

Fortum

Company report

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This report is a summary translation of the report “Venäjä, Venäjä, Venäjä” published on 2/28/2022 at 8:18 am

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Russia, Russia, Russia

We lower our target price for Fortum to EUR 19.0 (previously EUR 25.0) and reiterate our Reduce recommendation. Russia's extensive attack on Ukraine dramatically changed Fortum's operating environment and previously extremely unlikely scenarios have become possible. Our ability to assess the likelihood of various risks is weak and uncertainty is extremely high. However, in the current situation, Fortum's high Russia risk is not attractive, and Russia's counter-sanctions in particular can be very harmful. A lot of negatives are already priced into the share at the current level, but we remain cautious before the company's financial report.

Russia risks have risen to a new level

Russia's extensive attack on Ukraine has dramatically changed Fortum's operating environment. We believe that instead of the actual war more crucial factors for Fortum's value are: 1) strong sanctions against Russia, 2) possible counter-sanctions by Russia and other reactions, 3) possible collapse of the ruble, and 4) possible knock-on effects on all of the above. The scale of the prevailing conflict is already so great that what is considered incomprehensible under normal circumstances cannot be ruled out. Following strong sanctions, Russia has threatened to nationalize foreign companies and since then the EU has further tightened the sanctions. Extensive sanctions are likely to hit the Russian economy, the financial sector and the value of the ruble hard.

Russia's actions can derail Uniper

So far, Russia has not taken any counter-sanctions, but their consequences for Fortum can be huge. It is impossible to determine the likelihood of the risks materializing, but we feel the most significant risks right now are 1) Nord Stream 2, whose loan receivables Uniper may have to write-down to the tune of EUR 1 billion. 2) The end of Russian gas supply, which would hit Uniper's Global Commodities business hard. Uncertainty increases by the effects of possible market disturbances on Uniper's massive derivative position (2021: EUR 81.6 bn) used by the company to hedge cash flows sometimes quite unsuccessfully. 3) Fortum's and Uniper's Russian businesses turning worthless, which sounded very remote a week ago, but now is at least possible. Russia accounts for about 20% of Fortum Group's result, and an estimated EUR 5 billion in capital is committed to Russia. "Nationalization" sounds radical, but the ruble is already likely to collapse and investors' interest in business activities seems distant. Uniper's liquidity has already been tight, and potential write-downs, hits to performance and market disruptions would further increase the need for funding. In the negative scenario, Fortum's balance sheet would also be subject to significant hits, and we believe, e.g., that dividend payment is no longer certain. However, the main problems would in principle be temporary: Without Russia, Fortum's investment profile would improve significantly and the overall market outlook in Europe is very good.

At this staging-post the risk/return ratio remains negative

The share price has decreased by 28% so far this year (as market cap EUR ~5.4 billion). We believe that more than half of the decrease is explained by additional pricing of Russia risks. The NS2 write-down is likely to already be priced in, and the value of the Russian businesses has been significantly reduced. However, there are still several threats (in particular Global Commodities), and we believe that the market does not yet consider knock-on effects. The valuation is in principle attractive (2022e P/E 13x and P/B 1.3x), but due to recent developments both the performance and balance sheet require reassessment. However, we will only revisit our estimates after Fortum's financial statement bulletin to be released on Thursday.

Recommendation

Reduce

(previous Reduce)

EUR 19.00

(previous EUR 25.00)

Share price:

EUR 19.47



Key figures

	2020	2021e	2022e	2023e
Revenue	49015	130226	132222	136101
growth-%	800%	166%	2%	3%
EBIT adj.	1344	2435	2079	1986
EBIT-% adj.	2.7 %	1.9 %	1.6 %	1.5 %
Net Income	1823	1172	1377	1322
EPS (adj.)	1.67	1.48	1.55	1.49

P/E (adj.)	11.8	13.2	12.6	13.1
P/B	1.4	1.3	1.3	1.2
Dividend yield-%	5.7 %	5.9 %	5.9 %	5.9 %
EV/EBIT (adj.)	19.0	10.5	12.2	10.4
EV/EBITDA	9.5	38.0	7.5	6.2
EV/S	0.5	0.2	0.2	0.2

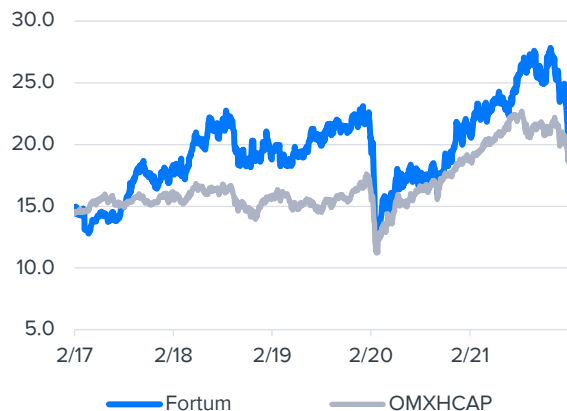
Source: Inderes

Guidance

(Unchanged)

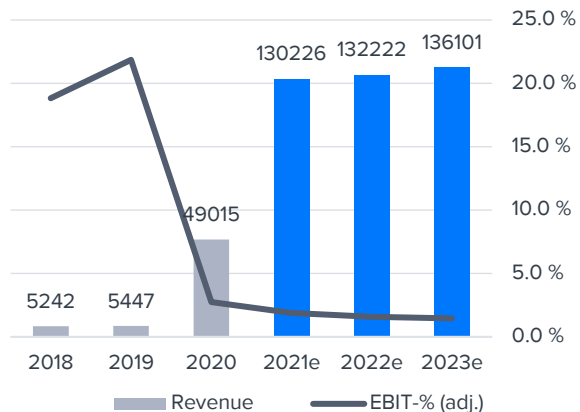
Generation segment's Nordic generation hedges: approximately 75% at EUR 34 per MWh for the remainder of 2021, approximately 65% at EUR 32 per MWh for 2022, and approximately 40% at EUR 31 per MWh for 2023.

Share price



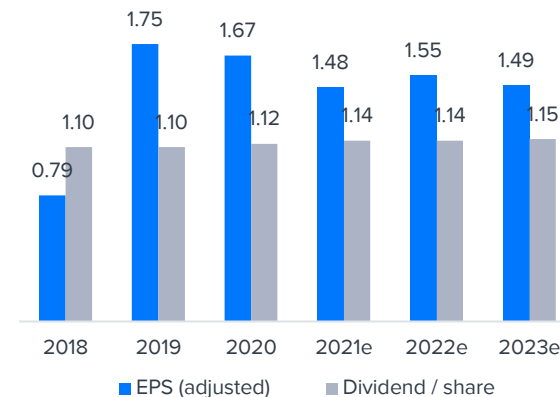
Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Genuine merger of Fortum and Uniper, which would enable significant synergies
- Improving operational efficiency
- Successful investments and divestments in accordance with the strategy
- Sustainable increase in the price of electricity, e.g., through higher prices of emission allowances
- Improving the investment profile
- New potential from a possible rise in the hydrogen economy



Risk factors

- Russian war in Ukraine and related cycle of sanctions
- A drop in electricity prices would ultimately be reflected in the result, despite hedging
- Unfavorable regulatory developments in the Nordic countries, Europe or Russia
- The impact of the Olkiluoto 3 nuclear power plant on the Finnish electricity market and Fortum's result
- Uncertainty related to coal power brought on by Uniper

Valuation	2021e	2022e	2023e
Share price	19.5	19.5	19.5
Number of shares, millions	888.3	888.3	888.3
Market cap	17291	17291	17291
EV	25616	25412	20688
P/E (adj.)	13.2	12.6	13.1
P/E	14.8	12.6	13.1
P/FCF	83.3	12.0	2.9
P/B	1.3	1.3	1.2
P/S	0.1	0.1	0.1
EV/Sales	0.2	0.2	0.2
EV/EBITDA	38.0	7.5	6.2
EV/EBIT (adj.)	10.5	12.2	10.4
Payout ratio (%)	86.4 %	73.5 %	77.2 %
Dividend yield-%	5.9 %	5.9 %	5.9 %

Source: Inderes

Russia risks have risen to a new level (1/2)

Risk: Nationalization of Fortum's and Uniper's businesses in Russia

Fortum's Russia segment's sales and EBIT in 2021 were estimated at around EUR 885 million and EUR 252 million (NB! Estimates at this point). The figures for Uniper's Russian Power Generation segment were in the same ballpark: Sales EUR 1,010 million and adjusted EBIT EUR 230 million. So the combined sales are some EUR 1.9 billion and the (adjusted) EBIT is around EUR 480 million, which is about 20% of Fortum Group's adjusted EBIT. Thus, removing Russian businesses would mean a cut of about 20% in Fortum's result, and the impact on cash flows would probably be similar. We emphasize that this only includes local business operations in Russia that serve local customers. Imports from Russia and the Nord Stream 2 project are discussed separately.

When determining the value of Fortum's business, it should be noted that Uniper's Russia operations mainly concentrate on the Unipro Group that is a separately listed company in Russia. Uniper owns 83.7% of Unipro, leaving 16.3% to the minority. Unipro's market cap was around EUR 1.1 billion on Friday, but understandably the price has been very volatile recently. The EBIT of Fortum's Russia business is slightly higher, so with the same valuation multiple, its market cap would be around EUR 1.2 billion assuming similar capital structures. A market cap of around EUR 2.3 billion for the Russian business could be relatively reasonable with Friday's data. The Russian business would then be valued at 4.8x operating result (P/EBIT). We will examine this later relative to other assumptions.

In addition to the earnings effect, Russian business naturally ties up considerable capital. At the end of Q3'21, Fortum's capital committed to the Russia segment was EUR 2.55 billion, and considerably more has been invested in the country over the years. We believe that Uniper's Russian holdings are in the same size class and estimate that the total capital committed to Russia is around EUR 5 billion. This estimate is subject to significant uncertainty as the companies also have associated companies and some holdings include significant minorities. Especially in terms of Uniper it is also unclear at what value, e.g., Unipro is included in the balance sheet. It is interesting that Uniper's balance sheet also includes goodwill of EUR 471 million allocated to Russia.

Risk: Nord Stream 2 gas pipeline project

Among the first EU sanctions was the Nord Stream 2 gas pipeline (NS2), which has generated questionable attention for a long time. Uniper has financed the project and the company has loan receivables of about EUR 1 billion connected to the project. If NS2 is not authorized to be placed in service, which seems likely in the current situation, it will be difficult to consider these loan receivables as current in the long-term.

We see a significant write-down risk in the NS2 loan receivables, but we are not sure if Uniper could receive compensation for the possible loss. Legally, the situation is difficult to assess. We believe that the NS2 write-down is the Russia risk most likely to materialize, but its overall effects are still uncertain. NS2 has never been in use, so it has no business impact.

Risk: End of Russian gas supply

Uniper's Global Commodities business is mainly gas midstream business. The main raw material for the business is natural gas imported from Russia, which the company supplies to Europe (Germany in particular). There is no exact information on the Russian contribution, but we believe that it is well over 50 % of the total volume. The company's main partner in Russia is Gazprom, with whom it has been working for 50 years. Uniper has a long-term supply contract with Gazprom, and there are of course other long-term supply contracts (incl. LNG). So far, we believe that all deliveries have been made as agreed, but, as the crisis intensifies daily this may not necessarily continue in the future. Russia uses Europe's energy dependency as a political lever, and Europe will certainly actively seek to eliminate this dependency. In a cycle of sanctions it is also possible that Russia cuts off the gas supply to Europe.

Gas supply being cut off would cause major problems in Europe, and we believe it would cause significant disruptions in Uniper's Global Commodities segment's business. The risk related to Russian gas supply is difficult to quantify and the potential impact on the Global Commodities business is not clear either. However, we believe that this is a clear uncertainty related to Russia, which is why we are trying to roughly assess the potential impact on Uniper. The Global Commodities business is Uniper's largest business accounting for about 64% of Uniper's adjusted EBIT in 2021.

Russia risks have risen to a new level (2/2)

Therefore, the potential impact on earnings would be very high. However, while Global Commodities has generated significant earnings, it has also tied up a lot of capital. We believe, the vast majority of Uniper's massive derivative position is related to the Global Commodities business.

At the turn of the year, Uniper's balance sheet included a total of EUR 81.6 billion in derivative receivables. The sums are enormous, and we have no way of ensuring that the positions are hedged under all market conditions. They have already caused problems in terms of collateral requirements and hence liquidity, and we do not believe that all Uniper's positions have been purely hedging. It is therefore impossible to say what would happen to derivative positions if, for example, the price of gas rose sharply as Russia restricts gas supplies to Europe.

There is no visibility inside the Global Commodities business. Therefore, we cannot be sure what kind of contracts Uniper has for supplying gas to its customers and whether, e.g., there are force majeure clauses that can be exercised if Russia ceases gas supply. We cannot be sure of Uniper's responsibilities if Russia and Gazprom simply did not observe the agreements. After 50 years of cooperation, this would naturally be very exceptional, but there have been many exceptional events in recent days.

In principle, we assume that the contracts are built to ensure margins and that the final price also changes if Russian gas is not available, or its price rises significantly. After the first sanctions, Russia has already raised the issue of possible price increase. Although, as far as we know, this is at least so far an

informal "threat", Uniper's risk list also included risks related to renegotiation and prices of long-term supply contracts.

Risk: Collapse of the ruble

Strong sanctions by the EU and the US affect both the Russian banking system and the ability of its central bank to act. This is why we estimate that the Russian ruble will be subject to very strong downward pressure in the near future. This report was written on Sunday evening, when the currency markets were not yet officially open, but on Monday morning the ruble has weakened by some 20-30% relative to the USD, for example.

Fortum's and Uniper's Russian businesses are conducted in ruble, but a collapse of the ruble would naturally reduce the euro denominated result considerably, even if none of the other above-mentioned risks would materialize. In addition, there may also be challenges in transferring money from Russia to Europe due to restrictions on banks.

Risk: Fennovoima holding

Fortum also has a small holding in the Fennovoima nuclear power project related to Russia. The Hanhikivi 1 project is facing strong headwind due to Russia's actions and we do not think it is likely to happen. We do not know how much Fortum has invested in the project so far. However, based on Outokumpu's investments and shareholding in the same project, we assume that the amount is around EUR 50 million. This is pocket change on Fortum's scale. Outokumpu recognized the fair value of its Fennovoima holding as zero earlier. We have not considered Fennovoima in our estimates or in our

future scenario, because we think it is a small sideshow for Fortum in the end.

The list of risks is not exhaustive, we have tried to raise the main risks related to Russia. We also raised the Fennovoima issue because there has been media discussion on the subject. Next, in a harsh scenario, we will try to outline what might happen to Fortum if the above-mentioned risks are realized. We do not discuss the collapse of the ruble separately, because the effects are straightforward, at least in terms of the translation risk.

Scenario if almost all Russia risks materialize (1/2)

Based on the presented Russia risks, we have created a brutal scenario of how Fortum Group could develop if Russia risks materialize. We stress that this scenario is not our forecast on the future, our intention is to illustrate the risks related to Russia in a very exceptional and uncertain situation. It is also not the worst-case scenario but materialization of this scenario still requires a number of steps to be taken in a worse direction. So far, Russia has been threatening, but it has not acted. The West, on the other hand, has taken strong action, so the absence of counter-sanctions would come as a surprise. It may also be that Russia has come up with other solutions and quite simply overplayed its hand.

Background assumptions of the scenario

In the scenario, we make the following assumptions:

1. Nord Stream 2 loan receivables are written down.

In our opinion, this is a relatively likely risk in the short term if the NS2 gas pipeline is not placed in service. This would mean a EUR 1 billion write-down on Uniper's receivables, which on the other hand would reduce equity on the other side of the balance sheet by the same amount. We believe the write-down would have a similar effect on earnings, but there would be no effect on cash flow (the loan was granted long ago). We estimate that investors have already largely counted the NS2 project as being written down.

2. Fortum's and Uniper's Russian businesses become worthless. Russia would either implement its threats to nationalize international companies operating in Russia, or sanctions and political pressure would otherwise make business worthless. In any case, the situation in this scenario is so serious

that Fortum and Uniper would write down a total of EUR 5 billion from Russian businesses. Investors have already made some of this write-down, but at least by Friday not yet in full.

3. Gazprom closes gas supply to Europe, Europe stops buying and/or gas pipelines are damaged so that gas cannot be supplied (gas pipelines from Russia, e.g. in Ukraine). This is possible, but we would remind you that both Russia and Europe need gas trade. The likelihood is difficult to assess, as are the effects. We assume here that the earnings of Uniper's Global Commodities business will fall by 50% over the next few years. Even after this, the business recovering to its previous level is uncertain, as we believe that one of the company's competitive advantages has been the availability of Russian gas reserves. If the segment's result is halved, the impact would be around EUR 378 million per year (cf. 2021). This would be about 15% of Fortum Group's operating result. In addition, the Global Commodities business incurs EUR 1.3 billion of goodwill in Uniper's balance sheet, and low capital costs suitable for low risk have been applied in goodwill testing. These would possibly have to be reassessed in a crisis situation.

The outcome of the negative Russian scenario is not pretty

Based on the above assumptions, Fortum's operating result would fall by about EUR 860 million in the coming years, which would be a cut of some 35% of the estimated profit for 2021. In general, we can say that investors have been skeptical about the value of Fortum's and Uniper's Russian businesses, but we believe that the Global Commodities segment has

been largely excluded from the analysis. In this scenario, the result drop of about 15% comes from there, as Russian gas is no longer available.

Uniper would have to write down one billion on the NS2 project and an estimated EUR 2.5 billion on the loss of the Russian business. We assume here that the capital committed to the NS2 project is allocated to the Global Commodities business. Thus, a total gap of some EUR 3.5 billion would appear in Uniper's balance sheet, whereas the Group's equity at the end of 2021 (incl. minorities) was EUR 6.8 billion. In the scenario, the company's result would also be subject to significant pressure, which would put the credit rating of Uniper at risk without new financing. Of course, Uniper's huge derivative position and the capital it ties up also plays a role here, which has already previously led Fortum to fund Uniper. Considering the massive balance sheet of Uniper (2021 total: EUR 128.4 billion) and the strong uncertainty in the scenario the company's financing needs would be significant even on Fortum's scale.

Possible write-downs by Uniper would be directly reflected in Fortum Group's result, but their actual impact would be reduced by the minority interest (Fortum owns some 78% of Uniper). In addition, Fortum would write down its own Russian business, which would, in our opinion, amount to a write-down of some EUR 2.5 billion (committed capital). Non-recurring write downs would amount to some EUR 6 billion. Part of this would be directed at Uniper's minority owners but the amounts are rough estimates and we compare the total amount to Fortum's equity that includes minority interests.

Scenario if almost all Russia risks materialize (2/2)

Fortum's equity (incl. minority interests) at the end of Q3'21 was EUR 13.2 billion, of which approximately 46% would disappear in this scenario. It is good to note that we estimate that Fortum has generated a very good result for Q4'21, so there was more capital at the end of the year. The write-downs would have no cash flow effect.

In this scenario, Fortum's balance sheet would therefore take a very big hit, while the company's performance would weaken. We believe that maintaining the credit rating would require at least very strict cost and investment discipline, possibly new divestments. The assessment of the situation is made difficult, especially by Uniper's potential financing needs and by the financing Fortum has already provided to the company. However, in this negative scenario, Fortum's dividend would probably temporarily fall to zero. Since Fortum's main owner is the Finnish State (50.76% holding), financing would not be a problem in this scenario either. However, we estimate that the share price would fall dramatically in the scenario.

Not all bad

The focus of this update has been on the negative Russia risks that investors concentrate on in the prevailing environment. At the same time, however, we point out that the negative scenario also has a silver lining for Fortum. The most important of these are, in our opinion, the following:

1) We feel Fortum's investment profile would be significantly more attractive without the company's Russia-related business operations. In the longer term, the acceptable valuation level of the share would probably be significantly higher without Russia,

which investors shun away from not only due to the geopolitical situation but also because of high CO2 emissions. With an ESG meter, Fortum's position would be significantly better without Russia. We believe that Fortum's reputation currently suffers significantly from its Russian operations.

2) Fortum's market situation in the Nordic countries and Europe is generally very good because the escalation of the Ukrainian crisis continues to support electricity prices that are important to the company. Through higher electricity prices, Fortum could possibly compensate for the Russian gap in its earnings relatively quickly. As a larger share of the profit would come from stable Nordic business, this would have a positive impact on the company's acceptable valuation level. Previously electricity price futures were also normalizing from an exceptionally high level, but the trend turned upwards again as the situation in Ukraine escalated.

3) Investors have already made significant cuts in the values of Russian businesses. Fortum's share price has fallen by about 28% this year, so some EUR 5.4 billion has disappeared from Fortum's market cap. We believe that this is largely due to the war Russia started in Ukraine and its potential effects, so the stock market is already significantly including threats in pricing. At the same time, we point out that Helsinki's total return index has also fallen by about 15 % since the beginning of the year, and Fortum's Russia risks are among the largest on Nasdaq Helsinki also in relative terms. Therefore, we would not draw a direct conclusion from the drop in market cap to the market already making a "EUR 5.4 billion write-down" in Fortum. We estimate, however, that more than half of Fortum's share price decline is

directly related to the company's large Russia risks and the stock market preparing for possible future problems.

The situation may change quickly

Over the weekend, we have received much information about the European and US sanctions and the development of fighting in Ukraine. However, when writing this report, we do not have information on, e.g., concrete Russian counter-sanctions, or other factors that may affect our scenario.

The situation has changed rapidly over the last week, and we suspect that this will continue. We find it very possible that Fortum and/or Uniper will soon report their assessment on sanction impacts, which may prove the assumptions made in this report incorrect. We stress that the scenario presented in the report aims to provide investors with a basis for assessing the potential development and possible impact of various actions, not to predict the future.

Fortum publishes its 2021 financial statements bulletin on March 3, 2022 at about 9.00 am, after which the situation will hopefully be much clearer at least in relation to the company's own thoughts.

We only revised our Q4 estimates

We reviewed Q4 estimates ahead of the financial statement bulletin

Fortum will publish its financial statements bulletin on Thursday, ahead of which we have reviewed our Q4 estimates. The main changes are based on the financial statements previously published by Uniper. In addition, the Q4 estimates were influenced by the higher electricity prices in the Nordic countries than we expected, which was reflected positively in the estimates.

On the other hand, we have significantly cut our Q4 estimates for the Consumer Solutions business. Electricity retailers have been in trouble in late 2021 because electricity consumption was higher than normal towards the end of the year. In many cases, the contract price is fixed and hedged by average consumption. When consumption exceeds average

consumption, e.g., due to cold weather, the rest has to be bought at high prices on the market. For example, Fjordkraft issued a profit warning in January due to this. The Consumer Solutions business is generally of limited importance to Fortum, but the business is currently under strategic review. Negative developments, when a business might be sold, can make the process more difficult and weigh heavily on the price.

We point out that we have not revised our dividend estimate at this point. If Fortum's Board of Directors feels the realization of Russia risks is likely, the dividend proposal may be significantly lower than now estimated. In addition, there is considerable uncertainty about the situation due to Uniper's massive derivative positions and high collateral requirements.

We will review our estimates for coming years after the financial statements

At this stage, we have not made any substantial changes to our earnings estimates for coming years. The visibility is currently so weak and there are so many moving parts with Russia that we will only make revisions after the financial statements bulletin. However, we see significant pressure, at least in the earnings estimates of the Russian businesses, as the ruble's exchange rate is severely weakened due to sanctions.

We note that the sales estimate fluctuates with Uniper's Global Commodities business, but it has no practical significance. The sales of the business do not reflect its true scale.

Estimate revisions	2021e	2021e	Change	2022e	2022e	Change	2023e	2023e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	89747	130226	45%	91086	132222	45%	93767	136101	45%
EBITDA	-346.7	675	-295%	3407	3379	-1%	3401	3336	-2%
EBIT (exc. NRIs)	2454	2435	-1%	2107	2079	-1%	2051	1986	-3%
EBIT	-1601.7	-580.0	-64%	2107	2079	-1%	2051	1986	-3%
PTP	-1423.7	-402.0	-72%	2087	2059	-1%	2001	1937	-3%
EPS (excl. NRIs)	1.95	1.48	-24%	1.57	1.55	-2%	1.55	1.49	-4%
DPS	1.14	1.14	0%	1.14	1.14	0%	1.15	1.15	0%

Source: Inderes

Valuation fluctuates with Russia's actions

Share price has decreased significantly

Fortum's share price has fallen by about 28% this year, so some EUR 5.4 billion has disappeared from Fortum's market cap. We believe that this is largely due to the war Russia started in Ukraine. At the same time, Helsinki's total return index has also fallen by about 15 % since the beginning of the year, and Fortum's Russia risks are among the largest on Nasdaq Helsinki also in relative terms. We estimate that more than half of Fortum's share price decline is directly related to the company's large Russia risks and the stock market preparing for possible future problems. The rest is explained by the increase in investors' required return that can be justified by both a significant increase in risks and the upward pressure on interest rates as inflation is high.

The direction depends on Russia's actions

If the above-mentioned Russia risks do not materialize, Fortum's valuation level is currently attractive. With 2022 estimates the P/E ratio is around 13x, which would be attractive for Fortum in normal circumstances. The balance sheet-based P/B ratio is now very moderate at 1.3x. EV-based ratios that better reflect gearing are also very reasonable (2022e EV/EBIT 12x and EV/EBITDA 8x), but also partially misleading. Uniper's result is 100% included in Fortum's EBITDA and EBIT, but the company has a significant minority interest (~24% not held by Fortum).

In a good scenario the valuation is attractive, but the situation will change significantly if the risks presented in the report were to materialize. The earnings level could reduce by 35% and there could be a significant gap in the balance sheet. Financing of Uniper could require additional capital and, in general, knock-on

effects could be very negative for investors. Even if the immediate risks were not realized, it is difficult for us to see that the Russian business would be significantly valued in the near term. Therefore, we do not see much upside in the share until the situation becomes clearer in one way or another.

A staging-post

We recommend that investors take our target price of EUR 19.0 as a checkpoint. Over the week, the situation may change dramatically and we will review our opinion again this week after the financial statements bulletin. Much more relevant at this stage is that we reiterate our Reduce recommendation in an uncertain situation. Although a lot of negatives are already priced into the share, we still believe that the risk/return ratio is negative at the moment. However, the situation may change rapidly with Russia's actions.

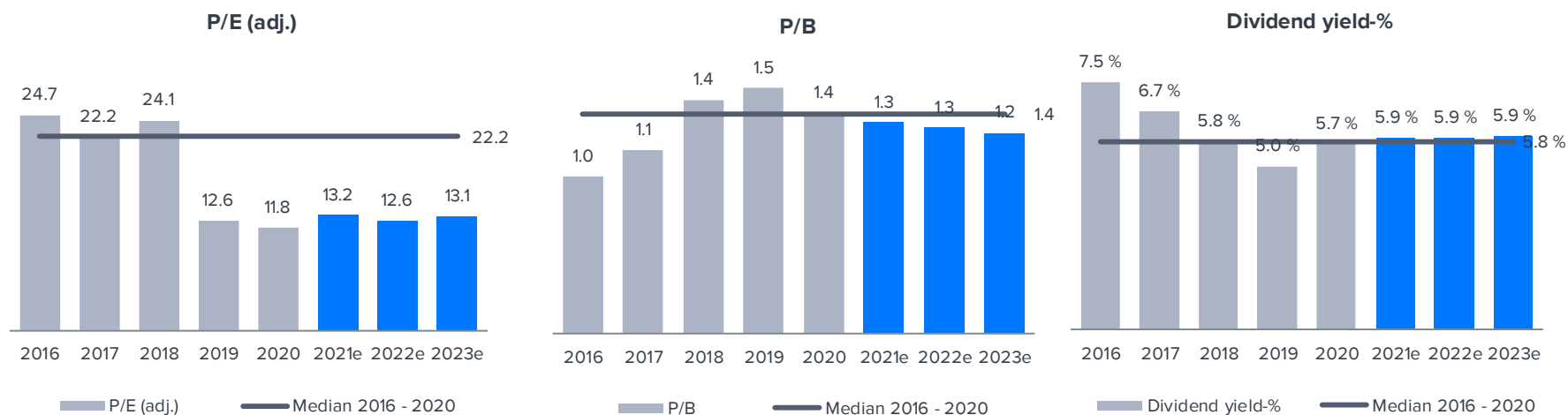
Valuation	2021e	2022e	2023e
Share price	19.5	19.5	19.5
Number of shares, millions	888.3	888.3	888.3
Market cap	17291	17291	17291
EV	25616	25412	20688
P/E (adj.)	13.2	12.6	13.1
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P/FCF	83.3	12.0	2.9
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P/S	0.1	0.1	0.1
EV/Sales	0.2	0.2	0.2
EV/EBITDA	38.0	7.5	6.2
EV/EBIT (adj.)	10.5	12.2	10.4
Payout ratio (%)	86.4 %	73.5 %	77.2 %
Dividend yield-%	5.9 %	5.9 %	5.9 %

Source: Inderes

Valuation table

Valuation	2016	2017	2018	2019	2020	2021e	2022e	2023e	2024e
Share price	14.6	16.5	19.1	22.0	19.7	19.5	19.5	19.5	19.5
Number of shares, millions	888.4	888.4	888.4	888.3	888.4	888.3	888.3	888.3	888.3
Market cap	12944	14658	16968	19542	17501	17291	17291	17291	17291
EV	11017	13955	16805	18665	25567	25616	25412	20688	20587
P/E (adj.)	24.7	22.2	24.1	12.6	11.8	13.2	12.6	13.1	12.9
P/E	26.1	16.9	20.1	13.2	9.6	14.8	12.6	13.1	12.9
P/FCF	neg.	neg.	10.0	46.5	neg.	83.3	12.0	2.9	12.9
P/B	1.0	1.1	1.4	1.5	1.4	1.3	1.3	1.2	1.2
P/S	3.6	3.2	3.2	3.6	0.4	0.1	0.1	0.1	0.1
EV/Sales	3.0	3.1	3.2	3.4	0.5	0.2	0.2	0.2	0.1
EV/EBITDA	11.0	8.6	10.0	11.0	9.5	38.0	7.5	6.2	6.1
EV/EBIT (adj.)	17.1	16.9	17.0	15.7	19.0	10.5	12.2	10.4	10.3
Payout ratio (%)	196.9 %	112.8 %	115.9 %	66.0 %	54.6 %	86.4 %	73.5 %	77.2 %	77.0 %
Dividend yield-%	7.5 %	6.7 %	5.8 %	5.0 %	5.7 %	5.9 %	5.9 %	5.9 %	6.0 %

Source: Inderes



Peer group valuation

Peer group valuation	Share price	Market cap	EV	EV/EBIT		EV/EBITDA		P/E		Dividend yield-%		P/B
Company		MEUR	MEUR	2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2021e
RWE	40.00	26866	33710	13.9	13.4	8.1	7.8	17.6	17.4	2.3	2.3	1.5
Engie	14.42	34870	64756	12.0	12.2	7.1	7.2	11.3	10.4	6.0	6.5	1.2
E.ON	11.82	31004	64093	15.7	15.4	9.1	9.2	13.3	13.2	4.2	4.3	4.4
Verbund	102.40	17314	20717	32.3	17.1	23.8	14.3	44.8	25.4	1.1	1.8	5.7
EDF	7.93	25516	63680	18.2	28.6	6.6	13.7	6.8	8.3	5.9	8.3	0.5
CEZ	853.00	18467	23887	24.5	14.0	9.4	8.3	30.6	16.3	5.5	5.5	2.0
Enel	6.55	66132	105669	12.1	11.8	7.5	7.4	12.1	11.7	5.8	6.1	2.3
Orsted	778.20	43675	50275	25.3	21.9	16.6	15.4	28.1	31.4	1.6	1.7	3.7
Uniper	30.43	11061	9499	13.5	13.5	8.6	7.8	11.6	14.0	4.6	4.6	1.1
Fortum (consensus)	19.47	17174	27878	11.1	12.5	7.8	7.8	10.1	11.3	5.9	6.0	1.2
Fortum (Inderes)	19.47	17291	25616	10.5	12.2	38.0	7.5	13.2	12.6	5.9	5.9	1.3
Average				17.9	16.0	10.5	9.9	18.6	15.9	4.3	4.7	2.4
Median				14.8	13.7	8.4	8.1	12.7	13.6	5.0	5.1	1.8
Diff-% to median				-29%	-11%	353%	-7%	4%	-8%	16%	16%	-27%

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

Income statement

Income statement	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21	Q2'21	Q3'21	Q4'21e	2021e	2022e	2023e	2024e
Revenue	5447	1357	12330	14049	21279	49015	21493	17128	23701	67904	130226	132222	136101	140114
Generation	2141	574	450	441	541	2006	675	576	684	814	2749	2492	2498	2523
City Solutions	1200	342	212	184	337	1075	418	256	202	306	1182	1068	1093	1125
Consumer Solutions	1835	424	237	235	371	1267	661	424	485	543	2113	2031	2075	2116
Russia	1071	317	202	172	238	929	264	182	193	246	885	880	902	929
Uniper	0.0	0.0	11365	13159	19990	44514	19770	15893	22411	66194	124268	126754	130556	134473
Other	115	34	34	34	38	140	34	36	33	38	141	144	147	152
Eliminations	-915	-334	-170	-176	-236	-916	-329	-239	-307	-238	-1113	-1147	-1170	-1205
EBITDA	1693	753	848	310	778	2689	1653	-527.0	-2791.0	2340	675	3379	3336	3390
Depreciation	-575	-150	-309	-311	-320	-1090	-308	-313	-314	-320	-1255	-1300	-1350	-1383
EBIT (excl. NRI)	1190	393	203	-179	927	1344	1171	35	260	969	2435	2079	1986	2007
EBIT	1118	603	539	-1	458	1599	1345	-840	-3105	2020	-580	2079	1986	2007
Generation	794	235	174	136	177	722	269	195	245	373	1082	832	788	788
City Solutions	120	58	-15	-37	41	47	86	-4	-20	41	103	71	70	69
Consumer Solutions	79	32	19	18	21	90	36	19	13	-29	39	90	92	94
Russia	316	99	36	40	76	251	100	37	45	70	252	246	256	266
Uniper	0	0	24	-310	649	363	711	-177	9	548	1091	959	900	910
Other	-119	-31	-35	-27	-36	-129	-31	-35	-32	-35	-133	-120	-120	-120
Items affecting comparability	-72	210	336	178	-469	255	174	-875	-3365	1051	-3015	0	0	0
Share of associated company earnings	744	479	37	24	116	656	79	62	11	30	182	100	101	101
Net financial items	-134	-57	-2	23	-20	-56	36	35	-40	-35	-4	-120	-150	-150
PTP	1728	1025	574	46	554	2199	1460	-743	-3134	2015	-402	2059	1937	1958
Taxes	-221	-76	-190	37	-115	-344	-150	84	1366	-457	843	-450	-413	-418
Minority interest	-25	-9	-65	60	-19	-32	-218	185	1047	-283	731	-231	-201	-201
Net earnings	1482	941	320	143	420	1823	1092	-474	-721	1275	1172	1377	1322	1339
EPS (adj.)	1.75	0.91	0.19	-0.10	0.67	1.67	0.94	0.09	0.19	0.25	1.48	1.55	1.49	1.51
EPS (rep.)	1.67	1.06	0.36	0.16	0.47	2.05	1.23	-0.53	-0.81	1.44	1.32	1.55	1.49	1.51

Balance sheet

Assets	2019	2020	2021e	2022e	2023e
Non-current assets	19571	35604	64079	49179	39329
Goodwill	612	1069	1069	1069	1069
Intangible assets	531	1739	1739	1739	1739
Tangible assets	10123	19367	19512	19612	19762
Associated companies	6435	2912	2412	2412	2412
Other investments	1142	7959	6554	6554	6554
Other non-current assets	651	2402	30000	15000	5000
Deferred tax assets	77.0	156	2793	2793	2793
Current assets	3793	22206	87765	57022	46747
Inventories	230	1396	3907	3967	4083
Other current assets	954	8998	50000	20000	10000
Receivables	1176	9504	24743	25122	25859
Cash and equivalents	1433	2308	9116	7933	6805
Balance sheet total	23364	57810	151844	106201	86076

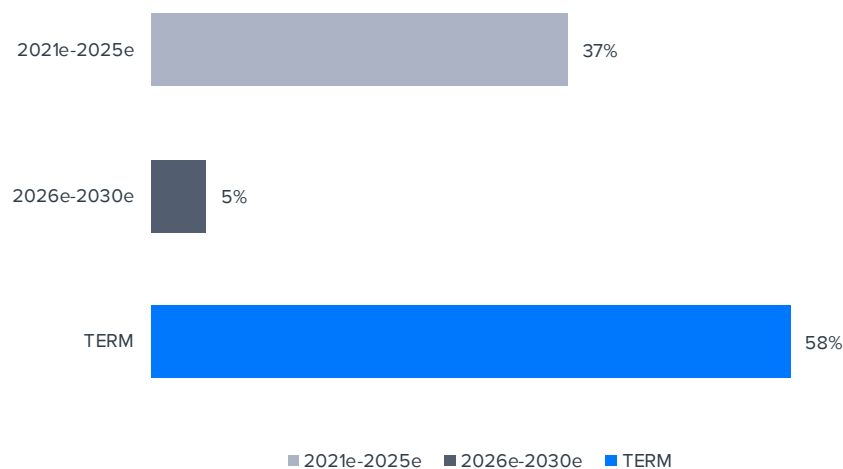
Source: Inderes

Liabilities & equity	2019	2020	2021e	2022e	2023e
Equity	13235	15577	15372	15737	16047
Share capital	3046	3046	3046	3046	3046
Retained earnings	9982	10149	10326	10691	11001
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	-45.0	-242.0	0.0	0.0	0.0
Minorities	252	2624	2000	2000	2000
Non-current liabilities	8312	22356	36006	33358	21956
Deferred tax liabilities	865	952	1000	1000	1000
Provisions	900	8098	7500	7500	7500
Long term debt	618	8785	11506	13858	8456
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	429	4521	16000	11000	5000
Current liabilities	1817	19877	100466	57106	48074
Short term debt	570	1877	5723	1984	1534
Payables	943	9525	24743	25122	26540
Other current liabilities	304	8475	70000	30000	20000
Balance sheet total	23364	57810	151844	106201	86076

DCF calculation

DCF model	2020	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	TERM
EBIT (operating profit)	1599	-580	2079	1986	2007	2001	2041	2082	2123	2166	2187	
+ Depreciation	1090	1255	1300	1350	1383	1392	1406	1429	1457	1486	1516	
- Paid taxes	-336	-1746	-450	-413	-418	-428	-436	-441	-446	-452	-454	
- Tax, financial expenses	-37	-8	-28	-34	-34	-35	-37	-41	-46	-50	-53	
+ Tax, financial income	25	7	0	0	0	12	14	14	14	14	15	
- Change in working capital	-785	17991	-10060	564	-3100	1074	-1029	-1029	-1030	-1030	-15	
Operating cash flow	1556	16920	-7159	3453	-162	4016	1959	2013	2073	2134	3196	
+ Change in other long-term liabilities	11290	10881	-5000	-6000	0	0	0	0	0	0	0	
- Gross CAPEX	-20567	-27593	13600	8500	1500	-1600	-1738	-1872	-1909	-1947	-1751	
Free operating cash flow	-7721	208	1441	5953	1338	2416	222	141	164	187	1445	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	-7721	208	1441	5953	1338	2416	222	141	164	187	1445	26505
Discounted FCFF		210	1367	5302	1119	1897	163	98	106	114	828	15186
Sum of FCFF present value		26389	26180	24813	19511	18392	16495	16332	16234	16128	16013	15186
Enterprise value DCF		26389										
- Interesting bearing debt		-10662										
+ Cash and cash equivalents		2308										
+ Associated companies		2412										
-Minorities		-2624										
-Dividend/capital return		-995										
Equity value DCF		16828										
Equity value DCF per share		18.9										

Cash flow distribution



Wacc	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	30.0 %
Cost of debt	2.0 %
Equity Beta	1.40
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.0 %
Cost of equity	8.7 %
Weighted average cost of capital (WACC)	6.5 %

■ 2021e-2025e ■ 2026e-2030e ■ TERM

Summary

Income statement	2018	2019	2020	2021e	2022e	Per share data	2018	2019	2020	2021e	2022e
Revenue	5242	5447	49015	130226	132222	EPS (reported)	0.95	1.67	2.05	1.32	1.55
EBITDA	1674	1693	2689	675	3379	EPS (adj.)	0.79	1.75	1.67	1.48	1.55
EBIT	1138	1118	1599	-580	2079	OCF / share	1.36	1.51	1.75	19.05	-8.06
PTP	1040	1728	2199	-402	2059	FCF / share	1.91	0.47	-8.69	0.23	1.62
Net Income	843	1482	1823	1172	1377	Book value / share	13.33	14.62	14.58	15.05	15.46
Extraordinary items	151	-72	255	-3015	0	Dividend / share	1.10	1.10	1.12	1.14	1.14
Balance sheet	2018	2019	2020	2021e	2022e	Growth and profitability	2018	2019	2020	2021e	2022e
Balance sheet total	22409	23364	57810	151844	106201	Revenue growth-%	16%	4%	800%	166%	2%
Equity capital	12077	13235	15577	15372	15737	EBITDA growth-%	3%	1%	59%	-75%	401%
Goodwill	588	612	1069	1069	1069	EBIT (adj.) growth-%	20%	21%	13%	81%	-15%
Net debt	5509	5255	8354	8114	7909	EPS (adj.) growth-%	7%	120%	-4%	-12%	5%
Cash flow	2018	2019	2020	2021e	2022e	EBITDA-%	31.9 %	31.1 %	5.5 %	0.5 %	2.6 %
EBITDA	1674	1693	2689	675	3379	EBIT (adj.)-%	18.8 %	21.8 %	2.7 %	1.9 %	1.6 %
Change in working capital	-166	-240	-785	17991	-10060	EBIT-%	21.7 %	20.5 %	3.3 %	-0.4 %	1.6 %
Operating cash flow	1206	1340	1556	16920	-7159	ROE-%	6.8 %	11.9 %	14.1 %	8.9 %	10.2 %
CAPEX	310	-617	-20567	-27593	13600	ROI-%	6.5 %	9.9 %	10.3 %	-1.3 %	6.8 %
Free cash flow	1699	420	-7721	208	1441	Equity ratio	53.9 %	56.6 %	26.9 %	10.1 %	14.8 %
Valuation multiples	2018	2019	2020	2021e	2022e	Gearing	45.6 %	39.7 %	53.6 %	52.8 %	50.3 %
EV/S	3.2	3.4	0.5	0.2	0.2						
EV/EBITDA (adj.)	10.0	11.0	9.5	38.0	7.5						
EV/EBIT (adj.)	17.0	15.7	19.0	10.5	12.2						
P/E (adj.)	24.1	12.6	11.8	13.2	12.6						
P/E	1.4	1.5	1.4	1.3	1.3						
Dividend-%	5.8 %	5.0 %	5.7 %	5.9 %	5.9 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
17-07-18	Reduce	21.00 €	22.00 €
20-07-18	Reduce	21.00 €	21.82 €
12-10-18	Reduce	21.00 €	19.85 €
25-10-18	Reduce	19.00 €	18.35 €
Analyttikko vaihtuu		0.00 €	0.00 €
04-02-19	Accumulate	21.00 €	19.95 €
29-04-19	Accumulate	20.00 €	18.67 €
22-07-19	Accumulate	21.00 €	20.86 €
18-09-19	Reduce	21.00 €	21.40 €
09-10-19	Reduce	21.00 €	21.00 €
25-10-19	Reduce	21.00 €	21.60 €
07-02-20	Accumulate	23.00 €	21.99 €
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 €



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