Webuild S.p.A. (WBD.MI)

HOLD: € 2,15 (+2,38%)

Equity Research Division

13th December 2021

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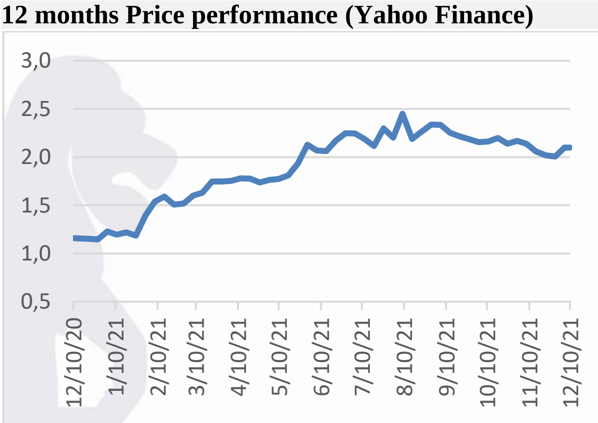
Basic Information

Last Closed Price	€2,10
12M Target Price	€2,15
+/- Potential	+2,38%
Bloomberg Ticker	WBD:MI
GICS Sector	Industrial Goods
GICS Sub-Industry	Construction and Engineering

12 months Price performance (Yahoo Finance)



Company Description

Webuild S.p.A. is an Italian-based company engaged in the construction sector. The Company specializes in the construction of infrastructure projects throughout the world. The projects include the construction of road networks, highways, bridges, viaducts, dams, hydroelectric plants, hydraulic projects, motorways, metro urban lines, airports, railway lines, underground works, residential and office complexes, hospital complexes, university campuses, governmental buildings, civil, as well as industrial buildings, among others. The company operates in over 50 countries in 5 different continents.

Key Financials

Market Cap	€2,11B
Basic Shares O/S	891M
52-Wk High	€2,45
52-Wk Low	€1,14
Fiscal Year End	31-Dec-2020

EUR(M)	FY18A	FY19A	FY20A	FY21F	FY22F
Gross Profit	2.188	2.254	2.013	3.222	3.336
EBITDA	197	477	164	372	385
Margin (%)	*4.0%*	*10.0%*	*3.9%*	*5.4%*	*5.4%*
EBIT	41	358	36	132	137
Margin (%)	*0.8%*	*7.51%*	*0.8%*	*1.9%*	*1.9%*
Net Income	54	-22	147	91	94

Key Executives

Pietro Salini	Chief Executive Officer
Massimo Ferrari	Chief Financial Officer

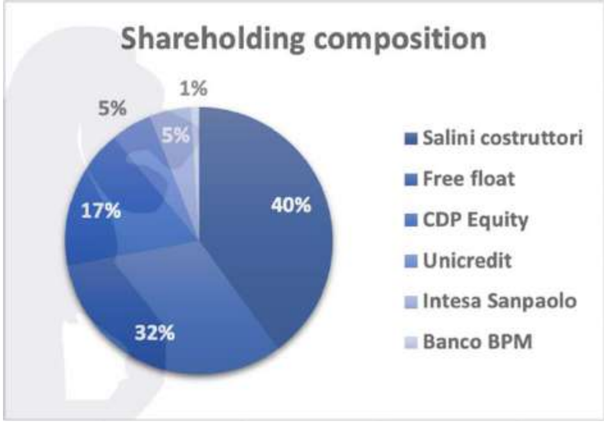
2021 Annual Announcements Highlights

- External growth through the integration of Astaldi and full acquisition of Seli Overseas.
- Total pipeline of commercial activities exceeds €25B with awaiting outcomes for more than €8B.
- The group is developing approximately 70% of the railway projects currently under the NRRP.
- The opportunities offered by post-pandemic stimulus mechanisms have created a market worth more than 730B for the period 2022-24.

Summary

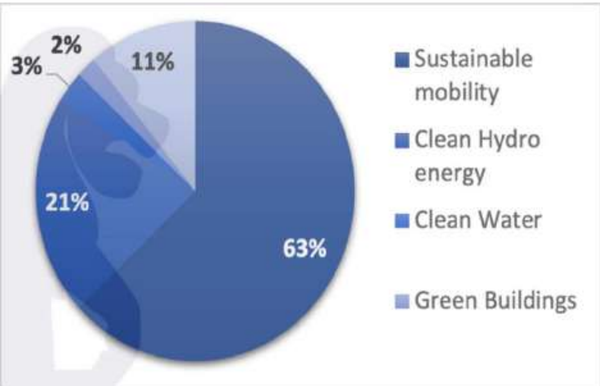
Given Webuild's recent rebranding and strategic expansions, this report aims to assess the consistency of growth opportunities associated with the target company. Before all else, we conduct a firm-specific and industry overview to examine post-pandemic prospects. Then, we execute a financial statement analysis and company valuation, employing an FCFF model. Notwithstanding the high capital intensity of the infrastructure industry that usually guides professionals to double-check the results coming from an asset-side DCF model through an FCFE model, we prefer not to make future assumptions regarding the expected change in Webuild's debt position. Finally, we perform a conclusive valuation employing stock market multiples. The target price obtained from absolute valuation models is €1,92. However, taking into account stock market multiples we end up with a final target price of €2,15. The valuation suggests that the stock is currently correctly priced and that fundamentals accurately describe expected performance. In addition to that, we firstly consider the declining revenues registered in the near past. Secondly, we recognize that the positive shock on Webuild's industry is partly due to the stimulus packages implemented by European and national institutions (e.g., Italian NRRP), whose nature is, by definition, non-recurring. Consequently, it is reasonable to assume that the expected growth will stabilize in the medium term. Therefore, our final recommendation is "Hold".

Figure 1. Shareholding composition



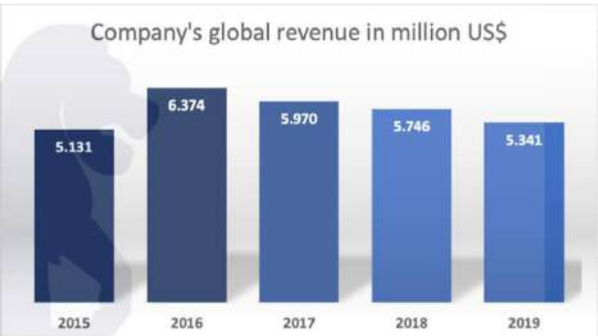
Source: Company 2020 Financial Report

Figure 2. Construction backlog business area (2020)



Source: Company 2020 Financial Report

Figure 3. Global revenue in million US$



Source: Statista

Company Overview

Webuild S.p.A, formally founded in 2014 as the result of the merger by incorporation of Salini into Impregilo and headquartered in Milan, is the biggest Italian engineering company and represents a leader in the global construction sector. The company has around 70,000 direct and indirect employees and operates in over 50 countries on the 5 continents. The firm has vast experience in the construction of dams, hydroelectric plants, water infrastructures but also roads, railways, motorways, metro systems, airports, hospitals, and public and industrial buildings. In recent years, the company has also specialized in civil engineering for waste-to-energy plants and environmental protection initiatives. Indeed, it ranks first in the water sector of the Engineering News-Record rankings, the benchmark for the entire construction industry.

Webuild is listed on the Milan Stock Exchange and 31.8% of the Share Capital is free float. Salini Costruttori S.p.A. is the principal shareholder with 40,1% of the share capital. In 2020, the company achieved all its targets with a total backlog of €41.7B and a construction backlog of €33.3B. The mission statement of the company is "to develop construction solutions capable of enhancing community resources and contributing to the economic development and social well-being of local populations". The values that inspire the company are excellence, fairness, respect for human rights and for the environment, transparency and sustainable innovation. Indeed, it is continuously researching, developing and adopting innovative solutions in building sustainable infrastructure. As a matter of fact, the company is listed in Europe's Climate Leaders 2021, a list of firms identified by Financial Times and Statista that are at the forefront in terms of efforts to fight climate change. Webuild is working on several substantial renewable energy projects like the Grand Paris Express metros, Milan's new M4 Line or the Karahnjukar Hydroelectric Project in Iceland, where a 193m high and 730m long dam with a water volume of 8.9 million cubic meters has been built. Yet another important project ever carried out by WeBuild for the media relevance it had is surely the reconstruction of the Morandi bridge (Polcevera viaduct) that collapsed in August 2018. The reconstruction was entrusted to Webuild in collaboration with Fincantieri, based on a design by Renzo Piano, and was completed on August 4th, 2020.

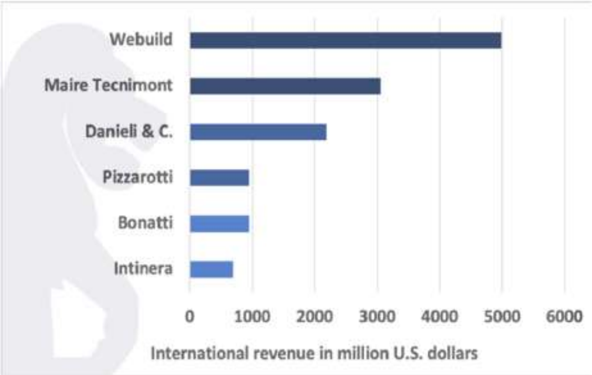
Finally, the company has recently completed the acquisition of 65% of Astaldi, becoming the most important Italian group, and one of the most important in the world, specialized in the construction of large and complex infrastructures for sustainable mobility. The transaction was finalized through a €225M capital increase in Astaldi reserved for Webuild. Liquidity was guaranteed to Webuild by the capital increase fully paid in November 2019, by Salini Costruttori, CDP Equity, Banco Bpm, Intesa Sanpaolo, UniCredit and other institutional investors.

Industry Outlook

The Global Infrastructure Industry is expected to reach USD 13,5 billion by 2027, growing at a CAGR of 21% according to Globenewswire. Some of the main megatrends will be population growth, urbanization, scarcity of resources and climate change.

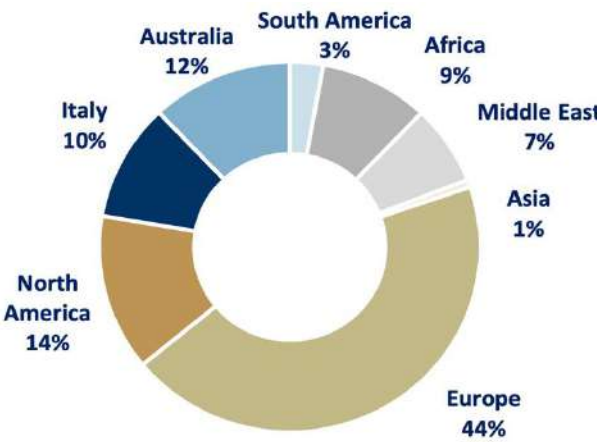
Population growth the global population is growing at a current rate of 1,05% per year, this will lead to a need of an even more extensive and widespread infrastructure network. Especially in less

Figure 4. International revenue in million US$



Source: Statista

Figure 5. Webuild's total pipeline of commercial activities by geography



Source: Company Q3 2021 Report

industrialized areas: in many Third World countries, such as Africa, where modern roads are scarce or absent and in general there is a lack of infrastructure, there will be an increasing need for streets, bridges, railways, airports or hospitals. This is certainly an opportunity for infrastructural companies like Webuild to expand and enlarge their business.

Urbanization The demand for urban mobility is expected to increase by 100% by 2050, consequently, this will lead to the need for new roads, subways and bridges and other infrastructures. Another megatrend is the expected growth of global water demand by 30% up to 2050. As the population increases, so does the demand for water, leading to the need to build new water infrastructure.

Sustainability Finally, one of the most critical issues addressed in recent years concerns climate change. To tackle this problem, various plans have been drawn up by the various states, one of which is the 2030 Agenda, in which the states undertake to drastically reduce emissions by 2030 and to produce energy from renewable sources, of which hydroelectric power is one of the main sources. In terms of energy, there will be a 50% increase in energy consumption by 2050, 86% of which will be produced from renewable sources such as hydroelectric plants, this will surely increase the demand for the construction of dams and hydroelectric plants.

However, there are also some aspects that can undermine the growth of the infrastructure industry. Firstly, this industry is very capital intensive which means that every project needs a huge amount of funding. Thus, it is common that these projects last for years as it usually takes a long time for projects to get approved. Secondly, there are also other challenges that can slow down the growth of the construction industry such as shortages of raw materials or skilled workers and finally the increase in raw material prices. Indeed, the prices of building materials have risen to record highs, and in particular, the materials whose prices have increased the most are steel strips for road construction and barriers (+76.43%), steel sheets (+59.37%), electro-welded mesh (+44.21%), railway tracks (+31%). Fortunately, operators holding public contracts, such as Webuild, will be able to ask contracting authorities for compensation for the materials that have exceeded a price increase of more than 8% in the comparison between the first half of 2021 and the first half of 2020.

How the NRRP will impact Webuild

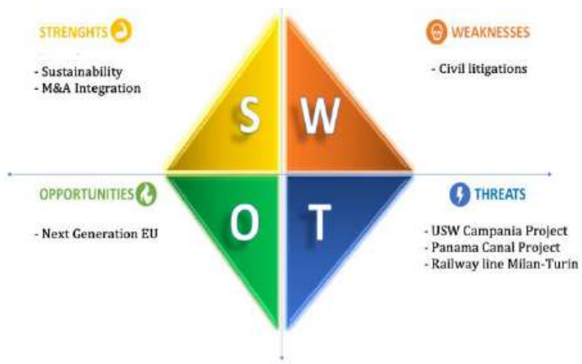
The Next Generation EU (NGEU) is a fund created by the European Union in response to the severe damage to the economy caused by lockdowns due to the Covid-19 pandemic in the different countries of the union. The latter represents the largest economic stimulus package ever financed by the European Union, which is worth approximately €750B. Moreover, taking into account the additional financial framework of the EU budget, the total amount made available to the European economy will be of about €1824M. This represent an unprecedented positive shock that will be shared between European countries to stimulate growth after the massive losses due to the Covid-19 pandemic and subsequent national blockades.

In Italy, the fund will cover the years 2021-2023 and will be linked to the EU's 2021-2027 budget. €61.2B (26%) of the resources of the NRRP (National Recovery and Resilience Plan, made by Italy) will be allocated to the infrastructure, public and private sector.
Specifically, €26.6B is earmarked for the high-speed/capacity rail network, €22.4B for the energy efficiency and building renovation

Figure 6. Number of enterprises 2015-2017

Source: Statista

Figure 7. SWOT Analysis



Source: Minerva Investment Management Est.

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€4B for the school building security and structural rehabilitation plan, €3.7B for the integrated logistics and finally €1.5B for road maintenance 4.0.

The government aims to strengthen rail passengers and freight rail transport by improving the capacity and connectivity of the rail system. To make this happen, the investments in the rail network will be around the aforementioned amount of €26.5B. Moreover, high-speed rail is the sector that will benefit most from the NRRP (with €14.8B). Some of the most important railway lines to be built are: Naples-Bari, Palermo-Catania, and Liguria-Alps. Indeed, the objective of these investments is to reduce the infrastructural gap between the North and South of Italy.

According to Webuild's last quarterly report, when considering the high-speed/high-capacity contracts acquired in Italy year-to-date, the group is developing approximately 70% of the railway projects currently under the PNRR. Furthermore, the NRRP earmarked 2.1 billion for improving hospitals to adapt to modern anti-seismic rules. Since Webuild is also an expert in hospital construction, it could also exploit this sector to increase its profits even further. Indeed, 120 interventions have been identified to be completed by 2026.

However, it is crucial to stress that the vast majority (approximately €14B) of the available funds are expected to go to tender in the next two years. That, therefore, gives an idea of how the positive expected growth attributable to Webuild and the infrastructure industry in the next two years has to be examined with a grain of salt when developing a strategic asset allocation.

SWOT Analysis

Strengths

Webuild's workforce – Webuild has a great mix of experienced managers and young talents. Webuild has been ranked tenth on the "Best Employer of Choice 2020" for Italian graduates for the fifth year in a row, attracting the best students to the company. Moreover, 43% of the workforce is under 35 years old. Webuild is clearly investing into the future by having such a high proportion of young workers.

Safety track record – Webuild has been building a culture of Health&Safety at the workplace for years. This is especially important considering Webuild is a construction company, where accidents occur much more than in office environments. In the last 6 years, they have been significantly decreasing the number of injuries due to their heavy investment into the Health&Safety culture through the Valyou program.

Sustainability – Sustainability has been Webuild's pillar of long-term growth strategy. This is best portrayed by the fact that in 2019, 88% of Webuild's backlog came from projects that directly contribute to meeting sustainable development goals.

M&A integration – Webuild's predecessor Salini Spa went through major mergers and acquisitions in the last 20 years starting with the €1bn merger with Impregilo. In 2016 Salini Impregilo acquired LANE, a construction corporation in the United States. Most recently, Webuild acquired Astaldi, Italy's second largest construction company, consolidating the Italian construction sector and established itself as a global leader.

Weakness

Civil Litigations – One of the biggest weaknesses of Webuild are the numerous civil litigations that they are involved in across different legal systems. This incurs high legal costs and raises uncertainty as to the company's ability to carry out projects in the future.

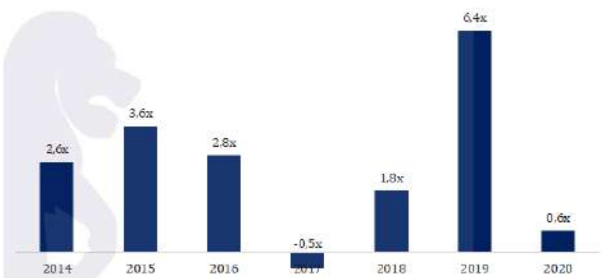
Figure 8. Liquidity

Source: Minerva Investment Society Est.

Figure 9: Cash Conversion Cycle

Source: Minerva Investment Society Est.

Figure 10. Interest Coverage Ratio



Source: Minerva Investment Society Est.

Opportunities

NextGenerationEU – Italy will be one of the biggest recipients of EU's new economic recovery plan following the crisis caused by Covid-19. In Italy, a large portion of the funds will be invested into transport and water infrastructure such as high-speed railway lines, dams, reservoirs, aqueducts, etc. This plan will give a macroeconomic boost to Italy's economy and improve investment, but especially in the construction sector, hence this is a major opportunity for Webuild.

Threats

USW Campania Project – Webuild's predecessor got involved in the urban solid waste disposal project in Naples at the end of the 90s. The project became increasingly complex leading to a series of civil litigations involving the Office of the Prime Minister. The litigations are still ongoing and could potentially lead to substantial losses for Webuild.

Panama Canal Project – The construction of the new Panama Canal has also led to a series of civil litigations against Webuild which have already resulted in Webuild having to pay $110 million as a result of an arbitration.

High Speed Railway line Milan – Turin – In another civil litigation concerning the building of the high-speed railway line from Milan to Turin, Webuild was ordered to pay €75 million. The issue is being raised with the Supreme Court, but no court date has been set yet.

Financial Analysis

Webuild S.p.A is an interesting case to study as it has a complex structure in a competitive industry with small value added. The financial statement analysis is conducted using the most relevant ratios and measures in the construction industry, assessing liquidity, cash conversion cycle, solvency and profitability. In order to visualize more efficiently these ratios, we make a comparison with other companies operating in the same industry. The comparable companies are the same used in the multiple valuation, namely: Balfour Beatty PLC (UK), Skanska AB(Sweden), StraBag SE (Austria), Vinci SA (France), and Koninklijke BAM Groep (Netherlands).

Liquidity

For Webuild, we choose to look at a 6-year period from 2014 to 2020, to have a better overlook on the structural changes of the company. The company has shown a quite constant current ratio over the observed period. At the same time, the quick ratio has been increasing from 0,84 to 1,18 over the period falling short to the current ratio only by 0,11 in 2020, implying that Webuild has increased the liquidity of its assets over the entire period.

In 2020, we can observe a slight decrease in both ratios, this decrease does not represent a downward trend per se but can rather be explained by the acquisition of Astaldi, which created a momentary change in the company's liquidities and assets that have increased by more than 40% in 2020.

Cash Conversion Cycle:

As far as the working capital management is concerned, the company has shown an increase in the noncash net working capital over the past 4 years. Although a non-negligible decrease in inventory, this is due to the critical increase in accounts receivable that was more than proportional with respect to the increase in accounts payable. Moreover, this is depicted also by the outcome coming from the analysis of cash conversion cycle. The latter was negative in 2016 and 2017, meaning that the working capital structure was a source of financing rather than an investment to finance. The opposite has been true from 2017 on, with the number of days receivables and inventory outstanding exceeding days payables outstanding.

Solvency

As previously mentioned, Webuild has had some structural changes over the past financial periods, and while factors studied above have been impacted, the solvency of the company is one of the most volatile segments.

Figure 11. Debt-to-Equity Ratios

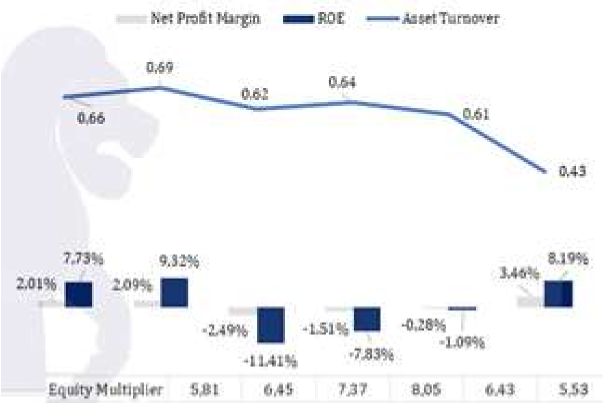
	2016	2017	2018	2019	2020
WeBuild	53,21%	102,11%	129,83%	81,61%	52,94%
Balfour Beatty PLC	21,14%	6,91%	6,34%	-6,58%	-10,40%
Skanska AB	17,34%	15,98%	1,29%	22,19%	-11,54%
StraBag SE	-17,98%	-44,27%	-31,22%	-27,05%	-41,51%
Vinci SA	88,04%	80,81%	83,00%	116,59%	96,74%
Koninklijke BAM NV	-161,77%	-47,04%	-54,24%	-17,38%	32,55%

Source: Minerva Investment Society Est.

Figure 12. EBITDA & Profit Margins

Source: Minerva Investment Society Est.

Figure 13. DuPont Analysis



Source: Minerva Investment Society Est.

In order to study the volatility of the company we looked at the Interest coverage ratio. Looking at the EBIT fluctuations it is inevitable to have discrepancies in the actual capacities of the company to finance its current financial costs.
Again 2017 stands out with a negative Interest coverage ratio, explained mainly by the decrease in gross profit. The same year Webuild restructured its debt and underwrote a great part of its Venezuelan assets which played a role in the cost of liability financing. Indeed, interest expenses went from 6% of the liabilities to under 2,5%.

We then look at the debt-to-equity ratio, considering net debt over total equity. The number of minorities did not have a major relevance in the level of the ratio nor in the observable trends. In this section we also take into consideration Webuild's competitors in order to get a cross-sectional comparison over the years considered. Relative to the competitors considered, Webuild seems to have the highest leveraged over the years. The comparables that appear more similar to Webuild in terms of debt position is Vinci SA. On the contrary, StraBag and Koninklijke BAM showed a negative ratio, due to a negative net debt (i.e., cash and marketable securities exceed financial debt).

Profitability

To assess the profitability of Webuild we choose to look at the return it produced in comparison to its assets and to its equity. Concurrently, we observe the EBITDA and Profit margins during the same period as displayed in the Figure 12.

During the full period the profitability of the company has followed the trends observable in all the previous financial observations made. Especially when looking at year 2017, but with steeper fluctuation due to the low profitability of the business and the important cost changes in the different projects that the company partook in. Looking at the two last years, we can confirm the previously made observation that the company's attempt to restructure itself, while not completely successful present some potential for improvement. For instance, the 2017 efforts have created a positive trend for the standard Profit margin which increased by more than five percent, from a negative 2,49% in 2017 to a mere 3,46% in 2020. In contrast, the EBITDA margins has decreased over the all period from with a pick in 2019.

As displayed in the Figure 13**,** we break down the Return on Equity by conducting a DuPont analysis over the same period. By doing so, we can see that the asset turnover ratio has mainly decreased over the full period confirming that the sale decrease was not a controlled event as the level of asset did not decrease in the same manner. The equity multiplier is quite high, reaching a pick in 2018 with 8,05 times more assets than shareholders' investment, and confirming how highly leveraged Webuild is.

As the construction and civil engineering industry is quite specific, we again want to put into perspective the unprofitability of WBD as displayed in the Figure 14. One of the most reassuring traits of the comparison is the similar volatility for investor on the return of their investment. There are no observable trends in the industry per se but the size of the units of sales is a very important feature. Having said that we cannot deny the low level the group in the observed period, indeed Webuild shareholders saw the lowest return on their investment for 3 consecutive years, to only return to a previously achieved 8% Return on Equity in 2020.

Looking at the overall financial analysis, Webuild is quite weak in it completing positive return from its investment despite having rebranded itself and changed its structure. The purchase of Astaldi in 2020 might help the company gaining momentum in terms of revenues and stopping the downward trends observable from 2014 to 2020.

The debt restructuring as well as the asset cleaning conducted in 2017 helped in turning some red lights off but the financial green lights are not yet present, especially when comparing the industry to its respective sector. In the wake of a new wave of European investment, Webuild could benefit from the New Generation framework and try to reach sustainable profitability in the years to come.

Figure 14. Return on Equity in the industry

ROE	2016	2017	2018	2019
WeBuild	9,32%	-11,41%	-7,83%	-1,09%
Balfour Beatty PLC	3,17%	15,91%	10,97%	9,50%
Skanska AB	20,92%	15,13%	15,63%	18,32%
StraBag SE	8,73%	8,28%	10,86%	9,73%
Vinci SA	15,21%	15,43%	15,55%	15,95%
Koninklijke BAM Groep	6,79%	-1,91%	3,26%	1,88%

Source: Minerva Investment Society Est.

Valuation

Target Price: €2,15

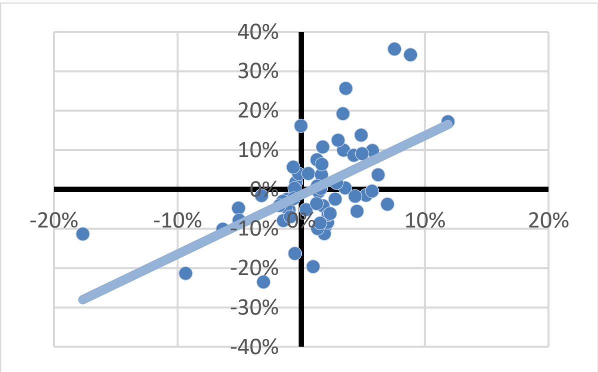
Our analysis follows two main approaches:
- An intrinsic valuation regarding the asset-side DCF model (Free-Cash-Flow to the Firm approach)
- Relative valuation with stock market multiples of comparable companies

Free Cash Flow to Firm Approach

Among different valuation methods, we choose the DCF asset side model. Indeed, the DCF is a quantitative method used to estimate the value of an investment based on its expected future cash flows. If the value obtained from the DCF is lower than the current trading price of shares, then the stock is overvalued and qualifies for a sell and vice versa. The target price, compared with the current share price and considering the previous qualitative analysis, leads to a "Hold" recommendation. Proceeding step by step, the first element we compute is the cost of equity and cost of debt, based on the following assumptions and estimates:

Risk-free rate (1,00%)
It expresses the average risk-free rate used by analysts to value an Italian company, according to Fernandez's 2021 report based on the survey approach.

Figure 15. Regression Webuild – MSCI World



Source: Minerva Investment Society Est.

Equity Risk Premium (6,85%)
According to Damodaran's analysis on equity risk premia, the aforementioned value denotes the premium an investor will require to invest in the stock rather than in the risk-free security. Moreover, it allows to include the significant country risk premium attributable to an Italian company of 2,13%.

Beta (1,40)
To compute the beta two methods are implemented: i) regression against the MSCI Global index as a proxy for the market portfolio; ii) bottom-up beta based on the comparables selected for the relative valuation.

- *Regression against the MSCI World Index:* the simplest methodology to determine the level of systematic risk is to run a regression confronting the return offered by the target stock with respect to the return displayed by the so-called market portfolio. The choice of the index that represents the independent variable of the regression is typically made taking into consideration the markets in which the company operates. Figure 5 showed how Webuild's total pipeline of commercial activities is globally diversified (with only 10% coming from Italy). Therefore, we should measure the risk of the individual stock not with respect to its home-country portfolio, but to the volatility of a global market portfolio (e.g., MSCI World Index). The regression of Webuild's total return index fluctuations against the MSCI World Index, using monthly observations,

Figure 16. DCF Model – Summary

Cost of Equity	10,57%
TV Growth Rate	1,94%
Discounted Cash Flows	1.088
Discounted TV	1.301
Equity Value	1.716
Net Debt	763
EV core	2.388
N° of Shares (in millions)	892
Share Price Target (DCF)	1,92 €

Source: Minerva Investment Society Est.

Figure 17. Sensitivity Analysis

		WACC								
	1,92	8,50%	8,40%	8,30%	8,20%	**8,07%**	8,00%	7,80%	7,60%	7,50%
g	1,75%	1,75	1,78	1,81	1,84	1,88	1,90	1,97	2,04	2,08
g	1,80%	1,76	1,79	1,82	1,85	1,89	1,91	1,98	2,05	2,09
g	1,85%	1,77	1,80	1,83	1,86	1,90	1,93	1,99	2,07	2,11
g	1,90%	1,78	1,81	1,84	1,87	1,92	1,94	2,01	2,08	2,12
g	**1,94%**	1,79	1,82	1,85	1,88	**1,92**	1,95	2,02	2,09	2,13
g	2,00%	1,80	1,83	1,86	1,90	1,94	1,96	2,03	2,11	2,15
g	2,05%	1,81	1,84	1,88	1,91	1,95	1,98	2,05	2,13	2,17
g	2,10%	1,82	1,85	1,89	1,92	1,96	1,99	2,06	2,14	2,18
g	2,15%	1,83	1,87	1,90	1,93	1,98	2,00	2,08	2,16	2,20
g	2,20%	1,85	1,88	1,91	1,94	1,99	2,01	2,09	2,17	2,21

Source: Minerva Investment Society Est.

leads to the results presented in Figure 15 and a beta of 1,51. The t-stat of 5,3 (as a rule of thumb that should exceed 4) suggests that the regression is significant. Please refer to the Appendix for the complete outcome.

- *Bottom-up beta:* this approach relies less on historical data and is instead more cognizant of fundamental determinants of systematic risk. Starting from the levered beta for all the selected comparables, we first unlever each beta using the Hamada formula. Then, we compute the industry beta as the average of the unlevered betas. Finally, we relever the average unlevered beta using Webuild's marginal tax rate (24% according to KPMG's corporate tax rate table by country) and Debt-to-Equity ratio (40,71% at market values). This second approach leads to a beta equity equal to 1,29.

The average of these two outcomes (1,40) is the selected beta for the computation of the cost of equity.

Cost of Debt (2.56%)
As a proxy for the cost of debt, we adopt the synthetic rating approach, associating the average Interest Coverage Ratio calculated over the time-horizon 2014-2020 (to smooth out volatility) of 2,5. According to Damodaran, a default spread of 1,56 should be associated with such a ratio, thereby obtaining a cost of debt equal to the sum of the risk-free rate (1%) and this spread.

Cost of Equity and WACC

We use the Capital Asset Pricing Model (CAPM), a theory based on stock's volatility and level of risk compared to the general market. Thus, we assumed that that the expected cost of capital Ke is:

$$Ke = rf + \beta \times [E(rm) - rf] = 10{,}57\%$$

Accounting for the cost of debt, we estimate a WACC of 8.07%, slightly lower than the Cost of Equity because of the positive impact of debt in the weighted average. Hence, this might be a possible explanation of why the company prefers to operate with high leverage, optimizing its capital structure to maximize value.

Findings

In the valuation, we apply a two-stage growth model. First of all, we incorporate the recent acquisitions completed into the forecasting model. Indeed, €6.850M is the midpoint of 2021 projected revenue range presented by Webuild in its last quarterly report, taking into consideration the future benefits associated with external growth. Furthermore, we have to stress the fact that Webuild faced a critical and continuous decrease in revenues over the last 5 years. Hence, the growth rate to use in the explicitly forecasted horizon is the compounded annual growth rate (CAGR) calculated taking as starting point 2016 revenues (5.760) and as ending point the 2021 forecast mentioned above. As a result, the growth rate over the high-growth phase is 3,53%.

In the second stage, we estimate a stable growth affordable in the long run of 1,94%, using the fundamental approach, i.e., the product of the Return on Capital and Reinvestment rate.

After computing the explicit FCFOs (starting from NOPAT, we subtract Net Capex along with the increase in non-cash working capital) and the Terminal Value, we discount them at the WACC, thus obtaining the Enterprise Value. The latter must be decreased by Net Debt and Minority Interest and increased by Surplus Assets to get the Equity Value. Figure 16 summarizes the results of the asset-side DCF model, while Figure 17 offers a sensitivity analysis to analyze how the value might change by changing the assumptions regarding the terminal growth rate and the WACC.

Multiples approach

Peers analysis

We decide to focus on a group of comparables coherent not only with the core business of the company evaluated, but also aligned in terms of size and geography. We conduct our analysis over five companies.

Balfour Beatty plc is a British multinational infrastructure group, founded in 1909 and headquartered in the United Kingdom. It operates in construction services, support services and infrastructure investments, and generated £8.587B in revenues in 2020.
Strabag SE, founded in 1835, is the biggest construction company in Austria, headquartered in Vienna. It operates in construction services, civil engineering, and transportation infrastructure, boasting €14.750B in revenues in 2020.
Royal BAM Group nv is the biggest Dutch construction company, with revenues of €6.768B in 2020. Founded in 1869, and based in Bunnik, Royal BAM Group is active in construction and civil engineering.
Skanska AB, headquartered in Stockholm, is a multinational construction and development company. Founded in 1887, it operates mainly in construction, residential development and commercial property development, reporting SEK 160,344B in revenues in 2020.
Vinci SA is a French concessions and construction company, headquartered in Paris and founded in 1899. Active in 120 countries, it generated €43.234B in revenues in 2020.

Figure 18. Sensitivity Analysis

Comparables	P/E	EV/EBITDA
	2021	
Balfour Beatty	0.21x	7.15x
BAM Group	0.10x	NA
Skanska	0.59x	6.98x
Strabag	0.24x	1.05x
Vinci	1.05x	8.91x
Average	13,4x	6,0x
Median	12,3x	7,1x

Source: Minerva Investment Society Est. & Refinitiv Eikon (data as of Dec 10th)

Computation

In order to check the results obtained through the DCF model, we perform a market multiples approach analysis. We decide to use both equity and asset side multiples to have a more complete view on the value of the company.
We choose to consider the P/E multiple as the equity side multiple to understand the market sentiment with respect to net income. P/BV is discarded as accounting standards can affect book value of equity differently across comparables. P/S (as well as EV/S) is not chosen given that it is typically used to value young companies. To avoid inconsistencies due to discretional and volatile accounting items, we also rely upon EV/EBITDA, as it can more easily be used to compare firms with different financial leverage. EV/EBITDA is also deemed superior to EV/EBIT, as the latter is influenced by accounting choices on depreciation and amortization.

We take the market multiples of the set of comparables mentioned above and compute the average and median of the 2021 leading multiples, as you can see in Figure 18.

Figure 19. Football Field – DCF & Multiples

Source: Minerva Investment Society Est. & Refinitiv Eikon

To derive the share price from the asset side multiple, we first obtain the Enterprise Value, then subtract Net Debt and Minorities and add back Associates and Financial Investments. We divide the result by the number of outstanding shares, to get the intrinsic share price. For the equity side multiple, we simply multiply the ratios by the expected 2021 EPS of Webuild. To get a range of values for the football field chart, we use the 2021 leading average and median of the multiples as the upper and lower bound, respectively.

The average among the two midpoints for the estimated ranges, namely €2,57 and €1,97, and the outcome of the DCF valuation, equal to €1,92, yields a final target price of **€2,15**, which is very close to €2,10 (price as of December 10th).

Investment Risks

Civil Litigations. The numerous civil litigations Webuild is involved in across different legal systems are strictly linked to the implicit riskiness of its core business. This incurs high legal costs and raises uncertainty as to the company's ability to carry out projects in the future.

National Recovery and Resilience Plan. According to Webuild's last quarterly report, the infrastructure industry is already and will continue to benefit from the positive stimulus coming from the NRRP. Despite being responsible for approximately 70% of the railway projects under the plan, it is crucial to assess the nature and persistence of the recent growth.

Rebranding and External Growth. Webuilt has recently launched Progetto Italia, a strategic plan to consolidate the Italian infrastructure market and become the national landmark in the industry. This, however, represents a new source of uncertainty since the target companies acquired might have to redefine their market position.

Negative Historical Growth in Revenues. Financial statement analysis and corporate valuation are backward-looking processes that, however, should guide towards forward-looking conclusions. Therefore, past results may play a crucial role in suggesting prudence.

Disclaimer

APPENDIX

Income Statement

Million EUR	*31-12-2016*	*31-12-2017*	*31-12-2018*	*31-12-2019*	*31-12-2020*
Revenue	**5.760**	**5.287**	**4.864**	**4.771**	**4.247**
Cost of Revenues	2.927	2.722	2.676	2.516	2.234
Gross Profit	**2.833**	**2.565**	**2.188**	**2.254**	**2.013**
Selling, General & Administrative Expenses	2.428	2.334	2.132	2.060	2.012
Other Operating Expense/(Income)	115	255	16	-164	-35
Total Operating Expenses	5.471	5.310	4.824	4.412	4.212
Operating Income	**290**	**-23**	**41**	**358**	**36**
Net Financing Income/(Expense)	-87	-194	-73	-73	-112
Sale of Tangible & Intangible Fixed Assets - Gain/(Loss)	-2	4	28	18	1
Equity Earnings/(Loss) - before Taxes including Non-Recurring	5	100	-30	-128	-116
Other Non-Operating Income/(Expense)	6	-1	-3	2	0
Non-Recurring Income/(Expense)	-15	0	3	-121	364
Income before Taxes	**198**	**-115**	**-34**	**56**	**174**
Income Taxes	78	17	39	69	27
Net Income after Tax	120	-132	-73	-13	147
Income before Discontinued Operations	**120**	**-132**	**-73**	**-13**	**147**
Extraordinary Activities - after Tax - Gain/(Loss)	-21	41	115	-1	-5
Net Income before Minority Interest	**100**	**-90**	**41**	**-14**	**142**
Minority Interest	40	27	-13	8	-5
Income Available to Common Shares	**60**	**-117**	**54**	**-22**	**147**

Balance Sheet

Millions EUR	31-12-2016	31-12-2017	31-12-2018	31-12-2019	31-12-2020
Cash & Short-Term Investments	1.926	1.415	1.243	1.262	2.796
Loans & Receivables	2.953	3.946	3.960	4.351	5.468
Inventories	2.638	241	192	156	198
Prepaid Expenses - Short-Term	280	340	382	424	527
Total Current Assets	**7.797**	**5.941**	**5.778**	**6.194**	**8.989**
Investments - Long-Term	63	189	236	378	0
Investments in Associates, Joint Ventures and Unconsolidated Subsidiaries	201	317	538	642	640
Receivables & Loans - Long-Term					304
Property, Plant & Equipment - Net - Total	803	675	416	478	642
Assets Held for Sale/Discontinued Operations - Long-Term	6	6	6	12	10
Other Non-Current Assets	122	172	205	253	386
Intangible Assets - Total	344	365	274	261	656
Total Non-Current Assets	**1.539**	**1.724**	**1.675**	**2.025**	**2.640**
Total Assets	**9.336**	**7.665**	**7.453**	**8.219**	**11.629**
Trade Accounts Payable & Accruals - Short-Term	2.533	2.313	2.541	2.763	2.961
Short-Term Debt & Current Portion of Long-Term Debt	473	663	556	307	1.404
Derivative Liabilities - Hedging - Short-Term	3	1	0	2	
Income Taxes - Payable - Short-Term	110	97	145	87	127
Other Current Liabilities	2.691	1.813	1.365	1.407	2.485
Total Current Liabilities	**5.810**	**4.887**	**4.606**	**4.566**	**6.977**
Debt - Long-Term	1.854	1.623	1.762	1.942	2.155
Derivative Liabilities - Hedging - Long-Term	4				
Liabilities Held for Sale/Discontinued Operations - Long-Term	0	0			15
Deferred Tax & Investment Tax Credits - Long-Term	108	30	11	7	137
Other Non-Current Liabilities	198	180	141	200	260
Total Non-Current Liabilities	**2.165**	**1.833**	**1.914**	**2.149**	**2.567**
Total Liabilities	**7.975**	**6.720**	**6.521**	**6.715**	**9.544**
Shareholders' Equity - Attributable to Parent Shareholders	1.205	814	836	1.395	1.429
Minority Interest - Equity	156	131	96	109	656
Total Shareholders' Equity - including Minority Interest & Hybrid Debt	**1.361**	**946**	**932**	**1.504**	**2.085**
Total Liabilities & Equity	**9.336**	**7.665**	**7.453**	**8.219**	**11.629**

DCF Analysis

	CY21F	CY22F	CY23F	CY24F	CY25F	Terminal value
EBIT	132	137	142	147	152	
- Taxes on EBIT	32	33	34	35	36	
+ D&A	240	249	257	266	276	
- Capex	(917)	(258)	(267)	(276)	(286)	
- Δ NWC	1.076	100	103	107	111	
FCFF	500	194	201	208	216	1.917
Discount factor	1,08	1,17	1,26	1,36	1,47	1,47
Discounted FCFF	**463**	**167**	**160**	**153**	**146**	**1.301**

Valuation	
Discounted cash flows	1.088
Discounted TV	1.301
Enterprise value	**2.388**

Enterprise Value	
-Net Debt	(763)
+Associates	47
-Minority Interests	(656)
Equity Value	1.716
# shares	**892**
Share Price	**1,92 €**

Assumptions	
Tax Rate	24,0%
WACC	8,07%
Terminal Growth Rate	1,94%
Cost of Equity	10,57%

Regression beta Webuild – MSCI World Index

Regression Statistics	
Multiple R	0,569740531
R Square	0,324604273
Adjusted R Square	0,312959519
Standard Error	0,09567933
Observations	60

ANOVA

	df	*SS*	*MS*	*F*	*Significance F*
Regression	1	0,255187955	0,255187955	27,87558032	2,02254E-06
Residual	58	0,530962987	0,009154534		
Total	59	0,786150943			

	Coefficients	*Standard Error*	*t Stat*	*P-value*	*Lower 95%*	*Upper 95%*	*Lower 95,0%*	*Upper 95,0%*
Intercept	-0,014003132	0,012794804	-1,094439023	0,278286813	-0,039614714	0,01160845	-0,039614714	0,01160845
X Variable 1	1,50697134	0,285425673	5,279732978	2,02254E-06	0,935629779	2,078312901	0,935629779	2,078312901