AUDAX RENOVABLES

Improving prospects, but debt is still high

- **Things are starting to improve.** The last 2 years have been difficult for Audax (close to net profit break-even) given: a) the loss of clients & fall in supply margins triggered by the hike in energy prices; b) delays in new generation capacity additions; and c) rising energy prices demanding investment in working capital & higher leverage. However, things are improving thanks to the market access agreement with Shell, which will allow Audax to: a) improve its commercial proposition; b) reduce the need for guarantees & collaterals allowing to allocate resources into growing the client base; c) reduce working capital and leverage.

- **Improving operating prospects.** We expect Audax to return to a growth path, driven by a growing mix of energy sold (with clients going from 387K in 2022 to 579K in 2025), improving supply margins (from €8.9/MWh to €9.8/MWh over 2022-25), and generation capacity going from 179MW (22) to 699MW (25), also contributing to the increase in supply margins. We expect EBITDA to double (28% CAGR) from €54m (2022) to €107m (2025), driven by both Supply (31% CAGR 2022-25) & Generation (22%), allowing net profit to jump almost 9X from €4m in 2022 to €35m in 2025 (+100% CAGR).

- **Leverage remains an issue**. Net debt has increased from €144m (19) to €376m (22), driving leverage up from 2X to 6.9X EBITDA. We expect net debt to increase further over 2023-25 (by €127m to €503m), led by investments in new generation capacity (€382m), but leverage should fall to 4.7X in 2025 on EBITDA growth. We deem this as still too high leverage, and believe Audax should look to cut debt to levels below 3XEBITDA, for which it will need to raise €150m from asset sales (international wind assets, minority stake in Spanish assets, Italian pipeline) and consider a €50-100m capital increase (10-12% of the market cap).

- **Our valuation range: €1.47-1.81 p.s.** The market access agreement has been an important step to turn the situation around from an operating viewpoint after two very difficult years. Prospects for the business have now improved (28% EBITDA CAGR 22-25), but cutting leverage remains the pending issue. We value Audax in a range of €1.47-1.81 per share, already diluted by the impact of a €100m capital increase. This is well above the €1.13 current market prices, but Audax will need to address its leverage issues in order for the shares to perform.

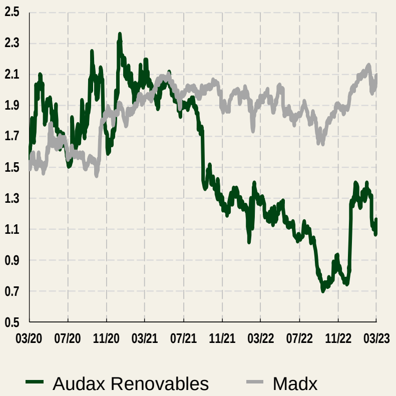
SPONSORED RESEARCH

Share Price	€ 1.13

*Share price at 12:00h, 03 April 2023

ADXR.MC / ADX SM	
Market Cap	€ 497 m
Enterprise Value	€ 789 m
Free Float	€ 89 m
Nº Shares	440 m
Average Daily Volume	€ 1 m

Performance	1m	3m	12m
Absolute %	-18.3	52.6	-12.5
Relative %	-15.8	40.2	-26.1



Shareholders

Jose Elias Navarro 74.9%, Indumenta Pueri 7.2%, Free float 17.9%

Financial Ratios	FY20	FY21	FY22	FY23E	FY24E	FY25E
EBITDA (€m)	66	47	54	72	89	107
Net profit (€m)	26	-2	4	21	30	35
EPS (€)	0.06	0.00	0.01	0.05	0.07	0.08
Adj. EPS (€)	0.03	0.00	0.00	0.05	0.07	0.08
P/E (x)	27.2	n.m.	n.m.	23.5	16.5	14.1
P/E Adj. (x)	50.8	n.m.	n.m.	23.4	16.5	14.1
EV/EBITDA (x)	13.7	25.9	14.9	11.0	9.7	8.9
Debt/EBITDA (x)	3.6	9.6	6.9	4.6	4.6	4.7
P/BV (x)	5.0	6.1	3.9	3.5	2.9	2.4
ROE (%)	10.6	-1.2	1.3	16.0	19.0	18.4
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	2,252	2,324	2,460
Cost of sales	(854)	(1,561)	(2,489)	(2,086)	(2,135)	(2,245)
Gross margin	**115**	**123**	**144**	**166**	**189**	**215**
Opex	(65)	(76)	(92)	(94)	(100)	(107)
EBITDA adjusted	**50**	**47**	**52**	**72**	**89**	**107**
Assets disposals	16	(0)	2	(0)	(0)	(0)
EBITDA reported	**66**	**47**	**54**	**72**	**89**	**107**
Depreciation & Amortization	(20)	(22)	(22)	(23)	(27)	(34)
EBIT	**47**	**25**	**32**	**48**	**62**	**73**
Financial costs	(13)	(28)	(22)	(23)	(26)	(31)
Associates	(0)	(0)	3	5	5	5
Ordinary profit	**34**	**(3)**	**13**	**31**	**41**	**47**
Extraordinary items	0	2	(0)	0	0	0
Pre-tax Profit	**34**	**(2)**	**13**	**31**	**41**	**47**
Taxes	(4)	(2)	(5)	(3)	(5)	(6)
Discontinued activities	0	0	0	0	0	0
Minorities	(4)	2	(4)	(6)	(6)	(6)
Net profit	**26**	**(2)**	**4**	**21**	**30**	**35**
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%)	3.2%	5.8%
EBITDA adjusted	(26.7%)	(6.2%)	9.9%	39.1%	23.9%	20.4%
EBITDA reported	(9.3%)	(29.5%)	15.5%	32.6%	24.0%	20.4%
Net profit	3.8%	(106.5%)	(305.8%)	498.4%	42.1%	16.7%

Revenues by business	FY20	FY21	FY22	FY23E	FY24E	FY25E
Supply	98.3%	99.0%	99.0%	98.7%	98.5%	98.1%
Generation	1.7%	1.0%	1.0%	1.3%	1.5%	1.9%

EBITDA by business	FY20	FY21	FY22	FY23E	FY24E	FY25E
Supply	76.6%	72.7%	61.7%	69.2%	71.3%	66.9%
Generation	23.4%	27.3%	38.3%	30.8%	28.7%	33.1%

Per share data	FY20	FY21	FY22	FY23E	FY24E	FY25E
EPS	0.06	(0.00)	0.01	0.05	0.07	0.08
EPS adjusted	0.03	(0.00)	0.00	0.05	0.07	0.08
CFPS	0.08	0.05	0.07	0.11	0.14	0.17
FCFPS	(0.08)	(0.40)	0.15	0.10	(0.16)	(0.22)
BVPS	0.33	0.30	0.28	0.33	0.39	0.47
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	21	30	35
Depreciation	20	22	22	23	27	34
Minorities	4	(2)	4	6	6	6
Non-cash adjustments	(16)	4	0	(1)	(1)	(1)
Total cash-flow (CF)	**33**	**22**	**30**	**49**	**62**	**74**
Capex	(19)	(81)	(47)	(84)	(129)	(168)
Working capital	(49)	(118)	85	78	(5)	(4)
Operating FCF	**(34)**	**(177)**	**68**	**43**	**(72)**	**(98)**
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**	**43**	**(72)**	**(98)**
Dividends	(5)	(10)	0	0	0	0
Free-cash-flow (FCF)	**(92)**	**(214)**	**74**	**43**	**(72)**	**(98)**
Buy-backs	0	0	0	0	0	0
FCF after buy backs	**(92)**	**(214)**	**74**	**43**	**(72)**	**(98)**

Balance sheet (EURm)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity	143	132	122	144	174	209
Minority interests	8	12	13	13	13	13
Provisions & others	18	20	21	21	21	21
Net debt [cash]	236	450	376	333	405	503
Capital invested	**405**	**614**	**533**	**512**	**613**	**746**
Intangible assets	297	338	340	340	340	340
Tangible assets	87	117	140	201	303	438
Financial assets	16	33	10	10	10	10
Associates	7	10	13	8	3	(2)
Working capital	(2)	116	31	(47)	(43)	(39)
Capital employed	**405**	**614**	**533**	**512**	**613**	**746**
Working capital/sales	-0.2%	6.9%	1.2%	-2.1%	-1.8%	-1.6%

Financial ratios	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net debt/EBITDA	3.6X	9.6X	6.9X	4.6X	4.6X	4.7X
Net debt/EBITDA (*)	4.4X	9.7X	6.8X	4.0X	3.4X	3.1X
Gearing	156.5%	311.8%	277.1%	212.3%	216.3%	226.0%
Interest cover	3.6X	0.9X	1.4X	2.1X	2.4X	2.4X

(*) Corporate net debt

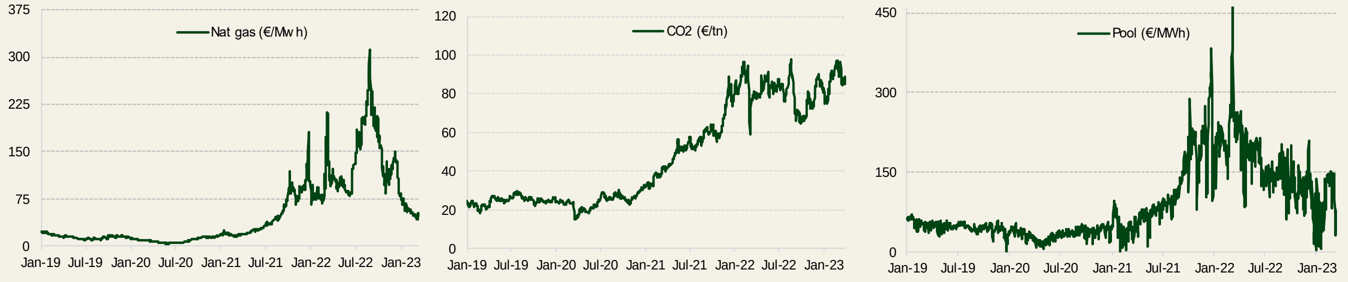
Margins & ratios	FY20	FY21	FY22	FY23E	FY24E	FY25E
EBITDA margin	5.2%	2.8%	2.0%	3.2%	3.8%	4.4%
EBIT margin	4.8%	1.5%	1.2%	2.1%	2.7%	3.0%
Effective tax rate	11.4%	-104.4%	38.2%	11.3%	13.0%	12.9%
Pay-out	37.9%	0.0%	0.0%	0.0%	0.0%	0.0%
ROCE (EBIT/CE)	11.5%	4.1%	6.1%	9.4%	10.1%	9.8%
ROE	10.6%	-1.2%	1.3%	16.0%	19.0%	18.4%

I. The market access agreement: a turning point

1) The last couple of years have been tough for Audax

Since the outbreak of COVID-19, suppliers in general and Audax in particular have had to deal with a challenging operating environment due to the high volatility of commodity prices. This has led to a sharp (and quick) increase in electricity prices, which even today remain very volatile.

POOL PRICE, GAS PRICE & CO2 PRICE EVOLUTION



Source: Bloomberg, OMIE

The volatility in pool prices has resulted in two negative effects that have affected Audax (and most of the independent suppliers):

Supply margins under pressure given the volatility of energy prices

a) A sharp fall in margins, as part of the energy supplied was sold through fixed contracts which, in some cases, were not hedged. This forced suppliers to buy the electricity in the market at prices above those agreed with their clients, leading to a significant loss. This effect was underpinned in 2021 by a stronger than initially expected recovery in consumption after the pandemic, which also forced suppliers to acquire the excess energy consumed in the market.

Increased need for collaterals

b) The increase in prices resulted in a rise in the collaterals required by OMIE (the Spanish electricity market operator) and REE (the electricity system operator) to purchase electricity in the pool market and operate in the supply business.

These two effects forced Audax to reduce its client portfolio by c.25% in 2022 compared to 2021 (see table below), with a 35% reduction in Spain and 12% in the international markets, to clean it up from loss making contracts on the one hand, and to reduce the electricity sold to limit the need to pledge guarantees & collaterals to the market operator on the other (this mostly applying to Spain, where energy sold fell by 27% YoY).

AUDAX: CLIENTS & ENERGY SOLD IN 2022 VS. 2021

	Clients			Energy sold (GWh)		
	2021	YoY	2022	2021	YoY	2022
Spain	296,802	(35%)	191,952	4,936	(27%)	3,595
International	220,710	(12%)	195,048	10,513	(10%)	9,505
Total	517,512	(25%)	387,000	15,449	(15%)	13,100

Source: Audax Renovables

Falling EBITDA over 2019-22

In addition to the loss of clients, the aforementioned situation has triggered a significant reduction in the profitability of the supply business, especially in Spain, with EBITDA going from €34m in 2020 to €24m in 2022.

AUDAX: SUPPLY BUSINESS EBITDA EVOLUTION 2019-22

(€ m)	2019	YoY	2020	YoY	2021	YoY	2022
Spain	34	1%	34	(20%)	27	(12%)	24
International	9	(51%)	4	56%	7	14%	8
EBITDA	**43**	**(10%)**	**38**	**(11%)**	**34**	**(7%)**	**32**

Source: Alantra Equities

Increased leverage

Moreover, from a balance sheet perspective, the described situation has led to an increase in the working capital of the company, resulting from the increase in electricity & gas prices, and the time lag between the moment in which suppliers pay for the energy and collect from their clients (suppliers normally pay the energy acquired with a 7-day lag, but they cash in the proceeds from clients one month after the energy is delivered). This led to working capital increasing from -€2m in 2020 to €116m in 2021, subsequently falling to €31m in 2022.

AUDAX: WORKING CAPITAL EVOLUTION 2019-22

(€ m)	2019	2020	2021	2022
Inventories	2	1	5	10
Receivables	175	265	419	420
Payables	228	268	308	399
Working Capital	**(51)**	**(2)**	**116**	**31**

Source: Alantra Equities

Consequently, and due to the investments made in generation, leverage increased sharply, with net debt going up from €144m in 2019 to €450m in 2021, leading debt/EBITDA up from 2X to 9.6X and interest cover down from 3X to 0.9X, respectively. This situation has slightly improved in 2022, with net debt falling to €376m, and debt/EBITDA to 6.9X, but Audax is still in a tight financial position, as we will explain.

AUDAX: LEVERAGE 2019-22

(€ m)	2019	2020	2021	2022
Net debt	144	236	450	376
Net debt/EBITDA (X)	2.0X	3.6X	9.6X	6.9X
Interest cover(X)	3.0X	3.6X	0.9X	1.4X

Source: Alantra Equities

Furthermore, Audax's generation business has suffered over the last year due to two key factors:

Delays in new capacity

a) It has only able to add 19MW in new capacity (179MW in operation in 2022 vs. 160MW in 2021), owing to delays in permitting plus the financial constraints triggered by the supply business. This fell far short of the >400MW target initially included in the strategic plan presented in 2021.

Fall in pipeline

b) More importantly, it has seen its pipeline sharply reduced, going from 2.3GW to just 1.2GW, as a significant number of projects, most of them in Spain, were not able to make it to the January 25th deadline with the environmental permit (DIA) obtained, or if obtained, the conditions proposed made the projects not viable.

AUDAX: CHANGES IN PIPELINE

(MW)	December 2021	December 2022	Change (MW)	Change (%)
Under construction	19	26	7	37%
Backlog	1,247	464	(783)	(63%)
Grid connection	402	225	(177)	(44%)
Early Stage	643	455	(188)	(29%)
Total Pipeline	**2,311**	**1,170**	**(1,141)**	**(49%)**

Source: Audax Renovables

A 'positive' aspect of the above is that most of the MWs lost were purchased from Excelsior, which is a company owned by Audax's controlling shareholder, and most of them had a replacement commitment, by which the seller would be forced to either replace them in less than 3 years or to reimburse them at their purchase cost. In any case, this difficult situation will force Audax to review its growth plans in generation in order to adapt them to a much more conservative scenario, as we will explain in following sections.

2) Why is the market access agreement a good deal?

A few weeks ago, Audax signed a market access agreement with Shell, by which the latter will become Audax's exclusive external electricity & gas supplier in Spain for an initial term of 5 years. In other words, under this agreement, Audax will now acquire all the electricity and gas needed to supply its Spanish clients from Shell (Spain accounts for 50% of the groups' clients & for 27% of the energy sold).

The agreement is very good news for Audax for the following reasons:

Improved commercial offering

a) **It improves Audax's commercial offering.** The agreement with Shell includes the supply of both electricity and gas with different time horizons. This will enable Audax to improve its commercial offering, now being able to close long-term fixed-price agreements with its clients.

Room to recover the clients lost

b) **It will allow Audax to grow its client base again.** In addition to the above, Shell will now cover all market guarantees and collaterals associated with the energy sold by Audax. Audax not having to cover these guarantees is positive, as it will be able to increase its client base again (one of the reasons for the decrease in clients was the impossibility of covering all the guarantees needed for the electricity sold) after several quarters of continuous declines.

c) **It will improve its financial position.** From a balance sheet viewpoint, the agreement will have two positive implications for Audax:

Falling leverage

1) It will improve the company's working capital, as under the terms agreed, Audax will pay 20 days after the energy is delivered, and not in 7 days as it is the case when it acquires electricity directly to the market, whilst it will continue collecting the bills from clients by the end of the month, reducing the payment terms from 23 days to just 10. All other things being equal, this would have implied €50m lower debt in 2022 compared to the numbers reported;

AUDAX: DEBT IMPACT FROM MARKET ACCESS AGREMENT IN 2022 ON A PRO-FORMA BASIS

(€ m)	2022 (reported)	2022 (Pro-forma)
Net debt	376	326
Net debt /EBITDA (X)	6.9	6.0

Source: Alantra Equities

2) As mentioned above, Shell will cover all the guarantees and collaterals linked to electricity sold to Audax. This will imply a significant reduction in the collaterals needed for Audax to obtain these guarantees from banks. Although nothing has been said regarding this matter, we understand that Audax has pledged part of its assets in order to secure the market access agreement with Shell.

The market access agreement signed is, in our view, a necessary first step to turn around the negative spiral created over 2021-22. This will reduce Audax's operational risk in supply, allowing it to be more competitive in terms of tariffs and grow its client base again, whilst easing the pressure over the company's balance sheet.

Taking the above into account, we would not rule out further market access agreements in other regions where the company operates, especially in Hungary, which is Audax's #2 international market in terms of energy sold after the Netherlands, where the company has already market access agreements in place.

AUDAX: CLIENTS BREAKDOWN (2022)

(k clients)	Electricity	% of total	Gas	% of total	Total	% of total
Iberia	**155**	**40%**	**37**	**10%**	**192**	**50%**
Europe	**155**	**40%**	**40**	**10%**	**195**	**50%**
o/w Netherlands	53	14%	26	7%	78	20%
o/w Hungary	59	15%	0	0%	59	15%
o/w Italy	31	8%	13	3%	44	11%
o/w RoE	12	3%	2	0%	14	4%
Total	**310**	**80%**	**77**	**20%**	**387**	**100%**

Source: Audax Renovables

II. Supply business: back to growth

1) Operating prospects are set to improve

As mentioned earlier in the report, Audax's supply business has been under strong pressure over the last few quarters, given both the sharp increase in commodity prices and its very high volatility. This volatility, however, is gradually fading, as are the prices of the main commodities affecting Audax's supply business. In more detail:

a) Pool price was, on average, in the region of €100/MWh over the last month, which is not very different from the €94/MWh average in the L3M. And although price remains high compared to "normal" levels, volatility is now lower, which makes things easier for suppliers;

b) The price of gas has seen similar trends (Mibgas): it has gradually reduced, going from an average of €66/MWh over the L6M to €55/MWh in the L3M and €46/MWh in the L1M.

ELECTRICITY & GAS PRICE EVOLUTION L12M

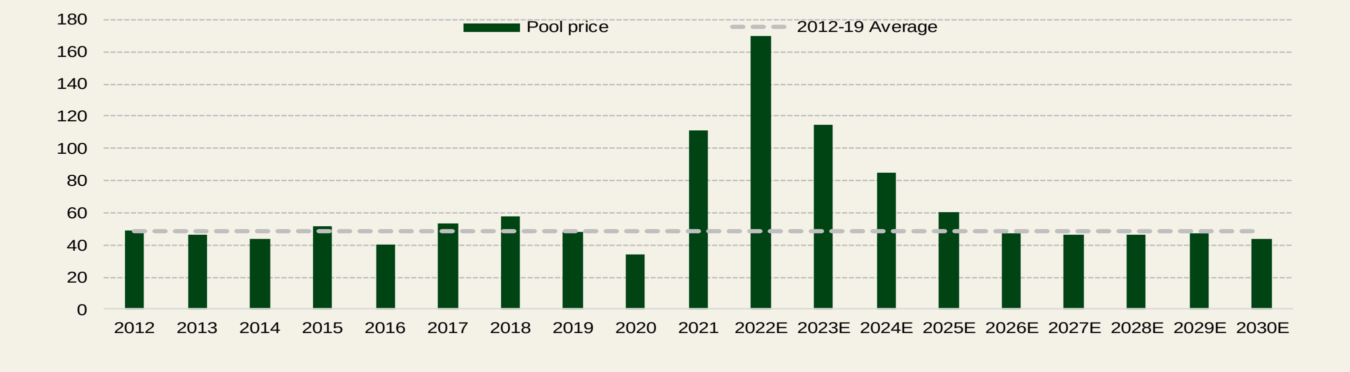
	Spot	L1M	vs spot	L3M	vs spot	L6M	vs spot	L1Y	vs spot
Pool (€/MWh)	59.2	103.5	(43%)	94.3	(37%)	106.8	(45%)	138.6	(57%)
Natural gas (€/MWh)	41.1	44.9	(9%)	55.4	(26%)	93.3	(56%)	121.6	(66%)
Mibgas (€/MWh)	40.1	46.1	(13%)	54.6	(27%)	65.8	(39%)	91.6	(56%)
CO2 (€/t)	85.2	90.9	(6%)	86.5	(1%)	81.3	5%	81.7	4%

Source: Bloomberg, OMIE

We expect pool price to normalise

We expect pool price in Spain to continue falling over the coming years and to gradually return to their historical levels (we expect the pool price to fall by >30% in 2023 to €115/MWh and by 25-30% p.a. in 2024-25). This should lead to a more "normalised" operating environment for suppliers.

POOL PRICE ESTIMATES



Source: Alantra Equities, OMIE

In addition, and specifically for Audax, we expect the market access agreement to start to take effect from 2023, and we also expect a gradual increase in production from its own generation assets, which together should lead to an improvement in margins.

2) We expect strong EBITDA growth over 2022-25

Improving prospects for the supply business

Following two difficult years, we expect Audax's supply EBITDA to start to recover from 2023, driven by a mix of growing margins and output, especially in Spain, thanks to the market access agreement signed with Shell. We also expect international EBITDA to grow steadily over the period, but to start from a lower base, based on growing energy sales & margins.

In more detail, we expect supply EBITDA to grow by 56% in 2023, going from €32m to €50m and by an additional 13-28% p.a. in 2024-25, reaching €72m in 2025, implying +31% CAGR 22-25. By region, we expect Spain to increase from €24m in 2022 to €33m in 2023, roughly in line with the €34m p.a. it made in 2019-20, then to rise to €43m in 2025, implying +22% CAGR 2022-25. On the other hand, we expect International EBITDA to increase from €8m in 2022 to €29m in 2025, implying +53% CAGR over the period.

AUDAX: SUPPLY EBITDA ESTIMATES 2021-25										
(€ m)	2021	YoY	2022	YoY	2023E	YoY	2024E	YoY	2025E	CAGR 22-25
EBITDA	**34**	**(7%)**	**32**	**56%**	**50**	**28%**	**63**	**13%**	**72**	**31%**
o/w Iberia	27	(12%)	24	37%	33	21%	40	8%	43	22%
o/w Europe	7	14%	8	112%	17	40%	24	21%	29	53%

Source: Alantra Equities

Growing clients & energy sales in Spain

a) **Spain.** As previously explained, we see the market access agreement signed with Shell as being key for Audax to start growing again in Spain, given the improvement that it will imply in its commercial offer (as well as the reduction in the financial guarantees needed to operate). In this context, we expect Audax to increase its client base by 20-25% per annum, going from 192K in 2022 to 359K in 2025. Despite the increase, the 359K clients that we expect in 2025 would imply "just" +18% vs. the 304K clients Audax had in 2020 prior to the Covid & energy crisis, and still below the >400K clients we estimated for 2023 in early 2020.

We expect energy sold in Spain to increase by 15-25% per annum, slightly below the increase in clients, assuming a slight reduction (-3% CAGR 22-25) in the average consumption per client over the period.

AUDAX: SUPPLY CLIENTS & ENERGY SOLD ESTIMATES IN SPAIN 2021-25E										
	2021	YoY	2022	YoY	2023E	YoY	2024E	YoY	2025E	CAGR 22-25
Supply points (K)	296.8	(35%)	192.0	25%	240.0	23%	294.0	22%	359.0	23%
Energy Supplied (GWh)	4,936	(27%)	3,595	14%	4,107	19%	4,908	25%	6,124	19%

Source: Alantra Equities

Gross margins peaking up in 2023

In terms of unitary margins, we expect these to increase by 2% in 2023 to €20.3/MWh, assuming an increase in the number of fixed contracts vs. those indexed. This will be due to the 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 €16.2/MWh in 2025, implying 28.2% gross margin, above the average in 2021-24, but below the >30% recorded in 2019-20.

AUDAX: SUPPLY UNITARY GROSS MARGIN ESTIMATES IN SPAIN 2021-25E										
(€)	2021	YoY	2022	YoY	2023E	YoY	2024E	YoY	2025E	CAGR 22-25
Gross margin per MWh	14.0	42%	19.8	2%	20.3	(6%)	19.0	(15%)	16.2	(6%)
Gross margin (%)	14.3%		12.9%		18.6%		23.4%		28.2%	14.3%

Source: Alantra Equities

+22% EBITDA CAGR 2022-25

As a result of the above, we expect Supply EBITDA in Spain to grow by 37% in 2023, by 21% in 2024 and by 8% in 2025, reaching €43m in 2025, thus implying +22% CAGR. This will imply EBITDA margin (calculated over gross profit) growing from 34% in 2022 to 40% in 2023 and 43% in 2024-25, roughly in line with the 45-50% average of 2018-20.

AUDAX: SUPPLY GROSS MARGIN & EBITDA ESTIMATES IN SPAIN 2021-25E										
(€ m)	2021	YoY	2022	YoY	2023E	YoY	2024E	YoY	2025E	CAGR 22-25
Gross margin	69	3%	71	17%	83	12%	93	7%	99	12%
Opex	(42)	13%	(47)	7%	(50)	6%	(53)	6%	(56)	6%
EBITDA	27	(12%)	24	37%	33	21%	40	8%	43	22%
EBITDA margin (%)	39%		34%		40%		43%		43%	

Source: Alantra Equities

b) **International markets.** Performance in international markets has not been as impacted as Spain was by the increase in energy prices. The fall both in clients and energy sold in 2022 was mostly the consequence of the exit from the Polish gas market, a consequence of the regulatory changes in the country. Looking forward, we expect Audax to increase its client portfolio by 4% per annum on average, increasing energy sales up by 2-7% during the period.

AUDAX: SUPPLY INTERNATIONAL CLIENTS & ENERGY SOLD ESTIMATES 2021-25E										
	2021	**YoY**	**2022**	**YoY**	**2023E**	**YoY**	**2024E**	**YoY**	**2025E**	**CAGR 22-25**
Supply points (K)	220.7	(12%)	195.0	4%	203.0	4%	211.4	4%	219.9	4%
Energy Supplied (GWh)	10,513	(10%)	9,505	2%	9,661	7%	10,357	5%	10,882	5%

Source: Alantra Equities

In terms of unitary margins, we expect them to increase by 5-15% per annum over 2023-25, going from €4.8/MWh in 2022 to €6.2/MWh in 2025. International margins will be lower than in Spain, the reason being the higher component of industrial clients, with higher levels of consumption and lower unitary margins.

AUDAX: SUPPLY INTERNATIONAL UNITARY GROSS MARGIN ESTIMATES 2021-25E										
(€)	**2021**	**YoY**	**2022**	**YoY**	**2023E**	**YoY**	**2024E**	**YoY**	**2025E**	**CAGR 22-25**
Gross margin per MWh	3.5	37%	4.8	15%	5.5	8%	5.9	5%	6.2	9%
Gross margin (%)	5.9%		3.3%		5.4%		6.5%		7.5%	5.9%

Source: Alantra Equities

+53% EBITDA CAGR 2022-25

As a result of the above, we expect gross margin to increase by 10-17% p.a. over 2023-25. We expect opex to increase by 1% p.a. over the period, leading EBITDA up from €8m in 2022 to €29m in 2025, implying +53% CAGR 22-25.

AUDAX: SUPPLY INTERNATIONAL GROSS MARGIN & EBITDA ESTIMATES 2021-25E										
(€ m)	**2021**	**YoY**	**2022**	**YoY**	**2023E**	**YoY**	**2024E**	**YoY**	**2025E**	**CAGR 22-25**
Gross margin	37	24%	45	17%	53	15%	61	10%	68	14%
Opex	(30)	26%	(37)	(3%)	(36)	4%	(38)	4%	(39)	1%
EBITDA	7	14%	8	112%	17	40%	24	21%	29	53%
EBITDA margin (%)	19%		17%		32%		39%		42%	

Source: Alantra Equities

III. Generation: 435MW new capacity over 2023-25

1) The "new" pipeline: from 2.3GW to 1.2GW

Pipeline has been cut from 2.3GW to 1.2GW

As anticipated earlier in the report, Audax's pipeline has suffered a significant reduction recently, going from 2.3GW to just 1.1GW. The reason for the fall is that a significant number of projects, most of them in Spain, were not able to reach the January 25th deadline with the environmental permit (DIA) obtained, or if obtained, the conditions proposed made the projects not viable.

AUDAX: CHANGES IN PIPELINE

(MW)	December 2021	December 2022	Change (MW)	Change (%)
Under construction	19	26	7	37%
Backlog	1,247	464	(783)	(63%)
Grid connection	402	225	(177)	(44%)
Early Stage	643	455	(188)	(29%)
Total Pipeline (*)	**2,311**	**1,170**	**(1,141)**	**(49%)**

Source: Audax Renovables

The "positive" aspect for Audax is that most of the MWs lost had a replacement commitment by which the seller (Excelsior, a company owned by Audax's major shareholder) is forced either to replace them in less than 3 years or to reimburse them at their purchase cost. According to our estimates, it could be in the region of €50-55k/MW, in line with recent transactions of pipeline at an early stage. In other words, assuming all projects lost are reimbursed at their cost, Audax could receive up to €55-60m as compensation.

AUDAX: PIPELINE ACQUIRED WITH REPLACEMENT COMMITMENT

Pipeline acquired (MW)	**1,942**
o/w Spain & Portugal	1,641
o/w Italy	201

Source: Alantra Equities

1.2GW pipeline in Iberia & Italy

The revision of the pipeline, as mentioned above, has been mostly focused on Spain. Pending the replacement of the projects lost, Audax has now, as shown in the table below, 951MW pipeline in Spain & Portugal, of which 26MW under construction, 435MW backlog (with COD expected in 2024-25), of which 141MW with the DIA already obtained, and 490MW in earlier stages of development. In addition, there is 219MW pipeline in Italy, of which 29MW is backlog and 190MW with grid connection.

AUDAX: PIPELINE BREAKDOWN

(MW)	Spain	Portugal	Italy	Total	% of total
Under construction	26	0	0	26	1%
Backlog	231	204	29	464	20%
Grid connection	35	0	190	225	10%
Early Stage	50	405	0	455	20%
Total Pipeline	**342**	**609**	**219**	**1,170**	**51%**
% of total	15%	26%	9%	51%	

Source: Audax Renovables

2) We expect modest growth in new capacity

Performance at the generation business has not been as positive as initially expected over the last couple of years, given the delays in permitting plus the financial pressure triggered by the increase in energy prices. This has only permitted Audax to install 88MW over 2021-22 (69MW in 2021 & 19MW in 2022), well below the >500MW expected over these last two years.

We expect 520MW new capacity over 2023-25

The loss of pipeline, together with a still tight balance sheet (even if debt has fallen in 2022 vs. 2021, as we will explain), has forced Audax to lower its growth plans in generation. According to our estimates, Audax will be able to install 520MW new capacity over 2023-25, going from 70MW in 2023 (there are 26MW already under construction), to 175MW in 2024 and an additional 275MW in 2025. This is equivalent to the capacity currently classified as backlog and grid connection by Audax in Iberia.

AUDAX: NEW CAPACITY ESTIMATES 2021-25

(MW)	2021	2022	2023E	2024E	2025E	2023-25
New capacity	69	19	70	175	275	520

Source: Alantra Equities

We thus expect production capacity to increase from 179MW in 2022 to 699MW in 2025 with the increase focused on Iberia, going from 133MW to 653MW. We expect international production to remain flat over the period at 46MW (12Mw in France & 34Mw in Poland).

AUDAX: OPERATING CAPACITY ESTIMATES BY COUNTRY 2021-25

(MW)	2021	YoY	2022	YoY	2023E	YoY	2024E	YoY	2025E
Iberia	114	17%	133	53%	203	86%	378	73%	653
International	46	0%	46	0%	46	0%	46	0%	46
Total capacity	**160**	**12%**	**179**	**39%**	**249**	**70%**	**424**	**65%**	**699**

Source: Alantra Equities

We expect output to increase sharply over the period, going from 258GWh in 2022 to 766GWh in 2025, implying +44% CAGR 22-25. Spain & Portugal will grow by 60% CAGR, whilst we expect international output to grow by 4% CAGR, recovering from a very weak 2022.

AUDAX: PRODUCTION ESTIMATES BY COUNTRY 2021-25

(GWh)	2021	YoY	2022	YoY	2023E	YoY	2024E	YoY	2025E	CAGR 22-25
Iberia	94	70%	160	40%	224	61%	362	81%	655	60%
Rest of Europe	106	(7%)	98	6%	104	2%	106	4%	110	4%
Total	**200**	29%	**258**	27%	**329**	42%	**468**	64%	**766**	44%

Source: Alantra Equities

As a result, we expect generation EBITDA to grow by 22% CAGR over 2022-25, going from €20m in 2022 to €35m in 2025, driven by the increase in capacity and partially offset by the expected reduction in prices (even though the exposure of the company to merchant sales will be limited). In more detail, we expect the following:

a) We expect EBITDA from Iberia to grow from €12m in 2022-23 to €25m in 2025. This will be driven by the explained increase in capacity and partially offset by a c.20% annual reduction in average realization prices (going from €110/MWh in 2022 to €53/MWh in 2025), due to 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.

+22% EBITDA CAGR 2022-25

b) As for the international markets, we expect EBITDA to be roughly stable, in the region of €10m p.a., with the increase in output compensated by a slight fall in prices (international assets are mostly covered by PPAs).

AUDAX: GENERATION EBITDA ESTIMATES 2021-25

(€ m)	2021	YoY	2022	YoY	2023E	YoY	2024E	YoY	2025E	CAGR 22-25
EBITDA	**13**	**54%**	**20**	**12%**	**22**	**15%**	**26**	**39%**	**35**	**22%**
o/w Iberia	4	176%	12	1%	12	26%	16	61%	25	27%
o/w International	8	(10%)	8	29%	10	2%	10	4%	10	11%

Source: Alantra Equities

IV. Leverage needs to be cut. What are the alternatives?

1) Leverage is high

Leverage at 6.9X debt/EBITDA is high

Over the last few years, Audax's net debt has increased materially, going from €144m in 2019 to €376m in 2022, given a mix of capex (€147m), acquisitions (€89m) and working capital financing (€82m). This has led leverage up from 2.0X to 6.9X, respectively.

This is too high in our view, even if net debt has fallen in 2022 compared to 2021 thanks to a certain level of relief in working capital, especially in a context in which there are still relevant investments to be made in new production capacity over the coming years.

AUDAX: NET DEBT & LEVERAGE EVOLUTION 2019-22

(€ m)	2019	2020	2021	2022
Consolidated net debt	144	236	450	376
Net debt/EBITDA (X)	2.0X	3.6X	9.6X	6.9X

Source: Alantra Equities

2) Strong investment will limit CF generation

Strong investment effort: €382m in 23-25

As mentioned earlier, we expect Audax to add 520MW in new capacity over 2023-25. This will imply, according to our estimates, an investment of €382m, assuming an average investment per MW in the region of €0.6-0.65m. In addition, we expect €5m p.a. capex in supply over 2023-25.

AUDAX: CAPEX ESTIMATES 2021-25

(€ m)	2021	2022	2023E	2024E	2025E	2023-25E	% total
Generation	77	31	79	124	163	367	96%
Supply	4	16	5	5	5	15	4%
Total capex	**81**	**47**	**84**	**129**	**168**	**382**	**100%**

Source: Alantra Equities

According to our estimates, Audax will generate €185m operating cash flow over 2023-25, rising from €30m in 2022 to €49m in 2023 and to €74m in 2025, driven by the expected growth in supply and the increase in new renewable capacity. In addition, we expect a positive impact of €78m over the period, coming from working capital, reflecting the positive impact from the market access agreement in 2023, a €5-6m p.a. increase in 2024-25 and the €382m capex mentioned earlier, leading to a negative FCF of €126m over the period.

AUDAX: CASH FLOW STATEMENT 2021-25E

(€ m)	2021	2022	2023E	2024E	2025E	2023-25E
Operating CF	**22**	**30**	**49**	**62**	**74**	**185**
WC variation	(118)	85	78	(5)	(4)	70
Capex	(81)	(47)	(84)	(129)	(168)	(382)
Net operating CF	**(177)**	**68**	**43**	**(72)**	**(98)**	**(126)**
Acquisitions	(50)	9	0	0	0	0
Others	24	(3)	0	0	0	0
FCF pre-dividends	**(204)**	**74**	**43**	**(72)**	**(98)**	**(126)**
Dividends	(10)	0	0	0	0	0
FCF post dividends	**(214)**	**74**	**43**	**(72)**	**(98)**	**(126)**

Source: Alantra Equities

Net debt will increase over 2023-25

On the back of the above, we expect net debt to decrease from €376m in 2022 to €333m in 2023, then to grow to €405m in 2024 and €503m in 2025. Despite the increase in debt, leverage will fall over the period, with net debt/EBITDA going from 6.9X in 2022 to 4.7x in 2025.

These levels of leverage are too high in our view, also taking into account that interest cover will be just 2.0-2.5X over the period. Therefore, we believe debt will need to be cut.

AUDAX: LEVERAGE 2021-25E

(€ m)	2021	2022	2023E	2024E	2025E
Consolidated net debt	450	376	333	405	503
Net debt/EBITDA (X)	9.6X	6.9X	4.6X	4.6X	4.7X
Interest cover (X)	0.9X	1.4X	2.1X	2.4X	2.4X

Source: Alantra Equities

3) Net debt should be cut by €150m

Leverage should fall <3X EBITDA

In order to have a sense of how much debt needs to be cut, we have assumed a target/maximum leverage for the Supply business of 1.5X and of 5.5X for the generation business. This would lead to a target/maximum debt of €196m in 2023 and of €236m in 2024, meaning that Audax would need to cut its net debt by €150m.

AUDAX: DEBT REDUCTION TARGETS

	2023E			2024E		
(€ m)	EBITDA	Debt/EBITDA	Debt	EBITDA	Debt/EBITDA	Debt
Supply	50	1.5	75	63	1.5	95
Generation	22	5.5	122	26	5.5	141
Total	**72**	**2.7**	**196**	**89**	**2.6**	**236**
Net debt			333			405
Reduction target			137			169

Source: Alantra Equities

On paper, debt/EBITDA at 5.5X for the generation business could seem high, however, considering the MW in operation we expect Audax to have in 2024, and assuming leverage of 60% over their investment cost (€0.6m/MW for PV & €1.3m/MW for wind), the business would be able to assume debt of €190m, implying >7X debt/EBITDA in 2024.

AUDAX: GENERATION ASSETS POTENTIAL LEVERAGE (2024 CAPACITY)

(€ m)	MW	Investment Cost	Debt at 60%
Wind	91	1.3	71
PV	333	0.6	120
Total	**424**		**191**

Source: Alantra Equities

4) The alternatives: asset sales and a capital increase

Asset sales should be a priority for Audax

We see two main alternatives for Audax to cut its debt: a) asset disposals; and b) a capital increase. Selling assets should be, in our view, Audax's first option. The company already sold a 49% stake in a portfolio of 69MW PV projects in Spain to IKAV. In addition to these assets, we see three potential targets that could be sold:

a) **Panama.** Audax owns a 30% stake in a 66MW wind project in Panama. This asset is clearly non-core in our view, and should be sold. We value the 33% stake in the project at €14m.

b) **Operating assets.** In addition to the assets already sold, Audax has 154MW in operation as of YE2022, with a combined EV of €195m. Of these, there is 45MW wind in Spain, 12MW wind in France, and 34MW wind in Poland, as well as 63MW solar PV in Spain. Selling the Spanish assets would imply losing the "integration" with the supply business, which would go against Audax's strategy. However, we believe both France & Poland should go, together having a combined EV of €72m.

AUDAX: GENERATION ASSETS AVAILABLE TO BE SOLD				
	Stake (%)	MWs	EV/MW	EV (*)
Wind (1)		**91**	**1.60**	**145**
o/w Spain	80%	45	1.64	73
o/w France	80%	12	1.55	19
o/w Poland	100%	34	1.55	53
Solar PV (2)	**100%**	**63**	**0.80**	**51**
Total (1+2)		**154**		**195**

Source: Alantra Equities

c) **Pipeline.** Following the revision of the pipeline, Audax has now 1.2GW capacity in different stages of development. Of these, 951MW are in Spain & Portugal, which are core for the group, and 219MW in Italy, which could be sold. According to our estimates, at the current market prices, the Italian pipeline could be worth €19m.

AUDAX: ITALIAN PIPELINE M&A VALUATION			
(€ m)	**MW**	**EV/MW**	**EV**
Backlog	29	0.15	4
Grid connection	190	0.08	14
Total	**219**		**19**

Source: Alantra Equities

In summary, selling the stake in Panama, the international wind assets and the Italian pipeline could imply net proceeds of €86m for Audax, which would reduce leverage from 4.6X debt/EBITDA to 4.0X in 2023 and from 4.6X to 4.0X in 2024.

AUDAX: IMPACT IN LEVERAGE FROM DISPOSALS						
	2023E			2024E		
(€ m)	**Current**	**Change**	**New**	**Current**	**Change**	**New**
Net debt	333	(86)	247	405	(86)	319
Net debt/EBITDA (X)	4.6		4.0	4.6		4.0

Source: Alantra Equities

We do not rule out a capital increase

The above would leave the company in a more comfortable financial position, even if the solution would not be fully comprehensive (4X debt/EBITDA is still high). The problem, however, is the timing, as normally asset disposals are not immediate, and we believe that Audax should address its leverage issues over the next 6-12 months.

Therefore, in addition to selling assets, we would not rule out a capital increase in order to complete the de-risking of the balance sheet, for a size ranging between €50m and €100m, equivalent to 10-20% of the current market cap. Assuming that the above disposals are completed, plus the €50-100m capital increase, leverage would fall, as shown in the table below, to 2.4-3.2X in 2023 and to 2.8-3.4X in 2024. This would be comfortable enough to eliminate financial concerns and complete the investment effort in new renewable capacity.

AUDAX: IMPACT IN LEVERAGE FROM DISPOSALS AND A €50-100M CAPITAL INCREASE								
	€50m rights issue				€100m rights issue			
(€ m)	**Current**	**Disposals**	**RI**	**New**	**Current**	**Disposals**	**RI**	**New**
Net debt 2023	333	(86)	(50)	197	333	(86)	(100)	147
Net debt/EBITDA	4.6			3.2	4.0			2.4
Net debt 2024	405	(86)	(50)	269	405	(86)	(100)	219
Net debt/EBITDA	4.6			3.4	4.6			2.8

Source: Alantra Equities

V. P&L estimates

We are cutting our operating estimates by 5-10% over 2023-25, mainly to reflect the generation business' lower than anticipated capacity in operation, this resulting from the permitting bottlenecks, the 1.0GW pipeline write-off and the high leverage. In addition, we are slightly lowering our estimates for the supply business, reflecting slightly lower margins, which have been negatively impacted by the lower contribution from its own generation assets.

We expect revenues to fall by 14% in 2023 to €2.3bn, mainly impacted by our forecasted decrease in pool prices. From then on, we expect sales to grow by 3-6% over 2023-2025, while the fall in prices will be offset by the increase in clients. In terms of EBITDA, we expect it to increase by 39% to €72m in 2023, to €89m in 2024 and then to €107m in 2025.

Below EBITDA, we expect financial costs to grow slightly, impacted by the investments in new generation capacity. Overall, we expect strong EPS growth, going from €0.01 in 2022 to €0.08 in 2025.

AUDAX: P&L ESTIMATES 2021-25E

(€ m)	2021	YoY	2022	YoY	2023E	YoY	2024E	YoY	2025E	CAGR 22-25
Revenues	1,684	56%	2,633	(14%)	2,252	3%	2,324	6%	2,460	(2%)
CoGS	(1,561)	59%	(2,489)	(16%)	(2,086)	2%	(2,135)	5%	(2,245)	(3%)
Gross Profit	123	17%	144	15%	166	14%	189	13%	215	14%
Opex	(76)	22%	(92)	2%	(94)	7%	(100)	7%	(107)	5%
EBITDA	47	10%	52	39%	72	24%	89	20%	107	28%
Depreciation	(22)	(1%)	(22)	8%	(23)	14%	(27)	26%	(34)	16%
EBIT	25	30%	32	50%	48	29%	62	18%	73	31%
Net financial	(27)	(26%)	(20)	(10%)	(18)	17%	(21)	26%	(26)	10%
Taxes	(2)	-	(5)	(28%)	(3)	56%	(5)	13%	(6)	8%
Minorities	2	-	(4)	40%	(6)	0%	(6)	0%	(6)	12%
Net profit	(2)	-	4	-	21	42%	30	17%	35	115%
EPS (€)	(0.00)	-	0.01	-	0.05	42%	0.07	17%	0.08	115%

Source: Alantra Equities

Growth in EBITDA driven by the recovery of the supply business

Looking at EBITDA in more detail, we expect recurrent EBITDA to grow by 39% to €72m in 2023, with both divisions having a positive contribution (Generation +12% YoY and the Supply business +56 YoY). We expect EBITDA to reach €89m in 2024 (+24% YoY), with Supply growing by 28% and Generation by 15%. Looking ahead, EBITDA should increase by 20% to €107m in 2025.

AUDAX: RECURRENT EBITDA ESTIMATES 2021-25E

(€ m)	2021	YoY	2022	YoY	2023E	YoY	2024E	YoY	2025E	CAGR 21-25
Supply	34	(7%)	32	56%	50	28%	63	13%	72	31%
Generation	13	54%	20	12%	22	15%	26	39%	35	22%
EBITDA	**47**	**10%**	**52**	**39%**	**72**	**24%**	**89**	**20%**	**107**	**28%**

Source: Alantra Equities

Regarding the financial costs, we include a slight increase in the cost of debt, going from 4.6% to 5.0% in 2023 and reaching 5.8% in 2025, negatively impacted by the interest rates hike.

AUDAX: NET FINANCIAL COSTS 2021-25E

(€ m)	2021	2022	2023E	2024E	2025E
o/w financial revenues	1	10	7	5	5
o/w financial cost	(29)	(33)	(30)	(31)	(36)
Cost of debt (%)	3.9%	4.6%	5.0%	5.5%	5.8%
Net financial expenses	**(28)**	**(22)**	**(23)**	**(26)**	**(31)**

Source: Alantra Equities

VI. Our valuation range: €1.47-1.81 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 above current market prices

We are cutting our valuation range for Audax by c.10%, as we are lowering the capacity in operation and slightly decreasing the gross margin of the supply business, due to a lower contribution from its own generation operating assets. We have assumed two scenarios:

a) **Cautious**. We reach an EV of c.€1.1bn and an equity value of c. €748m. After discounting debt, minorities, and the impact of the €100m capital increase, we reach €1.47 p.s., 30% above current market prices.

b) **Optimistic**. We reach an EV of c.€1.3bn and €896m equity value, equivalent to €1.81p.s., 60% above current market prices

60% of EV comes from the supply business

In both scenarios, 60% of our EV comes from the supply division (68% of which is Spain) and 40% from generation. In addition, we include the impact of the €100m capital increase in both scenarios, with a 25-30% discount vs. current market prices.

AUDAX: SUM OF THE PARTS VALUATION RANGE

	Spain & Portugal		International		Total group	
(€ m)	**Cautious**	**Optimistic**	**Cautious**	**Optimistic**	**Cautious**	**Optimistic**
Supply	**416**	**470**	**265**	**300**	**680**	**770**
Generation	**293**	**331**	**152**	**172**	**445**	**504**
o/w assets in operation	189	214	152	172	342	387
o/w new assets	103	117	0	0	103	117
Total EV	**709**	**802**	**417**	**472**	**1,126**	**1,274**
Net debt (2022)					(333)	(333)
Net financials					55	55
Minorities					(100)	(100)
Equity value					**748**	**896**
Nº shares					440	440
Equity value p.s. (€)					**1.70**	**2.03**
Discount capital increase (*)					(0.23)	(0.23)
Equity value p.s. (€)					**1.47**	**1.81**

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

a) We value the Supply business at an EV ranging from €680m to €770m through a DCF using a 10.6% cost of equity (we assume no debt) and a 1% terminal growth rate. Our valuation implies an EV per supply point ranging from €1.4-2.0k in Iberia to €1.3-1.5k in Europe.

AUDAX: EV SUPPLY BUSINESS

	EV		Supply points (k)		EV/Supply point (€ k)			
(€ m)	**Cautious**	**Optimistic**	**2023**	**2024**	**2023 (1)**	**2023 (2)**	**2024 (1)**	**2024 (2)**
Spain & Portugal	416	470	240	294	1.7	2.0	1.4	1.6
Rest of Europe	265	300	203	211	1.3	1.5	1.3	1.4
Total Supply	**680**	**770**	**443**	**505**	**1.5**	**1.7**	**1.3**	**1.5**

(1) Cautious scenario & (2) Optimistic scenario; Source: Alantra Equities

b) We value the Generation assets in operation by the end of 2023 at an EV ranging from €342m to €387m. This includes: 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 158MW solar PV capacity, which should have been installed by 2023 YE, valued at €120-136m or €0.8-0.9m/MW.

c) Lastly, we value the 450MW new PV assets to be installed in Iberia over 2024-25 and the net pipeline at an EV ranging from €103m to €117m, which implies €0.23-0.26m/MW.

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