

Nokia

Company report

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This report is a summary translation of the report “Nokia Q2-torstaina: Tulosparannus käy jatkossa haastavaksi heikentyvässä markkinassa” published on 7/17/2023 at 7:56 am

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Nokia Q2 on Thursday: Performance improvement becomes challenging in a declining market

We lower our recommendation for Nokia to Accumulate (previously Buy) and target price to EUR 4.1 (previously EUR 4.8) reflecting significant estimate cuts following the profit warning. Based on the decline in Nokia's outlook, Ericsson's Q2 result and recent market research, the strongest pull of the 5G cycle has started cooling down and the market seems to be turning slightly downward in coming years. In a declining market, earnings growth is challenging and without it, it is difficult to see a significant recovery in Nokia's low valuation multiples. However, we expect the improved performance in recent years to hold its own quite well and, with improving cash flow in the next few years we expect abundant profit distribution from Nokia. Thus, the expected return is still at a good level, although not as attractive as previously estimated.

Nokia cut its net sales outlook but profitability seems to be reasonably sustainable

Nokia now expects its 2023 net sales to be EUR 23.2-24.6 billion (was EUR 24.6-26.2 bn) and comparable EBIT 11.5-13.0% (was 11.5-14%). The outlook was cut, especially, for H2, which, according to Nokia, is due both to the deteriorating economic environment and customers lowering inventory levels. In addition, high inflation and rising interest rates increasingly affect customers' purchasing plans and some customer projects are moving to 2024, especially in North America. Customers' inventory levels are also normalizing as the supply chain challenges seen in the past two years have eased. According to Nokia, the negative changes relate to Network Infrastructure and Mobile Networks. The same factors were reflected quite strongly in Ericsson's Q2 report, as the net sales of the company's network unit fell by 13% in constant currency. In North America, net sales decreased by 50%, indicating a dramatic turn in this market area after strong years. Growth is very strong in India at the moment, but due to lower margins Ericsson's margins were under strong pressure in Q2.

Based on preliminary information, Nokia's Q2 was still good and better than expected

Nokia will report its Q2 result on Thursday at 8.00 am. Based on Nokia's preliminary data, Q2 net sales were around EUR 5.7 billion and comparable EBT some 11%, which results in an EBIT of approximately EUR 627 million. The recently updated consensus estimate expected EUR 6.0 billion in net sales and EUR 548 million in EBIT (9.1%). Thus, the Q2 result exceeded expectations, but according to the release, this is largely explained by the around EUR 80 million net sales recognized retrospectively in Nokia Technologies.

Clear cuts in our estimates for the coming years

Our 2023 earnings estimate fell by 5%, but key changes were made to the estimates for the coming years that were cut by 12-13%. In absolute terms, estimates fell most in Mobile Networks, where we expect clearly lower net sales than previously expected to clearly hamper the margin improvement in coming years (EBIT 23e-25e: 7.3-8.2%). As a whole, we expect Nokia's comparable operating result to be at a good level of around EUR 2.8-2.9 billion in the coming years, which would generate free cash flow of EUR 1.9-2.0 billion with a 65-72% cash conversion.

Valuation seems very low, but without earnings growth multiples lack drivers for recovery

Nokia's valuation seems very low in the coming years (2023e-2024e adj. P/E 9.2x-9.5x and EV/EBIT 5.8x-5.6x), which we do not find fully justified despite the subdued earnings growth outlook. Starting from next year, we expect Nokia's profit distribution to be abundant, when, based on the company's overcapitalized balance sheet, virtually all free cash flow should be returned to the owners. With our 2024-2026 estimates, the free cash flow yield (10-10.5%) becomes attractive, in addition to which we see the possibility of an EUR 0.2-0.35 extra dividend next spring.

Recommendation

Accumulate

(previous Buy)

EUR 4.10

(previous EUR 4.80)

Share price:

3.54



Key figures

	2022	2023e	2024e	2025e
Revenue	24,911	24,322	24,226	24,487
growth-%	12%	-2%	0%	1%
EBIT adj.	3,109	2,887	2,816	2,914
EBIT-% adj.	12.5 %	11.9 %	11.6 %	11.9 %
Net Income	4,201	1,813	1,755	1,903
EPS (adj.)	0.44	0.38	0.37	0.39

P/E (adj.)	9.9	9.2	9.5	9.2
P/B	1.1	0.9	0.8	0.8
Dividend yield-%	2.8 %	5.1 %	5.6 %	6.8 %
EV/EBIT (adj.)	7.0	5.8	5.6	5.1
EV/EBITDA	6.3	4.8	4.6	4.2
EV/S	0.9	0.7	0.7	0.6

Source: Inderes

Guidance

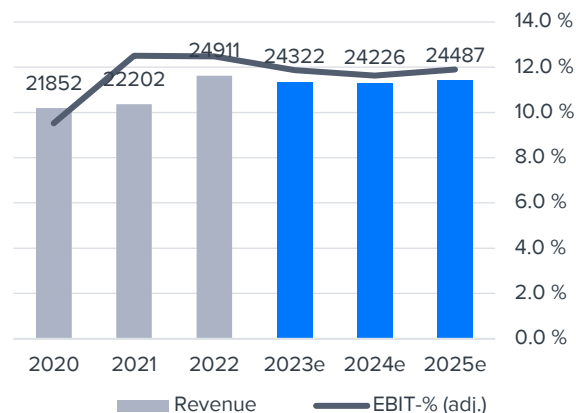
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2023: Net sales EUR 23.2-24.6 billion and comparable operating profit 11.5-13.0%

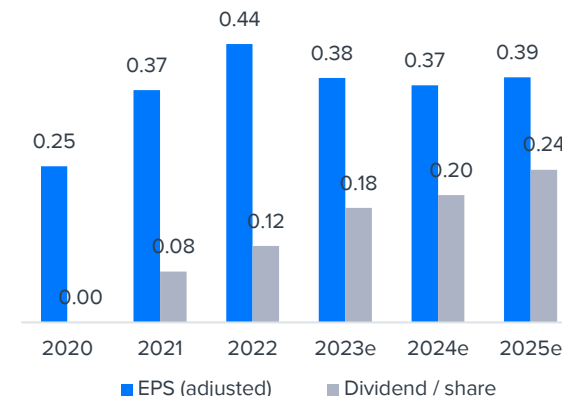
Share price



Revenue and EBIT-%



EPS and dividend



Value drivers

- Successful turnaround completed, still improvement potential in profitability with good strategy implementation
- Strong net cash flow and improving cash flow profile enable abundant profit distribution in the next few years
- Huawei sanctions open up opportunities
- Strategic value of Nokia's technologies



Risk factors

- Fierce competitive pressure on the market and price erosion
- Global component shortages and supply chain challenges
- Impact of the worsening economic outlook on operators' investments
- Prolongation of patent disputes and timing of license fees in Nokia Technologies

Valuation	2023e	2024e	2025e
Share price	3.54	3.54	3.54
Number of shares, millions	5540.3	5540.3	5540.3
Market cap	19618	19618	19618
EV	16800	15820	14927
P/E (adj.)	9.2	9.5	9.2
P/E	10.8	11.2	10.3
P/FCF	30.6	9.7	9.5
P/B	0.9	0.8	0.8
P/S	0.8	0.8	0.8
EV/Sales	0.7	0.7	0.6
EV/EBITDA	4.8	4.6	4.2
EV/EBIT (adj.)	5.8	5.6	5.1
Payout ratio (%)	55%	63%	70%
Dividend yield-%	5.1%	5.6%	6.8%

Source: Inderes

Based on preliminary data, Q2 result exceeded expectations

Estimates	Q2'22	Q2'23	Q2'23e	Q2'23e	Consensus		Difference (%)	2023e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. Inderes	Inderes
Revenue	5872	5700	5700	6011	5838	- 6173	0 %	24322
EBIT (adj.)	714	627	627	548	476	- 692	0 %	2887
EBIT	565	-	507	420	330	- 602		2474
PTP	541	-	508	415	331	- 602		2453
EPS (adj.)	0,10	-	0,08	0,07	0,06	- 0,09		0,38
EPS (reported)	0,08	-	0,07	0,05	0,04	- 0,08		0,33
Revenue growth-%	10,5 %	-2,9 %	-2,9 %	2,4 %	-0,6 %	- 5,1 %	0 pp	-2,4 %
EBIT-% (adj.)	12,2 %	11,0 %	11,0 %	9,1 %	8,2 %	- 11,2 %	0 pp	11,9 %

Source: Inderes & Infront (consensus)

Estimate changes by division

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	25767	24322	-6%	26080	24226	-7%	26360	24487	-7%
Mobile Networks	11324	10379	-8%	11438	10482	-8%	11552	10587	-8%
Network Infrastructure	9365	8820	-6%	9458	8643	-9%	9553	8730	-9%
Technology	1422	1502	6%	1408	1397	-1%	1408	1397	-1%
Cloud and Network Services	3452	3415	-1%	3556	3484	-2%	3627	3553	-2%
Other	228	230	1%	250	250	0%	250	250	0%
NRIs/non-IFRS adjusted	-24.0	-24.0	0%	-30.0	-30.0	0%	-30.0	-30.0	0%
EBITDA	3669	3523	-4%	3814	3408	-11%	3985	3574	-10%
EBIT (exc. NRIs)	3033	2887	-5%	3222	2816	-13%	3326	2914	-12%
EBIT	2620	2474	-6%	2822	2416	-14%	3026	2614	-14%
Mobile Networks	909	758	-17%	1052	816	-22%	1097	866	-21%
Network Infrastructure	1273	1214	-5%	1234	1103	-11%	1245	1105	-11%
Technology	1036	1116	8%	1025	1014	-1%	1025	1014	-1%
Cloud and Network Services	190	174	-8%	231	202	-12%	279	249	-11%
Other	-374	-374	0%	-320	-320	0%	-320	-320	0%
NRIs/non-IFRS adjusted	-413	-413	0%	-400	-400	0%	-300	-300	0%
PTP	2599	2453	-6%	2752	2346	-15%	2956	2544	-14%
EPS (adjusted)	0.40	0.38	-5%	0.43	0.37	-13%	0.44	0.39	-13%
Dividend / share	0.18	0.18	0%	0.22	0.20	-9%	0.26	0.24	-8%

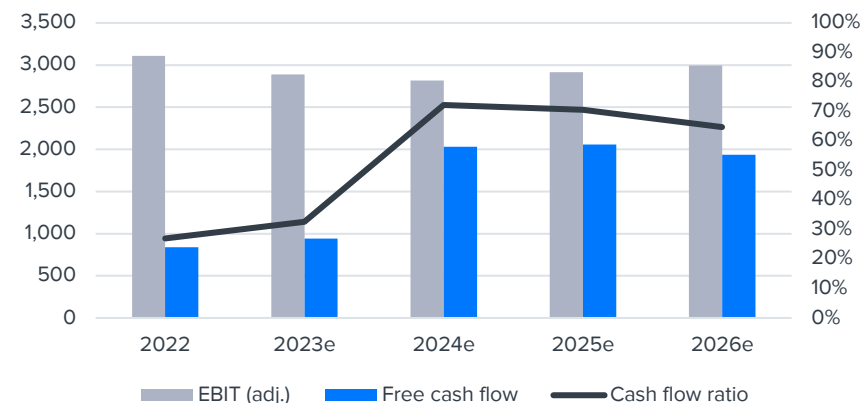
Source: Inderes

Summary of estimates

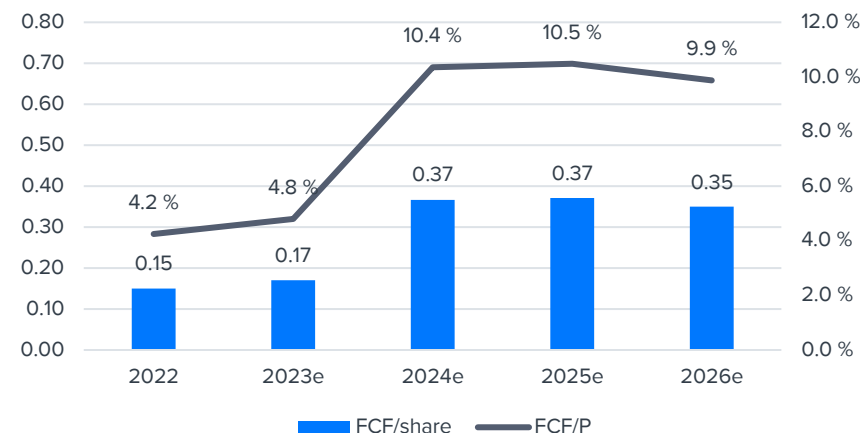
Mobile Networks	2021	2022	2023e	2024e	2025e	2026e
Net sales	9718	10672	10379	10482	10587	10693
Growth-%	-6.5 %	9.8 %	-2.7 %	1.0 %	1.0 %	1.0 %
Gross Margin	3638	4095	3684	3826	3886	3935
Gross Margin-%	37.4 %	38.4 %	35.5 %	36.5 %	36.7 %	36.8 %
EBIT	764	941	758	816	866	905
EBIT-%	7.9 %	8.8 %	7.3 %	7.8 %	8.2 %	8.5 %
Network Infrastructure	2021	2022	2023e	2024e	2025e	2026e
Net sales	7674	9047	8820	8643	8730	8817
Growth-%	13.9 %	17.9 %	-2.5 %	-2.0 %	1.0 %	1.0 %
Gross Margin	2684	3309	3298	3163	3195	3218
Gross Margin-%	35.0 %	36.6 %	37.4 %	36.6 %	36.6 %	36.5 %
EBIT	784	1101	1214	1103	1105	1113
EBIT-%	10.2 %	12.2 %	13.8 %	12.8 %	12.7 %	12.6 %
Cloud and Network Services	2021	2022	2023e	2024e	2025e	2026e
Net sales	3089	3350	3415	3484	3553	3624
Growth-%	0.1 %	8.4 %	1.9 %	2.0 %	2.0 %	2.0 %
Gross Margin	1160	1340	1320	1379	1428	1468
Gross Margin-%	37.6 %	40.0 %	38.7 %	39.6 %	40.2 %	40.5 %
EBIT	166	178	174	202	249	281
EBIT-%	5.4 %	5.3 %	5.1 %	5.8 %	7.0 %	7.7 %
Technology	2021	2022	2023e	2024e	2025e	2026e
Net sales	1501	1595	1502	1397	1397	1397
Growth-%	7.1 %	6.3 %	-5.8 %	-7.0 %	0.0 %	0.0 %
EBIT	1185	1208	1116	1014	1014	1014
EBIT-%	78.9 %	75.7 %	74.3 %	72.6 %	72.6 %	72.6 %
Group common and Other	2021	2022	2023e	2024e	2025e	2026e
Net sales	257	296	230	250	250	250
Growth-%	-4.3 %	15.2 %	-22.3 %	8.7 %	0.0 %	0.0 %
EBIT	-124	-318	-374	-320	-320	-320

Source: Inderes

Development of Nokia's comparable EBIT and free cash flow

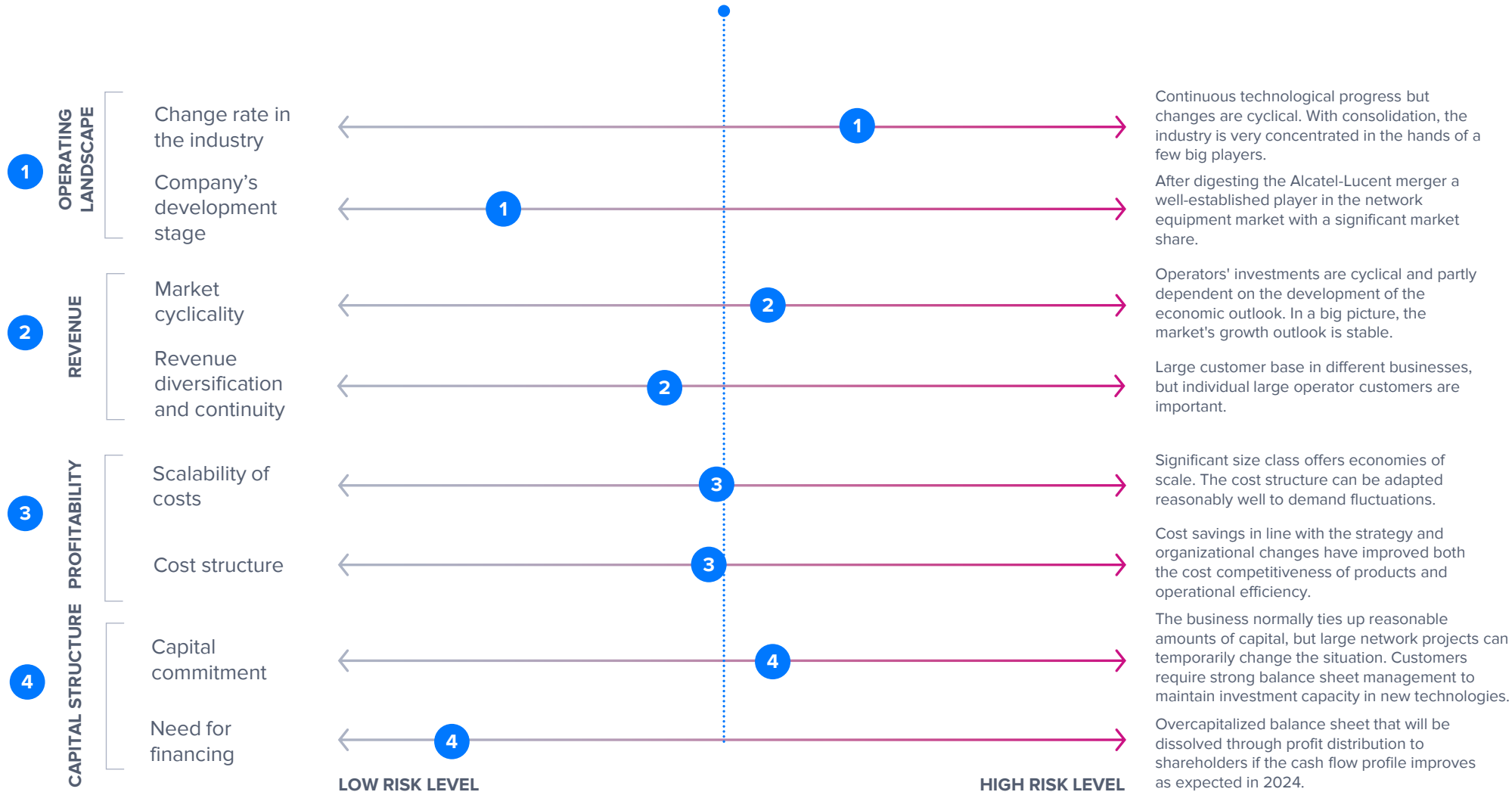


Nokia's free cash flow per shares and FCF/P



Risk profile of the business model

Assessment of Nokia's overall business risk



Valuation

Sum of the parts indicate upside in the stock

We approach Nokia's valuation partly through a sum of the parts calculation, as the company can be divided into four independent operations corresponding to the current unit structure. We price each unit separately based on our 2023 estimates. We have also considered the cash flow impact of restructuring, net cash and the estimated present value of other businesses and group expenses. We have revised the acceptable valuation multiples of the units downward with the profit warning, reflecting a weaker earnings growth outlook.

We value Nokia Technologies at 6x-8x EV/EBIT. The value of the unit is thus EUR 6.7-8.9 billion. The growth outlook for Nokia Technologies is modest, but in the medium term, stable cash flows support value.

We value the extremely well-performing Network Infrastructure with a 6.5x-8.5x sales multiple reflecting the result that may make a slight downturn in the coming years. The value of the unit is thus EUR 7.9-10.3 billion. The unit has grown very strongly in recent years and profitability has already reached a very good level. Thus, it will be very challenging to generate earnings growth in a declining market.

Cloud and Network Services, which are currently still underperforming, are valued at an EV/EBIT multiple of 6.0-7.0x, resulting in a unit value of EUR 1.0-1.2 billion. In addition to weak profitability, the current sluggish growth supports moderate multiples.

For Mobile Networks, we have assumed a 6.0-8.0x EV/EBIT, making the unit worth EUR 4.5-8.0 billion. Our 2023 estimate now expects an EBIT margin of 7.3% from the unit and we do not consider reaching the long-term profitability target (>10%) realistic in a weakening market.

With these assumptions, the sum of the parts will be EUR 24 billion (EUR 4.3 per share), with a range of EUR 20-28 billion (EUR 3.7-5.1 per share). Therefore, considering the sum of the parts, there is clear upside in the share, although we do not see it as a key driver of Nokia's valuation at the moment.

Nokia's hefty net cash and strengthening cash flow enable abundant profit distribution in the next few years

Considering Nokia's current net cash and its target level (10-15%), the company should start to distribute most of its profits back to the owners. If Nokia decided to distribute its entire free cash flow back to shareholders, this would mean a dividend yield of around 10-10.5% with our 2024-2026 estimates. In addition, roughly EUR 0.2-0.35 per share could be paid as extra dividend from the overcapitalized balance sheet (dividend yield 5-10%). Some of the profits will probably be returned through share buybacks, so the dividend yield will not in practice be quite this high. However, we find it highly justified to consider Nokia's free cash flow largely as capital that will be directly returned to its shareholders. Of course, the company can also make smaller complementary acquisitions, which means that part of the capital will be allocated to these in certain years. We do not expect the free cash-flow rate to remain above 10%, but that the share price increase will narrow it somewhat. With our updated target price, the free cash flow yield for the next few years would roughly correspond to the required return we apply for Nokia (8.8%).

Sum of the parts in 2023

Technology	Pessimistic	Neutral	Optimistic
Variable: Adj. EBIT 2023e	1.1	1.1	1.1
X valuation multiple	6.0	7.0	8.0
EV	6.7	7.8	8.9
Per share (EUR)	1.2	1.4	1.6

Network Infrastructure	Pessimistic	Neutral	Optimistic
Variable: Adj. EBIT 2023e	1.2	1.2	1.2
X valuation multiple	6.5	7.5	8.5
EV	7.9	9.1	10.3
Per share (EUR)	1.4	1.6	1.9

Cloud and Network services	Pessimistic	Neutral	Optimistic
Variable: Adj. EBIT 2023e	0.2	0.2	0.2
X valuation multiple	6.0	6.5	7.0
EV	1.0	1.1	1.2
Per share (EUR)	0.2	0.2	0.2

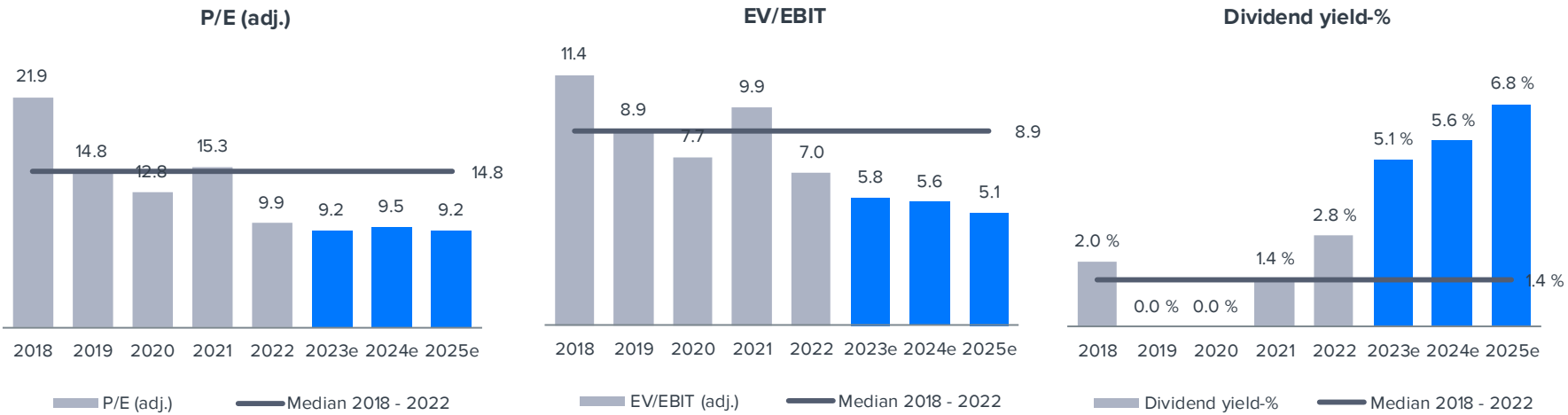
Mobile Networks	Pessimistic	Neutral	Optimistic
Variable: Adj. EBIT 2023e	0.8	0.8	0.8
X valuation multiple	6.0	7.0	8.0
EV	4.5	5.3	6.1
Per share (EUR)	0.8	1.0	1.1

Total	Pessimistic	Neutral	Optimistic
Aggregate EV	20.2	23.3	26.5
Other operating and group costs (NPV)	-3.5	-3.0	-2.0
Net cash at the end of Q1'23	4.3	4.3	4.3
Costs for restructuring	-0.7	-0.6	-0.5
Sum of the parts total	20	24	28
Per share (EUR)	3.7	4.3	5.1

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	5.03	3.30	3.15	5.57	4.33	3.54	3.54	3.54	3.54
Number of shares, millions	5593	5606	5617	5629	5590	5540	5540	5540	5540
Market cap	28133	18476	17701	31378	24189	19618	19618	19618	19618
EV	24912	17799	15938	27543	21648	16800	15820	14927	14355
P/E (adj.)	21.9	14.8	12.8	15.3	9.9	9.2	9.5	9.2	8.9
P/E	neg.	>100	neg.	19.3	5.7	10.8	11.2	10.3	9.5
P/FCF	neg.	neg.	11.1	neg.	neg.	30.6	9.7	9.5	10.1
P/B	1.8	1.2	1.4	1.8	1.1	0.9	0.8	0.8	0.8
P/S	1.2	0.8	0.8	1.4	1.0	0.8	0.8	0.8	0.8
EV/Sales	1.1	0.8	0.7	1.2	0.9	0.7	0.7	0.6	0.6
EV/EBITDA	17.9	8.3	7.9	8.5	6.3	4.8	4.6	4.2	4.1
EV/EBIT (adj.)	11.4	8.9	7.7	9.9	7.0	5.8	5.6	5.1	4.8
Payout ratio (%)	neg.	0.0 %	0.0 %	27.7 %	15.8 %	55.0 %	63.1 %	69.9 %	70.0 %
Dividend yield-%	2.0 %	0.0 %	0.0 %	1.4 %	2.8 %	5.1 %	5.6 %	6.8 %	7.3 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e
Qualcomm	122660	131195	12.8	11.2	11.6	10.0	4.0	3.6	14.4	12.4	2.6	2.7	7.1
Ciena	5798	6022	11.8	9.9	10.0	8.5	1.5	1.4	16.2	12.6			2.2
Cisco	193616	179958	10.4	10.1	9.6	9.3	3.5	3.4	13.6	12.8	3.0	3.0	4.8
Juniper Networks	9238	9699	10.7	9.8	9.0	8.3	1.8	1.8	13.3	12.1	2.8	2.8	2.2
Motorola	45019	49611	21.5	19.4	18.5	17.1	5.5	5.2	25.9	23.6	1.1	1.2	55.4
ZTE	25614	25633	18.6	16.5	13.1	12.8	1.5	1.3	14.5	12.8	1.9	2.1	2.1
Ericsson	16829	16641	8.6	6.2	6.1	4.8	0.7	0.7	12.8	8.9	4.7	5.0	1.5
Amdocs	10879	10725	13.4	12.5	10.9	10.3	2.4	2.2	16.7	15.0	1.7	1.8	3.2
CommScope	1135	10523	8.9	8.3	8.1	7.3	1.3	1.3	3.1	2.5			
Oracle	291543	365616	19.1	17.2	15.6	14.1	8.0	7.4	23.2	21.0	1.1	1.3	
Viavi	2317	2520	16.2	13.5	13.4	11.9	2.5	2.4	21.5	18.5			3.5
Nokia (Inderes)	19618	16800	5.8	5.6	4.8	4.6	0.7	0.7	9.2	9.5	5.1	5.6	0.9
Average			13.8	12.2	11.4	10.4	3.0	2.8	15.9	13.8	2.3	2.5	9.1
Median			12.8	11.2	10.9	10.0	2.4	2.2	14.5	12.8	2.2	2.4	3.2
Diff-% to median			-54%	-50%	-56%	-54%	-71%	-71%	-36%	-26%	127%	135%	-73%

Source: Refinitiv / Inderes

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	22202	5348	5872	6242	7449	24911	5859	5700	5743	7019	24322	24226	24487	24751
Mobile Networks	9717	2268	2592	2851	2960	10671	2567	2463	2566	2782	10379	10482	10587	10693
Network Infrastructure	7674	1974	2153	2211	2709	9047	2248	2045	2034	2492	8820	8643	8730	8817
Technology	1502	306	305	305	679	1595	242	360	280	620	1502	1397	1397	1397
Cloud and Network Services	3089	736	754	801	1060	3351	760	776	809	1071	3415	3484	3553	3624
Other	257	76	76	84	59	295	48	62	60	60	230	250	250	250
NRIs/non-IFRS adjusted	-37	-12	-8	-10	-18	-48	-6	-6	-6	-6	-24	-30	-30	-30
EBITDA	3253	628	847	806	1178	3458	692	768	714	1350	3523	3408	3574	3501
Depreciation	-1095	-274	-282	-288	-296	-1140	-266	-261	-261	-261	-1049	-992	-960	-708
EBIT (excl. NRI)	2775	583	714	658	1155	3109	479	627	573	1209	2887	2816	2914	2993
EBIT	2158	354	565	518	882	2318	426	507	453	1089	2474	2416	2614	2793
Mobile Networks	765	171	291	277	201	940	137	157	181	283	758	816	866	905
Network Infrastructure	784	195	247	228	432	1102	344	284	256	330	1214	1103	1105	1113
Technology	1185	220	217	207	564	1208	149	265	179	523	1116	1014	1014	1014
Cloud and Network Services	166	20	-6	16	147	177	-20	2	38	154	174	202	249	281
Other	-125	-23	-36	-71	-189	-318	-131	-81	-81	-81	-374	-320	-320	-320
NRIs/non-IFRS adjusted	-617	-229	-149	-140	-273	-791	-53	-120	-120	-120	-413	-400	-300	-200
Net financial items	-241	-72	-18	12	-30	-108	-19	0	0	0	-19	-75	-75	-50
PTP	1926	256	541	509	878	2184	401	508	454	1090	2453	2346	2544	2748
Taxes	-272	-79	-74	-93	2271	2026	-111	-127	-113	-273	-624	-585	-635	-686
Minority interest	-22	-7	-3	-1	2	-9	-10	-2	-2	-2	-16	-6	-6	-6
Net earnings	1623	212	457	427	3154	4250	279	379	338	816	1812	1755	1903	2056
EPS (adj.)	0.37	0.07	0.10	0.10	0.17	0.44	0.06	0.08	0.08	0.16	0.38	0.37	0.39	0.40
EPS (rep.)	0.29	0.04	0.08	0.08	0.56	0.76	0.05	0.07	0.06	0.15	0.33	0.32	0.34	0.37

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	1.6 %	5.4 %	10.5 %	15.6 %	16.1 %	12.2 %	9.6 %	-2.9 %	-8.0 %	-5.8 %	-2.4 %	-0.4 %	1.1 %	1.1 %
Adjusted EBIT growth-%	33.4 %	5.8 %	4.5 %	3.9 %	27.1 %	12.0 %	-17.8 %	-12.2 %	-12.9 %	4.7 %	-7.1 %	-2.5 %	3.5 %	2.7 %
EBITDA-%	14.7 %	11.7 %	14.4 %	12.9 %	15.8 %	13.9 %	11.8 %	13.5 %	12.4 %	19.2 %	14.5 %	14.1 %	14.6 %	14.1 %
Adjusted EBIT-%	12.5 %	10.9 %	12.2 %	10.5 %	15.5 %	12.5 %	8.2 %	11.0 %	10.0 %	17.2 %	11.9 %	11.6 %	11.9 %	12.1 %
Net earnings-%	7.3 %	4.0 %	7.8 %	6.8 %	42.3 %	17.1 %	4.8 %	6.6 %	5.9 %	11.6 %	7.5 %	7.2 %	7.8 %	8.3 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	22174	23886	23474	22969	22476
Goodwill	5431	5667	5667	5667	5667
Intangible assets	3342	2472	2126	1787	1420
Tangible assets	2808	2944	2878	2712	2586
Associated companies	243	199	199	199	199
Other investments	758	828	828	828	828
Other non-current assets	8320	7942	7942	7942	7942
Deferred tax assets	1272	3834	3834	3834	3834
Current assets	19597	20266	20625	20471	20422
Inventories	2392	3265	3356	3246	3232
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	7601	7839	8513	8503	8619
Cash and equivalents	9604	9162	8756	8721	8570
Balance sheet total	40049	42943	42953	42457	42099

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	17462	21426	22567	23325	24120
Share capital	246	246	246	246	246
Retained earnings	-2537	1375	2516	3274	4069
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	4219	3905	3905	3905	3905
Other equity	15432	15807	15807	15807	15807
Minorities	102	93	93	93	93
Non-current liabilities	11410	9556	8674	7715	6734
Deferred tax liabilities	282	332	332	332	332
Provisions	1569	1435	1000	800	600
Long term debt	5361	5107	4660	3901	3120
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	4198	2682	2682	2682	2682
Current liabilities	11177	11961	11712	11417	11245
Short term debt	301	1450	1253	1000	740
Payables	10876	10511	10458	10417	10505
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	40049	42943	42953	42457	42099

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	12.2 %	-2.4 %	-0.4 %	1.1 %	1.1 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %
EBIT-%	9.3 %	10.2 %	10.0 %	10.7 %	11.3 %	11.0 %	10.5 %	10.0 %	9.5 %	9.0 %	8.8 %	8.8 %
EBIT (operating profit)	2318	2474	2416	2614	2793	2750	2651	2550	2447	2341	2312	
+ Depreciation	1140	1049	992	960	708	690	677	668	661	656	653	
- Paid taxes	-486	-624	-585	-635	-686	-675	-650	-596	-574	-554	-552	
- Tax, financial expenses	-27	-5	-19	-19	-13	-13	-13	-41	-38	-32	-26	
+ Tax, financial income	0	0	0	0	0	0	0	0	0	0	0	
- Change in working capital	-1476	-818	78	-14	-15	-64	-65	-66	-67	-42	-43	
Operating cash flow	1469	2077	2882	2906	2788	2689	2601	2514	2429	2370	2344	
+ Change in other long-term liabilities	-1650	-435	-200	-200	-200	-200	-200	0	0	0	0	
- Gross CAPEX	-847	-700	-650	-650	-650	-650	-650	-650	-650	-650	-655	
Free operating cash flow	-1028	942	2032	2056	1938	1839	1751	1864	1779	1720	1689	
+/- Other	49	-301	0	0	0	0	0	0	0	0	0	
FCFF	-979	641	2032	2056	1938	1839	1751	1864	1779	1720	1689	21957
Discounted FCFF		617	1797	1671	1448	1263	1106	1083	950	844	762	9909
Sum of FCFF present value		21449	20833	190365	17365	15917	14653	13548	12465	11515	10671	9909
Enterprise value DCF		21449										
- Interest bearing debt		-6557										
+ Cash and cash equivalents		9162										
-Minorities		-81										
-Dividend/capital return		-671										
Equity value DCF		23368										
Equity value DCF per share		4.2										
Cash flow distribution												
			2023e-2027e								32%	
			2028e-2032e								22%	
			TERM								46%	
■ 2023e-2027e ■ 2028e-2032e ■ TERM												
WACC												
Tax-% (WACC)		25.0 %										
Target debt ratio (D/(D+E))		0.0 %										
Cost of debt		4.0 %										
Equity Beta		1.3										
Market risk premium		4.75%										
Liquidity premium		0.00%										
Risk free interest rate		2.5 %										
Cost of equity		8.8 %										
Weighted average cost of capital (WACC)		8.8 %										

Source: Inderes

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	21852	22202	24911	24322	24226	EPS (reported)	-0.45	0.29	0.76	0.33	0.32
EBITDA	2017	3253	3458	3523	3408	EPS (adj.)	0.25	0.37	0.44	0.38	0.37
EBIT	885	2158	2318	2474	2416	OCF / share	0.38	0.73	0.26	0.37	0.52
PTP	743	1926	2184	2453	2346	FCF / share	0.28	-0.16	-0.18	0.12	0.37
Net Income	-2523	1623	4250	1812	1755	Book value / share	2.22	3.08	3.82	4.06	4.19
Extraordinary items	-1196	-617	-791	-413	-400	Dividend / share	0.00	0.08	0.12	0.18	0.20
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	36191	40049	42943	42953	42457	Revenue growth-%	-6%	2%	12%	-2%	0%
Equity capital	12545	17462	21426	22567	23325	EBITDA growth-%	-6%	61%	6%	2%	-3%
Goodwill	5074	5431	5667	5667	5667	EBIT (adj.) growth-%	4%	33%	12%	-7%	-2%
Net debt	-1789	-3942	-2605	-2843	-3821	EPS (adj.) growth-%	10%	49%	20%	-12%	-3%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	9.2 %	14.7 %	13.9 %	14.5 %	14.1 %
EBITDA	2017	3253	3458	3523	3408	EBIT (adj.)-%	9.5 %	12.5 %	12.5 %	11.9 %	11.6 %
Change in working capital	225	608	-1476	-818	78	EBIT-%	4.0 %	9.7 %	9.3 %	10.2 %	10.0 %
Operating cash flow	2118	4127	1469	2077	2882	ROE-%	-18.2 %	10.9 %	22.0 %	8.3 %	7.7 %
CAPEX	-22	-4111	-847	-700	-650	ROI-%	4.6 %	10.3 %	9.0 %	8.8 %	8.5 %
Free cash flow	1599	-911	-979	641	2032	Equity ratio	34.7 %	43.6 %	49.9 %	52.5 %	54.9 %
						Gearing	-14.3 %	-22.6 %	-12.2 %	-12.6 %	-16.4 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	0.7	1.2	0.9	0.7	0.7						
EV/EBITDA (adj.)	7.9	8.5	6.3	4.8	4.6						
EV/EBIT (adj.)	7.7	9.9	7.0	5.8	5.6						
P/E (adj.)	12.8	15.3	9.9	9.2	9.5						
P/B	1.4	1.8	1.1	0.9	0.8						
Dividend-%	0.0 %	1.4 %	2.8 %	5.1 %	5.6 %						

Source: Inderes

ESG

Taxonomy eligibility

Nokia estimates that its products are not generally included in taxonomy industries as of yet. As the taxonomy legislation is assumed to expand to cover new industries in the future, we will wait for the possible impact this will have on Nokia’s taxonomy eligibility.

When determining the taxonomy eligibility, Nokia reports that it has followed strict interpretations regarding eligibility. This means, e.g., that in case of activities related to climate change mitigation, Nokia has only accepted solutions that are designed primarily to reduce greenhouse gas emissions.

Because taxonomy is still in its early stages, we do not see the low taxonomy eligibility percentages to have any direct short-term economic impact on, e.g., the availability of Nokia’s financing or financing costs.

Climate targets

Of the 6 climate targets set by Nokia, 5 have already been achieved or are developing in the right direction. However, in 2020-2022, the target of halving emissions throughout the value chain in scope 1, scope 2 and scope 3 emissions during 2019-2030 has not developed along the expected paths in linear terms. According to Nokia, there is no reason to expect linear development in reducing emissions, which is also justified in our view. As a whole, Nokia still considers achieving this target by 2030 possible.

Nokia’s connectivity and digitalization solutions enable increased efficiency in other industries, which supports the reduction of emissions. At the same time, the company’s own products have features that

enable energy saving, e.g., for operators. Thus, in our view, the company’s current business supports the achievement of set climate targets. We do, however, consider the reduction of scope 3 emissions challenging if the green transition in the energy sector is not achieved in line with underlying assumptions.

Taxonomy eligibility	2021*	2022
Revenue	-	0%
OPEX	-	0%
CAPEX	-	2%

Taxonomy alignment	2021*	2022
Revenue	-	0%
OPEX	-	0%
CAPEX	-	0%

Climate		
Climate target	Yes	Yes
Target according to Paris agreement (1.5°C warming scenario)	Yes	Yes

*the figures are not comparable due to taxonomy development

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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
12/17/2019	Accumulate	3.60 €	3.26 €
2/7/2020	Reduce	3.60 €	3.70 €
4/8/2020	Reduce	3.00 €	2.95 €
5/1/2020	Reduce	3.20 €	3.32 €
8/1/2020	Reduce	4.00 €	4.06 €
9/28/2020	Accumulate	3.60 €	3.24 €
10/30/2020	Buy	3.40 €	2.81 €
12/17/2020	Accumulate	3.50 €	3.27 €
2/1/2021	Reduce	3.50 €	3.96 €
2/5/2021	Reduce	3.60 €	3.70 €
3/11/2021	Accumulate	3.60 €	3.40 €
3/19/2021	Accumulate	3.60 €	3.37 €
4/30/2021	Accumulate	4.50 €	3.87 €
7/14/2021	Accumulate	5.40 €	4.99 €
<i>Analyst changed</i>			
7/29/2021	Accumulate	5.80 €	5.18 €
10/29/2021	Accumulate	5.90 €	5.02 €
1/12/2022	Accumulate	6.20 €	5.44 €
2/4/2022	Accumulate	6.00 €	5.17 €
3/8/2022	Buy	5.20 €	4.33 €
4/29/2022	Accumulate	5.40 €	4.66 €
7/22/2022	Accumulate	5.70 €	5.01 €
10/21/2022	Accumulate	5.30 €	4.39 €
1/11/2023	Accumulate	5.30 €	4.56 €
1/27/2023	Accumulate	5.30 €	4.38 €
4/21/2023	Buy	4.80 €	3.90 €
7/5/2023	Buy	4.80 €	3.91 €
7/17/2023	Accumulate	4.10 €	3.54 €



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