AUDAX RENOVABLES

Improving supply business drives upgrades

- **Improving profitability in the supply business.** After two years at barely break-even, Audax has improved the profitability of the Supply business significantly during 2023, thanks to: 1) the market access agreement in Spain; and 2) the turnaround of main markets like The Netherlands. As a result, EBITDA reached €29m in Q3, up by 150% YoY & +16% QoQ, exceeding pre-Covid levels for the first time.

- **Raising estimates sharply.** Following the stronger than expected upturn in the profitability of the supply business, we are raising our EBITDA & EPS estimates by 32% & 38% in 2023, and by 12-24% & 3-19% in 2024-25, respectively. The upgrade in the Supply business has been partially mitigated by a reduction in our estimates for new renewable capacity over 2023-25 (from 500MW to 150MW), reflecting both delays in permitting and a reduction in capex needed to cut debt. We expect EBITDA to jump from €54m (22) to €95m in 2023, and then grow by 5% in 2024 & >10% in 2025, reaching €111m in 2025 despite the expected fall in energy prices over the period.

- **Debt needs to be cut.** We expect net debt to fall from €376m (22) to €320m (23) and €245m (25) on a mix of organic CF generation (boosted by the recovery of the supply business & the market access agreement) and the capex reduction in renewables. Despite the fall in debt, leverage will remain high at 3.4X23 & 2.8X24 debt/EBITDA. Therefore, we think that Audax should cut debt further through asset sales (Panama, Italian pipeline, international wind) ahead of the refinancing of its two outstanding bonds (c.€400m over 2025-27). This would allow Audax to avoid a capital increase and to step up its investments in renewables.

- **The valuation angle.** Following the upgrade to our earnings forecasts, we are raising our fair value estimates by 10-15% to a range of €1.66-2.00 per share. This is 30-55% above current market prices. However, and in addition to the improvements on the operating front, Audax will first need to sell assets and cut its debt for the shares to re-rate further.

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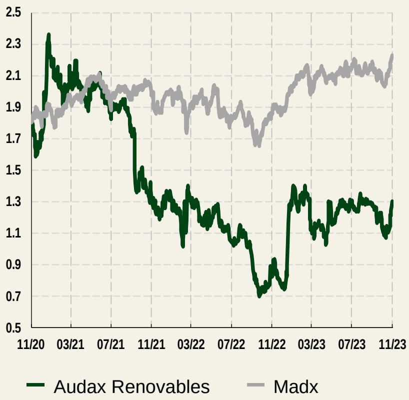
Share Price	€ 1.27

*Share price as of 11:30h. 22nd November 2023

ADXR.MC / ADX SM	
Market Cap	€ 564 m
Enterprise Value	€ 838 m
Free Float	€ 101 m
Nº Shares	440 m
Average Daily Volume	€ 200 k

Performance	1m	3m	12m
Absolute %	12.8	-0.5	51.1
Relative %	3.5	-6.4	26.3



Shareholders

José Elías Navarro 74.9%, Indumenta Pueri 7.2%, Free float 17.9%

Financial Ratios	FY20	FY21	FY22	FY23E	FY24E	FY25E
EBITDA (€m)	66	47	54	95	100	111
Net profit (€m)	26	-2	4	29	37	42
EPS (€)	0.06	0.00	0.01	0.07	0.09	0.09
Adj. EPS (€)	0.03	0.00	0.00	0.07	0.09	0.09
P/E (x)	27.2	n.m.	n.m.	19.3	15.0	13.5
P/E Adj. (x)	50.8	n.m.	n.m.	18.0	15.0	13.5
EV/EBITDA (x)	13.6	25.8	14.9	8.9	8.0	6.9
Debt/EBITDA (x)	3.6	9.6	6.9	3.4	2.8	2.2
P/BV (x)	5.0	6.1	3.9	3.7	2.9	2.4
ROE (%)	10.6	-1.2	1.3	22.6	21.7	19.7
DPS (€)	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	1.4	0.0	0.0	0.0	0.0	0.0

(*) Historical multiples based on average share price of the year

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Key Data

P&L account (EURm)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sales	969	1,684	2,633	2,251	2,220	2,284
Cost of sales	(854)	(1,561)	(2,489)	(2,030)	(2,003)	(2,054)
Gross margin	**115**	**123**	**144**	**221**	**216**	**230**
Opex	(65)	(76)	(92)	(124)	(117)	(119)
EBITDA adjusted	**50**	**47**	**52**	**98**	**100**	**111**
Assets disposals	16	(0)	2	(3)	0	0
EBITDA reported	**66**	**47**	**54**	**95**	**100**	**111**
Depreciation & Amortization	(20)	(22)	(22)	(24)	(26)	(29)
EBIT	**47**	**25**	**32**	**71**	**74**	**82**
Financial costs	(13)	(28)	(22)	(30)	(25)	(26)
Associates	(0)	(0)	3	2	5	5
Ordinary profit	**34**	**(3)**	**13**	**44**	**55**	**61**
Extraordinary items	0	2	(0)	(1)	0	0
Pre-tax Profit	**34**	**(2)**	**13**	**42**	**55**	**61**
Taxes	(4)	(2)	(5)	(10)	(11)	(13)
Discontinued activities	0	0	0	0	0	0
Minorities	(4)	2	(4)	(3)	(6)	(6)
Net profit	**26**	**(2)**	**4**	**29**	**37**	**42**
Nº of shares (m)	440	440	440	440	440	440
Nº of shares adjusted (m)	440	440	440	440	440	440
Treasury stock (m)	0	0	0	0	0	0

YoY Growth	FY20	FY21	FY22	FY23E	FY24E	FY25E
Sales	(7.1%)	73.7%	56.4%	(14.5%)	(1.4%)	2.9%
EBITDA adjusted	(26.7%)	(6.2%)	9.9%	88.8%	2.2%	11.2%
EBITDA reported	(9.3%)	(29.5%)	15.5%	74.9%	5.2%	11.2%
Net profit	3.8%	n.m.	n.m.	723.2%	28.6%	11.4%

Revenues by business	FY20	FY21	FY22	FY23E	FY24E	FY25E
Supply	98.3%	99.0%	99.0%	99.1%	99.0%	98.8%
Generation	1.7%	1.0%	1.0%	0.9%	1.0%	1.2%

EBITDA by business	FY20	FY21	FY22	FY23E	FY24E	FY25E
Supply	76.6%	72.7%	61.7%	85.3%	84.2%	83.2%
Generation	23.4%	27.3%	38.3%	14.7%	15.8%	16.8%

Per share data	FY20	FY21	FY22	FY23E	FY24E	FY25E
EPS	0.06	(0.00)	0.01	0.07	0.09	0.09
EPS adjusted	0.03	(0.00)	0.00	0.07	0.09	0.09
CFPS	0.08	0.05	0.07	0.13	0.15	0.17
FCFPS	(0.08)	(0.40)	0.15	0.13	0.09	0.08
BVPS	0.33	0.30	0.28	0.35	0.43	0.53
DPS	0.02	0.00	0.00	0.00	0.00	0.00

Cash flow (EURm)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net profit	26	(2)	4	29	37	42
Depreciation	20	22	22	24	26	29
Minorities	4	(2)	4	3	6	6
Non-cash adjustments	(16)	4	0	1	(1)	(1)
Total cash-flow (CF)	**33**	**22**	**30**	**57**	**68**	**76**
Capex	(19)	(81)	(47)	(29)	(51)	(39)
Working capital	(49)	(118)	85	28	21	1
Operating FCF	**(34)**	**(177)**	**68**	**56**	**38**	**37**
Financial investments	0	0	0	0	0	0
Rights issues	0	0	0	0	0	0
Disposals/(acquisitions)	(135)	(50)	9	0	0	0
Other	81	24	(3)	0	0	0
FCF before dividends	**(88)**	**(204)**	**74**	**56**	**38**	**37**
Dividends	(5)	(10)	0	0	0	0
Free-cash-flow (FCF)	**(92)**	**(214)**	**74**	**56**	**38**	**37**
Buy-backs	0	0	0	0	0	0
FCF after buy backs	**(92)**	**(214)**	**74**	**56**	**38**	**37**

Balance sheet (EURm)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity	143	132	122	154	191	233
Minority interests	8	12	13	13	13	13
Provisions & others	18	20	21	21	21	21
Net debt [cash]	236	450	376	320	282	245
Capital invested	**405**	**614**	**533**	**508**	**508**	**512**
Intangible assets	297	338	340	340	340	340
Tangible assets	87	117	140	145	171	182
Financial assets	16	33	10	10	10	10
Associates	7	10	13	11	6	1
Working capital	(2)	116	31	3	(19)	(19)
Capital employed	**405**	**614**	**533**	**508**	**508**	**512**
Working capital/sales	-0.2%	6.9%	1.2%	0.1%	-0.8%	-0.9%

Financial ratios	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net debt/EBITDA	3.6X	9.6X	6.9X	3.4X	2.8X	2.2X
Net debt/EBITDA (*)	4.4X	9.7X	6.5X	2.9X	2.1X	1.4X
Gearing	156.5%	311.8%	277.1%	191.7%	137.9%	99.4%
Interest cover	3.6X	0.9X	1.4X	2.4X	3.0X	3.1X

(*) Corporate net debt

Margins & ratios	FY20	FY21	FY22	FY23E	FY24E	FY25E
EBITDA margin	5.2%	2.8%	2.0%	4.3%	4.5%	4.9%
EBIT margin	4.8%	1.5%	1.2%	3.2%	3.3%	3.6%
Effective tax rate	11.4%	-104.4%	38.2%	23.9%	20.3%	21.6%
Pay-out	37.9%	0.0%	0.0%	0.0%	0.0%	0.0%
ROCE (EBIT/CE)	11.5%	4.1%	6.1%	14.0%	14.6%	16.0%
ROE	10.6%	-1.2%	1.3%	22.6%	21.7%	19.7%

I. Operating performance rapidly improving

Since the beginning of the year, Audax has shown a significant improvement in profitability, driven by its Supply business, mostly thanks to the market access agreement signed with Shell in Spain, and the turn-around of relevant markets like the Netherlands after a very difficult 2022.

Strong operating performance YTD

This improvement was demonstrated in the Q3 results published a few days ago. The gross margin increased by 77% compared to 3Q22, or by >20% compared to Q2. This led to a significant improvement in EBITDA, as shown in the table below, reaching €29m, up by >150% YoY and 16% QoQ, well above the €20m that we were expecting.

AUDAX: QUARTERLY P&L ESTIMATES

(€ m)	3Q22	2Q23	3Q23	YoY (%)	QoQ (%)	3Q23E	Dif. Est
Gross Margin	**38.0**	**55.5**	**67.3**	**77%**	**21%**	**46.9**	**44%**
EBITDA	**11.5**	**25.1**	**29.2**	**153%**	**16%**	**20.2**	**44%**
o/w Supply	6.3	21.2	26.2	319%	24%	16.4	60%
o/w Generation	5.3	3.9	3.0	(44%)	(24%)	3.8	(23%)
Net profit attributable	**(1.9)**	**6.3**	**14.7**	**-**	**131%**	**7.7**	**90%**

Source: Alantra Equities

Looking at the performance of the different business divisions, we would highlight:

Supply EBITDA at record high levels

a) **Supply.** EBITDA reached €26m in Q3, the highest quarter ever recorded by Audax. Of this, Iberia contributed with €13m, whilst the international business made €14m. The reasons for the improvement were two in our view: a) the market access agreement in Spain, which has allowed Audax to improve both its commercial offering and profitability; and b) the turn-around of the international business, driven by the Netherlands and, to a lesser extent, Hungary.

Unitary margin increased by 2.0X YoY to €20/MWh and by c.30% compared to the previous quarter. This implied reaching profitability levels previous to the Covid pandemic in Spain, and reaching a new peak in profitability abroad.

AUDAX: SUPPLY QUARTERLY P&L ESTIMATES

(€ m)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	YoY (%)	QoQ (%)
Gross Margin	**27.8**	**22.0**	**29.4**	**37.2**	**44.7**	**50.0**	**63.0**	**114%**	**26%**
EBITDA	**8.7**	**3.2**	**6.3**	**13.0**	**18.6**	**21.2**	**26.2**	**317%**	**24%**
Energy sales (GWh)	3,900	3,011	2,881	3,351	3,853	3,147	3,128	9%	(1%)
Supply margin (€/MWh)	7.1	7.3	10.2	11.1	11.6	15.9	20.1	97%	27%

Source: Alantra Equities

b) **Generation**. On the other hand, the generation business showed a reduction in its contribution, despite the increase in capacity, given the gradual normalization of electricity prices, compared to the record levels in 2022. The volatility of the business, however, is lower than in supply, providing a stable source of cash flows to the company.

AUDAX: GENERATION QUARTERLY P&L ESTIMATES

(€ m)	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	YoY (%)	QoQ (%)
Gross Margin	**8.3**	**7.0**	**8.6**	**3.5**	**6.2**	**5.6**	**4.4**	**(49%)**	**(21%)**
EBITDA	**7.0**	**5.6**	**5.3**	**5.0**	**4.4**	**3.9**	**3.0**	**(44%)**	**(24%)**
Production (GWh)	67.0	65.0	65.0	61.3	76.0	72.0	66.0	2%	(8%)
Average price (€/MWh)	123.5	108.0	131.9	57.0	81.6	77.3	66.5	(50%)	(14%)

Source: Alantra Equities

II. Raising estimates on higher supply margins

1) Raising our estimates

Estimates upgrades driven by the Supply business

We are raising our estimates in this report, to reflect the stronger than expected performance of the supply business so far this year, both in Spain and abroad. In the case of Spain, the increase is to reflect a more positive than initially expected impact from the market access agreement both in terms of energy sold but, especially, in terms of margins. For the International business, the increase reflects a faster than expected recovery of the profitability in the Netherlands. The increase is partially offset by a reduction in our new capacity estimates for the Generation business (from 500MW to 150MW over 2023-25), this being a consequence of both delays in the development/permitting of the pipeline and a reduction in capex in order to reduce leverage.

As a result of the above, we are raising our EBITDA estimates by >30% in 2023, by 12% in 2024 and by 3% in 2025. We are also lowering our depreciation estimates, given the reduction in new generation capacity, and raising our financial costs estimates, all this leading to a 20-40% increase in our net profit estimates for 2023-25 (although from a low base).

AUDAX: CHANGES IN ESTIMATES 2023-25E

	2023E			2024E			2025E		
(€ m)	Previous	New	Change	Previous	New	Change	Previous	New	Change
Gross Profit	166	221	33%	189	216	14%	215	230	7%
EBITDA	72	95	32%	89	100	12%	107	111	3%
Net profit	21	29	38%	30	37	24%	35	42	19%

Source: Alantra Equities

2) Double-digit EBITDA & EPS annual growth in 2022-25

We expect EBITDA to grow by 27% CAGR over 2022-25

When looking at Audax's performance, we tend to look at the gross margin, which in our view is a better proxy than revenues to the profitability of the company. We expect gross margin to increase by >50% in 2023, driven by the Supply business, positively affected by the impact of the market access in Spain and the recovery of profitability in relevant regions abroad (namely the Netherlands). We expect a normalization from 2024 onwards, reflecting a fall in unitary margins given our expectation of falling electricity & gas prices, leading to a roughly flat gross margin in 2024 despite higher energy sold and an 6% growth in 2025 on higher energy volumes sold.

As a result of the above, we expect EBITDA to grow by 27% CAGR over 2022-25, also reflecting a decrease in opex (due to a normalization from peak levels and given the implementation of cost-cutting measures). The operating improvement will be especially relevant at net profit, which should increase by c.11X in 2025 compared to 2022.

AUDAX: P&L ESTIMATES 2022-25E

(€ m)	2022	YoY	2023E	YoY	2024E	YoY	2025E	CAGR 22-25
Revenues	2,633	(15%)	2,251	(1%)	2,220	3%	2,284	(5%)
CoGS	(2,489)	(18%)	(2,030)	(1%)	(2,003)	3%	(2,054)	(6%)
Gross Profit	144	54%	221	(2%)	216	6%	230	17%
Opex	(92)	34%	(124)	(6%)	(117)	2%	(119)	9%
one-offs	2	-	(3)	-	0	-	0	-
EBITDA	54	75%	95	5%	100	11%	111	27%
Depreciation	(22)	8%	(24)	8%	(26)	13%	(29)	10%
EBIT	32	120%	71	4%	74	11%	82	36%
Net financials	(20)	46%	(29)	(32%)	(20)	8%	(21)	2%
Taxes	(5)	111%	(10)	10%	(11)	18%	(13)	40%
Minorities	(4)	(25%)	(3)	89%	(6)	0%	(6)	12%
Net profit	4	723%	29	29%	37	11%	42	128%
EPS (€)	0.01	723%	0.07	29%	0.09	11%	0.09	128%

Source: Alantra Equities

Looking at recurrent EBITDA in more detail, we expect it to grow by >85% to €95m in 2023, mainly driven by the Supply business (>150% YoY), whilst Generation EBITDA should fall by 28% to €14m, negatively impacted by the fall in electricity prices and a reduction in electricity output, in part due to the lack of new capacity additions. We expect EBITDA to grow by 5% in 2024 to €100m, to then grow by 11% in 2025 to €111m, mostly driven by the Supply business and, to a lesser extent, Generation, once new capacity starts to be commissioned from 2024. In other words, we expect EBITDA to reach €111m in 2025 vs. the €51m recorded in 2022.

AUDAX: EBITDA ESTIMATES 2022-25

(€ m)	2022	YoY	2023E	YoY	2024E	YoY	2025E	CAGR 22-25
Supply	31	158%	80	4%	84	10%	92	44%
Generation	20	(28%)	14	10%	16	18%	19	(2%)
Total EBITDA	**51**	**86%**	**95**	**5%**	**100**	**11%**	**111**	**30%**

Source: Alantra Equities

3) Supply business: The growth driver

According to our estimates, the Supply business will account for 80-85% of the group's EBITDA over 2023-25. In this business, Audax sells electricity & gas to its clients (54% large business, 39% SMEs and 7% households). The electricity is sourced with a mix of own production, PPAs with third parties and purchases in the spot market.

Strong recovery of the business profitability

The last few years were not easy for Audax, especially 2021-22, given a strong fall in profitability (in part due to a wrong hedging strategy in a context of very high price volatility) and the need to reduce its client portfolio as a result. As anticipated in this report, things have started to improve in 2023, thanks to a change in the company's strategy on two fronts:

a) In terms of risks, having improved the model to estimate the energy to be sold to a specific client, and the hedging strategy of the energy once it is sold;

b) In terms of energy sourcing, especially in Spain, with the market access agreement signed with Shell. With this agreement, Shell will provide Audax the energy needed to supply its Spanish clients for a period of 5 years, in exchange for a fee. This will allow Audax both to improve its commercial offering (floating/fixed tariffs with different durations) whilst lowering the guarantees needed to operate in the market. In addition to Spain, Audax has market access agreements in the Netherlands (with several counterparties), and is searching to sign new ones in the rest of the countries where it operates.

Margins have improved both in Spain and abroad

We expect Supply EBITDA to show a relevant improvement in 2023, going from €32m to €80m, thanks to the recovery of the profitability of the international business, after two difficult years. We expect EBITDA to grow by 4-10% over 2024-25, reaching €92m by the end of the period. By region, we expect Spain to drive the growth from 2024 onwards, whilst we expect the International division to post a pretty stable performance over 2023-25. In more detail:

AUDAX: SUPPLY EBITDA ESTIMATES 2022-25

(€ m)	2022	YoY	2023E	YoY	2024E	YoY	2025E	CAGR 22-25
Iberia	23	32%	31	13%	35	20%	42	21%
Europe	8	532%	50	(1%)	49	3%	51	86%
Supply EBITDA	**31**	**158%**	**80**	**4%**	**84**	**10%**	**92**	**44%**

Source: Alantra Equities

a) **Iberia.** The market access agreement reached in March is bearing fruit: it has improved Audax's commercial offer and has also sharply reduced the guarantees needed to operate, enabling Audax to grow again in Spain (+14K clients in Q2 QoQ).

   Looking at the energy sold, we expect it to decrease by 21% in 2023, given the sharp fall in clients seen in 2022 (-35% YoY) and a small reduction in the consumption per client (industrial clients have fallen from 42% to 33% of the energy sales, whilst SMEs have increased from 42% to 52%). From then on, we expect energy sales to increase by 19-21% p.a., driven by the increase in clients (+23-29% p.a.), partially mitigated by a slight reduction in consumption per client (increasing weight of SMEs). Consequently, we expect Audax to reach 341K clients in 2025, which is 12% above the peak levels seen in 2020.

Margins should peak in 2023

In terms of margins, we expect to see a sharp increase (+c.70%) in 2023 to €33.0/MWh, assuming an increase in the number of fixed contracts vs. those indexed, coming from an improvement in the tariff offering related to the market access agreement. We expect unitary margins to fall over 2024-25 reflecting the expected fall in electricity & gas prices, reaching €24.5MWh in 2025 and implying c.39% gross margin (over the commodity price), roughly in line with 2019 levels and below the >50% seen in 2020. This is roughly in line with peers.

AUDAX: SUPPLY IBERIA CLIENTS & ENERGY SOLD ESTIMATES 2022-25E

	2022	YoY	2023E	YoY	2024E	YoY	2025E	CAGR 22-25
Supply points (K)	193,204	12%	215,765	29%	278,265	23%	341,265	21%
Energy Supplied (GWh)	3,641	(21%)	2,885	19%	3,430	21%	4,161	5%
Gross margin per MWh	19.5	69%	33.0	(18%)	27.2	(10%)	24.5	8%
Gross margin (%)	12.7%		31.5%		32.2%		38.5%	

Source: Alantra Equities

Strong margin improvement driven by The Netherlands

b) **International**. We are considerably improving our international supply margins, given the much stronger than expected contribution YTD that we are partially extrapolating over 2023-25, taking into account: 1) the Netherlands business, where Audax has focused on SMEs and improved its pricing policy; 2) Hungary, coming from the entry into the gas market and 3) Poland, owing to the exit from the loss-making gas market.

Looking forward, we expect the number of clients to fall by 9% in 2023, as Audax gets rid of unprofitable clients, and then increase it by 3% p.a. over 2024-25. In terms of margins, we expect unitary margins to increase by >100% in 2023 to €10.0/MWh, resulting from the reasons explained before, to then to fall by 4-5% p.a. over the period and reach €9.1/MWh. International margins will be lower than in Spain, with the difference the result of a higher component of industrial clients with higher levels of consumption.

AUDAX: SUPPLY INTERNATIONAL CLIENTS & ENERGY SOLD ESTIMATES 2022-25E

	2022	YoY	2023E	YoY	2024E	YoY	2025E	CAGR 22-25
Supply points (K)	193,941	(9%)	176,856	3%	181,556	3%	186,756	(1%)
Energy Supplied (GWh)	9,502	10%	10,464	0%	10,508	5%	11,015	5%
Gross margin per MWh	4.8	109%	10.0	(5%)	9.5	(4%)	9.1	24%

Source: Alantra Equities

4) Generation: limited increase in new capacity

As anticipated in this section, we are cutting sharply our new capacity estimates for the generation business, and now expect Audax to add 150MW over 2023-25 vs. 500MW before. The reduction is the consequence of two effects: a) delays in the development and permitting of the pipeline; and b) the company's tight financial position, which has forced it to take a more prudent approach to investments in new generation capacity.

We expect 150MW of new capacity over 2023-25

On paper, the delay in the increase in capacity is negative news for Audax, as the aim was to integrate the new production with the Supply business, to sell the electricity to its customer portfolio. This would have allowed Audax to maximise the selling price of the electricity produced. This impact, however, will be mitigated by the market access agreement, even if it will not be as profitable as selling its own production. On the positive side, Audax will reduce the investment needs in a moment in which the balance sheet is tight, as we will explain.

AUDAX: NEW CAPACITY ESTIMATES 2022-25

(MW)	2022	2023E	2024E	2025E	2023-25
New capacity	19	0	50	100	150

Source: Alantra Equities

We expect all the new capacity showed above to be installed in Spain, leading operating capacity up from 179MW in 2022 to 329MW in 2025. Of this, 91MW will be wind (flat vs. 2022) and the remaining 238MW solar PV (vs. 88MW in 2022). We do not expect additional increases in capacity abroad, hence, we expect the 91MW current wind capacity to be flat over the period.

AUDAX: INSTALLED CAPACITY BY COUNTRY 2022-25E							
MW	**2022**	**YoY**	**2023E**	**YoY**	**2024E**	**YoY**	**2025E**
Iberia	133	0%	133	38%	183	55%	283
International	46	0%	46	0%	46	0%	46
Installed capacity	**179**	**0%**	**179**	**28%**	**229**	**44%**	**329**

Source: Alantra Equities

We expect output to increase from 258GWh in 2022 to 437GWh in 2025, implying 19% CAGR 22-25. Spain & Portugal will grow by 27% CAGR, driven by new capacity additions, whilst we expect international to grow by 4% CAGR on a slight improvement in load factors (2022 was a weak year) as we are not including any new capacity additions over the period.

AUDAX: PRODUCTION ESTIMATES BY COUNTRY 2022-25								
(GWh)	**2022**	**YoY**	**2023E**	**YoY**	**2024E**	**YoY**	**2025E**	**CAGR 22-25**
Iberia	160	13%	180	20%	215	52%	327	27%
Rest of Europe	98	(1%)	97	9%	106	4%	110	4%
Total	**258**	**7%**	**277**	**16%**	**321**	**36%**	**437**	**19%**

Source: Alantra Equities

We expect electricity prices to fall

Looking at EBITDA level, we expect EBITDA to fall by 28% in 2023 to €14m, negatively impacted by the fall in pool prices and weaker load factors, to then increase by 10-18% p.a. over 2024-25, fuelled by the increase in capacity (partially offset by the expected reduction in prices, even though the exposure of the company to merchant sales will be limited to 20-30%). In more detail, our EBITDA estimates by region are as follows:

a) **Iberia**: We expect EBITDA to fall by 37% to €8m in 2023 driven by the fall in pool prices and the lack of new capacity additions. From then onwards, we expect EBITDA to grow by 10-30% p.a. over 2024-25 due to new capacity additions (150MW over 2024-25 back end loaded). This is partially offset by a 17% annual reduction in the average realization prices, due to both the increase in output sold through the internal PPA at €50/MWh to the Supply business and the fall in the price for the remaining merchant output.

b) **International markets**: We expect EBITDA to decrease by 12%, also impacted by the fall in pool prices to then be roughly stable over 2023-25 in the region of €7-8m p.a. over 2023-25, with the increase in output compensated by a slight fall in prices (international assets are mostly covered by PPAs).

AUDAX: GENERATION EBITDA ESTIMATES 2022-25								
(€ m)	**2022**	**YoY**	**2023E**	**YoY**	**2024E**	**YoY**	**2025E**	**CAGR 22-25**
EBITDA	**20**	**(28%)**	**14**	**10%**	**16**	**18%**	**19**	**(2%)**
o/w Iberia	12	(37%)	8	9%	8	29%	11	(4%)
o/w International	8	(12%)	7	12%	8	6%	8	1%

Source: Alantra Equities

III. Leverage remains the weak spot

1) Lower capex will allow for positive CF over 2023-25

We expect Audax to reduce/delay investments in new generation capacity, given a mix of delays in the permitting of the pipeline plus the need to cut its debt. This will imply a significant reduction in capex, compared to our previous estimates: we now expect Audax to invest €119m over 2023-25. Of this, we expect €104m in new generation capacity (our estimates include €19m investments in 2025 that will correspond to capacity that will start operations in 2026), at an investment cost of €0.6-0.65m/MW. In addition, we expect €5m of capex p.a. in supply.

AUDAX: CAPEX ESTIMATES 2022-25

(€ m)	2022	2023E	2024E	2025E	2023-25E	% total
Generation	31	24	46	34	104	87%
Supply	16	5	5	5	15	13%
Total capex	**47**	**29**	**51**	**39**	**119**	**100%**

Source: Alantra Equities

Audax will de-leverage organically, but leverage will remain high over 2023-24

We expect Audax to generate €201m of operating CF over 2023-25, going up from €57m in 2023 to €76m in 2025, driven by the expected growth in the Supply business. This will be enough to cover the €119m capex that we expect over the period. In addition, we expect €50m positive WC inflow, most of it front-end loaded in 2023-24, thanks to the impact of the market access agreement in Spain (it will lead to a reduction in the difference between the days of payment and collection days of the electricity sold). As a result, we expect €132m positive FCF over 2023-25. This is equivalent to 23% of Audax´s current market cap.

AUDAX: CASH FLOW STATEMENT 2022-25E

(€ m)	2022	2023E	2024E	2025E	2023-25E
Operating CF	**30**	**57**	**68**	**76**	**201**
WC variation	85	28	21	1	50
Capex	(47)	(29)	(51)	(39)	(119)
Net operating CF	**68**	**56**	**38**	**37**	**132**
Acquisitions	9	0	0	0	0
Others	(3)	0	0	0	0
FCF pre-dividends	**74**	**56**	**38**	**37**	**132**
Dividends	0	0	0	0	0
FCF post dividends	**74**	**56**	**38**	**37**	**132**

Source: Alantra Equities

2) Leverage is still high

As a result of the above, we expect net debt to decrease from €376m in 2022 to €320m in 2023, to €282m in 2024 and €245m in 2025. This is equivalent to net debt/EBITDA of 3.4X in 2023 (well below the 6.9X in 2022), falling to 2.8X in 2024 and 2.2X in 2025.

Debt/EBITDA still at 3.4X in 2024

On paper, debt/EBITDA of 2.2X in 2025 would not seem too high considering that there will be 329MW in operation by then. However, 3.4X in 2023 & 2.8X in 2024 are high, and leave Audax in a vulnerable position in case something unexpected happens, limiting its capacity to invest in new renewable assets, which is still one of the main strategic pillars of the group.

AUDAX: LEVERAGE 2022-25E

(€ m)	2022	2023E	2024E	2025E
Consolidated net debt	376	320	282	245
Net debt/EBITDA (X)	6.9X	3.4X	2.8X	2.2X
Interest cover (X)	1.4X	2.4X	3.0X	3.1X

Source: Alantra Equities

Moreover, from a liquidity viewpoint, Audax has two relevant debt maturities ahead, the €125m convertible bond in 2025 and a €284m ordinary bond in 2027 (Audax has recently launched an early cancellation offer for up to €50m of this bond, whose acceptance period is still opened). Making a back of the envelope calculation, and assuming the refinancing of most of the remaining debt, Audax would have enough liquidity with its current cash position plus the new cash generated to repay both bonds (the convertible bond cannot be converted, as it is out of the money with a conversion price of €2.39 p.s.). However, it would be left with a very small gross cash position, not enough to support the "normal" WC swings related to the business.

AUDAX: LIQUIDITY ANALYSIS 2023-2028

(€ m)	3Q23	4Q23	2024	2025	2026	2027
Cash (BoP)		299	240	133	45	37
Debt maturities		(41)	(145)	(125)	(21)	(284)
FCF		(19)	38	37	14	14
Cash (EoP)	**299**	**240**	**133**	**45**	**37**	**(233)**

Source: Alantra Equities

On the back of the above, we believe that Audax should focus on piling cash organically on the one hand (lowering investment in new capacity further would have a limited impact short-term) and sell assets on the other, in order to reduce its debt and increase the financial flexibility to both repay the bonds and resume its investments in new generation capacity.

3) What can be sold?

Asset sales are needed to reduce leverage

In order to reduce leverage, we see two possible alternatives: asset disposals or a capital increase. A capital increase would be "easiest" alternative for the company, but the dilution would be material. In addition, the company has bought some time with the delay of investments in new generation capacity. Therefore, we believe that it should focus on selling assets. As for what could be sold, we see the following alternatives:

a) **Panama Wind project**. Audax owns a 30% stake in a 66MW wind project in Panama. This asset is clearly non-core and should be sold (it is having a very limited contribution to the profits of the company). We value the 30% stake in the project at €14m.

b) **Italian Pipeline**. Audax has 1.2GW of capacity at different stages of development. Of these, 951MW are in Spain & Portugal which are core for the group, and 219MW are in Italy which could be sold as the company is delaying its new investments. We estimate that the Italian pipeline could be worth €20-25m.

c) **Operating assets.** Currently, there are 45MW of wind in Spain, 12MW of wind in France, and 34MW of wind in Poland, as well as 88MW of solar PV in Spain. Audax has already sold a minority stake in a portfolio of 70MW solar PV in Spain (to Ikav). And selling the entire asset would in part go against the aim of integrating the business. But none of these would happen in France & Poland; hence, we believe that they could be sold. We value them at an EV of €68m.

Should Audax sell what we have outlined above, we estimate that proceeds could together exceed €100m. Leverage would fall from 3.0X to 2.0X in 2024, which would be a much more comfortable level, thus allowing Audax to tackle the refinancing of its two bonds (> 65% of the gross debt) and be ready to resume its investments in new generation capacity in Spain.

AUDAX: IMPACT ON LEVERAGE FROM ASSET DISPOSALS

			2024E		
Asset	**Change**	**Debt**	**Change**	**EBITDA**	**Debt/EBITDA**
Current	-	282	-	100	2.8
Panama	(15)	267	-	100	2.7
Italian pipeline	(19)	248	-	100	2.5
Operating assets	(68)	181	(8)	92	2.0

Source: Alantra Equities

IV. Our valuation range: €1.66-2.00 per share

Please note that the valuation is based on long-term analyses and that any ranges or discussions below do not constitute a short-term assessment of the likely performance of the securities.

Our value range is 30%-55% above market prices

We are raising our valuation range for Audax by 10-15%, reflecting the increased contribution from the Supply business, partially mitigated by a reduction in our new renewable capacity additions in the Generation business. We have assumed two scenarios:

a) **Cautious**. We reach an EV of c.€1.1bn and an equity value of €813m. After discounting the debt, minorities, and the impact of the €100m capital increase (with a 20-25% discount vs. current market prices) that we previously explained (to reflect the financial risk until asset disposals are executed), we reach €1.66 p.s., c.30 % above current market prices.

b) **Optimistic**. We reach an EV of €c.1.3bn and €962m equity value, equivalent to €2.00p.s. and >55% above current market prices after discounting the impact from a capital increase.

66% of EV comes from the supply business

In both scenarios, 66% of our EV comes from the Supply division (52% of which is Spain), and 34% from Generation.

AUDAX: SUM OF THE PARTS VALUATION RANGE

	Spain & Portugal		International		Total group	
(€ m)	**Cautious**	**Optimistic**	**Cautious**	**Optimistic**	**Cautious**	**Optimistic**
Supply	385	435	358	405	**742**	**840**
Generation	237	268	152	172	**390**	**441**
o/w assets in operation	156	177	152	172	309	349
o/w new assets	81	92	0	0	81	92
Total EV	**622**	**704**	**510**	**577**	**1,132**	**1,281**
Net debt (2024E)					(282)	(282)
Net financials					59	59
Minorities					(96)	(96)
Equity value					**813**	**962**
Nº shares					440	440
Equity value p.s. (€)					**1.85**	**2.18**
Discount capital increase (*)					(0.19)	(0.19)
Equity value p.s. (€)					**1.66**	**2.00**

(*) €100m capital increase at €1.00p.s.; Source: Alantra Equities

a) We value the **Supply business** at an EV ranging from €742m to €840m through a DCF, using an 11.1% cost of equity (we assume no debt) and a 1.0% terminal growth rate. Our valuation implies an EV per supply point ranging from €1.4-1.6k in Iberia to €1.9-2.2k in Europe.

b) We value the **Generation assets** in operation by YE2024 at an EV ranging from €390m to €441m. These include: 1) 91MW of wind assets in Spain, Poland and France at an EV/MW ranging from €1.4-1.6m/MW (depending on the country); 2) the 30% stake in the wind farm in Panama, which we value at €85-96m, or €1.3-1.5m/MW; and 3) the 138MW solar PV capacity already installed by YE2024, valued at €100-121m, or €0.7-0.9/MW.

c) Lastly, we include the value creation of the 225MW of new PV assets to be installed in Iberia over 2025-26 (€26m) and the 1.1GW net pipeline (€59m) at €55-66k/MW, thus leading to an EV ranging from €81m to €92m.

Selling assets would lower Audax' financial risk profile

As mentioned above, our TP includes the impact of an €100m capital increase, to reflect the high leverage of the group. As explained in the report, we believe Audax could strengthen its balance sheet through disposals, and this would ease the refining of its outstanding bonds and would allow it to resume its capex plans in renewables. This would also lead us to eliminate the impact of the capital increase in our valuation range, which would increase to €1.85-2.18 p.s.

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