

Fortum

Company report

2/8/2024



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The choice of dividend investors

We lower our target price for Fortum to EUR 13.5 (was EUR 14.5) but reiterate our Buy recommendation. The Q4 result was disappointing, with smaller parts of the Generation segment, such as district heating, making losses. There were no surprises in the company's outlook, but electricity futures have fallen again, weighing on earnings forecasts for the coming years by 10-15%. Nevertheless, we think the valuation is attractive (2024e P/E 11x) and the dividend yield of almost 10% supports the expected return well. Both the share price and related expectations are now at very low levels.

Earnings disappointment from outside the core

Fortum's comparable EPS for Q4 were EUR 0.35, compared to our forecast of EUR 0.39 and the consensus of EUR 0.42. This was driven by the Generation segment, which achieved a comparable EBIT of 390 MEUR in Q4. In the "hard core" of power generation, Generation's performance was broadly in line with our expectations, with an electricity price of EUR 58/MWh and good sales volumes. The reason for the clear forecast deficit seems to come from smaller parts of the Generation segment, such as the loss-making district heating business and the stalled power plant in Meri-Pori. Cash flow from operating activities was also surprisingly low (149 MEUR) due to the commitment of working capital, which also resulted in a slightly higher-than-expected net financial debt (942 MEUR). However, the balance sheet is virtually over-capitalized and the proposed dividend of EUR 1.15 per share was in line with our expectations. Overall, the Q4 results were disappointing, but in our view did not materially change the big picture.

Forecasts down again with electricity prices

Fortum's outlook focuses on hedges in the Generation segment: around 70% of the Generation segment's estimated outright electricity sales in the Nordic countries were hedged at EUR 47/MWh for 2024 and around 40% at EUR 43/MWh for 2025. The stable trend in hedge prices and the increase in hedge levels were in line with our expectations. However, we cut our earnings forecasts for the coming years by around 10-15%, driven by electricity futures that have fallen to around EUR 40/MWh (+/-1 EUR/MWh in Generation's outright price means an EBIT change of around +/-45 MEUR). The hedges and the optimization margin (EUR 6-8/MWh) will keep the average achieved sales price at around EUR 54/MWh in 2024, at which point we estimate Generation's EBIT to be around 1.3 BNEUR. Other businesses are expected to improve from weak levels in 2023. We forecast that comparable EPS will fall to around EUR 1.04 and, with the electricity price achieved, will continue to fall to around EUR 0.97 in 2025. A lot will happen in the volatile electricity market between now and then, and from current levels we see upside potential, especially in the medium term.

Valuation is low, but not without problems

Fortum's valuation multiples for the next few years are moderate (2024e P/E 11x and EV/EBITDA 7x), but the declining earnings trajectory and low peer valuations are still a headache. The clearest driver of returns is the dividend yield of almost 10%, which should start to attract interest despite the inevitable decline in dividends. In the coming years, when electricity prices are expected to be mostly low, Fortum will make a healthy profit, especially due to the optimization potential of hydropower, and will thus be able to generate a good cash and dividend stream. As electrification eventually progresses in the medium term, we expect electricity prices to rise from current levels and support Fortum's earnings growth. Compared to this, Fortum is still clearly undervalued, but a stable base requires support from the electricity market.

Recommendation

Buy

(previous Buy)

EUR 13.50

(previous EUR 14.50)

Share price:

11.78



Key figures

| | 2023 | 2024e | 2025e | 2026e |
|-------------------------|--------|--------|--------|--------|
| Revenue | 6711 | 6185 | 6172 | 6240 |
| growth-% | -14% | -8% | 0% | 1% |
| EBIT adj. | 1544 | 1227 | 1174 | 1159 |
| EBIT-% adj. | 23.0 % | 19.8 % | 19.0 % | 18.6 % |
| Net Income | 1513 | 931 | 873 | 861 |
| EPS (adj.) | 1.28 | 1.04 | 0.97 | 0.96 |
| P/E (adj.) | 10.2 | 11.4 | 12.1 | 12.3 |
| P/B | 1.4 | 1.3 | 1.3 | 1.2 |
| Dividend yield-% | 8.8 % | 7.8 % | 7.3 % | 7.2 % |
| EV/EBIT (adj.) | 8.2 | 9.3 | 9.8 | 10.0 |
| EV/EBITDA | 6.3 | 7.3 | 7.6 | 7.7 |
| EV/S | 1.9 | 1.8 | 1.9 | 1.9 |

Source: Inderes

Guidance

(Adjusted)

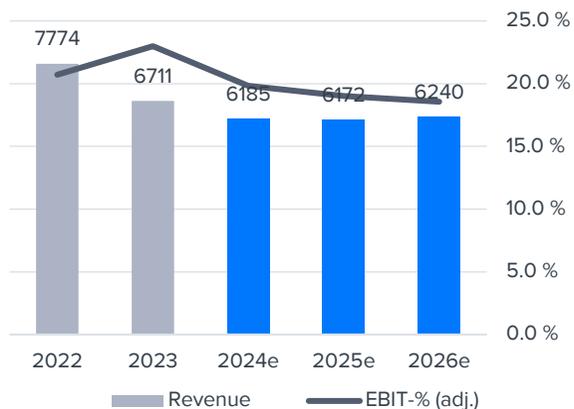
The Generation segment's Nordic outright generation hedges: approximately 70% at EUR 47 per MWh for 2024, and approximately 40% at EUR 43 per MWh for 2025.

Share price



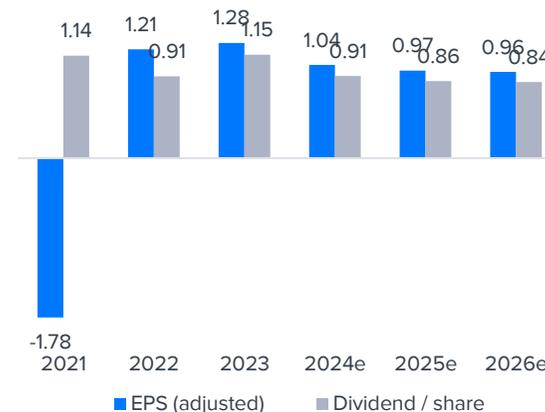
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Increase in relative valuation as the risk profile normalizes
- High electricity prices would enable excellent earnings levels
- Improving operational efficiency
- Successful investments and divestments in accordance with the strategy
- Making rational use of the strong balance sheet



Risk factors

- Developments in energy policy, industry regulation and taxation
- A drop in electricity prices would be reflected in the result, despite hedging
- Risks related to the state owner
- Mistakes in capital allocation

| Valuation | 2024e | 2025e | 2026e |
|----------------------------|--------|--------|--------|
| Share price | 11.8 | 11.8 | 11.8 |
| Number of shares, millions | 897.3 | 897.3 | 897.3 |
| Market cap | 10570 | 10570 | 10570 |
| EV | 11419 | 11528 | 11647 |
| P/E (adj.) | 11.4 | 12.1 | 12.3 |
| P/E | 11.4 | 12.1 | 12.3 |
| P/B | 1.3 | 1.3 | 1.2 |
| P/S | 1.7 | 1.7 | 1.7 |
| EV/Sales | 1.8 | 1.9 | 1.9 |
| EV/EBITDA | 7.3 | 7.6 | 7.7 |
| EV/EBIT (adj.) | 9.3 | 9.8 | 10.0 |
| Payout ratio (%) | 88.0 % | 88.0 % | 88.0 % |
| Dividend yield-% | 7.8 % | 7.3 % | 7.2 % |

Source: Inderes

Earnings disappointment from outside the core

Several items behind Generation's earnings miss

Fortum's Generation segment achieved a comparable EBIT of 390 MEUR in Q4. As expected, the result was significantly down year-on-year (Q4'22: 683 MEUR) but was below both our (480 MEUR) and consensus (472 MEUR) forecasts. Nevertheless, the electricity price achieved in the segment of EUR 58/MWh was in line with our expectations and sales volumes were broadly in line with our expectations, so for the "hard core" of power generation our forecasts seem to have been at least in the right ballpark. The reason for the clear forecast deficit seems to come from the smaller parts of the Generation segment.

According to Fortum, the deterioration in the Generation segment's results was partly due to higher costs in the partly-owned generation companies and loss-making results in the Meri-Pori condensing power plant, the Renewables and Decarbonization business and district heating businesses. In particular, the loss-making district heating business was a clear disappointment in a seasonally strong Q4, and Meri-Pori appears to have been largely out of use, with fixed costs still being incurred. In addition, depreciation was higher than expected (write-downs).

The reasons for Generation's poor performance can be found here. From March 2024, Meri-Pori will become part of the state's so-called "system reserve", meaning that production will be reserved for severe crisis and disruption situations. This will eliminate the costs previously borne by Fortum. The company intends to turn its district heating business back into profit. This at least gives some comfort that similar losses are unlikely in the future.

No major surprises in other segments

The Consumer Solutions segment's comparable EBIT for Q4 was at a weak level of 14 MEUR (Q4'22: 25 MEUR), which was in line with our forecast of EUR 12 million. Sales volumes increased significantly, but profitability was hit by falling margins on electricity sales and the Polish government's 2023 electricity price cap for end-users. Sooner or later, the results should return to normal here too. Comparable operating profit from other operations was -43 MEUR, which was broadly in line with our forecast (-40 MEUR). This is due to small items in the overall picture. The group's cost level is still high, but we expect it to gradually decrease as the 100 MEUR efficiency program progresses.

Balance sheet is strong and allows for a hefty dividend

Compared to the group's Q4 result (comparable EBIT 359 MEUR), cash flow from operating activities was relatively weak (149 MEUR). The main negative factor was the working capital tied up (-300 MEUR), mainly due to a significant increase in trade receivables. However, cash flow for the full year 2023 was excellent, with cash flow from continuing operations before financing of 3.1 BNEUR, including the release of collateral requirements.

Fortum's balance sheet has become over-capitalized during the year. The ratio of net financial debt to comparable EBITDA was 0.5x at the end of 2023, compared to the company's target of 2.0-2.5x. At the end of 2023, the company had 4.2 BNEUR in cash and 3.2 BNEUR in undrawn credit facilities. At the same time, attractive investment opportunities are limited at the moment, so the balance sheet has plenty of buffer for a high dividend. In line with our forecast, the Board of Directors proposed a dividend of EUR 1.15 per share for 2023, which is at the upper end of the company's dividend policy (60-90% of comparable earnings).

| Estimates MEUR / EUR | Q4'22 | Q4'23 | Q4'23e | Q4'23e | Consensus | | Difference (%) | 2023 |
|-------------------------|------------|------------|---------|-----------|-----------|----------|------------------|------------|
| | Comparison | Actualized | Inderes | Consensus | Low | High | Act. vs. inderes | Actualized |
| Revenue | 2407 | 1858 | 1700 | 2225 | 1485 | - 3627 | 9% | 6711 |
| Comparable EBITDA | 774 | 459 | 540 | 587 | 431 | - 650 | -15% | 1903 |
| Comparable EBIT | 669 | 359 | 454 | 461 | 331 | - 561 | -21% | 1544 |
| EPS (adj.) | 0.42 | 0.35 | 0.39 | 0.42 | 0.28 | - 0.48 | -11% | 1.28 |
| DPS | 0.91 | 1.15 | 1.15 | 1.05 | 0.70 | - 1.27 | 0% | 1.15 |
| Revenue growth-% | - | -22.8 % | -29.4 % | -7.6 % | -38.3 % | - 50.7 % | 6.6 pp | -13.7 % |
| Comparable EBIT-% | 27.8 % | 19.3 % | 26.7 % | 20.7 % | 22.3 % | - 15.5 % | -7.4 pp | 23.0 % |

Source: Inderes & Vara Research (2/1/2024, medians) (consensus)

Forecasts down again with electricity prices

No surprises in the outlook

Fortum does not provide actual guidance, but the outlook focuses on hedges in the Generation segment. At the end of 2023, approximately 70% of the Generation segment's estimated outright electricity sales in the Nordic countries were hedged at EUR 47/MWh for 2024 (65% at €47/MWh at the end of Q3) and approximately 40% at EUR 43/MWh for 2025 (30% at EUR 43/MWh at the end of Q3). The stable performance was in line with our expectations in the prevailing market environment.

The company also reported that for the rolling ten-year period 2024-2033, approximately 15% of the Generation segment's estimated outright electricity sales in the Nordic countries were hedged at the end of 2023. These hedges are linked to Fortum's new strategic target of a hedged share of outright power generation of more than 20% over a rolling ten-year period by the end of 2026. Future stability is therefore sought through long-term customer contracts.

Futures for the coming years depressed to EUR 40/MWh

The pick-up in electricity prices around the turn of the year appears to have been temporary, and futures for the next few years have fallen back to around EUR 40/MWh. This has put pressure on our forecasts for the coming years, as a change of EUR 1/MWh in the Nordic outright electricity price achieved by the Generation Segment would mean a change of around 45 MEUR in the segment's annual comparable EBIT.

In our view, the price level of EUR 40/MWh is so low that it severely limits new investments in capacity. In the long term, the price will have to rise as the electrification of society continues and demand increases. This supports Fortum's long-term earnings outlook, but in the short term, the economic cycle and changes in industrial needs are more important. Here, of course, the business cycle is not looking good at the moment. It is therefore crucial for Fortum's performance in the coming years that the

company can continue to achieve an optimization margin of EUR 6-8/MWh. This should bring Fortum's average sales price above EUR 46/MWh, even if the electricity price in the relevant regions is in the low EUR 40/MWh range.

2024 will still be a good year

This year, we estimate that Generation's hedging and optimization margin will keep the average achieved sales price at around EUR 54/MWh. At this level, we expect Generation's operating profit to be around 1.3 BNEUR. Other businesses are expected to improve from weak levels in 2023, providing some support. However, we forecast that comparable EPS will fall to around EUR 1.04 and, with the electricity price achieved, will continue to fall to around EUR 0.97 in 2025. Much will happen in the volatile electricity market between now and then, but we can also see opportunities for upside at current levels. When demand eventually increases, the price will have to rise because it is not worth building new capacity at current levels.

| Estimate revisions MEUR / EUR | 2023 | 2023 | Change % | 2024e | 2024e | Change % | 2025e | 2025e | Change % |
|----------------------------------|---------|------------|-------------|-------|-------|-------------|-------|-------|-------------|
| | Ennuste | Toteutunut | | Old | New | | Old | New | |
| Revenue | 6553 | 6711 | 2% | 5734 | 6185 | 8% | 5760 | 6172 | 7% |
| EBITDA | 2085 | 2021 | -3% | 1688 | 1565 | -7% | 1657 | 1508 | -9% |
| EBIT (exc. NRIs) | 1640 | 1544 | -6% | 1350 | 1227 | -9% | 1320 | 1174 | -11% |
| EBIT | 1741 | 1662 | -5% | 1350 | 1227 | -9% | 1320 | 1174 | -11% |
| PTP | 1549 | 1583 | 2% | 1290 | 1163 | -10% | 1283 | 1092 | -15% |
| EPS (excl. NRIs) | 1.32 | 1.28 | -3% | 1.15 | 1.04 | -10% | 1.14 | 0.97 | -15% |
| DPS | 1.15 | 1.15 | 0% | 1.02 | 0.91 | -11% | 0.97 | 0.86 | -12% |

Source: Inderes

Valuation is low, but not without problems

Valuable core in hydro and nuclear power

Fortum has returned to being a creditworthy Nordic energy company, with 45% of its production coming from high-quality hydropower and 53% from nuclear power in Finland and Sweden. In particular, the value of Fortum's hydropower as balancing power will continue to increase as the impact of wind power on the electricity market continues to grow. As a result, fluctuations in electricity prices will continue to intensify, with the prices sometimes being negative and sometimes high. About 1/3 of Fortum's hydropower is highly flexible, 1/3 relatively flexible and 1/3 poorly flexible (run-of-river). Through physical optimization, hydropower will produce earnings, even if the price of electricity is low in general.

If Fortum's value were conceptualized in terms of the sum of its parts, we believe that the value would be particularly concentrated in hydropower and would support a significantly higher valuation than today. However, in our view, the sum of the parts is only relevant if the value can be realized. We do not think this is realistic for Fortum in the medium term, but it still provides a basis for valuation.

Valuation multiples are low...

Fortum's 2024e adjusted P/E is around 11x, which we consider attractive in absolute terms despite the decline in earnings we expect next year (2025e P/E is around 12x). The challenge is that, as electrification slows down, there is no prospect of a turnaround in earnings, and it is difficult to rely on a downward earnings trend. Eventually, electrification in the Nordic countries will progress, increasing demand for electricity and shifting the current market equilibrium to a more favorable one, i.e., increasing the price of electricity. At the moment, however, this is not reflected in the futures and therefore not in our

forecasts.

With EV multiples, we think Fortum is quite attractively priced. EV/EBITDA multiples are around 7-8x and EV/EBIT multiples around 9-10x for the coming years, with cash flows expected to remain strong. With the P/B ratio below 1.3x, the balance sheet valuation is also attractive. It is worth noting that Fortum's balance sheet includes, for example, largely depreciated hydro and nuclear power plants. If these do not generate a significant return on capital in the current environment, there will be no new equivalents on the market.

Fortum's balance sheet is already very strong, which supports the dividend stream in the coming years. The most attractive part of the valuation is the dividend yield, which is already approaching 10% at the current share price. This level is certainly not sustainable, but we forecast a dividend yield of over 7% for the next few years. This will provide a significant return driver for the stock in the coming years.

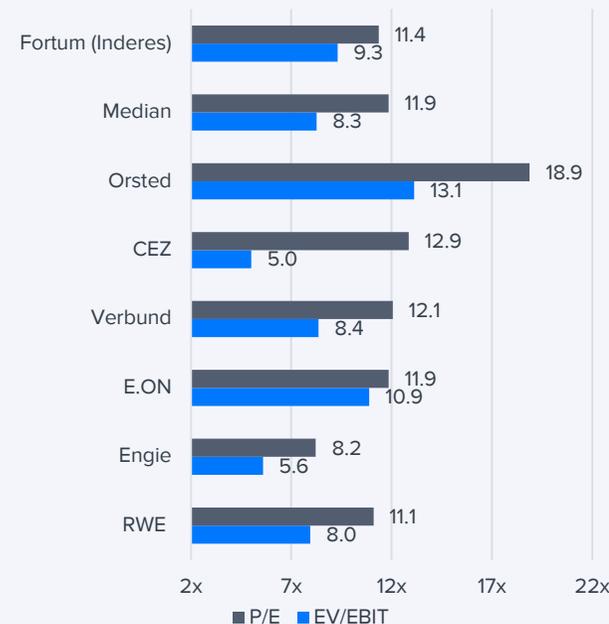
...but do not differ from the general level in the sector

Fortum's multiples are moderate, but the same is true for the whole sector in Europe. Compared to the peer group median (2024e P/E 12x and EV/EBIT 8x), Fortum is now priced at a slight premium, which limits upside, at least in the short term. In our view, the best peer is Verbund, whose valuation is very much in line with Fortum's. At the same time, it is interesting to note that electricity prices in Europe are significantly higher than in the Nordic countries, and we believe that the peer results contain more risks of a possible decline (which has already happened in the Nordic countries). Overall, we conclude that the peer group valuation does not currently support a significant upside in Fortum's share price.

| Valuation | 2024e | 2025e | 2026e |
|----------------------------|--------|--------|--------|
| Share price | 11.8 | 11.8 | 11.8 |
| Number of shares, millions | 897.3 | 897.3 | 897.3 |
| Market cap | 10570 | 10570 | 10570 |
| EV | 11419 | 11528 | 11647 |
| P/E (adj.) | 11.4 | 12.1 | 12.3 |
| P/E | 11.4 | 12.1 | 12.3 |
| P/B | 1.3 | 1.3 | 1.2 |
| P/S | 1.7 | 1.7 | 1.7 |
| EV/Sales | 1.8 | 1.9 | 1.9 |
| EV/EBITDA | 7.3 | 7.6 | 7.7 |
| EV/EBIT (adj.) | 9.3 | 9.8 | 10.0 |
| Payout ratio (%) | 88.0 % | 88.0 % | 88.0 % |
| Dividend yield-% | 7.8 % | 7.3 % | 7.2 % |

Source: Inderes

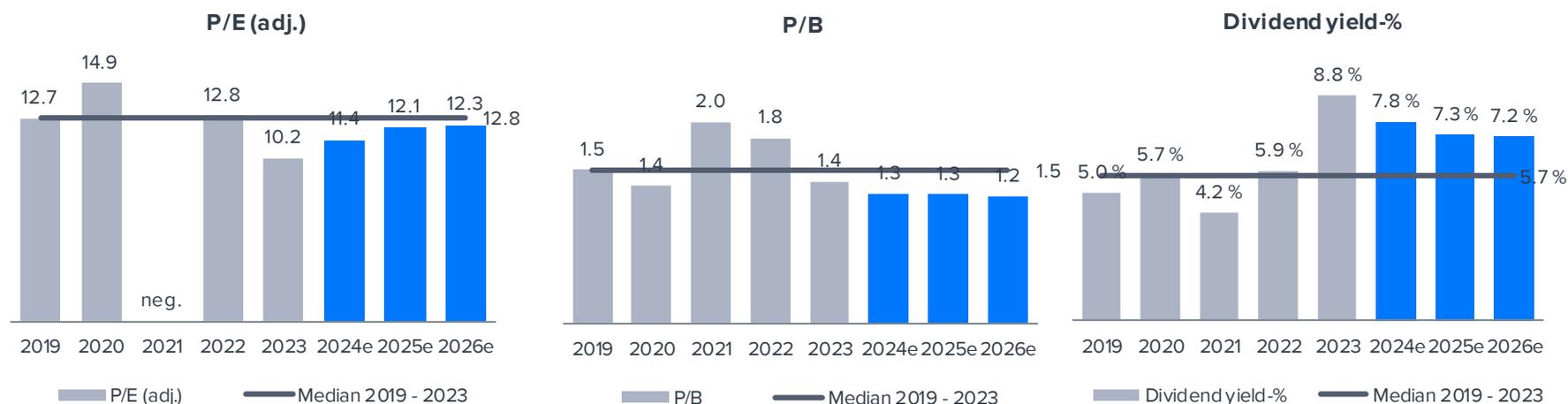
Peer group valuation multiples (2024e)



Valuation table

| Valuation | 2019 | 2020 | 2021 | 2022 | 2023 | 2024e | 2025e | 2026e | 2027e |
|----------------------------|--------|--------|---------|--------|--------|--------|--------|--------|--------|
| Share price | 22.0 | 19.7 | 27.0 | 15.5 | 13.1 | 11.8 | 11.8 | 11.8 | 11.8 |
| Number of shares, millions | 888.3 | 888.4 | 888.3 | 897.3 | 897.3 | 897.3 | 897.3 | 897.3 | 897.3 |
| Market cap | 19542 | 17501 | 23975 | 13943 | 11718 | 10570 | 10570 | 10570 | 10570 |
| EV | 18665 | 25567 | 32676 | 16661 | 12660 | 11419 | 11528 | 11647 | 11803 |
| P/E (adj.) | 12.7 | 14.9 | neg. | 12.8 | 10.2 | 11.4 | 12.1 | 12.3 | 12.2 |
| P/E | 13.2 | 12.0 | 32.4 | 6.7 | 7.7 | 11.4 | 12.1 | 12.3 | 12.2 |
| P/B | 1.5 | 1.4 | 2.0 | 1.8 | 1.4 | 1.3 | 1.3 | 1.2 | 1.2 |
| P/S | 3.6 | 3.9 | 3.7 | 1.8 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| EV/Sales | 3.4 | 5.7 | 5.1 | 2.1 | 1.9 | 1.8 | 1.9 | 1.9 | 1.9 |
| EV/EBITDA | 11.0 | 11.0 | 6.7 | 7.0 | 6.3 | 7.3 | 7.6 | 7.7 | 7.6 |
| EV/EBIT (adj.) | 15.7 | 26.1 | 22.9 | 10.3 | 8.2 | 9.3 | 9.8 | 10.0 | 9.9 |
| Payout ratio (%) | 66.0 % | 68.1 % | 137.0 % | 39.3 % | 68.2 % | 88.0 % | 88.0 % | 88.0 % | 87.0 % |
| Dividend yield-% | 5.0 % | 5.7 % | 4.2 % | 5.9 % | 8.8 % | 7.8 % | 7.3 % | 7.2 % | 7.2 % |

Source: Inderes



Peer group valuation

| Peer group valuation | Market cap | EV | EV/EBIT | | EV/EBITDA | | P/E | | Dividend yield-% | | P/B |
|-------------------------|--------------|--------------|------------|------------|------------|------------|-------------|-------------|------------------|------------|-------------|
| Company | MEUR | MEUR | 2024e | 2025e | 2024e | 2025e | 2024e | 2025e | 2024e | 2025e | 2024e |
| RWE | 24658 | 28273 | 8.0 | 8.4 | 5.0 | 5.1 | 11.1 | 12.8 | 3.3 | 3.5 | 0.8 |
| Engie | 35614 | 48618 | 5.6 | 5.8 | 3.5 | 3.6 | 8.2 | 8.8 | 8.3 | 7.7 | 1.1 |
| E.ON | 32251 | 58947 | 10.9 | 11.3 | 7.0 | 7.0 | 11.9 | 12.5 | 4.5 | 4.7 | 1.7 |
| Verbund | 24805 | 27160 | 8.4 | 9.5 | 7.3 | 7.8 | 12.1 | 13.7 | 4.3 | 4.0 | 2.6 |
| CEZ | 18735 | 20136 | 5.0 | 6.5 | 3.9 | 4.5 | 12.9 | 15.0 | 6.9 | 6.2 | 2.1 |
| Enel | 61773 | 122807 | 8.3 | 8.2 | 5.5 | 5.4 | 9.0 | 8.8 | 7.5 | 7.8 | 1.8 |
| Orsted | 21725 | 28428 | 13.1 | 11.3 | 7.8 | 7.0 | 18.9 | 15.5 | 3.7 | 3.9 | 2.2 |
| Fortum (Inderes) | 10570 | 11419 | 9.3 | 9.8 | 7.3 | 7.6 | 11.4 | 12.1 | 7.8 | 7.3 | 1.3 |
| Average | | | 8.5 | 8.7 | 5.7 | 5.8 | 12.0 | 12.4 | 5.5 | 5.4 | 1.7 |
| Median | | | 8.3 | 8.4 | 5.5 | 5.4 | 11.9 | 12.8 | 4.5 | 4.7 | 1.8 |
| Diff-% to median | | | 13% | 16% | 33% | 42% | -4% | -5% | 72% | 55% | -29% |

Source: Refinitiv / Inderes

Income statement

| Income statement | Q1'23 | Q2'23 | Q3'23 | Q4'23 | 2023 | Q1'24e | Q2'24e | Q3'24e | Q4'24e | 2024e | 2025e | 2026e | 2027e |
|--------------------------------------|--------------|--------------|--------------|--------------|-------------|---------------|---------------|---------------|---------------|--------------|--------------|--------------|--------------|
| Revenue | 2265 | 1367 | 1221 | 1858 | 6711 | 1928 | 1268 | 1129 | 1860 | 6185 | 6172 | 6240 | 6341 |
| <i>Generation (new)</i> | 1429 | 805 | 847 | 1339 | 4420 | 1283 | 726 | 740 | 1200 | 3950 | 3727 | 3710 | 3749 |
| <i>Consumer Solutions</i> | 1384 | 750 | 563 | 1069 | 3766 | 1090 | 743 | 587 | 1058 | 3478 | 3582 | 3660 | 3739 |
| <i>Others (new)</i> | 136 | 126 | 139 | 147 | 548 | 132 | 126 | 135 | 143 | 535 | 540 | 540 | 540 |
| <i>Eliminations</i> | -684 | -314 | -328 | -697 | -2023 | -577 | -327 | -333 | -540 | -1777 | -1677 | -1669 | -1687 |
| EBITDA | 852 | 349 | 344 | 476 | 2021 | 653 | 302 | 241 | 370 | 1565 | 1508 | 1504 | 1544 |
| Depreciation | -83 | -82 | -93 | -101 | -359 | -84 | -83 | -85 | -86 | -338 | -334 | -345 | -357 |
| EBIT (excl. NRI) | 698 | 262 | 226 | 358 | 1544 | 569 | 219 | 156 | 284 | 1227 | 1174 | 1159 | 1187 |
| EBIT | 769 | 267 | 251 | 375 | 1662 | 569 | 219 | 156 | 284 | 1227 | 1174 | 1159 | 1187 |
| <i>Generation (new)</i> | 723 | 304 | 262 | 390 | 1679 | 589 | 235 | 172 | 293 | 1289 | 1190 | 1150 | 1165 |
| <i>Consumer Solutions</i> | 6 | 10 | 11 | 11 | 38 | 15 | 19 | 19 | 25 | 78 | 103 | 120 | 122 |
| <i>Others (new)</i> | -31 | -52 | -47 | -43 | -173 | -35 | -35 | -35 | -35 | -140 | -120 | -110 | -100 |
| <i>Items affecting comparability</i> | 71 | 5 | 25 | 17 | 118 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share of associates' profit/loss | 22 | -42 | -10 | 89 | 59 | 15 | 0 | -5 | 10 | 20 | 20 | 20 | 20 |
| Net financial items | -95 | -50 | -17 | 24 | -138 | -21 | -21 | -21 | -21 | -84 | -102 | -101 | -106 |
| PTP | 696 | 175 | 224 | 488 | 1583 | 563 | 198 | 130 | 273 | 1163 | 1092 | 1078 | 1101 |
| Taxes | -154 | 199 | -38 | -76 | -69 | -104 | -38 | -26 | -50 | -217 | -204 | -201 | -216 |
| Minority interest | -2 | 2 | 0 | -1 | -1 | -4 | 0 | 0 | -11 | -15 | -15 | -16 | -16 |
| Net earnings | 540 | 376 | 186 | 411 | 1513 | 455 | 160 | 104 | 212 | 931 | 873 | 861 | 869 |
| EPS (adj.) | 0.54 | 0.16 | 0.23 | 0.35 | 1.28 | 0.51 | 0.18 | 0.12 | 0.24 | 1.04 | 0.97 | 0.96 | 0.97 |
| EPS (rep.) | 0.60 | 0.42 | 0.21 | 0.46 | 1.69 | 0.51 | 0.18 | 0.12 | 0.24 | 1.04 | 0.97 | 0.96 | 0.97 |
| Key figures | Q1'23 | Q2'23 | Q3'23 | Q4'23 | 2023 | Q1'24e | Q2'24e | Q3'24e | Q4'24e | 2024e | 2025e | 2026e | 2027e |
| Revenue growth-% | 16.8 % | -11.0 % | -35.4 % | -22.8 % | -13.7 % | -14.9 % | -7.2 % | -7.6 % | 0.1 % | -7.8 % | -0.2 % | 1.1 % | 1.6 % |
| Adjusted EBIT growth-% | 114.1 % | 0.0 % | -36.2 % | -46.5 % | -4.2 % | -18.5 % | -16.5 % | -31.1 % | -20.8 % | -20.5 % | -4.4 % | -1.2 % | 2.4 % |
| EBITDA-% | 37.6 % | 25.5 % | 28.2 % | 25.6 % | 30.1 % | 33.9 % | 23.8 % | 21.3 % | 19.9 % | 25.3 % | 24.4 % | 24.1 % | 24.4 % |
| Adjusted EBIT-% | 30.8 % | 19.2 % | 18.5 % | 19.3 % | 23.0 % | 29.5 % | 17.2 % | 13.8 % | 15.2 % | 19.8 % | 19.0 % | 18.6 % | 18.7 % |
| Net earnings-% | 23.8 % | 27.5 % | 15.2 % | 22.1 % | 22.5 % | 23.6 % | 12.6 % | 9.2 % | 11.4 % | 15.1 % | 14.1 % | 13.8 % | 13.7 % |

Source: Inderes

Balance sheet

| Assets | 2023 | 2024e | 2025e | 2026e |
|----------------------------|--------------|--------------|--------------|--------------|
| Non-current assets | 11392 | 11614 | 11840 | 12105 |
| Goodwill | 0.0 | 0.0 | 0.0 | 0.0 |
| Intangible assets | 643 | 653 | 663 | 673 |
| Tangible assets | 6612 | 6824 | 7040 | 7295 |
| Associated companies | 1059 | 1059 | 1059 | 1059 |
| Other investments | 644 | 644 | 644 | 644 |
| Other non-current assets | 1476 | 1476 | 1476 | 1476 |
| Deferred tax assets | 958 | 958 | 958 | 958 |
| Current assets | 7347 | 5852 | 5532 | 5589 |
| Inventories | 452 | 371 | 370 | 374 |
| Other current assets | 389 | 389 | 389 | 389 |
| Receivables | 2323 | 1856 | 1852 | 1872 |
| Cash and equivalents | 4183 | 3237 | 2921 | 2953 |
| Balance sheet total | 18739 | 17466 | 17372 | 17694 |

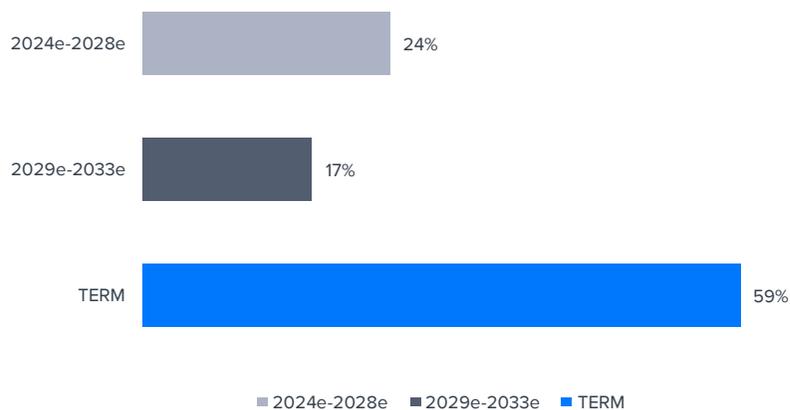
Source: Inderes

| Liabilities & equity | 2023 | 2024e | 2025e | 2026e |
|--------------------------------|--------------|--------------|--------------|--------------|
| Equity | 8498 | 8397 | 8451 | 8544 |
| Share capital | 3046 | 3046 | 3046 | 3046 |
| Retained earnings | 5592 | 5491 | 5545 | 5638 |
| Hybrid bonds | 0.0 | 0.0 | 0.0 | 0.0 |
| Revaluation reserve | 0.0 | 0.0 | 0.0 | 0.0 |
| Other equity | -200.0 | -200.0 | -200.0 | -200.0 |
| Minorities | 60.0 | 60.0 | 60.0 | 60.0 |
| Non-current liabilities | 6534 | 5658 | 5559 | 5695 |
| Deferred tax liabilities | 428 | 428 | 428 | 428 |
| Provisions | 1185 | 1185 | 1185 | 1185 |
| Interest bearing debt | 4573 | 3697 | 3598 | 3734 |
| Convertibles | 0.0 | 0.0 | 0.0 | 0.0 |
| Other long term liabilities | 348 | 348 | 348 | 348 |
| Current liabilities | 3707 | 3411 | 3363 | 3454 |
| Interest bearing debt | 1337 | 1174 | 1066 | 1082 |
| Payables | 1312 | 1237 | 1296 | 1373 |
| Other current liabilities | 1058 | 1000 | 1000 | 1000 |
| Balance sheet total | 18739 | 17466 | 17372 | 17694 |

DCF calculation

| DCF model | 2023 | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e | 2032e | 2033e | TERM |
|---|-------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenue growth-% | -13.7 % | -7.8 % | -0.2 % | 1.1 % | 1.6 % | 2.0 % | 2.0 % | 2.0 % | 2.0 % | 2.0 % | 1.5 % | 1.5 % |
| EBIT-% | 24.8 % | 19.8 % | 19.0 % | 18.6 % | 18.7 % | 19.0 % | 19.0 % | 19.0 % | 19.0 % | 18.5 % | 18.5 % | 18.5 % |
| EBIT (operating profit) | 1662 | 1227 | 1174 | 1159 | 1187 | 1229 | 1253 | 1278 | 1304 | 1295 | 1315 | |
| + Depreciation | 359 | 338 | 334 | 345 | 357 | 369 | 381 | 391 | 402 | 411 | 421 | |
| - Paid taxes | 182 | -217 | -204 | -201 | -216 | -218 | -222 | -225 | -229 | -226 | -229 | |
| - Tax, financial expenses | -14 | -43 | -40 | -36 | -38 | -38 | -40 | -41 | -43 | -45 | -46 | |
| + Tax, financial income | 7 | 27 | 20 | 17 | 17 | 11 | 11 | 11 | 12 | 12 | 12 | |
| - Change in working capital | 280 | 415 | 64 | 52 | -14 | -18 | -18 | -18 | -19 | -19 | -15 | |
| Operating cash flow | 2477 | 1747 | 1349 | 1336 | 1293 | 1335 | 1365 | 1396 | 1426 | 1428 | 1457 | |
| + Change in other long-term liabilities | -454 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| - Gross CAPEX | 752 | -560 | -560 | -610 | -610 | -603 | -614 | -614 | -614 | -608 | -525 | |
| Free operating cash flow | 2775 | 1187 | 789 | 726 | 683 | 732 | 752 | 782 | 812 | 821 | 933 | |
| +/- Other | 368 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| FCFF | 3143 | 1187 | 789 | 726 | 683 | 732 | 752 | 782 | 812 | 821 | 933 | 16527 |
| Discounted FCFF | | 1115 | 691 | 593 | 520 | 520 | 498 | 483 | 468 | 441 | 467 | 8283 |
| Sum of FCFF present value | | 14080 | 12965 | 12274 | 11680 | 11160 | 10640 | 10142 | 9659 | 9192 | 8751 | 8283 |
| Enterprise value DCF | | 14083 | | | | | | | | | | |
| - Interest bearing debt | | -5910 | | | | | | | | | | |
| + Cash and cash equivalents | | 4183 | | | | | | | | | | |
| + Sijoitukset osakkuusyhtiöihin | | 1059 | | | | | | | | | | |
| -Minorities | | -274 | | | | | | | | | | |
| -Dividend/capital return | | 0 | | | | | | | | | | |
| Equity value DCF | | 13141 | | | | | | | | | | |
| Equity value DCF per share | | 14.6 | | | | | | | | | | |

Cash flow distribution

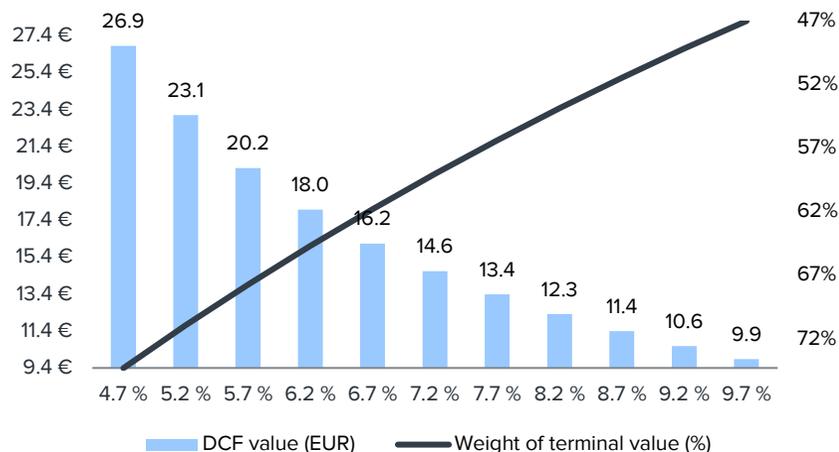


WACC

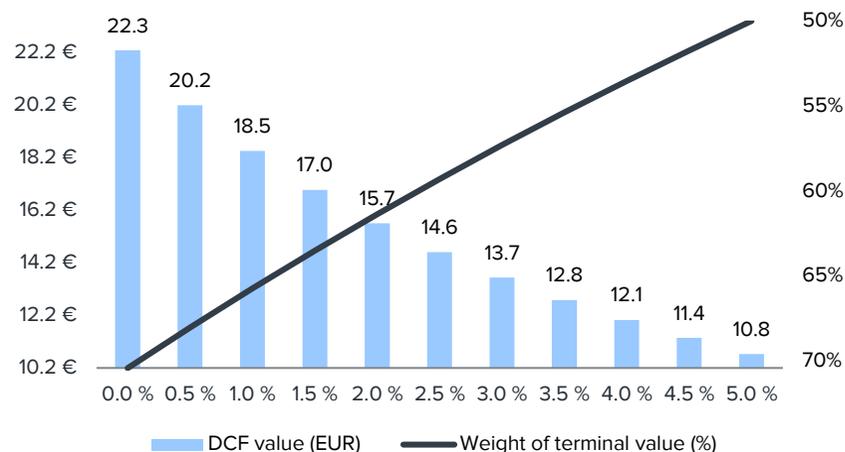
| | |
|--|--------------|
| Tax-% (WACC) | 20.0 % |
| Target debt ratio (D/(D+E)) | 25.0 % |
| Cost of debt | 4.5 % |
| Equity Beta | 1.25 |
| Market risk premium | 4.75% |
| Liquidity premium | 0.00% |
| Risk free interest rate | 2.5 % |
| Cost of equity | 8.4 % |
| Weighted average cost of capital (WACC) | 7.2 % |

DCF sensitivity calculations and key assumptions in graphs

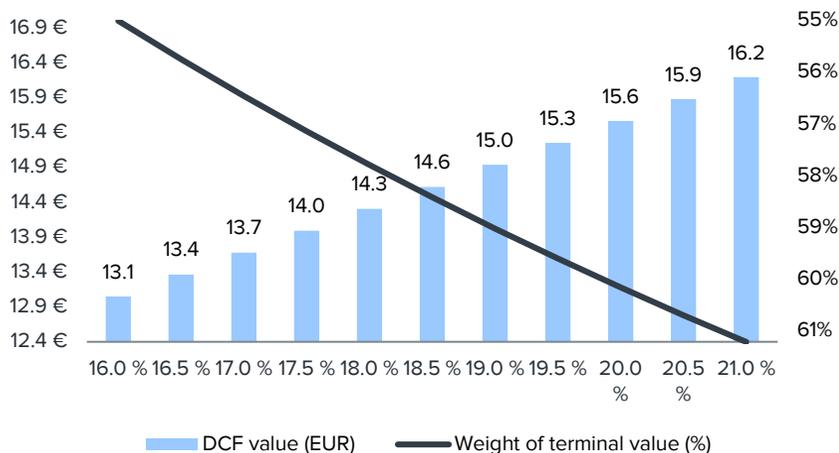
Sensitivity of DCF to changes in the WACC-%



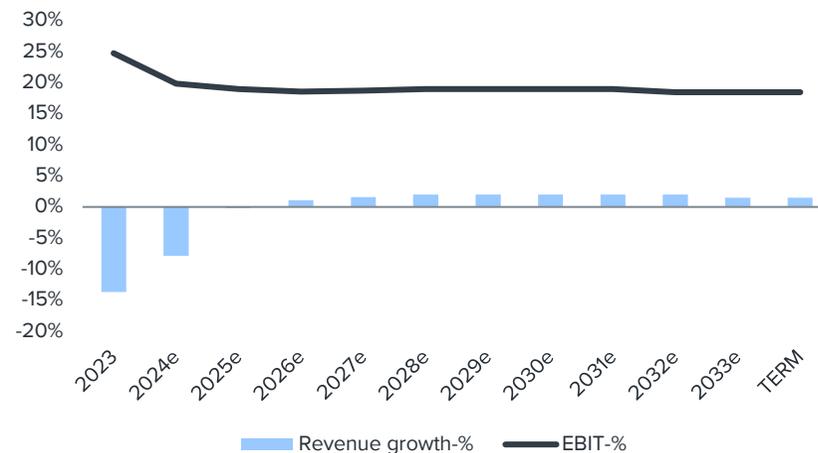
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

| Income statement | 2021 | 2022 | 2023 | 2024e | 2025e | Per share data | 2021 | 2022 | 2023 | 2024e | 2025e |
|---------------------------|--------|-------|-------|--------------|--------------|--------------------------|--------|--------|--------|---------------|---------------|
| Revenue | 6422 | 7774 | 6711 | 6185 | 6172 | EPS (reported) | 0.83 | 2.32 | 1.69 | 1.04 | 0.97 |
| EBITDA | 4913 | 2382 | 2021 | 1565 | 1508 | EPS (adj.) | -1.78 | 1.21 | 1.28 | 1.04 | 0.97 |
| EBIT | 4326 | 1967 | 1662 | 1227 | 1174 | OCF / share | 1.23 | 6.35 | 2.76 | 1.95 | 1.50 |
| PTP | 4333 | 1564 | 1583 | 1163 | 1092 | FCF / share | 1.05 | 3.94 | 3.50 | 1.32 | 0.88 |
| Net Income | 739 | 2080 | 1513 | 931 | 873 | Book value / share | 13.66 | 8.55 | 9.40 | 9.29 | 9.35 |
| Extraordinary items | 2897 | 356 | 118 | 0 | 0 | Dividend / share | 1.14 | 0.91 | 1.15 | 0.91 | 0.86 |
| Balance sheet | 2021 | 2022 | 2023 | 2024e | 2025e | Growth and profitability | 2021 | 2022 | 2023 | 2024e | 2025e |
| Balance sheet total | 149661 | 23642 | 18739 | 17466 | 17372 | Revenue growth-% | 43% | 21% | -14% | -8% | 0% |
| Equity capital | 13665 | 7737 | 8498 | 8397 | 8451 | EBITDA growth-% | 111% | -52% | -15% | -23% | -4% |
| Goodwill | 1021 | 0 | 0 | 0 | 0 | EBIT (adj.) growth-% | 46% | 13% | -4% | -21% | -4% |
| Net debt | 9628 | 3866 | 1727 | 1635 | 1743 | EPS (adj.) growth-% | -234% | -168% | 6% | -19% | -6% |
| Cash flow | 2021 | 2022 | 2023 | 2024e | 2025e | EBITDA-% | 76.5 % | 30.6 % | 30.1 % | 25.3 % | 24.4 % |
| EBITDA | 4913 | 2382 | 2021 | 1565 | 1508 | EBIT (adj.)-% | 22.3 % | 20.7 % | 23.0 % | 19.8 % | 19.0 % |
| Change in working capital | -1365 | 2189 | 280 | 415 | 64 | EBIT-% | 67.4 % | 25.3 % | 24.8 % | 19.8 % | 19.0 % |
| Operating cash flow | 1092 | 5697 | 2477 | 1747 | 1349 | ROE-% | 5.9 % | 21.0 % | 18.8 % | 11.1 % | 10.4 % |
| CAPEX | -12840 | 33888 | 752 | -560 | -560 | ROI-% | 15.8 % | 7.7 % | 12.6 % | 10.1 % | 9.9 % |
| Free cash flow | 929 | 3536 | 3143 | 1187 | 789 | Equity ratio | 9.1 % | 32.7 % | 45.3 % | 48.1 % | 48.6 % |
| | | | | | | Gearing | 70.5 % | 50.0 % | 20.3 % | 19.5 % | 20.6 % |
| Valuation multiples | 2021 | 2022 | 2023 | 2024e | 2025e | | | | | | |
| EV/S | 5.1 | 2.1 | 1.9 | 1.8 | 1.9 | | | | | | |
| EV/EBITDA (adj.) | 6.7 | 7.0 | 6.3 | 7.3 | 7.6 | | | | | | |
| EV/EBIT (adj.) | 22.9 | 10.3 | 8.2 | 9.3 | 9.8 | | | | | | |
| P/E (adj.) | neg. | 12.8 | 10.2 | 11.4 | 12.1 | | | | | | |
| P/B | 2.0 | 1.8 | 1.4 | 1.3 | 1.3 | | | | | | |
| Dividend-% | 4.2 % | 5.9 % | 8.8 % | 7.8 % | 7.3 % | | | | | | |

Source: Inderes

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| | |
|------------|--|
| Buy | The 12-month risk-adjusted expected shareholder return of the share is very attractive |
| Accumulate | The 12-month risk-adjusted expected shareholder return of the share is attractive |
| Reduce | The 12-month risk-adjusted expected shareholder return of the share is weak |
| Sell | The 12-month risk-adjusted expected shareholder return of the share is very weak |

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Recommendation history (>12 mo)

| Date | Recommendation | Target | Share price |
|------------|----------------|---------|-------------|
| 3/17/2020 | Buy | 15.00 € | 13.31 € |
| 4/27/2020 | Buy | 17.00 € | 14.86 € |
| 5/18/2020 | Buy | 17.50 € | 14.92 € |
| 7/21/2020 | Buy | 20.00 € | 17.84 € |
| 8/20/2020 | Buy | 20.00 € | 17.02 € |
| 11/18/2020 | Buy | 20.00 € | 17.63 € |
| 12/4/2020 | Buy | 20.00 € | 18.30 € |
| 2/15/2021 | Accumulate | 22.50 € | 21.97 € |
| 5/14/2021 | Accumulate | 24.00 € | 22.74 € |
| 8/18/2021 | Accumulate | 26.50 € | 24.49 € |
| 11/15/2021 | Reduce | 25.00 € | 25.30 € |
| 2/28/2022 | Reduce | 19.00 € | 19.47 € |
| 3/7/2022 | Accumulate | 16.00 € | 15.26 € |
| 4/27/2022 | Reduce | 16.00 € | 15.63 € |
| 5/13/2022 | Reduce | 16.00 € | 15.31 € |
| 6/21/2022 | Accumulate | 18.00 € | 16.31 € |
| 7/25/2022 | Accumulate | 13.00 € | 11.36 € |
| 8/18/2022 | Reduce | 11.00 € | 11.41 € |
| 8/23/2022 | Reduce | 11.00 € | 10.47 € |
| 8/26/2022 | Reduce | 11.00 € | 10.32 € |
| 9/22/2022 | Accumulate | 14.50 € | 13.25 € |
| 10/13/2022 | Accumulate | 14.50 € | 12.73 € |
| 11/11/2022 | Accumulate | 16.50 € | 14.38 € |
| 12/7/2022 | Accumulate | 18.00 € | 15.87 € |
| 2/28/2023 | Accumulate | 16.00 € | 14.51 € |
| 3/3/2023 | Accumulate | 16.50 € | 14.63 € |
| 5/8/2023 | Accumulate | 15.00 € | 13.57 € |
| 5/12/2023 | Buy | 16.00 € | 13.62 € |
| 8/7/2023 | Buy | 15.00 € | 11.81 € |
| 11/3/2023 | Buy | 14.00 € | 12.07 € |
| 1/4/2024 | Buy | 14.50 € | 13.26 € |
| 2/8/2024 | Buy | 13.50 € | 11.78 € |



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