

# WINDLAB LTD

HOLD

## Continued delays and renewable policy uncertainty impact outlook

Utilities / Renewable Electricity

1 March 2019

### COMPANY UPDATE

Ticker	WND
Stock Price	\$1.130
Target Price	\$0.990
Forecast Capital Return	(12.4%)
Forecast Dividend Yield	0.0%
Estimated Total Return - 12 Mth Forward	(12.4%)

#### Company market data

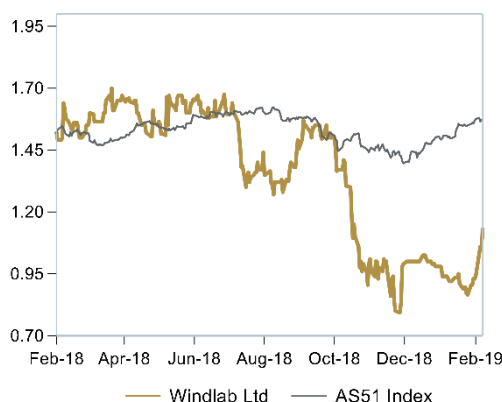
Market Cap.	\$76.4m
Free Float (%)	41.5
Enterprise Value	\$74.8m
52 Week Range	\$0.80 - \$1.70
Shares Out.	67.6m
Avg. Daily Value	\$0.1m

Estimates changes	2018a	2019e	2020e	2021e
Core NPAT - <i>old</i>	(6.6)	16.6	29.8	12.6
Core NPAT - <i>new</i>	(6.6)	16.5	29.7	12.6
% Change	0.0	(0.6)	(0.5)	0.0
Core EPS dil. (€) - <i>old</i>	(9.7)	23.8	42.9	18.1
Core EPS dil. (€) - <i>new</i>	(9.7)	23.7	42.7	18.1
% Change	0.0	(0.6)	(0.5)	0.0
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 recently: 1) secured a US\$10m investment by Eurus Energy, in exchange for 25% of its 1,650MW East African development project portfolio; and 2) reported its FY18 result which was weak as expected largely due to the deferral of expected earnings from the delayed financial close of Lakeland.

### KEY TAKEAWAYS

**East African investment underscores inherent value of development pipeline.** The US\$10m (A\$14m) investment by Eurus Energy in WND's 1,650MW East African portfolio implies a A\$42m valuation for WND's 75% share. We note we previously attributed a nominal \$1m risked valuation to the broader early stage portfolio which included these East African projects.

**Energisation of Small Kennedy (58MW) delayed from Feb 2019 to Q2 CY19** due to (under)performance by the EPC contractor and inclement weather.

**Financial close of Lakeland now expected "in 2019"** (previous: "early 2019"). The previous delays have pushed the project into a new connection regime which commenced in Feb 2019 and requires the project to fund additional network connection equipment. WND intends to offset these additional costs by re-tendering the wind turbine supply contract to include newer turbine models with "improved performance and better economics".

**Big Kennedy (1,200MW) development deprioritised** due to uncertainty around connection solution. WND cited the lack of progress on the QLD Gov't's proposed Clean Energy Hub (which included the part funding of a multi-user transmission line to be used by Big Kennedy) as one of the reasons it has decided to prioritise another 250MW project in North QLD which has access to an existing transmission line, ahead of Big Kennedy.

### INVESTMENT VIEW

While contractor performance and weather-related delays are understandable, the setbacks encountered by the Lakeland and Big Kennedy projects are of concern and highlight the risks of a rapidly changing regulatory environment and continued renewable policy uncertainty in Australia, which have impacted WND's ability to execute on the development of those projects. Despite this, we believe the continued high performance of WND's operating windfarms and the recent East African investment underscores the inherent value of the project portfolio and Windscape technology; however we expect the stock to trade at a material discount to our valuation until the above delays are resolved. **Maintain HOLD rating and TP reduces to \$0.99/share.**

Y/E Dec 31	2018a	2019e	2020e	2021e
EBITDA	(6.3)	24.2	43.0	19.1
EV/EBITDA	nm	3.1x	1.7x	3.9x
Core NPAT	(6.6)	16.5	29.7	12.6
Core EPS (Diluted) (€)	(9.7)	23.7	42.7	18.1
P/E	nm	4.8x	2.6x	6.2x
EPS growth	(164.2%)	(343.3%)	80.2%	(57.6%)
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.

## APPENDIX

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

<i>\$m unless indicated otherwise</i>	1H18a	2H18a	FY18a	1H19e	2H19e	FY19e	FY20e
<b>Key Operational Statistics</b>							
Projects achieving financial close (n)	-	-	-	-	2	2	1
Projects achieving financial close (MW)	-	-	-	-	182	182	250
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	49.8
Avg. attrib. capacity in operating wind farms <sup>1</sup> (MW)	8.2	8.2	8.2	13.0	37.2	25.1	38.3
Asset management contracts (n)	4	4	4	4	6	6	7
<b>Sales</b>	<b>1.8</b>	<b>1.7</b>	<b>3.5</b>	<b>1.5</b>	<b>34.9</b>	<b>36.5</b>	<b>58.3</b>
Total costs	(3.7)	(6.1)	(9.8)	(3.5)	(8.8)	(12.2)	(15.3)
<b>EBITDA</b>	<b>(1.9)</b>	<b>(4.4)</b>	<b>(6.3)</b>	<b>(1.9)</b>	<b>26.2</b>	<b>24.2</b>	<b>43.0</b>
D&A	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
<b>EBIT</b>	<b>(1.9)</b>	<b>(4.5)</b>	<b>(6.4)</b>	<b>(2.0)</b>	<b>26.0</b>	<b>24.0</b>	<b>42.8</b>
Net Interest	(0.1)	0.1	0.0	(0.1)	(0.1)	(0.2)	(0.1)
<b>Profit Before Tax</b>	<b>(2.0)</b>	<b>(4.4)</b>	<b>(6.4)</b>	<b>(2.2)</b>	<b>25.9</b>	<b>23.8</b>	<b>42.6</b>
Tax	-	-	-	-	(7.1)	(7.1)	(12.8)
Minorities	0.0	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
<b>NPAT (Underlying)</b>	<b>(1.9)</b>	<b>(4.6)</b>	<b>(6.6)</b>	<b>(2.2)</b>	<b>18.7</b>	<b>16.5</b>	<b>29.7</b>
Non-recurring items	0.7	1.7	2.4	-	-	-	-
<b>NPAT (Reported)</b>	<b>(1.3)</b>	<b>(2.9)</b>	<b>(4.2)</b>	<b>(2.2)</b>	<b>18.7</b>	<b>16.5</b>	<b>29.7</b>
EPS (¢) (Reported)	(1.9)	(4.3)	(6.2)	(3.3)	27.7	24.4	43.9
EPS (¢) (Underlying)	(2.9)	(6.8)	(9.7)	(3.3)	27.7	24.4	43.9
DPS (¢)	-	-	-	-	-	-	-

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

**Figure 2: Valuation summary**

	Risk weighting applied	Riskd valuation (\$m)	Riskd valuation (\$/share)	Key assumptions / commentary
FY18a reported NTA	100%	50.3	0.74	FY18a reported NTA less minorities
FY18e Aust Asset Mgmt DCF	100%	5.9	0.09	Existing 4 contracts (excludes Lakeland)
FY18e Royalties DCF	100%	5.8	0.09	Existing West Coast One royalty
<b>FY18e NAV</b>		<b>62.0</b>	<b>0.92</b>	
Less: inventory	100%	(9.7)	(0.14)	Adjust for est. capitalised development costs in inventory
Lakeland	20%	2.9	0.04	Est. development margin, post tax
US projects	20%	1.7	0.02	Success fees from Verdigre and Greenwich, post tax
RSA projects	20%	8.1	0.12	Est. development margin of 5 projects, total 642MW
Kennedy Phase 2	5%	8.6	0.13	Est. development margin
New North QLD project	10%	4.1	0.06	Est. development margin
Asset Mgmt - new contracts DCF	10%	1.5	0.02	7 new contracts from Lakeland, KEP 2 and RSA projects
East African portfolio	50%	21.0	0.31	Implied value based on Eurus 25% investment in 1,650MW
Identified LT pipeline	10%	0.6	0.01	Nominal value of \$2.5k/MW applied to total 2,216MW
Corporate CY19-CY21 (post-tax)	100%	(11.5)	(0.17)	Corporate costs to support delivery of above projects
<b>Total NAV</b>		<b>89.2</b>	<b>1.32</b>	

Source: Moelis Analysis

**Windlab Ltd (WND)**

Market Cap: \$76m

Last Price: \$1.130

Target Price: \$0.990

**Hold**

Y/E Dec 31

Profit and Loss (\$m)	2017a	2018a	2019e	2020e	2021e
<b>Revenue</b>	<b>23.3</b>	<b>3.5</b>	<b>36.5</b>	<b>58.3</b>	<b>29.5</b>
<i>Growth</i>	36.3%	(85.0%)	945.0%	59.9%	(49.5%)
<b>EBITDA</b>	<b>16.2</b>	<b>(6.3)</b>	<b>24.2</b>	<b>43.0</b>	<b>19.1</b>
<i>Growth</i>	60.7%	(138.8%)	(485.2%)	77.7%	(55.7%)
Dep'n & Amort	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)
<b>EBIT</b>	<b>16.1</b>	<b>(6.4)</b>	<b>24.0</b>	<b>42.8</b>	<b>18.7</b>
<i>Growth</i>	63.7%	(140.0%)	(473.8%)	78.2%	(56.2%)
Net Interest Expense	(0.9)	0.0	(0.2)	(0.1)	(0.5)
<b>Profit Before Tax</b>	<b>15.2</b>	<b>(6.4)</b>	<b>23.8</b>	<b>42.6</b>	<b>18.2</b>
Tax	(4.9)	0.0	(7.1)	(12.8)	(5.5)
<i>Tax Rate (%)</i>	32.3%	0.0%	30.0%	30.0%	30.0%
Minorities	0.0	0.0	0.0	0.0	0.0
<b>NPAT (Underlying)</b>	<b>10.2</b>	<b>(6.6)</b>	<b>16.5</b>	<b>29.7</b>	<b>12.6</b>
<i>Growth</i>	34.9%	(164.4%)	(351.3%)	80.2%	(57.6%)
One-Off Items	(0.8)	2.4	0.0	0.0	0.0
<b>NPAT (Reported)</b>	<b>9.4</b>	<b>(4.2)</b>	<b>16.5</b>	<b>29.7</b>	<b>12.6</b>
<b>EPS (Underlying) (¢)</b>	<b>15.2</b>	<b>(9.7)</b>	<b>23.7</b>	<b>42.7</b>	<b>18.1</b>
<i>Growth</i>	34.8%	(164.2%)	(343.3%)	80.2%	(57.6%)

Balance Sheet (\$m)	2017a	2018a	2019e	2020e	2021e
Cash	14.2	4.7	11.5	9.7	9.7
Inventory	12.1	9.7	6.0	3.1	4.4
Current Receivables	1.6	1.5	2.5	4.0	2.0
PPE	0.3	0.6	0.7	1.0	0.9
Intangibles	0.0	0.0	0.0	0.0	0.0
Other	44.8	44.7	59.5	90.4	102.0
<b>Total Assets</b>	<b>73.1</b>	<b>61.1</b>	<b>80.2</b>	<b>108.1</b>	<b>119.0</b>
Current Payables	1.8	2.4	3.0	3.8	2.6
ST Debt	2.8	0.0	0.0	0.0	0.0
LT Debt	2.0	3.0	3.0	0.0	9.9
Provisions	1.3	1.0	2.0	3.1	1.7
Other	8.3	4.3	4.3	4.3	4.3
<b>Total Liabilities</b>	<b>16.2</b>	<b>10.8</b>	<b>12.3</b>	<b>11.2</b>	<b>18.4</b>
<b>Net Assets</b>	<b>56.9</b>	<b>50.4</b>	<b>67.9</b>	<b>97.0</b>	<b>100.5</b>
Equity & Reserves	53.8	53.3	54.3	53.7	44.7
Retained Profits	2.0	(3.0)	13.5	43.2	55.8
<b>Shareholders' Equity</b>	<b>55.9</b>	<b>50.3</b>	<b>67.8</b>	<b>96.9</b>	<b>100.5</b>
Minorities	1.1	0.1	0.1	0.1	0.1
<b>Total Equity</b>	<b>56.9</b>	<b>50.4</b>	<b>67.9</b>	<b>97.0</b>	<b>100.5</b>

Cashflow (\$m)	2017a	2018a	2019e	2020e	2021e
EBITDA	16.2	(6.3)	24.2	43.0	19.1
Net Interest	(0.6)	(0.2)	(0.2)	(0.1)	(0.5)
Tax	0.0	0.0	0.0	(7.1)	(12.8)
Δ in Working Capital	(2.0)	3.2	(0.4)	(0.8)	(0.5)
Other	(1.6)	(5.9)	0.0	0.0	0.0
<b>Operating Cash Flow</b>	<b>12.0</b>	<b>(9.2)</b>	<b>23.6</b>	<b>35.0</b>	<b>5.3</b>
<i>Growth</i>	775.8%	(176.9%)	(354.8%)	48.7%	(84.9%)
Capex	(0.2)	(0.4)	(0.3)	(0.5)	(0.3)
Acquisitions	0.0	0.0	0.0	0.0	0.0
Divestments	0.0	0.0	0.0	0.0	0.0
Other	(30.0)	2.0	(16.4)	(33.3)	(14.9)
<b>Investing Cash Flow</b>	<b>(30.2)</b>	<b>1.6</b>	<b>(16.7)</b>	<b>(33.9)</b>	<b>(15.2)</b>
Equity Raised	25.1	0.0	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0	0.0
Net Borrowings	0.0	(1.9)	0.0	(3.0)	0.0
Other	(1.4)	0.0	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>23.8</b>	<b>(1.9)</b>	<b>0.0</b>	<b>(3.0)</b>	<b>9.9</b>
FX / Non Cash Items	0.0	0.0	0.0	0.0	0.0
<b>Change in Cash</b>	<b>5.6</b>	<b>(9.5)</b>	<b>6.8</b>	<b>(1.8)</b>	<b>0.0</b>
<b>Free Cash Flow</b>	<b>11.8</b>	<b>(9.6)</b>	<b>23.2</b>	<b>34.5</b>	<b>5.0</b>

Valuation Summary	
Current Mkt Capitalisation	76.4
Shares on Issue	67.6
Last Price	1.130
<b>12 Mth Target Price</b>	<b>0.990</b>
Total Estimated 12 Mth Return	(12.4%)
12 Mth Fwd Capital Return	(12.4%)
12 Mth Fwd Dividend Yield	0.0%

Valuation Ratios	2017a	2018a	2019e	2020e	2021e
<b>EPS (Underlying) (¢)</b>	<b>15.2</b>	<b>(9.7)</b>	<b>23.7</b>	<b>42.7</b>	<b>18.1</b>
<i>Growth</i>	34.8%	(164.2%)	(343.3%)	80.2%	(57.6%)
<b>P/E (x)</b>	<b>7.5x</b>	<b>nm</b>	<b>4.8x</b>	<b>2.6x</b>	<b>6.2x</b>
Small Industrials (ex Fin's)	0.0x	0.0x	18.9x	17.2x	15.9x
Premium / (Discount)	nm	nm	(74.7%)	(84.6%)	(60.8%)
<b>EV/EBITDA (x)</b>	<b>4.6x</b>	<b>nm</b>	<b>3.1x</b>	<b>1.7x</b>	<b>3.9x</b>
Small Industrials (ex Fin's)	0.0x	0.0x	11.7x	10.8x	10.2x
Premium / (Discount)	nm	nm	(73.5%)	(83.9%)	(61.6%)
<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	55.9	50.3	67.8	96.9	100.5
NTA/Share (\$)	0.83	0.75	0.97	1.39	1.44

Performance Ratios	2017a	2018a	2019e	2020e	2021e
ROA	18.9%	(9.8%)	23.3%	31.5%	11.1%
ROE	29.9%	(12.4%)	27.9%	36.1%	12.8%
ROIC	32.3%	(13.3%)	31.1%	40.8%	13.9%
Net Debt (Cash) (\$m)	(9.4)	(1.7)	(8.5)	(9.7)	0.3
Net Debt/EBITDA (x)	(0.6x)	0.3x	(0.4x)	(0.2x)	0.0x
ND/(ND + Equity) (%)	(19.9%)	(3.4%)	(14.3%)	(11.1%)	0.3%
Interest Cover (x)	15.4x	(55.2x)	71.1x	146.9x	25.8x
Working Capital	7.0	8.1	3.8	0.6	2.5
Working Capital/Sales (%)	30.1%	231.7%	10.3%	1.1%	8.6%

Cash Flow Metrics	2017a	2018a	2019e	2020e	2021e
<b>FCF/Share (\$)</b>	<b>0.18</b>	<b>(0.14)</b>	<b>0.34</b>	<b>0.51</b>	<b>0.07</b>
Price/FCPS (x)	6.4x	nm	3.3x	2.2x	15.2x
Free Cash Flow Yield (%)	15.6%	(12.6%)	30.4%	45.1%	6.6%
Gross Cash Conversion	77.8%	143.7%	98.3%	98.3%	97.5%
Capex/Sales (%)	0.9%	10.8%	0.9%	0.9%	0.9%
Capex/Depreciation (x)	1.4x	2.7x	1.6x	2.1x	0.8x

Margins	2017a	2018a	2019e	2020e	2021e
EBITDA	69.7%	(180.2%)	66.4%	73.8%	64.8%
EBIT	69.0%	(184.1%)	65.9%	73.4%	63.6%
NPAT	43.7%	(188.1%)	45.2%	51.0%	42.8%

Valuation Methodology	
WACC (%)	8.6%
Discounted Cash Flow Valuation	n/a
Sum-of-the-Parts Valuation	1.320
Average Valuation	1.320
<b>12 Mth Target Price</b>	<b>0.990</b>

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I declare that:

- to the best of my knowledge I am not in receipt of inside information and the research does not contain inside information; and
- no other part of Moelis Australia has made any attempt to influence the research."

### RATING DEFINITIONS

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:

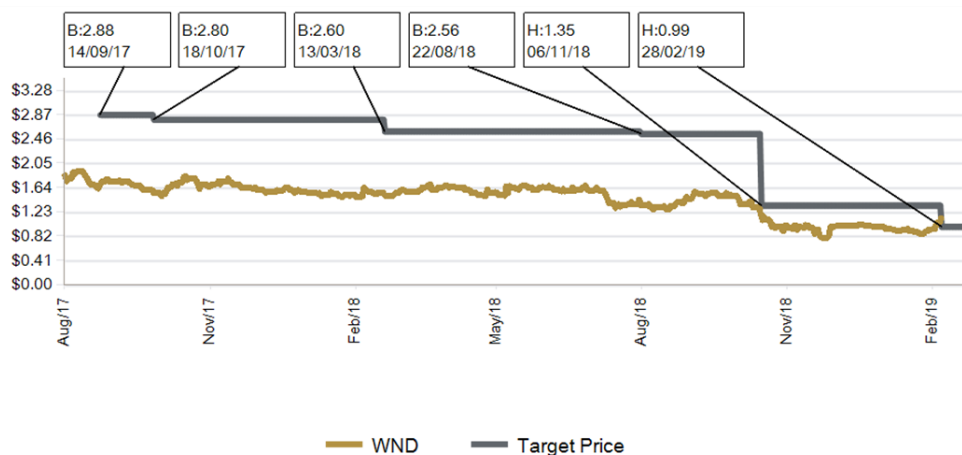
**Buy:** >15% **Hold:** 5% to 15% **Sell:** <5%.

### RATINGS DISTRIBUTION TABLE

#### Distribution of Ratings as at 1 March 2019

SELL	HOLD	BUY
10.2%	35.6%	52.5%

#### Rating and Price Target History: Windlab Ltd (WND) as of 28/02/2019



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