

Nokia

Company report

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Valuation is modest with improved performance

We reiterate our EUR 5.3 target price and Accumulate recommendation for Nokia. Nokia ended the year with a strong earnings beat, and the turnaround that the company's strategy has been aiming for has been right on track for the past two years. The company's comparable operating profit has taken a leap from the previous level of around EUR 2 billion to over EUR 3 billion, while the quality of the result has improved due to reduced one-off items. Nokia's share valuation (2023e P/E 10x) looks low already considering the current performance, and with good execution of the strategy there is still room for earnings growth through both top-line growth and margin improvement.

Strong earnings beat, outlook and dividend proposal in line with expectations

Nokia's comparable Q4 operating profit was EUR 1,154 million (Q4'21: 909 MEUR), which clearly exceeded our (875 MEUR) and consensus (934 MEUR) estimates. This was driven by a very strong performance in Network Infrastructure, as well as revenues from a single contract change in Nokia Technologies in Q4. Nokia's outlook for net sales growth (2-8%) and comparable operating profit (11.5-14.0%) for the current year was in line with expectations, as was the dividend proposal of EUR 0.12. At the mid-point of the guidance, we end up with a comparable operating profit of around EUR 3.28 billion and our almost unchanged estimate (net sales EUR 25.8 billion, EBIT: 12.4%) is slightly below this. For 2024, we forecast almost stable net sales growth and margin improvement to 13.0%, driven by Mobile Networks, as the major 5G projects in India enter a slightly more mature phase after the initial rumble.

Is Nokia's hefty cash position forever stuck on the balance sheet?

Given Nokia's large net cash position (Q4'22: EUR 4.8 billion) and the continued clearly positive cash-flow generating business, the company's profit distribution could be more generous than it currently is. However, Nokia commented that its customers expect the company to always be capable of investments and a long-term player, as investments in network technologies are made over a long period of time. In light of this, Nokia would appear to continue to maintain a strong net cash position, which in our view is not an optimal allocation of capital given the business fundamentals. As a result, even EV-based valuation multiples that account for a strong net cash position may give a slightly too rosy picture of Nokia's undervaluation if the cash position is forever stuck on Nokia's balance sheet. If Nokia decided to distribute its entire free cash flow back to shareholders in the future, this would mean a dividend yield of just over 10% based on our projections for 2024-2026 (cash flow conversion of 70-77% vs. the company's target of 55-85%).

We see upside in the low valuation

Nokia's valuation looks modest (2023e adj. P/E 10x and EV/EBIT 6.6x) considering the company's current earnings situation. In our view, the sluggish growth outlook for the network equipment market weighs on Nokia's valuation, as without earnings growth the stock is not worth paying particularly high multiples, especially in the current inflation and interest rate environment. However, the current multiples have fallen to levels where we think some room for upside can be argued. At our target price, the stock would be priced at around 12x P/E. Moreover, if the company's strategy progresses well in the coming years, there is still some room for improvement in profitability and some room for growth in market share (and net sales). In the short term, we see the resolution of ongoing patent disputes as a potential positive driver for the stock.

Recommendation

Accumulate

(previous Accumulate)

5.30 EUR

(previous EUR 5.30)

Share price:

4.38



Key figures

	2022	2023e	2024e	2025e
Revenue	24,911	25,773	25,881	26,158
growth-%	12%	3%	0%	1%
EBIT adj.	3,109	3,190	3,371	3,443
EBIT-% adj.	12.5 %	12.4 %	13.0 %	13.2 %
Net Income	4,201	2,028	2,171	2,300
EPS (adj.)	0.44	0.43	0.45	0.46

P/E (adj.)	9.9	10.1	9.8	9.6
P/B	1.1	1.1	1.0	1.0
Dividend yield-%	2.8 %	4.1 %	5.0 %	5.9 %
EV/EBIT (adj.)	7.0	6.6	5.8	5.3
EV/EBITDA	6.3	5.6	4.9	4.5
EV/S	0.9	0.8	0.8	0.7

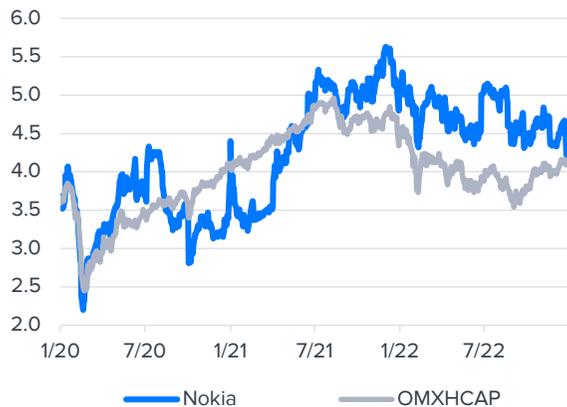
Source: Inderes

Guidance

(New guidance)

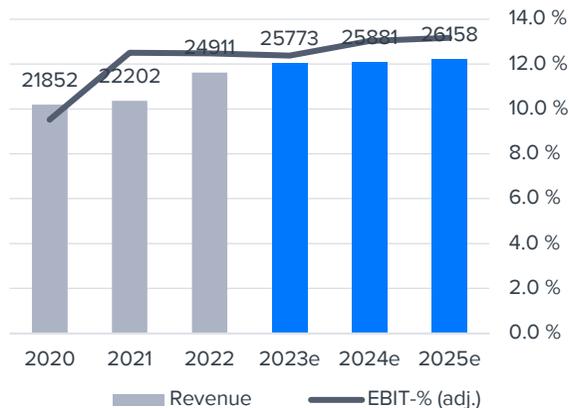
2023: Net sales EUR 24.9-26.5 billion and comparable operating profit 11.5-14.0%

Share price



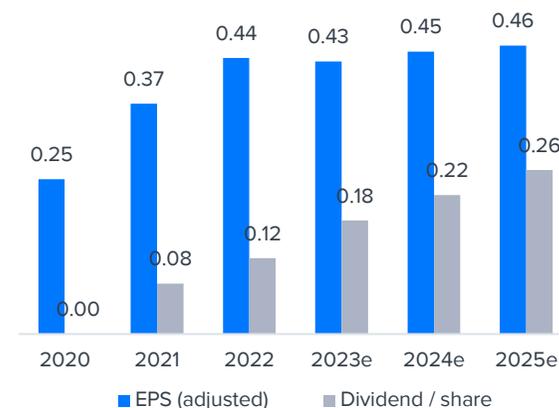
Source: Millstream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- A successful turnaround, which seems to be on a solid footing
- Technology cycle of the market offers a positive boost
- Huawei sanctions open up opportunities
- Strategic value of Nokia's technologies
- Stable cash flows of the Technology unit



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 the Technology Unit

Valuation	2023e	2024e	2025e
Share price	4.38	4.38	4.38
Number of shares, millions	5540.3	5540.3	5540.3
Market cap	24269	24269	24269
EV	21082	19544	18328
P/E (adj.)	10.1	9.8	9.6
P/E	12.0	11.2	10.6
P/FCF	24.6	9.4	9.8
P/B	1.1	1.0	1.0
P/S	0.9	0.9	0.9
EV/Sales	0.8	0.8	0.7
EV/EBITDA	5.6	4.9	4.5
EV/EBIT (adj.)	6.6	5.8	5.3
Payout ratio (%)	49%	56%	63%
Dividend yield-%	4.1%	5.0%	5.9%

Source: Inderes

In 2022, strategy progressed according to the playbook 1/2

Q4 net sales exceeded expectations

Nokia's Q4 net sales increased by 16% (11% in constant currency) to EUR 7.45 billion, while the consensus expectation was EUR 7.2 billion. Growth in constant currency was driven by Network Infrastructure (+14%) and Nokia Technologies (+82%), both of which grew significantly faster than expected. Growth in Mobile Networks (+3%) was calmer than expected. In Cloud and Network Services (+5%), the quarter was broadly in line with our expectations.

Stronger-than-expected net sales also reflected in earnings rows

Nokia's comparable Q4 operating profit was EUR 1,154 million (Q4'21: 909 MEUR), which clearly exceeded our (875 MEUR) and consensus (934 MEUR) estimates. The better-than-expected results in Network Infrastructure and Technology were the reason for the beat. It's also noteworthy that in the Other segment, losses of Nokia's venture fund (mainly due to exchange rate movements) affected

the quarterly result by EUR -90 million, while in the comparison period revenues were ca. EUR 60 million positive.

Nokia also recognized deferred tax assets of EUR 2.5 billion in Q4. This clearly strengthened the reported EPS (Q4'22: 0.56 EUR). Better reflecting the operating result, comparable EPS was EUR 0.16, well above the consensus expectation of EUR 0.13. Nokia's net cash at the end of the year was EUR 4.8 billion and the Board of Directors proposed to increase the dividend per share to EUR 0.12. In total, the dividend amounts to ca. EUR 670 million in euros and Nokia is still in the second half of a EUR 600 million share buyback program. Given the hefty cash position and the continued clearly positive cash-flow generating business, the company's profit distribution could be more generous than it currently is.

Market growth outlook is stable until the end of this decade for Mobile Networks

In Mobile Networks, Q4 net sales (2,960 MEUR) grew

by 3% in constant currency, as did full-year net sales. The major 5G projects launched in India at the end of the year have yet to deliver the scale of revenue we expected, while in North America investment is slowing down after several strong quarters. However, the development was largely in line with Nokia's own expectations. Demand in Europe has also remained strong. This year, Nokia expects the market excluding China to grow by around 5%, driven by India, and the company is targeting faster growth. However, looking to the end of this decade, the growth outlook for the market is stable, with a possible 6G cycle as the next growth driver. In the meantime, the rapid growth of private wireless networks will be buried under the gradually receding 5G cycle and the decline of other older network technologies. However, Nokia has the potential to win market share through both the increased competitiveness of its products and the geopolitical situation.

Estimates MEUR / EUR	Q4'21	Q4'22	Q4'22e	Q4'22e	Consensus		Difference (%)	2022
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Actualized
Revenue	6414	7449	7290	7170	6931	- 7379	2%	24911
EBIT (adj.)	909	1154	875	934	806	- 1117	32%	3109
EBIT	740	882	735	812	697	- 1040	20%	2318
PTP	692	878	720	769	636	- 992	22%	2184
EPS (adj.)	0.13	0.16	0.12	0.13	0.10	- 0.16	29%	0.44
EPS (reported)	0.12	0.56	0.11	0.11	0.09	- 0.15	433%	0.76
DPS	0.08	0.12	0.12	0.11	0.06	- 0.17	0%	0.12
Revenue growth-%	-2.1 %	16.1 %	13.7 %	11.8 %	8.1 %	- 15.1 %	2.5 pp	12.2 %
EBIT-% (adj.)	14.2 %	15.5 %	12.0 %	13.0 %	11.6 %	- 15.1 %	3.5 pp	12.5 %

Source: Inderes & Infront (consensus)

In 2022, strategy progressed according to the playbook 2/2

Reflecting the regional distribution of sales, Q4 profitability (EBIT: 6.8%) deteriorated by 3 percentage points year-on-year, including the gross margin. However, for the full year, the turnaround was in line with the strategy, with a comparable operating profit of 8.8% (2021: 7.9%). For this year, Mobile Networks is targeting an operating profit margin of 7-10%. According to Nokia, due to the large projects in India, the seasonality of profitability will be stronger than in recent years and earnings will be more concentrated towards the end of the year. In the long term, Nokia will continue to target profitability of over 10% in Mobile Networks through, among other things, economies of scale, operational efficiency and cost-competitiveness of products, as well as the maturation of the 5G cycle.

Strong profitability of Network Infrastructure still has room for improvement

In Network Infrastructure, the strong better-than-expected performance continued, with net sales (Q4'22: 2,709 MEUR) growing by 14% in constant currency on top of an already good comparison period. In this area, after years of very strong growth, the market demand outlook remains stable and Nokia's product portfolio is in strong shape. In previous quarters, the clearest growth drivers have been Fixed Networks (Q4'22: and Submarine Networks (+32%), but towards the end of the year Optical Networks (+21%) and IP Networks (+11%) showed a welcome acceleration compared to the beginning of the year.

In particular, growth in highly profitable IP Networks supported Network Infrastructure's already strong EBIT margin (Q4'22: 15.9% vs . Q4'21: 11.0%). For the full year, the unit's operating profit was 12.2% and the

target range for this year is 11-14%. According to Nokia, there is still room for improvement in the current profitability level. In recent years, Submarine Networks has turned the business around from a loss to low single-digit profitability and is aiming for a high single-digit EBIT margin. Also in Optical Networks, profitability is still in the low single digits, but the goal is to achieve a double-digit EBIT margin through growth. For IP Networks, the aim is to maintain the current high double-digit margin and for Fixed Networks to maintain the current mid-teens margin.

In Cloud and Network Services, conscious investments in growth areas weigh on EBIT

In Q4, the performance of Cloud and Network Services was slightly better than we expected, with net sales up 5% and EBIT margin (13.9%) only slightly down year-on-year. The gross margin of the unit (Q4'22: 43.8% vs . Q4'21: 41.8%) indicates that the turnaround is moving in the right direction. However, as in previous quarters, the unit's operating profit is weighed down by increased investments in selected growth areas, such as private wireless networks. The full-year EBIT margin was 5.3% and the target range for 2023 is 5.5-8.5%.

Investing in Enterprise Solutions is well justified at the moment, as net sales in this area grew by as much as 49% in Q4. Overall, enterprise customers accounted for around 8% of Nokia's net sales in 2022. Nokia will continue to target double-digit revenue growth here, and the next milestone is to increase net sales from enterprise customers to 10% of total group net sales.

Nokia Technologies aims to maintain performance at current level

In Nokia Technologies, Nokia did not yet manage to renew the licensing agreements with Oppo and Vivo in the middle of last year, but net sales (Q4'22: 679 MEUR, +82%) still grew strongly. This was due to certain one-off revenues and in particular the exercise of an option under a 10-year agreement signed in 2014 to extend the license period to the end of the life of the patents concerned. This resulted in a net sales of EUR 305 million for Q4 and, adjusted for this, the performance of Nokia Technologies would have been only slightly better than our expectations. The contract also did not yet generate any cash flow in Q4. Regarding the ongoing patent disputes, Nokia again stressed that the company prioritizes securing the value of its IPR over time pressure. However, the assumption is still that the matter will be settled during the course of this year. In January, Nokia signed a new long-term licensing agreement with Samsung and the company is in the process of renewing its mobile phone patents. In its outlook, Nokia expects Nokia Technologies' operating profit to remain broadly stable (2022: EUR 1.2 billion), once the ongoing litigation/re negotiations are concluded. Looking a little further ahead, Nokia is also aiming to maintain a stable operating profit in this area.

Estimates adjusted upwards

Outlook for 2023 was similar to what was expected

In its outlook, Nokia expects 2023 net sales to be in the range of EUR 24.9-26.5 billion (2-8% growth in constant currency) and a comparable EBIT margin of 11.5-14.0%. At the mid-point of the guidance, we end up with a comparable operating profit of around EUR 3.28 billion and our estimate, which remains almost unchanged, is slightly below this.

This year's guidance for free cash flow (20-50% of comparable EBIT) was slightly weak due to working capital growth, but Nokia expects cash flow to strengthen significantly in 2024. Major 5G projects in India and in part the preparation for ongoing supply chain bottlenecks are tying up working capital, but this should start to unwind over the next year.

Our earnings estimates for 2024 were increased mainly due to higher figures for Network

Infrastructure, partly diluted by higher losses in the Other segment.

We now expect Nokia's net sales to grow by 3.5% to EUR 25.8 billion this year and comparable EBIT margin to be 12.4%. For 2024, we forecast almost stable net sales growth and an improvement in margins to 13.0%, driven by Mobile Networks.

In terms of free cash flow, Nokia is targeting a long-term conversion rate of 55-85% of comparable EBIT. At our projected earnings level for 2024-2026 and a cash flow ratio of around 70-77%, Nokia would generate around EUR 2.5-2.6 billion in free cash flow annually.

Estimate revisions	2022	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	24752	24911	1%	25594	25773	1%	25777	25881	0%
EBITDA	3293	3458	5%	3747	3754	0%	3734	3955	6%
EBIT (exc. NRIs)	2829	3109	10%	3183	3190	0%	3182	3371	6%
EBIT	2171	2318	7%	2703	2710	0%	2832	2971	5%
PTP	2026	2184	8%	2588	2715	5%	2717	2901	7%
EPS (excl. NRIs)	0.39	0.44	12%	0.44	0.43	-1%	0.42	0.45	5%
DPS	0.12	0.12	0%	0.18	0.18	0%	0.22	0.22	0%

Source: Inderes

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 have priced each unit separately based on our 2023 estimates. We have also taken into account the cash flow impact of restructuring, net cash and the estimated present value of other businesses and group expenses. We reflect the sum of the parts value that's generated if our forecasts are realized to the current share price to estimate the expected return on the share.

We value Nokia Technologies at 7x-9x EV/EBIT multiple. The value of the unit is thus EUR 8.2-10.5 billion. The growth outlook for Nokia Technologies is modest, but in the medium term, stable cash flows support value.

We value extremely well-performing Network Infrastructure with a 8.0-9.0x EV/EBIT multiple. The value of the unit is thus EUR 9.4-10.5 billion. The unit has grown very strongly in recent years and profitability has already reached a very good level. Thus, in the coming years, it will be even more challenging to generate earnings growth on top of strong comparison periods.

Cloud and Network Services, which are currently still underperforming, are valued at an EV/EBIT multiple of 6.0-8.0x, resulting in a unit value of EUR 1.4-1.9 billion. In addition to weak profitability, the current sluggish growth argues for moderate multiples.

For Mobile Networks, we have assumed a 7.5-9.5x EV/EBIT multiple, making the unit worth EUR 7.5-9.5 billion. Our 2023 estimate for the unit now expects an EBIT margin of 8.2%.

If the unit were to reach its long-term profitability target (>10%), there would be some upside potential in the value. Especially if the improved margin would be achieved through increased net sales.

With these assumptions, the sum of the parts in 2023 will be EUR 30 billion (EUR 5.4 per share), with the range of EUR 27-34 billion (EUR 4.8-6.2 per share). Therefore, if our estimates materialize and the market's confidence is expected to be reflected positively in Nokia's valuation multiples, there would be clear upside potential in the share over the next 12 months. On top of this, quarterly dividends will provide minor additional support to the expected return.

Is Nokia's hefty cash position forever stuck on the balance sheet?

Given Nokia's large net cash position (Q4'22: EUR 4.8 billion) and the continued clearly positive cash-flow generating business, the company's profit distribution could be even more generous than it currently is. However, Nokia commented that its customers expect the company to always be capable of investments and a long-term player, as investments in network technologies are made over a long period of time. In light of this, Nokia would appear to continue to maintain a strong net cash position, which in our view is not an optimal allocation of capital given the business fundamentals. As a result, even EV-based valuation multiples that account for a strong net cash position may give a slightly too rosy picture of Nokia's undervaluation if the strong cash position is forever stuck on Nokia's balance sheet. If Nokia were to decide to distribute its entire free cash flow back to shareholders in the future, this would mean a dividend yield of just over 10% in our 2024-2026 projections.

Sum of the parts in 2023

Technology	Pessimistic	Neutral	Optimistic
Variable: Adj. EBIT 2023e	1.2	1.2	1.2
X valuation multiple	7.0	8.0	9.0
EV	8.2	9.4	10.5
<i>Per share (EUR)</i>	1.5	1.7	1.9

Network Infrastructure	Pessimistic	Neutral	Optimistic
Variable: Adj. EBIT 2023e	1.2	1.2	1.2
X valuation multiple	8.0	8.5	9.0
EV	9.4	9.9	10.5
<i>Per share (EUR)</i>	1.7	1.8	1.9

Cloud and Network services	Pessimistic	Neutral	Optimistic
Variable: Adj. EBIT 2023e	0.2	0.2	0.2
X valuation multiple	6.0	7.0	8.0
EV	1.4	1.7	1.9
<i>Per share (EUR)</i>	0.3	0.3	0.3

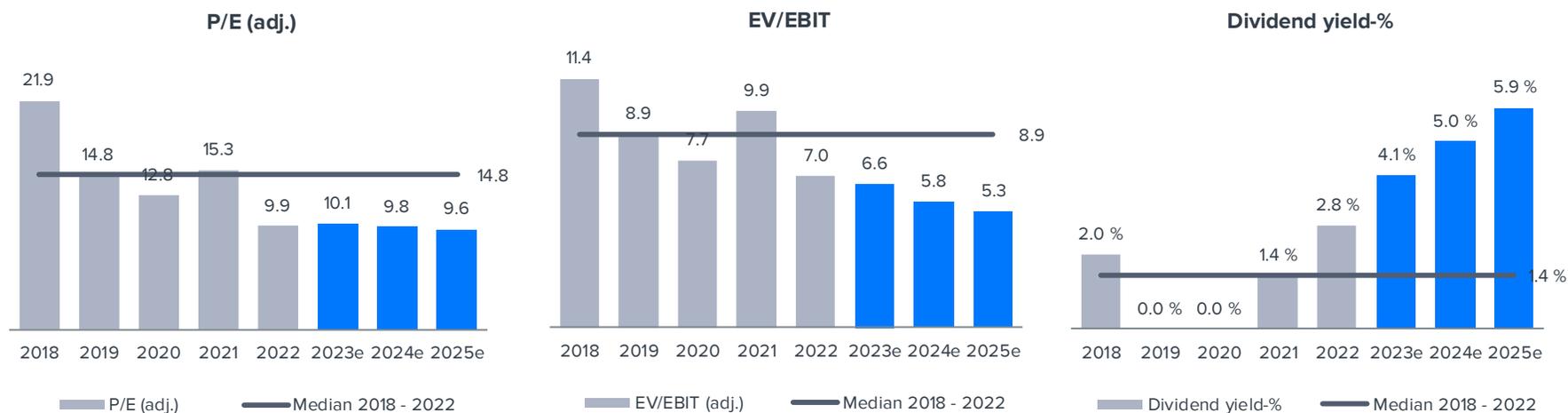
Mobile Networks	Pessimistic	Neutral	Optimistic
Variable: Adj. EBIT 2023e	0.9	0.9	0.9
X valuation multiple	7.5	8.5	9.5
EV	7.0	7.9	8.9
<i>Per share (EUR)</i>	1.3	1.4	1.6

Total	Pessimistic	Neutral	Optimistic
Aggregate EV	26.0	28.9	31.9
Other operating and group costs (NPV)	-3.5	-3.0	-2.0
Net cash at the end of 2022	4.8	4.8	4.8
Costs for restructuring	-0.7	-0.6	-0.5
Sum of the parts total	27	30	34
<i>Per share (EUR)</i>	4.8	5.4	6.2

Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	5.03	3.30	3.15	5.57	4.33	4.38	4.38	4.38	4.38
Number of shares, millions	5593	5606	5617	5629	5590	5540	5540	5540	5540
Market cap	28133	18476	17701	31378	24189	24269	24269	24269	24269
EV	24912	17799	15938	27543	21648	21082	19544	18328	17325
P/E (adj.)	21.9	14.8	12.8	15.3	9.9	10.1	9.8	9.6	9.3
P/E	neg.	>100	neg.	19.3	5.7	12.0	11.2	10.6	9.8
P/FCF	neg.	neg.	11.1	neg.	neg.	24.6	9.4	9.8	9.8
P/B	1.8	1.2	1.4	1.8	1.1	1.1	1.0	1.0	0.9
P/S	1.2	0.8	0.8	1.4	1.0	0.9	0.9	0.9	0.9
EV/Sales	1.1	0.8	0.7	1.2	0.9	0.8	0.8	0.7	0.7
EV/EBITDA	17.9	8.3	7.9	8.5	6.3	5.6	4.9	4.5	4.3
EV/EBIT (adj.)	11.4	8.9	7.7	9.9	7.0	6.6	5.8	5.3	4.9
Payout ratio (%)	neg.	0.0 %	0.0 %	27.7 %	15.8 %	49.2 %	56.2 %	62.6 %	63.0 %
Dividend yield-%	2.0 %	0.0 %	0.0 %	1.4 %	2.8 %	4.1 %	5.0 %	5.9 %	6.4 %

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	134872	143219	11.4	9.7	10.2	8.9	3.9	3.5	12.8	10.9	2.3	2.4	6.7
Ciena	6805	6784	13.8	10.6	11.6	9.1	1.7	1.6	19.1	14.0			2.6
Cisco	180793	170790	10.5	9.8	9.6	9.1	3.4	3.3	13.5	12.5	3.2	3.3	4.4
Juniper Networks	9520	10000	11.4	10.2	9.4	9.0	1.9	1.8	14.1	12.5	2.7	2.8	2.2
Motorola	39656	44417	18.8	17.1	16.7	15.3	5.1	4.8	23.1	20.6	1.3	1.1	60.3
ZTE	16488	16971	11.5	10.3	8.2	7.6	0.9	0.8	8.4	7.7	2.2	2.6	1.2
Ericsson	17803	17233	6.7	5.7	5.0	4.4	0.7	0.7	8.8	7.7	4.7	5.0	1.4
Amdocs	10073	9958	12.6	11.8	10.3	9.7	2.2	2.1	15.6	13.9	1.8	1.9	3.0
CommScope	1498	10178	9.0	8.1	7.7	6.9	1.2	1.1	3.6	3.0			
Oracle	221689	298763	15.7	14.5	13.3	12.0	6.5	6.1	18.3	16.1	1.4	1.5	
Viavi	2319	2488	14.2	10.9	11.8	9.8	2.4	2.2	18.6	13.8			4.0
Nokia (Inderes)	24269	21082	6.6	5.8	5.6	4.9	0.8	0.8	10.1	9.8	4.1	5.0	1.1
Average			12.3	10.8	10.3	9.3	2.7	2.5	14.2	12.0	2.4	2.6	9.5
Median			11.5	10.3	10.2	9.1	2.2	2.1	14.1	12.5	2.3	2.5	3.0
Diff-% to median			-42%	-44%	-45%	-45%	-63%	-64%	-28%	-22%	81%	100%	-64%

Source: Refinitiv / Inderes. NB: The market cap Inderes uses does not consider own shares held by the company.

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	22202	5348	5872	6242	7449	24911	5817	6332	6387	7236	25773	25881	26158	26439
Mobile Networks	9717	2268	2592	2851	2960	10671	2586	2800	2908	3019	11313	11426	11541	11656
Network Infrastructure	7674	1974	2153	2211	2709	9047	2092	2175	2233	2709	9209	9209	9301	9394
Nokia Technologies	1502	306	305	305	679	1595	320	520	360	355	1555	1446	1446	1446
Cloud and Network Services	3089	736	754	801	1060	3351	758	776	825	1092	3451	3554	3625	3698
Other	257	76	76	84	59	295	70	70	70	70	280	280	280	280
One-off items / non-IFRS adjustments	-37	-12	-8	-10	-18	-48	-9	-9	-9	-9	-35	-35	-35	-35
EBITDA	3253	628	847	806	1178	3458	656	987	917	1195	3754	3955	4088	4021
Depreciation	-1095	-274	-282	-288	-296	-1140	-261	-261	-261	-261	-1044	-985	-945	-685
EBIT (excl. NRI)	2775	583	714	658	1155	3109	515	846	776	1054	3190	3371	3443	3537
EBIT	2158	354	565	518	882	2318	395	726	656	934	2710	2971	3143	3337
Mobile Networks	765	171	291	277	201	940	109	210	276	338	933	1074	1108	1142
Network Infrastructure	784	195	247	228	432	1102	241	274	270	385	1170	1179	1191	1202
Nokia Technologies	1185	220	217	207	564	1208	224	419	269	259	1171	1157	1157	1157
Cloud and Network Services	166	20	-6	16	147	177	23	23	41	153	240	281	308	355
Other	-125	-23	-36	-71	-189	-318	-81	-81	-81	-81	-324	-320	-320	-320
One-off items / non-IFRS adjustments	-617	-229	-149	-140	-273	-791	-120	-120	-120	-120	-480	-400	-300	-200
Net financial items	-241	-72	-18	12	-30	-108	0	0	0	0	0	-75	-75	-50
PTP	1926	256	541	509	878	2184	396	727	657	935	2715	2901	3073	3292
Taxes	-272	-79	-74	-93	2271	2026	-99	-182	-164	-234	-679	-724	-767	-822
Minority interest	-22	-7	-3	-1	2	-9	-2	-2	-2	-2	-8	-6	-6	-6
Net earnings	1623	212	457	427	3154	4250	295	543	491	699	2028	2171	2300	2464
EPS (adj.)	0.37	0.07	0.10	0.10	0.17	0.44	0.07	0.11	0.10	0.14	0.43	0.45	0.46	0.47
EPS (rep.)	0.29	0.04	0.08	0.08	0.56	0.76	0.05	0.10	0.09	0.13	0.37	0.39	0.42	0.44

Key figures	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	1.6 %	5.4 %	10.5 %	15.6 %	16.1 %	12.2 %	8.8 %	7.8 %	2.3 %	-2.9 %	3.5 %	0.4 %	1.1 %	1.1 %
Adjusted EBIT growth-%	33.4 %	5.8 %	4.5 %	3.9 %	27.1 %	12.0 %	-11.7 %	18.5 %	18.0 %	-8.8 %	2.6 %	5.7 %	2.2 %	2.7 %
EBITDA-%	14.7 %	11.7 %	14.4 %	12.9 %	15.8 %	13.9 %	11.3 %	15.6 %	14.4 %	16.5 %	14.6 %	15.3 %	15.6 %	15.2 %
Adjusted EBIT-%	12.5 %	10.9 %	12.2 %	10.5 %	15.5 %	12.5 %	8.9 %	13.4 %	12.1 %	14.6 %	12.4 %	13.0 %	13.2 %	13.4 %
Net earnings-%	7.3 %	4.0 %	7.8 %	6.8 %	42.3 %	17.1 %	5.1 %	8.6 %	7.7 %	9.7 %	7.9 %	8.4 %	8.8 %	9.3 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	22174	23886	23425	22879	22354
Goodwill	5431	5667	5667	5667	5667
Intangible assets	3342	2472	2101	1740	1355
Tangible assets	2808	2944	2854	2669	2528
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	21855	21766	21711
Inventories	2392	3265	3557	3364	3348
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	7601	7839	9020	9084	9208
Cash and equivalents	9604	9162	9278	9317	9155
Balance sheet total	40049	42943	44138	43664	43265

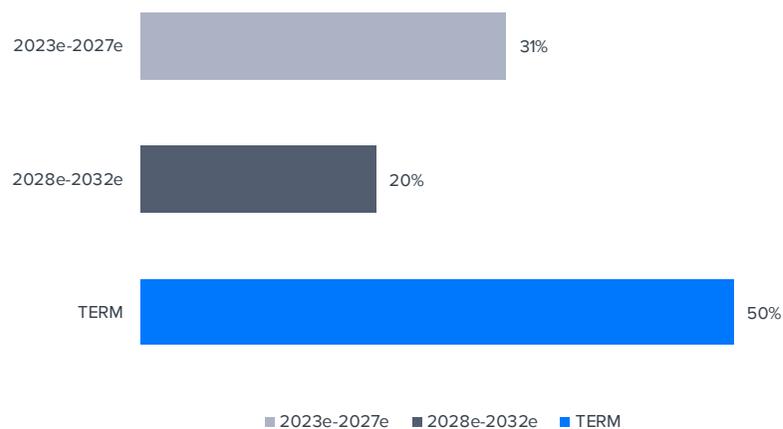
Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	17462	21426	22783	23957	25038
Share capital	246	246	246	246	246
Retained earnings	-2537	1375	2732	3906	4987
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	8983	7662	6432
Deferred tax liabilities	282	332	332	332	332
Provisions	1569	1435	1200	1000	800
Long term debt	5361	5107	4769	3648	2618
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	4198	2682	2682	2682	2682
Current liabilities	11177	11961	12372	12045	11794
Short term debt	301	1450	1290	916	573
Payables	10876	10511	11082	11129	11222
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	40049	42943	44138	43664	43265

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	12.2 %	3.5 %	0.4 %	1.1%	1.1%	1.5 %	1.5 %	1.5 %	1.5 %	1.5 %	1.5 %	1.5 %
EBIT-%	9.3 %	10.5 %	11.5 %	12.0 %	12.6 %	11.5 %	11.0 %	10.5 %	10.0 %	10.0 %	9.5 %	9.5 %
EBIT (operating profit)	2318	2710	2971	3143	3337	3086	2996	2903	2806	2848	2746	
+ Depreciation	1140	1044	985	945	685	662	645	633	623	617	612	
- Paid taxes	-486	-679	-724	-767	-822	-759	-737	-703	-680	-693	-667	
- Tax, financial expenses	-27	0	-19	-19	-13	-13	-13	-23	-21	-20	-20	
+ Tax, financial income	0	0	0	0	0	0	0	0	0	0	0	
- Change in working capital	-1476	-902	175	-14	91	-19	-73	-75	-77	-51	-52	
Operating cash flow	1469	2173	3388	3288	3278	2958	2819	2735	2651	2702	2619	
+ Change in other long-term liabilities	-1650	-235	-200	-200	-200	-200	-200	-200	0	0	0	
- Gross CAPEX	-847	-650	-600	-600	-600	-600	-600	-600	-600	-600	-610	
Free operating cash flow	-1028	1288	2588	2488	2478	2158	2019	1935	2051	2102	2009	
+/- Other	49	-300	0	0	0	0	0	0	0	0	0	
FCFF	-979	988	2588	2488	2478	2158	2019	1935	2051	2102	2009	30015
Discounted FCFF		918	2219	1970	1812	1457	1259	1114	1090	1032	911	13606
Sum of FCFF present value		27389	26471	24252	22282	20469	19012	17753	16640	15549	14517	13606
Enterprise value DCF		27389										
- Interesting bearing debt		-6557										
+ Cash and cash equivalents		9162										
-Minorities		-99										
-Dividend/capital return		0										
Equity value DCF		29962										
Equity value DCF per share		5.4										

Cash flow distribution



Wacc

Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	0.0 %
Cost of debt	3.5 %
Equity Beta	1.2
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	8.3 %
Weighted average cost of capital (WACC)	8.3 %

Source: Inderes

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	21852	22202	24911	25773	25881	EPS (reported)	-0.45	0.29	0.76	0.37	0.39
EBITDA	2017	3253	3458	3754	3955	EPS (adj.)	0.25	0.37	0.44	0.43	0.45
EBIT	885	2158	2318	2710	2971	OCF / share	0.38	0.73	0.26	0.39	0.61
PTP	743	1926	2184	2715	2901	FCF / share	0.28	-0.16	-0.18	0.18	0.47
Net Income	-2523	1623	4250	2028	2171	Book value / share	2.22	3.08	3.82	4.10	4.31
Extraordinary items	-1196	-617	-791	-480	-400	Dividend / share	0.00	0.08	0.12	0.18	0.22
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	36191	40049	42943	44138	43664	Revenue growth-%	-6%	2%	12%	3%	0%
Equity capital	12545	17462	21426	22783	23957	EBITDA growth-%	-6%	61%	6%	9%	5%
Goodwill	5074	5431	5667	5667	5667	EBIT (adj.) growth-%	4%	33%	12%	3%	6%
Net debt	-1789	-3942	-2605	-3220	-4753	EPS (adj.) growth-%	10%	49%	20%	-1%	4%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	9.2 %	14.7 %	13.9 %	14.6 %	15.3 %
EBITDA	2017	3253	3458	3754	3955	EBIT (adj.)-%	9.5 %	12.5 %	12.5 %	12.4 %	13.0 %
Change in working capital	225	608	-1476	-902	175	EBIT-%	4.0 %	9.7 %	9.3 %	10.5 %	11.5 %
Operating cash flow	2118	4127	1469	2173	3388	ROE-%	-18.2 %	10.9 %	22.0 %	9.2 %	9.3 %
CAPEX	-22	-4111	-847	-650	-600	ROI-%	4.6 %	10.3 %	9.0 %	9.6 %	10.4 %
Free cash flow	1599	-911	-979	988	2588	Equity ratio	34.7 %	43.6 %	49.9 %	51.6 %	54.9 %
						Gearing	-14.3 %	-22.6 %	-12.2 %	-14.1 %	-19.8 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	0.7	1.2	0.9	0.8	0.8						
EV/EBITDA (adj.)	7.9	8.5	6.3	5.6	4.9						
EV/EBIT (adj.)	7.7	9.9	7.0	6.6	5.8						
P/E (adj.)	12.8	15.3	9.9	10.1	9.8						
P/E	1.4	1.8	1.1	1.1	1.0						
Dividend-%	0.0 %	1.4 %	2.8 %	4.1 %	5.0 %						

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Recommendation history (>12 mo)

Date	Recommendation	Target price	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 €



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