PLC S.p.A.

Renewable Energy

PLC Hit by Weakening Macroeconomic Scenario

Under Review | Fair Value: Under Review (€2.65) | Current Price: €1.44

Research Update

October 25, 2022 – 7.00h

€ Million	FY18A	FY19A	FY20A	FY21A
Total Revenues	49.9	45.6	65.5	75.1
EBITDA	7.3	0.4	3.4	7.7
margin	*14.7%*	*0.9%*	*5.2%*	*10.2%*
Net Profit	4.9	(2.5)	0.1	3.0
margin	*9.9%*	*-5.4%*	*0.2%*	*4.0%*
EPS	0.19	-0.09	0.00	0.11
NFP	**7.3**	**8.0**	**4.1**	**2.7**

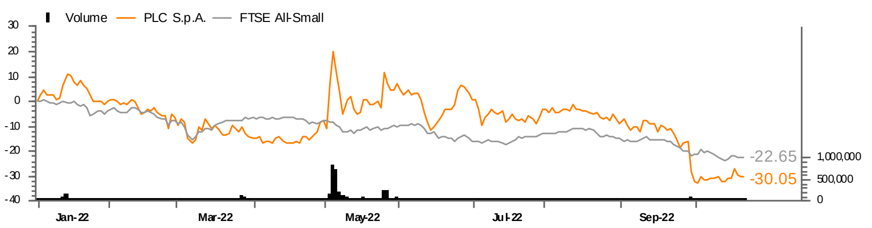
Source: Company data

Weakening macroeconomic backdrop led to Company coming to a halt in 1H22. In the first half of 2022, PLC Group results were negatively impacted by the adverse macroeconomic scenario that led to supply chain disruption in the Construction industry. Moreover, the Group was also affected by the postponement of Italy implementing decrees on renewable energy sources (e.g., FER 2 and Biogas & Biomethane decrees), initially expected at the beginning of FY22. Indeed, the Company registered a slowdown in total revenues showing a decrease of 3.6% YoY to €30.7mn from €31.9mn in 1H21, 15.1% below our estimates, mainly due to a contraction of PLC System's total revenues, partially mitigated by a stable O&M business line revenues trend and by trading division that more than tripled its revenues to €3.6mn (vs €1mn in 1H21) following the rising energy prices. However, the challenging macroeconomic backdrop mostly affected PLC's profitability, posting negative EBITDA of €2.9mn (vs positive EBITDA of €3.4mn in 1H21), missing our estimate of €6.9mn. The weaker-than-expected EBITDA result was due to: i) the increase in raw materials costs and longer procurement times, that caused both an increase in production costs and a delay in the execution of the works; and ii) any capital gain contribution from BOT operations, while in 1H21 the EPC-BOT business unit benefited from ca. €3.8mn of capital gain thanks to the sale of C&C Tre Energy. According to PLC's top management estimates, the adverse macroeconomic scenario resulted in ca. €3mn of non-monetary costs in FY22. On the capital structure side, despite the negative EBITDA results occurred in 1H22, NFP was not negatively impacted by the negative P&L figures because the latter includes the non-monetary items. Therefore, NFP improved by €0.8mn reaching a net debt position of €1.9mn from €2.7mn in FY21.

Future expected development. According to PLC management, the negative 1H22 performance is temporary and mainly derived from the penalizing regulatory context. Indeed, the Company expects a partial recovery in the second half of the year, driven by a strong demand for renewable energy plants, essential to achieve energy transition targets set by the European Union. Indeed, in FY22E the Group estimates a partial recovery in terms of EBITDA, expected negative between €1.5mn and €2mn.

Estimates and valuation under review for potential update. Following the withdraw of FY22-FY23 PLC's guidance and given the still uncertain global macroeconomic scenario, we decided to put our valuation and recommendation under review, waiting further information about Company's new strategy. Our previous TP was €2.65ps with ADD recommendation.

YTD – Relative Performance Chart



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Market Data

Main Shareholders	
Fraes Srl	73.5%
Free Float	26.5%
Mkt Cap (€ mn)	37.4
EV (€ mn)	40.1
Shares out.	26.0
Free Float	26.5%

Stock Data

52 Wk High (€)	2.66
52 Wk Low (€)	1.35
Avg. Daily Trading 90d	9,677
Price Change 1w (%)	1.4
Price Change 1m (%)	-22.4
Price Change YTD (%)	16.1

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Key Figures – PLC

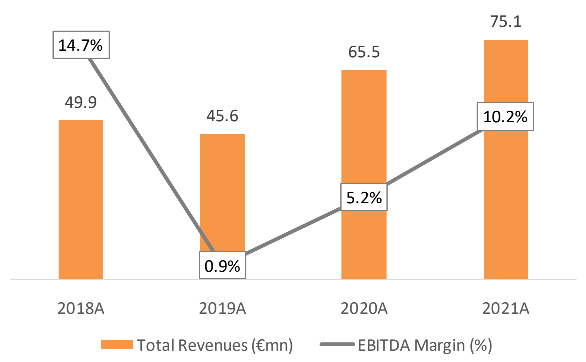
Current price (€)	Fair Value (€)	Sector	Free Float
1.44	Under Review	Renewable Energy	26.50%

Per Share Data	2018A	2019A	2020A	2021A
Total shares outstanding (mn)	25.96	25.96	25.96	25.96
EPS	0.19	(0.09)	0.01	0.11
Dividend per share (ord)	n.a.	n.a.	n.a.	n.a.
Dividend pay out ratio (%)	n.a.	n.a.	n.a.	n.a.
Profit and Loss (EUR million)				
Revenues	49.9	45.6	65.5	75.1
EBITDA	7.3	0.4	3.4	7.7
EBIT	6.7	(1.6)	0.7	4.9
EBT	6.4	(2.2)	(0.3)	4.0
Taxes	(1.5)	(0.2)	0.3	(1.0)
Tax rate	0.2	(0.1)	0.8	0.3
Net Income	4.9	(2.5)	0.1	3.0
Balance Sheet (EUR million)				
Total fixed assets	26.3	28.6	25.1	23.2
Net Working Capital (NWC)	(1.5)	5.7	6.7	11.7
Provisions	(1.2)	(1.6)	(2.8)	(3.8)
Total Net capital employed	31.6	32.7	28.9	31.1
Net financial position/(Cash)	7.3	8.0	4.1	2.7
Group Shareholder's Equity	24.3	24.7	24.8	28.4
Minorities	0.1	0.0	-	0.0
Total Shareholder's Equity	24.4	24.7	24.8	28.4
Cash Flow (EUR million)				
Net operating cash flow	5.8	0.2	2.8	6.4
Change in NWC	3.4	(7.2)	(1.0)	(5.1)
Capital expenditure	(22.0)	4.4	0.7	(1.6)
Other cash items/Uses of funds	4.4	0.5	1.5	1.0
Free cash flow	(8.4)	(2.0)	4.1	0.8
Enterprise Value (EUR million)				
Market Cap	50.4	38.7	32.2	54.0
Minorities	0.1	0.0	-	0.0
Net financial position/(Cash)	7.3	8.0	4.1	2.7
Enterprise value	n.a.	46.7	36.3	56.7
Ratios (%)				
EBITDA margin	14.7%	0.9%	5.2%	10.2%
EBIT margin	13.4%	-3.4%	1.0%	6.5%
Gearing - Debt/equity	29.9%	32.4%	16.6%	9.4%
Interest cover on EBIT	3.5%	-32.1%	143.0%	19.3%
NFP/EBITDA	99.3%	n.m.	121.5%	34.8%
ROCE	21.2%	-4.8%	2.4%	15.7%
ROE	20.3%	-10.0%	0.7%	10.5%
EV/Sales	0.80x	0.88x	0.61x	0.53x
EV/EBITDA	5.47x	n.m.	11.84x	5.22x
P/E	7.59x	n.m.	n.m.	12.59x
Free cash flow yield	-21%	-5%	10%	2%
Growth Rates (%)				
Sales	n.m.	-8.6%	43.7%	14.6%
EBITDA	n.m.	n.m.	n.m.	n.m.
EBIT	n.m.	n.m.	n.m.	n.m.
Net Income	n.m.	n.m.	n.m.	n.m.

Source: Company data

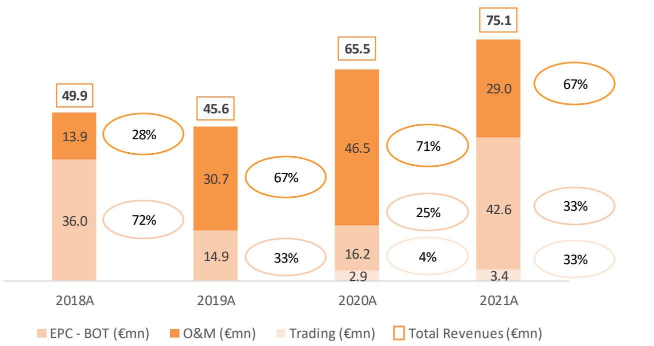
Key Charts

Total Revenue and EBITDA margin (€mn, %)



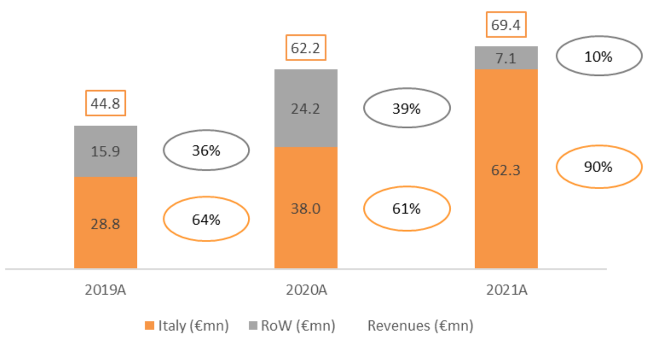
Source: Company data, KT&Partners' elaboration

Total Revenues by BU (€mn, %)



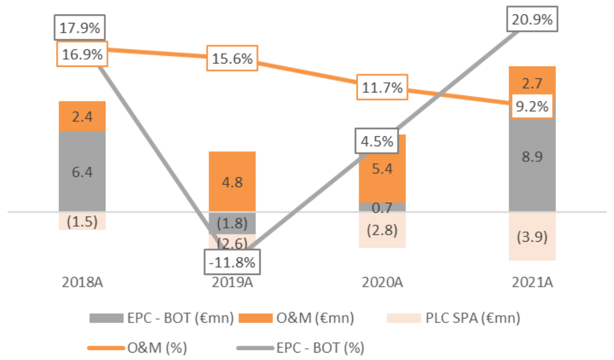
Source: Company data, KT&Partners' elaboration

Sales Revenues by Geography (€mn, %)



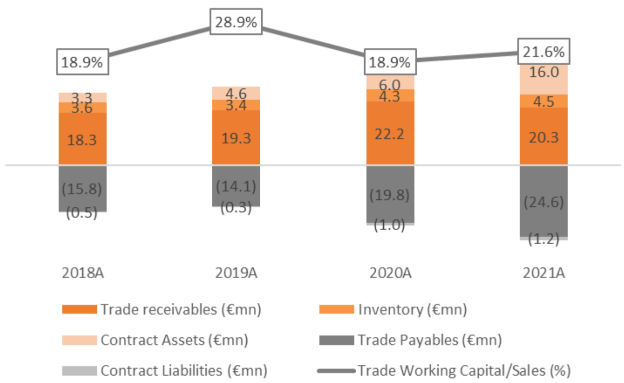
Source: Company data, KT&Partners' elaboration

EBITDA by BU (€mn, %)



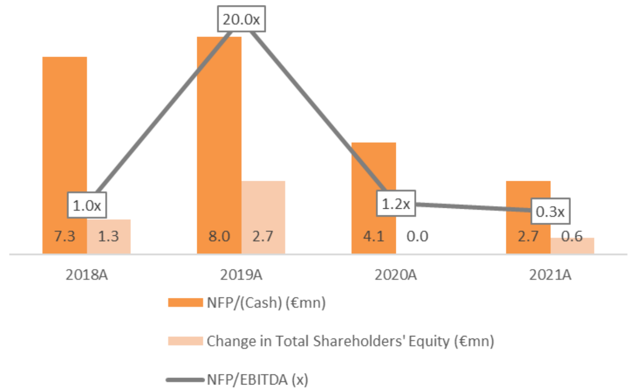
Source: Company data, KT&Partners' elaboration

Trade Working Capital (€mn, %)



Source: Company data, KT&Partners' elaboration

NFP and Change in Total Shareholders' Equity (€mn, x)



Source: Company data, KT&Partners' elaboration

Overview

Company description

PLC (PLC-IT), with its 20+ years of activity, is a leading operator in the Italian **renewable energy market**, offering **EPC** (Engineering Procurement and Construction), **BOT** (Built, Operate and Transfer) and **O&M** (Operation and Maintenance) services focusing on wind farms and solar plants. The Group aims to become an international **Independent Service Provider** (ISP) with multi-technology expertise in renewable and decarbonized energy sources. PLC pursues a sustainable model of growth which is based on the following main strategic drivers: i) **exploiting EPC-BOT synergies**; ii) **scaling O&M to boost growth**; iii) **entering new renewable segments and markets with international activities**; and iv) **enhancing its offer with new technologies** to innovate and provide cutting-edge services.

In 2017, PLC-IT got listed on the MTA of the Borsa Italiana stock exchange following the reverse merger with Industria e Innovazione (INDI).

Investment case

- ***Low risk business profile*.** Through its 20+ years of activity the company has developed a solid revenue model. PLC was born as an electrical infrastructure installer and now, partly thanks to Monsoon and Schmack M&As, has increased its revenue visibility by strengthening the O&M division. Furthermore, as opposed as to the other renewable players, PLC enjoys lower business and financial risk since it does not act as an asset owner. Indeed, thanks to a low cash absorption, the group shows a constant improvement in NFP from €7.3mn in 2018 to €1.9mn in the 1H22. Moreover, the company minimizes BOT risk by acquiring project that have already been started for a low financial amount, developing and selling them before the construction phase and also usually signing an EPC contract.
- ***A sound track record.*** PLC's outstanding track record and its financial soundness proved by its 20+ years of activity make the Group a reliable partner in the renewable energy market. This track record includes more than 200MW of BOT activities in recent years (including the project sold to EDPR in 2021 and Enel Green Power in 2020) and 250+ activities in the EPC business. Looking at the other business unit, PLC conducted O&M activities on more than 2GW plants and farms in Italy.
- ***Market opportunities.*** The renewable energy market shows huge opportunities, also boosted by renewable sources-oriented legislation: the EU solar market is expected to grow at a CAGR 2021-25 of 18.1%, followed by the wind market with an expected CAGR 2021-26 of 7.7%. Looking at Italy, the solar market is expected to grow at 7.2% CAGR over the period 2021–25, whereas wind cumulative capacity is projected to reach 14GW by 2026 from 11.1GW in 2021.
- ***O&M recurring revenues.*** The company is strengthening revenues visibility by increasing the contribution from O&M multi-year contracts. The Monsson acquisition and on-going R&D CapEx are in line with Company's goal to offer innovative services such as remote maintenance through AR, AI and IIoT

Recent developments

- ***New EPC project is coming in Pipeline.*** *In 2022*, PLC announced the closing of €ca 6mn new contract with EDPR, providing project design, supply and the electrical and electromechanical installation of the substation based in Ariano Irpino. Based on that, the total sales value of 28MW "Balance of Plant" project arises from €9.3mn to more than €15mn.
- ***Strengthening the Italian Sustainable Committee.*** In September 2022, the Italian government, through the new minister dedicated to green transition, signed the Biogas and Biomethane Decree which provides new financing for ca €1.7bn through the PNRR channel, expected to start by the end of 2022. FER 2 Decree, FER 1 Decree follow up, is expected to be approved at the beginning of 2023. The FER 2 Decree will provide easier permitting processes with the aim to increase the production from sustainable energy sources and to achieve decarbonization targets by 2030.
- ***Augmented Reality and Artificial Intelligence to enhance the O&M services.*** In August 2022, PLC completed the PON MISE M4.0 European project aiming at innovating the O&M services of sustainable power plants (FER) thanks to the Augmented Reality (AR), Artificial Intelligence (AI) and Industrial Internet of Things (IIoT). The project aimed to improve the Group's margin using new innovative tools (e.g., remote maintenance).
- ***PLC corporate structure reorganization.*** In July 2022, PLC faced a part of the corporate reorganization with the aim of better reflecting the Group's business lines. Therefore, by demerging PLC Service and PLC System, PLC-IT acquired the relative share capital of PLC Service Wind and PLC Power. Furthermore, following the resignation of Dr. Michele Scoppio (PLC-IT's CEO) on April 27, 2022, PLC-IT announced in June 2022 the appointment of the new CEO, Dr. Diego Percopo.
- ***RePowerEU: New European Sustainable Committee.*** To face the challenges of the Ukraine–Russia conflict, the European Commission has proposed new sustainable guidelines aiming to achieve wind plant capacity of 320GW by 2025 and ca. 600GW (+5pp compared to the previous target) by 2030 through simplified permitting processes.

1H22 Financial Results

In the first half of 2022, PLC Group results were negatively impacted by the adverse macroeconomic scenario that led to supply chain disruption in the Construction industry. Moreover, the Group was also affected by the postponement of Italy implementing decrees on renewable energy sources (e.g., FER 2 and Biogas & Biomethane decrees), initially expected at the beginning of FY22. Indeed, the Company registered a slowdown in total revenues showing a decrease of 3.6% YoY to €30.7mn from €31.9mn in 1H21, 15.1% below our estimates, mainly due to a contraction of PLC System's total revenues, partially mitigate by a stable O&M business line revenues trend and by trading division that more than tripled its revenues to €3.6mn (vs €1mn in 1H21), following the rising energy prices.

Focusing on business division, EPC-BOT decreased to €11.4mn from €15.1mn in 1H21 (-24.5% YoY), 36.3% below our estimates mainly due to PLC System's slowdown. While, Schmack Biogas revenues come back to growth, more than doubling the top-line performance achieved in 1H21 to ca. €4.6mn from €2mn, thanks to some installations (San Rocco, Marsala, Geer and others). Therefore, the EPC-BOT business unit slowdown is to be considered temporarily impacted to macroeconomic scenario (that affected few projects) and from the penalizing regulatory context. Moreover, we note that 1H21 EPC-BOT revenues included ca. €3.8mn of capital gain from the sale of C&C Tre Energy, while in 1H22 there were several BOT projects (2 wind farms, 2 solar plants and 4 biogas and biomethane plants) that are expected to be postponed until 2023. The O&M business line was 8.2% YoY lower than our expectations, but stable compared to 1H21 (€15.8mn vs €15.7mn in 1H22), thanks to the domestic O&M positive contribution (ca. +24% YoY) partially offsetting the slowdown in Monsson's E&I activities (ca. -39% YoY).

Given the challenging macroeconomic backdrop, PLC-IT's profitability was negatively impacted by: i) the increase in raw materials costs and longer procurement times, that caused both an increase in production costs and a delay in the execution of the works; and ii) any capital gain contribution from BOT operations expected in FY23. As result, PLC-IT showed 1H22 Group negative EBITDA of €2.9mn from the positive results of €3.4mn in 1H21, missing our estimate of €6.9mn.

1H22 EBIT decreased from a positive result of €2.1mn in 1H21 to a negative figure of €4.6mn with an EBIT margin of -14.9% (-21.4pp YoY). As well as EBIT, the Group net loss was ca. 4mn, €5.3mn below our estimates, from a net income of €1.5mn in 1H21.

During the first semester of 2022, the net capital employed decreased by ca. €5mn as result of trade working capital reduction due to Monsson operation's slowdown. On the capital structure side, despite the negative EBITDA results that occurred in 1H22, NFP was not negatively impacted by the negative P&L figures because the latter includes non-monetary items. Therefore, NFP improved by €0.8mn, reaching a net debt position of €1.9mn from €2.7mn in FY21, of which €1.3mn are related to IFRS16 financial debt.

1H22 Income Statement

€ million	1H18	1H19	FY19A	1H20	1H21	1H22	YoY %	1H22E	A vs E %
EPC - BOT	19.1	4.3	14.9	5.5	15.1	11.4	-24.5%	17.9	-36.3%
O&M	5.5	11.9	30.7	18.6	15.8	15.7	-0.6%	17.1	-8.2%
Trading				0.3	1.0	3.6	n.m.	1.2	n.m.
Total Revenues	**24.5**	**16.3**	**45.6**	**24.4**	**31.9**	**30.7**	**-3.6%**	**36.2**	**-15.1%**
Products and Raw materials	(6.3)	(2.4)	(9.1)	(4.3)	(7.2)	(11.7)	63.7%	(10.2)	14.6%
Gross Profit	**18.2**	**13.8**	**36.5**	**20.2**	**24.7**	**19.0**	**-23.1%**	**25.9**	**-26.8%**
Gross Margin	*74.4%*	*85.1%*	*80.1%*	*82.5%*	*77.5%*	*61.8%*	*-15.7%*	*71.7%*	*-9.9%*
Cost of Services	(6.8)	(7.2)	(17.7)	(8.8)	(9.1)	(9.6)	6.4%	(9.8)	-1.5%
Personnel Expenses	(4.5)	(6.9)	(15.6)	(9.2)	(9.9)	(9.8)	-0.4%	(10.8)	-9.2%
Other Operating Expenses	(0.6)	(1.2)	(2.8)	(1.0)	(2.3)	(2.4)	3.4%	(1.3)	80.6%
EBITDA	**6.4**	**(1.5)**	**0.4**	**1.1**	**3.4**	**(2.9)**	**n.m.**	**4.0**	**n.m.**
EBITDA margin	*25.9%*	*-9.4%*	*0.9%*	*4.7%*	*10.8%*	*-9.4%*	*-20.2%*	*11.1%*	*-20.5%*
D&A and Provisions	(0.3)	(0.5)	(2.0)	(1.3)	(1.4)	(1.7)	22.3%	(1.4)	19.5%
EBIT	**6.1**	**(2.0)**	**(1.6)**	**(0.2)**	**2.1**	**(4.6)**	**n.m.**	**2.6**	**n.m.**
EBIT margin	*24.8%*	*-12.3%*	*-3.4%*	*-0.9%*	*6.5%*	*-14.9%*	*-21.4%*	*7.1%*	*-22.1%*
Financial Income and Expenses	(0.0)	(0.3)	(0.5)	(0.5)	(0.3)	(0.1)	-53.4%	(0.1)	40.8%
Income (Charges) from shareholdings	0.0	(0.0)	(0.1)	(0.0)	0.0	(0.0)	n.m.	-	n.m
Profit (Loss) from discontinued operations	-	-		-	-	-	n.m	-	n.m
EBT	**6.1**	**(2.4)**	**(2.2)**	**(0.8)**	**1.8**	**(4.7)**	**n.m.**	**2.5**	**n.m.**
Taxes	(1.9)	(0.2)	(0.2)	0.3	(0.4)	0.3		(1.2)	
Tax Rate	*31.9%*	*-8.1%*	*-9.9%*	*45.7%*	*24.9%*	*6.1%*		*n.m.*	
Net Income	**4.1**	**(2.5)**	**(2.4)**	**(0.4)**	**1.3**	**(4.4)**	**n.m.**	**1.3**	**n.m.**
Net margin	*16.9%*	*-15.7%*	*-5.2%*	*-1.7%*	*4.2%*	*-14.4%*	*-18.6%*	*3.5%*	*-18.0%*
Total other components of comprehensive income	-	-	(0.1)	0.0	0.2	0.4	80.7%	-	
Total Net Income	**4.1**	**(2.5)**	**(2.5)**	**(0.4)**	**1.6**	**(4.0)**	**n.m.**	**1.3**	**n.m.**
Net margin	*16.9%*	*-15.7%*	*-5.4%*	*-1.6%*	*4.9%*	*-13.2%*	*-18.0%*	*3.5%*	*-16.7%*
Minorities	(0.0)	(0.0)	(0.0)	(0.1)	0.0	(0.0)	n.m.	-	n.m
Net Income attributable to the Group	**4.1**	**(2.5)**	**(2.5)**	**(0.3)**	**1.5**	**(4.0)**	**n.m.**	**1.3**	**n.m.**
Net margin	*16.9%*	*-15.7%*	*-5.4%*	*-1.4%*	*4.9%*	*-13.1%*	*-18.0%*	*3.5%*	*-16.7%*

Source: Company data, KT&Partners' elaborations on 1H22E

1H22 Balance Sheet

€ million	1H19	1H20	1H21	FY21A	1H22
Tangibles and Intangibles (incl. Goodwill)	24.8	22.5	20.8	21.0	21.6
Financial Assets	0.4	0.0	0.0	0.0	0.1
Other LT Assets	2.3	2.8	2.6	2.1	2.3
Fixed Assets	**27.5**	**25.3**	**23.4**	**23.2**	**24.0**
Trade receivables	13.0	18.0	25.5	20.3	17.5
Inventory	4.4	4.1	4.7	4.5	4.8
Contract Assets	3.1	3.7	3.0	16.0	8.9
Trade Payables	(9.8)	(11.6)	(17.5)	(24.6)	(20.2)
Contract Liabilities	(0.8)	(2.7)	(3.2)	(1.2)	(1.3)
Trade Working Capital	**9.9**	**11.5**	**12.5**	**15.0**	**9.8**
Other assets and liabilities	(11.1)	(5.9)	(5.3)	(3.3)	(3.1)
Net Working Capital	**(1.2)**	**5.6**	**7.2**	**11.7**	**6.7**
Other Provisions	(1.4)	(2.3)	(3.9)	(3.8)	(4.5)
Assets held for sale	2.0	0.3	-	-	-
Net Capital Employed	**26.9**	**29.0**	**26.7**	**31.1**	**26.2**
Group shareholders' equity	24.3	24.4	26.4	28.4	24.3
Minority shareholders' equity	0.1	(0.0)	0.0	0.0	0.0
Total shareholders' equity	**21.0**	**24.4**	**26.4**	**28.4**	**24.3**
Short-term debt / Cash (-)	(4.2)	(3.6)	(9.7)	(5.8)	(5.0)
Long-term liabilities	8.1	8.1	10.1	8.5	6.9
Liabilities held for sale	2.0	-	-	-	-
Net Financial Position	**5.9**	**4.6**	**0.4**	**2.7**	**1.9**
Sources	**26.9**	**29.0**	**26.7**	**31.1**	**26.2**

Source: Company data

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IN THIS STUDY DCF AND MULTIPLE VALUATION MODELS HAVE BEEN USED. RECOMMENDATIONS FOLLOW THE FOLLOWING RULES:

- ADD – FOR A FAIR VALUE > 15% ON CURRENT PRICE

- HOLD – FOR A FAIR VALUE <15% AND >-15% ON CURRENT PRICE

- REDUCE – FOR A FAIR VALUE < -15% ON CURRENT PRICE

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