

Fortum

Company report

11/3/2023



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This report is a summary translation of the report “Hyvää tulosta vesivoimalla” published on 11/3/2023 at 6:50 am EET.

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Good results with hydropower

We reiterate our Buy recommendation for Fortum but lower our target price to EUR 14.0 (earlier EUR 15.0). Q3 results exceeded our expectations, but a sharp decline in electricity futures (over 20%) weighed on earnings forecasts for the coming years (around -15%) despite the company's operationally good performance. Still, Fortum is able to maintain a good earnings level especially with hydropower, and as society becomes more electrified, we believe the demand outlook supports even higher electricity prices in the future. We believe the stock is cheap (2024e P/E 11x) and underpriced also relative to peers.

Q3 result well above our expectations

Fortum's Generation segment posted a strong result in Q3 (-80% y-o-y), in line with the electricity price development. Generation's comparable EBIT was EUR 264 million, well above our forecast (206 MEUR), due to the significantly higher electricity price achieved (EUR 51.2/MWh vs. forecast ~EUR 45/MWh). We estimate that on one hand this was due to a higher hedge price in Q3 (reflected negatively in the Q4 hedge price) and on the other one, due to excellent physical optimization. Outside the core activities, Consumer Solutions posted a weaker-than-expected Q3 result, and Other Operations posted a much larger-than-expected operating loss. Adjusted EPS landed at EUR 0.18, compared to our forecast of EUR 0.15. Cash flow was good in Q3, and the balance sheet is very strong, supporting profit distribution in the coming years, as investment opportunities are limited.

Lots of positives in the outlook; decline in electricity futures still weighed on near-term earnings forecasts

Fortum's outlook had an exceptionally high number of moving parts. For hedges in the Generation segment, 2024 (~65% at EUR 47/MWh) was slightly positive, but 2025 (~30% at EUR 43/MWh) missed our expectations. The company significantly increased its estimate of the optimization margin to EUR 6-8/MWh (was EUR 1-3/MWh) in the present market, which was positive news for many and also gave us confidence in our forecasts. In addition, Fortum lowered its estimate for capex in the coming years (which we think was reasonable), the near-term tax rate (which slightly supported the forecasts) and launched a EUR 100 million efficiency program, which also had a positive impact on the forecasts for the coming years. Although most of the new information was positive, forecasts for the coming years still went down sharply due to the sharp fall in electricity futures. At the time of our pre-comment, futures for 2024-2027 were still at around EUR 45/MWh, which already represented a decrease of around 20% for 2024 and 2025 from the previous update. On the Q3 results day, futures for the next few years had fallen further and were now at EUR 41/MWh (2024-2025). Taking all of the above into account, our EPS forecasts for the coming years came down by 3-10%.

Cheap Nordic hydropower

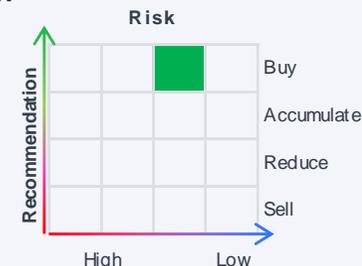
Despite the collapse in electricity prices, Fortum's core business is making good profit and cash flow. In our opinion, especially considering Fortum's hydropower, the current market cap of around EUR 11 billion is low, as the need for flexible energy and profitability will only increase in the future. Valuation multiples are very moderate despite the forecast changes, as the adjusted P/E of the stock is around 10-11x with forecasts for the next few years and EV/EBITDA multiples are only around 6x due to low net financial debt. Even though the sector is priced moderately in the current situation, but Fortum's multiples are still around 15% below its peers. We do not believe this is justified in the current situation, and we expect the undervaluation to disappear over time. In the meantime, we estimate that investors can enjoy a dividend yield of more than 8%, which significantly raises the total expected return.

Recommendation

Buy
(previous Buy)

EUR 14.00
(previous EUR 15.00)

Share price:
12.07



Key figures

	2022	2023e	2024e	2025e
Revenue	7754	6555	5764	5840
growth-%	21%	-15%	-12%	1%
EBIT adj.	1611	1595	1321	1326
EBIT-% adj.	20.8 %	24.3 %	22.9 %	22.7 %
Net Income	2080	1410	1010	1066
EPS (adj.)	2.00	1.46	1.13	1.19

P/E (adj.)	7.8	8.3	10.7	10.2
P/B	1.8	1.1	1.1	1.1
Dividend yield-%	5.9 %	8.3 %	8.3 %	8.3 %
EV/EBIT (adj.)	10.3	6.8	7.8	7.9
EV/EBITDA	7.0	5.3	6.2	6.3
EV/S	2.1	1.7	1.8	1.8

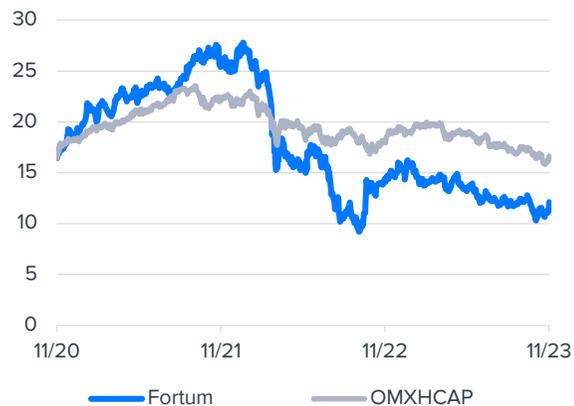
Source: Inderes

Guidance

(Adjusted)

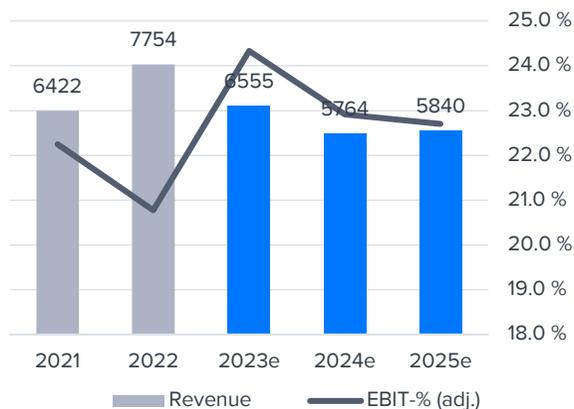
The Generation segment's Nordic outright generation hedges: approximately 75% hedged at EUR 50 per MWh for the remainder of 2023, approximately 65% at EUR 47 per MWh for 2024, and approximately 30% at EUR 43 per MWh for 2025.

Share price



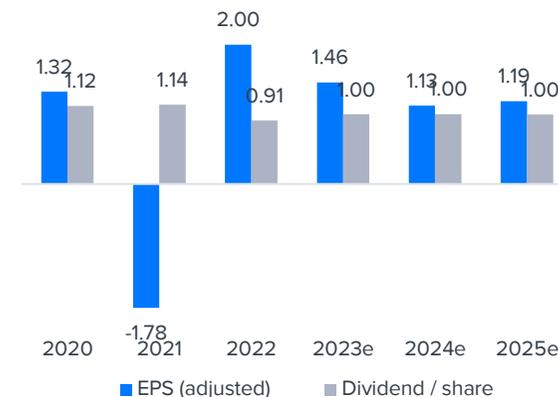
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

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



Risk factors

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

Valuation	2023e	2024e	2025e
Share price	12.1	12.1	12.1
Number of shares, millions	897.3	897.3	897.3
Market cap	10825	10825	10825
EV	10877	10353	10413
P/E (adj.)	8.3	10.7	10.2
P/E	7.7	10.7	10.2
P/B	1.1	1.1	1.1
P/S	1.7	1.9	1.9
EV/Sales	1.7	1.8	1.8
EV/EBITDA	5.3	6.2	6.3
EV/EBIT (adj.)	6.8	7.8	7.9
Payout ratio (%)	63.6 %	89.0 %	84.0 %
Dividend yield-%	8.3 %	8.3 %	8.3 %

Source: Inderes

Q3 result well above our expectations

The Generation segment continued its very strong performance under the circumstances

Fortum's core business, Generation, delivered a strong Q3 result given the circumstances and clearly exceeded our expectations. Generation's comparable EBIT was EUR 264 million, with the segment achieving an electricity price of EUR 51.2/MWh in the Nordic countries (Q3'22: EUR 63.9/MWh). This clearly beat our forecast of ~45 EUR /MWh after the spot electricity price in Q3 fell by around 80% year-on-year in Fortum's relevant regions. We also estimate that the price level achieved will make Olkiluoto 3 nuclear power plant (OL3) financially viable. Fortum's generation is otherwise very cost-effective, as the variable costs of hydropower are zero and the other nuclear units (Loviisa and OL1 and OL2) have a very low cost price.

We believe that the high achieved price and the deviation were driven by higher-than-expected hedge prices for Q3 in particular, which on the other hand was negatively reflected in our Q4 forecasts (more higher prices were "consumed" in Q3). In addition, physical optimization was again at an excellent level, providing support. Volumes were

broadly in line with expectations and hydropower production rose 29% from a weak comparison period. We expected an adjusted EBIT of EUR 206 million for the segment, so our forecast was heftily beat.

No cause for celebration outside the core

Consumer Solutions' comparable EBIT in Q3 was still weak at EUR 10 million, but in line with our forecast (11 MEUR). Margins on electricity sales decreased as customers switched to lower margin spot products, especially in Sweden and Norway, and the price cap imposed by the Polish government on end-users continued to have a negative impact.

The Other Operations segment made a comparable operating loss of EUR 46 million in Q3, missing our forecast of EUR -30 million clearly. According to the company, the year-on-year decline (Q3'22: -20 MEUR) was mainly due to the deterioration of the Circular Solutions business unit's results (especially Recycling & Waste), the write-downs of certain IT projects and new business model development costs, as well as the increase in group costs. The savings measures published by the company are needed in this segment.

Cash flow rolls home and further strengthens the balance sheet

Cash flow from operating activities in Q3 was a very good EUR 429 million compared to the result and margin receivables decreased again nicely in the period, which was expected. The change in liquid assets was EUR 386 million in Q3, meaning that money flowed nicely in the company's direction even in a seasonally weak quarter.

Thanks to the very strong cash flow in the first half of the year, Fortum's liquid assets amounted to EUR 4,552 million at the end of Q3 and the liquidity situation is excellent. At the same time, interest-bearing debt amounted to EUR 5,918 million, and net financial debt was very moderate at EUR 474 million. Net financial debt relative to comparable EBITDA was only 0.2x in Q3, while the target level is around 2.0-2.5x. In fact, the balance sheet has an unusually large "buffer" while Fortum lowered its plans for growth investments in the coming years. This already raises questions about whether Fortum is already too cautious after last year's liquidity problems. However, the situation is positive as regards profit distribution.

Estimates MEUR / EUR	Q3'22	Q3'23	Q3'23e	Q3'23e	Consensus		Difference (%)	2023e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. Inderes	Inderes
Revenue	1890	1221	1304	1312	952	- 1672	-6%	6555
Comparable EBITDA	454	318	276	305	274	- 454	15%	1926
Comparable EBIT	354	226	186	210	171	- 354	21%	1595
EPS (adj.)	0.32	0.18	0.14	0.15	0.12	- 0.31	26%	1.46
Revenue growth-%	-	-35.4 %	-31.0 %	-30.6 %	-49.6 %	- -11.5 %	-4.4 pp	-15.5 %
Comparable EBIT%	18.7 %	18.5 %	14.3 %	16.0 %	18.0 %	- 21.2 %	4.2 pp	24.3 %

Source: Inderes & Vara Research (10/30/2023) (median figures)

Exceptionally high number of moving parts in the outlook

Exceptionally, lots of new in outlook

Fortum's financial outlook is usually mostly limited to hedges in the Generation segment, but this time there were several other updates. In addition to information on hedges, the company significantly increased its estimate of the optimization margin, lowered its estimate of growth investments for the coming years, lowered its estimate of the near-term tax rate and launched a EUR 100 million efficiency program. There were an exceptionally large number of moving parts, and although most of these were positive, forecasts for the coming years were still down sharply due to the sharp fall in electricity futures.

2025 hedge prices were disappointing

The Generation segment's Nordic outright generation hedges were approximately 75% hedged at EUR 50 per MWh for the remainder of 2023, approximately 65% at EUR 47 per MWh for 2024, and approximately 30% at EUR 43 per MWh for 2025. Of these, the 2023 hedge price was a mild disappointment, with only a seasonally good Q4 remaining. However, this was offset by a stronger-than-expected Q3 result, on which high hedges were presumably consumed. Our estimates for 2023 were

largely unchanged.

For 2024, the hedge price was a mild positive surprise, as we expected a stable or slightly negative development (Q2'23: EUR 46/MWh) but the hedge rate increased. By contrast, 2025 was a clear disappointment, as we had calculated a hedge price of around EUR 50/MWh, expecting steady growth. The company said it was unable to take advantage of last year's price spike in hedges due to the company's liquidity challenges at the time, which explains the issue.

Estimate of the optimization margin was encouraging

Fortum updates its estimate of the optimization margin included in the achieved electricity price and expects it to be EUR 6-8/MWh in the current market environment. Previously, the estimate was only EUR 1-3/MWh, which has been severely underestimated in recent years due to market volatility. In last year's exceptional market, the premium was double-digit, but the company expects the current estimate to be realistic in the longer term. In our own estimates, Fortum's premium was in this range, but the company's estimate gave us additional confidence about our projections. The investment story that we

have outlined has long been based on the assumption that the company can achieve a significantly higher sales price, especially through hydropower, as indicated, e.g., by the futures market.

In addition, Fortum updated its estimate of the comparable effective income tax rate and expects it to be 18-20% in 2023 (was 20-23%) and 18-20% in 2024 (was 19-21%). This had a small positive impact on the bottom line in our forecasts.

EUR 100 million savings in the coming years

Fortum also announced that it will launch an efficiency program with the aim of gradually reducing annual fixed costs by EUR 100 million by the end of 2025. The benchmark is the cost level in 2022, when the company's fixed costs were around EUR 1 billion. Thus, this means a reduction of around 10%, which can be considered a significant reduction in fixed costs. The program was not a surprise *per se*, as Fortum's size has been shrinking in recent years, first with the exit of Uniper and then the Russian operations. In addition, the company has made significant divestments, including in the former City Solutions segment. Given this, the program is very logical.

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
	Old	New		Old	New		Old	New	
MEUR / EUR			%			%			%
Revenue	6791	6555	-3%	6570	5764	-12%	6600	5840	-12%
EBITDA	2014	2041	1%	1917	1659	-13%	1870	1663	-11%
EBIT (exc. NRIs)	1601	1595	0%	1577	1321	-16%	1519	1326	-13%
EBIT	1677	1696	1%	1577	1321	-16%	1519	1326	-13%
PTP	1402	1504	7%	1435	1261	-12%	1405	1331	-5%
EPS (excl. NRIs)	1.39	1.46	5%	1.25	1.13	-10%	1.22	1.19	-3%
DPS	1.01	1.00	-1%	1.02	1.00	-2%	1.02	1.00	-3%

Electricity futures decline is reflected in forecasts for the coming years

We had outlined a moderate decline in fixed costs in the coming years, although these would normally increase in line with inflation. The EUR 100 MEUR efficiency program was still a positive surprise, although the full impact will only be felt in 2026 and the improvement will be gradual. All in all, the program had a positive impact on our estimates, but so far it was moderate. Cost inflation will eat into a fair share of savings in the coming years.

Growth investments cut

Fortum expects investments excluding acquisitions to be around EUR 650 million (previously 700 MEUR) in 2023 and around EUR 550 million in 2024. This estimate includes annual maintenance investments, which the company estimates to be around EUR 300 million, i.e., below the level of depreciation. The guidance for growth investments was also updated and capex is estimated to be up to EUR 1 billion between 2023 and 2025 (previously up to 1.5 BEUR). We believe Fortum's investment discipline is prudent in a situation where the outlook for the electricity

market has temporarily weakened in line with the economic outlook and the cost of capital has generally risen in line with interest rates.

Net financial expenses down

Fortum reported that the average interest rate on its interest-bearing debt (5.8 BEUR) is 4.3%, which was no surprise. In contrast, our forecasts were positively influenced by the fact that the company reported an average interest rate of 3.8% on its liquid assets (4.6 BEUR). This was surprisingly high and means that the company's net financial expenses should be around EUR 80 million (taking into account other financial expenses) on an annual basis, which had a positive impact on our forecasts for financial expenses.

The significant fall in electricity futures outweighs the several positive factors

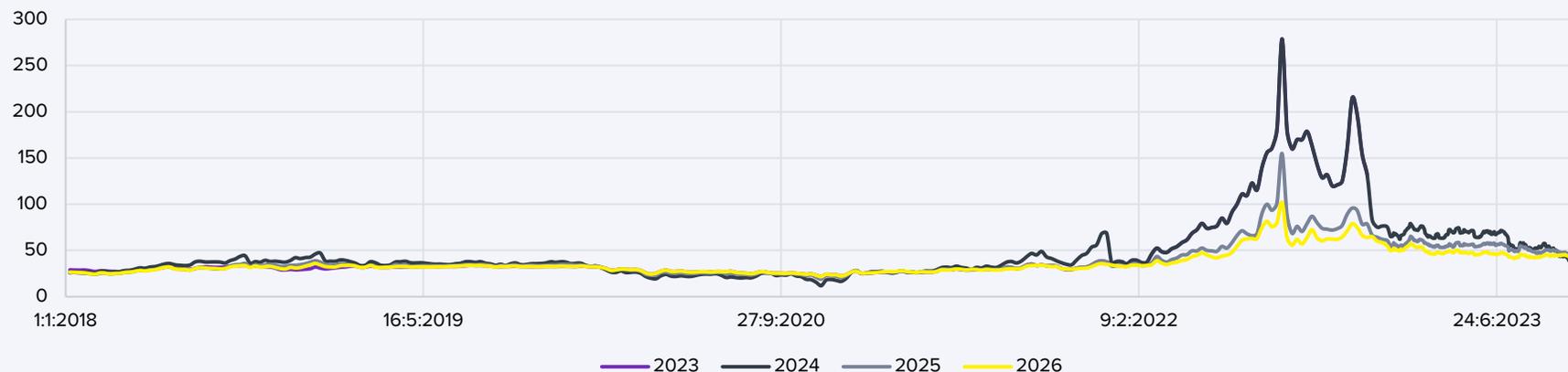
Above, we have listed several positive factors related to Fortum's earnings forecasts, but the company's main earnings driver, the price of electricity, has developed very negatively. At the time of our pre-

comment, futures for 2024-2027 were still at around EUR 45/MWh, which already represented a decrease of around 20% for 2024 and 2025 from the previous update. The decline continued and, on the results day, futures for the next few years were at EUR 41/MWh (2024/2025), putting significant additional pressure on earnings forecasts for the next few years, offsetting the above positive factors. We use futures in our model as an estimate of the market price. At the same time, we note that we estimate that the price level of EUR 40/MWh is already beginning to significantly constrain investment. As electrification progresses and demand grows, we could imagine that the price of electricity will slowly start to find support levels. A reversal of the trend would be a significant opportunity for earnings forecasts.

Ultimately, our forecasts for 2024-2025 went down by around 10-15% for the operating result. However, the decline was more modest (3-10%) for EPS, as lower net financial expenses and taxes partially offset the impact of lower electricity prices.

Development of electricity futures (EUR /MWh)

Source: Bloomberg



Cheap Nordic hydropower

Valuable core in hydro- and nuclear power

In our view, the current market cap of the Fortum's Nordic hydro and nuclear assets of around EUR 11 billion is still very low. The value of Fortum's hydropower as flexible power will continue to increase as the effects of wind energy in particular on the electricity market will increase in the future. As a result, fluctuations in electricity prices will continue to intensify, with the prices sometimes being negative and sometimes high. About 1/3 of Fortum's hydropower is highly flexible, 1/3 relatively flexible and 1/3 poorly flexible (run-of-river). Through physical optimization, hydropower will produce earnings, even if the price of electricity is low in general.

The entire sector is priced very moderately at the moment, which is understandable as Europe just wrestled with the energy crisis. However, Fortum's current valuation also includes a clear discount to peers, which we do not find justified as the company has exited Russia. In theory, it is possible that Fortum may at some point be compensated through the EU for the loss of the Russian business, but we would not count on this ourselves. This is a free option for the investor.

Valuation multiples are low

Fortum's 2023e adjusted P/E is around 8x, which can be considered attractive despite the expected decline in earnings next year. With our estimates for 2024, P/E is around 11x, which is still very moderate. After that, we expect the result to turn slightly upwards again, but this will of course depend very much on developments in the electricity market. Eventually, electrification should proceed in the Nordic countries, which would increase demand for electricity and

change the current market balance in favor of electricity producers (i.e. electricity prices would rise).

With EV multiples, we think Fortum is very attractively priced. EV/EBITDA multiples are around 6x and EV/EBIT multiples around 8x for the coming years, with cash flows expected to remain strong. Fortum's balance sheet is already very strong, which supports the dividend forecasts for the coming years. According to the company's dividend policy, the payout ratio is 60-90% of comparable EPS, and in the coming years we estimate that the company could pay a dividend of EUR 1 just within the policy range. The challenge in our projections is mainly the year 2024, when we project the dividend payout ratio to be 89% (2024e EPS EUR 1.13). We forecast a dividend yield of around 8.3%, which we find very attractive.

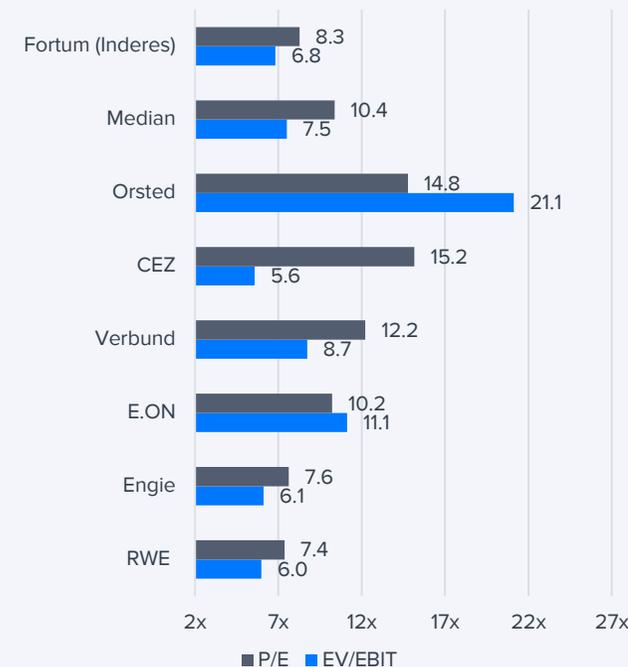
Big picture unchanged

In our view, Fortum has returned to being a creditworthy Nordic energy company with 43% of its generation from high-value hydropower and 53% from high-value nuclear (2022 figures) in Finland and Sweden. Without Russia, we think Fortum's profile is attractive, although it may take time to repair the company's reputation. Fortum is currently priced at a discount of around 15% compared to the peer group, which we do not consider justified. We expect the discount to disappear as confidence in Fortum and its prospects returns. In the meantime, shareholders can enjoy a solid dividend yield. We reiterate our Buy recommendation but lower our target price to EUR 14.0 (previously EUR 15.0), reflecting the lowered estimates for the coming years. Still, the overall expected return is very high, and the risk/return ratio is attractive.

Valuation	2023e	2024e	2025e
Share price	12.1	12.1	12.1
Number of shares, millions	897.3	897.3	897.3
Market cap	10825	10825	10825
EV	10877	10353	10413
P/E (adj.)	8.3	10.7	10.2
P/E	7.7	10.7	10.2
P/B	1.1	1.1	1.1
P/S	1.7	1.9	1.9
EV/Sales	1.7	1.8	1.8
EV/EBITDA	5.3	6.2	6.3
EV/EBIT (adj.)	6.8	7.8	7.9
Payout ratio (%)	63.6 %	89.0 %	84.0 %
Dividend yield-%	8.3 %	8.3 %	8.3 %

Source: Inderes

Peer group valuation multiples (2023e)

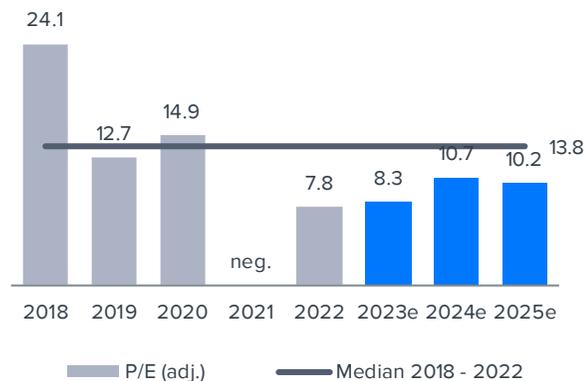


Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	19.1	22.0	19.7	27.0	15.5	12.1	12.1	12.1	12.1
Number of shares, millions	888.4	888.3	888.4	888.3	897.3	897.3	897.3	897.3	897.3
Market cap	16968	19542	17501	23975	13943	10825	10825	10825	10825
EV	16805	18665	25567	32676	16661	10877	10353	10413	10493
P/E (adj.)	24.1	12.7	14.9	neg.	7.8	8.3	10.7	10.2	9.4
P/E	20.1	13.2	12.0	32.4	6.7	7.7	10.7	10.2	9.4
P/B	1.4	1.5	1.4	2.0	1.8	1.1	1.1	1.1	1.1
P/S	3.2	3.6	3.9	3.7	1.8	1.7	1.9	1.9	1.8
EV/Sales	3.2	3.4	5.7	5.1	2.1	1.7	1.8	1.8	1.8
EV/EBITDA	10.0	11.0	11.0	6.7	7.0	5.3	6.2	6.3	5.9
EV/EBIT (adj.)	17.0	15.7	26.1	22.9	10.3	6.8	7.8	7.9	7.3
Payout ratio (%)	115.9 %	66.0 %	68.1%	137.0 %	39.3 %	63.6 %	89.0 %	84.0 %	77.0 %
Dividend yield-%	5.8 %	5.0 %	5.7 %	4.2 %	5.9 %	8.3 %	8.3 %	8.3 %	8.2 %

Source: Inderes

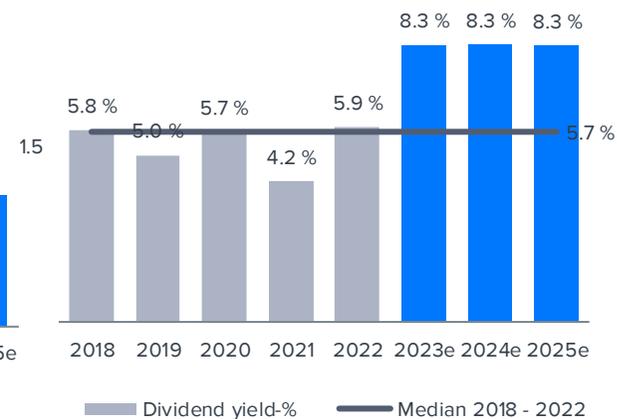
P/E (adj.)



P/B



Dividend yield-%



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e
RWE	27128	32425	6.0	8.7	4.4	5.5	7.4	11.5	2.7	2.8	0.9
Engie	37391	55427	6.1	6.5	4.0	4.0	7.6	8.9	8.7	7.6	1.1
E.ON	30124	65218	11.1	12.3	7.5	7.8	10.2	11.4	4.7	4.8	1.8
Verbund	28592	32383	8.7	9.1	7.7	8.0	12.2	12.4	4.3	4.2	3.2
CEZ	22018	18896	5.6	4.4	3.9	3.6	15.2	14.8	11.8	5.9	2.5
Enel	61336	132165	10.1	9.5	6.4	6.2	9.7	9.2	7.1	7.3	1.8
Uniper	40823	34536	6.3	20.0	5.5	14.0	10.5	34.6			2.7
Orsted	14221	21457	21.1	10.0	6.7	5.9	14.8	12.0	5.7	6.2	1.2
Fortum (Inderes)	10825	10877	6.8	7.8	5.3	6.2	8.3	10.7	8.3	8.3	1.1
Average			9.4	10.1	5.8	6.9	11.0	14.3	6.4	5.6	1.9
Median			7.5	9.3	6.0	6.0	10.4	11.7	5.7	5.9	1.8
Diff-% to median			-9%	-16%	-11%	3%	-20%	-8%	46%	40%	-36%

Source: Refinitiv / Inderes

Income statement

Income statement	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	2024e	2025e	2026e
Revenue	1940	1536	1891	2387	7754	2265	1367	1221	1702	6555	5764	5840	5979
<i>Generation (new)</i>	985	840	1023	1617	4465	1429	805	847	1151	4232	3772	3710	3835
<i>Consumer Solutions</i>	1168	856	1094	1460	4578	1384	750	563	933	3630	3164	3259	3330
<i>Others (new)</i>	137	136	155	161	589	136	126	139	136	537	525	540	540
<i>Eliminations</i>	-350	-296	-381	-851	-1878	-684	-314	-328	-518	-1844	-1697	-1669	-1726
EBITDA	589	860	1001	-68.0	2382	852	349	344	496	2041	1659	1663	1788
Depreciation	-109	-100	-100	-106	-415	-83	-82	-93	-87	-345	-338	-337	-348
EBIT (excl. NRI)	326	262	354	669	1611	698	262	226	409	1595	1321	1326	1441
EBIT	480	760	901	-174	1967	769	267	251	409	1696	1321	1326	1441
<i>Generation (new)</i>	307	282	357	683	1629	723	304	262	435	1724	1376	1336	1439
<i>Consumer Solutions</i>	35	21	17	24	97	6	10	11	14	41	75	100	102
<i>Others (new)</i>	-16	-41	-20	-38	-115	-31	-52	-47	-40	-170	-130	-110	-100
<i>Items affecting comparability</i>	154	498	547	-843	356	71	5	25	0	101	0	0	0
Share in associated companies' profit	-55	-57	-14	-59	-185	22	-42	-10	20	-10	20	20	20
Net financial items	-42	-53	-6	-117	-218	-95	-50	-17	-20	-182	-80	-15	-29
PTP	383	650	881	-350	1564	696	175	224	409	1504	1261	1331	1432
Taxes	-95	-7	-155	777	520	-154	199	-38	-86	-79	-236	-249	-268
Minority interest	-11	2	1	4	-4	-2	2	0	-15	-15	-15	-16	-16
Net earnings	277	645	727	431	2080	540	376	186	308	1410	1010	1066	1148
EPS (adj.)	0.17	0.27	0.32	1.23	2.00	0.52	0.41	0.18	0.34	1.46	1.13	1.19	1.28
EPS (rep.)	0.31	0.72	0.81	0.48	2.32	0.60	0.42	0.21	0.34	1.57	1.13	1.19	1.28

Key figures	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23	Q3'23	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	12.7 %	24.5 %	45.9 %	9.9 %	20.7 %	16.8 %	-11.0 %	-35.4 %	-28.7 %	-15.5 %	-12.1 %	1.3 %	2.4 %
Adjusted EBIT growth-%	-29.0 %	26.6 %	45.7 %	28.7 %	12.7 %	114.1 %	0.0 %	-36.2 %	-38.9 %	-1.0 %	-17.2 %	0.4 %	8.7 %
EBITDA-%	30.4 %	56.0 %	52.9 %	-2.8 %	30.7 %	37.6 %	25.5 %	28.2 %	29.1 %	31.1 %	28.8 %	28.5 %	29.9 %
Adjusted EBIT-%	16.8 %	17.1 %	18.7 %	28.0 %	20.8 %	30.8 %	19.2 %	18.5 %	24.0 %	24.3 %	22.9 %	22.7 %	24.1 %
Net earnings-%	14.3 %	42.0 %	38.4 %	18.1 %	26.8 %	23.8 %	27.5 %	15.2 %	18.1 %	21.5 %	17.5 %	18.3 %	19.2 %

Source: Inderes

Balance sheet

Assets	2022	2023e	2024e	2025e
Non-current assets	12668	11440	11662	11885
Goodwill	0.0	0.0	0.0	0.0
Intangible assets	657	617	627	637
Tangible assets	7266	6671	6883	7096
Associated companies	1249	1021	1021	1021
Other investments	628	1826	1826	1826
Other non-current assets	1935	318	318	318
Deferred tax assets	933	987	987	987
Current assets	10974	9143	7852	6814
Inventories	465	328	288	292
Other current assets	1486	900	650	650
Receivables	5104	1967	1441	1460
Cash and equivalents	3919	5949	5473	4413
Balance sheet total	23642	20583	19514	18699

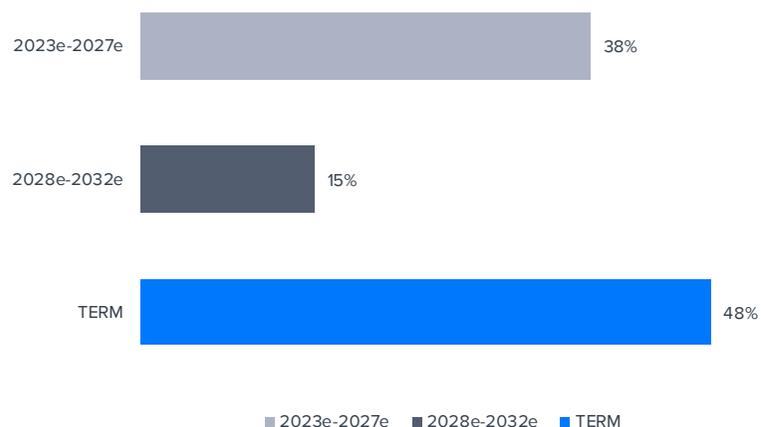
Source: Inderes

Liabilities & equity	2022	2023e	2024e	2025e
Equity	7737	9665	9777	9945
Share capital	3046	3046	3046	3046
Retained earnings	6467	7061	7173	7341
Hybrid bonds	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0
Other equity	-1843.0	-500.0	-500.0	-500.0
Minorities	67.0	58.0	58.0	58.0
Non-current liabilities	5797	7211	6211	5211
Deferred tax liabilities	152	384	384	384
Provisions	1097	1127	1127	1127
Interest bearing debt	3658	5000	4000	3000
Convertibles	0.0	0.0	0.0	0.0
Other long term liabilities	890	700	700	700
Current liabilities	10108	3708	3526	3543
Interest bearing debt	4127	1000	1000	1000
Payables	2008	1508	1326	1343
Other current liabilities	3973	1200	1200	1200
Balance sheet total	23642	20583	19514	18699

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	20.7 %	-15.5 %	-12.1%	1.3 %	2.4 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	1.5 %	1.5 %
EBIT-%	25.4 %	25.9 %	22.9 %	22.7 %	24.1%	22.0 %	22.0 %	21.0 %	20.0 %	19.0 %	19.0 %	19.0 %
EBIT (operating profit)	1967	1696	1321	1326	1441	1342	1369	1333	1294	1254	1273	
+ Depreciation	415	345	338	337	348	360	372	383	394	404	413	
- Paid taxes	1061	99	-236	-249	-268	-262	-258	-251	-242	-234	-237	
- Tax, financial expenses	65	-15	-56	-38	-30	-32	-32	-32	-32	-32	-32	
+ Tax, financial income	0	5	41	36	25	26	17	16	16	15	15	
- Change in working capital	2189	587	633	-5	-70	-10	-10	-10	-10	-10	-8	
Operating cash flow	5697	2718	2041	1406	1445	1424	1457	1439	1419	1397	1424	
+ Change in other long-term liabilities	-26555	-160	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	33888	709	-560	-560	-610	-610	-578	-613	-613	-613	-516	
Free operating cash flow	13030	3267	1481	846	835	814	879	826	806	784	907	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	13030	3267	1481	846	835	814	879	826	806	784	907	15935
Discounted FCFF		3231	1365	727	669	608	612	536	487	442	477	8371
Sum of FCFF present value		17523	14292	12927	12201	11532	10925	10313	9777	9289	8848	8371
Enterprise value DCF		17523										
- Interest bearing debt		-7785										
+ Cash and cash equivalents		3919										
+ Sijoitukset osakkuusyrytyksiin		100										
-Minorities		-101										
-Dividend/capital return		-817										
Equity value DCF		12840										
Equity value DCF per share		14.3										

Cash flow distribution



WACC

Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	4.5 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	8.2 %
Weighted average cost of capital (WACC)	7.3 %

Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	4501	6422	7754	6555	5764	EPS (reported)	1.64	0.83	2.32	1.57	1.13
EBITDA	2326	4913	2382	2041	1659	EPS (adj.)	1.32	-1.78	2.00	1.46	1.13
EBIT	1236	4326	1967	1696	1321	OCF / share	1.34	1.23	6.35	3.03	2.27
PTP	1836	4333	1564	1504	1261	FCF / share	-9.10	1.05	14.52	3.64	1.65
Net Income	1460	739	2080	-2173	1010	Book value / share	14.58	13.66	8.55	10.71	10.83
Extraordinary items	255	2897	356	101	0	Dividend / share	1.12	1.14	0.91	1.00	1.00
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	57810	149661	23642	20583	19514	Revenue growth-%	-17%	43%	21%	-15%	-12%
Equity capital	15577	13665	7737	9665	9777	EBITDA growth-%	37%	111%	-52%	-14%	-19%
Goodwill	1069	1021	0	0	0	EBIT (adj.) growth-%	-18%	46%	13%	-1%	-17%
Net debt	8354	9628	3866	51	-473	EPS (adj.) growth-%	-24%	-234%	-213%	-27%	-23%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	51.7 %	76.5 %	30.7 %	31.1 %	28.8 %
EBITDA	2326	4913	2382	2041	1659	EBIT (adj.)-%	21.8 %	22.3 %	20.8 %	24.3 %	22.9 %
Change in working capital	-785	-1365	2189	587	633	EBIT-%	27.5 %	67.4 %	25.4 %	25.9 %	22.9 %
Operating cash flow	1189	1092	5697	2718	2041	ROE-%	11.3 %	5.9 %	21.0 %	16.3 %	10.4 %
CAPEX	-20567	-12840	33888	709	-560	ROI-%	8.7 %	15.8 %	7.7 %	11.4 %	10.2 %
Free cash flow	-8088	929	13030	3267	1481	Equity ratio	26.9 %	9.1 %	32.7 %	47.0 %	50.1 %
						Gearing	53.6 %	70.5 %	50.0 %	0.5 %	-4.8 %
Valuation multiples	2020	2021	2022	2023e	2024e						
EV/S	5.7	5.1	2.1	1.7	1.8						
EV/EBITDA (adj.)	11.0	6.7	7.0	5.3	6.2						
EV/EBIT (adj.)	26.1	22.9	10.3	6.8	7.8						
P/E (adj.)	14.9	neg.	7.8	8.3	10.7						
P/B	1.4	2.0	1.8	1.1	1.1						
Dividend-%	5.7 %	4.2 %	5.9 %	8.3 %	8.3 %						

Source: Inderes

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Recommendation history (>12 mo)

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



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