

Vestas Wind Systems A/S

CORE HOLDING*

Recommended since 22.03.20

14.06.2023



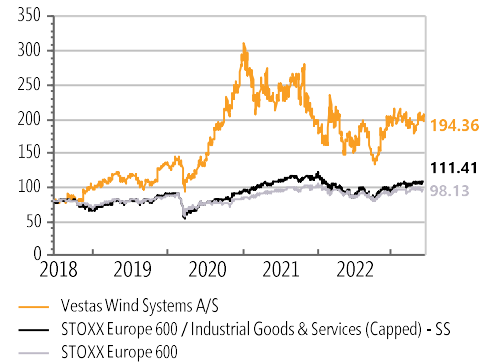
Country DK	Market capitalization (bn) DKK 196.6	Perf. since reco. (%)
Sector Industrial Goods & Services	Free float 96.5%	Vestas Wind Systems A/S 87.3
Factset VWS-DK	Closing price DKK 194.36	Sector 92.3
ISIN DK0061539921	ESG Risk score* 19.3 Low risk	



*From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

Profile

Vestas was founded in 1945, listed in Copenhagen since April 1998 and based in Aarhus, Denmark, and is the global leader in the design, installation and maintenance of wind turbines. It operates in two segments: Solutions (production and sales) and Services (maintenance). It has a workforce of over 28,000 and has installed c. 20% of total global wind turbine capacity. Its installed base – the source of its services revenue – has a total capacity of 144 GW, spread across c. 90 countries.



Source: Factset

Market - competition - positions - barriers to entry

The market has become an oligopoly. Vestas is world number one by installed base and onshore installations, with a 22% market share, ahead of Chinese group Goldwind (15%), GE (11%) and Siemens-Gamesa (9%), and number two in offshore installations, with Vestas enjoying a 30% market share behind Siemens-Gamesa (32%). Barriers to entry are technology, turbine power (offshore), the now global supply chain, and the size and established positions of the three or four dominant players.

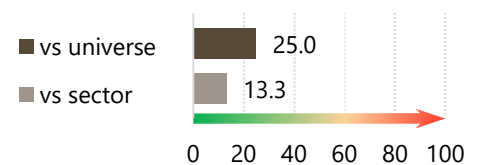
Investment case

- In the medium to long term, growth in global electricity demand is expected to be double that of global energy demand. This reflects the growing electrification of the economy and the decline in the relative share of fossil fuels. This energy transition, which we expect to accelerate steadily, will be marked by an inexorable increase in the share of renewables. Wind power is now a mature and competitive source of generation, still representing only 6% of global electricity production. The global installed base is expected to grow from less than 650GW at the end of 2019 to more than 1'800GW by 2030.
- To achieve this, annual capacity installations are expected to grow in the medium term by c. 8-10% p.a. for on-shore and 35-40% p.a. for off-shore. In this context, Vestas appears to be a compelling investment vehicle. The group has also reached industrial maturity and its model has become global. Its margins, cash flows and economic value creation have made it eligible for our Core Holdings selection. Vestas has delivered an average annual sales growth of 6.5% over 2009-2022. Already the world leader in on-shore, its latest generation turbines could enable it to become the world leader in off-shore as well.
- After a very difficult 2022 (supply chains and project delays), our scenario is for sales to stabilize in 2023 and then accelerate sharply over 2024-2026, as a result of the sharp rise in booked prices, the US Inflation Reduction Act and the European plan. The normalization of production flows and the growing share of maintenance should enable the Group to achieve an operating margin of 10% by 2026. We believe that short-term uncertainties should be taken advantage of when the share price falls below DKK 190, to strengthen positions with a long-term perspective.

ESG - risks and key points

- Vestas is rated low risk for environmental, social and governance issues. Furthermore, its management of these risks is considered satisfactory.
- Given links between the group's customers and public authorities, business ethics constitute a risk. Vestas has an internal system in place to address this risk.
- Generally speaking, product quality is a key issue. The company's track record and the way it runs its business suggest that this issue is well managed.

ESG risk vs. universe & sector (percentile)*



Source: Sustainalytics

Valuation** in DKK

Current price	Value Bordier Scenario
194	216

Our scenario assumes the sales and margin trajectory set out above, a risk-free interest rate of 2.5% and a risk premium of 5.5% (125 bps below that of the European equity market, reflecting the group's status as a must-have ESG transition investment), giving a cost of capital of 8.25%.

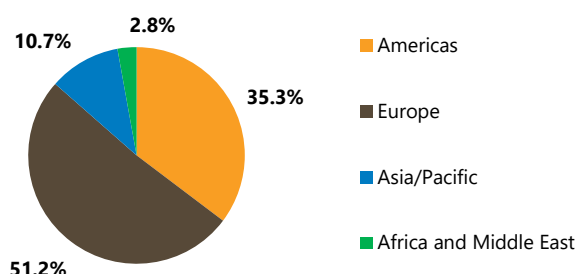
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of EUR	2021	2022	2023e	2024e	2025e
Sales revenue	15'560	14'486	15'210	17'644	20'467
Sales growth %	5.0%	-7.0%	5.0%	16.0%	16.0%
<i>o/w organic</i>	-3.0%	-7.0%	5.0%	16.0%	16.0%
EBIT adjusted	461	-1'152	152	1059	1637
% of sales	3.0%	-8.0%	1.0%	6.0%	8.0%
Net income	176	-1'572	47	741	1191
Adjusted EPS	0.29	-1.98	0.05	0.74	1.19
Adjusted EPS growth	-64.3%	-786.4%	-102.3%	1493.9%	60.6%
Capex/Sales	5.2%	5.2%	6.6%	4.9%	0.0%
Free cash-flow	183	-953	-148	599	1185
FCF/Sales	1.2%	-6.6%	-1.0%	3.4%	5.8%
Dividend per share	0.09	0.00	0.00	0.20	0.35
Dividend yield	0.3%	0.0%	0.0%	0.8%	1.3%
ROCE - WACC	-2.3%	-29.1%	-5.6%	4.8%	4.0%
ROE (%)	6.2%	-65.3%	1.5%	24.7%	0.0%
Net debt/Ebitda	-75.1%	-9.7%	17.9%	-18.6%	-47.5%

Source: Factset, Bordier estimates

Sales breakdown - 12/2022



Ratios

	Vestas Wind Systems A/S	Stoxx Europe 600 Sector	Market
PE (x)***		Indus. Good & Serv.	STOXX 600
2022	-13.8	16.9	13.1
2023e	563.6	18.2	13.2
2024e	35.4	16.7	12.3
P/B (x)***			
2022	8.3	2.9	1.9
2023e	5.6	2.9	1.8
2024e	8.9	2.7	1.7
Beta (2Y, daily) vs market: 1.05			

***) The valuation ratios set out are provided for information only. They do not constitute the criteria based upon which Core Holdings are selected, and may present significant premi-ums representing the quality of the company's business model.

Governance and ownership structure

Since 2019, CEO Henrik Andersen.

Key shareholders (if any):

No shareholder holds more than 5% of the capital.

Agenda

2Q2023 Results: 09.08.2023

Any special characteristics of ownership (multiple voting rights, controlling holding company, shareholders' agreements, etc.):

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Glossary

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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