

Kone

Company report

4/25/2024



Erkki Vesola
+358 50 549 5512
erkki.vesola@inderes.fi

This report is a summary translation of the report "Revisoinnin paikka" published on 4/25/2024 at 7:15 am EEST

inde
res.

Need for revision

KONE's Q1 numbers came very close to the consensus. The refinement to the 2024 guidance was not material, but our 2024-2026 forecasts have increased significantly after adopting a much more positive view on the Modernization market. With the change in our forecast, the valuation of the stock has become attractive and we raise our recommendation to Accumulate (previous Reduce) and our target price to EUR 50.00 (was EUR 43.00).

Solid Q1 performance

KONE's Q1 order intake (-1% y/y) was in line with consensus and slightly above our own expectations. New Building Solutions (NBS) orders were down 0...5%, but both Service and Modernization orders were up more than 10% year-on-year. In the Chinese market, which continues to shrink, KONE still increased its share. Q1 revenue exceeded our own expectations quite clearly and was in line with consensus. Surprisingly, the strongest growth was in Service, while we ourselves expected the fastest growth to be in Modernization. NBS revenue fell as expected (-4% y/y). Regionally, revenue growth was strongest in the Americas, while revenue in China was down 5% year-on-year and China's share of revenue fell to 22% (Q1'23: 25%). The Q1 EBIT margin (10.2%) was in line with expectations. Profitability was boosted by an increased share of Service and Modernization, better pricing of deliveries and savings from the operating model renewal. However, cost inflation continued to weigh on profitability.

Forecasts raised, driven by Modernization

KONE has updated its guidance for 2024 and now expects revenue growth of 0...5% and an adjusted EBIT margin of 11.5...12.3%. The new guidance is in line with the pre-report consensus for 2024. KONE revised its market outlook for 2024 in a positive direction. The company now expects both the European and American NBS markets to stabilize, compared with the 0...5% year-on-year volume decline previously expected in both. Depending on the region, the Service market is still expected to grow by 0...10% year-on-year and Modernization by 5...>10%. Our forecast increases for 2024-2026 are significant, especially in terms of margins, as we have revised our view of KONE's sales mix. This is based on the company's indications of good traction in the Modernization market and KONE's strong position there. The Modernization market is growing at >10% also in Europe and North America, and KONE says it is growing faster than the market "on a broad front" and in China as well. We have increased our projections for KONE's Service and Modernization revenue: in 2024-2026, the share of Modernization revenue will increase from 17% to 20% and the share of NBS will decrease from 45% to 41%. We assume a margin of around 5 percentage points better for Modernization compared to NBS. For 2024- 2026, our EBIT margin estimate is now 12.1... 12.7% (prev. 11.8... 11.9%).

Valuation has become attractive

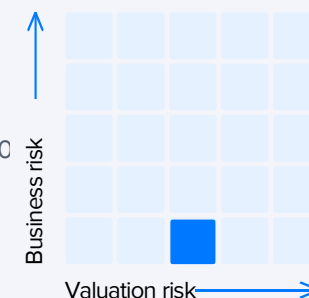
With 2024 and 2025 P/E and EV/EBIT ratios, the expected total return of KONE's share stands at +10...+13% which is above our 7% required return. Based on this, the risk-adjusted expected return for the share is attractive. KONE's EV/EBIT and EV/EBITDA multiples for 2024-2025 are a few percentage points below the peer median and at a significant discount of 13... 23% to Otis. For the most part, KONE's peer valuation is on the low side. Our DCF model indicates a EUR 50 value for KONE's share to which the upside is +13%. The potential is not very significant, but still sufficient to support our positive investment view.

Recommendation

Accumulate
(previous Reduce)

EUR 50.00
(previous EUR 43.0)

Share price:
44.72



Key figures

	2023	2024e	2025e	2026e
Revenue	10952	11287	11996	12595
growth-%	0%	3%	6%	5%
EBIT adj.	1248.4	1363.4	1490.0	1598.7
EBIT-% adj.	11.4 %	12.1 %	12.4 %	12.7 %
Net Income	925.8	1058.8	1157.8	1245.7
EPS (adj.)	1.88	2.05	2.24	2.41
P/E (adj.)	24.0	21.8	20.0	18.6
P/B	8.5	7.9	7.4	6.8
Dividend yield-%	3.9 %	4.1 %	4.2 %	4.7 %
EV/EBIT (adj.)	18.1	16.4	14.8	13.7
EV/EBITDA	15.4	13.5	12.4	11.4
EV/S	2.1	2.0	1.8	1.7

Source: Inderes

Guidance

(Adjusted)

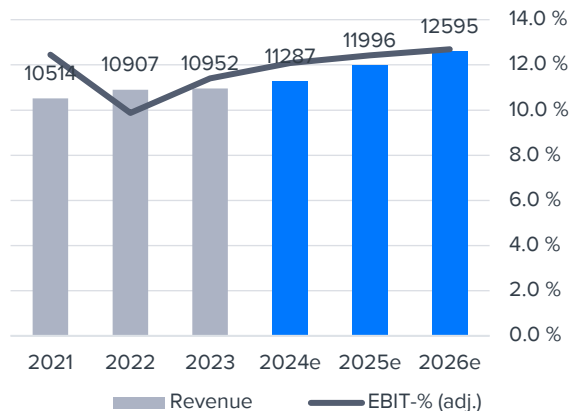
KONE estimates that in 2024, its revenue growth will be in the range of 0 to 5% at comparable exchange rates. The adjusted EBIT margin is estimated to be 11.5-12.3%.

Share price



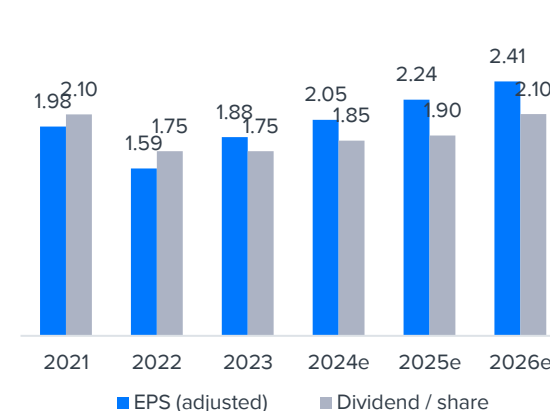
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Demand recovery in the new equipment market
- Growth in the maintenance markets in China and other Asian countries
- The renewed operating model to support margins
- Rise of new digital services



Risk factors

- Delay in the recovery of the Chinese construction market and continued tight price competition
- The Western market remains sticky
- Standing out with digital services proves difficult

Valuation	2024e	2025e	2026e
Share price	44.7	44.7	44.7
Number of shares, million	517.2	517.2	517.2
Market cap	23131	23131	23131
EV	22299	22111	21859
P/E (adj.)	21.8	20.0	18.6
P/E	21.8	20.0	18.6
P/B	7.9	7.4	6.8
P/S	2.0	1.9	1.8
EV/Sales	2.0	1.8	1.7
EV/EBITDA	13.5	12.4	11.4
EV/EBIT (adj.)	16.4	14.8	13.7
Payout ratio (%)	90.3 %	84.8 %	87.2 %
Dividend yield-%	4.1 %	4.2 %	4.7 %

Source: Inderes

Solid Q1 performance

Close to target

KONE's Q1 numbers were very close to consensus and slightly above our own expectations.

In China, gaining share in a declining market

KONE's Q1 order intake (2236 MEUR; -1% y/y) was in line with consensus (-1% y/y) and slightly above our own expectations (-2 % y/y). At comparable exchange rates, orders grew by as much as 2% year-on-year. New Building Solutions (NBS) orders were down in the range of 0...5% year-on-year, but both Service and Modernization orders were up more than 10% year-on-year. In the Chinese market, which continues to shrink, KONE still increased its share as NBS orders in volume terms declined by 5% year-on-year, while the market plummeted by 10% year-on-year. At group level, order margins were stable compared to both Q4'23 and Q1'23, but order margins in China declined.

Good Service revenue growth

Q1 revenue exceeded our own expectations quite clearly and was in line with consensus. Surprisingly, the strongest growth among the business areas was in Service (+9.0% y/y at comparable rates), while we ourselves expected the fastest growth to be in Modernization (actual +5.3% y/y). NBS revenue fell as expected (-4.2% y/y). Regionally, revenue growth was strongest in the Americas (+8% y/y at comparable rates) and in the Asia-Pacific, Middle East and Africa region (+9% y/y), abbreviated as APMEA. Revenue in China was down 5% year-on-year and China's share of revenue fell to 22% (Q1'23: 25%).

Earnings from Service and Modernization

The Q1 EBIT margin (10.2%) was in line with expectations. According to KONE, profitability was improved by an increase in the share of Service and Modernization (combined total 60% vs. 57% in Q1'23), as well as better pricing of deliveries and savings from the operating model renewal. However, cost inflation continued to weigh on margins.

KONE also reported that 80% of the group's earnings comes from Service and Modernization. This is important information for investors at a time when China's NBS revenue and margins are in a prolonged downturn.

Estimates MEUR / EUR	Q1'23	Q1'24	Q1'24e	Q1'24e	Consensus		Difference (%)	2024e
	Comparator	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	2557	2568	2411	2551	2411	- 2623	7%	11162
EBIT (adj.)	242	262	240	262	240	- 277	9%	1313
EBIT	238	262	240	255	229	- 277	9%	1313
PTP	241	266	242	260	230	- 280	10%	1321
EPS (adj.)	0.36	0.39	0.36	0.39	0.36	- 0.44	9%	1.96
EPS (reported)	0.35	0.39	0.36	0.39	0.33	- 0.42	9%	1.96
Revenue growth-%	4.7 %	0.5 %	-5.7 %	-0.2 %	-5.7 %	- 2.6 %	6.1 pp	3.1 %
EBIT-% (adj.)	9.5 %	10.2 %	10.0 %	10.3 %	10.0 %	- 10.6 %	0.3 pp	11.8 %

Source: Inderes & Vara Research (consensus)

Forecasts raised, driven by Modernization

Focusing our gaze on Modernization

The refinement to KONE's 2024 guidance was not material, but our 2024-2026 forecasts have increased significantly after adopting a much more positive view on the modernization market.

Guidance refined, but content unchanged

KONE refined its 2024 guidance. The company now expects revenue growth of 0... 5% at comparable exchange rates (prev. stable or slightly increasing) and an adjusted EBIT margin of 11.5...12.3% (prev. improvement from 11.4% in 2023). The new guidance is in line with the pre-report consensus expectation for 2024 (revenue +2% y/y; adjusted EBIT margin 12.0%). At the midpoint of the forecast range, KONE expects EBIT growth of 7% year-on-year in 2024, which is reasonable.

Improved outlook for target markets

KONE revised its market outlook for 2024 in a positive direction. The company now expects both the European and American NBS markets to stabilize, compared with the 0...5% year-on-year volume decline previously expected in both. Depending on the region, the Service market is still expected to grow by 0...10% year-on-year and Modernization by 5...>10%. The only negative change was the specification of the expected 5...10% year-on-year decline in the Chinese NBS market to "closer to -10%".

KONE gains market share in Modernization

As the table shows, our forecast increases for 2024-2026 are significant, especially in terms of margins. We have revised our view on KONE's sales mix, based on the company's indications of good traction

in the Modernization market and KONE's strong position there. The Modernization market is growing at >10% also in Europe and North America, and KONE says it is growing faster than the market "on a broad front" and in China as well. The potential is huge, as nearly 10 million of the world's 25 million elevators are more than 20 years old.

Sales mix improving and margin forecasts raised

We have raised our forecasts for KONE's Service and Modernization revenue, with 83% of the total revenue growth for 2024-2026 already coming from these business areas. In the estimate period, Modernization's share of revenue will increase from 17% to 20% and NBS's share will decrease from 45% to 41%. Our model is based on the assumption that Modernization's margin is about 5 percentage points better than NBS. For 2024- 2026, our EBIT margin estimate is now 12.1... 12.7% (prev. 11.8... 11.9%).

Estimates MEUR / EUR	Q1'23	Q1'24	Q1'24e	Q1'24e	Consensus		Difference (%)	2024e
	Comparator	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	2557	2568	2411	2551	2411	- 2623	7%	11162
EBIT (adj.)	242	262	240	262	240	- 277	9%	1313
EBIT	238	262	240	255	229	- 277	9%	1313
PTP	241	266	242	260	230	- 280	10%	1321
EPS (adj.)	0.36	0.39	0.36	0.39	0.36	- 0.44	9%	1.96
EPS (reported)	0.35	0.39	0.36	0.39	0.33	- 0.42	9%	1.96
Revenue growth-%	4.7 %	0.5 %	-5.7 %	-0.2 %	-5.7 %	- 2.6 %	6.1 pp	3.1 %
EBIT-% (adj.)	9.5 %	10.2 %	10.0 %	10.3 %	10.0 %	- 10.6 %	0.3 pp	11.8 %

Source: Inderes & Vara Research (consensus)

Need to revise our view

Focus on Modernization and recommendation up

In KONE's Q1 conference call, new CEO Philippe Delorme encouraged investors to also pay attention to regions other than China, referring in particular to Americas and APMEA, and globally to Service and Modernization. The statement was justified, given that China's share of KONE's revenue declined from 33% in 2021 to 22% in Q1'24. From a performance perspective, KONE's potential in service and especially in modernization may have been overlooked. It may also be that KONE will become less exciting for investors in the future, as service and modernization rarely make big headlines, but we expect the numbers to speak for themselves.

As a result of our forecast changes, KONE's share valuation has become attractive by almost all measures. Therefore, we raise our recommendation to Accumulate (was Reduce) and the target price to EUR 50.00 (was EUR 43.00). Our new target price remains in line with our fair value estimates (long-term EV/EBIT 14x-16x) and, furthermore, the 2025 valuation multiples at the target price would be in line with the nearest peers Otis and Schindler.

Expected total return at a good level

The total expected return on KONE's share (upside potential in the share price based on earnings growth and expected change in valuation multiple plus dividend yield) with 2024–2025 P/E and EV/EBIT ratios is +10–+13% which is well above our required return of around 7%. Based on this, the risk-adjusted expected return for the share is attractive.

Multiple valuation is in line or below

As KONE has a fair amount of net assets, the EV/EBIT and the EV/EBITDA ratios are better suited than the P/E to assess peer group pricing. EV/EBIT and EV/EBITDA with multiples for 2024 and 2025 are a few percentage points below the peer median and at a significant discount of 13...23% to Otis. The corresponding 2024-2025 multiples for Schindler are at the same level as KONE, but the 2024-2025 P/E ratios for both main competitors indicate a valuation discount of around 12...13% for KONE. For the most part, KONE's peer valuation is on the low side.

DCF value potential only moderate

Our DCF model indicates a EUR 50 value for KONE's share to which the upside is +13%. The potential is not very significant, but still sufficient to support our positive investment view.

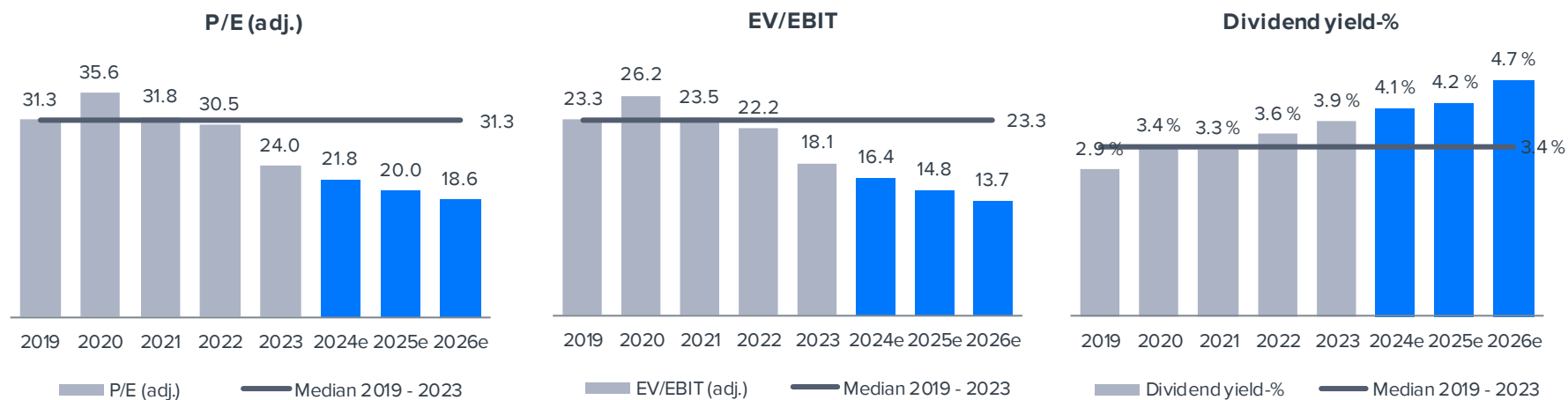
Valuation	2024e	2025e	2026e
Share price	44.7	44.7	44.7
Number of shares, millions	517.2	517.2	517.2
Market cap	23131	23131	23131
EV	22299	22111	21859
P/E (adj.)	21.8	20.0	18.6
P/E	21.8	20.0	18.6
P/B	7.9	7.4	6.8
P/S	2.0	1.9	1.8
EV/Sales	2.0	1.8	1.7
EV/EBITDA	13.5	12.4	11.4
EV/EBIT (adj.)	16.4	14.8	13.7
Payout ratio (%)	90.3 %	84.8 %	87.2 %
Dividend yield-%	4.1 %	4.2 %	4.7 %

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	58.3	66.5	63.0	48.3	45.2	44.7	44.7	44.7	44.7
Number of shares, millions	518.4	518.4	518.0	517.1	517.2	517.2	517.2	517.2	517.2
Market cap	30212	34452	32652	24975	23358	23131	23131	23131	23131
EV	28828	32722	30724	23908	22611	22299	22111	21859	21646
P/E (adj.)	31.3	35.6	31.8	30.5	24.0	21.8	20.0	18.6	17.5
P/E	32.4	36.7	32.2	32.2	25.2	21.8	20.0	18.6	17.5
P/B	9.5	10.9	10.3	8.8	8.5	7.9	7.4	6.8	6.4
P/S	3.0	3.5	3.1	2.3	2.1	2.0	1.9	1.8	1.8
EV/Sales	2.9	3.3	2.9	2.2	2.1	2.0	1.8	1.7	1.6
EV/EBITDA	20.1	22.5	20.0	18.5	15.4	13.5	12.4	11.4	10.8
EV/EBIT (adj.)	23.3	26.2	23.5	22.2	18.1	16.4	14.8	13.7	12.8
Payout ratio (%)	94.5 %	124.1 %	107.1 %	116.7 %	97.7 %	90.3 %	84.8 %	87.2 %	90.0 %
Dividend yield-%	2.9 %	3.4 %	3.3 %	3.6 %	3.9 %	4.1 %	4.2 %	4.7 %	5.1 %

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	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Schindler Holding AG	24801	21958	16.2	14.9	13.2	12.3	1.9	1.8	24.7	22.7	2.4	2.6	4.8
Assa Abloy AB	29786	35185	16.9	15.7	13.9	13.1	2.7	2.6	22.1	19.8	1.9	2.1	3.4
Koninklijke Philips NV	17905	23313	12.0	11.2	7.8	7.1	1.2	1.2	13.9	12.6	4.5	4.5	1.5
Otis Worldwide Corp	36824	42265	18.7	17.5	17.5	16.4	3.1	3.0	25.2	22.9	1.5	1.7	
Ingersoll Rand Inc	34154	35265	23.9	21.9	19.4	18.0	5.2	4.9	28.2	25.6	0.1	0.1	3.5
Johnson Controls International PLC	41514	50832	16.0	14.4	12.6	11.5	2.0	1.9	18.1	15.9	2.3	2.4	2.5
Gree Electric Appliances Inc of Zhuhai	28438	20044	5.0	4.7	4.3	4.0	0.7	0.7	7.4	6.8	6.5	7.4	1.7
Dover Corp	22123	24993	16.7	15.5	14.3	13.4	3.1	3.0	19.0	17.4	1.2	1.3	3.9
Honeywell International Inc	119398	131469	16.0	14.8	14.2	13.2	3.7	3.5	19.7	18.0	2.3	2.5	7.5
Lennox International Inc	15871	17027	19.5	17.5	17.9	16.1	3.6	3.3	24.2	21.4	0.9	1.0	22.0
Melco International Development Ltd	961	8650	18.3	15.3	7.5	6.8	2.0	1.8	20.7	10.3	0.2	0.3	2.9
Kone (Inderes)	23131	22299	16.4	14.8	13.5	12.4	2.0	1.8	21.8	20.0	4.1	4.2	7.9
Average			16.3	14.8	13.0	12.0	2.6	2.5	20.3	17.6	2.2	2.3	5.4
Median			16.7	15.3	13.9	13.1	2.7	2.6	20.7	18.0	1.9	2.1	3.4
Diff-% to median			-2%	-3%	-3%	-5%	-27%	-29%	6%	11%	122%	107%	131%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	10907	10952	2568	2885	2887	2946	11287	11996	12595	13145
EBITDA	1291	1470	334	427	428	460	1649	1789	1910	2011
Depreciation	-259.3	-269.4	-71.5	-71.5	-71.5	-71.5	-286.0	-299.4	-311.2	-320.4
EBIT (excl. NRI)	1077	1248	262	356	357	388	1363	1490	1599	1690
EBIT	1031	1200	262	356	357	388	1363	1490	1599	1690
Net financial items	-2.7	6.1	3.3	3.3	3.3	3.3	13.2	16.7	22.4	28.6
PTP	1029	1206	266	359	360	392	1377	1507	1621	1719
Taxes	-244.0	-274.6	-59.8	-80.8	-81.1	-88.2	-309.8	-339.1	-364.9	-386.9
Minority interest	-10.0	-5.8	-2.9	-1.5	-1.5	-2.1	-8.0	-9.8	-10.5	-11.1
Net earnings	775	926	203	277	278	301	1059	1158	1246	1321
EPS (adj.)	1.586	1.883	0.392	0.535	0.537	0.583	2.047	2.238	2.408	2.554
EPS (rep.)	1.498	1.790	0.392	0.535	0.537	0.583	2.047	2.238	2.408	2.554

Key figures	2022	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	3.7 %	0.4 %	0.5 %	1.7 %	5.0 %	4.9 %	3.1 %	6.3 %	5.0 %	4.4 %
Adjusted EBIT growth-%	-17.8 %	16.0 %	8.5 %	7.1 %	13.0 %	8.3 %	9.2 %	9.3 %	7.3 %	5.7 %
EBITDA-%	11.8 %	13.4 %	13.0 %	14.8 %	14.8 %	15.6 %	14.6 %	14.9 %	15.2 %	15.3 %
Adjusted EBIT-%	9.9 %	11.4 %	10.2 %	12.3 %	12.4 %	13.2 %	12.1 %	12.4 %	12.7 %	12.9 %
Net earnings-%	7.1 %	8.5 %	7.9 %	9.6 %	9.6 %	10.2 %	9.4 %	9.7 %	9.9 %	10.0 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	2899	3085	3153	3188	3216
Goodwill	1415	1469	1500	1500	1500
Intangible assets	208	287	307	295	284
Tangible assets	717	780	800	847	885
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	124	101	114	114	114
Other non-current assets	10.0	9.2	10.3	10.3	10.3
Deferred tax assets	425	439	422	422	422
Current assets	6191	5645	5818	6183	6492
Inventories	844	821	846	899	944
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	3377	3127	3222	3425	3596
Cash and equivalents	1970	1698	1749	1859	1952
Balance sheet total	9090	8731	8971	9372	9708

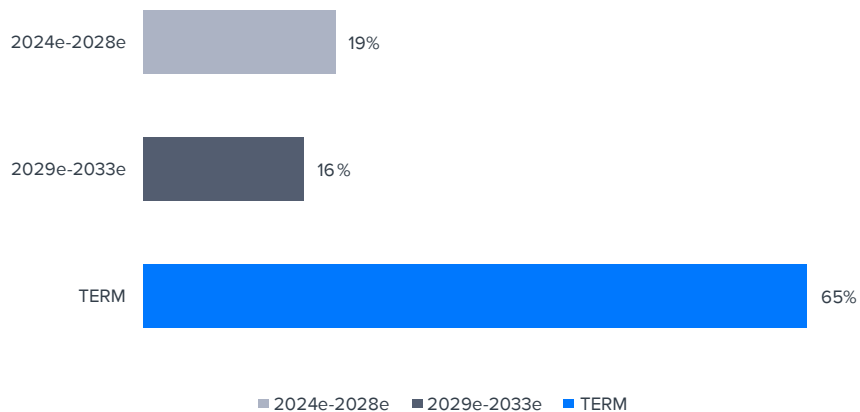
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	2867	2786	2950	3157	3427
Share capital	66.2	66.2	66.2	66.2	66.2
Retained earnings	2184	2387	2541	2743	3007
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	586	299	305	305	305
Minorities	29.9	33.9	37.9	42.8	48.0
Non-current liabilities	949	993	951	872	730
Deferred tax liabilities	214	224	225	225	225
Provisions	177	197	193	193	193
Interest bearing debt	558	572	533	454	312
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	5275	4952	5070	5342	5552
Interest bearing debt	104	113	105	89.4	61.4
Payables	5171	4840	4965	5253	5490
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	9090	8731	8971	9372	9708

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	0.4 %	3.1 %	6.3 %	5.0 %	4.4 %	4.2 %	4.0 %	3.8 %	3.6 %	3.4 %	2.5 %	2.5 %
EBIT-%	11.0 %	12.1 %	12.4 %	12.7 %	12.9 %	12.7 %	12.5 %	12.3 %	12.1 %	11.9 %	11.9 %	11.9 %
EBIT (operating profit)	1200	1363	1490	1599	1690	1735	1776	1815	1851	1884	1931	
+ Depreciation	269	286	299	311	320	329	339	349	359	369	379	
- Paid taxes	-278.2	-291.6	-339.1	-364.9	-386.9	-397.9	-408.1	-417.7	-426.5	-434.5	-445.9	
- Tax, financial expenses	-8.9	-5.6	-5.2	-4.4	-3.4	-2.8	-2.4	-2.0	-1.8	-1.8	-1.8	
+ Tax, financial income	10.3	8.5	8.9	9.4	9.9	10.3	10.7	11.1	11.7	12.3	13.2	
- Change in working capital	-58.4	4.6	32.3	21.3	15.2	12.9	10.4	7.9	5.2	2.4	25.1	
Operating cash flow	1134	1365	1486	1571	1646	1687	1726	1763	1798	1831	1900	
+ Change in other long-term liabilities	19.5	-4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-442.0	-371.0	-334.3	-338.8	-348.3	-360.2	-371.7	-383.0	-393.9	-404.3	-413.2	
Free operating cash flow	712	990	1152	1233	1297	1326	1354	1380	1404	1427	1487	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	712	990	1152	1233	1297	1326	1354	1380	1404	1427	1487	33201
Discounted FCFF		945	1026	1025	1008	962	917	873	830	787	766	17098
Sum of FCFF present value		26237	25292	24265	23240	22232	21270	20353	19480	18651	17864	17098
Enterprise value DCF		26237										
- Interest bearing debt		-684.2										
+ Cash and cash equivalents		1698										
-Minorities		-301.0										
-Dividend/capital return		-904.1										
Equity value DCF		26067										
Equity value DCF per share		50.4										

Cash flow distribution



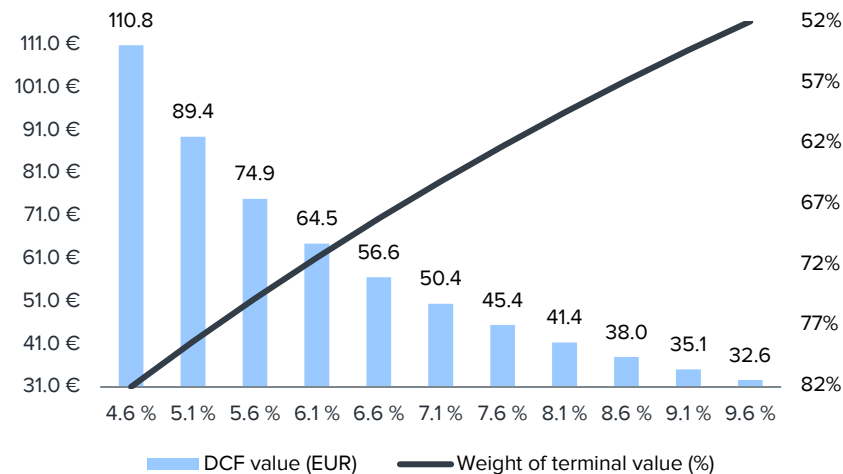
WACC

Tax-% (WACC)	22.5 %
Target debt ratio (D/(D+E))	3.0 %
Cost of debt	2.5 %
Equity Beta	1.00
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	7.3 %
Weighted average cost of capital (WACC)	7.1 %

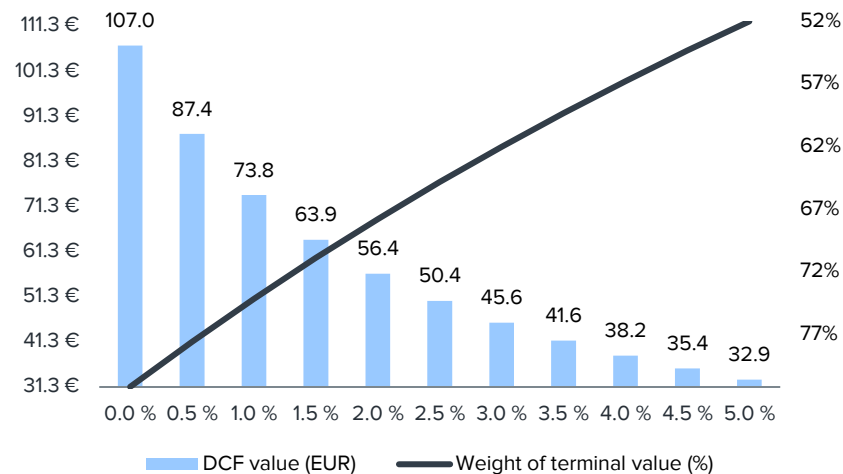
Source: Inderes

DCF sensitivity calculations and key assumptions in graphs

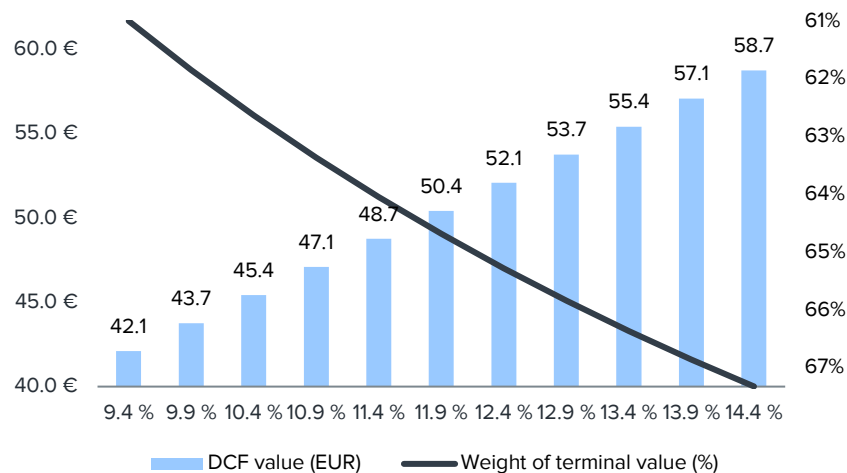
Sensitivity of DCF to changes in the WACC-%



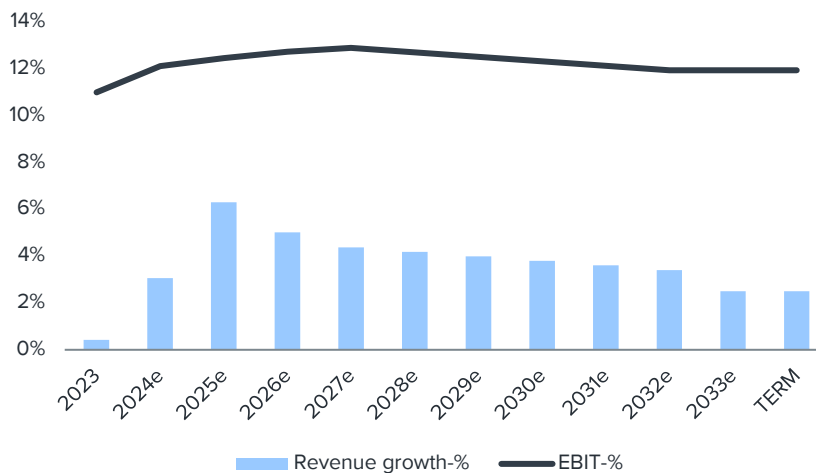
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	10514.1	10906.7	10952.3	11286.6	11995.7	EPS (reported)	1.96	1.50	1.79	2.05	2.24
EBITDA	1539.3	1290.5	1469.5	1649.4	1789.4	EPS (adj.)	1.98	1.59	1.88	2.05	2.24
EBIT	1295.3	1031.2	1200.1	1363.4	1490.0	OCF / share	3.02	0.86	2.19	2.64	2.87
PTP	1320.8	1028.5	1206.2	1376.6	1506.6	FCF / share	2.34	0.51	1.38	1.91	2.23
Net Income	1014.2	774.5	925.8	1058.8	1157.8	Book value / share	6.13	5.49	5.32	5.63	6.02
Extraordinary items	-14.5	-45.4	-48.3	0.0	0.0	Dividend / share	2.10	1.75	1.75	1.85	1.90
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	9720.4	9090.4	8730.8	8971.1	9371.5	Revenue growth-%	6%	4%	0%	3%	6%
Equity capital	3199.2	2866.5	2786.0	2950.4	3157.3	EBITDA growth-%	6%	-16%	14%	12%	8%
Goodwill	1405.2	1414.7	1469.0	1500.0	1500.0	EBIT (adj.) growth-%	5%	-18%	16%	9%	9%
Net debt	-2164.1	-1309.0	-1013.4	-1111.6	-1315.9	EPS (adj.) growth-%	6%	-20%	19%	9%	9%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	14.6 %	11.8 %	13.4 %	14.6 %	14.9 %
EBITDA	1539.3	1290.5	1469.5	1649.4	1789.4	EBIT (adj.)-%	12.5 %	9.9 %	11.4 %	12.1 %	12.4 %
Change in working capital	364.0	-559.8	-58.4	4.6	32.3	EBIT-%	12.3 %	9.5 %	11.0 %	12.1 %	12.4 %
Operating cash flow	1563.0	443.4	1134.3	1365.4	1486.4	ROE-%	31.9 %	25.8 %	33.1 %	37.4 %	38.4 %
CAPEX	-349.3	-204.3	-442.0	-371.0	-334.3	ROI-%	34.6 %	28.4 %	35.4 %	39.7 %	42.0 %
Free cash flow	1211.3	264.2	711.8	990.3	1152.1	Equity ratio	41.2 %	40.3 %	40.9 %	42.5 %	43.8 %
Valuation multiples	2021	2022	2023	2024e	2025e	Gearing	-67.6 %	-45.7 %	-36.4 %	-37.7 %	-41.7 %
EV/S	2.9	2.2	2.1	2.0	1.8						
EV/EBITDA (adj.)	20.0	18.5	15.4	13.5	12.4						
EV/EBIT (adj.)	23.5	22.2	18.1	16.4	14.8						
P/E (adj.)	31.8	30.5	24.0	21.8	20.0						
P/B	10.3	8.8	8.5	7.9	7.4						
Dividend-%	3.3 %	3.6 %	3.9 %	4.1 %	4.2 %						

Source: Inderes

ESG

Low taxonomy eligibility

KONE's taxonomy eligibility percentages are low. Most of the company's business (manufacture, maintenance and modernization of elevators and escalators) is not included in taxonomy, as the elevator and escalator industry is not among high emission industries. Of revenue, the manufacture, installation, maintenance and repair of sliding doors, turning doors, revolving doors, turnstiles, rolling doors, express roll-up doors, and tilt-up doors, as well as the manufacture, installation, maintenance and repair of elevators with regenerative machinery are taxonomy eligible. Overall, KONE emphasizes its support for transition to more sustainable urban environments and buildings by offering energy-efficient and innovative solutions and using healthy and sustainable materials. The company has also set ambitious targets for 2030 to reduce greenhouse gas emissions.

Relatively low business risk from a taxonomy regulation perspective

As the proportion of elevators in the total energy consumption in buildings is surprisingly low, we do not believe that the tightening of energy or emissions regulations in the industry poses a significant risk to KONE's business. For the same reason, we do not believe that an increase in the taxonomy percentage is in the interests of either the legislator or operators in the elevator industry.

No significant economic impact so far

We do not yet see, nor do we expect, that taxonomy will have significant economic impact, such as, e.g., significantly lower financing costs.

Scope 1 and scope 2 targets realistic

KONE's climate targets set in 2020 are in line with the 1.5 °C warming scenario. In 2022, in total 85% of the company's scope 1 and scope 2 emissions consisted of emissions from the company's maintenance vehicle fleet and the remaining 15% of emissions from the company's premises. KONE's target by 2030 is a 50% reduction in Scope 1 and Scope 2 emissions compared to the reference year 2018. In addition, the company aims at a 40% reduction in the emissions of materials and energy consumption throughout the life cycle of ordered products (scope 3) in 2030 compared to 2018. We consider the company's Scope 1 and Scope 2 targets realistic, considering, e.g., the ongoing electrification of the maintenance vehicle fleet in the current decade. By contrast, we consider the reduction objective for Scope 3 emissions to be challenging, as it requires a lot of new innovations and investments, as well as energy consumption of elevators remaining at a high level in customer preferences.

Taxonomy eligibility	2022*	2023
Revenue	15 %	44 %
OPEX	0 %	0 %
CAPEX	27 %	17 %

Taxonomy alignment	2022*	2023
Revenue	14 %	14 %
OPEX	0 %	0 %
CAPEX	0 %	0 %

Climate

Climate target	Yes
Target according to the Paris Agreement (1.5 °C warming scenario) ^{Yes}	

*the figures are not comparable due to taxonomy development

Disclaimer and recommendation history

The information presented in Inderes reports is obtained from several different public sources that Inderes considers to be reliable. Inderes aims to use reliable and comprehensive information, but Inderes does not guarantee the accuracy of the presented information. Any opinions, estimates and forecasts represent the views of the authors. Inderes is not responsible for the content or accuracy of the presented information. Inderes and its employees are also not responsible for the financial outcomes of investment decisions made based on the reports or any direct or indirect damage caused by the use of the information. The information used in producing the reports may change quickly. Inderes makes no commitment to announcing any potential changes to the presented information and opinions.

The reports produced by Inderes are intended for informational use only. The reports should not be construed as offers or advice to buy, sell or subscribe investment products. Customers should also understand that past performance is not a guarantee of future results. When making investment decisions, customers must base their decisions on their own research and their estimates of the factors that influence the value of the investment and take into account their objectives and financial position and use advisors as necessary. Customers are responsible for their investment decisions and their financial outcomes.

Reports produced by Inderes may not be edited, copied or made available to others in their entirety, or in part, without Inderes' written consent. No part of this report, or the report as a whole, shall be transferred or shared in any form to the United States, Canada or Japan or the citizens of the aforementioned countries. The legislation of other countries may also lay down restrictions pertaining to the distribution of the information contained in this report. Any individuals who may be subject to such restrictions must take said restrictions into account.

Inderes issues target prices for the shares it follows. The recommendation methodology used by Inderes is based on the share's 12-month expected total shareholder return (including the share price and dividends) and takes into account Inderes' view of the risk associated with the expected returns. The recommendation policy consists of four tiers: Sell, Reduce, Accumulate and Buy. As a rule, Inderes' investment recommendations and target prices are reviewed at least 2–4 times per year in connection with the companies' interim reports, but the recommendations and target prices may also be changed at other times depending on the market conditions. The issued recommendations and target prices do not guarantee that the share price will develop in line with the estimate. Inderes primarily uses the following valuation methods in determining target prices and recommendations: Cash flow analysis (DCF), valuation multiples, peer group analysis and sum of parts analysis. The valuation methods and target price criteria used are always company-specific and they may vary significantly depending on the company and (or) industry.

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.

The analysts who produce Inderes' research and Inderes employees cannot have 1) shareholdings that exceed the threshold of significant financial gain or 2) shareholdings exceeding 1% in any company subject to Inderes' research activities. Inderes Oyj can only own shares in the target companies it follows to the extent shown in the company's model portfolio investing real funds. All of Inderes Oyj's shareholdings are presented in itemised form in the model portfolio. Inderes Oyj does not have other shareholdings in the target companies analysed. The remuneration of the analysts who produce the analysis are not directly or indirectly linked to the issued recommendation or views. Inderes Oyj does not have investment bank operations.

Inderes or its partners whose customer relationships may have a financial impact on Inderes may, in their business operations, seek assignments with various issuers with respect to services provided by Inderes or its partners. Thus, Inderes may be in a direct or indirect contractual relationship with an issuer that is the subject of research activities. Inderes and its partners may provide investor relations services to issuers. The aim of such services is to improve communication between the company and the capital markets. These services include the organisation of investor events, advisory services related to investor relations and the production of investor research reports.

More information about research disclaimers can be found at www.inderes.fi/research-disclaimer.

Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
7/20/2018	Reduce	43.00 €	47.30 €
10/26/2018	Reduce	42.00 €	40.60 €
1/25/2019	Reduce	40.00 €	42.73 €
4/29/2019	Sell	41.00 €	48.90 €
7/19/2019	Sell	41.00 €	51.12 €
10/24/2019	Sell	42.00 €	54.18 €
1/29/2020	Sell	45.00 €	61.02 €
3/24/2020	Sell	42.00 €	46.90 €
4/23/2020	Sell	46.00 €	55.00 €
7/20/2020	Sell	48.00 €	64.28 €
9/23/2020	Sell	61.00 €	73.38 €
10/23/2020	Sell	61.00 €	71.26 €
1/29/2021	Sell	61.00 €	67.08 €
4/30/2021	Sell	61.00 €	66.12 €
7/21/2021	Sell	61.00 €	70.82 €
11/1/2021	Reduce	59.00 €	58.72 €
2/3/2022	Reduce	57.00 €	56.80 €
5/2/2022	Accumulate	51.00 €	46.09 €
7/15/2022	Accumulate	51.00 €	45.85 €
7/22/2022	Accumulate	51.00 €	44.38 €
8/31/2022	Reduce	44.00 €	40.89 €
10/17/2022	Reduce	41.50 €	39.09 €
1/27/2023	Reduce	46.00 €	52.48 €
4/28/2023	Reduce	47.50 €	51.98 €
7/21/2023	Reduce	47.50 €	45.47 €
10/26/2023	Reduce	42.00 €	39.50 €
1/24/2024	Reduce	42.00 €	43.14 €
1/28/2024	Reduce	43.00 €	46.31 €
4/24/2024	Accumulate	50.00 €	45.05 €



Inderes democratizes investor information by connecting investors and listed companies.

We help over 400 listed companies better serve investors. Our investor community is home to over 70,000 active members.

We build solutions for listed companies that enable frictionless and effective investor relations. For listed companies, we offer Commissioned Research, IR Events, AGMs, and IR Software.

Inderes is listed on the Nasdaq First North growth market and operates in Finland, Sweden, Norway, and Denmark.

Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

Award-winning research at [inderes.fi](https://www.inderes.fi)



**STARMINE
ANALYST AWARDS
FROM REFINITIV**



THOMSON REUTERS
ANALYST AWARDS



Juha Kinnunen
2012, 2016, 2017, 2018, 2019, 2020



Mikael Rautanen
2014, 2016, 2017, 2019



Sauli Vilén
2012, 2016, 2018, 2019, 2020



Antti Viljakainen
2014, 2015, 2016, 2018, 2019, 2020



Olli Koponen
2020



Joni Grönqvist
2019, 2020



Erkki Vesola
2018, 2020



Petri Gostowski
2020



Atte Riikola
2020

**Connecting investors
and listed companies.**