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Senvion SA

Ticker: SENGR

Isin	Issue Size	Rating M / S&P	Coupon	Min Piece	Maturity	Next Call	Offer	YTC	YTM
XS1608040090	€400mn	B3 / B	3.875% s/a	€100k	Oct 2022	May 2019 @ 101.938	52.5	373%	25.1%

Senvion designs, manufactures, and installs onshore and offshore wind turbine generators (WTGs). It also has an important and growing services division, providing operating, maintenance and other services to clients worldwide. As subsidies have fallen away, the industry has moved to highly competitive auctions. Senvion (and others) are still in the process of adjusting, but unfortunately for Senvion, external factors have added to the pain by causing delays on major installations during 2018. Over the past three years, losses have widened, resulting in net cash outflows of almost €300mn from January 2017 to September 2018.

Senvion has a supportive PE backer (Centerbridge) and the 1st lien bond is currently the only outstanding debt. It has an attractive, profitable and cash generative service & maintenance business that underpins the bond's price and on its own indicates a revenue multiple on the bond of almost 1.7x at the 52.5 offer level. The WTG market is still working through overcapacity, but stabilising and due to grow considerably this year and beyond. Risks remain that Senvion continues to underperform, experiences further project delays, liabilities in the balance sheet (e.g. provisions and tax liabilities) suddenly rear their heads, or the new CEO and CFO unearth major new problems.

We expect Senvion to start 2019 with cash of around €100mn plus RCF liquidity (€125mn – unrestricted and barely touched to date). EBITDA of €100mn looks to be possible in 2019. Add to that the unwinding of around €300mn of inventory as delayed projects complete in Q1 2019, continued work to reduce costs, and conversion of the growing order book. Despite the challenges, Senvion should be able to rein in the cash burn and improve overall, ready for increased activity in the wind sector. The bet is that it becomes an attractive target for a buyer, but as always, bond buyers beware.

Sector

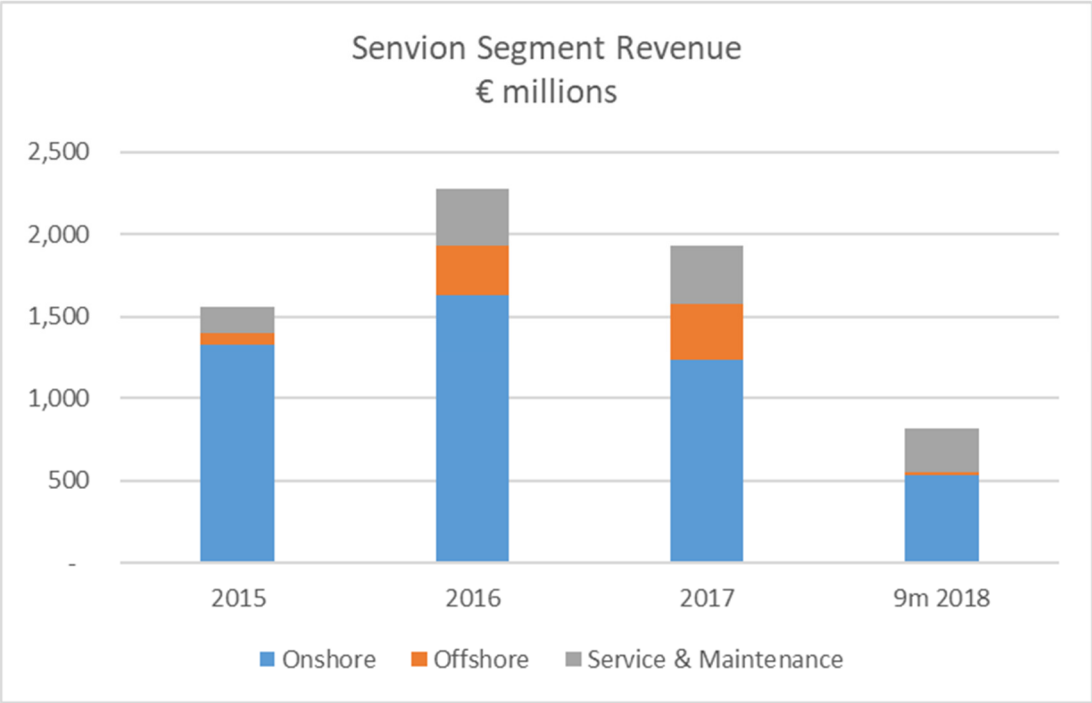
Although poised to see increasing installations from 2019, overcapacity remains a problem for the WTG industry to work through in 2019 and 2020. Macroeconomic and credit cycles have also played their part in the industry's evolution in the 2000s. Consolidation has been one way the market has responded, as well as a natural part of maturing:

- Gamesa, under some stress, merged with Siemens Wind Power in April 2017. (SGRE SM; market cap €8.6bn.)
- GE bought Alstom to merge two dominant players. (GE; $77.7bn market cap despite its current problems.)
- Vestas experienced considerable stress during 2011-2012, but is now debt free and worth €16.6bn (VWS DC).
- Suzlon bought 1/3 of Senvion as a way to enter the European market in 2007 and completed the full buyout in 2011. Suzlon itself ran into trouble, subsequently selling its best asset and €1.4bn investment to Centerbridge in April 2015 for €1bn, €400mn of which was financed by Senvion's previous bond.
- Nordex remains the only other smaller independent. (NDX1 GY; €970mn market cap – about 7.5x Senvion's.)
- Various Chinese producers have also emerged. They have been particularly competitive in Senvion's newer markets (Australia, Latam, South Africa).

In short, the market is dynamic, competition is stiff, and the pressure remains on Senvion to pull itself through. There are some indications that prices have been carving out a bottom, and competitors are taking a more sensible approach to auctions, but once it navigates the current difficulty Senvion will still find number 5 in the market a tricky spot to maintain. On its own, it either grows itself into a stronger position or risks falling away.

Business

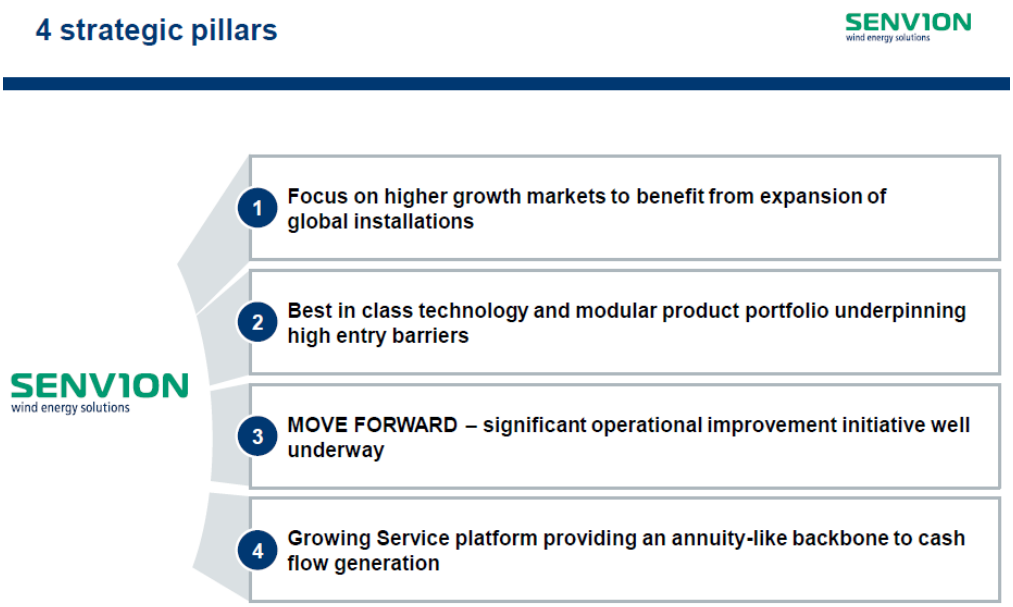
Established in the early 1990s, Senvion has over 4,000 employees, 35 offices/production sites and 90 regional response locations to service the 8,000+ WTGs it has installed. Installations can range from a single WTG to farms numbering in the hundreds. Its product portfolio covers low, medium and high windspeeds, and both onshore and offshore. It has particular expertise in offshore, having installed the first commercial WTG in 2003. With major onshore projects and long-term strategic plans commanding extra management attention, plus balance sheet constraints, offshore installations have taken a back seat during 2018. Services and maintenance activity is an important and growing source of consistent cash flow and Senvion's most attractive feature. Average services contracts of 10+ years and an average renewal rate currently around 75% provide a solid and growing base under the lumpy income from turbine installations.



Source: Senvion Q3 2018 results, Guy Butler

As governments and the private sector have made substantial moves towards renewable energy sources, wind has hit critical mass. Subsidies for the wind energy industry have fallen and major markets such as Germany and the UK have shifted from feed-in tariffs to reverse auctions. Technology continues to improve and onshore wind energy is now one of the cheapest sources of energy in many markets, making it an attractive option to replace or add supply. While the industry has undergone a rapid shift between 2015 and 2018, Senvion has been transforming both production and installation from its European home to a more global operation. It has also experienced delays on key installation projects thanks to such factors as prolonged high rainfall, cool temperatures and even an unexploded WW2 bomb.

From 2016, the medium- to long-term aim has been to align the group's production and cost base with what is now a global business. 70% of fixed costs remain in Germany, so more development, sourcing and production closer to its newer markets makes sense. Senvion is well on the way. European production is now spread across Germany and Portugal, with India also providing some production and R&D. It has been improving the product range and new generation products are in the pipeline for 2019/2020, including 10+MW turbines. Modular product design is allowing for better scale and lower costs while retaining the flexibility to design products for different locations and conditions. Almost €80mn of costs have been removed over 2017-2018 and management expects to achieve more. Senvion will look to source more supply from Asia in future where appropriate.



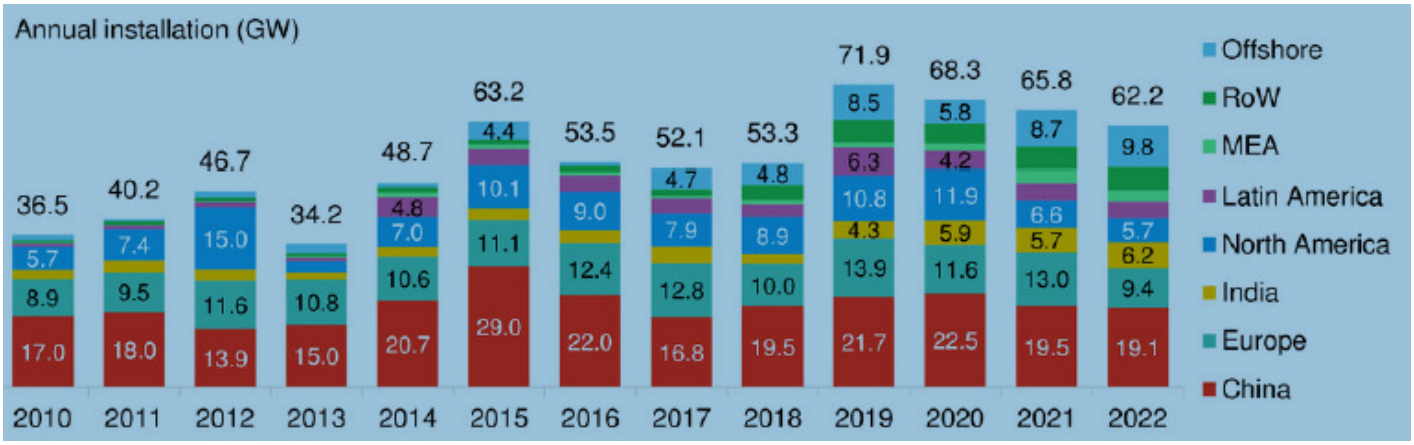
Source: Senvion Q3 2018 results presentation

Senvion argues that while it is smaller than competitors such as Vestas, Nordex, Siemens and GE, it has a couple of important points in its favour:

- It is nimble, can design very specific solutions for the sites involved to optimise energy yield, and essentially devote itself to each project. Of their competitors, only Vestas has that same capability; the others have more generic solutions for what is a small part of their overall activity.
- Its modular designs help to mitigate its scale handicap.

While Senvion has had a rough trot from 2016-2017, all expectations are that the sector will pick up. Auction to installation cycles tend to play out over three years, so 2016's auctions saw development through 2017 and installations started in 2018/2019. The problems it has experienced have apparently not soured partners' desire to continue working with it on new projects. Senvion maintains its focus and ability squeeze incremental MW out of its existing and new platforms, plus the simple increase in installations, will see it return to better margins, profits and positive cashflow in the coming 18 months.

Annual onshore wind installations by region + global offshore wind forecast



Source: BloombergNEF 4Q 2018 Global Wind Market Outlook

Financials

As subsidies have dropped and auctions have proliferated, competition has been truly intense, resulting in up to 50% decreases in wind energy prices in some markets. At the same time, IFRS changes have delayed booking of revenue (now at installation rather than shipment), and four of five major installation projects experienced delays. The result was that 2018 saw declining topline and increased cash burn for Senvion. In the latter part of the year, increased auction activity started to emerge in Germany, the UK and the USA. New markets in India, South East Asia and Latin America continue to grow, and Senvion has done well to quickly reach its initial 5-10% market share targets in most of its new markets.

For the moment, however, the table overleaf shows revenue has fallen from the €2.2bn achieved in 2016 to guidance of €1.6bn for 2018. The latter was revised down as the business was not able to claw back delays as soon as anticipated. Gross margin has risen over the past three years, from 21.56% to 28.43%, but EBITDA margin fell from 6.31% in 2016 to 5.15%. Costs of reorganising the group fell mostly in 2017 (€54.1mn), with another €10.8mn charged in the nine months to September 2018. Staff costs are down and the bond refinance in the first half of 2017 has lowered annual interest charges by around €20mn.

Roughly 66% of revenue is driven by onshore WTGs, with offshore WTGs down to just 1.6% of total revenue in the first nine months of 2018 compared with almost 17% in 2017. Senvion recently started production on its Trianel project for installation in the second half of 2019, so we expect future years to show increased offshore activity, albeit still at low levels for the time being. With its balance sheet constraints, work on the 10+MW WTGs is curtailed, which is a shame, because while offshore is higher risk, it carries higher margins for getting the projects done, and even now, offshore services provide around a third of service & maintenance revenue.

Services made up 30% of the business year-to-date, partly because of that drop in offshore WTG installations, but also from organic sales growth of €24mn to €244mn. As the installations happen, services provided increase, so although turbine prices have fallen by 20%-30% globally in recent years, there are simply many more of them, and maintaining them provides regular quarterly revenue and cashflow to underpin the group – see also the rise of deferred income in the balance sheet over the past couple of years. Contribution margin was over 42% for the services business in Q3 compared with around 35% in 2017. Management did not see 42% as sustainable in the short term, but they do think growth into the medium term is possible. Overall service efficiencies from digitisation and automation will assist and growing in new markets means better economies of scale in those locations. They see 50-150bps improvement in a year as doable in the face of market price pressures, meaning a high-30s contribution margin.

Unsurprisingly, cash flow swung to negative €26.9mn at the operating level in 2017, thanks largely to the movements in working capital, which absorbed almost €100mn, as well as the lower turbine prices and margins. That compared with 2016, in which operating cash flow of €177.5mn easily covered interest 4.0x and €105mn of capex after that. In the first nine months of 2018 Senvion has managed to halve its operating cash outflow to just under €49mn, and with Q4 MW installations running 60% ahead of Q4 2017, there is reason to hope that 2017 will to be the low point for cash flow.

Senvion SA EUR millions	ANNUAL			Quarterly - 2017			Quarterly - 2018		
	Unqual 31-Dec-15	Unqual 31-Dec-16	Unqual 31-Dec-17	Unqual Q1 2017	Unqual Q2 2017	Unqual Q3 2017	Unqual Q1 2018	Unqual Q2 2018	Unqual Q3 2018
Sales	1,560.6	2,210.5	1,889.9	392.3	437.4	479.9	255.6	210.4	342.6
Other - changes in WIP	(38.3)	(18.4)	(42.7)	109.5	(0.9)	(17.7)	85.7	139.4	56.49
Other - work performed by entity & capitalised	28.7	45.1	46.2	13.0	9.7	12.6	14.1	14.6	14.701
Total Sales	1,551.0	2,237.2	1,893.4	514.8	446.1	474.8	355.4	364.4	413.7
Cost of Sales	(1,216.6)	(1,674.3)	(1,355.0)	(391.4)	(308.4)	(338.2)	(255.1)	(254.6)	(294.8)
Gross Profit	334.3	562.8	538.3	123.4	137.8	136.6	100.3	109.8	118.9
Depreciation & Amortisation	(106.6)	(166.8)	(157.8)	(42.2)	(41.0)	(40.2)	(27.1)	(30.0)	(26.8)
Sales, General & Administration	(171.8)	(212.1)	(175.1)	(44.4)	(41.1)	(41.3)	(41.0)	(38.1)	(35.8)
Personnel	(154.7)	(255.5)	(259.8)	(71.0)	(66.2)	(65.2)	(62.6)	(64.3)	(61.7)
Impairments									
Other Operating Income	40.1	45.9	48.3	13.4	9.9	11.3	4.0	5.2	8.1
Other - Reorganisation Expenses	(8.0)		(54.1)	(32.8)	(19.2)	(2.7)	(0.8)	(6.2)	(3.8)
Total Operating Expenses	(401.0)	(588.5)	(598.6)	(177.0)	(157.6)	(138.1)	(127.5)	(133.4)	(120.1)
Operating Profit / (Loss)	**(66.6)**	**(25.7)**	**(60.3)**	**(53.6)**	**(19.8)**	**(1.5)**	**(27.1)**	**(23.7)**	**(1.2)**
Interest Charged	(61.8)	(64.5)	(64.6)	(12.2)	(30.2)	(9.6)	(8.9)	(9.4)	(13.0)
Interest Received	1.0	0.6	3.8	0.6	0.5	0.2	1.3	0.7	1.8
Profit / (Loss) Before Tax	**(127.4)**	**(89.5)**	**(121.1)**	**(65.1)**	**(49.5)**	**(11.0)**	**(34.8)**	**(32.3)**	**(12.3)**
Current Tax	20.8	24.2	28.1	15.8	7.0	8.0	6.4	10.7	(1.7)
Profit / (Loss) After Tax	**(106.6)**	**(65.3)**	**(92.9)**	**(49.3)**	**(42.5)**	**(2.9)**	**(28.4)**	**(21.7)**	**(14.0)**

The balance sheet below shows the project nature of the business, as chunky amounts have moved over time from capitalised development costs in intangibles through to inventory, where those key projects have stalled because of delays earlier in the year. Such external factors have caused similar inventory build-ups a couple of times over the past decade. They subsequently unwound, restoring the working capital/cash positions, and management is confident that the same reversion will occur over Q4 2018 and Q1 2019, which coincides with the southern hemisphere summer and fewer chances of weather-induced delays. Inventory was almost €850mn at the end of September, compared with €560mn a year earlier and sub-€400mn balances at the prior three year-ends. That's eaten into cash, sitting at €146mn, but even so, the €400mn bond is the bulk of debt and net debt was therefore just €254mn. The good news is Senvion is not plagued by goodwill. Intangibles are high, however, at over €500mn, and dominated by technology and development costs, which are probably around 60-65% of total intangibles.

Senvion SA EUR millions	ANNUAL			Quarterly - 2017			Quarterly - 2018		
BALANCE SHEET	Unqual	Unqual	Unqual						
Fiscal Year end	31-Dec-15	31-Dec-16	31-Dec-17	Q1 2017	Q2 2017	Q3 2017	Q1 2018	Q2 2018	Q3 2018
ASSETS									
Cash & Equivalents	419.4	441.1	235.2	326.7	150.1	190.2	174.8	132.8	146.3
Trade Debtors (including Bills Receivable)	230.8	168.0	198.8	132.4	137.5	119.1	156.2	181.5	124.5
Amounts Due on Contracts - gross	49.4	88.6	6.8	81.0	85.0	34.2	0.2	5.3	30.2
Quick Assets	**699.5**	**697.7**	**440.8**	**540.1**	**372.6**	**343.6**	**331.2**	**319.6**	**301.0**
Raw Materials	270.7	302.3	405.7						
Work in Progress	145.9	127.5	84.7						
Finished Goods									
Other				530.2	606.5	559.6	601.3	770.7	849.8
Total Stock	**416.6**	**429.8**	**490.4**	**530.2**	**606.5**	**559.6**	**601.3**	**770.7**	**849.8**
Prepayments	20.1	10.8	5.9						
Tax Recoverable	2.7	13.0	15.1	13.1	15.1	14.7	17.4	20.2	21.3
VAT / Other Tax Recoverable	44.3	65.6	24.2						
Other - Financial Assets	11.6	14.5	12.2	18.2	12.6	9.2	15.7	9.9	12.0
Other - Miscellaneous	30.1	22.9	25.5	90.2	98.0	67.1	64.2	75.2	69.4
Total Current Assets	**1,224.8**	**1,254.4**	**1,014.0**	**1,191.8**	**1,104.8**	**994.2**	**1,029.8**	**1,195.5**	**1,253.6**
Freehold, Leasehold Land & Buildings	110.7	118.5	129.4						
Plant, Equipment & Vehicles	105.8	151.5	158.9						
(Less) Accumulated Depreciation & Amortisation	(23.3)	(46.7)	(64.6)						
Other -				226.3	227.5	233.7	230.6	229.9	234.8
Fixed Assets	**193.2**	**223.2**	**223.7**	**226.3**	**227.5**	**233.7**	**230.6**	**229.9**	**234.8**
Investments in & Loans to Others	0.4	3.2	15.3	10.2	23.1	23.7	13.3	13.4	13.4
Intangibles	204.2	189.0	170.6	582.1	559.4	537.8	521.0	514.5	506.5
Goodwill	0.0	2.4	2.4	2.4	2.4	3.4			
Other - Intangible Technology incl Capitalised Development Costs	483.0	413.2	354.4						
Other -	20.7	15.7	27.6	10.4	16.5	15.9	25.2	24.2	24.6
Total Non-Current Assets	**901.4**	**846.7**	**794.0**	**831.4**	**828.8**	**814.6**	**790.1**	**782.0**	**779.3**
TOTAL ASSETS	**2,126.2**	**2,101.1**	**1,808.0**	**2,023.3**	**1,933.6**	**1,808.8**	**1,819.9**	**1,977.5**	**2,032.9**

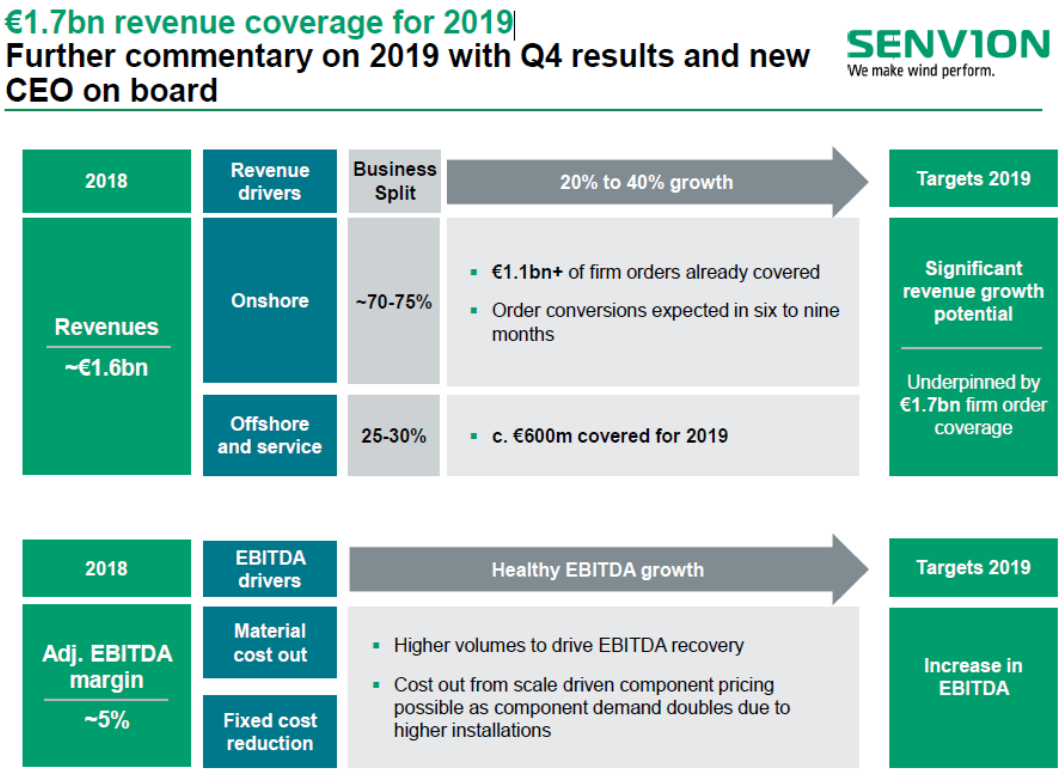
The group raised €62.5mn (€7.70/share) of fresh equity via an accelerated bookbuild during Q3, fully underwritten by PE backer Centerbridge (60%) and Berenberg Bank (40%), with the funds supporting the upfront investments in India, Chile and China. Total liquidity at Q3 was therefore the cash of €146mn plus a €950mn syndicated facility (€825mn guarantee + €125mn revolver) maturing in April 2022. The revolver carries interest of L + 250 to 300 (Euribor or Mibor if not a Libor currency) while the L/G facility has a margin of 175. The facility's covenant figure is not disclosed on calls (but stated as 2.45x and tested quarterly as of June 2018 in the prospectus), but they apparently have "significant headroom" and the RCF is apparently unrestricted and only drawn for the first time in Q3. Facilities are secured by rights from registered patents and patent applications, blanket assignment of outstanding receivables, inventory, and other security. Guarantee facility utilisation was between €500mn-€535mn over the past couple of years; it is crucial to provide the confidence that advance payments – €486mn as at Q3 – will be honoured. As a going concern that isn't an issue, but in an insolvency those obligations will trump the bonds. There's also a non-recourse reverse factoring facility with Santander for trade accounts payable.

Senvion SA EUR millions	ANNUAL			Quarterly - 2017			Quarterly - 2018		
BALANCE SHEET	Unqual	Unqual	Unqual						
Fiscal Year end	31-Dec-15	31-Dec-16	31-Dec-17	Q1 2017	Q2 2017	Q3 2017	Q1 2018	Q2 2018	Q3 2018
LIABILITIES									
Overdrafts / Short Term Loans	6.0	7.6	4.6	7.0	5.5	5.8	5.3	4.5	2.3
Total Short Term Debt	**6.0**	**7.6**	**4.6**	**7.0**	**5.5**	**5.8**	**5.3**	**4.5**	**2.3**
Trade Creditors & Trade Bills Payable	382.0	431.0	339.8	404.0	466.6	381.2	278.6	393.1	439.6
Accruals - Gross due to Customers for Contract Work as a Liability	71.8	122.2	138.8	126.0	91.3	118.6	5.7	11.6	28.5
Corporation Tax	62.4	37.8	6.5	34.5	33.6	2.7	7.1	3.6	5.0
VAT & Other Taxes Payable		31.8	40.4						
Advance Payments	291.4	189.2	118.5	186.8	167.8	158.7	401.9	517.4	485.8
Other - Financial & Miscellaneous	72.4	51.8	43.3	71.1	51.8	90.5	58.1	43.4	57.5
Other - Provisions	217.5	290.1	300.4	314.0	297.1	246.8	283.5	257.2	218.3
Other - Deferred income	26.1	32.2	40.5	48.1	44.8	44.3	45.4	48.7	47.5
Total General Short Term Liabilities	1,123.8	1,186.3	1,028.1	1,184.6	1,153.0	1,042.8	1,080.3	1,275.0	1,282.2
Current Liabilities	**1,129.7**	**1,193.9**	**1,032.7**	**1,191.6**	**1,158.5**	**1,048.6**	**1,085.5**	**1,279.5**	**1,284.6**
Bank Loans	10.5	7.0	2.6	5.2	5.4	3.0	0.8	0.3	0.1
Bonds, Debentures, etc	391.4	392.9	392.5	393.3	392.2	392.1	392.8	393.2	393.5
Other - Shareholder Preferred Equity Certificates	468.8								
Total Long Term Debt	**870.7**	**399.9**	**395.0**	**398.5**	**397.5**	**395.2**	**393.6**	**393.4**	**393.6**
Provisions									
Deferred Tax	195.1	173.6	150.3	155.0	147.7	139.9	140.7	129.2	132.8
Non-Current Liabilities	**1,065.8**	**573.5**	**545.3**	**553.5**	**545.2**	**535.1**	**534.3**	**522.6**	**526.4**
Total Liabilities	**2,195.6**	**1,767.4**	**1,578.0**	**1,745.1**	**1,703.8**	**1,583.7**	**1,619.8**	**1,802.1**	**1,811.0**
SHAREHOLDERS FUNDS									
Ordinary Shares	0.1	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7
Share Premium	26.5	503.1	495.3	499.4	497.1	495.2	496.1	496.9	556.8
Merger & Other Reserves	6.5	(3.2)	(6.1)	(5.7)	(9.2)	(9.1)	(4.0)	(7.9)	(7.3)
Retained Earnings	(102.6)	(166.8)	(259.8)	(216.2)	(258.7)	(261.6)	(292.7)	(314.3)	(328.3)
NET WORTH	**(69.5)**	**333.8**	**230.1**	**278.2**	**229.8**	**225.1**	**200.1**	**175.4**	**221.9**
TOTAL LIABILITIES & NET WORTH	**2,126.0**	**2,101.1**	**1,808.1**	**2,023.3**	**1,933.6**	**1,808.8**	**1,819.9**	**1,977.5**	**2,032.9**

In general, the utilisation of the L/G facility should rise as orders become firm and progress through to commissioning, at which point, general provisions are estimated as per IFRS rules to cover the usual 2-year warranty. A specific provision was raised to replace a relatively small number of blades, which is the reduction in provisions we can see of around €65mn over the course of 2018. There is probably another €15mn to come out for that during 2019. Although claims on general warranties are apparently quite rare for Senvion, that can always change. Deferred tax liabilities seem large and are unexpected for a company with retained losses. A large part appears to be related to technology and development costs capitalised. We are awaiting clarification from Senvion on the tax liabilities.

Outlook

The new CEO started on the 1st of January, with a new CFO to follow on 1st February, so guidance on 2019 and beyond is sparse. For posterity the guidance below was for €1.6bn revenue in 2018, having booked €806mn in the first nine months. They have a recent history of installing the most megawatts in Q4 and planned around 700MW in Q4 2018. That turned out to be 458MW, but was still 36% more than in Q3, which in turn was 179% more than what was a poor Q2, so it's moving in the right direction and will raise the normal trough that is Q1.



Source: Senvion Q3 2018 results

Expected adjusted EBITDA for the full year, including the 700MW of installations in Q4, was €80mn (5% of €1.6bn revenue), giving leverage of 5.0x, or less than 1.0x based on the current bond price before allowing for any increase in cash receipts or deviance from the expected installation programme. Given the shortfall in Q4 installations versus plan, we're prepared for disappointment when results come out in March. If Senvion can keep revenue over €1bn, adjusted EBITDA to c.€65mn or better and cash comfortably over €100mn, that will probably do. The €125mn RCF provides some decent breathing room.

Firm installation orders for 2019 were at €2.0bn in November, split between onshore (€1.7bn) and offshore (€0.3mn), with a further €2.8bn in services, and conditional onshore orders totalling €1.1bn. So the total order book was €5.8bn, the highest in the past two years, and around 95% of conditional orders will eventually become firm orders if past experience is any guide. Firm orders announced since the Q3 results in November included:

- Updated/renewed offshore services contract in Germany for 20 years.
- 14 WTGs across farms in Belgium, France and Portugal for a summer 2019 installation.
- 300MW (131 WTGs) in India due in Q2 2020 together with a 10-year full operating and maintenance contract.
- 41MW (13 WTGs) in Spain (also a summer 2019 installation), with a full maintenance contract for 20 years.
- 6MW (2 WTGs) in Italy, due in May 2019 and including 15 years full maintenance.

The WTG orders all come with those 10-15% prepayments, so conservatively that's probably a somewhere between €20mn and €40mn of deposits coming in over December and January, and December installations should be paid for by the end of February. We estimate inventory due to unwind over Q4 and 2019 is €300+mn. we consider EBITDA of €100mn to be possible in 2019 as performance normalises and the market continues to grow.

We expect margins to remain under stress until at least mid-2019 and possibly out to mid-2020. This comes both from the industry's dynamics as it hits maturity and also from bringing new generation products on line, which involves higher component costs, testing and tweaking, etc, as they move close to commencing production and ramping up. As a result, further cost reductions are more likely in the second half of 2019 rather than the first.

View

Pros:

- Sufficient liquidity to support operations through 2019.
- Maintenance division is a solid, cash flowing business that provides a floor for the bond.
- Improvement in WTG performance can provide upside.
- Supportive PE backer.
- Growing order book in a stabilising/growing market.
- Secured position.

Cons:

- Advance payments backed by the L/G facility subordinates the bond in an insolvency.
- Provisions and deferred tax liabilities could crystallise into cash-draining liabilities.
- May not be a target for M&A, or at the financial market conditions may preclude that possibility.
- The market may not need a player at number 5.
- Earnings/installation miss in Q4 (looks priced in)
- Potential for bad news from new CEO/CFO.

Ultimately, we see this business as a small but credible player in the renewables space that has good potential to grasp the opportunities ahead if given enough time and space to do so. Its order book is growing, the market is settling down after major downward price adjustments, and renewables are only becoming more attractive. Alternatively, the services business alone, although difficult to split out, is a solid one. It makes the whole business a potential M&A target, although that can never be guaranteed. Most importantly, the cash and facilities on hand plus the release of working capital as delayed projects complete should provide the liquidity needed to see it through this year and into 2020. Either way, it's secured paper at a much steeper discount than we think makes sense at this juncture.

Q4 figures are due on 14th March. Please contact the desk if you wish to discuss.

Penelope Fitzherbert

29 January 2018

Appendix – Bond Details

Bond

- First lien ranking means the bonds are nominally pari passu with bank debt, but the guarantee facility (L/G) of €825mn and €125mn RCF are super senior on enforcement and have additional collateral of their own. Security includes rights from registered patents and patent applications, blanket assignment of outstanding receivables, inventory, various share and bank account pledges, and other security.
- Structurally subordinated to non-guarantors, but guaranteed by entities capturing over 92% of revenue, all of EBITDA and almost 64% of assets.
- Covenants do not provide much comfort. There is a 2.45x leverage covenant on the bank facilities, but clearly the undisclosed calculation is indulgent.
    - Fixed charge coverage ratio of 2.0x necessary to incur further debt, or if senior secured debt, consolidated senior secured leverage ratio of less than 2.75x.
    - Permitted debt includes credit facilities (the greater of €200mn or 100% of consolidated EBITDA); leases up to the greater of €45mn or 2.0% of total assets (TA €40.7mn as at Q3); and a general parent guarantor/restricted subsidiary dent no greater than €85mn or 4.0% of TA (€81.4mn). Restricted subs that are not guarantors are restricted to €45mn of additional debt.
    - Restricted payments – various are allowed, although losses experienced since the bond was issued provides some limit. There's a lot of leeway to allocate to any basket and a general allowance of the greater of €45mn or 2.0% of TA (€40.7mn).
    - Liens – permitted liens appear to include a parent guarantor/restricted subsidiaries limit of €30mn.
    - Mergers, consolidation or sale of assets – sale of assets up to the greater of €20mn or 1% of TA (€20.3mn) are allowed.
    - Certain covenants can be suspended if investment grade ratings are achieved.
    - Note that the calculation for consolidated EBITDA includes such adjustments as projected annualised synergies, cost savings and operating expense reductions over the coming 12 months, although they can only contribute a maximum of 20% of consolidated EBITDA, so that's something. Consolidated net leverage calculation subtracts "normalized amount of cash and Cash Equivalents…during the 180 days prior to the date of determination", which is apparently something to be determined by the CFO or Chief Accounting Officer in good faith.

- Events of default – including failure to pay principal (immediate) or interest (30 days), comply with agreements in the indenture, cross default and acceleration clause triggers at €45mn or more (the banks' trigger is lower, at €30mn). Judgments (€45mn and 60 days). Security ceases to be in full force and effect (€15mn; 15 business days). Notes guarantee by subsidiary or group of subsidiaries considered significant subsidiary judged to be unenforceable or invalid (15 business days). Insolvency/bankruptcy of the parent guarantor as per the indenture of significant subsidiary or group constituting such.
- Change of control put at 101. 40% equity clawback. Legal jurisdictions are split between New York (notes and indenture), England (intercreditor agreement), Germany (RCF and L/G facilities agreement) and Germany/Portugal (security documents).
- Senvion can repurchase notes at any time on the open market or otherwise.