

Vestas Wind Systems A/S

CORE HOLDING*

Recommended since 22.03.20

15.08.2022



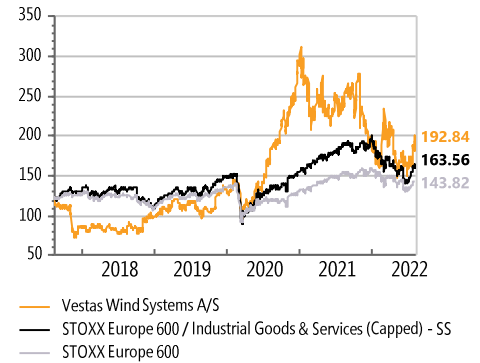
Country	DK	Market capitalization (bn)	DKK	195.3	Perf. since reco. (%)	
Sector	Industrial Goods & Services	Free float		97.0%	Vestas Wind Systems A/S	85.9
Factset	VWS-DK	Closing price	DKK	192.84	Sector	71.5
ISIN	DK0061539921	ESG Risk score*	14.4	Low risk		



*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 29,000 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 157 GW, spread across 88 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-MHI 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.

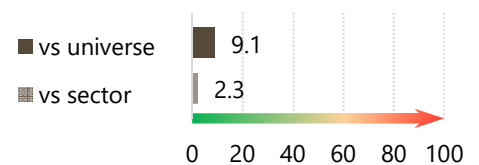
Investment case

- Over the medium-to-long term, worldwide demand for electricity is set to grow twice as fast as total global demand for energy, reflecting growing electrification of the economy and a decline in the relative share of fossil fuels. The hallmark of this energy transition, which we think will steadily gather, will be an inexorable rise in the share of renewable energy. Wind energy is now a mature and competitive power source, though it still represents a mere 6% of global electricity generation. The worldwide installed base is set to grow from less than 600 GW at end 2019 to more than 1,000 GW by 2024.
- This means that, over the medium term, annual new capacity is expected to grow at c. 5-10% a year in onshore and 20-25% a year in offshore. In this context, Vestas looks like a must-have investment. The group has also reached industrial maturity and now operates under a global model. Its margins, recurring cash flow and economic value creation make it eligible for our Core Holdings. Vestas delivered average sales growth of 7.6% a year over 2009-2021. Already global the leader in the onshore segment, we think its latest-generation turbines could see it also become a global leader in the offshore segment.
- Our scenario assumes the current order book delivery, the European Green Deal (which notably calls for €550bn of investment in green technologies), end market growth of 6-7% a year (supported by the US Inflation Reduction Act that includes c. 370 bn\$ subsidies for Transition) and a growing proportion of maintenance, which margins should drive the group's operating margin at 10% by 2025-26. Short term, the activity is impacted by supply chains issues which will lead to a negative operating margin in FY2022e. The situation should gradually normalize starting 2023. We believe that short-term uncertainties should be used when the share price falls below DKK 180, 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
193	194

Our scenario assumes the sales and margin trajectory set out above, a risk-free interest rate of 2.0% and a risk premium of 5.9% (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 7.4%.

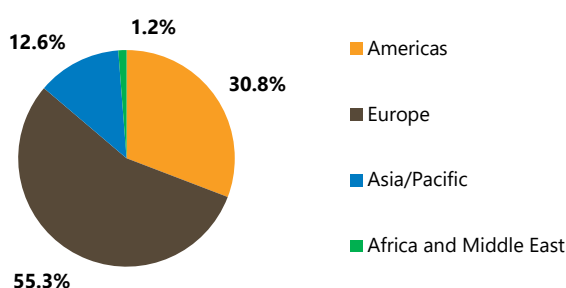
** The theoretical value reflects the company's business model, our baseline growth and profit scenario and market data, exogenous to the company (risk-free rate and equity risk premium). It does not in itself constitute a target price.

"Bordier Core Holding" indicators

In millions of EUR	2020	2021	2022e	2023e	2024e
Sales revenue	14'819	15'560	15'093	15'848	16'957
Sales growth %	22.0%	5.0%	-3.0%	5.0%	7.0%
<i>o/w organic</i>	22.0%	-3.0%	-3.0%	5.0%	7.0%
EBIT adjusted	750	461	-453	475	1017
% of sales	5.1%	3.0%	-3.0%	3.0%	6.0%
Net income	771	176	-718	369	783
Adjusted EPS	0.81	0.29	-0.72	0.35	0.76
Adjusted EPS growth	15.8%	-64.3%	-348.7%	-149.5%	115.4%
Capex/Sales	4.4%	5.2%	6.6%	5.3%	0.0%
Free cash-flow	84	183	-760	534	1058
FCF/Sales	0.6%	1.2%	-5.0%	3.4%	6.2%
Dividend per share	0.23	0.09	0.00	0.12	0.25
Dividend yield	0.6%	0.3%	0.0%	0.5%	1.1%
ROCE - WACC	3.4%	-1.4%	-16.0%	0.8%	7.9%
ROE (%)	17.5%	6.2%	-18.5%	8.4%	0.0%
Net debt/Ebitda	-123.7%	-75.1%	-26.3%	-45.0%	-76.6%

Source: Factset, Bordier estimates

Sales breakdown - 12/2021



Ratios

	Vestas Wind Systems A/S	Stoxx Europe 600 Sector	Market
PE (x)***		Indus. Good & Serv.	STOXX 600
2021	91.3	20.3	15.4
2022e	-32.0	15.6	12.8
2023e	64.7	15.7	12.3
P/B (x)***			
2021	5.6	3.5	2.0
2022e	5.9	2.9	1.8
2023e	5.4	2.6	1.7
Beta (2Y, daily) vs market: 0.93			

***) 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

3Q-2022 Results: 02.11.2022

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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