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2005

FUNDS UNDER
MANAGEMENT

£542.5
MILLION

NET ASSET VALUE
PER SHARE

381.6%
SINCE INCEPTION*



Orizon – a true emerging markets growth story

May 2023

Orizon is Brazil's leader in waste management and operates fifteen sanitary landfill sites. Historically, landfill sites across the globe were relatively simple operations – receiving waste and storing it on site. But in today's world of strict environmental legislation, these sites are sophisticated “ecopark” complexes which require specialised infrastructure to safely process waste. This includes sorting facilities to remove recyclable materials such as metals, plastics and cardboard; leachate collection and treatment; biogas extraction; and waste-to-energy services.

It is estimated that 40% of solid waste generated in Brazil in 2020 was still being disposed of in ways that do not comply with applicable regulations.⁽¹⁾ In effect, waste was – and still is – being dumped in unregulated sites all over the country. At these sites leachate, the toxic liquid slurry which seeps through the waste pile, can contaminate aquifers and river systems, poisoning the local environment. Landfill gas – predominantly methane and carbon dioxide – is allowed to simply disperse into the atmosphere. This results in significant greenhouse gas emissions, with the World Bank estimating that landfill waste alone is responsible for 11% of global methane emissions.⁽²⁾

To address this critical issue, in July 2020 the Brazilian government approved a new Sanitation Legal Framework (the “Framework”), which reinforces the requirement for cities to properly dispose of their waste. As part of this, unregulated landfill sites must be closed by 2024, ensuring the sustainability of licensed urban cleaning and solid waste management companies. The Framework is expected to lead to growth opportunities for Orizon, including the construction of new facilities in areas lacking formal waste disposal systems, increased volumes as waste is diverted from illegal dumpsites to landfills, and potential M&A opportunities of existing operators who lack the financial capacity to upgrade their facilities to the required standards.

Landfills are vitally important for Brazil's environmental development and key to Orizon's business model, and are underpinned by high barriers to entry. Landfill sites typically take 7-10 years to receive all the environmental and municipal licenses to commence operations, and then require significant investment capital as well as the engineering expertise to construct facilities to meet stringent environmental standards. Once up and running, the sites then need the operational experience to run the site safely and efficiently.

With over 8.0 million tons of waste processed last year, Orizon is the market leader in a highly fragmented market with 10.2% market share. We expect the waste processed by Orizon at its existing facilities to reach 10.0 million tons by 2024 as it has many ecoparks which are still in the ramp-up stage. However it is important to note that growth expectations are not just underpinned by higher waste volumes, but also by the additional services which Orizon can implement at the landfill sites.

The main complementary value-add activities which Orizon can provide includes the expansion of biogas extraction operations, the addition of new material sorting and processing plants, and provision of recycling services at their sites. In time, the company may also look to expand into the manufacture of fertiliser. The higher the level of processing and recycling, the higher Orizon moves up the value chain, and the less waste is sent to landfill – a win for shareholder returns and a win for the environment.

Last year Orizon completed the construction of Latin America's largest mechanised waste sorting plant (UTM). UTM Joboatão has a capacity of 500,000 tons of waste per year with an estimated recovery rate of 6.4% of recyclables. The company also constructed its first biomethane plant at its Paulinia site near Sao Paulo, which is being used to generate electricity which powers the entire facility and surplus output is sold into the local grid.

The UN recognises the collection and use of biogas as directly reducing emissions, thereby qualifying Orizon's activities for carbon credits. In 2021 the company prevented 1.6 million tons CO₂ equivalent of emissions being released into the atmosphere, generating 1.6mt CO₂ equivalent carbon credit certificates. In the first nine months of 2022 the carbon credits generated grew at over 20%, as Orizon is continuing to successfully prevent more greenhouse gas emissions from entering the atmosphere.

In summary, Orizon is the market leader in a highly fragmented sector that is still catching up to meet international standards and is the key beneficiary of Brazil's new sanitation framework. The combination of a strong management team with first-class operational expertise, an enormous growth opportunity as it moves up the value chain, and the high barriers to entry make it a compelling investment for UEM. This is a true emerging market growth story, evidenced by revenues increasing by 43.8% in 2022. At end-March Orizon's market capitalisation was US\$450m, and shares were trading at 7.8x EV/EBITDA 2023e with a dividend yield of 1.1%. Orizon is currently one of UEM's top five largest investments.

Jon Grocock

24 April, 2023



Source Data: ICM Limited, Factset as of February 28th 2023.
Orizon website <https://ri.orizonvr.com.br/>, as of February 28th 2023.

[1] Abrelpe (2021) <https://abrelpe.org.br/>

[2] What a Waste 2.0: A Global Snapshot of Solid Waste Management to 2050 (worldbank.org)

*Total return is calculated based on undiluted Net Asset Value, plus dividends reinvested and adjusted for the exercise of warrants and subscription shares

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