

Fortum

Company report

05/08/2023 7:45



Juha Kinnunen
+358 40 778 1368
juha.kinnunen@inderes.fi

This report is a summary translation of the report "Myllerys jatkui vielä alkuvuonna" published on 5/8/2023 at 7:47 am

**inde
res.**

Turbulence continued in Q1

We reiterate our Accumulate recommendation for Fortum but lower our target price to EUR 15.0 (previous 16.5) due to negative estimate revisions. Estimates are depressed by the continued drop in electricity prices, which is reflected in the Generation segment's earnings. Fortum's situation is muddled by the Russian business being moved to the "temporary care" of the Russian State. This did not affect our view much, because we have not given the business value in the past either. We expect that Fortum's Q1 result released on Thursday to be good, but Russia is likely to grab the attention again.

Q1 result overshadowed by the latest developments in Russia

Fortum will publish its Q1 report on Thursday at about 9.00 am EEST. The critical Generation segment has brought strong earnings for the company supported by electricity prices. We estimate that Generation's average sales price was about €68/MWh (consensus €65.2/MWh), as strong price fluctuations enable high prices, especially with hydropower (acting as backup/standby power). We expect the Generation segment to generate a comparable operating profit of around 525 MEUR (Q1'22: 282 MEUR). We have not yet considered the change in the segment structure but the other segments will play a supporting role. After the Russia segment is adjusted from Fortum, the operating results of other segments, in practice, only offset Group costs. The talk of Q1 will certainly be measures when Russia has taken over Fortum's Russian business. We are particularly interested in accounting interpretations, i.e. in practice whether the Russia segment will be included in Fortum Group in the future. The value of the Russian businesses may be written down in Q1, which would amount to about EUR 1.7 billion. However, Fortum's balance sheet could take this hit and the maneuver would naturally not have any cash-flow effect.

The price of electricity has continued to fall

Even though the price development of electricity in the Nordic countries has stabilized since the previous collapse, the price levels for 2023-2024 are now lower than we anticipated. Mainly in view of this, we lowered our earnings estimates for Fortum by some 10% for 2024, which is also the main reason for cutting our target price. We expect Fortum's adjusted EPS excluding Russia to be EUR 1.25 in 2023 (2022: EUR 1.21). We believe that a similar earnings level is realistic also in the future, but this will depend on the development of the electricity market. The electricity market is now looking for a new balance point when the never ending Olkiluoto 3 project started regular electricity production on April 16, 2023. Therefore, the situation is exceptionally interesting. We expect a moderate increase in the outlook of Fortum's Q1 report both in Generation's hedging prices and levels.

The shadow of Russia is seen in the valuation

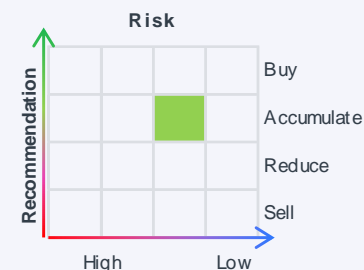
Despite the constant turbulence, Fortum's core business generates good results and, as the balance sheet slowly discharges cash flow should also be abundant. Considering this, valuation multiples are low: 2023e adjusted P/E is around 11x and due to moderate net financial debt, EV/EBITDA is only good 5x. The entire sector is understandably priced moderately in the current situation, but Fortum's multiples are still 10-30% lower than for the peers. This is likely to reflect mainly the shadow of Russia, which is still over the company due to the unclear "temporary takeover". Uncertainty may also hamper the company's return to the debt market. When Fortum eventually again becomes a creditworthy Nordic energy company, we see clear upside potential in the valuation multiples. However, Russia should be let go, as Fortum's ESG profile would be quite different without it.

Recommendation

Accumulate
(previous Accumulate)

15.00 EUR
(previous EUR 16.50)

Share price:
13.57 EUR



Key figures

| | 2022 | 2023e | 2024e | 2025e |
|--------------------|--------|--------|--------|--------|
| Revenue | 8804 | 8521 | 8538 | 8574 |
| growth-% | 37% | -3% | 0% | 0% |
| EBIT adj. | 1871 | 1812 | 1591 | 1594 |
| EBIT-% adj. | 21.3 % | 21.3 % | 18.6 % | 18.6 % |
| Net Income | 1012 | 1314 | 1262 | 1303 |
| EPS (adj.) | -2.03 | 1.25 | 1.19 | 1.24 |

| | | | | |
|-------------------------|-------|-------|-------|-------|
| P/E (adj.) | neg. | 10.9 | 11.4 | 10.9 |
| P/B | 1.8 | 1.5 | 1.4 | 1.3 |
| Dividend yield-% | 5.9 % | 7.4 % | 6.6 % | 6.9 % |
| EV/EBIT (adj.) | 8.9 | 7.4 | 8.0 | 7.5 |
| EV/EBITDA | 9.0 | 5.2 | 5.4 | 5.0 |
| EV/S | 1.9 | 1.6 | 1.5 | 1.4 |

Source: Inderes

Guidance (Unchanged)

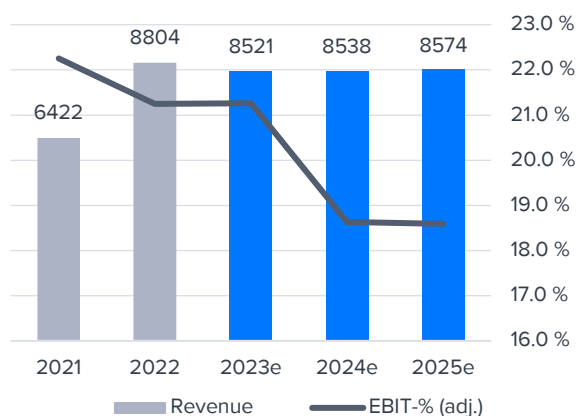
The Generation segment's Nordic generation hedges: approximately 75% at EUR 58 per MWh for 2023, and approximately 45% at EUR 42 per MWh for 2024.

Share price



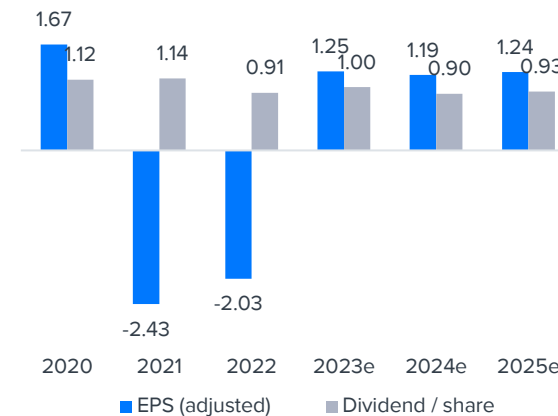
Source: Millstream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Exit from Russia
- Improved investment profile and lower risk profile as the financial situation becomes clearer
- High electricity prices would enable excellent earnings levels
- Improving operational efficiency
- Successful investments and divestments in accordance with the strategy



Risk factors

- Russia's actions and their consequences, most recently taking over the business
- 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
- Success in debt restructuring

| Valuation | 2023e | 2024e | 2025e |
|----------------------------|--------|--------|--------|
| Share price | 13.6 | 13.6 | 13.6 |
| Number of shares, millions | 897.3 | 897.3 | 897.3 |
| Market cap | 12176 | 12176 | 12176 |
| EV | 13386 | 12724 | 11930 |
| P/E (adj.) | 10.9 | 11.4 | 10.9 |
| P/E | 9.3 | 9.6 | 9.3 |
| P/FCF | 5.4 | 8.4 | 8.4 |
| P/B | 1.5 | 1.4 | 1.3 |
| P/S | 1.4 | 1.4 | 1.4 |
| EV/Sales | 1.6 | 1.5 | 1.4 |
| EV/EBITDA | 5.2 | 5.4 | 5.0 |
| EV/EBIT (adj.) | 7.4 | 8.0 | 7.5 |
| Payout ratio (%) | 68.3 % | 63.6 % | 64.1 % |
| Dividend yield-% | 7.4 % | 6.6 % | 6.9 % |

Source: Inderes

Q1 result overshadowed by the latest developments in Russia

Fortum will publish its Q1 report on Thursday at about 9.00 am EEST. Another eventful quarter is over but operationally Fortum's Generation segment has delivered a strong result supported by high electricity prices and presumably hedging prices are also on the rise. Russia took over Fortum's Russian businesses at the end of April, which is probably the biggest topic in connection with the Q1 report. We are particularly interested in accounting interpretations, i.e. in practice whether the Russia segment will be included in Fortum Group in the future.

Notes to figures

Fortum has changed [its segment reporting](#), but we have not yet made these changes and our comments concern the old structure. The changes at earnings level were not large for the Generation segment.

We also note that we have adjusted the Russian earnings contribution from comparable and adjusted figures. Thus, our figures are not comparable with consensus estimates in this respect. However, we feel that separating Russia is justified, especially now that Fortum no longer actually controls its business.

Operating result will be strong

Electricity prices in the Nordic countries were still high in early 2023, which supports the earnings of Fortum's Generation segment. On the other hand, prices have dropped sharply from the peaks and Q4'22 levels and the Q1'22 comparison level was also significantly higher. The average area price for Finland in Nordpool in Q1 was around €77.6/MWh, which is 15% lower than in the comparison period (Q1'22: €91.7/MWh). In Q4'22, prices in Finland were still a whopping €185 €/MWh, so the correction has been fast and strong. The price level in the Swedish SE3 area was approximately at Finnish level in Q1, but SE2 prices were significantly lower. We estimate that Fortum's market price was about €72/MWh. Nordic water resources were slightly below the long-term average at the end of March, but the Finnish water situation was practically neutral.

When we consider Fortum's high hedging levels (Q4'22: 75% for 2023) and reasonable hedging prices (Q4'22: €58/MWh for 2023), we estimate that the average sales price achieved by Generation was about €68/MWh (€65.2/MWh consensus) in Q1. The strong fluctuation in electricity prices enables

achieving high prices, especially with hydropower, which also acts as backup/standby power. We expect the Generation segment to generate a comparable operating profit of around 525 MEUR (Q1'22: 282 MEUR), which is slightly lower than the consensus estimate (543 MEUR).

Other segments have a supporting role

Outside the Generation segment, there have been major changes to the segments, but their earnings distribution is likely to remain small in the big picture. After the Russia segment is adjusted from Fortum, the operating results of other segments, in practice, only offset Group costs. Thus, the focus is on Generation.

We expect Fortum's comparable EBIT to be about EUR 548 million (excluding Russia), which is probably close to consensus with comparable figures. Cash flow should be strong, as assets previously committed as collateral to hedging are expected to gradually be repaid.

| Estimates MEUR / EUR | Q1'22 | Q1'23 | Q1'23e | Q1'23e | Consensus | | 2023e |
|-------------------------|------------|------------|---------|-----------|-----------|--------|---------|
| | Comparison | Actualized | Inderes | Consensus | Low | High | Inderes |
| Revenue | 2162 | | 2411 | 2312 | 2171 | 3158 | 8521 |
| Comparable EBITDA | 527 | | 693 | 772 | 754 | 830 | 2388 |
| Comparable EBIT | 388 | | 548 | 594 | 553 | 680 | 1812 |
| EBIT (reported) | 246 | | 596 | 618 | 553 | 680 | 2004 |
| EPS (reported) | -2.48 | | 0.41 | 0.46 | 0.35 | 0.59 | 1.46 |
| Revenue growth-% | - | | 11.5 % | 7% | 0% | 46% | -3.2 % |
| Comparable EBIT-% | 17.9 % | | 22.7 % | 25.7 % | 25.5 % | 21.5 % | 21.3 % |

Source: Inderes & Vara Research 3/10/2023 (median figures)

The fall in electricity prices depresses estimates

We recommend that Russian earnings are eliminated in the current situation. The big question is whether the Russia segment will be cut from official figures. We find it possible that the value of the entire business (EUR 1.7 billion remaining) is written down, which would naturally hit reported earnings hard. This has not cash flow effect and no cash flows have been received from Russia in a long time. In practice, the negative impact would hit the balance sheet, whose equity would decrease. However, Fortum's balance sheet could take this and we do not see this impacting the company's credit rating either. It is still a risk, however.

The fall in electricity prices depresses estimates

The lion's share of Fortum's result comes from the Generation segment, which, in turn, depends heavily on electricity prices. Especially in 2023, the price of electricity has continued falling, although the slope has decreased considerably. The futures listed on Nasdaq now indicate a level of around €45/MWh for Q3'23 and about €76/MWh for the seasonally strong Q4. In December 2022, the 2023 electricity futures

hit a staggering level of over €200/MWh, which is now long gone. We have revised our 2023 estimates slightly downwards, but on the other hand, revised our estimate of the tax burden for 2023. Thus, the effects are contradictory. The 2024 futures have recently been around €70/MWh, whereas we previously assumed the level to be around €75/MWh. We lowered the price estimate slightly to reflect the current level, which meant our 2024 earnings estimates fell by some 10%. The market is now sort of looking for a new balance point when the never ending Olkiluoto 3 project started regular electricity production on April 16, 2023. This will bring significant additional capacity to the market, while demand may calm down. It is interesting to see where the prices will eventually stabilize.

At the same time, we point out that Fortum owns 25% of OL3. According to our estimates, OL3's Mankala cost price is around €40-45/MWh, which is Fortum's purchase price for this electricity. Thus, a substantial "leverage" is created around this price level when the rather significant volume of the OL3

holding comes in at this price. In this respect, our estimates will be revised when we see the actual effects of OL3 later in the Q2 report. By then, OL3 will already have an impact.

The outlook monitors the evolution of hedging prices

Fortum's outlook focuses on the development of Generation's hedging levels and prices, as the segment accounts for the majority of the group's earnings. At the end of Q4, the Generation segment's Nordic production hedges for 2023 were approximately 75% at €58/MWh, and for 2024 approximately 45% at €42/MWh. Electricity futures have fluctuated strongly and primarily above these levels, although prices turned sharply downward in December. Thus, hedging prices should now be on the rise if the previous systematic approach has continued. In principle, however, the changes are moderate. In general, we think Fortum's outlook is still good in the Nordic countries if electricity prices do not start falling more strongly. The outlook for Russia is hardly worth discussing any more.

| Estimate revisions | 2023e | | Change | 2024e | | Change | 2025e | | Change |
|--------------------|-------|------|--------|-------|------|--------|-------|------|--------|
| | Old | New | | Old | New | | Old | New | |
| MEUR / EUR | | | % | | | % | | | % |
| Revenue | 8679 | 8521 | -2% | 8700 | 8538 | -2% | 8641 | 8574 | -1% |
| EBITDA | 2739 | 2580 | -6% | 2534 | 2366 | -7% | 2364 | 2364 | 0% |
| EBIT (exc. NRIs) | 1970 | 1812 | -8% | 1759 | 1591 | -10% | 1594 | 1594 | 0% |
| EBIT | 2163 | 2004 | -7% | 1950 | 1782 | -9% | 1783 | 1783 | 0% |
| PTP | 1908 | 1749 | -8% | 1783 | 1618 | -9% | 1671 | 1670 | 0% |
| EPS (excl. NRIs) | 1.19 | 1.25 | 5% | 1.34 | 1.19 | -11% | 1.24 | 1.24 | 0% |
| DPS | 0.95 | 1.00 | 5% | 1.00 | 0.90 | -11% | 1.00 | 0.93 | -7% |

Valuation fluctuates with the electricity market

A valuable core in the Nordic countries

The value of Fortum's core business has been clear throughout the crisis. The current market value of the company's Nordic hydro and nuclear assets of some EUR 12 billion is still low. The whole sector is priced moderately, which is understandable given Europe's focus on the energy crisis and politicians may plan to impose possible additional taxes and price caps on the sector. Although the valuation for the entire sector is low, Fortum's current valuation is at a clear discount to its peers.

Fortum is still burdened by the Russia segment, whose unclear situation causes unnecessary uncertainty, even though its value is already firmly at zero. We have tried to eliminate the earnings contribution from Russia in the adjusted figures (and in the adjusted multiples which we recommend monitoring). The takeover of the Russian businesses did not materially affect our view, because we placed no value on the business in the past either. A write-down would certainly make a dent in the balance sheet.

We feel Fortum's risk profile is reasonable, despite the "hostage" situation in the Russian business, because we estimate that the company's balance sheet can endure a write down of the entire Russian business and the liquidity situation is in order. In general, the risk profile of the business is moderate as the new strategy focuses on the Nordic countries. Soon, the debt market should also open up for Fortum, after which debt can be restructured and the uncertainties surrounding the financial situation will be removed. However, the situation in Russia that remains unclear is not helping. Fortum's ESG profile would be completely different without Russia, because all of the company's bigger problems (incl. emissions) are, in our view, related to the country.

Valuation is low

We expect Fortum's adjusted EPS excluding Russia to be EUR 1.25 in 2023 (2022: EUR 1.21). Fortum's adjusted P/E is thus around 11x, which can be considered rather attractive, especially considering the good cash flow profile of the next few years. We believe that a similar earnings level is realistic also in the future, but this will depend on the development of the electricity market.

Although Fortum has a large amount of interest-bearing debt given the circumstances (no access to debt markets), net debt is low and thus, with EV multiples, we believe Fortum is very attractively priced. EV/EBITDA ratios for the coming years are around 5x and EV/EBIT ratios some 7-8x. When Fortum again becomes a creditworthy Nordic energy company, we see clear upside potential in the valuation multiples. Especially if the company manages to exit Russia, we would consider a higher valuation justified given the rather attractive profile of the rest of the business. The peer group is priced 10-30% higher, so the difference is already significant.

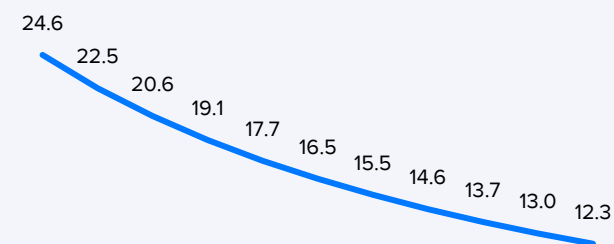
Cash flows remain challenging to project

Fortum's cash flows may continue to fluctuate significantly with electricity prices and hedging collateral requirements, but we expect the balance sheet to break even in the coming years. Our DCF calculation gives the share a value of around EUR 16-17 after the estimate revisions. Fortum's COE requirement is 8.2% (WACC 6.9%) in the calculation, where it should be noted that we have eliminated the cash flow from the Russian business from our calculation. So, this reflects the continuing Nordic business and its risk profile that we consider moderate.

| Valuation | 2023e | 2024e | 2025e |
|----------------------------|--------|--------|--------|
| Share price | 13.6 | 13.6 | 13.6 |
| Number of shares, millions | 897.3 | 897.3 | 897.3 |
| Market cap | 12176 | 12176 | 12176 |
| EV | 13386 | 12724 | 11930 |
| P/E (adj.) | 10.9 | 11.4 | 10.9 |
| P/E | 9.3 | 9.6 | 9.3 |
| P/FCF | 5.4 | 8.4 | 8.4 |
| P/B | 1.5 | 1.4 | 1.3 |
| P/S | 1.4 | 1.4 | 1.4 |
| EV/Sales | 1.6 | 1.5 | 1.4 |
| EV/EBITDA | 5.2 | 5.4 | 5.0 |
| EV/EBIT (adj.) | 7.4 | 8.0 | 7.5 |
| Payout ratio (%) | 68.3 % | 63.6 % | 64.1 % |
| Dividend yield-% | 7.4 % | 6.6 % | 6.9 % |

Source: Inderes

Sensitivity of share's DCF value to changes in risk-free interest (%)



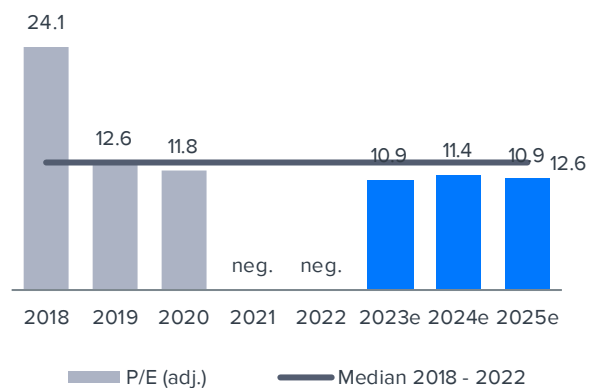
0.0 % 0.5 % 1.0 % 1.5 % 2.0 % 2.5 % 3.0 % 3.5 % 4.0 % 4.5 % 5.0 %

Valuation table

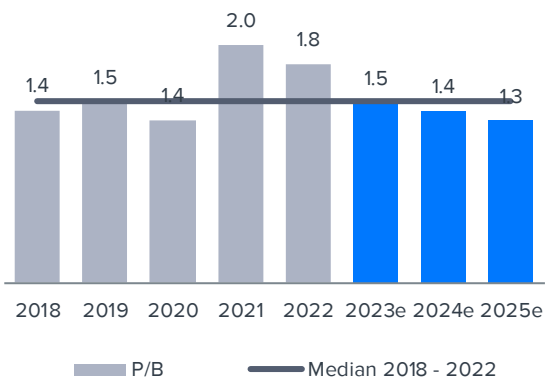
| Valuation | 2018 | 2019 | 2020 | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e |
|----------------------------|---------|--------|--------|---------|-------|--------|--------|--------|--------|
| Share price | 19.1 | 22.0 | 19.7 | 27.0 | 15.5 | 13.6 | 13.6 | 13.6 | 13.6 |
| Number of shares, millions | 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 | 12176 | 12176 | 12176 | 12176 |
| EV | 16805 | 18665 | 25567 | 32676 | 16661 | 13386 | 12724 | 11930 | 11239 |
| P/E (adj.) | 24.1 | 12.6 | 11.8 | neg. | neg. | 10.9 | 11.4 | 10.9 | 10.8 |
| P/E | 20.1 | 13.2 | 9.6 | 32.4 | neg. | 9.3 | 9.6 | 9.3 | 9.2 |
| P/FCF | 10.0 | 46.5 | neg. | 25.8 | 1.6 | 5.4 | 8.4 | 8.4 | 8.9 |
| P/B | 1.4 | 1.5 | 1.4 | 2.0 | 1.8 | 1.5 | 1.4 | 1.3 | 1.3 |
| P/S | 3.2 | 3.6 | 0.4 | 3.7 | 1.6 | 1.4 | 1.4 | 1.4 | 1.4 |
| EV/Sales | 3.2 | 3.4 | 0.5 | 5.1 | 1.9 | 1.6 | 1.5 | 1.4 | 1.3 |
| EV/EBITDA | 10.0 | 11.0 | 9.5 | 6.7 | 9.0 | 5.2 | 5.4 | 5.0 | 4.8 |
| EV/EBIT (adj.) | 17.0 | 15.7 | 19.0 | 22.9 | 8.9 | 7.4 | 8.0 | 7.5 | 7.1 |
| Payout ratio (%) | 115.9 % | 66.0 % | 54.6 % | 137.0 % | neg. | 68.3 % | 63.6 % | 64.1 % | 85.0 % |
| Dividend yield-% | 5.8 % | 5.0 % | 5.7 % | 4.2 % | 5.9 % | 7.4 % | 6.6 % | 6.9 % | 9.2 % |

Source: Inderes

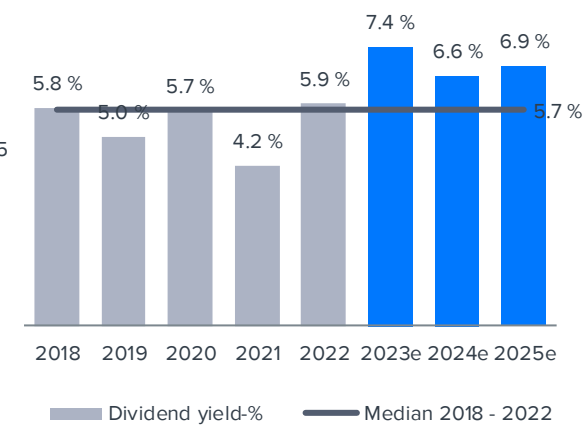
P/E (adj.)



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 | 30765 | 29222 | 7.5 | 8.9 | 4.8 | 5.3 | 12.1 | 15.6 | 2.3 | 2.4 | 1.1 |
| Engie | 35443 | 51243 | 6.8 | 6.3 | 4.1 | 3.9 | 9.6 | 8.7 | 7.4 | 7.7 | 1.0 |
| E.ON | 32013 | 62590 | 12.9 | 12.4 | 8.1 | 7.8 | 13.2 | 12.9 | 4.4 | 4.5 | 1.8 |
| Verbund | 27376 | 32105 | 8.4 | 8.8 | 7.4 | 7.8 | 10.9 | 11.4 | 4.6 | 4.4 | 3.2 |
| EDF | 48011 | 89460 | 13.5 | 10.6 | 4.9 | 4.3 | 11.9 | 8.4 | 3.6 | 3.9 | 1.0 |
| CEZ | 27580 | 22808 | 6.0 | 4.7 | 4.4 | 3.7 | 18.6 | 17.0 | 6.0 | 4.6 | 3.3 |
| Enel | 62647 | 148931 | 11.6 | 11.0 | 7.3 | 7.0 | 10.3 | 9.6 | 6.9 | 6.9 | 1.7 |
| Uniper | 32993 | 33706 | 45.9 | 32.1 | 20.5 | 18.2 | 66.9 | 31.8 | | 0.2 | 2.6 |
| Orsted | 35592 | 41425 | 25.9 | 19.7 | 13.6 | 11.5 | 39.3 | 28.7 | 2.3 | 2.4 | 2.9 |
| Fortum (Inderes) | 12176 | 13386 | 7.4 | 8.0 | 5.2 | 5.4 | 10.9 | 11.4 | 7.4 | 6.6 | 1.5 |
| Average | | | 15.4 | 12.7 | 8.3 | 7.7 | 21.4 | 16.0 | 4.7 | 4.1 | 2.1 |
| Median | | | 11.6 | 10.6 | 7.3 | 7.0 | 12.1 | 12.9 | 4.5 | 4.4 | 1.8 |
| Diff-% to median | | | -36% | -24% | -28% | -23% | -10% | -12% | 65% | 49% | -19% |

Source: Refinitiv / Inderes

Income statement

| Income statement | 2021 | Q1'22 | Q2'22 | Q3'22 | Q4'22 | 2022 | Q1'23e | Q2'23e | Q3'23e | Q4'23e | 2023e | 2024e | 2025e | 2026e |
|---|--------------|--------------|--------------|-------------|---------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenue | 6422 | 2162 | 1754 | 2152 | 2736 | 8804 | 2411 | 1848 | 1906 | 2356 | 8521 | 8538 | 8574 | 8665 |
| Generation | 2869 | 701 | 715 | 894 | 1345 | 3655 | 1079 | 979 | 875 | 1255 | 4187 | 4051 | 3929 | 3920 |
| City Solutions | 1302 | 390 | 229 | 254 | 409 | 1282 | 386 | 244 | 282 | 456 | 1368 | 1369 | 1386 | 1416 |
| Consumer Solutions | 2622 | 1168 | 856 | 1094 | 1460 | 4578 | 1072 | 708 | 899 | 1197 | 3876 | 3959 | 4044 | 4131 |
| Russia | 906 | 223 | 218 | 261 | 328 | 1030 | 230 | 212 | 220 | 264 | 926 | 926 | 926 | 926 |
| Uniper | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 138 | 35 | 34 | 34 | 33 | 136 | 35 | 34 | 34 | 33 | 135 | 139 | 137 | 139 |
| Eliminations | -1415 | -355 | -298 | -385 | -839 | -1877 | -391 | -328 | -404 | -847 | -1970 | -1906 | -1849 | -1867 |
| EBITDA | 4913 | 386 | 901 | 1058 | -502.0 | 1843 | 741 | 574 | 455 | 810 | 2580 | 2366 | 2364 | 2356 |
| Depreciation | -587 | -140 | -134 | -141 | -151 | -566 | -145 | -142 | -142 | -147 | -576 | -584 | -581 | -579 |
| EBIT (excl. NRI) | 1429 | 388 | 318 | 420 | 745 | 1871 | 548 | 394 | 271 | 599 | 1812 | 1591 | 1594 | 1590 |
| EBIT | 4326 | 246 | 767 | 917 | -653 | 1277 | 596 | 432 | 313 | 663 | 2004 | 1782 | 1783 | 1777 |
| Generation | 1123 | 275 | 300 | 375 | 650 | 1600 | 525 | 444 | 282 | 546 | 1797 | 1596 | 1586 | 1577 |
| City Solutions | 135 | 48 | -36 | -16 | 32 | 28 | 34 | -32 | -7 | 56 | 51 | 35 | 26 | 29 |
| Consumer Solutions | 52 | 35 | 21 | 17 | 24 | 97 | 19 | 13 | 26 | 26 | 84 | 80 | 102 | 104 |
| Russia | 261 | 61 | 57 | 67 | 75 | 260 | 49 | 38 | 41 | 65 | 193 | 191 | 189 | 187 |
| Uniper | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other | -142 | -31 | -24 | -23 | -36 | -114 | -30 | -30 | -30 | -30 | -120 | -120 | -120 | -120 |
| Items affecting comparability | 2897 | -142 | 449 | 497 | -1398 | -594 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Share of associated companies' profit or loss | 168 | -215 | -79 | -39 | -296 | -629 | 8 | 3 | 0 | 9 | 20 | 20 | 20 | 20 |
| Net financial items | -161 | 59 | 499 | -141 | -610 | -193 | -75 | -60 | -70 | -70 | -275 | -184 | -133 | -106 |
| PTP | 4333 | 90 | 1187 | 737 | -1559 | 455 | 529 | 375 | 243 | 602 | 1749 | 1618 | 1670 | 1692 |
| Taxes | -325 | -104 | -150 | -137 | 948 | 557 | -125 | -89 | -58 | -142 | -415 | -336 | -347 | -351 |
| Minority interest | -23 | -7 | 2 | 1 | 4 | 0 | -7 | 2 | 0 | -15 | -20 | -20 | -21 | -21 |
| Net earnings | 739 | -2222 | -5686 | 6099 | -607 | -2416 | 397 | 288 | 185 | 445 | 1314 | 1262 | 1303 | 1320 |
| EPS (adj.) | -2.43 | -2.32 | -6.84 | 6.24 | 0.88 | -2.03 | 0.39 | 0.28 | 0.16 | 0.42 | 1.25 | 1.19 | 1.24 | 1.26 |
| EPS (rep.) | 0.83 | -2.48 | -6.34 | 6.80 | -0.68 | -2.69 | 0.44 | 0.32 | 0.21 | 0.50 | 1.46 | 1.41 | 1.45 | 1.47 |

Source: Inderes

Balance sheet

| Assets | 2022 | 2023e | 2024e | 2025e |
|----------------------------|--------------|--------------|--------------|--------------|
| Non-current assets | 12668 | 12802 | 12678 | 12806 |
| Goodwill | 0.0 | 0.0 | 0.0 | 0.0 |
| Intangible assets | 657 | 667 | 677 | 686 |
| Tangible assets | 7266 | 7390 | 7506 | 7625 |
| Associated companies | 1249 | 1249 | 1249 | 1249 |
| Other investments | 628 | 628 | 628 | 628 |
| Other non-current assets | 1935 | 1935 | 1685 | 1685 |
| Deferred tax assets | 933 | 933 | 933 | 933 |
| Current assets | 10974 | 8345 | 6997 | 7377 |
| Inventories | 465 | 469 | 470 | 472 |
| Other current assets | 1486 | 1486 | 1236 | 1236 |
| Receivables | 5104 | 3408 | 2988 | 2572 |
| Cash and equivalents | 3919 | 2982 | 2303 | 3097 |
| Balance sheet total | 23642 | 21147 | 19675 | 20183 |

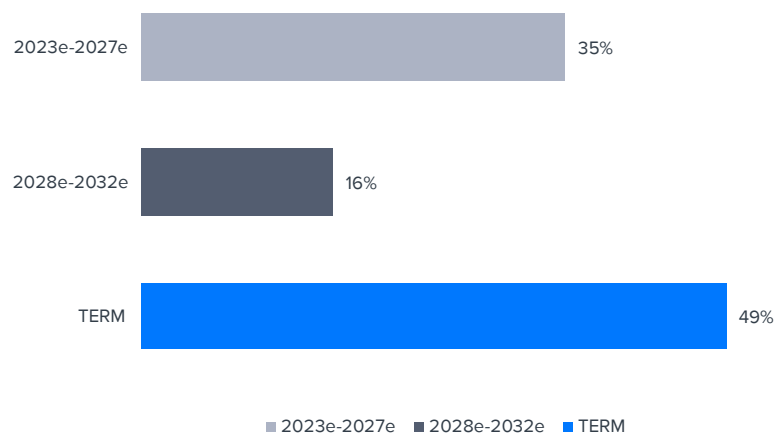
Source: Inderes

| Liabilities & equity | 2022 | 2023e | 2024e | 2025e |
|--------------------------------|--------------|--------------|--------------|--------------|
| Equity | 7737 | 8235 | 8600 | 9099 |
| Share capital | 3046 | 3046 | 3046 | 3046 |
| Retained earnings | 6467 | 6965 | 7330 | 7829 |
| Hybrid bonds | 0.0 | 0.0 | 0.0 | 0.0 |
| Revaluation reserve | 0.0 | 0.0 | 0.0 | 0.0 |
| Other equity | -1843.0 | -1843.0 | -1843.0 | -1843.0 |
| Minorities | 67.0 | 67.0 | 67.0 | 67.0 |
| Non-current liabilities | 5797 | 6077 | 5139 | 5139 |
| Deferred tax liabilities | 152 | 152 | 152 | 152 |
| Provisions | 1097 | 1097 | 1097 | 1097 |
| Long term debt | 3658 | 3938 | 3000 | 3000 |
| Convertibles | 0.0 | 0.0 | 0.0 | 0.0 |
| Other long term liabilities | 890 | 890 | 890 | 890 |
| Current liabilities | 10108 | 6835 | 5937 | 5945 |
| Short term debt | 4127 | 1402 | 1000 | 1000 |
| Payables | 2008 | 1960 | 1964 | 1972 |
| Other current liabilities | 3973 | 3473 | 2973 | 2973 |
| Balance sheet total | 23642 | 21147 | 19675 | 20183 |

DCF calculation

| DCF model | 2022 | 2023e | 2024e | 2025e | 2026e | 2027e | 2028e | 2029e | 2030e | 2031e | 2032e | TERM |
|---|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenue growth-% | 37.1 % | -3.2 % | 0.2 % | 0.4 % | 1.1 % | 1.0 % | 1.0 % | 1.0 % | 1.0 % | 1.0 % | 1.0 % | 1.0 % |
| EBIT-% | 14.5 % | 23.5 % | 20.9 % | 20.8 % | 20.5 % | 20.0 % | 19.5 % | 19.0 % | 18.5 % | 18.0 % | 18.0 % | 18.0 % |
| EBIT (operating profit) | 1277 | 2004 | 1782 | 1783 | 1777 | 1750 | 1724 | 1696 | 1668 | 1639 | 1656 | |
| + Depreciation | 566 | 576 | 584 | 581 | 579 | 581 | 590 | 598 | 606 | 613 | 619 | |
| - Paid taxes | 1098 | -415 | -336 | -347 | -351 | -346 | -341 | -335 | -329 | -323 | -326 | |
| - Tax, financial expenses | -41 | -74 | -44 | -34 | -29 | -29 | -29 | -29 | -29 | -29 | -29 | |
| + Tax, financial income | 0 | 8 | 6 | 6 | 7 | 8 | 8 | 8 | 8 | 8 | 8 | |
| - Change in working capital | 2189 | 1144 | 173 | 422 | 335 | -7 | -7 | -8 | -8 | -8 | -8 | |
| Operating cash flow | 5089 | 3243 | 2164 | 2412 | 2318 | 1956 | 1944 | 1931 | 1916 | 1900 | 1920 | |
| + Change in other long-term liabilities | -26555 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| - Gross CAPEX | 33737 | -710 | -460 | -709 | -707 | -707 | -707 | -707 | -707 | -707 | -663 | |
| Free operating cash flow | 12271 | 2533 | 1704 | 1703 | 1611 | 1249 | 1237 | 1224 | 1209 | 1193 | 1256 | |
| +/- Other | -3428 | -263 | -258 | -254 | -249 | -249 | -249 | -249 | -249 | -249 | -249 | |
| FCFF | 8843 | 2270 | 1446 | 1449 | 1362 | 1000 | 988 | 975 | 960 | 944 | 1007 | 17127 |
| Discounted FCFF | | 2173 | 1294 | 1213 | 1066 | 732 | 676 | 624 | 574 | 528 | 527 | 8961 |
| Sum of FCFF present value | | 18368 | 16195 | 14901 | 13688 | 12622 | 11890 | 11214 | 10591 | 10016 | 9488 | 8961 |
| Enterprise value DCF | | 18368 | | | | | | | | | | |
| - Interesting bearing debt | | -7785 | | | | | | | | | | |
| + Cash and cash equivalents | | 3919 | | | | | | | | | | |
| + Sijoitukset osakkuusyhtiöihin | | 1249 | | | | | | | | | | |
| -Minorities | | -101 | | | | | | | | | | |
| -Dividend/capital return | | -817 | | | | | | | | | | |
| Equity value DCF | | 14834 | | | | | | | | | | |
| Equity value DCF per share | | 16.5 | | | | | | | | | | |

Cash flow distribution



WACC

| | |
|--|--------------|
| Tax-% (WACC) | 21.0 % |
| Target debt ratio (D/(D+E)) | 25.0 % |
| Cost of debt | 4.0 % |
| 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) | 6.9 % |

Summary

| Income statement | 2020 | 2021 | 2022 | 2023e | 2024e | Per share data | 2020 | 2021 | 2022 | 2023e | 2024e |
|---------------------------|--------|--------|-------|--------------|--------------|--------------------------|--------|--------|---------|---------------|---------------|
| Revenue | 49015 | 6422 | 8804 | 8521 | 8538 | EPS (reported) | 2.05 | 0.83 | -2.69 | 1.46 | 1.41 |
| EBITDA | 2689 | 4913 | 1843 | 2580 | 2366 | EPS (adj.) | 1.67 | -2.43 | -2.03 | 1.25 | 1.19 |
| EBIT | 1599 | 4326 | 1277 | 2004 | 1782 | OCF / share | 1.75 | 1.23 | 5.67 | 3.61 | 2.41 |
| PTP | 2199 | 4333 | 455 | 1749 | 1618 | FCF / share | -8.69 | 1.05 | 9.86 | 2.53 | 1.61 |
| Net Income | 1823 | 739 | -2416 | 1314 | 1262 | Book value / share | 14.58 | 13.66 | 8.55 | 9.10 | 9.51 |
| Extraordinary items | 255 | 2897 | -594 | 193 | 191 | Dividend / share | 1.12 | 1.14 | 0.91 | 1.00 | 0.90 |
| Balance sheet | 2020 | 2021 | 2022 | 2023e | 2024e | Growth and profitability | 2020 | 2021 | 2022 | 2023e | 2024e |
| Balance sheet total | 57810 | 149661 | 23642 | 21147 | 19675 | Revenue growth-% | 800% | -87% | 37% | -3% | 0% |
| Equity capital | 15577 | 13665 | 7737 | 8235 | 8600 | EBITDA growth-% | 59% | 83% | -62% | 40% | -8% |
| Goodwill | 1069 | 1021 | 0 | 0 | 0 | EBIT (adj.) growth-% | 13% | 6% | 31% | -3% | -12% |
| Net debt | 8354 | 9628 | 3866 | 2358 | 1697 | EPS (adj.) growth-% | -4% | -245% | -16% | -162% | -5% |
| Cash flow | 2020 | 2021 | 2022 | 2023e | 2024e | EBITDA-% | 5.5 % | 76.5 % | 20.9 % | 30.3 % | 27.7 % |
| EBITDA | 2689 | 4913 | 1843 | 2580 | 2366 | EBIT (adj.)-% | 2.7 % | 22.3 % | 21.3 % | 21.3 % | 18.6 % |
| Change in working capital | -785 | -1365 | 2189 | 1144 | 173 | EBIT-% | 3.3 % | 67.4 % | 14.5 % | 23.5 % | 20.9 % |
| Operating cash flow | 1556 | 1092 | 5089 | 3243 | 2164 | ROE-% | 14.1 % | 5.9 % | -24.4 % | 16.6 % | 15.1 % |
| CAPEX | -20567 | -12840 | 33737 | -710 | -460 | ROI-% | 10.3 % | 15.8 % | 2.8 % | 14.2 % | 14.0 % |
| Free cash flow | -7721 | 929 | 8843 | 2270 | 1446 | Equity ratio | 26.9 % | 9.1 % | 32.7 % | 38.9 % | 43.7 % |
| Valuation multiples | 2020 | 2021 | 2022 | 2023e | 2024e | Gearing | 53.6 % | 70.5 % | 50.0 % | 28.6 % | 19.7 % |
| EV/S | 0.5 | 5.1 | 1.9 | 1.6 | 1.5 | | | | | | |
| EV/EBITDA (adj.) | 9.5 | 6.7 | 9.0 | 5.2 | 5.4 | | | | | | |
| EV/EBIT (adj.) | 19.0 | 22.9 | 8.9 | 7.4 | 8.0 | | | | | | |
| P/E (adj.) | 11.8 | neg. | neg. | 10.9 | 11.4 | | | | | | |
| P/B | 1.4 | 2.0 | 1.8 | 1.5 | 1.4 | | | | | | |
| Dividend-% | 5.7 % | 4.2 % | 5.9 % | 7.4 % | 6.6 % | | | | | | |

Source: Inderes

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 |
|----------|----------------|---------|-------------|
| 17-03-20 | Buy | 15.00 € | 13.31 € |
| 27-04-20 | Buy | 17.00 € | 14.86 € |
| 18-05-20 | Buy | 17.50 € | 14.92 € |
| 21-07-20 | Buy | 20.00 € | 17.84 € |
| 20-08-20 | Buy | 20.00 € | 17.02 € |
| 18-11-20 | Buy | 20.00 € | 17.63 € |
| 04-12-20 | Buy | 20.00 € | 18.30 € |
| 15-02-21 | Accumulate | 22.50 € | 21.97 € |
| 14-05-21 | Accumulate | 24.00 € | 22.74 € |
| 18-08-21 | Accumulate | 26.50 € | 24.49 € |
| 15-11-21 | Reduce | 25.00 € | 25.30 € |
| 28-02-22 | Reduce | 19.00 € | 19.47 € |
| 07-03-22 | Accumulate | 16.00 € | 15.26 € |
| 27-04-22 | Reduce | 16.00 € | 15.63 € |
| 13-05-22 | Reduce | 16.00 € | 15.31 € |
| 21-06-22 | Accumulate | 18.00 € | 16.31 € |
| 25-07-22 | Accumulate | 13.00 € | 11.36 € |
| 18-08-22 | Reduce | 11.00 € | 11.41 € |
| 23-08-22 | Reduce | 11.00 € | 10.47 € |
| 26-08-22 | Reduce | 11.00 € | 10.32 € |
| 22-09-22 | Accumulate | 14.50 € | 13.25 € |
| 13-10-22 | Accumulate | 14.50 € | 12.73 € |
| 11-11-22 | Accumulate | 16.50 € | 14.38 € |
| 07-12-22 | Accumulate | 18.00 € | 15.87 € |
| 28-02-23 | Accumulate | 16.00 € | 14.51 € |
| 03-03-23 | Accumulate | 16.50 € | 14.63 € |
| 08-05-23 | Accumulate | 15.00 € | 13.57 € |



Inderes connects investors and listed companies. We help over 400 listed companies to better serve their investors. Our community is home to over 70 000 active investors.

Our social objective is to democratize information in the financial markets.

We build solutions for listed companies that enable seamless and effective investor relations. Majority of our revenue comes from services to listed companies, including Commissioned Research, Virtual Events, AGM services, and IR technology and consultation.

Inderes is listed on 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

**Research belongs
to everyone.**