

NAL (T)	Cdn\$17.60
Stock Rating:	Outperform (Unchanged)
Target:	Cdn\$24.00 (Unchanged)
Risk Rating:	Above Average (Unchanged)
Est. Total Return	39%

**Stock Data:**

52-week High-Low (Canada)	\$22.97 - \$14.25
Bloomberg/Reuters: Canada	NAL CN / NAL

(Year-End Dec 31)	2013a	2014e	2015e
Revenue (mln)	\$ 783.4	\$ 862.5	\$ 580.9
adj. EBITDA (mln)	\$ 154.6	\$ 181.7	\$ 137.0
EBITDA/ Capital	14.5%	15.8%	16.1%
adj. Net Income (mln)	\$ 21.94	\$ 30.85	\$ 35.82
Net Margins	6.3%	7.5%	6.5%
adj. EPS	\$ 0.90	\$ 1.15	\$ 0.66
Dividends/sh	\$ 0.43	\$ 0.49	\$ 0.50
Dividend Yield	2.4%	2.8%	2.8%
adj. P/E	19.6x	15.4x	26.5x
adj. EV/EBITDA	8.7x	8.1x	9.5x

**Financial Data:**

Market Capitalization (mln) <sup>1</sup>	\$ 999
Net Debt <sup>1</sup> (mln)	\$ 450
Cash and short term investments <sup>1</sup> (mln)	\$ 5
Sh/O Basic <sup>1</sup> (mln)	57.0
FD Outstanding <sup>1</sup> (mln)	57.0

Source: Thomson Financial and NBF estimates

<sup>1</sup> Sept 30, 2014

**Industry Rating: Underweight**  
(NBF Economics & Strategy Group)

**Company Profile:**

Newalta Corp. is Canada's largest industrial waste management and environmental services provider. It focuses on the recovery and recycling of product in the automotive, forestry, lead, manufacturing, mining, oil and gas, petrochemical, pulp and paper, refining and transportation industries.

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**Newalta Corp.***NAL remains on script***Industrial sale paves the way for higher growth****HIGHLIGHTS**

- **Selling Industrial Division to Birch Hill for \$300 mln**  
At about 6.0x EV/EBITDA, the sale came in slightly higher than our estimated \$277 mln and should reduce SG&A by about \$10 - \$15 mln. The sale is expected to close in Q1 2015. The Industrial Division has about 950 of NAL's roughly 2,100 employees.
- **Stronger balance sheet supports \$190 mln for '15 capex**  
NAL also announced its capex budget that includes \$25 mln in maintenance and \$165 mln of growth capex (we had \$30 mln and \$140 mln). The growth includes \$45 mln in Heavy Oil, \$45 mln in the U.S., \$50 mln in Oilfield and \$25 mln for technical development and corporate investments. We believe that NAL can maintain debt/EBITDA at about 2x, despite the recent downturn in energy prices.
- **Growth focus should continue into satellite facilities**  
NAL should grow its presence in the oilfield waste markets with the addition of satellite facilities which can be redeployed to follow activity in the patch in the future. If NAL acquires assets in the United States at this time, it may be able to buy at a discount relative to prices from a few months ago.
- **Looking for relatively flat 2015E, with recovery in 2016E**  
With our estimated \$20 /Bbl drop in oil prices and 20% drop in drilling activity for 2015E, we could see a \$30 mln headwind on EBITDA in 2015E. However, with \$165 mln growth capex and about a 30% EBITDA return, we should see an offset that supports EBITDA growth in 2015E.
- **Maintaining \$24/sh target and OP rating**  
With the change in the business mix, our target remains the same, with our multiple at 9x 2016E on the New Markets and Oilfield Divisions, consistent with our previous analysis (see *next page*). NAL could see near-term headwinds from lower energy prices, but it is increasingly well positioned for growth and recovery in the oil field waste markets.

**Stock Performance**

Daily | NAL-T Newalta Corporation C: 17.60 Chg 0.0



Source: Reuters

■ **Sum or parts analysis – maintaining target**

The sale price of \$300 mln for the Industrial Division was consistent with our expectations. With a 6.0x EV/EBITDA estimate on the transaction, we believe that the SG&A expense for NAL should be reduced by about \$10-\$12 mln (less than our previous estimate of about \$18 mln). However, we increased our EBITDA estimates for 2016E, consistent with an increase in planned capital expenditures for 2015E. With that, our target multiple on the New Markets and Oilfield operations remains at 9.0x 2016E EV/EBITDA, consistent with our previous sum of parts analysis.

Previous Newalta 'Sum Of The Parts' Valuation					
Division	EBITDA ('16E)	%	Multiple	EV	\$/sh
Industrial					
Operating	\$68.4	21%			
SG&A	(\$17.8)	21%			
Consolidated	\$50.6		5.5x	\$278.2	\$4.88
New Markets					
Operating	\$144.8	45%			
SG&A	(\$37.7)	45%			
Consolidated	\$107.1		9.0x	\$963.9	\$16.91
Oil Fields					
Operating	\$105.7	33%			
SG&A	(\$27.5)	33%			
Consolidated	\$78.2		9.0x	\$703.9	\$12.35
<b>Consolidated EBITDA</b>	<b>\$235.9</b>		<b>8.2x</b>	<b>\$1 946.1</b>	<b>\$34.14</b>
	Cash			(\$21.3)	(\$0.37)
	Debt ('16E)			\$579.0	\$10.16
	<b>Net Debt ('16E)</b>			<b>\$557.7</b>	<b>\$9.79</b>
	<b>Equity (implied)</b>			<b>\$1 388.4</b>	<b>\$24.36</b>
	Est. Shares O.S., mln ('15E)			57.0	
	Net Debt/ EBITDA			2.36	
<b>Additional Summation</b>					
Industrial	\$68.4	29%	5.5x	\$376.1	\$6.60
New Markets	\$144.8	61%	9.0x	\$1 303.0	\$22.86
Oil Fields	\$105.7	45%	9.0x	\$951.6	\$16.70
Corporate	(\$83.0)	-35%	8.2x	(\$684.6)	(\$12.01)
	\$235.9		8.2x	\$1 946.1	\$34.1

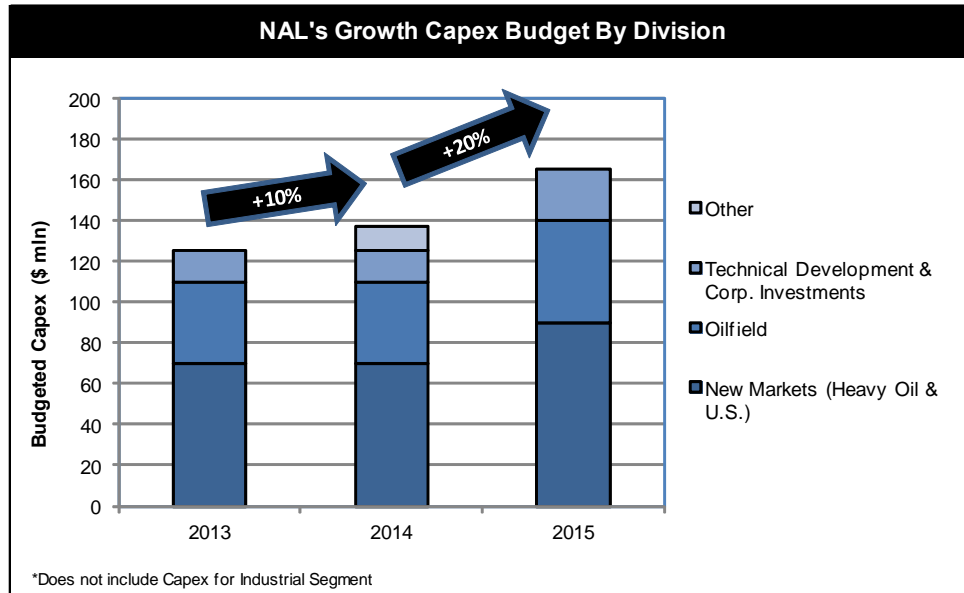
Figures in C\$ millions except per share data

Source: Company reports, NBF estimates & analysis

Updated Newalta 'Sum Of The Parts'					
Division	EBITDA ('16E)	%	Multiple	EV	\$/sh
Industrial					
Operating					
SG&A					
Consolidated					
New Markets					
Operating	\$150.5	58%			
SG&A	(\$41.9)	58%			
Consolidated	\$108.5		9.0x	\$976.7	\$17.14
Oil Fields					
Operating	\$110.7	42%			
SG&A	(\$30.9)	42%			
Consolidated	\$79.9		9.0x	\$718.8	\$12.61
<b>Consolidated EBITDA</b>	<b>\$188.4</b>		<b>9.0x</b>	<b>\$1 695.4</b>	<b>\$29.75</b>
	Cash			(\$12.2)	(\$0.21)
	Debt ('16E)			\$365.0	\$6.40
	<b>Net Debt ('16E)</b>			<b>\$352.8</b>	<b>\$6.19</b>
	<b>Equity (implied)</b>			<b>\$1 342.7</b>	<b>\$23.56</b>
	Est. Shares O.S., mln ('15E)			57.0	
	Net Debt/ EBITDA			1.87	
<b>Additional Summation</b>					
Industrial	\$0.0	0%	0.0x	\$0.0	\$0.00
New Markets	\$150.5	64%	9.0x	\$1 354.2	\$23.76
Oil Fields	\$110.7	47%	9.0x	\$996.6	\$17.49
Corporate	(\$72.8)	-31%	9.0x	(\$655.3)	(\$11.50)
	\$188.4		9.0x	\$1 695.4	\$29.7

Figures in C\$ millions except per share data

Source: Company reports, NBF estimates & analysis




Source: Company Reports; NBF estimates &amp; analysis

### Summary of Estimate Changes

Figures in millions except/sh data or where otherwise stated

	2014E				2015E				2016			
	Current	Previous	Δ	%Δ	Current	Previous	Δ	%Δ	Current	Previous	Δ	%Δ
Revenue	\$862.5	\$862.5	\$0.0	0.0%	\$580.9	\$904.0	-\$323.1	-35.7%	\$634.3	\$1 037.3	-\$403.0	-38.8%
Operating Expenses	\$590.1	\$590.1	\$0.0	0.0%	\$371.1	\$636.5	-\$265.4	-41.7%	\$373.1	\$718.4	-\$345.3	-48.1%
Gross Margin	31.6%	31.6%	-	0.0%	36.1%	29.6%	-	6.5%	41.2%	30.7%	-	10.4%
EBITDA	\$173.9	\$173.9	\$0.0	0.0%	\$135.0	\$186.3	-\$51.3	-27.6%	\$184.1	\$229.9	-\$45.8	-19.9%
EBITDA Margin	20.2%	20.2%	-	0.0%	23.2%	20.6%	-	2.6%	29.0%	22.2%	-	6.9%
Adj. EBITDA	\$181.7	\$181.7	\$0.0	0.0%	\$137.0	\$188.3	-\$51.3	-27.3%	\$190.1	\$235.9	-\$45.8	-19.4%
Adj. EBITDA Margin	21.1%	21.1%	-	0.0%	23.6%	20.8%	-	2.7%	30.0%	22.7%	-	7.2%
SG&A	\$85.4	\$85.4	\$0.0	0.0%	\$72.8	\$79.2	-\$6.4	-8.1%	\$71.1	\$83.0	-\$11.9	-14.3%
EPS	\$0.54	\$0.54	\$0.01	1.5%	\$0.63	\$0.91	-\$0.28	-30.8%	\$1.10	\$1.25	-\$0.15	-11.6%
Adj. EPS	\$1.15	\$1.14	\$0.01	0.7%	\$0.66	\$0.94	-\$0.28	-29.7%	\$1.21	\$1.35	-\$0.15	-10.7%
Maint Capex	\$32.1	\$32.1	0.0	0%	\$25.0	\$30.0	-5.0	-17%	\$27.0	\$27.0	0.0	0%
Growth Capex	\$133.7	\$133.7	0.0	0%	\$165.0	\$140.0	25.0	18%	\$148.0	\$148.0	0.0	0%
Total Capex	\$165.8	\$165.8	0.0	0%	\$190.0	\$170.0	20.0	12%	\$175.0	\$175.0	0.0	0%
Assets employed	\$1 119	\$1 119	0.0	0%	\$843	\$1 230	-386.4	-31%	\$950.5	\$1 325.5	-375.0	-28%
Assets contributing	\$1 065	\$1 065	0.0	0%	\$803	\$1 177	-373.8	-32%	\$910.2	\$1 272.6	-362.4	-28%
FX (US\$/C\$)	\$0.91	\$0.91	\$0.00	0.0%	\$0.87	\$0.87	\$0.00	0.0%	\$0.88	\$0.88	\$0.00	0.0%
Lead Prices (US\$/lb)	\$0.96	\$0.96	\$0.00	0.0%	\$0.00	\$0.95	-\$0.95	-100.0%	nmf			
WCS Price (C\$/bbl)	\$81.26	\$81.26	\$0.00	0.0%	\$60.00	\$60.00	\$0.00	0.0%	\$73.75	\$73.75	\$0.00	0.0%
Ed. Par Price (C\$/bbl)	\$93.39	\$93.39	\$0.00	0.0%	\$74.25	\$74.25	\$0.00	0.0%	\$91.50	\$91.50	\$0.00	0.0%
WTI Prices (US\$/bbl)	\$93.22	\$93.22	\$0.00	0.0%	\$70.00	\$70.00	\$0.00	0.0%	\$90.00	\$90.00	\$0.00	0.0%

Source: NBF estimates &amp; Analysis

<b>Newalta</b>												
(all figures in Cdn\$ unless otherwise noted)												
Daily <b>NAL-T</b> Newalta Corporation C: 17.60 Chg 0.0												
<b>Ticker</b>	TSX-NAL											
<b>Market Price</b>	\$ 17.60											
<b>Yield</b>	2.8%											
<b>Shares Outstanding (est FD mln)</b>	56.8											
<b>Market Cap (\$mln)</b>	\$ 999											
<b>Enterprise Value (\$mln)</b>	\$ 1 449											
<b>52-week High</b>	\$ 22.97											
<b>52-week Low</b>	\$ 14.25											
<b>Stock Rating</b>	Outperform											
<b>Risk Rating</b>	Above Average											
<b>12-Mth Target Price</b>	\$ 24.00											
<b>12-Mth Total Return</b>	39%											
												
<b>Selected Results (All figures in Cdn\$, YE Dec. 31st)</b>												
	2009	2010	2011	2012	2013	Q1/14	Q2/14	Q3/14	Q4/14E	2014E	2015E	2016E
<b>Income Statement</b>												
Total Revenue (\$mln)	483.4	576.2	682.8	726.2	783.4	187.8	213.1	228.4	233.2	862.5	580.9	634.3
Growth yoy (%)	-19%	19%	19%	6%	8%	10%	9%	8%	14%	10%	-33%	9%
New Markets		98.8	139.3	188.8	227.6	56.1	71.1	79.7	83.9	290.8	303.2	377.6
Industrial		332.1	369.9	356.3	371.2	77.3	96.7	93.0	96.8	364.0	0.0	0.0
Oil Field		145.9	173.6	181.1	184.6	54.3	45.3	55.7	52.4	207.8	195.9	256.7
Sales/Sh	11.09	11.79	13.87	14.37	14.11	3.33	3.75	4.01	4.09	15.19	10.19	11.13
SG&A	56.1	70.9	76.0	74.3	89.9	20.8	21.3	21.8	21.5	85.4	72.8	71.1
R&D		1.7	2.3	2.4	0.8	-	-	-	-	-	-	-
SG&A (% revenue)	11.6%	12.3%	11.1%	10.2%	11.5%	11.1%	10.0%	9.5%	9.2%	9.9%	12.5%	11.2%
EBITDA (\$mln)	79.9	109.3	138.8	130.3	140.6	26.0	42.6	56.0	49.3	173.9	135.0	184.1
adj EBITDA (\$mln)	82.5	118.6	146.4	139.3	154.6	32.1	46.0	59.1	49.8	181.7	137.0	190.1
Growth yoy (%)	-34%	44%	24%	-5%	11%	16%	20%	15%	34%	18%	-25%	39%
EBITDA Margin (%)	17%	21%	21%	19%	20%	17%	22%	26%	21%	21%	24%	30%
adj EBITDA /sh (\$)	1.89	2.43	2.97	2.76	2.78	0.57	0.81	1.04	0.87	3.20	2.40	3.33
EBIT (\$mln)	28.1	53.3	75.9	67.8	52.4	7.1	23.4	34.3	29.7	94.4	74.2	119.1
Operating Margin (%)	5.8%	9.2%	11.1%	9.3%	6.7%	3.8%	11.0%	15.0%	12.7%	10.9%	12.8%	18.8%
Interest on long-term debt (\$mln)	25.4	25.7	28.2	13.4	24.5	6.6	13.8	7.4	8.9	36.8	29.5	35.4
Net Income (\$mln)	3.1	18.0	33.6	43.3	21.9	6.51	(8.18)	16.57	15.96	30.85	35.82	62.79
EPS (diluted)	0.07	0.37	0.68	0.86	0.40	0.12	(0.14)	0.29	0.28	0.54	0.63	1.10
adj Net Income (\$mln)	5.7	27.4	39.7	41.6	49.6	10.4	11.8	24.4	18.5	65.0	37.8	68.8
EPS (adj)	0.13	0.56	0.81	1.03	0.90	0.18	0.21	0.44	0.29	1.15	0.66	1.21
Net margins	1.2%	4.7%	5.8%	5.7%	6.3%	5.5%	5.6%	10.7%	7.9%	7.5%	6.5%	10.8%
<b>Balance Sheet (\$mln)</b>												
Cash and short term investments	-	-	-	0.4	-	-	4.7	4.5	6.6	6.6	1.0	12.2
Working Capital	31.0	14.9	12.9	10.7	(1.8)	32.3	44.6	53.6	56.1	56.1	55.7	61.7
Book Value	540.0	547.6	541.9	641.4	675.2	682.0	664.7	682.1	691.6	691.6	571.5	612.3
Debt	298.8	285.8	319.7	322.8	365.4	419.8	440.7	454.5	485.1	485.1	295.0	365.0
Net Debt	298.8	285.8	319.7	322.4	365.4	419.8	436.1	450.0	478.5	478.5	294.0	352.8
net Debt/adj EBITDA (TTM)	3.62	2.41	2.18	2.31	2.60	2.64	2.62	2.58	2.56	2.8	2.2	1.9
Net Debt / Capital	0.37	0.36	0.38	0.35	0.17	0.39	0.41	0.41	0.42	0.25	0.08	0.14
Current Ratio	1.34	1.16	1.09	1.06	0.99	1.23	1.30	1.31	1.33	1.33	1.55	1.48
Times interest earned	1.1	2.1	2.7	5.1	2.1	1.1	1.7	4.6	3.3	2.6	2.5	3.4
<b>Cash Flow (\$mln)</b>												
Cash and st investments start of period	0.0	0.0	0.0	0.0	0.4	(0.0)	(0.0)	4.7	4.5	(0.0)	6.6	1.0
Operating Activities	83.5	95.3	104.6	97.2	123.4	11.6	25.2	27.6	37.3	101.8	102.4	144.2
Investing Activities	(37.7)	(68.8)	(121.7)	(155.0)	(152.9)	(61.2)	(35.7)	(35.4)	(58.8)	(191.1)	110.0	(175.0)
Financing Activities	(45.8)	(26.5)	5.8	58.8	28.0	49.7	14.8	8.3	23.6	96.4	(218.1)	42.0
Change in Cash	0.0	(0.0)	0.0	0.4	(0.4)	0.0	4.7	(0.2)	2.1	6.6	(5.7)	11.3
Cash and st investments end of period	0.0	0.0	0.0	0.4	(0.0)	(0.0)	4.7	4.5	6.6	6.6	1.0	12.2
<b>Dist. Cash and Dividends</b>												
Maintenance Capex (\$mln)	8.6	28.6	29.1	30.7	29.7	3.8	10.0	9.3	9.0	32.1	25.0	27.0
Growth and acquisition Capex (\$mln)	18.7	40.1	85.8	127.1	141.5	23.3	22.8	37.9	49.8	133.7	165.0	148.0
Capex (\$/sh)	0.6	1.4	2.3	3.1	3.1	0.5	0.6	0.8	1.0	2.9	3.3	3.1
Dist. CF/Share before growth CAPEX (\$)	1.19	1.32	1.83	1.63	1.54	0.33	0.28	0.79	0.50	1.90	1.45	1.96
Dist. CF before growth CAPEX (\$mln)	51.9	64.3	90.3	82.4	85.6	18.6	15.7	44.8	28.7	107.8	82.6	111.9
Dist CF yield (annualized)		7.5%	10.4%	9.3%	8.8%	1.9%	1.6%	4.5%	2.9%	10.8%	8.2%	11.2%
P/Dist. CF	14.8	13.4	9.6	10.8	11.4	53.4	63.5	22.4	35.0	9.3	12.1	9.0
Payout Ratios	17%	17%	16%	23%	28%	33%	44%	16%	24%	25%	34%	25%
Dividends declared (\$mln)	8.7	11.2	14.8	18.9	23.6	6.1	7.0	7.0	7.0	27.1	28.0	28.0
Dividends/Share (\$)	0.20	0.23	0.30	0.37	0.43	0.11	0.13	0.13	0.13	0.49	0.50	0.49
Dividend Yield	1.1%	1.3%	1.7%	2.1%	2.4%	0.6%	0.7%	0.7%	0.7%	2.8%	2.8%	2.8%
<b>Valuation Metrics</b>												
EV/Sales	2.69	2.23	1.93	1.82	1.74					1.71	2.23	2.13
Price/Sales	2.07	1.73	1.46	1.38	1.28					1.16	1.72	1.58
adj P/E		31.4	21.8	17.0	19.6					15.4	26.5	14.6
Book Value / sh	12.39	11.20	11.01	12.70	12.16	12.11	11.71	11.97	12.13	12.18	10.03	10.74
P/B	1.42	1.57	1.60	1.39	1.45	1.45	1.50	1.47	1.45	1.44	1.76	1.64
EV (\$mln)	1 065.9	1 146.1	1 186	1 212	1 343	1 411	1 435	1 453	1 482	1 478	1 297	1 356
adj EV/EBITDA	12.9	9.7	8.1	8.7	8.7					8.1	9.5	7.1
EBITDA/Avg Capital	9.3%	13.6%	17.0%	14.7%	14.5%					15.8%	16.1%	19.9%
ROACE	3.2%	6.1%	8.8%	7.2%	4.9%					8.2%	8.7%	12.5%
adj ROE	0.6%	5.0%	7.3%	6.5%	7.3%					9.4%	6.6%	11.2%
FD Shares outstanding (mln)	49.0	49.3	49.4	55.0	56.1	56.4	56.8	57.0	57.0	57.0	57.0	57.0
Wavg Shares outstanding (FD mln)	43.6	48.9	49.2	50.5	55.5	56.3	56.8	57.0	57.0	56.8	57.0	57.0

Source: Company data and Reuters with NBF estimates and analysis

2014/12/29