

Improved visibility dissolves undervaluation

We raise our target price for Nokia to EUR 5.8 (previously EUR 5.6) and reiterate our Buy rating. As we stated in our previous report, the sentiment towards Nokia's share will turn when investors' attention turns from assessing the steepness of the slide in the network market to cycle recovery. The outlook for the next few years provided by Nokia in its report offered the visibility into future profit development that considerably removes uncertainty. Our view is that this will result in a relief rally for the share as a result of which Nokia's current undervaluation dissolves.

Outlook the main point in Q4 report

Nokia's new guidance provided important visibility for future profit development both in terms of Technologies and Networks business. Nokia made a bold move by providing a rather detailed guidance for 2020. Based on the outlook, earnings for 2018 will dip lower than expected but the company was able to justify why the result will recover clearly starting from 2019. Our estimate is that this will decrease uncertainty concerning the timing of the turn of the cycle for the network markets, and will direct the eyes of the stock market, that has been short-sighted when it comes to Nokia's share, further into the future, which supports the share price.

The day will also dawn on network markets

The fog surrounding the Networks business is starting to clear and visibility into the market recovering improves. The demand fundamentals presented below are still very strong, which will inevitably materialize as market growth even though the market is now in a sort of vacuum between network technology generations. During yesterday's conference call, Nokia praised the competitiveness of its comprehensive product portfolio that covers various network technologies when shifting to 5G. Mr. Suri ensured that Nokia will achieve a higher market share in 5G than it had in 4G due to its competitiveness. Despite the largely expected merger pains, we believe that the Alcatel-Lucent acquisition is proving to be the right move for Nokia strategically and the benefits from the merger will become visible both as cost-saving and the competitiveness of the product portfolio in coming years.

Earnings potential of Technologies appears to stock markets

We estimate that the outlook for Technologies shows the earnings potential of the unit, which has a clear supporting effect on the share, as these earnings are very predictable. The outlooks for Technologies also strengthened our view that the unit's result will exceed market expectations in the next couple of years. Based on the guidance, Technologies' operating profit will rise to around EUR 1.4 billion (some 50% over consensus) in 2020 based on notable successes in patent licensing and continued ramp-up of the licensing program.

Networks business not valued high

The bottom result for Nokia's cycle will be witnessed this year (non-IFRS EBIT EUR 2.4 billion). Operating profit will improve considerably in 2019 (estimate EUR 2.9 billion) and 2020 (estimate EUR 3.5 billion) when both operations boost profit growth. Even at the current profit level, Nokia's share is cheap (2018e adjusted P/E 16x, EV/EBIT 8.4x), which provides a good safety margin. Based on our sum of parts calculation, the current market cap prices the Networks business at around EUR 9 billion which corresponds with a garishly low 3-4x EV/EBIT ratio using the 2020 profitability target range of the Networks business.

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Rating

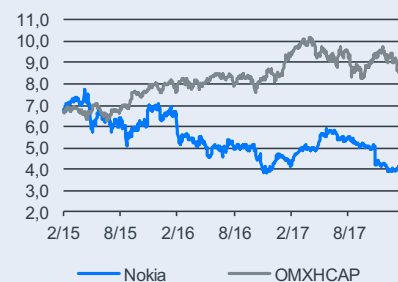
Buy



Previous: Buy

Target price **EUR 5.80**

Previous: 5.60



Lähde: Bloomberg

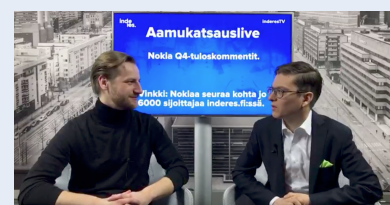
Closing price **EUR 4.33**

yesterday

12 month range **EUR 3.81-5.955**

Potential **33.9%**

Watch initial comments on
the result from the morning
broadcast (in Finnish):



Key figures

	Net sales	EBIT	EBIT-%	Pre-tax profit	EPS	DPS	EV/S	EV/EBITDA	EV/EBIT	P/E	Div. Yield
	MEUR	MEUR	%	MEUR	EUR	EUR	(x)	(x)	(x)	(x)	%
2016	23 636	-1134	-4,8 %	-1402	-0,14	0,17	0,9	6,0	10,4	21,3	3,7 %
2017	23 148	15	0,1 %	-443	-0,26	0,19	0,8	5,3	6,8	11,9	4,9 %
2018e	22 176	816	3,7 %	484	0,02	0,21	0,9	8,2	8,4	15,8	4,8 %
2019e	22 824	2 446	10,7 %	2 151	0,28	0,24	0,8	5,3	6,6	11,7	5,6 %
2020e	24 299	3557	14,6 %	3262	0,42	0,27	0,7	4,4	5,1	10,2	6,3 %
MCAP, MEUR			24303	Equity/share 2018e, EUR			2,71			CAGR EPS, 2017-2020, %	-218 %
Net debt 2018e, MEUR			-4081	P/B 2018e			1,6			CAGR growth, 2017-2020, %	2 %
EV, MEUR			20293	Gearing 2018e, %			-26,7 %			ROE 2018e, %	0,9 %
Balance sheet total 2018e, MEUR			39432	Equity ratio 2018e, %			38,8 %			ROCE 2018e, %	4,2 %

Moderate development in the last quarter

Earnings exceeded expectations thanks to Huawei's income

Nokia's Q4 non-IFRS operating profit was EUR 1,004 million which exceeded our EUR 912 million estimate and the EUR 888 million consensus (Q4'16: EUR 940 million). EUR 210 million in non-recurring patent income was recorded in Q4, which was slightly more than expected. This helped boost Technologies' earnings to EUR 389 million (Q4'16: EUR 158 million) exceeding the consensus by some EUR 100 million. In the Networks business, the last quarter progressed roughly as expected. Non-IFRS operating profit was only marginally below market expectations but in line with our estimates.

Nokia's reported EPS fell EUR 0.07 into red, which was caused by anticipated non-recurring items and EUR 738 million deferred tax items related to a change in the US tax rate. This item had no cash flow effect in the quarter nor in future. Non-IFRS EPS amounted to EUR 0.13 exceeding the market expectations by EUR 0.02.

Networks performed relatively well in a tight situation

Networks' currency adjusted net sales grew by 2% in Q4, which was a positive surprise in the current conditions. Development was stable in all units in the Networks business. Profitability was a slight disappointment as non-IFRS operating profit fell to 11.1% from last year's 14.1%. This was caused, in particular, by accelerated investments in 5G technology and price competition in China.

According to Nokia, its Networks business maintained its market share during 2017 and the net sales declined in line with the market. Market share was gained in Small Cell products and 4G LTE. The market situation is still extensively weak, but in Q4 both Nokia and Ericsson flagged for a positive undertone in the North American markets that are important for margins and growth, which was positive.

One key strategic goal for Nokia is to grow in the Networks business in new customer segments outside operators (e.g. Internet companies, the public sector). The share of these segments in the net sales of Networks was now 5%, and growth amounted to 21% in Q4 and 13% in the full year. These customer segments (in particular Internet companies) process a constantly increasing share of global data communications, which is why they invest heavily in network technologies.

Technologies' recurring net sales has reached EUR 1.3 billion

We estimate that Nokia's Technologies unit's recurring net sales reached around EUR 1.3 billion as a result of the Huawei and Xiaomi agreements that started in Q4. We believe that the EUR 210 million non-recurring profit generated in Q4 was largely explained by the Huawei agreement. The joint effect of the Huawei and Xiaomi agreements on recurring net sale is around EUR 140 million according to our calculations, so around 12% growth from the previous quarter (the growth is directly reflected in the result). Simultaneously, Technologies' fixed expenses are decreasing clearly as money is no longer spent on disputes with large actors and investments in new growth areas (Digital Health and VR) have been put on hold. Thus, Technologies' strong result for 2018 has largely been sealed.

The importance of Technologies' result should be put in context. The unit's share of Nokia's EUR 2.6 billion operating profit was as much as 44% last year. The unit's result almost doubled and increased by EUR 547 million to EUR 1,125 million. It should be noted that last year's result contained around EUR 300 million in non-recurring income but as a result of increased income from continuing operations and lower costs we believe that the 2017 earnings level of Technologies is possible also in 2018.

The operating profit of the Networks business declined by EUR 234 million last year, so Technologies' earnings growth more than compensated for the weakness in Networks. The strong development is based on many important wins in the patent business over the past 18 months (Samsung, Apple, LG, Huawei, Xiaomi). The unit now has made agreements with the biggest smart phone manufacturers.

Cash worries solved

The working capital problems that occurred in Nokia in Q3 were solved during the fourth quarter, which helped cash develop favorably and grow by EUR 1.8 billion. Nokia expects its cash flow to be slightly in black in 2018 and improve clearly from there on. After this, the non-IFRS result should be close to the cash flow. Nokia has been criticized for the considerable difference between the non-IFRS and reported result but this conversation should quiet down if the cash flow develops according to the company's targets. In spring, Nokia will, as previously proposed, distribute a dividend of EUR 0.19 and the company reported that it is also committed to growing dividends for the fiscal year 2018.

Estimate changes

2018 will dip slightly deeper than expected

Nokia's guidance for the coming years was multidimensional and requires some explanation. As a whole, the guidance was, however, roughly in line with our earlier estimates: Networks will dip slightly below consensus in 2018 but Technologies' earnings growth will exceed consensus expectations. From 2019 onwards, clear earnings growth is expected, which was the key message.

For 2018, Nokia's guidance was: 8-11% non-IFRS operating profit, EUR 0.23-0.27 non-IFRS EPS and 6-9% non-IFRS operating profit for the Networks business. In addition, in terms of Technologies, the result for 2018 can, with current parameters, be estimated with an accuracy of EUR +/-50 million assuming that no significant non-recurring income is recorded. As a whole, our 2018 result estimates decreased slightly and our EPS estimates declined a bit more due to changes in the company's tax rate and financial costs expectations. However, our estimates are largely at the top end of the company's guidance range and we believe upward revisions to be possible during the year.

The guidance for the Networks business (non-IFRS EBIT 6-9%) was a disappointment as market expectations stood at 9% and our estimate was 8.6%. This causes pressure in the estimates for the Networks business (our new estimate is 8.4%) but we feel the guidance is rather cautious at this time. The weak market situation and increasing investments in 5G technology that will not yet reach considerable volume in 2018 depress profitability. Our expectation concerning the results over the coming quarters are cautious but a subdued earnings development in the short term should not come as a surprise.

Keys for earnings growth from 2019 onwards

Surprisingly, Nokia gave a rather detailed guidance for 2020 as well. The company guidance for 2020 was 12-16% non-IFRS operating profit, EUR 0.37-0.42 non-IFRS EPS and 9-12% non-IFRS operating result for the Networks business. In addition, the guidance for Technologies is a 10% annual growth in recurring net sales and an 85% operating margin by 2020. This guidance provides considerably better visibility into the earnings development in the next couple of years although it is also certain that the ranges will be revised.

The new guidance matches our expectations quite well and we revised our 2019-2020 estimates slightly. Our expectations are at the top end of the guidance range, and, according to our calculations, the guidance is suitably conservative in order to avoid negative profit warnings.

The clearest positive surprise in the guidance is the Technologies unit, whose net sales growth and expected profitability improvement will result in clear pressure to revise consensus estimates upwards. The latest major agreements have, according to Nokia, provided sufficient backbone for the

unit's guidance. The unit's strategy now focuses heavily on licensing and the cost level has been cut clearly. While license income simultaneously grows, the earnings leverage is sizeable. The unit's operating margin should rise to 85% having been 68% in 2017 and 55% in 2016. Based on the guidance, Technologies should reach a net sales level of EUR 1.7-1.8 billion and operating profit of EUR 1.4-1.5 billion in 2020, while the consensus expectations prior to the result was an operating profit of less than EUR 1.0 billion. Technologies' earnings potential is thus proving to be stronger than expected. After the major smart phone manufacturers were won over, the focus has now shifted to smaller manufacturers in China and India, and to manufacturers in the automotive and consumer electronics industries.

In terms of the Networks business, the company feels three factors generate confidence in the 2020 guidance (non-IFRS operating profit 9-12%) and improved earnings: 1) Expectations of business growth, 2) improved profitability in product development, and 3) lower cost level in support functions. In addition, growth in the software business is also an important driver for the profitability targets of the Networks business. We estimate that the Networks business' non-IFRS operating profit margin is 8.4% in 2018, 9.5% in 2019 and 10.9% in 2020.

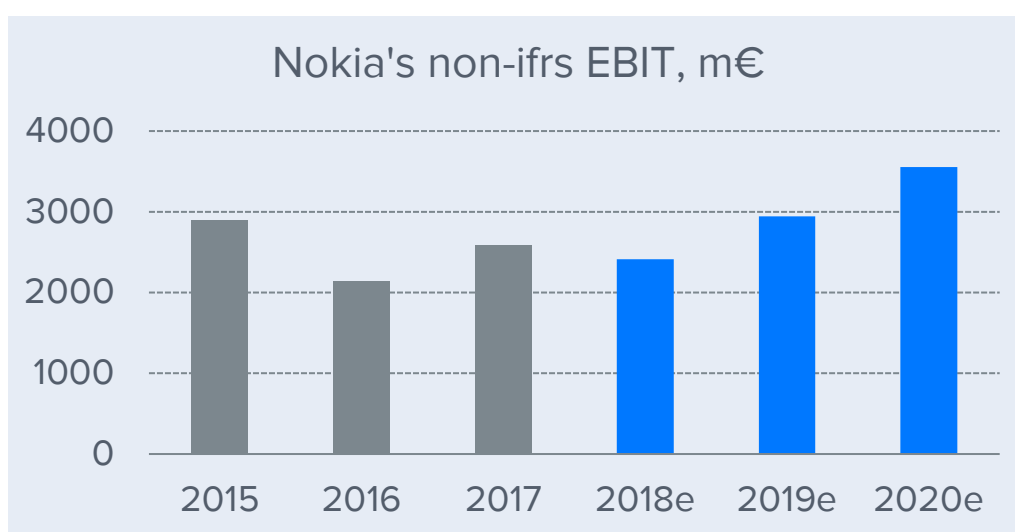
Demand fundamentals on the markets are still strong

As we have previously said, demand and the need for more efficient telecommunication connections is a mega trend even though we currently live in a sort of vacuum between network technology generations. This demand will inevitably also trickle to suppliers of network infrastructure. According to our view, Nokia is now rather well positioned as a result of the stronger supply generated from the Alcatel-Lucent merger. The company speaks quite clearly about its competitive edge against Ericsson that specializes in radio networks when it constantly emphasizes the importance of its comprehensive product offering when moving to 5G. Customers have to adopt a new approach to network architecture in 5G and Nokia's extensive portfolio that combines various network technologies responds to this well, which is why the company believes it will strengthen its market position when moving to 5G. In addition, Nokia's own development of chipsets and related new product launches (FP4 and ReefShark) should boost the company's technological competitive edge.

The flip side of Nokia's comprehensive strategy that combines different network technologies is, according to our estimate, the strong will among operators to decrease their technological dependency on large network technology suppliers. We point out, that uncertainty in Nokia's long-term outlook is caused by the continuous technological revolution and the change in the revenue models of the main clientele, operators.

Estimate revisions	2018e	2018e	Change	2019e	2019e	Change	2020e	2020e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Net sales	21899	22176	1 %	22749	22824	0 %	24277	24299	0 %
EBITDA	2086	1936	-7 %	3367	3471	3 %	4337	4421	2 %
EBIT (exc. NRIs)	2566	2416	-6 %	2988	2946	-1 %	3533	3557	1 %
EBIT	966	816	-16 %	2488	2446	-2 %	3533	3557	1 %
PTP	771	484	-37 %	2383	2151	-10 %	3452	3262	-6 %
EPS (excl. NRIs)	0,33	0,27	-17 %	0,39	0,37	-4 %	0,43	0,42	-1 %
DPS	0,22	0,21	-5 %	0,24	0,24	0 %	0,26	0,27	4 %

Source: Inderes



Multiples

Valuation is still cheap

Nokia's share is still valued as cheap with almost all indicators, even though the company's performance capacity is currently far from its potential in our opinion. The share is supported both by earnings-based valuation indicators and dividend yield (some 5%). Cash flow is the only parameter that does not currently support the valuation but based on the current outlook this will improve gradually in 2018-2020. Nokia's share is still priced clearly below Ericsson's, whose share price development over the past six months has been clearly stronger than Nokia's.

With our estimate, Nokia's P/E ratios are 16x and 12x for 2018 and 2019 and the corresponding EV/EBIT ratios are 8.4x and 6.6x. On average, these valuation indicators are around 30% below the peer group. Thus, earnings-based valuation is cheap even though the results for 2018-2019 do not yet reflect a "normal" market situation on the network markets. This indicates a clear upside potential in the share if the company's earnings potential becomes realized in line with Nokia's own guidance in 2019-2020 and the valuation indicators of the share normalize. We believe it is fully realistic for 2020 that the company reaches the guidance of an EPS of around EUR 0.4 and the P/E ratio normalizes at least to 15x, which would correspond with a share price of over EUR 6.00. In addition to this upside potential, the share offers a dividend yield of around 5%.

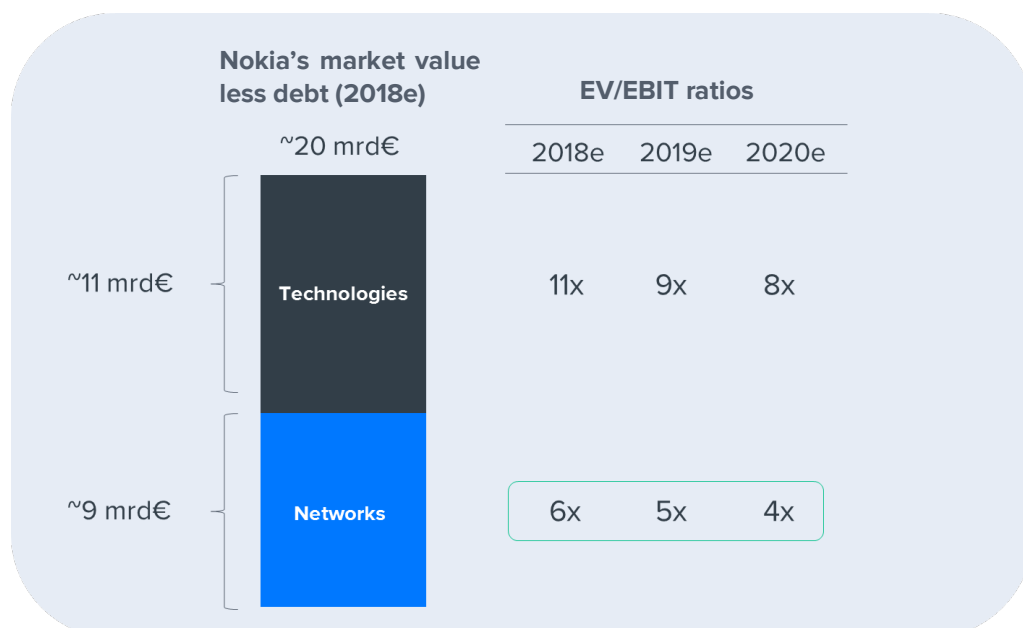
Sum of parts: Networks business offered at a clear discount

Nokia's valuation can be approached as a sum of its parts by first examining the value of the Technologies unit and then estimating what value the market leaves for the Networks business. Technologies produces very stable and predictable income flow, which makes pricing more straightforward. Especially after the Q4 report we have a clearly better backbone for assessing the value of Technologies.

We estimate the value of the Technologies unit to be around EUR 11 billion, which corresponds with a 10x EBIT ratio while the company currently generates an annual operating profit of some EUR 1.1 billion (2017 result and 2018 estimate). The applied ratio is lower than even that of the closest peer, Qualcomm (around 13-15x). The Technologies unit still has clear earnings growth potential, and stable and predictable cash flow support the valuation level of the unit. Based on the 2020 earnings estimate, a value of EUR 11 billion would correspond with an 8x EV/EBIT ratio for Technologies.

Nokia's market value less debt (2018e) is around EUR 20 billion at the current share price. Valuing Technologies at EUR 11 billion would thus only leave a value of around EUR 9 billion for the Networks business. This corresponds with a 0.5X EV/sales ratio and a 5.5x EV/EBIT ratio for Nokia's Network business for this year. With the 2020 estimate, the valuation indicator falls to 3.8x.

The sum of parts approach reveals that the market is still clearly discounting Nokia's share and that the valuation of the Networks business corresponds with the pricing of a business in crisis, even though the Networks business in reality is on a relatively solid basis. This can also be interpreted as follows, at the current price Nokia's share offers the company's patent portfolio as a freebie.



Peer group valuation

Company	Share price	MCAP MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/Sales		P/E		Dividend yield-%		P/B
				2018e	2019e	2018e	2019e	2018e	2019e	2018e	2019e	2018e	2019e	
Qualcomm	67,57	81008	68596	15,3	13,1	12,2	11,1	3,8	3,6	19,7	17,5	2,3	2,4	3,5
Ciena	21,74	2462	2537	9,2	7,8	7,5	6,6	1,1	1,0	16,5	13,1			1,5
Cisco	41,60	165344	136628	11,3	10,9	10,1	9,9	3,5	3,4	16,9	16,0	1,2	1,3	3,1
Juniper Networks	26,30	8007	7286	10,2	9,2	8,4	7,4	1,9	1,9	14,4	12,2	0,6	0,7	2,7
Motorola Solutions	98,70	12973	16056	12,4	12,4	11,2	10,6	3,0	3,0	16,7	16,0	2,1	2,3	
ZTE Corp.	26,55	14390	14736	17,0	14,9	12,0	10,5	0,9	0,9	17,1	14,6	0,4	0,4	2,2
Ericsson	52,10	17220	17136	29,3	13,2	13,2	8,6	0,9	0,9	31,1	19,5	1,2	1,4	1,7
Amdocs	67,72	7926	7137	13,0	12,3	10,6	10,1	2,2	2,1	16,9	15,8	1,0	1,0	2,6
Arris International	25,48	3810	4474	6,9	6,2	6,0	5,6	0,8	0,7	8,7	8,0			1,3
Nokia (Inderes)	4,33	24303	20293	8,4	6,6	8,2	5,3	0,9	0,8	15,8	11,7	4,8	5,6	1,6
Average				13,8	11,1	10,1	8,9	2,0	2,0	17,6	14,7	1,3	1,4	2,3
Median				12,4	12,3	10,6	9,9	1,9	1,9	16,9	15,8	1,2	1,3	2,4
Premium/discount -% vs. median				-32 %	-46 %	-23 %	-46 %	-52 %	-54 %	-7 %	-26 %	320 %	329 %	-34 %

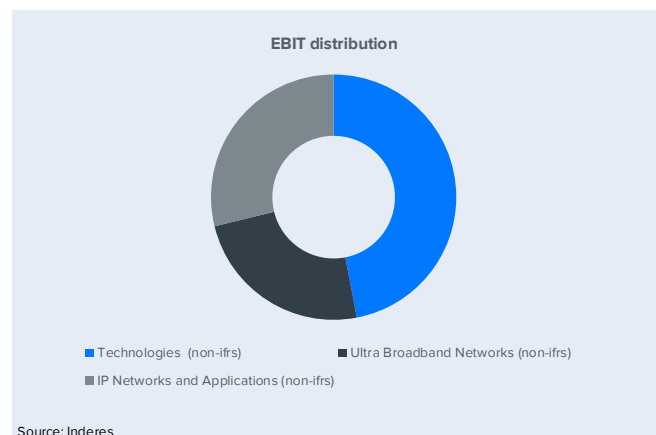
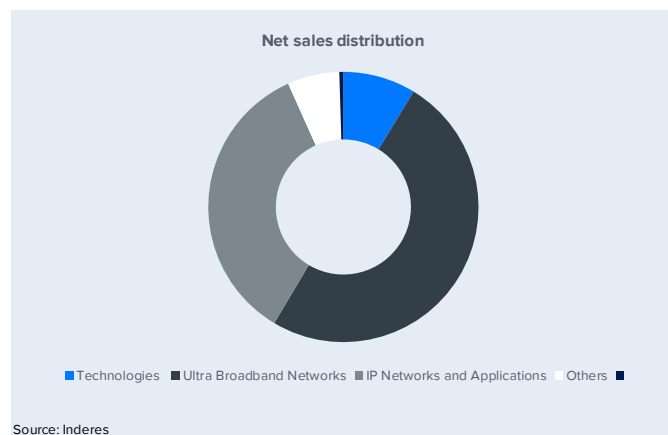
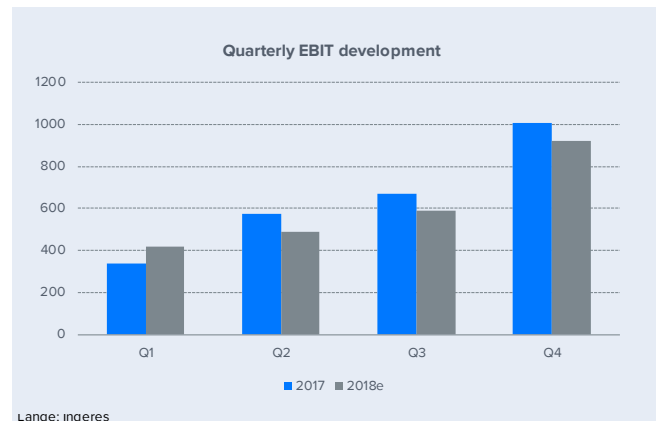
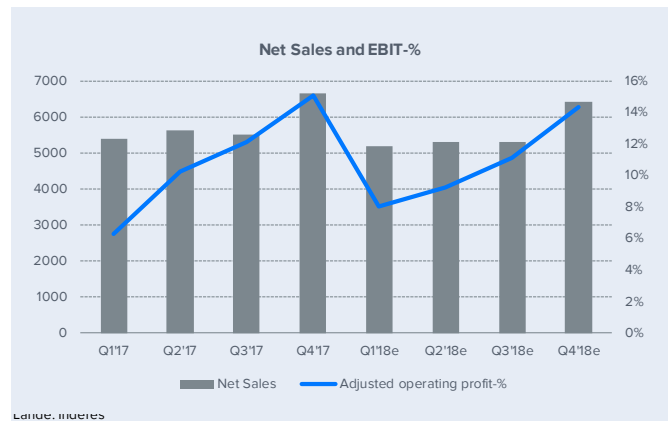
Source: Reuters / Inderes.

Profit and loss account and estimates by quarter

Quarterly earnings	2016	Q1'17	Q2'17	Q3'17	Q4'17	2017	Q1'18e	Q2'18e	Q3'18e	Q4'18e	2018e	2019e	2020e
Net Sales	23636	5378	5619	5500	6651	23148	5176	5292	5299	6409	22176	22824	24299
Global Services		1361	1448	1359	1642	5810	1307	1390	1332	1609	5638	5694	5865
Technologies		247	369	483	554	1653	345	355	365	390	1455	1601	1745
Ultra Broadband Networks		2236	2165	2099	2471	8971	1968	1949	1984	2422	8321	8488	9252
IP Networks and Applications		1304	1358	1365	1714	5741	1317	1358	1379	1748	5802	6092	6458
Others		241	307	251	302	1101	260	260	260	260	1040	980	980
Non recurring items		-11	-28	-57	-32	-128	-20	-20	-20	-20	-80	-30	0
EBITDA	460	275	362	311	799	1747	296	369	471	801	1936	3471	4421
Depreciation	-1594	-404	-407	-541	-380	-1732	-280	-280	-280	-280	-1120	-1026	-864
EBIT (excl. NRI)	2138	339	574	668	1004	2585	416	489	591	921	2416	2946	3557
EBIT	-1134	-129	-45	-230	419	15	16	89	191	521	816	2446	3557
Global Services		54	123	110	121	408	88	111	102	166	466	473	528
Technologies (non-ifs)		116	230	390	389	1125	240	260	271	280	1051	1226	1384
Ultra Broadband Networks (non-ifs)		245	191	78	267	781	80	89	156	217	542	747	1018
IP Networks and Applications (non-ifs)		23	91	146	259	519	79	101	134	330	645	701	807
Others (non-ifs)		-99	-61	-56	-31	-247	-72	-72	-72	-72	-288	-200	-180
Non recurring items/ non-ifs adj.		-468	-619	-898	-585	-2570	-400	-400	-400	-400	-1600	-500	0
Net financial items	-287	-146	-218	-63	-42	-469	-83	-83	-83	-83	-332	-300	-300
PTP	-1402	-284	-261	-292	394	-443	-67	6	108	438	484	2151	3262
Taxes	457	-154	-172	102	-772	-996	-51	-77	-48	-153	-329	-558	-860
Minority interest	161	-37	10	-2	-8	-37	-5	-5	-5	-5	-20	0	0
Net earnings	-785	-475	-423	-192	-386	-1476	-124	-76	55	279	135	1593	2402
EPS (adj.)	0,21	0,03	0,08	0,09	0,12	0,33	0,04	0,05	0,07	0,11	0,27	0,37	0,42
EPS (rep.)	-0,20	-0,12	-0,11	-0,05	-0,10	-0,26	-0,02	-0,01	0,01	0,05	0,02	0,28	0,42

Key figures	2016	Q1'17	Q2'17	Q3'17	Q4'17	2017	Q1'18e	Q2'18e	Q3'18e	Q4'18e	2018e	2019e	2020e
Revenue growth-%	89,1 %	-2,4 %	0,8 %	-6,7 %	0,0 %	-2,1 %	-3,8 %	-5,8 %	-3,7 %	-3,6 %	-4,2 %	2,9 %	6,5 %
Adjusted revenue growth-%	10,2 %	-0,6 %	78,8 %	22,1 %	8,2 %	20,9 %	22,6 %	-14,8 %	-11,6 %	-8,3 %	-6,5 %	21,9 %	20,7 %
EBITDA-%	1,9 %	5,1 %	6,4 %	5,7 %	12,0 %	7,5 %	5,7 %	7,0 %	8,9 %	12,5 %	8,7 %	15,2 %	18,2 %
Adjusted operating profit-%	9,0 %	6,3 %	10,2 %	12,1 %	15,1 %	11,2 %	8,0 %	9,2 %	11,1 %	14,4 %	10,9 %	12,9 %	14,6 %
Net profit-%	-3,3 %	-8,8 %	-7,5 %	-3,5 %	-5,8 %	-6,4 %	-2,4 %	-1,4 %	1,0 %	4,4 %	0,6 %	7,0 %	9,9 %

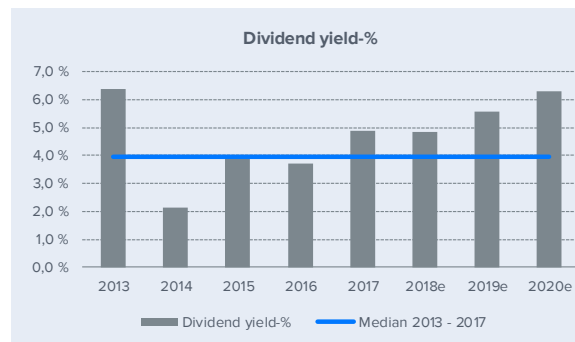
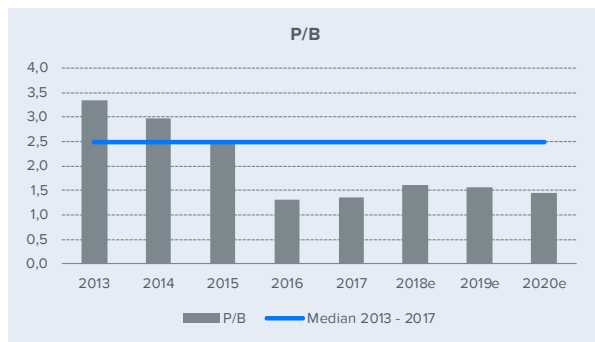
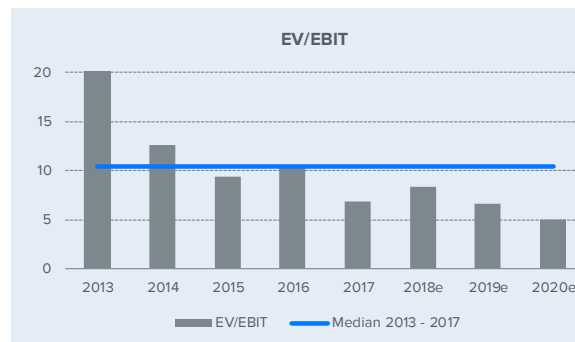
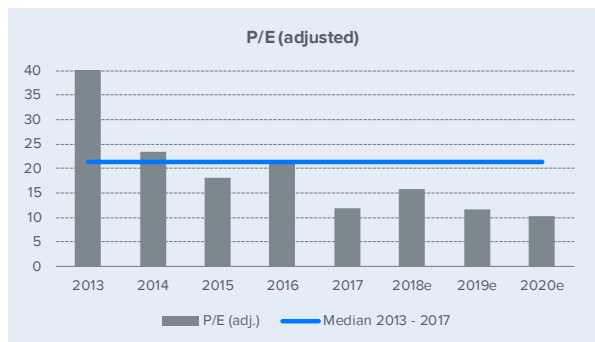
Source: Inderes



Valuation

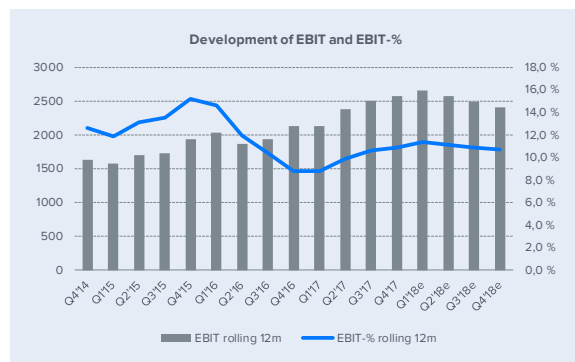
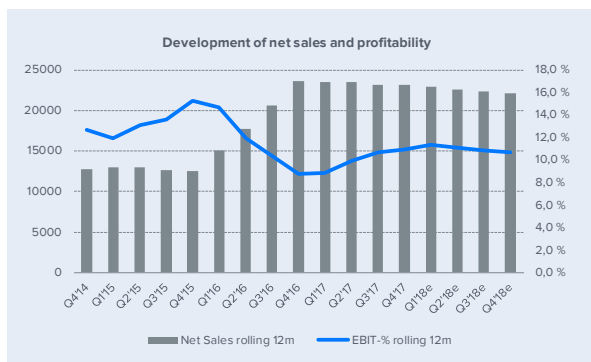
Valuation	2013	2014	2015	2016	2017	2018e	2019e	2020e
Share price	5,82	6,56	6,60	4,59	3,89	4,33	4,33	4,33
MCAP	21606	25584	26046	26509	21778	24303	24303	24303
EV	20229	20577	18240	22234	17568	20293	19390	17987
P/E (adj.)	273,5	23,4	18,0	21,3	11,9	15,8	11,7	10,2
P/E	neg.	22,0	21,9	neg.	neg.	180,5	15,3	10,2
P/FCF	-248,3	4,8	7,5	-15,9	8,6	22,4	10,6	8,2
P/B	3,3	3,0	2,5	1,3	1,3	1,6	1,6	1,5
P/S	0,9	2,0	2,1	1,1	0,9	1,1	1,1	1,0
EV/S	0,9	1,6	1,5	0,9	0,8	0,9	0,8	0,7
EV/EBITDA	14,7	6,6	8,1	6,0	5,3	8,2	5,3	4,4
EV/EBIT	32,6	12,6	9,4	10,4	6,8	8,4	6,6	5,1
Payout (%)	-223,3 %	46,9 %	86,1 %	-125,2 %	-72,0 %	875,2 %	84,9 %	63,6 %
Dividend yield-%	6,4 %	2,1 %	3,9 %	3,7 %	4,9 %	4,8 %	5,6 %	6,3 %

Source: Inderes



Source: Inderes

Earnings trend (rolling 12 months)

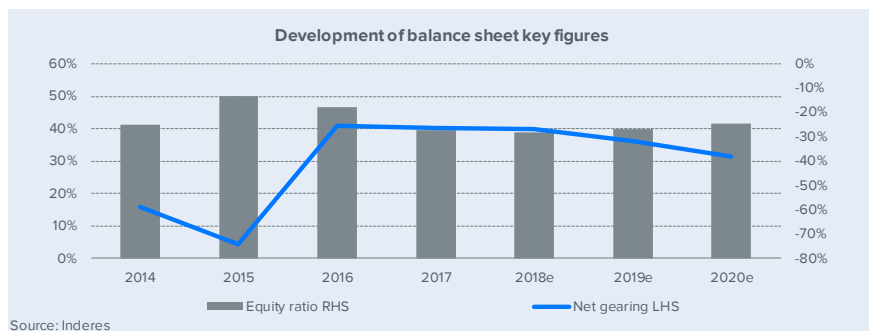


Balance sheet and DCF-model

Balance sheet

Assets (MEUR)	2015	2016	2017	2018e	2019e
Non-current assets	5217	24460	21635	21248	20704
Goodwill	237	5724	5248	5248	5248
Intangible assets	323	5236	3971	3581	3242
Tangible assets	695	1981	1853	1813	1716
Associated companies	84	116	128	50	50
Other investments	948	1040	816	816	816
Other non-current assets	125	4383	4562	4562	4562
Deferred tax assets	2805	5980	5057	5178	5070
Current assets	15653	20441	19389	18184	18716
Inventories	1014	2506	2646	2218	2054
Other current assets	0	44	22	0	0
Receivables	4683	8269	8441	7983	8217
Cash and equivalents	9956	9622	8280	7983	8445
Balance sheet total	20870	44901	41024	39432	39420

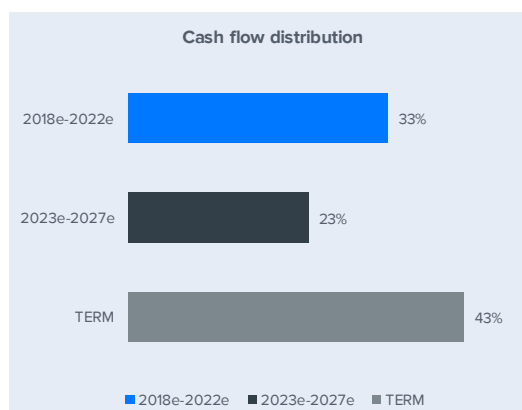
Liabilities (MEUR)	2015	2016	2017	2018e	2019e
Equity	10446	20093	16138	15210	15624
Share capital	246	246	246	246	246
Retained earnings	6279	3588	1147	219	633
Shares repurchased	-718	-881	-1480	-1480	-1480
Revaluation reserve	148	488	1094	1094	1094
Other equity	4491	16652	15131	15131	15131
Minorities	21	881	80	80	80
Non-current debt	4488	13127	13502	13217	12569
Deferred tax liabilities	62	1037	796	796	796
Provisions	726	1980	1888	1888	1888
Long term debt	2023	3657	3457	3622	3274
Convertibles	0	0	0	0	0
Other long term liabilities	1677	6453	7361	6911	6611
Current debt	5915	10800	11304	10925	11147
Short term debt	164	607	577	281	191
Payables	5751	10193	10727	10644	10956
Other current liabilities	0	0	0	0	0
Balance sheet total	20870	44901	41024	39432	39420



DCF model

DCF model (MEUR)	2017	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	TERM
EBIT (operating profit)	15	816	2446	3557	3915	3936	3999	3409	3332	3251	2687	
+ Depreciation	1732	1120	1026	864	817	768	724	686	678	679	680	
- Paid taxes	-314	-450	-450	-450	-450	-450	-450	-836	-817	-797	-656	
- Tax, financial expenses	-124	-88	-78	-79	-50	-26	-20	-20	-20	-20	-20	
+ Tax, financial income	2	2	0	0	0	3	3	3	3	4	4	
- Change in working capital	244	826	241	-199	-100	-118	-130	-138	0	0	0	
Operating cash flow	1556	2225	3185	3693	4132	4113	4127	3105	3178	3117	2695	
+ Change in other long-term liabilities	816	-450	-300	-150	0	0	0	0	0	0	0	
- Gross CAPEX	182	-690	-590	-580	-520	-500	-490	-618	-697	-697	-718	
Free operating cash flow	2554	1085	2295	2963	3612	3613	3637	2487	2481	2421	1977	
+/- Other	-18	0	0	0	0	0	0	0	0	0	0	
FCFF	2536	1085	2295	2963	3612	3613	3637	2487	2481	2421	1977	28948
Discounted FCFF	1021	2001	2394	2706	2508	2340	1483	1371	1240	938	13744	
Sum of FCFF present value		31747	30726	28725	26331	23625	21117	18776	17293	15922	14682	13744
Debt free DCF		31747										
- Interesting bearing debt		-4034										
+ Cash and cash equivalents		8280										
- Minorities		-128										
- Dividend/capital return		0										
Equity value DCF		35922										
Equity value DCF per share		6,40										

WACC	
Tax-% (WACC)	26,0 %
Target debt ratio (D/(D+E))	20,0 %
Cost of debt	6,0 %
Equity Beta	1,20
Market risk premium	4,80 %
Liquidity premium	0,00 %
Risk free interest rate	3,0 %
Cost of equity	8,8 %
Average cost of capital (WACC)	7,9 %



Summary

Income statement	2015	2016	2017	2018e	2019e
Sales	12499,0	23636,0	23148,0	22175,9	22824,3
EBITDA	1999,0	459,7	1747,4	1936,1	3471,5
EBITDA-%	16,0	1,9	7,5	8,7	15,2
EBIT	1688,0	-1134,3	15,4	816,1	2445,7
PTP	1540,0	-1402,4	-442,6	484,1	2150,7
Net earnings	2466,0	-799,8	-1493,6	134,7	1592,8
Non-recurring items	-252,0	-3272,0	-2570,0	-1600,0	-500,0

Balance sheet	2015	2016	2017	2018e	2019e
Balance sheet total	20870,0	44901,0	41024,0	39431,8	39419,9
Equity	10467,0	20974,0	16218,0	15290,1	15704,2
Goodwill	237,0	5724,0	5248,0	5248,0	5248,0
Interest-bearing debt	2187,0	4264,0	4034,0	3902,3	3464,9

Cash flow	2015	2016	2017	2018e	2019e
EBITDA	1999,0	459,7	1747,4	1936,1	3471,5
Change in NWC	-631,0	-680,0	244,0	825,5	241,2
Operating cash flow	926,7	-2055,5	1555,6	2225,3	3184,7
Free cash flow	3463,7	-1670,5	2535,6	1085,3	2294,7

Company description
Powered by the research and innovation of Nokia Bell Labs, Nokia serves communications service providers, governments, large enterprises and consumers, with the industry's most complete, end-to-end portfolio of products, services and licensing. From the enabling infrastructure for 5G and the Internet of Things, to emerging applications in virtual reality and digital health, Nokia is shaping the future of technology to transform the human experience.

Share based key figures	2015	2016	2017	2018e	2019e
EPS	0,30	-0,14	-0,26	0,02	0,28
EPS (adj.)	0,37	0,21	0,33	0,27	0,37
Oper. cash flow per share	0,23	-0,36	0,28	0,40	0,57
Book value per share	2,65	3,48	2,86	2,71	2,77
Dividend per share	0,26	0,17	0,19	0,21	0,24
Payout ratio (%)	86	-125	-72	875	85
Dividend yield (%)	3,9	3,7	4,9	4,8	5,5

Key figures	2015	2016	2017	2018e	2019e
P/E	21,9	neg.	neg.	180,5	15,3
P/B	2,5	1,3	1,3	1,6	1,6
P/S	2,1	1,1	0,9	1,1	1,1
P/CF	28,1	neg.	14,0	10,9	7,7
EV/S	1,5	0,9	0,8	0,9	0,8
EV/EBITDA	9,1	48,4	10,1	10,5	5,6
EV/EBIT	10,8	neg.	1140,8	24,9	7,9

Largest shareholders	% of shares
Varma	2,2 %
Nokia Oyj	1,5 %
Ilmarinen	0,8 %
Valtion Eläkerahasto	0,7 %
Schweizerische Nationalbank	0,6 %

Rating history

Recommendation history, LTM

Date	Recommendation	Target price	Share price
23.1.2014	Buy	6,00 €	5,72 €
29.4.2014	Buy	6,40 €	5,14 €
25.7.2014	Buy	7,00 €	6,14 €
24.10.2014	Accumulate	7,50 €	6,74 €
23.12.2014	Buy	7,50 €	6,51 €
29.1.2015	Accumulate	7,50 €	7,15 €
13.4.2015	Accumulate	8,00 €	7,58 €
16.4.2015	Reduce	7,30 €	7,38 €
4.5.2015	Reduce	6,00 €	6,05 €
31.7.2015	Reduce	6,20 €	6,43 €
30.10.2015	Reduce	6,40 €	6,70 €
10.2.2016	Accumulate	5,80 €	5,19 €
11.5.2016	Reduce	4,60 €	4,65 €
5.8.2016	Reduce	4,60 €	4,90 €
27.10.2016	Reduce	4,30 €	4,32 €
16.11.2016	Accumulate	4,30 €	3,81 €
9.1.2017	Accumulate	4,80 €	4,58 €
2.2.2017	Accumulate	5,00 €	4,45 €
16.3.2017	Accumulate	5,40 €	5,00 €
28.4.2017	Accumulate	5,80 €	5,19 €
24.5.2017	Accumulate	6,20 €	5,88 €
28.7.2017	Accumulate	6,20 €	5,49 €
27.10.2017	Buy	5,60 €	4,21 €
24.1.2017	Buy	5,60 €	4,01 €
1.2.2017	Buy	5,80 €	4,33 €

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Recommendation Upside potential*

Buy > 15 %

Accumulate 5 - 15 %

Reduce -5 - 5 %

Sell < -5 %

Potential regarding to 12 month target price

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