Audax Renovables

EQUITY - SPAIN
Sector: Utilities - Electric Utilities

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Audax Renovables Audax Renovables (ADX) is an independent energy group focused on the supply of electricity and gas (96% of revenue; 53% of EBITDA) to the SME segment (51% of the TWh supplied) with an international presence (only in the EU; 26% of revenue). It has 126.4MW of wind power capacity in Spain (64%), Poland (27%) and France (9%).

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Market Data

Market Cap (Mn EUR and USD)	749.8	824.3
EV (Mn EUR and USD) (1)	982.8	1,080.4
Shares Outstanding (Mn)	440.3	
-12m (Max/Med/Mín EUR)	2.78 / 1.92 / 1.20	
Daily Avg volume (-12m Mn	1.32	
Rotation(2)	45.02	
Thomson Reuters / Bloomberg	ADXR.MC / ADX SM	
Close fiscal year	31-Dec	

Shareholders Structure (%)

José Elías Navarro	90.7
Free Float	9.3

Financials (Mn EUR)	2018	2019e	2020e	2021e
Adj. nº shares (Mn)	440.3	440.3	440.3	440.3
Total Revenues	986.9	1,086.6	1,139.3	1,175.7
Rec. EBITDA	44.8	59.7	69.9	74.3
% growth	*20.7*	*33.2*	*17.0*	*6.3*
% Rec. EBITDA/Rev.	*4.5*	*5.5*	*6.1*	*6.3*
% Inc. EBITDA sector (3)	*-5.3*	*12.9*	*9.8*	*3.9*
Net Profit	9.0	13.6	23.1	26.8
EPS (EUR)	0.02	0.03	0.05	0.06
% growth	*8.7*	*51.6*	*69.7*	*15.7*
Ord. EPS (EUR)	0.03	0.06	0.08	0.08
% growth	*-39.6*	*125.1*	*35.9*	*10.8*
Rec. Free Cash Flow(4)	52.2	18.6	33.9	40.0
Pay-out (%)	*0.0*	*0.0*	*0.0*	*0.0*
DPS (EUR)	0.00	0.00	0.00	0.00
Net financial debt	333.6	224.5	190.7	150.7
ND/Rec. EBITDA (x)	7.4	3.8	2.7	2.0
ROE (%)	*9.3*	*10.7*	*15.8*	*15.7*
ROCE (%)(5)	*6.5*	*10.5*	*14.4*	*15.8*

Ratios & Multiples (x)				
P/E	83.3	55.0	32.4	28.0
Ord. P/E	68.1	30.2	22.3	20.1
P/BV	6.2	5.6	4.8	4.1
Dividend Yield (%)	*0.0*	*0.0*	*0.0*	*0.0*
EV/Sales	1.00	0.90	0.86	0.84
EV/Rec. EBITDA	21.9	16.5	14.1	13.2
FCF Yield (%)(4)	*7.0*	*2.5*	*4.5*	*5.3*

(*) Unless otherwise indicated, all the information contained in this report is based on: The Company, Thomson Reuters and Lighthouse

(1) Please refer to Appendix 3.
(2) Total volume traded in the share (Mn EUR) -12m vs Mkt Cap. Represents the % of the capitalisation traded -12m.
(3) Expected EBITDA growth (consensus) for the share's benchmark sector (Eurostoxx 600 Utilities).
(4) Based on recurrent FCF. Please refer to Appendix 2.
(5) Calculated with a theoretical tax rate. Please refer to Appendix 2.
(6) vs Eurostoxx 600 Utilities.

Gordian Knot

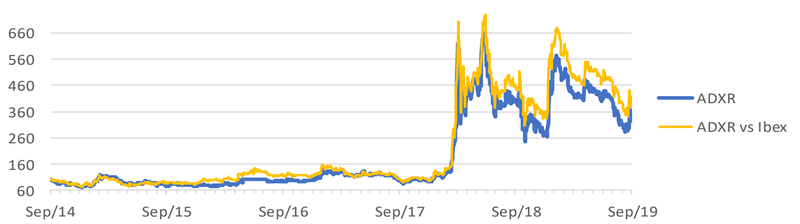
RADICAL CHANGE IN BUSINESS DIRECTION AND POSITIONING IN THE SUPPLY INDUSTRY, with the (highly capital-intensive) generation business being pushed into the background. We would underline three factors arising from the integration of the supply business: (i) a significant increase in volume, with revenue of EUR 987Mn in 2018, (ii) in an industry with low margins (EBITDA margin for the supply business in 2018: 2.1%; 43.9% of EBITDA) and (iii) the beginning of the disinvestment of its generation assets (started in 2019 with the sale of 58.6MW and which will presumably continue in 2020e).

POWER PURCHASE AGREEMENTS (PPAS): BEST WAY TO INCREASE PROFITABILITY… which is starting from low margins. ADX's strategy focuses on procuring part of the energy supplied via PPAs, enabling the company to benefit from the advantages of vertical integration in the energy industry, with a gradual improvement in the supply business margin likely (4.9% 2021e vs 2.1% in 2018) as a result of the entry of procurement via PPAs (20% of the electricity supplied in 2021e vs 0% in 2018).

… "STILL" BELOW SECTOR LEVELS: We envisage a scenario of EBITDA 2021e of EUR 74.3Mn (18.3% CAGR 2018-2021e), with a significant increase in the consolidated EBITDA margin to 6.3% (vs 4.5% in 2018). This scenario implies 2021e recurrent FCF generation of EUR 40Mn and a FCF yield of 5.3% (vs 2.5% in 2019e), still less than the 6.5% offered by the sector. Cash generation will allow a sharp reduction in ND/EBITDA to 2.0x (vs ND/EBITDA 2018: 7.4x).

THE CHALLENGE IS TO IMPROVE PROCUREMENT VIA PPAS: The sensitivity of ADX's business model to the speed at which the change in its procurements mix occurs is very high: PPA procurement of 30% (vs 20% in our scenario) would imply an increase in the FCF Yield 2021e to 7.9% (much higher than industry levels). On the contrary, procurement of only 10% of supply would mean a FCF Yield of 3.4% and debt would remain high (ND/EBITDA 2021e > 3x). Materialising PPAs "in time and form" is the Gordian Knot of ADX's strategic change in direction.

Relative performance -5y (Base 100)



Stock performance (%)	-1m	-3m	-12m	YTD	-3Y	-5Y
Absolute	12.4	-15.1	-13.6	32.5	278.4	251.1
vs Ibex 35	6.9	-13.9	-8.8	24.5	267.2	317.1
vs Ibex Small Cap Index	10.0	-13.3	0.4	25.0	176.8	181.9
vs Eurostoxx 50	6.0	-16.8	-16.1	12.5	224.4	218.3
vs Sector benchmark(6)	7.3	-18.9	-29.7	8.4	183.4	171.3

Strategic change: towards an asset-light utility

Audax Renovables (ADX) has made a dramatic change in direction in respect of its business strategy. The change began in 2016 with the entry of the energy supplier Audax Energía in the capital of the listed company Fersa Energías Renovables (now Audax Energías Renovables). This process was completed in December 2018 with the merger of the (listed) generation business with the supply business, so that now all the Group's businesses are listed, the focus now being on the supply business with the generation business (for which ADX has a disinvestment plan which begun in August 2019 with the sale of 58.6MW and which will presumably continue in 2020e) being pushed into the background.

In recent years ADX has undergone a significant transformation which raises two key questions. What is ADX today and what can be expected from ADX in the immediate future (2019-2021)?

A) 2016 -2018: A change of business model from electricity generation to supply

2016 -2018: A change in scope turning ADX into a supplier...

The company has undergone a significant change of strategic direction in the last three years, moving from a business whose only activity was wind power generation (very capital-intensive) to a business that maintains generation assets (126.4MW at the time of writing) but whose core business revolves around power supply under a far more asset-light structure. The integration of the supply business has meant:

1) **A significant step-up in scale…** with revenue of EUR 986.9Mn in 2018, of which 96.4% corresponded to the supply business.

...A business that in 2018 contributed 96.4% of revenue and 43.9% of EBITDA

2) **…But in an industry with margins "under pressure",** as a result of a highly competitive market with low entry barriers and an activity based on a commodity product. In terms of profitability, the supply business has radically smaller margins than those of the generation business (2018 EBITDA margin for supply: 2.1% vs 70.5% for generation), with a clear impact in terms of the 2018 EBITDA mix: 56.1% generation vs 43.9% supply. Consolidated group EBITDA was EUR 44.8Mn in 2018 (EBITDA margin 4.5%).

With high debt in 2018: 7.4x ND/EBITDA

3) **And with high debt (2018 ND: EUR 334Mn; 7.4x EBITDA)** mainly as a result of the strategy of non-organic growth and international expansion (23.6% of revenue) of the supply business (with 7 acquisitions in the last 4 years), which has taken total gross debt to EUR 461.3Mn in 2018, of which EUR 116.3Mn correspond to the Project Finance debt of the generation assets business.

B) 2019-2021e: After the change in business direction execution is still pending

The change in business model can be considered concluded, so there is only one question: And now what? Answering this question requires an analysis of what we consider to be the main drivers of the business going forward:

Revenues and EBITDA, 6.0% and 18.3% (CAGR 2018-2021e) with a possible 1.8p.p margin improvement

1) **Change in the procurement mix,** replacing electricity procurement at forward (pool) prices by bilateral contracts (PPAs), which means the benefits of vertical integration in the energy business can be enjoyed while avoiding the capital requirements of the generation business. Self-supply via PPAs, at prices c. 15-25% below the pool price will enable ADX to benefit from the reduction of costs of the PV plants, obtaining an advantage in margin per MWh supplied (without having to incur in CAPEX).

With a change in the EBITDA mix: Supply 76% of 2021e EBITDA (vs 44% in 2018)

2) **With a plan to dispose of its generation assets,** begun in July 2019 with the sale of the Tarragona wind farm (57.6MW) and the Castellón solar plant (1MW). The total divestment of the generation assets will have a direct impact on debt, with the total cancellation of the Project Finance debt (25% of total gross debt).

And a sharp reduction in debt (ND/EBITDA 2021e: 2.0x)

3) **Reduction in the company's leverage** thanks to an increase in FCF boosted by the rebound in margins (cumulative recurrent FCF 2019-2021e: EUR 92.4Mn) and the disinvestment of the generation assets, taking the ND/EBITDA 2019e to 3.8x, declining until 2021e (2.0x).

In our view these three items will drive the business in coming years and materialise in organic growth in revenue (+6.0% CAGR 2018-2021e) and EBITDA (18.3% CAGR 2018-2021e), boosted by a 1.8p.p. improvement in margins reaching an EBITDA margin of 6.3% in 2021e (vs 4.5% in 2018).

Operating result: main consolidated figures

EUR Mn	2017	2018	2019e	2020e	2021e	18-21e CAGR
Total Revenues	**675.6**	**986.9**	**1,086.5**	**1,139.3**	**1,175.7**	6.0%
Electricity cost (PPAs)	-	-	(45.4)	(107.7)	(122.2)	n.a.
Electricity and gas cost (pool)	(594.2)	(883.2)	(918.6)	(896.9)	(912.7)	1.1%
Goss Margin	***81.4***	***103.7***	***122.5***	***134.6***	***140.8***	10.7%
Operating expenses	(44.3)	(58.9)	(62.8)	(64.8)	(66.5)	4.2%
Recurrent EBITDA	**37.1**	**44.8**	**59.7**	**69.8**	**74.3**	**18.3%**
Gross Margin (o/Revenues)	*12.1%*	*10.5%*	*11.3%*	*11.8%*	*12.0%*	
Rec. EBITDA / Revenues	*5.5%*	*4.5%*	*5.5%*	*6.1%*	*6.3%*	
Energy supplied (TWh)	7.9	10.1	11.1	11.8	12.2	
Gas and Electricity at pool prices (%)	100.0%	100.0%	94.2%	86.9%	85.7%	
Electricity acquired through PPAs	0.0%	0.0%	5.8%	13.1%	14.3%	

C) Conclusion: An improvement in margins is theoretically possible (and is our central scenario) but its extent and timing depend on self-supply via PPAs

Self-supply of energy via PPAs plays a critical role in this process...

The change in direction towards an asset-light supply business has been accomplished. Now what about its execution? Perhaps the best approach is to look beyond 2021e when the impacts of self-supply via PPAs should have materialised. Our central scenario assumes the partial execution of ADX's strategy, with 20% of the electricity 8.6TWh that we estimate the company will supply in 2021e being acquired through PPAs (vs 2/3 expected by ADX in 2022), with average savings vs the forward price of c. 20% (vs 30% expected by ADX), that should take ADX's current potential to levels of EUR 74.3Mn (EBITDA), with a significant increase in the consolidated EBITDA margin to 6.3% in 2021e (vs 4.5% in 2018). This scenario implies recurrent FCF generation in 2021e of EUR 40.0Mn (FCF yield of 5.3%, but still below the 6.5% offered by the EuroStoxx 600 Utilities at the time of writing).

.... taking Group margins to acceptable levels (EBITDA margin 2021e: 5.9%)

What would be the best case for ADX? A more aggressive execution than envisaged in our central scenario would imply significant potential. An increase in the volume of electricity acquired through PPAs to 30% of the energy supplied (+57.1% vs our central scenario), would boost EBITDA to EUR 100Mn in 2021e, with the potential to generate FCF of EUR 59,6Mn (FCF yield of 7.9%: above industry levels).

Performance of 2021e EBITDA, EBITDA margin and Rec. FCF as a result of changes in PPA volumes and the savings made

EBITDA 2021e

% savings	% supply through PPA: 10.0%	20.2%	30.0%
15%	55.2	66.6	77.7
20%	59.0	74.3	89.1
25%	62.8	81.9	100.4

EBITDA Margin 2021e

% savings	% supply through PPA: 10.0%	20.2%	30.0%
15%	4.7%	5.7%	6.6%
20%	5.0%	6.3%	7.6%
25%	5.3%	7.0%	8.5%

FCF Rec. 2021e

% savings	% supply through PPA: 10.0%	20.2%	30.0%
15%	25.4	33.6	41.6
20%	29.0	40.0	50.6
25%	32.6	46.3	59.6

Profitability

FCF yield 2021e

% savings	% supply through PPA: 10.0%	20.2%	30.0%
15%	3.4%	4.5%	5.5%
20%	3.9%	5.3%	6.7%
25%	4.4%	6.2%	7.9%

Financial Risk

ND/EBITDA 2021e

% savings	% supply through PPA: 10.0%	20.2%	30.0%
15%	3.1x	2.5x	2.0x
20%	2.7x	2.0x	1.6x
25%	2.4x	1.7x	1.2x

Conversely, if the self-supply of electricity via PPAs only reaches 10% of the energy supplied in 2021e, ADX's EBITDA would remain flat compared to the EBITDA estimated for 2019e (-20.6% vs our central scenario) which demonstrates the hyper-sensitivity of ADX's business model to the speed at which the change in its procurements mix occurs.

Everything depends on the speed at which new PPAs are signed and their impact on the self-supply ratio

A logical change on paper, but pending execution Growing the margin of the (high volume) supply business by increasing the self-supply of energy via PPAs at lower than pool prices makes sense for a small supplier like ADX, that does not need large amounts of energy to achieve a significant impact on its P&L (1.7TWh according to our estimates for 2021e vs 3.6TWh already signed by ADX). A logical move but one that is highly dependent on the timing and form of the start-up of self-supply via PPAs. What are the main question marks?

- Procurement via PPAs is still a new strategy: Increased competition to sign PPAs "of quality" will necessarily imply a reduction in the big advantage in the margin obtained at present.

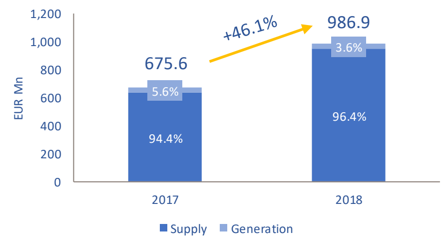
- Dependence on a small number of "energy providers": as supply via PPAs will be the main lever of EBITDA generation in the medium term, any delay in the start-up of the photovoltaic plants by the developer/provider would directly (and significantly) impact our projections.

1H19 results show that the two major ADX challenges could be feasible. The 1S19 Net Debt vs EBITDA 2019e already shows a strong cut (5.3x vs. 7.4x in 2018). And the consolidated margin improves to 6.3% vs. 3.7% in 1H18 and our estimate of 5.5% for the whole of the year (which includes the divestment impact carried out in August 2019 in the generation business, with higher margins; and without impact on results 1H19).

Business description

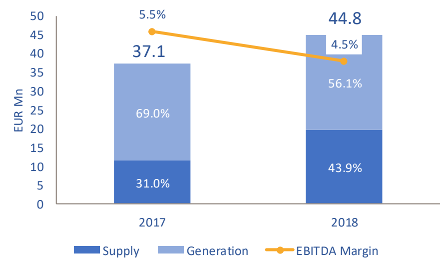
Audax Renovables: in reality a supply business

Chart 1. Revenues breakdown by segment



Note: 2018 revenues include the acquisition of UniElectrica in April 2018 (EUR 233Mn; 24% of 2018 revenues)

Chart 2. EBITDA breakdown by segment



Note: 2018 EBITDA excludes an extraordinary income of EUR 8.6Mn due to the impairment adjustment of the generation business in Poland.

Chart 3. Wind energy generated (GWh)

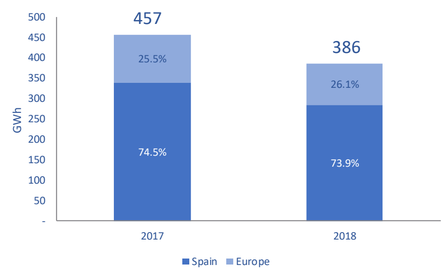
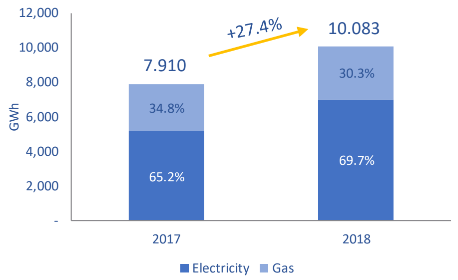


Chart 4. Energy supplied (GWh)



Note: 2018 include the acquisition of UniElectrica.

Audax Renovables (ADX) is an independent electricity and gas supplier with a capitalisation of c. EUR 750Mn. In 2018 the company generated EUR 986.9Mn in revenue (EBITDA: EUR 44.8Mn; +20.7% vs 2017) through (i) the generation of 386GWh of wind energy (Chart 3) and (ii) the supply of 10,083GWh of electricity and gas (Chart 4).

A presence in two stages of the energy value chain

ADX is present in two stages of the energy value chain through two complementary businesses with different growth/risk profiles: (i) electricity generation via 100% renewable sources and (ii) the supply of electricity and gas:

1) **Electricity generation** (3.6% of revenue and 56.1% of EBITDA). With the acquisition of Fersa Renovables in 2016, the Audax Group acquired a portfolio of 185MW. Currently (after the sale of 58.6MW in August 2019), ADX has 127MW of wind power capacity in Spain (64%), Poland (27%) and France (9%). Although ADX's electricity generation capacity is small compared with the energy it supplies (386GWh generated in 2018; 5.5% of the total electricity supplied), the generation division contributed a significant portion of EBITDA (see Chart 2). We would highlight three aspects:

   - **Recurrent and regulated revenue (with high margin):** Entering the generation business has enabled ADX to obtain recurrent revenue with a high EBITDA margin (c.70%) that offsets the low margins of the supply business. The current portfolio has an average regulatory useful life of 9 years, which, barring regulatory change, guarantees recurrent cash generation over this period.
   - **High investment needs:** The development of renewable energy installations requires high levels of CAPEX. However, the recurrence of the company's revenues allows it to use leveraged financing structures (> 60-70%).
   - **Strategic objective:** Although ADX has initiated divestment process of its wind assets, its medium-term strategy includes the development of solar power stations and reduce the procurement costs of the supply business (through signing PPAs[1] and the subsequent rotation of the assets developed to fund new projects).

2) **Electricity and gas supply** (96.4% of revenue and 43.9% of EBITDA). ADX's core business that generates the bulk of its revenues but has a very small EBITDA margin (approx. 2% in 2018). ADX ranks 9th among Spanish electricity suppliers, (5% share in the SME segment). We would highlight four aspects:

   - **A highly competitive market:** The supply business provides high volumes but operates in a highly competitive market with low entry barriers and a commodity product. All this results in aggressive price competition and pressure on margins (2018 EBITDA margin of c. 2%).
   - **Growth (organic and non-organic):** Since 2014, ADX has multiplied its number of clients 7x to 306k and the volume of energy supplied 4x (with significant M&A activity: 6 acquisitions in 4 years).
   - **Small investment requirements.** Unlike the generation business, the supply business does not require significant investments in CAPEX. Although working capital requirements are high (confirming: EUR 42.1Mn in 2018).

[1] PPAs are long-term agreements to sell and buy electricity.

- **Strategic objective:** Reduce energy supply costs through the signing of solar power technology PPAs for significantly less cost than the pool price (c. 15-25% lower).
  Acquiring energy through PPAs will allow ADX to grow and enhance margins without having to pay the "toll" of the high investment requirements of the generation business.

Power Purchase Agreements (PPAs): a growth lever (not free of risks)

ADX's strategy revolves around growing its supply business via a increase in the energy acquired from renewable sources (with the lowest price of the energy mix). To achieve, this, ADX has a two-pronged strategy:

1) **To acquire energy through long-term contracts (PPAs):** will enable the company to enjoy the benefits of vertical integration in the energy value chain (generation and supply). This process is not free of risks: by signing PPAs, ADX takes on the execution and counterparty risk of the installations that will provide it with energy, so any delay in the development of these will have a direct and immediate impact on the company's P&L statement and cash flow projections.

   At present, it has a PPA portfolio of 1,668MW that ADX expects to generate > 25% of the energy provided through the supply division in 2022 (vs 1% in 2018) with an average duration of 20 years (Chart 5).

2) **To develop and build solar power** plants in order to be able to use its own energy through the signing of PPAs with the developed assets and their subsequent rotation to fund new projects.

   Currently, 66MW of wind power capacity is being developed in Panama (30% stake), that will come on stream from 2021. In addition, ADX has a portfolio of > 320MW of solar capacity (60MW ready to build and 221MW with guaranteed connection).

   The development of the MW in the portfolio will mean a significant increase in investment requirements in coming years (with an estimated cost of c. EUR 0.7Mn /MW installed), so we see this as more of a long-term strategy that we have not yet included in our estimates.

Chart 5. PPA contracts already signed by ADX (MW and GWh/year)

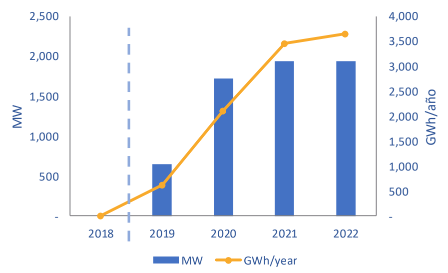
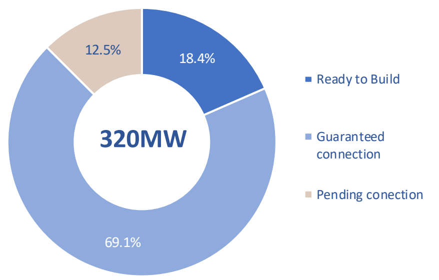


Chart 6. Solar power portfolio (MW)



2013 -2018: A step-up in scale driven by M&A

The Audax group began operating in 2009 as an independent electricity supplier in Spain. In 2013-2018, Audax expanded its international business, almost exclusively via non-organic growth (with 7 acquisitions in the last 4 years).

Chart 7. A step-up in scale

EUR Mn	2014	2018	14-18 (CAGR)
Clients ('000)	49.0	306.0	*58.1%*
Energy supplied (TWh)	3.0	10.0	*35.1%*
Installed capacity (MW)	-	186.0	*n.a.*
EBITDA	18.0	44.8	*25.6%*
EBITDA Margin	*5.3%*	*4.5%*	

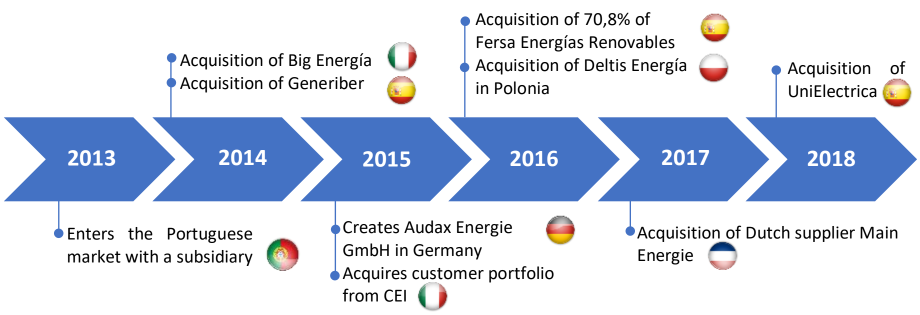
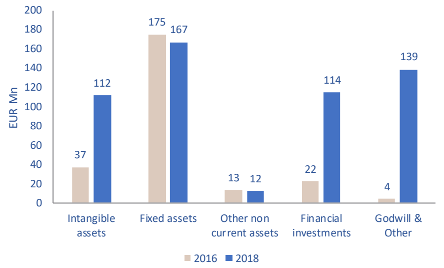


Chart 8. Assets Mix



In 2016, Audax Energía bought 70.8% of the listed Spanish company Fersa Renovables (now Audax Renovables) for EUR 70Mn (6x EV/EBITDA), thereby adding 185MW of wind and 1MW of solar generation to its traditional supply business.

In April 2018, UniElectrica's business was integrated (with an 80% interest), contributing c. EUR 233Mn in revenues (24% of 2018 revenue) and enabling ADX to grow in volume and increase its market share in Spain.

Subsequently, in November 2018 a shareholders' meeting approved the reverse merger of Audax Energía (the target company) and Audax Renovables (the former Fersa Renovables), with the entire Audax Group becoming listed. The exchange ratio used in the reverse merger (300Mn new Audax Renovables shares for 1.8Mn Audax Energía shares) valued the two companies at EUR 163Mn and EUR 351Mn, respectively, with Audax Renovables S.A. becoming the new Group parent.

The process of non-organic growth and the subsequent corporate restructuring have enabled:

1) **A step-up in size:** An increase in EBITDA (2018 vs 2014) of EUR 26.8Mn (+25.6% CAGR 2014-2018), mainly due to non-organic growth (acquisition of 7 companies in 4 years). And also, in debt: successive bond and commercial papper issues (2014, 2017 and 2018) in an amount of c. EUR 165Mn (including accrued and unpaid financial expenses at the 2018 close).

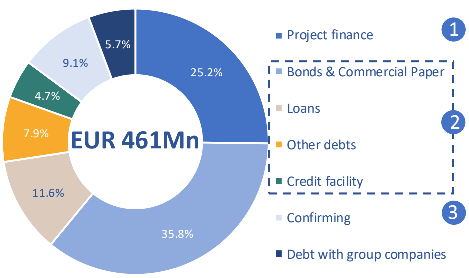
2) **International expansion** of the supply business, which current operates in Spain, Portugal, Italy, Germany, Poland and the Netherlands.

3) **Entry in the electricity generation activity** with 126,4MW of wind power capacity, generating approx. EUR 25Mn of recurrent EBITDA for the Group.

4) **Access to the continuous market** for the supply business, previously outside the listed scope of consolidation.

As a result of the above, a significant part of ADX's non-current assets correspond to: (i) goodwill (25.5%; EUR 138.6Mn), explained mainly by the acquisition of Audax Netherlands in 2017 (EUR 94.4Mn) and UniElectrica in 2018 (EUR 40.1Mn), and (ii) Intangibles (EUR 111.5Mn) mainly the valuation of the client portfolios of the businesses acquired (EUR 66Mn). Another asset item that has increased significantly is financial assets (EUR 114Mn), which corresponds mainly to loans granted to the majority shareholder of the Audax Renovables Group (Excelsior Times S.L.U; with a 90.7% stake) in an amount of EUR 93.4Mn.

Chart 9. Debt breakdown (2018)



Note 1: 2018 Net Debt amount to EUR 333.6Mn (total debt amount to EUR 461.3Mn and EUR 127.7Mn of cash and equivalents).
Note 2: Financial debt includes debt with Group companies (EUR 26,3Mn). Loans granted to Group companies are included as financial investments.

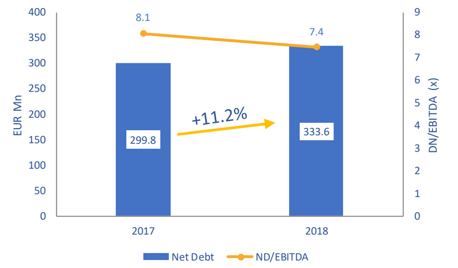
How has this growth been funded? A balance sheet under pressure

The non-organic growth strategy of recent years has resulted in significant balance sheet debt (ND/EBITDA: 7.4x), so we believe balance sheet management and the capital structure will be among the company's top priorities in the mid and long term. We believe ADX's debt can be divided into three clearly different levels:

1. **Project Finance** (EUR 116.3Mn; -4.1% vs 2017), used to finance the generation business (capital intensive). This kind of debt involves pledging shares held in the borrowing companies (the wind farms) which operate as independent companies. At the 2018 close, Project Finance debt (approx. 4.6x the EBITDA generated by the generation division) had maturities until 2026, with the majority falling due in between one and five years.

2. **Bank loans, bond issues and other debt** (EUR 276.6Mn; + 22.9% vs 2017), which mainly corresponds to the supply business, whose growth has mainly been funded via bonds and commercial paper issues (EUR 164Mn; maturing in between 2 and 3 years) and bank loans (EUR 53.6Mn).

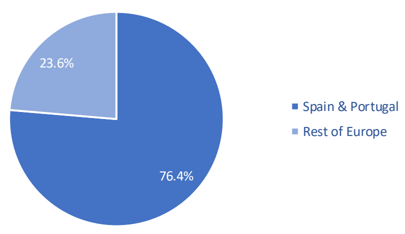
Chart 10. ND and ND/EBITDA



3. **Working capital financing** (EUR 42.1Mn; +97% vs 2017). Working capital management is crucial for the supply business and depends mainly on the following variables: (i) growth in revenues; (ii) customer collection (30-60 days) and (iii) supplier payment management: the supply of energy via OMIE (the Iberian Energy Market Operator) being the main payable.

   Confirming (or reverse factoring) can be used to finance working capital by increasing cash flow provided revenue growth continues (if revenues decline, the outstanding debt associated with the confirming may cause cash stresses). Given the high working capital requirements of the supply business, any growth in revenue will necessarily imply an increase in debt (via confirming). According to the company, this situation could change when the PPAs it has signed come into effect, as their payment conditions are more favourable than those required by the OMIE.

Chart 11. Revenues breakdown by Geography



The company intends to continue to grow its international business

ADX is clearly intent on international expansion. The company is present in 8 countries, all in Europe (apart from Panama, where it is participating in the construction of a wind farm). Now there is only one question: How much does each country contribute?

In terms of revenues, 76% are generated in Spain and Portugal, the main markets for the supply division (ADX ranks 9th among electricity suppliers in Spain and 6th in Portugal). The Iberian market's contribution is even larger at the EBITDA level (93% of 2018 EBITDA), revealing that the businesses acquired outside Spain and Portugal are still at the “take-off” stage: the supply division generated negative EBITDA of -EUR 2.6Mn outside Spain and Portugal, offset by the positive EBITDA of the generation division (EUR 5.5Mn).

Chart 12. EBITDA and NP breakdown by Geography (2018)

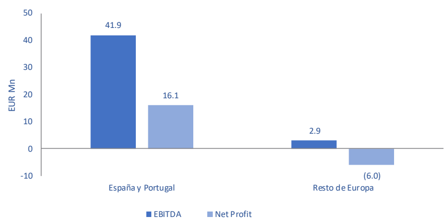
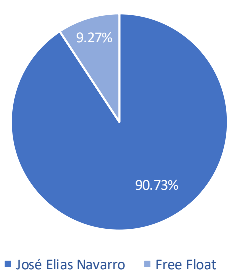


Table 1. P&L by geography and business line (2018)

EUR Mn	Spain & Portugal	Rest of Europe	Supply 2018	Spain & Portugal	Rest of Europe	Generation 2018
Total Revenues	723.4	225.4	948.7	28.2	7.4	35.6
COGS	(676.6)	(206.7)	(883.2)	-	-	-
Gross Margin	**46.8**	**18.7**	**65.5**	**28.2**	**7.4**	**35.6**
Operating Expenses	(24.6)	(21.2)	(45.8)	(8.6)	(1.9)	(10.5)
Recurrent EBITDA	**22.3**	**(2.6)**	**19.7**	**19.7**	**5.5**	**25.1**
Gross Margin	*6.5%*	*8.3%*	*6.9%*	*100.0%*	*100.0%*	*100.0%*
EBITDA Margin	*3.1%*	*-1.1%*	*2.1%*	*69.7%*	*73.8%*	*70.5%*

Chart 13. Shareholders structure



Control in the hands of the founder (>90% of capital) leaving a small free float

ADX is controlled by its founder (José Elías), who maintains a shareholding of 90.7% and the management of the company. He seems to be in it for the long run which ensures full alignment of interests with the other shareholders.

The free float amounts to just 9.3% of capital. However, the company has said it is looking at ways of increasing the free float and the stock’s liquidity.

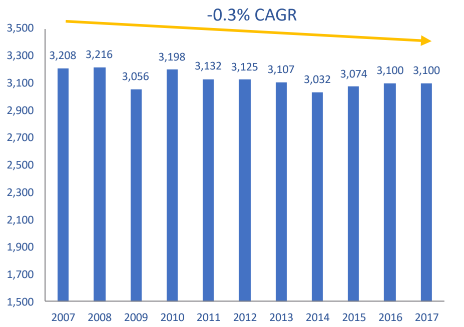
In conclusion: What is ADX today? Where is it heading?

Although the market tends to see ADX as a renewable energy generation company, in reality it is an electricity and gas supplier (96.4% of revenue). With an aggressive growth plan, 100% focused on improving the profitability of the supply business (still very low) and where the procurement of energy via PPAs and the rotation of generation assets are the main levers of FCF generation in the future.

Non-organic growth is the way chosen to increase market share in a highly competitive industry, both in the domestic market and in Europe (still at break-even). High leverage (ND/EBITDA 2018: 7.4x) is the main uncertainty and restriction on growth. Although actually the ND/EBITDA already shows a significant decrease (ND/EBITDA 2019e: 3.8x)

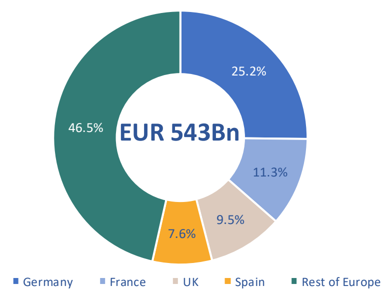
Supply: low growth in a highly competitive environment

Chart 14. Net electricity generation UE-28 (thousand GWh)



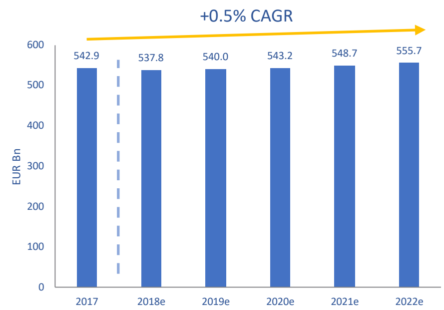
Source: Eurostat

Chart 15. Energy supply market in Europe breakdown



Source: Marketline (November 2018)

Chart 16. Energy supply market in Europe 2017-2022e (EUR Bn)



Source: Marketline (November 2018)

The energy sector is one of the mainstays of the growth, competitiveness and development of modern economies. ADX is present in two stages of the value chain via two very different businesses: (i) the generation of electricity from renewable sources and (ii) the supply of electricity and gas, the focus of its core activity and future growth plan.

In recent years, the transition towards a low carbon economy has been high on the political agenda of European governments (with renewable energies playing a leading role). Together with the development of new technologies and the demand for greater energy efficiency, renewable energy is significantly transforming the industry.

Against this backdrop, the electricity sector in particular will play a leading role in the so-called energy transition, based on the following pillars: (i) the electrification of the economy, (ii) the maximum integration of renewable energies in the energy mix and (iii) energy efficiency and security of supply.

Energy supply in Europe: low growth....

In 2017, total electricity generation in the EU-28 was 3.1Mn GWh; similar to 2016 and 3.6% lower than the 2008 high of 3.2Mn GWh (chart 14).

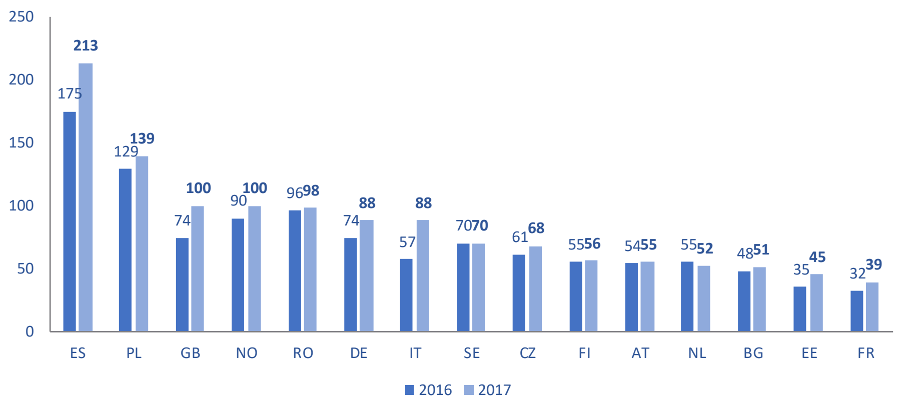
The EU is one of the world's top three consumers of electricity (after China and the US), in a market which in 2017 was worth c. EUR 543Bn (-1.7% vs 2016). According to Marketline data, the European electricity supply market is expected to grow by 2.4% between 2017 and 2022 (0.5% CAGR) to a volume of c. EUR 556Bn.

However, although in 1Q19 the EU-28 grew 1.5% (vs 2.3% in 1Q18), according to the European Network of Transmission System Operators (ENTSO-E) electricity consumption fell by c. 2% due mainly to: (i) a mild winter and (ii) the slowdown in industrial output. According to the European Commission's quarterly report on the electricity market, in 1Q19 electricity consumption fell mainly in the UK (-5.5%), Italy (-4.0%), Spain (-3.5%) and Germany (-1.7%).

......in a highly competitive industry

In the EU, the electricity market is liberalised, which gives consumers the right to change their supplier with total freedom, increasing market competitiveness and transparency.

Chart 17. Number of electricity nationwide[2] suppliers per country (2016-2017)



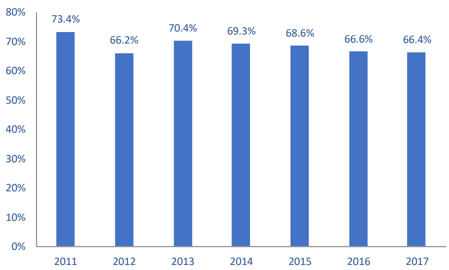
Source: Council of European Energy Regulators (CEER).

[2] "Nationwide suppliers" refers to those serving clients in the whole country.

As a result of market liberalisation, favourable price conditions and low entry barriers (as the product being sold is a commodity, entry barriers are limited solely to capital), in recent years in Europe there has been a significant increase in the number of small suppliers as alternatives to already established large providers (chart 17).

According to the Council of European Energy Regulators (CEER), in 2017 Spain and Poland had the most electricity suppliers with 213 and 139, respectively. The business' low entry barriers were evidenced by the increase in suppliers in 20 of the 28 countries comprising the EU between 2016 and 2017, with Spain, Italy and the UK seeing the most new players (+38, +31 and +26, respectively).

Chart 18. Market shares of the three largest suppliers in the whole UE retail market (by volumen, in %)



Source: CEER, 2018.

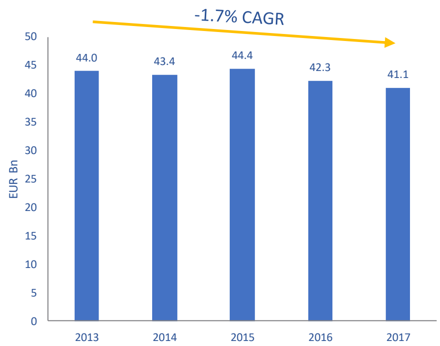
..... dominated by the traditional large energy groups

In general, the energy sector tends towards vertical integration (from generation to supply), creating large companies able to exploit economies of scale. As a result, the European market is highly concentrated (on average, the 3 main suppliers of each EU country together have a c. 64% market share), while "pure" suppliers tend to be much smaller players lacking the financial clout to carry out generation.

Despite the high degree of concentration of the European electricity market, low entry barriers and increasing client rotation have encouraged the entry of new players, resulting in a decline in the average market share of each country's main suppliers of c. 7p.p. between 2011 and 2017 (chart 18).

While several of the new suppliers that have entered the market in the last five years have grown significantly (for example, Utilita, OVO Energy, Bulb Energy), in 2017 none of them had an individual market share of over 5% and only seven had a market share of between 1% and 5%. Also, not all the new players have managed to survive; two of the biggest bankruptcies occurred in the UK in 2018 (Spark Energy and Extra Energy), underlining the risks associated with an industry with low entry barriers and a commodity product.

Chart 19. Energy supply market in Spain (EUR Bn) 2013-2017



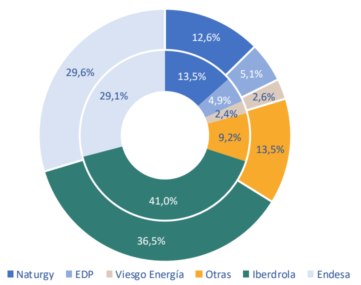
Source: Marketline (November 2018)

Supply in Spain: the market map has begun to change...

In Spain (c. 75% of the revenue from ADX's supply business), the electricity supply business generated revenues in 2017 of EUR 41.1Bn (-1.7% CAGR 2013-2017 vs a +0.5% CAGR for the French market and +1.1% for the German market in the same period). According to Marketline data, the market contraction seen in 2013-2017 will reverse in coming years with a 2.6% CAGR 2017-2022e leading to a volume of EUR 46.7Bn in 2022e (higher than the growth expected for Europe in the same period of a 0.5% CAGR).

As in the rest of Europe, the Spanish electricity market is highly concentrated with the five large traditional energy groups accounting for 86.5% of all the free market supply points in 2018 (chart 20). However, in the last four years there has been an increase in the number of consumers who obtain their electricity from free suppliers that do not belong to the traditional energy groups (the so-called independent suppliers). Specifically, in the last year, according to the latest oversight report on changes of supplier of the CNMC (Spanish anti-trust body) published in July 2019, this has led to a 2p.p. increase in the market share of independent suppliers with respect to the large traditional energy groups, these supplying electricity to 13.5% of consumers in 2018 (vs 9.2% in 2014). This gradual reduction in the share of the large energy groups opens up a theoretical growth opportunity (not free of risk) for independent suppliers.

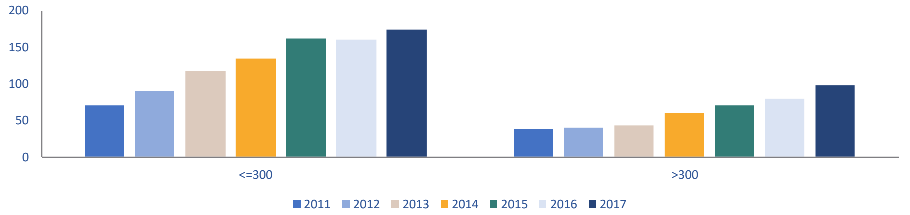
Chart 20. Market share evolution in the spanish free electricity market by supply points (2014-2018)



Source: CNMC; Average market share by supply points.

The market controlled by the independent suppliers is highly fragmented (281 independent suppliers in 2018, all with shares of <5%), with CIDE HC Energía (2.2% share), Fenie Energía (2%) and Clidom Energy (0.8%) standing out. As regards the size of the independent suppliers and specifically in the SME segment (51% of ADX's supply business' revenue), 65% have fewer than 300 supply points.

Chart 21. Number of electricity suppliers in the SME segment breakdown by the number by supply points (<= 300 and > 300)



Source: CNMC

In terms of profitability, according to a study carried out by the CNMC, the expected net margin[3] of free market suppliers was 5% in 2017 (although coming from zero or negative values in 2011-2014). By comparison, according to figures released by Ofgem, the EBIT margin for the 6 leading electricity and gas suppliers in the UK was c. 4%. The CNMC observes that the margins obtained by suppliers belonging to the five traditional energy groups are, in general, higher than for other suppliers, although this is beginning to change: in 2017 the margins of the traditional large groups in the SME and industrial segments fell, resulting in the margins of the two groups of companies becoming closer.

However, the "game" is not the same for all

In conclusion, the energy supply business is a low margin activity (net margin of c. 5%) characterised mainly by: (i) an undifferentiated commodity product, (ii) low entry barriers, (iii) a high degree of competition and (iv) no possibility of negotiating with the electricity provider, OMIE (the Iberian Energy Market Operator), other than through bilateral agreements or PPAs.

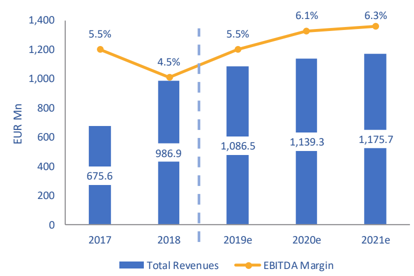
As a result of all this, the main risk of the business lies in the sensitivity of the P&L statement to low margins, as small fluctuations in market conditions can cause significant changes in the profitability of the business and in its cash flows. This is a business that does not accept high levels of debt (unlike the electricity generation business).

As regards the Spanish market, in the current sector context, in which independent suppliers continue to claw market share away from the main energy groups, there is a theoretical opportunity for growth in two ways: (i) via an increase in the market share of suppliers that do not belong to the five traditional energy groups from c. 24% at present to close to the rates seen in the UK, where c. 30% corresponds to suppliers other than the traditional large groups (Ofgem, 2019) and (ii) via the absorption of the market share of those independent suppliers whose business models prove unsustainable (currently c. 45% of the market share of independent suppliers in Spain has fewer than 60,000 points of supply).

3 Estimated by subtracting operating costs (procurement, billing and collection, customer service, financial and structural costs) and customer acquisition costs from the gross margin.

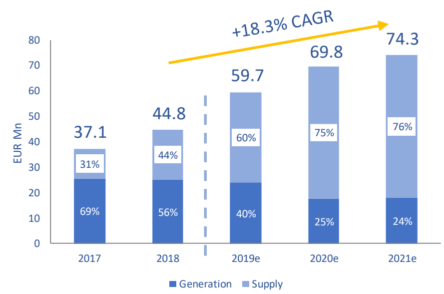
The target: increase profitability (in an industry with margins "under pressure")

Chart 22. Total revenues (2017-2021e)



Note: 2018 revenues include the acquisition of UniElectrica in April 2018 (EUR 233Mn; 24% of 2018 revenues).

Chart 23. EBITDA breakdown by business line (2017-2021e)



In 4Q18 ADX completed the reverse merger by which the listed company Audax Renovables absorbed its parent, Audax Energía, with the renewable energy generation and supply businesses becoming jointly managed, the latter having previously been outside the listed scope of consolidation. For purposes of comparison, the 2018 financial statements include restated (but unaudited) figures for 2017. The integration of the supply business led to a significant step-up in the scale of ADX's P&L statement: contributing 96.1% of revenue and 43.9% of EBITDA for 2018. In terms of the balance sheet, the impact has also been significant with total debt of c. EUR 461.3Mn at the 2018 close (ND/EBITDA: 7.4x), of which only c. 25% corresponded to the project finance debt of the generation business.

Results for 2018 show significant growth in revenue to EUR 986.9Mn (+46.1% vs 2017), boosted by: (i) non-organic growth from the incorporation in the P/L of UniElectrica (April 2018), which contributed turnover of EUR 233Mn (75% of the increase in revenue vs 2017) and (ii) the organic growth of the supply business (+13.0% vs 2017), explained mainly by the growth of the business in Europe (+EUR 74Mn; +48.8% vs 2017) still in a stage of expansion. In terms of profitability, the increased contribution of the supply business to the revenue mix (96.1%; +2.4p.p. vs 2017), which has radically smaller margins than those of the generation business (2018 EBITDA margin for supply: 2.1% vs 70.5% for generation), has a direct impact on ADX's EBITDA margin, which declined by c. 1p.p. vs 2017 to 4.5% in 2018.

2019e-2021e: We expect margin growth to depend greatly on the supply business

We think the strong revenue growth seen in 2018 will normalise from 2019e (10.1%) to 3.2% in 2021e (+6.0% CAGR 2018 – 2021e) vs a 4.4% CAGR 2018-2021e for the Eurostoxx 600 Utilities (excluding non supply companies).

By business line, revenue growth will depend exclusively on the supply business, which we estimate will grow organically at a +6.5% CAGR in 2018-2021e (2021e supply revenue: EUR 1,146Mn; 98% of total revenue) driven mainly by growth in the volume of electricity supplied (+7.1% CAGR during the same period vs +4.9% for gas). This will offset the loss of volume in the generation business following the divestment of 58.6MW[4] in August 2019, with a reduction in 2019e revenue and EBITDA of c. EUR 5Mn and EUR 3Mn, respectively, with a full impact on the P/L from 2020e (c. EUR 12Mn and EUR 8Mn, respectively).

One of the evident weaknesses of the supply business is the high pressure on its margins, with an EBITDA margin of 2.1% in 2018 (vs 1.8% in 2017), still well below the average for the supply businesses of the large integrated UK utilities (c. 4.5% in 2018).

With the aim of increasing supply business margins, ADX's strategy for 2019-2022 involves acquiring part of the energy supplied through PV technology PPA contracts (c.15-30% cheaper than energy acquired on the wholesale market), which means the benefits of vertical integration along the energy value chain can be enjoyed while avoiding the high investment requirements of the generation business.

Currently, ADX has 3.5TWh of procurements signed via PPA contracts for 2021e (49% of the electricity supplied in 2018), which will gradually come on stream from 2019e. In these contracts, ADX assumes both (i) the counterparty credit risk and (ii) the execution risk; so in our analysis we have assumed that the PV plants will come on stream somewhat later than stipulated in the contracts signed (chart 24).

[4] Corresponding to the Tarragona wind farm (57.6MW) and the Castellón PV plant (1MW).

Chart 24. PPAs contracts already signed vs PPA procurement estimated by Lighthouse

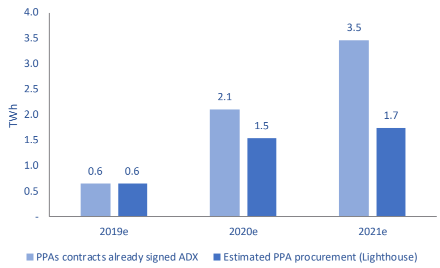


Chart 25. Energy procurement breakdown (TWh)

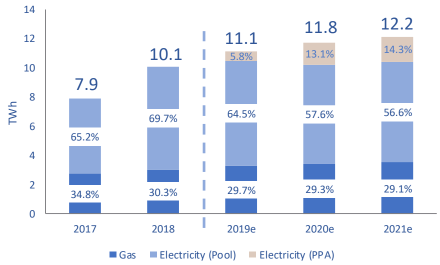
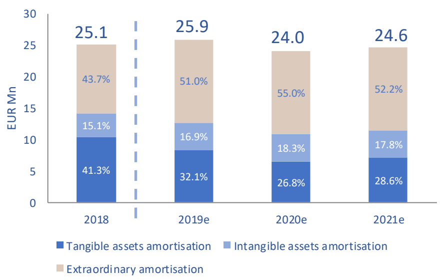


Chart 26. Amortisation breakdown (2018 – 2021e)



According to our estimates, ADX will procure 1.7TWh via PPAs in 2021e (14.3% of total procurements; chart 25) at a cost c. 20% below that offered on the wholesale market, allowing the company to reduce its procurement costs by c. 3% over the period. This will account, almost exclusively, for the increase in the supply business margin for 2018-2021e (supply EBITDA margin: 4.9%; +2.8p.p. vs 2018), resulting in an increase in the EBITDA margin of the consolidated business to c. 6.3% in 2021e (vs 4,5% in 2018), which would boost ADX's recurrent EBITDA to EUR 74.3Mn in 2021e (+18.3% CAGR).

Consequently, from an operating viewpoint, we consider ADX's business to be essentially that of a supplier whose levers for generating EBITDA in the coming years can be summarised as followed:

1) Growth in the turnover of the supply business (+6.5% CAGR 2018-2021e) via: (i) the consolidation of the domestic business and (ii) the expansion of the business outside Spain, mainly in the Netherlands and Italy (13.5% and 8.2% of 2018 revenue).

2) A margin improvement strategy greatly dependent on the success of energy procurement via PPAs which will significantly increase the EUR/MWh margin (to c. EUR 9 EUR/MWh vs 6.5 EUR/MWh in 2018) and which we estimate will occur more slowly than anticipated by the company, to c. 15% of the energy supplied in 2022 (vs 2/3 envisaged in the ADX business plan).

3) All the above, together with the divestment in the generation business in August 2019, means ADX is leaning even more (if possible) towards the supply business (76% of the EBITDA mix in 2021e vs 44% in 2018).

Table 2. Operating result: main consolidated figures

EUR Mn	2017	2018	2019e	2020e	2021e	18-21e CAGR
Total Revenues	**675.6**	**986.9**	**1,086.5**	**1,139.3**	**1,175.7**	6.0%
Electricity cost (PPAs)	-	-	(45.4)	(107.7)	(122.2)	n.a.
Electricity and gas cost (pool)	(594.2)	(883.2)	(918.6)	(896.9)	(912.7)	1.1%
Goss Margin	***81.4***	***103.7***	***122.5***	***134.6***	***140.8***	10.7%
Operating expenses	(44.3)	(58.9)	(62.8)	(64.8)	(66.5)	4.2%
Recurrent EBITDA	**37.1**	**44.8**	**59.7**	**69.8**	**74.3**	**18.3%**
Gross Margin (o/Revenues)	*12.1%*	*10.5%*	*11.3%*	*11.8%*	*12.0%*	
Rec. EBITDA / Revenues	*5.5%*	*4.5%*	*5.5%*	*6.1%*	*6.3%*	
Energy supplied (TWh)	7.9	10.1	11.1	11.8	12.2	
Gas and Electricity at pool prices (%)	100.0%	100.0%	94.2%	86.9%	85.7%	
Electricity acquired through PPAs	0.0%	0.0%	5.8%	13.1%	14.3%	

Recurrent EBIT: Impacted by the non-recurrent amortisation of intangibles

As a consequence of the step-up in scale arising from M&A activity (with 7 acquisitions in the last 4 years), a significant portion of ADX's assets corresponds to intangibles associated with the value of the rights, industrial property and customer portfolios of the businesses acquired (EUR 123.4Mn gross; 90% of gross intangible assets), with a significant impact on 2018 amortisation of c. EUR 11Mn/year (44% of the total).

In order to normalise EBIT, we have stripped out the extraordinary amortisation of intangibles in an amount of c. EUR 13Mn/year (estimated by LH), which together with the reduction of recurrent depreciation after the divestment of the generation assets in 2019 (with an impact of c. EUR 4.5Mn/year) boosts EBIT to a 27.0% CAGR in 2018-2021e (vs a 18.3% CAGR for EBITDA) reaching EUR 62.8Mn in 2021e (2021e EBIT margin: 5.3%).

Chart 27. Net Profit vs Ordinary Net Profit

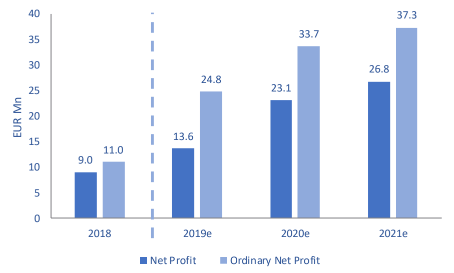


Chart 28. From EBIT to Net Profit (2019e)

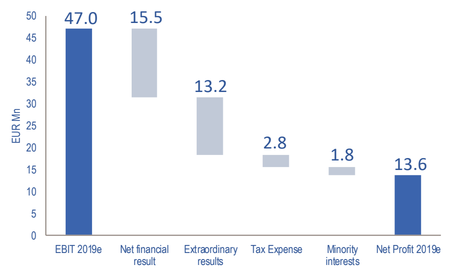
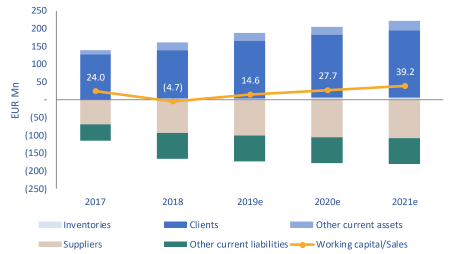


Chart 29. Working Capital Evolution (2017-2021e)



Ordinary Net Profit: double-digit organic growth evidencing the improvement in business profitability

The main P&L headings below the EBIT line are extraordinaries and the net financial result:

1. Extraordinaries: Results for 2017 and 2018 were negatively impacted by the following extraordinary items: (i) the amortisation of intangibles associated with the M&A activity (c. EUR 10Mn and c. EUR11Mn, respectively) and (ii) the reversal of the provision for the impairment of goodwill in 2018 with a positive impact of EUR 8.6Mn in said period. Over 2019-2021e net profit will continue to be impacted by the amortisation of intangibles which will be amortised on a straight-line basis over an average period of 8 years with an estimated impact of c. EUR 13Mn/year.

2. The net financial result: The increase in debt in 2017 and 2018 has been reflected in higher financial expenses (36.8% of EBITDA at the 2018 close, +2.8p.p. vs. 2017), which, despite the continuous de-leveraging expected in 2018-2021e (with a reduction in ND of > 50%), will remain significant (15.3% of EBITDA in 2021e), with an impact of c. EUR 11.4Mn in 2021e (vs EUR 16.5Mn in 2018).

The reduction of recurrent depreciation due to the divestment of generation assets, together with lower financial expenses, will enable the good performance of recurrent EBITDA (+18.3% CAGR 2018-2021e) to fully translate to double-digit growth in ordinary net profit (CAGR 2018-2021e +46.6%) with a significant impact in terms of 2021e ordinary P/E (20.1x vs 2021e P/E 28.0x).

WC management: "critical" in terms of FCF

For 2018-2021e we use a working hypothesis of a normalisation of the negative working capital recorded in 2018 (EUR 4.7Mn), to levels of EUR 39.2Mn in 2021e (3.3% of sales) with a cumulative impact in terms of FCF of EUR 43.9Mn (23% of the EBITDA generated during the period).

The increase in working capital requirements is explained mainly by two factors: (i) the increase in the supply business' turnover and (ii) a gradual deterioration of customer collection conditions, with the collection period increasing by c. 15% due to a more aggressive policy in respect of obtaining new customers.

In recent years, ADX has used confirming lines to fund working capital investment, reaching an amount at the 2018 close of EUR 42.1Mn (vs 21.3Mn in 2017; classified as net debt). As a consequence, and given the working capital requirements of the supply business, any growth in turnover will necessarily imply an increase in debt (via confirming).

CAPEX will remain low

The investment requirements of the two businesses managed by ADX are radically different:

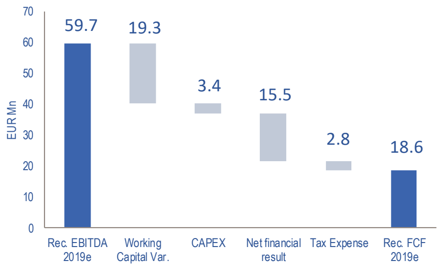
1) The wind energy generation business is very capital-intensive and represents 97.8% of ADX's tangible assets (EUR 162.9Mn at the 2018 close). Currently, ADX has a portfolio of PV assets to develop > 320MW of PV capacity (of which 60MW are ready to be built).

   The development of the MW in the portfolio will mean a significant increase in investment requirements in coming years (with an estimated cost of c. EUR 0.7Mn/MW installed), so given the current high level of gearing (ND/EBITDA 2019e: 3.8x) we see this as more of a long-term strategy that we have not yet included in our estimates.

2) Conversely, with total net assets of EUR 3.7Mn in 2018, the supply business is a business "without assets" that does not require significant investment for its development (supply CAPEX 2018 c. EUR 1.2Mn).

As our base case scenario is centred on the acquisition of energy via PPAs with a focus on the supply business, we estimate the company will not require additional investments to those made in 2017 and 2018 (c. EUR 4Mn/year; 0.3% of sales).

Chart 30. From EBITDA to Rec. FCF 2019e



Free Cash Flow shaped by the increase in WC requirements

In 2018 recurrent FCF was significantly boosted by an increase in WC financing (EUR 28.7Mn; 64% of 2018 EBITDA) arising from an increase in accounts payable with public entities (EUR 24.6Mn). However, in 2019e we estimate a normalisation of working capital to levels of 1.3% of sales, with an impact in terms of cash flow of c. EUR 19.3Mn, that, together with still high financial expenses (impact of EUR 15.5Mn; 25.9% of EBITDA), will reduce recurrent FCF for 2019e to EUR 18.6Mn (FCF yield 2019e: 2.5%).

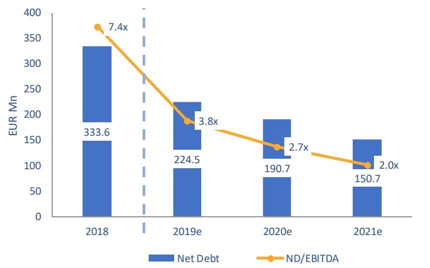
For 2020e and 2021e we estimate recurrent FCF of EUR 33.9Mn and EUR 40.0Mn, respectively, driven by (i) the increase in EBITDA and (ii) the reduction of financial expenses (with a cumulative impact of EUR 14.5Mn and EUR 4.1Mn, respectively), offering an average 2019e-2021e recurrent FCF yield of 4.1%, peaking in 2021e (c. 5.3%), still below the 6.5% offered by the sector.

Below recurrent Free Cash Flow, the main item we find in 2019e corresponds to the disinvestment of 58.6MW of the generation business and that we estimate will have an impact of c. EUR 90Mn on net debt.

FCF generation and the disinvestment of generation assets will enable the reduction of leveraging to be speeded up

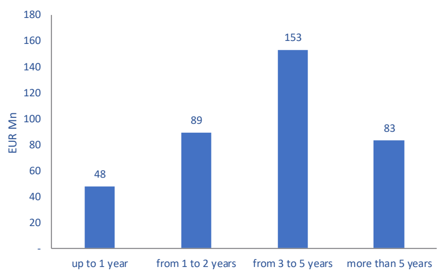
The non-organic growth strategy of recent years has resulted in a highly geared balance sheet (ND 2018: EUR 334Mn; 7.4x EBITDA), so we believe balance sheet management and the capital structure will be among the management team's top priorities in the near future.

Chart 31. Net debt & ND/EBITDA (2018-2021e)



Specifically, ADX is facing significant debt maturities during the next five years (EUR 290Mn, of which EUR 65.3Mn are non-recourse). In order to satisfy these maturities, ADX has begun a plan to dispose of its generation assets (185MW at the beginning of 2019) with the sale of 58.6MW in August 2019, with an estimated impact on net debt of c. EUR 90Mn (including the cancellation of project finance debt).

Chart 32. Debt maturity schedule (2019)



Note: Excludes Project Finance debt canceled after the 58.6MW divestment in August 2019 (c. EUR 60Mn; estimated by LH) nor debts with Group companies (EUR 26.3Mn in 2018).

We believe that the cash generation capacity for 2018-2021e, together with the disposal of assets carried out in August 2019, will take ND/EBITDA to levels of 2.0x in 2021e (vs sector average: 2.5x). However, ADX is facing a demanding schedule of debt maturities in the mid term (chart 32), of which c. EUR 151Mn correspond to 2019-2021 (vs 2019e-2021e accumulated recurrent FCF: EUR 92,4Mn). In this scenario, the policy of the disinvestment of generation assets (in a maximum period of 1-2 years) and the cancellation of Project Finance debt (c. EUR 60Mn after the disinvestment of August 2019), will play a key role in the acceleration of de-leveraging: enabling ADX to satisfy its demanding debt maturities schedule and paving the way for its strategy of development (and rotation) of PV plants not yet included in our estimates.

Valuation inputs

Inputs for the DCF Valuation Approach

	2019e	2020e	2021e	Terminal Value [1]
Free Cash Flow "To the Firm"	**120.1**	**41.4**	**46.4**	**1,174**

			Best Case	Worst Case
Market Cap	**749.8**	At the date of this report		
Net financial debt	**317.5**	6m19 Results		
Cost of Debt	4.4%	Net debt cost	4.0%	5.0%
Effective tax rate (T)	20.0%	T (Normalised tax rate)	=	=
Net debt cost	**3.5%**	**Kd = Cost of Net Debt * (1-T)**	**3.2%**	**4.0%**
Risk free rate (rf)	0.2%	Rf (10y Spanish bond yield)	=	=
Equity risk premium	6.0%	R (own estimate)	5.5%	6.5%
Beta (B)	1.0	B (Thomson Reuters)	0.8	1.2
Cost of Equity	**6.4%**	**Ke = Rf + (R * B)**	**4.6%**	**8.0%**
Equity / (Equity + Net Debt)	70.3%	E (Market Cap as equity value)	=	=
Net Debt / (Equity + Net Debt)	29.7%	D	=	=
WACC	**5.5%**	**WACC = Kd * D + Ke * E**	**4.1%**	**6.8%**
G "Razonable"	**1.5%**		**2.0%**	**1.0%**

(1) Terminal value calculated over recurrent Free Cash Flow "to the Firm" in the last estimated year. For further details, please refer to appendix 2.

Inputs for the Multiples Valuation Approach

Company	Ticker Reuters	Mkt. Cap	P/E 19e	NP 19e-21e	EV/EBITDA 19e	EBITDA 19e-21e	EV/Sales 19e	Revenues 19e-21e	EBITDA/Sales 19e	FCF Yield 19e	FCF 19e-21e
Iberdrola	IBE.MC	59,626.3	13.7	-6.7%	10.8	7.5%	2.8	3.3%	25.9%	1.1%	100.2%
Endesa	ELE.MC	25,162.5	14.0	6.4%	8.4	2.1%	1.5	2.6%	17.6%	3.0%	41.8%
Naturgy	NTGY.MC	24,010.3	15.3	n.a.	9.3	2.3%	1.7	1.8%	18.5%	6.4%	18.5%
EDP	EDP.LS	12,864.8	13.0	-8.7%	9.1	3.4%	2.1	2.1%	23.2%	7.9%	-1.0%
Integrated Utilities			**14.0**	**-3.0%**	**9.4**	**3.8%**	**2.0**	**2.4%**	**21.3%**	**4.6%**	**39.9%**
Solaria	SLRS.MC	690.1	25.3	-9.2%	18.3	59.0%	15.0	61.0%	81.7%	-34.7%	-41.0%
Solarpack	SPK.MC	385.3	21.3	175.8%	10.4	33.7%	3.2	3.9%	31.2%	-43.9%	2.4%
Scatec Solar	SSOL.OL	1,387.3	42.6	-9.1%	13.4	31.1%	10.9	28.8%	81.8%	-38.0%	n.a.
Audax Renovables	**ADXR.MC**	**749.8**	**55.0**	**40.1%**	**16.46**	**11.5%**	**0.90**	**4.0%**	**5.5%**	**2.5%**	**46.5%**

Note: ADX FCF 19e-21e CAGR calculated over Recurrent FCF.

Free Cash Flow sensitivity analysis (2020e)

A) EBITDA and EV/EBITDA sensitivity to changes in EBITDA/Sales

Scenario	EBITDA/Sales 20e	EBITDA 20e	EV/EBITDA 20e
Max	7.1%	81.2	12.1x
Central	6.1%	69.9	14.1x
Min	5.1%	58.5	16.8x

B) Rec. FCF and Rec. FCF - Yield sensitivity to changes in EBITDA and CAPEX/sales

Rec. FCF EUR Mn	CAPEX/Sales 20e		
EBITDA 20e	0.3%	0.3%	0.5%
81.2	45.3	45.3	43.0
69.9	33.9	33.9	31.6
58.5	22.5	22.5	20.2

Scenario	FCF/Yield 20e		
Max	6.0%	6.0%	5.7%
Central	4.5%	4.5%	4.2%
Min	3.0%	3.0%	2.7%

What could go wrong?

We consider risks to be those that could have a significant negative impact on our projections, mainly those for operating profit and free cash Flow:

1. **The activity of the supply business is based on a commodity product** (96.4% of revenue) in a free market, with low entry barriers and tough competition, which could lead to additional pressure on the business' low margins (2.1% in 2018). A 1p.p. reduction in the supply business margin with respect to our base case for 2019e (EBITDA margin: 3.4%) would result in a 18% cut in ADX's EBITDA (-EUR 11Mn).

2. **Sensitivity of the supply business to fluctuations in energy prices** The activities carried out by ADX require the acquisition and sale of electricity and natural gas (70% and 30% of the energy supplied, respectively), whose prices are subject to fluctuations according to market conditions. Close to 30% of ADX's revenues are obtained from a fixed rate tariff, with both the price billed and the power supplied being fixed over a one-year period. Margins are hedged using derivatives on the variation in energy prices for a maximum net volume of 101MW for 2019. However, we consider that the low margins of the supply business (c. 2% in 2018) have limited capacity for reaction to significant fluctuations in energy prices, so poor hedge policy management could have a significant impact on the profitability (and liquidity) of the business.

3. **Dependence on an improvement in the margins of the supply business.** The improvement in the EBITDA/Revenue margin (+1.8 p.p. in 2018-2021e; vs 4.5% in 2018) is underpinned on a gradual increase in the supply of energy from renewable energy sources (with the lowest price of the pool), by entering into long term Power Purchase Agreements (PPAs). Based on this premise, a 10% reduction in the volume of energy supplied via PPAs from our base case in 2020e (1.5TWh) would reduce 2020e EBITDA by c. 4%.

4. **Dependence on a limited number of providers.** At present, ADX has long term power purchase agreements (PPAs) with a reduced number of providers, for an envisaged total capacity of 1,938MW (3,638 GWh) which will come on stream gradually until 2022. As supply via PPAs will be the main lever of EBITDA generation in the medium term, any delay in the start up of the photovoltaic plants by the developer/provider would directly impact our projections.

5. **Changes to regulations or to tariffs that affect the recovery of the cost of the assets.** This is a risk inherent to the renewable energies sector which in recent years has been characterised by stable and predictable returns. The current uncertainty surrounding environmental policy, price setting and regulatory requirements increases the risk of regulatory changes. Currently, ADX manages a portfolio of 127MW of wind energy assets in Spain, France and Poland with an average regulatory useful life of 9 years, so any change in current regulations in these countries would have a direct impact on the profitability of ADX's generation business. There is special dependence on the Spanish regulatory framework (60% of the generation business' EBITDA) currently regulated by Royal Decree 413/2014.

6. **Weather risk.** Electricity generation via wind energy is subject to weather conditions at the site where the installations are located. A 10% reduction in energy generation in 2020e would have an impact of -4% on 2020e EBITDA (EUR 3Mn).

7. **High debt and changes to interest rates** the main characteristics of the supply business (a high degree of competition and low margins) mean this does not tolerate high levels of debt. However, ADX has high debt, with 80% maturing in between 1 and 5 years (EUR 290Mn). This results in high financial costs (EUR 15,5Mn in 2019e; c. 25,9% of 2019e EBITDA).

8. **Working capital management** is crucial for the supply business, and depends mainly on the following variables: (i) growth in revenues; (ii) customer collection (30-60 days) and (iii) supplier payment management: the supply of energy via OMIE (the Iberian Energy Market Operator) being the main payable.

   Growth in the revenues of the supply business in 2019e-2021e will imply an increase in working capital financing requirements via confirming to approximately EUR 50Mn (+18% vs 2018). The high working capital financing requirements (Confirming: EUR 42.1Mn in 2018; 95% of recurrent EBITDA) could create short term liquidity problems in the event of a decrease in revenue volumes.

A controlling shareholder "tied" to the share price

Chart 33. Board of Directors

Name	Category	Appointed since	% Capital
José Elías Navarro	Dominical	16/08/2016	90.73%
Eduard Romeu Barceló	Dominical	16/08/2016	0.00%
Ramiro Martínez-Pardo	Coordinador	16/08/2016	0.00%
Josep María Echarri Torres	Independiente	14/11/2016	0.00%
Rubén Clavijo Lumbreras	Independiente	25/03/2019	0.00%
Total			**90.73%**

Source: CNMV

The founder of the company (José Elías) remains the core shareholder (with 90.73% of capital) and is the owner. He holds the positions of Chairman of the Board of Directors and CEO, which gives both governing bodies high exposure to the share price. We would highlight the following points:

1. **A renewed Board of Directors,** after the entry in 2016 of the Audax Group in the capital of the listed company Fersa Energías Renovables (now Audax Renovables). In 2019 the number of directors was reduced from seven to five. At present, the Board of Directors includes two proprietary directors (out of a total of five), related to the former Audax Energía.

2. **Non executive directors receive no compensation other than a per diem** to compensate them for attendance at meetings without prejudice to their independence. Compensation to be received by the members of the Board of Directors is fixed at a maximum amount of EUR 250,000 for 2019, 2020 and 2021. Also, in the case of directors with executive functions a maximum compensation of EUR 250,000 has been established (independently of the previous compensation) applicable during the same period.

   The total amount of the compensation of non-executive directors in 2018 was EUR 103,000 (0.7% of personnel costs).

3. **Clearly intent on non-organic growth,** with 7 acquisitions in the last 4 years, together with a strategic plan for growing the supply business that necessarily involves non-organic growth (whose value generation is not guaranteed). The Strategic Plan for growing the supply business and its aggressive nature has a clear impact on the company's governance.

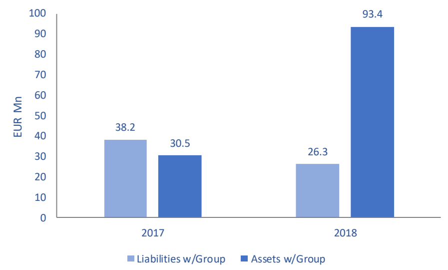
4. **Small free float (<10%).** However, the company has said it is looking into the possibility of carrying out one or several rights issues, which would dilute the current shareholders' stakes and result in an improvement in the stock's liquidity.

   At the shareholders' meeting held in April 2019 the Board of Directors was authorised to increase share capital by issuing new shares in exchange for monetary contributions within a period of five years.

5. **No shareholder remuneration in the short/mid term.** Our projections envisage the continuation of the current dividend policy (Pay Out 0% and greatly influenced by ADX's high debt). However, over 2019 (Investors' Day, shareholders' meeting) the company has stated its intention of beginning to pay dividends "from 2020" (without a target Pay Out level), dependent on the progress of the business.

6. **With a significant volume of balances with related parties (outside the listed scope of consolidation),** corresponding mainly to loans granted and received by ADX and its main shareholder (Excelsior Times, S.L.U.). At the 2018 close, receivables and payables with Excelsior Times, S.L.U amounted to EUR 80Mn and EUR 14Mn, respectively. The total amount of balances receivable and payable with related parties amounted to EUR 93Mn and EUR 26Mn, respectively (net amount of EUR 67.1Mn).

Chart 34. Intercompany balances outside the listed scope (2018)



Appendix 1. Financial Projections

Balance Sheet (EUR Mn)	2014	2015	2016	2017	2018	2019e	2020e	2021e
Intangible assets			37.0	81.8	111.5	93.9	76.3	58.8
Fixed assets			174.6	167.9	166.6	71.3	68.5	65.1
Other Non Current Assets			13.3	8.0	12.5	12.5	12.5	12.5
Financial Investments			22.1	42.1	114.4	114.3	114.3	114.2
Goodwill & Other Intangilbles			4.1	98.5	138.6	138.6	138.6	138.6
Current assets			89.8	140.5	161.6	189.4	206.6	221.3
Total assets			**340.8**	**538.9**	**705.2**	**620.0**	**616.7**	**610.4**
Equity			63.3	71.9	120.9	134.6	157.7	184.5
Minority Interests			0.0	13.1	33.3	35.1	38.4	42.1
Provisions & Other L/T Liabilities			32.1	37.5	51.1	51.1	51.1	51.1
Net financial debt			181.0	299.8	333.6	224.5	190.7	150.7
Current Liabilities			64.5	116.5	166.4	174.7	178.9	182.0
Equity & Total Liabilities			**340.9**	**538.9**	**705.2**	**620.0**	**616.7**	**610.4**

P&L (EUR Mn)	2014	2015	2016	2017	2018	2019e	2020e	2021e	CAGR 14-18	CAGR 18-21e
Total Revenues				**675.6**	**986.9**	**1,086.6**	**1,139.3**	**1,175.7**	***n.a.***	***6.0%***
Total Revenues growth			*n.a.*	*n.a.*	*46.1%*	*10.1%*	*4.9%*	*3.2%*		
COGS				(594.2)	(883.2)	(964.1)	(1,004.6)	(1,034.9)		
Gross Margin			**-**	**81.4**	**103.7**	**122.5**	**134.7**	**140.8**	***n.a.***	***10.7%***
Gross Margin/Revenues			*n.a.*	*12.1%*	*10.5%*	*11.3%*	*11.8%*	*12.0%*		
Personnel Expenses				(14.3)	(19.4)	(20.8)	(21.8)	(22.4)		
Other Operating Expenses				(29.9)	(39.5)	(42.0)	(43.0)	(44.1)		
Recurrent EBITDA			**-**	**37.1**	**44.8**	**59.7**	**69.9**	**74.3**	***n.a.***	***18.3%***
Recurrent EBITDA growth			*n.a.*	*n.a.*	*20.7%*	*33.2%*	*17.0%*	*6.3%*		
Rec. EBITDA/Revenues			*n.a.*	*5.5%*	*4.5%*	*5.5%*	*6.1%*	*6.3%*		
Restructuring Expenses				-	-	-	-	-		
Other non-recurrent Income / Costs				-	-	-	-	-		
EBITDA			**-**	**37.1**	**44.8**	**59.7**	**69.9**	**74.3**	***n.a.***	***18.3%***
EBITDA growth			*n.a.*	*n.a.*	*20.7%*	*33.2%*	*17.0%*	*6.3%*		
EBITDA/Sales			*n.a.*	*5.5%*	*4.5%*	*5.5%*	*6.1%*	*6.3%*		
Depreciation & Provisions				(8.0)	(14.1)	(12.7)	(10.8)	(11.4)		
Capitalized Expense				-	-	-	-	-		
EBIT			**-**	**29.1**	**30.7**	**47.0**	**59.0**	**62.8**	***n.a.***	***27.0%***
EBIT growth			*n.a.*	*n.a.*	*5.5%*	*53.2%*	*25.5%*	*6.4%*		
EBIT/Revenues			*n.a.*	*4.3%*	*3.1%*	*4.3%*	*5.2%*	*5.3%*		
Impact of Goodwill & Others				(0.1)	-	-	-	-		
Net Financial Result				(12.6)	(16.5)	(15.5)	(12.8)	(11.4)		
Income by the Equity Method				(0.1)	(0.0)	(0.0)	(0.0)	(0.0)		
Ordinary Profit			**-**	**16.3**	**14.1**	**31.5**	**46.2**	**51.4**	***n.a.***	***53.8%***
Ordinary Profit Growth			*n.a.*	*n.a.*	*-13.1%*	*122.7%*	*46.8%*	*11.2%*		
Extraordinary Results				(10.5)	(2.4)	(13.2)	(13.2)	(13.2)		
Profit Before Tax			**-**	**5.8**	**11.8**	**18.3**	**33.0**	**38.2**	***n.a.***	***48.1%***
Tax Expense				0.5	(1.8)	(2.8)	(6.6)	(7.6)		
Effective Tax Rate			*n.a.*	*n.a.*	*15.1%*	*15.5%*	*20.0%*	*20.0%*		
Minority Interests				2.0	(1.0)	(1.8)	(3.3)	(3.8)		
Discontinued Activities				-	-	-	-	-		
Net Profit			**-**	**8.3**	**9.0**	**13.6**	**23.1**	**26.8**	***n.a.***	***43.8%***
Net Profit growth			*n.a.*	*n.a.*	*8.7%*	*51.6%*	*69.7%*	*15.7%*		
Ordinary Net Profit			**-**	**18.2**	**11.0**	**24.8**	**33.7**	**37.3**	***n.a.***	***50.2%***
Ordinary Net Profit growth			*n.a.*	*n.a.*	*-39.6%*	*125.1%*	*35.9%*	*10.8%*		

Cash Flow (EUR Mn)	2014	2015	2016	2017	2018	2019e	2020e	2021e	CAGR 14-18	CAGR 18-21e
Recurrent EBITDA						**59.7**	**69.9**	**74.3**	***n.a.***	***18.3%***
Working Capital Increase						(19.3)	(13.0)	(11.6)		
Recurrent Operating Cash Flow						**40.4**	**56.8**	**62.7**	***n.a.***	***-5.2%***
CAPEX						(3.4)	(3.6)	(3.7)		
Net Financial Result affecting the Cash Flow						(15.5)	(12.8)	(11.4)		
Tax Expense						(2.8)	(6.6)	(7.6)		
Recurrent Free Cash Flow						**18.6**	**33.9**	**40.0**	***n.a.***	***-8.5%***
Restructuring Expense & Others						-	-	-		
- Acquisitions / + Divestures of assets						90.4	-	-		
Extraordinary Inc./Exp. Affecting Cash Flow						-	-	-		
Free Cash Flow						**109.0**	**33.9**	**40.0**	***n.a.***	***52.1%***
Capital Increase						-	-	-		
Dividends						-	-	-		
Net Debt Variation						**(109.0)**	**(33.9)**	**(40.0)**		

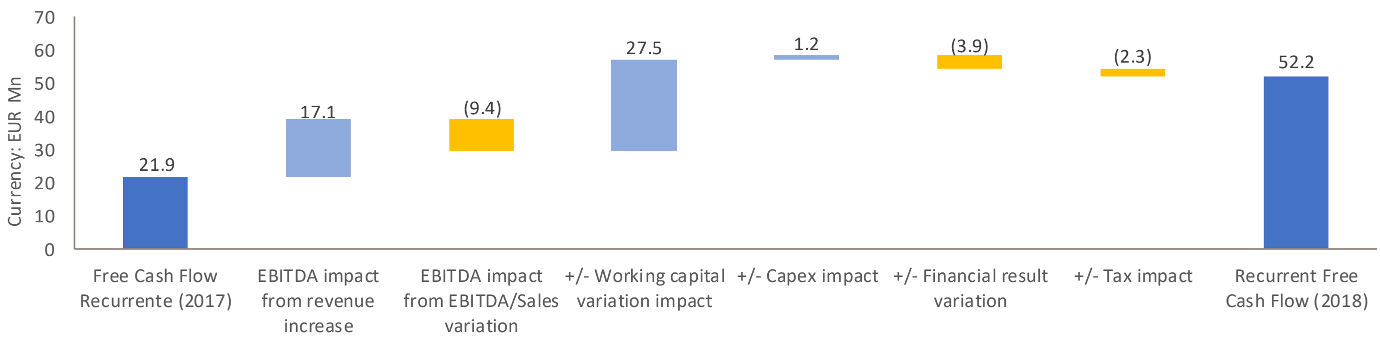
Appendix 2. Free Cash Flow

A) Cash Flow Analysis (EUR Mn)	2015	2016	2017	2018	2019e	2020e	2021e	CAGR 15-18	CAGR 18-21e
Recurrent EBITDA			**37.1**	**44.8**	**59.7**	**69.9**	**74.3**	***n.a.***	***18.3%***
Recurrent EBITDA growth			*n.a.*	*20.7%*	*33.2%*	*17.0%*	*6.3%*		
Rec. EBITDA/Revenues			*5.5%*	*4.5%*	*5.5%*	*6.1%*	*6.3%*		
+/- Working Capital increase			1.2	28.7	(19.3)	(13.0)	(11.6)		
= Recurrent Operating Cash Flow			**38.4**	**73.6**	**40.4**	**56.8**	**62.7**	***n.a.***	***-5.2%***
Rec. Operating Cash Flow growth			*n.a.*	*91.8%*	*-45.1%*	*40.8%*	*10.3%*		
Rec. Operating Cash Flow / Sales			*5.7%*	*7.5%*	*3.7%*	*5.0%*	*5.3%*		
- CAPEX			(4.3)	(3.1)	(3.4)	(3.6)	(3.7)		
- Net Financial Result affecting Cash Flow			(12.6)	(16.5)	(15.5)	(12.8)	(11.4)		
- Taxes			0.5	(1.8)	(2.8)	(6.6)	(7.6)		
= Recurrent Free Cash Flow			**21.9**	**52.2**	**18.6**	**33.9**	**40.0**	***n.a.***	***-8.5%***
Rec. Free Cash Flow growth			*n.a.*	*138.2%*	*-64.3%*	*81.9%*	*18.1%*		
Rec. Free Cash Flow / Revenues			*3.2%*	*5.3%*	*1.7%*	*3.0%*	*3.4%*		
- Restructuring expenses & others			-	-	-	-	-		
- Acquisitions / + Divestments			(10.0)	(40.8)	90.4	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow			-	-	-	-	-		
= Free Cash Flow			**11.9**	**11.4**	**109.0**	**33.9**	**40.0**	***n.a.***	***52.1%***
Free Cash Flow growth			*n.a.*	*-4.6%*	*860.2%*	*-68.9%*	*18.1%*		
Recurrent Free Cash Flow - Yield (s/Mkt Cap)			*2.9%*	*7.0%*	*2.5%*	*4.5%*	*5.3%*		
Free Cash Flow Yield (s/Mkt Cap)			*1.6%*	*1.5%*	*14.5%*	*4.5%*	*5.3%*		

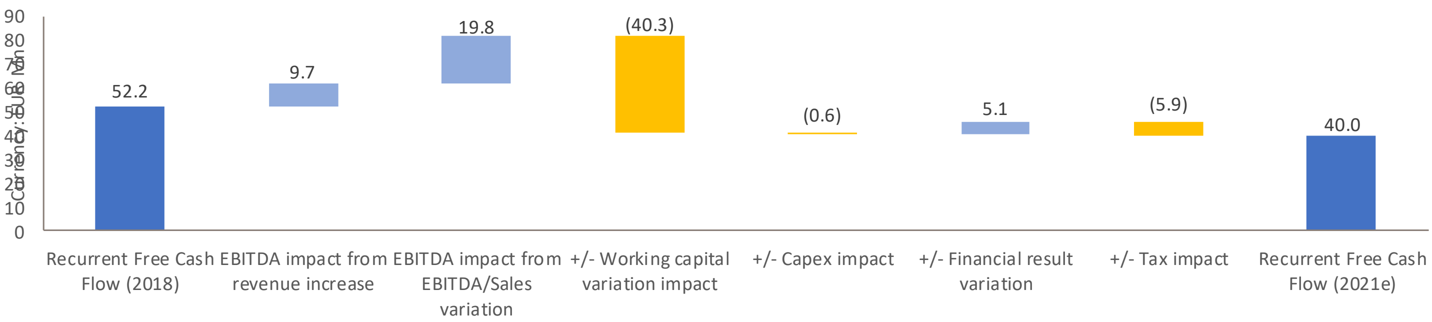
B) Analytical Review of Annual Recurrent Free Cash Flow Performance (Eur Mn)	2015	2016	2017	2018	2019e	2020e	2021e
Recurrent FCF(FY - 1)			**-**	**21.9**	**52.2**	**18.6**	**33.9**
EBITDA impact from revenue increase			n.a.	17.1	4.5	2.9	2.2
EBITDA impact from EBITDA/Sales variation			n.a.	(9.4)	10.4	7.2	2.2
= Recurrent EBITDA variation			**n.a.**	**7.7**	**14.9**	**10.1**	**4.4**
+/- Working capital variation impact				27.5	(48.1)	6.3	1.4
= Recurrent Operating Cash Flow variation			**n.a.**	**35.2**	**(33.2)**	**16.5**	**5.9**
+/- CAPEX impact				1.2	(0.3)	(0.2)	(0.1)
+/- Financial result variation				(3.9)	1.0	2.7	1.4
+/- Tax impact				(2.3)	(1.1)	(3.8)	(1.0)
= Recurrent Free Cash Flow variation			**-**	**30.3**	**(33.5)**	**15.2**	**6.1**
Recurrent Free Cash Flow			**-**	**52.2**	**18.6**	**33.9**	**40.0**

C) "FCF to the Firm" (pre debt service) (EUR Mn)	2015	2016	2017	2018	2019e	2020e	2021e	CAGR 15-18	CAGR 18-21e
EBIT			**29.1**	**30.7**	**47.0**	**59.0**	**62.8**	***n.a.***	***27.0%***
** Theoretical tax rate*			*0.0%*	*15.1%*	*15.5%*	*20.0%*	*20.0%*		
= Taxes (pre- Net Financial Result)			-	(4.6)	(7.3)	(11.8)	(12.6)		
Recurrent EBITDA			**37.1**	**44.8**	**59.7**	**69.9**	**74.3**	***n.a.***	***18.3%***
+/- Working Capital increase			1.2	28.7	(19.3)	(13.0)	(11.6)		
= Recurrent Operating Cash Flow			**38.4**	**73.6**	**40.4**	**56.8**	**62.7**	***n.a.***	***-5.2%***
- CAPEX			(4.3)	(3.1)	(3.4)	(3.6)	(3.7)		
- Taxes (pre- Financial Result)			-	(4.6)	(7.3)	(11.8)	(12.6)		
= Recurrent Free Cash Flow (To the Firm)			**34.0**	**65.8**	**29.7**	**41.4**	**46.4**	***n.a.***	***-11.0%***
Rec. Free Cash Flow (To the Firm) growth			*n.a.*	*93.4%*	*-54.9%*	*39.7%*	*12.1%*		
Rec. Free Cash Flow (To the Firm) / Revenues			5.0%	6.7%	2.7%	3.6%	3.9%		
- Acquisitions / + Divestments			(10.0)	(40.8)	90.4	-	-		
+/- Extraordinary Inc./Exp. affecting Cash Flow			-	-	-	-	-		
= Free Cash Flow "To the Firm"			**24.0**	**25.0**	**120.1**	**41.4**	**46.4**	***n.a.***	***22.9%***
Free Cash Flow (To the Firm) growth			*n.a.*	*4.1%*	*380.1%*	*-65.5%*	*12.1%*		
Rec. Free Cash Flow To the Firm Yield (o/EV)			*3.5%*	*6.7%*	*3.0%*	*4.2%*	*4.7%*		
Free Cash Flow "To the Firm" - Yield (o/EV)			*2.4%*	*2.5%*	*12.2%*	*4.2%*	*4.7%*		

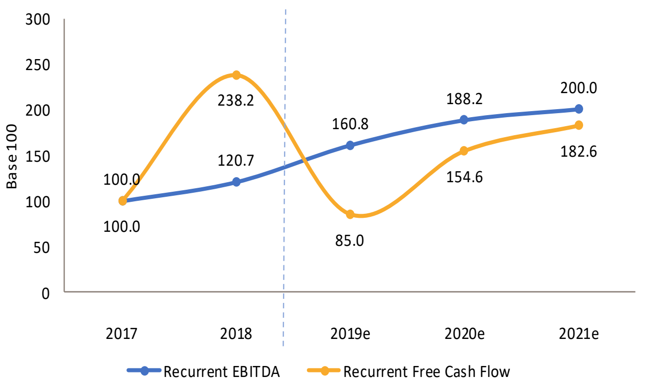
Recurrent Free Cash Flow accumulated variation analysis (2014 - 2018)



Recurrent Free Cash Flow accumulated variation analysis (2018 - 2021e)



Recurrent EBITDA vs Recurrent Free Cash Flow



Stock performance vs EBITDA 12m forward

Appendix 3. Enterprise Value breakdown

	EUR Mn	Source
Mkt. Cap	749.8	23/09/2019
+ Minority Interests	29.0	6m19
+ Provisions & Other L/T Liabilities	35.1	6m19
+ Net financial debt	317.5	6m19
- Financial Investments	124.7	6m19
+/- Others	(23.9)	6m19
Enterprise Value (EV)	**982.8**	

Appendix 4. Historical performance (1)

Historical performance (EUR Mn)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019e	2020e	2021e	CAGR 08 - 18	CAGR 18-21e
Total Revenues	**20.3**	**22.2**	**30.8**	**43.4**	**44.6**	**37.9**	**25.6**	**28.5**	**30.2**	**675.6**	**986.9**	**1,086.6**	**1,139.3**	**1,175.7**	*47.5%*	*6.0%*
Total Revenues growth	*162.0%*	*9.2%*	*39.0%*	*40.9%*	*2.8%*	*-15.2%*	*-32.3%*	*11.1%*	*5.9%*	*2139.4%*	*46.1%*	*10.1%*	*4.9%*	*3.2%*		
EBITDA	**13.1**	**12.0**	**19.6**	**29.9**	**31.9**	**25.8**	**18.9**	**17.7**	**17.0**	**37.1**	**44.8**	**59.7**	**69.9**	**74.3**	*13.1%*	*18.3%*
EBITDA growth	*178.1%*	*-8.7%*	*63.9%*	*52.5%*	*6.6%*	*-19.0%*	*-26.8%*	*-6.2%*	*-3.8%*	*117.9%*	*20.7%*	*33.2%*	*17.0%*	*6.3%*		
EBITDA/Sales	*64.6%*	*54.0%*	*63.7%*	*68.9%*	*71.4%*	*68.2%*	*73.7%*	*62.2%*	*56.5%*	*5.5%*	*4.5%*	*5.5%*	*6.1%*	*6.3%*		
Net Profit	**2.7**	**1.1**	**(49.7)**	**(109.9)**	**(78.4)**	**1.3**	**1.4**	**(13.0)**	**(31.7)**	**8.3**	**9.0**	**13.6**	**23.1**	**26.8**	*12.8%*	*43.8%*
Net Profit growth	*16.4%*	*-59.3%*	*n.a.*	*121.4%*	*-28.7%*	*n.a.*	*11.6%*	*n.a.*	*144.3%*	*n.a.*	*8.7%*	*51.6%*	*69.7%*	*15.7%*		
Adjusted number shares (Mn)	129.9	138.2	138.1	138.3	138.4	138.4	140.0	140.0	140.0	440.3	440.3	440.3	440.3	440.3		
EPS (EUR)	0.02	0.01	n.a.	n.a.	n.a.	0.01	0.01	n.a.	n.a.	0.02	0.02	0.03	0.05	0.06		
EPS growth	*-50.0%*	*-61.7%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*10.3%*	*n.a.*	*n.a.*	*n.a.*	*8.7%*	*51.6%*	*69.7%*	*15.7%*		
Ord. EPS (EUR)	0.02	0.01	n.a.	n.a.	n.a.	0.01	0.00	n.a.	n.a.	0.04	0.03	0.06	0.08	0.08		
Ord. EPS growth	*n.a.*	*-50.4%*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*-77.8%*	*n.a.*	*n.a.*	*n.a.*	*-39.6%*	*n.a.*	*35.9%*	*10.8%*		
CAPEX	(93.6)	(24.3)	(103.1)	(24.6)	(16.4)	(5.3)	(15.6)	(34.9)	(0.8)	(4.3)	(3.1)	(3.4)	(3.6)	(3.7)		
CAPEX/Sales %)	*461.3%*	*109.7%*	*334.6%*	*56.6%*	*36.7%*	*14.0%*	*61.0%*	*122.7%*	*2.8%*	*0.6%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*		
Free Cash Flow	**(89.4)**	**(12.2)**	**(86.6)**	**(10.8)**	**8.2**	**5.6**	**(6.8)**	**(29.9)**	**8.1**	**11.9**	**11.4**	**109.0**	**33.9**	**40.0**	n.a.	52.1%
ND/EBITDA (x) (2)	*9.3x*	*11.3x*	*11.3x*	*7.2x*	*5.7x*	*6.0x*	*8.0x*	*7.2x*	*6.9x*	*8.1x*	*7.4x*	*3.8x*	2.7x	2.0x		
P/E (x)	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*n.a.*	*42.3x*	*32.4x*	*n.a.*	*n.a.*	*23.4x*	*62.9x*	*55.0x*	32.4x	28.0x		
EV/Sales (x)	*n.a.*	*n.a.*	*13.4x*	*7.6x*	*5.2x*	*5.6x*	*7.8x*	*6.3x*	*6.2x*	*0.2x*	*0.5x*	*0.9x*	0.9x	0.8x		
EV/EBITDA (x) (2)	*34.1x*	*38.5x*	*21.0x*	*11.1x*	*7.3x*	*8.3x*	*10.6x*	*10.2x*	*11.0x*	*4.4x*	*10.8x*	*16.5x*	14.1x	13.2x		
Absolute performance	*-55.8%*	*0.2%*	*-45.6%*	*-41.1%*	*-52.1%*	*14.7%*	*-15.4%*	*12.1%*	*35.1%*	*-12.0%*	*192.0%*	*32.5%*				
Relative performance vs Ibex 35	*-27.0%*	*-22.8%*	*-34.1%*	*-32.2%*	*-49.8%*	*-5.5%*	*-18.4%*	*20.8%*	*37.9%*	*-18.1%*	*243.5%*	*24.5%*				

Note 1: The multiples are historical, calculated based on the price and EV at the end of each year, except (if applicable) in the current year, when multiples would be given at current prices. The absolute and relative behavior corresponds to each exercise (1/1 to 31/12). The source, both historical multiples and the evolution of the price, is Thomson Reuters.
Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).
Nota 3: In 4Q18 ADX completed the reverse merger by which the listed company Audax Renovables absorbed its parent. 2018 financial statements include restated (but unaudited) figures for 2017. Historical performance before 2017 refers only to the generation business.

Appendix 5. Main Competitors 2019e

		Integrated Utilities					Renewable Energy			
	EUR Mn	**Iberdrola**	**Endesa**	**Naturgy**	**EDP**	**Average**	**Solaria**	**Solarpack**	**Scatec Solar**	**Audax Renovables**
Market data	**Ticker (Reuters)**	IBE.MC	ELE.MC	NTGY.MC	EDP.LS		SLRS.MC	SPK.MC	SSOL.OL	ADXR.MC
	Country	Spain	Spain	Spain	Portugal		Spain	Spain	Norway	Spain
	Market cap	59,626.3	25,162.5	24,010.3	12,864.8	30,416.0	690.1	385.3	1,387.3	749.8
	Enterprise value (EV)	104,400.8	30,744.5	42,479.5	32,526.3	52,537.8	800.1	441.8	2,374.0	982.8
Basic financial information	**Total Revenues**	37,484.4	20,776.8	24,663.6	15,405.6	24,582.6	53.5	136.2	216.9	1,086.6
	Total Revenues growth	*6.9%*	*2.9%*	*1.3%*	*0.8%*	*3.0%*	*58.3%*	*404.2%*	*86.7%*	*10.1%*
	2y CAGR (2019e - 2021e)	*3.3%*	*2.6%*	*1.8%*	*2.1%*	*2.4%*	*61.0%*	*3.9%*	*28.8%*	*4.0%*
	EBITDA	9,692.3	3,658.0	4,562.2	3,575.9	5,372.1	43.7	42.5	177.4	59.7
	EBITDA growth	*6.9%*	*3.1%*	*9.9%*	*26.7%*	*11.7%*	*53.1%*	*191.0%*	*109.5%*	*33.2%*
	2y CAGR (2019e - 2021e)	*7.5%*	*2.1%*	*2.3%*	*3.4%*	*3.8%*	*59.0%*	*33.7%*	*31.1%*	*11.5%*
	EBITDA/Revenues	*25.9%*	*17.6%*	*18.5%*	*23.2%*	*21.3%*	*81.7%*	*31.2%*	*81.8%*	*5.5%*
	Net Profit	3,160.2	1,517.6	1,443.2	859.7	1,745.2	19.4	15.3	20.7	13.6
	Net Profit growth	*-6.7%*	*6.4%*	*n.a.*	*-8.7%*	*-3.0%*	*-9.2%*	*175.8%*	*-9.1%*	*51.6%*
	2y CAGR (2019e - 2021e)	*8.4%*	*3.1%*	*3.2%*	*4.8%*	*4.9%*	*43.2%*	*17.0%*	*62.8%*	*40.1%*
	Capex	*6,925*	*1,865.9*	*1,897.6*	*1,866.9*	*3,138.8*	*238.8*	*294.9*	*629.5*	*3.4*
	CAPEX/Sales %	*18.5%*	*9.0%*	*7.7%*	*12.1%*	*11.8%*	*446.3%*	*216.5%*	*290.3%*	*0.3%*
	Free Cash Flow	429.5	608.0	1,432.3	1,209.6	919.9	(238.5)	(141.5)	(618.4)	109.0
	Net financial debt	36,644.9	7,060.5	15,319.1	13,941.3	18,241.5	387.3	283.8	1,184.7	224.5
	ND/EBITDA (x)	3.8	1.9	3.4	3.9	3.2	8.9	6.7	6.7	3.8
	Outstanding Shares	6,710.3	1,057.5	997.7	3,634.6		116.7	4.3	109.1	440.3
	Pay-out	*79.4%*	*100.4%*	*94.9%*	*80.8%*	*91.6%*	*0.0%*	*0.0%*	*64.1%*	*0.0%*
Multiples and Ratios	**P/E (x)**	13.7	14.0	15.3	13.0	14.0	25.3	21.3	42.6	55.0
	P/BV (x)	1.5	2.8	2.3	1.4	2.0	3.6	2.4	7.4	5.6
	EV/Revenues (x)	2.8	1.5	1.7	2.1	2.0	15.0	3.2	10.9	0.9
	EV/EBITDA (x)	10.8	8.4	9.3	9.1	9.4	18.3	10.4	13.4	16.5
	ROE	*8.5*	*16.8*	*12.3*	*9.0*	*11.6*	*11.2*	*5.6*	*3.9*	*10.7*
	FCF Yield (%)	*1.1*	*3.0*	*6.4*	*7.9*	*4.6*	*(34.7)*	*(43.9)*	*(38.0)*	*2.5*
	DPS	*0.4*	*1.4*	*1.4*	*0.2*	*0.8*	*-*	*-*	*0.1*	*-*
	Price Close	*9.4*	*23.7*	*24.3*	*3.5*		*5.5*	*11.6*	*12.2*	*1.7*
	Dvd Yield	*4.0%*	*6.1%*	*5.6%*	*5.4%*	*5.3%*	*0.0%*	*0.0%*	*1.0%*	*0.0%*

Note 1: Financial data, multiples and ratios based on market consensus (Thomson Reuters). In the case of the company analyzed, own estimates (Lighthouse).
Note 2: All ratios and multiples on EBITDA refer to total EBITDA (not to recurrent EBITDA).

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Recommendation History

Date of report	Recommendation	Price (EUR)	Target price (EUR)	Period of validity	Reason for report	Analyst
24-Sep-2019	n.a.	1.70	n.a.	n.a.	Initial Coverage	David López Sánchez