

Mandatum

Company report

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✓ Inderes corporate customer

This report is a summary translation of the report "Taseessa on arvoa" published on 5/9/2024 at 9:00 pm EEST.

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There is value in the balance sheet

Mandatum published Q1 figures that fell short of our expectations. The earnings miss is explained by investment returns, which were slightly below our expectations. However, the capital-light businesses developed better than expected, so overall the quarterly report left a good impression. Our earnings forecasts for the coming years have declined somewhat in line with the decline in the return forecasts for the investment portfolio. However, dividends paid on earnings and the reduction of excess capital on the balance sheet still provide sufficient expected returns to justify a positive recommendation. We raise our target price to EUR 4.5 (was EUR 4.4), but we lower our recommendation to Accumulate (was Buy) after the price rise took the sharpest edge off the expected return.

Wealth management off to a flying start

The new sales of Mandatum's long-term growth engine, Wealth management, performed very well with net cash flows of almost 250 MEUR (2.1% of AUM) in Q1. Changes in value were also positive, so client AUM increased by around 5% from the previous quarter and 16% year-on-year. On a positive note, costs grew more slowly than the fee result, and the cost/income ratio declined by approximately one percentage point. Mandatum's Q1 fee result was 15.2 MEUR, which exceeded our forecast of 13.3 MEUR. The result in term life insurance was slightly below our expectations (2.2 MEUR vs. 4.0 MEUR estimate). Investment income, on the other hand, was well below our expectations. Our own projections were for profit of around 50 MEUR, while the realization was just over 30 MEUR. We note that due to the significant size of the investment portfolio (~3.9 BNEUR), even small percentage differences relative to our forecasts lead to significant deviations in euro terms. Mandatum's PTP was 46.9 MEUR, while we expected 63.8 MEUR.

Investment income forecasts explain most of the decline in our earnings forecasts

We have slightly raised our growth forecasts for the coming years, based on the strong growth in AUM and fee result in recent quarters. In turn, our forecasts for investment returns have fallen. We expect the Wealth management result to continue to grow significantly, but to decline in the coming years as the declining with-profit portfolio and falling interest rates erode the return on the investment portfolio. Overall, we expect Mandatum's pre-tax profit to remain at around 200 MEUR for the next few years and to gradually decline thereafter. Our current rough estimate is that the growth in asset management will not offset the declining performance of the with-profit portfolio until closer to the turn of the decade.

Generous profit distribution supports earnings expectations

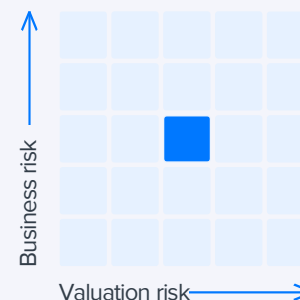
We have gauged Mandatum using the dividend model as it best reflects the company's high payout ratio and the unwinding of its overcapitalized balance sheet. Mandatum's expected return is, somewhat unusually, heavily dependent on a high dividend yield, as earnings will structurally decline for several years to come and maintaining earnings at current levels would be an excellent performance in the coming years. The value of the Mandatum share according to our dividend model, which takes into account our planned distribution and the additional capital on the balance sheet, is EUR 4.5 (was EUR 4.4). The value has risen since our last update due to our revised profit distribution forecasts. We see the current price level as attractive for investors, even if the recent price rally has taken the best edge off expected returns.

Recommendation

Accumulate
(previous Buy)

EUR 4.50
(previous EUR 4.40)

Share price:
4.36



Key figures

	2023	2024e	2025e	2026e
PTP	210.4	206.2	196.4	178.5
Net result	165.3	157.4	143.1	125.9
EPS (adj.)	0.32	0.33	0.31	0.29
DPS	0.33	0.33	0.31	0.29
Payout ratio	103%	100%	100%	100%
ROE-%	9.8%	10.3%	9.9%	9.0%

P/E (adj.)	12.7	13.2	13.9	15.3
P/B	1.3	1.4	1.4	1.4
Dividend yield-%	8.1 %	7.6 %	7.2 %	6.5 %

Source: Inderes

Guidance

(Unchanged)

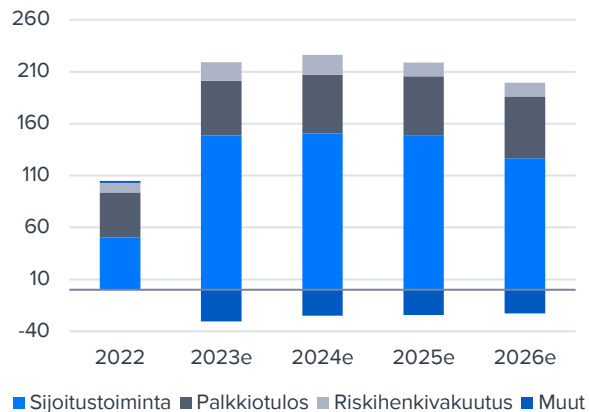
The fee result is expected to increase from 2023, assuming stable market conditions. The with-profit portfolio is expected to decline further.

Share price



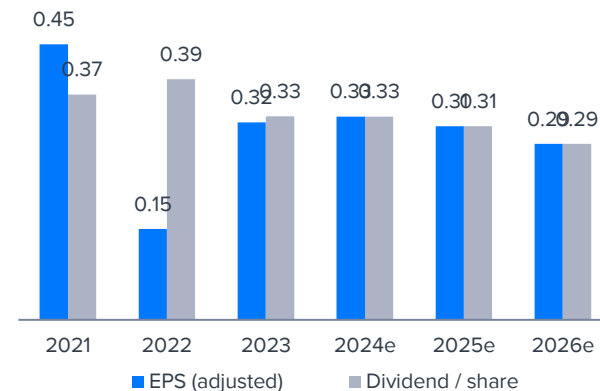
Source: Millistream Market Data AB

Mandatum's PTP breakdown (MEUR)



Lähde: Inderes

EPS and dividend



*Vuodesta 2022 alkaen IFRS 17 -standardin mukaisesti

Lähde: Inderes



Value drivers

- Growth in capital-light asset management
- Relative profitability has clear improvement potential with revenue growth
- With the rise in interest rates, the with-profit business has become clearly more attractive than before
- Release of capital from the with-profit portfolio and from PE investments
- Value creating acquisitions in the domestic asset management sector



Risk factors

- The company's result remains highly dependent on investment returns
- A fall in interest rates would weaken solvency and make it more difficult to manage with-profit business
- Life insurance risks (especially biometric risks)
- Maintaining good return levels for funds
- Adverse changes in the tax legislation on investment insurance

Valuation	2024e	2025e	2026e
Share price	4.36	4.36	4.36
Number of shares, millions	501.8	501.8	501.8
Market cap	2188	2188	2188
P/E (adj.)	13.2	13.9	15.3
P/E	13.2	13.9	15.3
P/B	1.4	1.4	1.4
Payout ratio (%)	100.0 %	100.0 %	100.0 %
Dividend yield-%	7.6 %	7.2 %	6.5 %

Source: Inderes

Wealth management off to a flying start

Mandatum published Q1 figures that fell short of our expectations. Mandatum's PTP was 46.9 MEUR, while we expected 63.8 MEUR. The earnings miss is explained by investment returns, which were slightly below our expectations. However, the capital-light businesses developed better than expected, so overall the quarterly report left a good impression.

Fee result developed favorably

In capital-light businesses, the year got off to a fast start. The new sales of Mandatum's long-term growth engine, Wealth management, performed very well with net cash flows of almost 250 MEUR (2.1% of AUM) in Q1. The vast majority of sales were to institutional and wealth management clients. The best-selling products were interest rate products. Changes in value were also positive as expected, so client AUM increased by around 5% from the previous quarter and 16% year-on-year.

Fee result, on the other hand, increased by around 10% year-on-year, thanks to higher AUM. On another

positive note, costs grew more slowly than the fee result, and the cost/income ratio declined by approximately one percentage point. Mandatum's Q1 fee result was 15.2 MEUR, which exceeded our forecast of 13.3 MEUR.

In turn, the result in term life insurance was slightly below our expectations (2.2 MEUR vs. 4.0 MEUR estimate). The result in term life insurance is driven by, among other things, changes in quarterly claims.

Investment income slightly weaker than expected

Investment income, on the other hand, was well below our expectations. Our own projections were for profit of around 50 MEUR, while the realization was just over 30 MEUR. We note that due to the significant size of the investment portfolio (~3.9 BNEUR), even small percentage differences relative to our forecasts lead to significant deviations in euro terms.

During the quarter, with-profit portfolio contracted slightly more than we had expected, which we think

was positive.

Strong balance sheet

No changes were made to the outlook for the current year in the Q1 report. Mandatum still expects its fee result to increase from the previous year.

As expected, solvency declined slightly with the increase in equity risk, and the Solvency 2 ratio stood at 216%. The solvency ratio is therefore still above the group's target range (170-200%).

Mandatum also announced that it has received all necessary regulatory approvals to acquire Saxo Bank from Sampo. We did not believe there was any uncertainty about obtaining approval, and we have already considered Saxo and its future sale in our analysis. Therefore, the announcement has no practical relevance. The transaction is expected to be completed by May 15. Originally, the deal was to be financed by a loan from Sampo, but the financing will be provided by a bank loan.

Estimates MEUR / EUR	Q1'23	Q1'24	Q1'24e	Q1'24e	Consensus		Difference (%)	2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. Inderes	Inderes
PTP	-	46.9	63.8				-26%	206
EPS (adj.)	-	0.08	0.10				-20%	0.33

Source: Inderes

Watch Mandatum's Q1 webcast:



Our forecasts for investment income fell

Estimate changes:

- We have slightly increased our growth forecasts for client AUM and fee result in the coming years due to continued strong fundraising.
- In turn, our investment income forecasts have been reduced to reflect our assessment of the impact of the projected decline in interest rates on the returns of a declining with-profit portfolio. Reduced investment income forecasts explain most of the decline in our earnings forecasts for the coming years.
- Our dividend forecasts have fallen in line with our earnings forecasts. We note that our current dividend projections do not include any return of excess capital. However, we believe that the company will return the excess capital to its shareholders if no other use can be found for it.

Operational earnings drivers:

- Investment income still plays the key role in Mandatum's earnings development, but ramping down the with-profit portfolio will gradually reduce the weight of balance sheet investments. However, this will also contribute to the Group's earnings. We therefore expect the group's results to be in structural decline for several years to come. However, investment income will have a significant impact on quarterly and annual results.
- The result from asset management will continue to grow markedly. We expect growth to mainly come from institutional asset management in Finland and in other Nordic countries. We also expect moderate growth in investment solutions for private and corporate customers (unit-linked pension and insurance products).
- The development of term life insurance is expected to continue as stable, as market growth is modest and the market shares of key players are quite stable. The importance of term life insurance in the current group structure is also quite low.
- Overall, we expect Mandatum's pre-tax profit to remain at around 200 MEUR for the next few years and to gradually decline thereafter. Based on our current estimates, it will not be until closer to the turn of the decade that the growth in wealth management will offset the impact on earnings of lower interest rates and a shrinking with-profit portfolio.

Estimate revisions MEUR / EUR	2024e			2025e			2026e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
Revenue	133	148	11%	136	155	14%	142	164	16%
PTP	215	206	-4%	203	196	-3%	205	179	-13%
EPS (excl. NRIs)	0.34	0.33	-4%	0.32	0.31	-3%	0.33	0.29	-13%
DPS	0.33	0.33	0%	0.35	0.31	-10%	0.35	0.29	-19%

Source: Inderes

Profit distribution supports the expected return

We have gauged Mandatum using the dividend model as it best reflects the company's high payout ratio and the unwinding of its overcapitalized balance sheet. Mandatum's expected return is slightly exceptionally primarily based on high dividend yields, as it will be challenging to achieve earnings growth in the coming years, and we believe that even maintaining current earnings would be an excellent performance for the company. However, the earnings distribution should improve clearly as the focus shifts from the structurally declining with-profit business to the growing capital-light business.

Our dividend model suggests that the stock is undervalued and we believe the current price level is attractive for investors. However, the recent rise in share prices has taken the best edge off expected returns.

Dividend model (DDM)

We believe that the dividend model works very well for Mandatum due to the company's modest investment needs (and thus high payout ratio) and the overly strong balance sheet that the company intends to unwind as the with-profit portfolio gradually decreases and when it exits from investments. Our dividend model takes into account not only the basic dividend generated by the operating business, but also the excess capital resulting from the liquidation of the balance sheet, so we believe that the method gives a fairly good picture of Mandatum's fair value. We therefore consider the DDM to be preferred method in Mandatum valuation.

Structurally, the usefulness of multiples is undermined by several years of declining earnings. A peer analysis is also not optimal for the company, as the downward-

sloping earnings curve, combined with the significant share of earnings attributable to the with-profit portfolio, makes comparisons with key peers difficult.

In our dividend model, we have also outlined the development of Mandatum's structural performance in the longer term. On this basis, the Group's income level will decline to around 110 MEUR towards 2030, after which the growth in Wealth management should already offset the decline in the with-profit portfolio. In addition to the contraction of the portfolio, the income level is facing a headwind from the fall in interest rates. The company's balance sheet is more than strong, so we expect Mandatum to pay out the entire profit for the fiscal year as dividends on average. Our detailed profit distribution forecasts can be found on page 13 of the report.

We note that the calculation is very rough and is based on the assumption that interest rates will fall to 2-3%, in line with current market forecasts. In addition, we have taken into account the excess capital on the balance sheet, which we estimate will be released by approximately 500-600 MEUR as a result of the ramp-down of the with-profit portfolio, the reduction of solvency to the company's target range and the sale of PE investments. The main forecast risks are therefore related to interest rate developments and the growth of the Wealth management business.

We have used a 1.5% growth assumption for the terminal period, as the decline in capital-light businesses by 2033 should more than offset the negative impact on earnings of the significantly reduced with-profit portfolio. The rate of return on equity we apply is 8.7%. With our current estimates, our DDM model indicates a value of some EUR 4.5 per share for Mandatum (previously EUR 4.4).

Valuation	2024e	2025e	2026e
Share price	4.36	4.36	4.36
Number of shares, millions	501.8	501.8	501.8
Market cap	2188	2188	2188
P/E (adj.)	13.2	13.9	15.3
P/E	13.2	13.9	15.3
P/B	1.4	1.4	1.4
Payout ratio (%)	100.0 %	100.0 %	100.0 %
Dividend yield-%	7.6 %	7.2 %	6.5 %

Source: Inderes

Summary of estimates

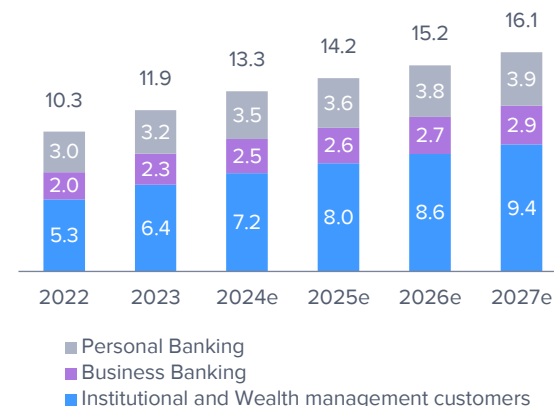
Group	2022	2023	2024e	2025e	2026e	2027e
Fee result	43.3	52.6	56.5	56.9	59.8	62.8
Insurance service result	N/A	31.3	28.2	28.0	28.0	28.0
Result from investment contracts	N/A	21.3	28.3	28.9	31.8	34.8
Result from term life insurance	9.2	17.9	19.2	13.0	13.0	13.0
Result from investment activities	50.3	148.6	150.6	148.8	126.5	100.2
Others	1.9	-30.5	-25.0	-24.3	-22.8	-20.9
Mandatum PTP	75.7*	188.5	206.2	196.4	178.5	157.1
Earnings per share (EPS)	0.15	0.32	0.33	0.31	0.29	0.25
Dividend per share	0.39	0.33	0.33	0.31	0.29	0.25

AUM	2022	2023	2024e	2025e	2026e	2027e
Group's customer assets (MEUR)	10302	11891	13279	14238	15175	16140
Institutional and Wealth management customers	5301	6400	7242	7959	8648	9358
Business Banking	2019	2272	2530	2636	2745	2857
Personal Banking	2982	3219	3507	3643	3782	3925
Group's fee result (MEUR)	131	135	148	155	164	173
Net growth (AUM)	-798	1589	1388	958	937	965
Institutional and Wealth management customers	201	1099	842	717	689	709
Business Banking	-181	253	258	106	109	112
Personal Banking	-818	237	288	135	139	143

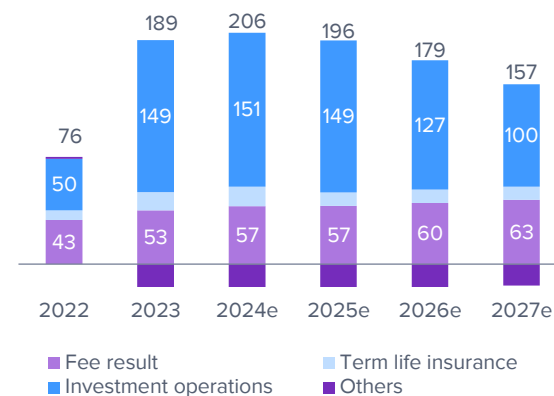
Solvency	2022	2023	2024e	2025e	2026e	2027e
Solvency 2 ratio	266%	221%	220%	228%	297%	308%
Equity (MEUR)	2532	2140	2140	2132	2117	2100
Solvency capital requirement (SCR)	943	966	971	935	714	681
Excess solvency capital at the lower limit	N/A	498	489	542	904	943
Excess solvency capital at the upper limit	N/A	208	198	262	690	738
Excess capital per share at the lower limit	N/A	0.99	0.97	1.08	1.80	1.88
Excess capital per share at the upper limit	N/A	0.41	0.39	0.52	1.38	1.47

*Includes also comprehensive income items with retrospective effect, IFRS 17 comparable

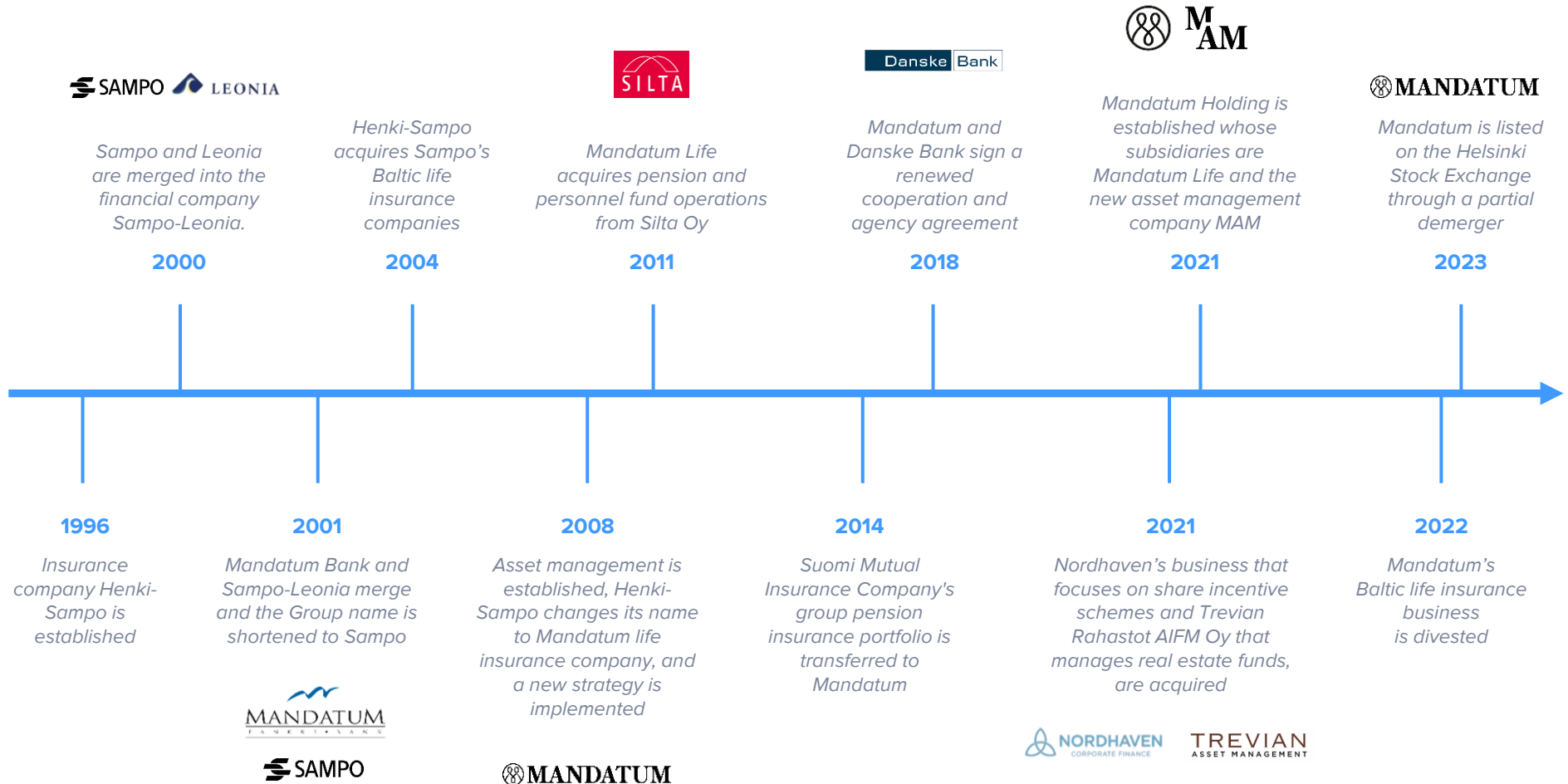
Development of AUM (BNEUR)



Madatum's PTP (MEUR)



Mandatum's history 2/2



Mandatum's strategy

The cornerstones of Mandatum's strategy and their link to value creation

Increase in recurring income and AUM



Value driver 1:

Increase in commission income

- Growth in Finland's wealthy individuals and in institutions both in Finland and internationally.
- New funds and growth in the size of funds.
- A gradual expansion of the product offering would be justified as the company's offering is quite focused.
- Systematic growth of product sizes is key to scalability.
- We feel systematic strengthening of distribution in other Nordic countries is more than justified, considering the company's excellent track record in these markets.
- As a manager that relies on value creating strategies, Mandatum has to systemically offer its investors good returns. Good returns support business growth through new sales, product size growth and pricing power, and offer potential for performance fees.

Improving cost-efficiency



Value driver 2:

Rising operational profitability

- In recent years, the company has invested a lot in building its platform, and as is typical for the industry, fixed costs should offer more scalability in profitability than before.
- In asset management that is key for Mandatum's growth strategy, cost efficiency should be clearly scalable as AUM continues to grow. Here the company still has to prove itself in the coming years.
- The company should also succeed in general cost control.

More efficient use of the balance sheet



Value driver 3:

Release of capital

- The company's balance sheet is clearly overcapitalized and will strengthen further in the coming years.
- The balance sheet will be unwound through additional profit distribution and possible acquisitions.
- However, the company is likely to want to maintain a very strong balance sheet position in the coming years in view of acquisitions. We see acquisitions as a very interesting path for Mandatum to accelerate growth in asset management and create shareholder value.
- Growth in the operational business will only tie up limited capital.
- In our opinion, systematic unwinding of the overcapitalized (and continuously strengthening) balance sheet is the only correct solution, and the company has indicated it intends to do so.

Investment profile

1.

Great growth potential in asset management

2.

The balance sheet is very strong and significant capital will be released in coming years

3.

An active player in the consolidation of the Finnish asset management market

4.

Capital-light business enables simultaneous dividend distribution and operational business growth

5.

The reduction in the with-profit portfolio makes it difficult to increase the result from the current level

Potential



- Growth in capital-light Wealth management
- Relative profitability has clear improvement potential with business growth
- With the rise in interest rates, the with-profit business has become clearly more attractive than before
- Capital is released from the with-profit portfolio and PE investments
- Value creating acquisitions in the domestic asset management sector

Risks



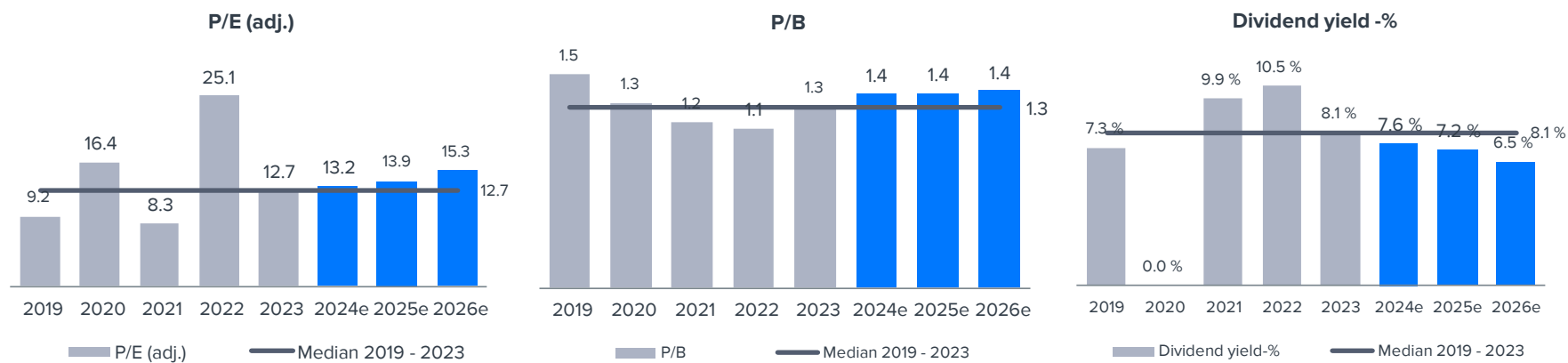
- The company's result remains highly dependent on investment returns
- A fall in interest rates would weaken solvency and make it more difficult to manage with-profit business
- Life insurance risks (especially biometric risks)
- Maintaining good return levels for funds
- Adverse changes in the tax legislation on investment insurance

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	3.70	3.70	3.70	3.70	4.07	4.36	4.36	4.36	4.36
Number of shares, millions	556.6	556.6	548.0	514.5	501.8	501.8	501.8	501.8	501.8
Market cap	2059	2059	2028	1904	2042	2188	2188	2188	2188
P/E (adj.)	9.2	16.4	8.3	25.1	12.7	13.2	13.9	15.3	17.4
P/E	9.2	16.4	8.3	25.1	12.7	13.2	13.9	15.3	17.4
P/B	1.5	1.3	1.2	1.1	1.3	1.4	1.4	1.4	1.4
Payout ratio (%)	67.1%	0.0%	81.7%	265.1%	103.0%	100.0%	100.0%	100.0%	100.0%
Dividend yield-%	7.3%	0.0%	9.9%	10.5%	8.1%	7.6%	7.2%	6.5%	5.8%

Source: Inderes

Note! Historical share price used is the closing price on the first trading day



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Alexandria	79	74	7.3	6.9	6.0	5.7	1.7	1.5	10.1	10.5	8.0	7.7	2.4
Aktia	699								7.2	7.6	9.0	8.5	1.0
CapMan	344	404	11.7	8.7	11.6	8.5	5.6	5.0	16.3	10.6	6.2	10.7	2.1
Eveli	510	505	11.0	10.2	7.8	9.2	4.1	4.5	15.0	13.9	7.7	8.4	3.5
eQ	588	557	14.6	12.0	14.0	11.7	8.1	6.9	19.3	16.2	5.4	6.5	7.6
Taaleri	243	209	6.2	6.5	6.1	6.4	3.2	3.4	10.2	10.4	6.2	6.4	1.2
Titanium	109	95	8.3	7.7	7.9	7.2	3.8	3.5	12.0	11.1	8.7	9.2	5.5
United Bankers	187	166	7.1	8.1	6.5	7.2	2.7	2.7	10.7	12.9	6.4	6.9	3.1
Mandatum (Inderes)	2188	2018	9.8	8.8	9.8	8.8	13.7	11.1	13.2	13.9	7.6	7.2	1.4
Average			9.5	8.6	8.5	8.0	4.2	3.9	12.6	11.6	7.2	8.0	3.3
Median			8.3	8.1	7.8	7.2	3.8	3.5	11.3	10.8	7.0	8.1	2.7
Diff-% to median			18%	8%	26%	22%	260%	218%	17%	28%	8%	-11%	-50%

Source: Refinitiv / Inderes

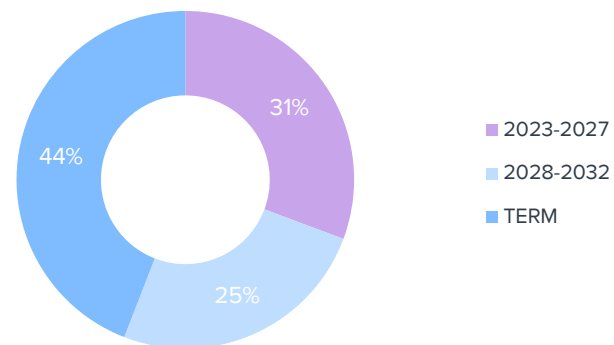
DDM calculation

DDM valuation (MEUR)	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Mandatum's result	161	165	157	143	126	172	169	167	172	172	172
Mandatum's dividend	166	165	157	143	126	258	169	167	172	172	1983
Payout ratio	103%	100%	100%	100%	100%	150%	100%	100%	100%	100%	
Growth in Mandatum's dividend	-17.5 %	-0.1%	-4.8 %	-9.1%	-12.0 %	104.6 %	-34.2 %	-1.5 %	3.0 %	0.0 %	0.0 %
Discounted dividend	165	152	133	111	90	170	103	93	88	81	936
Discounted cumulative dividend	2123	1958	1806	1673	1562	1472	1302	1199	1106	1018	936
Equity value, DDM	2123										
Per share EUR	4.2										

Cost of equity

Risk-free interest rate	2.5%
Market risk premium	4.8%
Company Beta	1.30
Liquidity premium	0.0%
Cost of equity	8.7%
WACC-%	8.7%

DDM breakdown



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Inderes' recommendation policy is based on the following distribution relative to the 12-month risk-adjusted expected total shareholder return.

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

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
10/12/2023	Buy	4.20 €	3.70 €
11/8/2023	Buy	4.20 €	3.62 €
2/14/2024	Buy	4.40 €	3.84 €
5/10/2024	Accumulate	4.50 €	4.36 €



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