2	17.9	22.3	136.3
Core EPS dil. (€) - <i>new</i>	15.2	(6.8)	41.4	108.8
% Change	0.0	(138.1)	85.3	(20.2)
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

Sean Kiriwan

+61 8 6555 8602

[sean.kiriwan@moelisaustralia.com](mailto:sean.kiriwan@moelisaustralia.com)

## EVENT

Infrared Capital Partners, WND's exclusive equity partner for its 106MW Lakeland project, has withdrawn from the project citing concerns around network losses and curtailment risks associated with Lakeland's grid connection. WND has re-engaged with alternative equity partners and now expects financial close for Lakeland to take place in "early 2019" (previous guidance: late Sep/early Oct 2018). It is understood WND remains confident it can achieve financial close within the revised timeframe and at development margins consistent with its target of c. \$250k per MW.

## IMPACT

**FY18e EBITDA estimate downgraded to a -\$4.3m loss** (from +\$17.7m) due to the expected financial close of Lakeland being pushed into FY19. This excludes the estimated \$5m non-cash impact expected from the recognition of previously capitalised development costs from the sale of the Greenwich project in FY18, as required under the new accounting standard. As announced previously, the 60MW Greenwich project was sold in Aug 2018 for upfront payments of US\$250k and up to US\$80k per MW in deferred payments (up to US\$4.8m), the majority of which will be recognised upon financial close, which is expected in FY19. Despite the Lakeland delay, **we do not anticipate any external funding requirements in the near term** – we estimate a cash balance of \$3.6m as at 31 Dec 2018 (from \$8.3m as at 30 June) which includes the assumption of a \$2m repayment applied towards the \$3m CEFC facility (final \$1m payment due end of March 2019).

## INVESTMENT VIEW

The Lakeland project setback highlights the risk to earnings as a result of delays to key projects in achieving financial close. Notwithstanding this, we remain of the view that WND's proprietary wind energy assessment technology, Windscape, provides it with a competitive advantage in identifying & developing high quality wind resources – eg. WND's Coonoor Bridge and Kiata wind farms were the top 2 performing wind farms in the NEM for 1H CY18 with capacity factors of >45%. That said, we believe that the near term focus will be on WND's ability to deliver on the financial close of Lakeland, within targeted timeframes/returns, which will in turn demonstrate its ability to capitalise on the expected continued demand for renewables. Until then, we have lowered our assumptions around: 1) weightings applied to key valuation components (see overleaf) and 2) development margins achievable, which have resulted in a **reduction to our price target to \$1.35/share and a downgrade to a HOLD rating.**

Y/E Dec 31	2017a	2018e	2019e	2020e
EBITDA	16.2	(4.3)	39.3	106.0
EV/EBITDA	4.6x	nm	1.9x	0.7x
Core NPAT	10.2	(4.6)	28.0	73.6
Core EPS (Diluted) (€)	15.2	(6.8)	41.4	108.8
P/E	7.8x	nm	2.9x	1.1x
EPS growth	34.8%	(145.0%)	(705.6%)	163.2%
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.

## REVISED EARNINGS ESTIMATES SUMMARY

**Figure 1: Key assumptions & earnings estimates**

<i>\$m unless indicated otherwise</i>	1H18a	2H18e	FY18e	1H19e	2H19e	FY19e	FY20e
<b>Key Operational Statistics</b>							
Projects achieving financial close (n)	-	-	-	1	2	3	2
Projects achieving financial close (MW)	-	-	-	100	222	322	640
No. of equity int. in operating wind farms <sup>1</sup>	2	2	2	3	3	3	4
Attrib. capacity in operating wind farms <sup>1</sup> (MW)	8.2	8.2	8.2	37.2	37.2	37.2	52.9
Avg. attrib. capacity in operating wind farms <sup>1</sup> (MW)	8.2	8.2	8.2	22.7	37.2	30.0	42.4
Asset management contracts (n)	4	4	4	4	7	7	9
<b>Sales</b>	<b>1.8</b>	<b>3.0</b>	<b>4.9</b>	<b>21.9</b>	<b>28.5</b>	<b>50.5</b>	<b>121.5</b>
<b>EBITDA</b>	<b>(1.9)</b>	<b>(2.4)</b>	<b>(4.3)</b>	<b>15.4</b>	<b>23.8</b>	<b>39.3</b>	<b>106.0</b>
D&A	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)
<b>EBIT</b>	<b>(1.9)</b>	<b>(2.5)</b>	<b>(4.4)</b>	<b>15.4</b>	<b>23.8</b>	<b>39.1</b>	<b>105.7</b>
Net Interest	(0.1)	(0.1)	(0.2)	(0.0)	0.0	0.0	0.1
<b>Profit Before Tax</b>	<b>(2.0)</b>	<b>(2.6)</b>	<b>(4.6)</b>	<b>15.4</b>	<b>23.8</b>	<b>39.1</b>	<b>105.9</b>
Tax	-	-	-	(3.8)	(7.1)	(11.0)	(31.8)
Minorities	0.0	(0.1)	(0.0)	0.6	(0.8)	(0.2)	(0.5)
<b>NPAT (Underlying)</b>	<b>(1.9)</b>	<b>(2.7)</b>	<b>(4.6)</b>	<b>12.1</b>	<b>15.9</b>	<b>28.0</b>	<b>73.6</b>
Non-recurring items	0.7	(5.0)	(4.3)	-	-	-	-
<b>NPAT (Reported)</b>	<b>(1.3)</b>	<b>(7.7)</b>	<b>(8.9)</b>	<b>12.1</b>	<b>15.9</b>	<b>28.0</b>	<b>73.6</b>
EPS (¢) (Reported)	(1.9)	(11.3)	(13.2)	17.9	23.5	41.4	108.8
EPS (¢) (Underlying)	(2.9)	(3.9)	(6.8)	17.9	23.5	41.4	108.8
DPS (¢)	-	-	-	-	-	-	-
Payout ratio (%)	-	-	-	-	-	-	-

Source: Company, Moelis Analysis. Note: 1. Excludes royalty interest in West Coast 1 wind farm (~4MW).

## REVISED VALUATION AND PRICE TARGET SUMMARY

**Figure 2: Valuation and Price Target Summary**

	Prev. risk weighting applied	New risk weighting applied	Riskied valuation (\$m)	Riskied valuation (\$/share)	Key assumptions / commentary
1H18 reported NTA	100%	100%	53.3	0.79	1H18a reported NTA less minorities
2H18e retained earnings	100%	100%	(7.7)	(0.11)	2H18e NPAT
<b>FY18e NTA</b>			<b>45.7</b>	<b>0.68</b>	
FY18e Aust Asset Mgmt DCF	100%	100%	10.4	0.15	Existing 4 contracts (excludes Lakeland)
FY18e Royalties DCF	100%	100%	5.8	0.09	Existing West Coast One royalty
<b>FY18e NAV</b>			<b>61.9</b>	<b>0.92</b>	
Less: inventory	100%	100%	(6.9)	(0.10)	Adjust for est. capitalised development costs in inventory
Lakeland	100%	20%	3.4	0.05	Est. development margin, post tax
US projects	50%	20%	1.7	0.02	Success fees from Verdigre and Greenwich, post tax
RSA projects	35%	20%	8.9	0.13	Est. development margin of 5 projects, total 642MW
Kennedy Phase 2	20%	10%	18.7	0.28	Est. development margin
Asset Mgmt - new contracts DCF	35%	10%	2.6	0.04	7 new contracts from Lakeland, KEP 2 and RSA projects
Identified LT pipeline	100%	10%	1.0	0.01	Nominal value of \$2.5k/MW applied to total 3,866MW
Corporate CY19-CY21 (post-tax)	100%	100%	(10.5)	(0.16)	Corporate costs to support delivery of above projects
<b>Total NAV</b>			<b>80.8</b>	<b>1.20</b>	
Avg. value grown for 12 mths at Ke				1.35	
Less: Forecast 12mth dividends				-	
<b>12 month share price target</b>				<b>1.35</b>	

Source: Moelis Analysis

**Windlab Ltd (WND)**

Market Cap: \$80m

Last Price: \$1.180

Target Price: \$1.350

**Hold**

Y/E Dec 31

Profit and Loss (\$m)	2016a	2017a	2018e	2019e	2020e
<b>Revenue</b>	<b>17.1</b>	<b>23.3</b>	<b>4.9</b>	<b>50.5</b>	<b>121.5</b>
<i>Growth</i>	-	36.3%	(79.1%)	937.9%	140.9%
<b>EBITDA</b>	<b>10.1</b>	<b>16.2</b>	<b>(4.3)</b>	<b>39.3</b>	<b>106.0</b>
<i>Growth</i>	-	60.7%	(126.4%)	(1,017.9%)	170.0%
Dep'n & Amort	(0.3)	(0.1)	(0.1)	(0.1)	(0.2)
<b>EBIT</b>	<b>9.8</b>	<b>16.1</b>	<b>(4.4)</b>	<b>39.1</b>	<b>105.7</b>
<i>Growth</i>	-	63.7%	(127.4%)	(989.4%)	170.3%
Net Interest Expense	(0.6)	(0.9)	(0.2)	0.0	0.1
<b>Profit Before Tax</b>	<b>9.2</b>	<b>15.2</b>	<b>(4.6)</b>	<b>39.1</b>	<b>105.9</b>
Tax	(1.8)	(4.9)	0.0	(11.0)	(31.8)
<i>Tax Rate (%)</i>	19.3%	32.3%	0.0%	28.0%	30.0%
Minorities	0.0	0.0	0.0	0.0	0.0
<b>NPAT (Underlying)</b>	<b>7.5</b>	<b>10.2</b>	<b>(4.6)</b>	<b>28.0</b>	<b>73.6</b>
<i>Growth</i>	-	34.9%	(145.2%)	(707.4%)	163.2%
One-Off Items	(4.2)	(0.8)	(4.3)	0.0	0.0
<b>NPAT (Reported)</b>	<b>3.4</b>	<b>9.4</b>	<b>(8.9)</b>	<b>28.0</b>	<b>73.6</b>
<b>EPS (Underlying) (¢)</b>	<b>11.2</b>	<b>15.2</b>	<b>(6.8)</b>	<b>41.4</b>	<b>108.8</b>
<i>Growth</i>	-	34.8%	(145.0%)	(705.6%)	163.2%

Balance Sheet (\$m)	2016a	2017a	2018e	2019e	2020e
Cash	8.6	14.2	3.6	9.9	26.6
Inventory	10.4	12.1	8.1	3.6	(0.4)
Current Receivables	1.0	1.6	1.6	3.4	8.1
PPE	0.3	0.3	0.4	0.7	1.6
Intangibles	0.0	0.0	0.0	0.0	0.0
Other	14.1	44.8	44.1	69.0	140.4
<b>Total Assets</b>	<b>34.4</b>	<b>73.1</b>	<b>57.7</b>	<b>86.7</b>	<b>176.2</b>
Current Payables	1.5	1.8	1.7	2.9	4.0
ST Debt	0.0	2.8	0.0	0.0	0.0
LT Debt	15.0	2.0	1.0	0.0	0.0
Provisions	1.1	1.3	0.6	2.7	6.0
Other	3.4	8.3	8.7	8.7	8.7
<b>Total Liabilities</b>	<b>21.0</b>	<b>16.2</b>	<b>12.0</b>	<b>14.3</b>	<b>18.7</b>
<b>Net Assets</b>	<b>13.4</b>	<b>56.9</b>	<b>45.7</b>	<b>72.4</b>	<b>157.5</b>
Equity & Reserves	19.7	53.8	52.6	51.3	62.9
Retained Profits	(7.5)	2.0	(6.9)	21.1	94.6
<b>Shareholders' Equity</b>	<b>12.2</b>	<b>55.9</b>	<b>45.7</b>	<b>72.4</b>	<b>157.5</b>
Minorities	1.2	1.1	0.0	0.0	0.0
<b>Total Equity</b>	<b>13.4</b>	<b>56.9</b>	<b>45.7</b>	<b>72.4</b>	<b>157.5</b>

Cashflow (\$m)	2016a	2017a	2018e	2019e	2020e
EBITDA	10.1	16.2	(4.3)	39.3	106.0
Net Interest	(0.8)	(0.6)	(0.2)	0.0	0.1
Tax	0.0	0.0	0.0	(3.8)	(10.6)
Δ in Working Capital	(9.9)	(2.0)	(0.1)	(0.6)	(3.7)
Other	2.0	(1.6)	(3.0)	0.0	0.0
<b>Operating Cash Flow</b>	<b>1.4</b>	<b>12.0</b>	<b>(7.6)</b>	<b>34.8</b>	<b>91.9</b>
<i>Growth</i>	-	775.8%	(162.9%)	(560.8%)	164.0%
Capex	(0.3)	(0.2)	(0.2)	(0.5)	(1.1)
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	(30.0)	1.0	(27.0)	(74.1)
<b>Investing Cash Flow</b>	<b>(0.3)</b>	<b>(30.2)</b>	<b>0.8</b>	<b>(27.5)</b>	<b>(75.2)</b>
Equity Raised	0.0	25.1	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	6.7	0.0	(3.9)	(1.0)	0.0
Other	0.0	(1.4)	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>6.7</b>	<b>23.8</b>	<b>(3.8)</b>	<b>(1.0)</b>	<b>0.0</b>
FX / Non Cash Items	0.1	0.0	0.0	0.0	0.0
<b>Change in Cash</b>	<b>7.8</b>	<b>5.6</b>	<b>(10.6)</b>	<b>6.3</b>	<b>16.7</b>
<b>Free Cash Flow</b>	<b>1.1</b>	<b>11.8</b>	<b>(7.7)</b>	<b>34.4</b>	<b>90.8</b>

Valuation Summary	
Current Mkt Capitalisation	79.8
Shares on Issue	67.6
Last Price	1.180
<b>12 Mth Target Price</b>	<b>1.350</b>
Total Estimated 12 Mth Return	14.4%
12 Mth Fwd Capital Return	14.4%
12 Mth Fwd Dividend Yield	0.0%

Valuation Ratios	2016a	2017a	2018e	2019e	2020e
<b>EPS (Underlying) (¢)</b>	<b>11.2</b>	<b>15.2</b>	<b>(6.8)</b>	<b>41.4</b>	<b>108.8</b>
<i>Growth</i>	-	34.8%	(145.0%)	(705.6%)	163.2%
<b>P/E (x)</b>	<b>10.5x</b>	<b>7.8x</b>	<b>nm</b>	<b>2.9x</b>	<b>1.1x</b>
Small Industrials (ex Fin's)	0.0x	0.0x	19.6x	17.3x	15.7x
Premium / (Discount)	nm	nm	nm	(83.5%)	(93.1%)
<b>EV/EBITDA (x)</b>	<b>7.4x</b>	<b>4.6x</b>	<b>nm</b>	<b>1.9x</b>	<b>0.7x</b>
Small Industrials (ex Fin's)	0.0x	0.0x	12.0x	10.7x	9.8x
Premium / (Discount)	nm	nm	nm	(82.3%)	(92.8%)
<b>DPS (¢)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<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	12.2	55.9	45.7	72.4	157.5
NTA/Share (\$)	0.18	0.83	0.68	1.07	2.33

Performance Ratios	2016a	2017a	2018e	2019e	2020e
ROA	43.9%	18.9%	(7.0%)	38.7%	56.0%
ROE	123.4%	29.9%	(9.1%)	47.3%	64.0%
ROIC	80.0%	32.3%	(9.7%)	53.4%	76.5%
Net Debt (Cash) (\$m)	6.4	(9.4)	(2.6)	(9.9)	(26.6)
Net Debt/EBITDA (x)	0.6x	(0.6x)	0.6x	(0.3x)	(0.3x)
ND / (ND + Equity) (%)	32.4%	(19.9%)	(6.1%)	(15.9%)	(20.3%)
Interest Cover (x)	16.6x	15.4x	(23.9x)	541.4x	825.8x
Working Capital	8.5	7.0	3.7	(2.2)	(5.9)
Working Capital/Sales (%)	50.0%	30.1%	76.3%	(4.4%)	(4.9%)

Cash Flow Metrics	2016a	2017a	2018e	2019e	2020e
<b>FCF/Share (\$)</b>	<b>0.02</b>	<b>0.18</b>	<b>(0.11)</b>	<b>0.51</b>	<b>1.34</b>
Price/FCPS (x)	71.5x	6.7x	nm	2.3x	0.9x
Free Cash Flow Yield (%)	1.4%	14.9%	(9.7%)	43.1%	113.8%
Gross Cash Conversion	21.2%	77.8%	172.3%	98.4%	96.6%
Capex/Sales (%)	1.5%	0.9%	3.6%	0.9%	0.9%
Capex/Depreciation (x)	0.9x	1.4x	1.5x	3.3x	4.4x

Margins	2016a	2017a	2018e	2019e	2020e
EBITDA	59.1%	69.7%	(88.0%)	77.8%	87.2%
EBIT	57.5%	69.0%	(90.5%)	77.5%	87.0%
NPAT	44.2%	43.7%	(94.7%)	55.4%	60.6%

Valuation Methodology	
WACC (%)	8.6%
Discounted Cash Flow Valuation	n/a
Sum-of-the-Parts Valuation	1.195
Average Valuation	1.195
<b>12 Mth Target Price</b>	<b>1.350</b>

**RESEARCH & SALES RESPONSIBILITIES**
**Equities**

Simon Scott	Head of Equities	+612 8288 5418
Elliot Leahey	Operations Manager	+612 8288 5402
Jack Dyson	Desk Assistant	+612 8288 5401
Jacqui Irons	Corporate Broking	+612 8288 5427

**Equities Sales & Trading**

John Garrett		+612 8288 5409
Angus Murnaghan		+612 8288 5411
Ian McKenzie		+612 8288 5404
Bryan Johnson		+612 8288 5412
Andrew Harvey		+612 8288 5428
Sam Clark		+612 8288 5410
Mitchell Hewson - <i>Head of Execution</i>		+612 8288 5417
Aaron Payne - <i>Real Estate</i>		+612 8288 5405

**Equities Research**

<b>Real Estate</b>	
Hamish Perks	+612 8288 5419
Edward Day	+612 8288 5424
Ronan Barratt	+612 8288 5426
<b>Industrials</b>	
Sean Kiriwan	+618 6555 8602
Sarah Mann	+612 8288 5407
Brendon Kelly	+612 8288 5413
Keiran Hoare	+612 8288 5423

**US Distribution Partner - Weeden & Co.**

Matthew McCloghry	+1 646 227 5575
<i>mmccloghry@weedenco.com</i>	

email: [firstname.lastname@moelisaustralia.com](mailto:firstname.lastname@moelisaustralia.com)

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The Analyst, Sean Kiriwan, responsible for the content of this research report, in whole or in part, certifies that with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report accurately reflect his or her personal views on the subject companies and securities, and (2) no part of his or her compensation was, is, or will be directly or indirectly linked to the specific recommendations or views expressed in this research report.

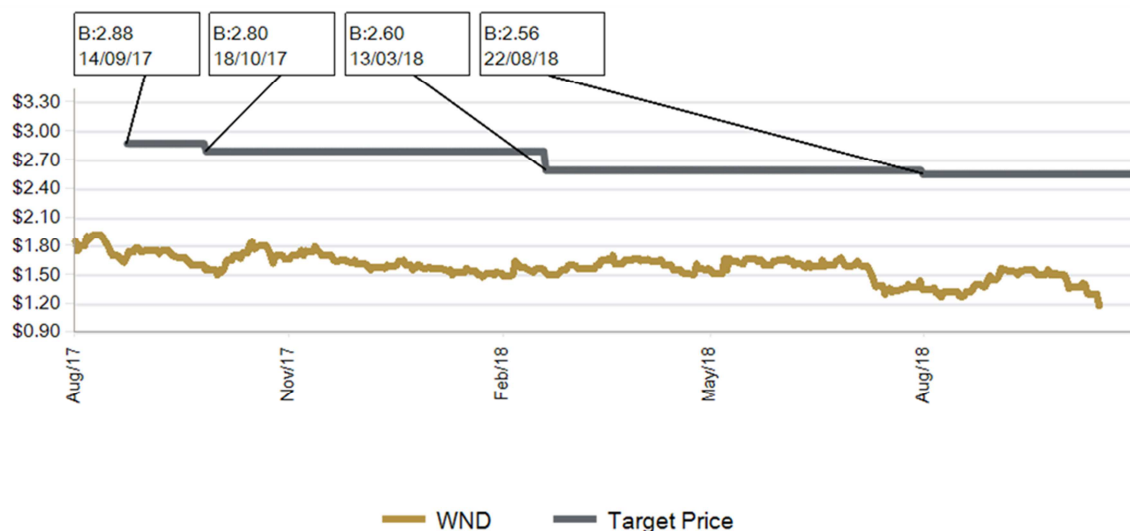
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All companies under coverage are assigned a rating of Buy, Hold or Sell based on the expected 12 month total return estimated by the analyst(s). The total return is a combination of the estimated capital gain or loss, in addition to the estimated 12 month forward dividends or distributions. In relation to all companies that Moelis Australia Securities conducts research coverage on the relevant total return bands that derive the ratings are:

**Buy:** >15% **Hold:** 5% to 15% **Sell:** <5%.

**RATINGS DISTRIBUTION TABLE**
**Distribution of Ratings as at 7 November 2018**

SELL	HOLD	BUY
3.8%	39.6%	54.7%

**Rating and Price Target History: Windlab Ltd (WND) as of 6/11/2018**


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