Purmo Group

Company report

4/25/2024

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Inderes corporate customer

This report is a summary translation of the report “Marginaalinousu heikossa markkinassa jatkui” published on 4/24/2024 at 6:48 pm EEST.

Continued margin growth in a weak market

Purmo's Q1 results exceeded our forecast and the company maintained its full-year guidance. We have slightly raised our forecasts and now expect an adjusted EBITDA growth of 8% for this year. Internal measures alone should allow the company to further improve earnings in 2025. We raise the target price to EUR 8.5 (was EUR 8.0) and reiterate our Buy recommendation.

Q1 better than expected, reaching the level of the comparison period

Purmo's Q1 results exceeded our forecasts both in terms of revenue and profitability. Revenue was down from the comparison period, but adjusted EBITDA, supported by the efficiency program, was at the level of the comparison period and exceeded our forecast by more than 10%. The comparison period was even relatively strong compared to the Q2-Q4'23 figures. The slightly stronger-than-expected result was mainly driven by a small upturn in demand for radiators in the Climate Products & Systems segment.

Guidance unchanged, forecasts slightly up

Purmo reiterated its guidance and expects adjusted EBITDA in 2024 to be at the same level or above compared to 2023 (92 MEUR). At the same level means +/- 5% and above means more than 5% improvement. This means that the estimate range is quite wide. Purmo reports that retailer inventory levels have leveled off and the above-mentioned efficiency program is supporting the result this year, as expected. In terms of demand, however, Purmo still expects 2024 to be weaker than 2023. On the other hand, the comparison periods for the coming quarters are already quite weak and we believe that Purmo will be able to turn the result into growth year-on-year. We have slightly increased our forecasts and now expect adjusted EBITDA to grow by 8% this year to reach exactly 100 MEUR.

Result turning up, stronger focus on growth

Purmo's value creation in the next few years is expected to take place in two ways. First, through the 50 MEUR efficiency program, the full impact of which will be felt from the end of 2024, particularly in the CPS division. Second, it is seeking growth in the Solutions division, which typically has better profitability than CPS, and thus growth would support margins for the company as a whole. In terms of growth, Purmo also announced in the Q1 results the launch of a dedicated growth initiative with a target of an adjusted EBITDA improvement of 15 MEUR by the end of 2025, which should be in addition to the savings from the efficiency program. In the longer-term, growth is supported, e.g., by the need for energy renovations in buildings. Purmo's financial objective is an EBITDA margin of more than 15%. Our margin projections are still slightly below target, at 13.5-14% for 2024-26.

Valuation multiples are cheap, which together with dividend yield supports a good expected return

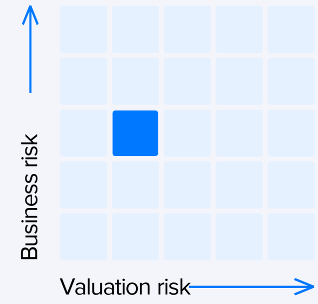
We consider the 2024 earnings multiples (P/E 8x, EV/EBIT 7x) to be at below the acceptable multiples for Purmo. The company's acceptable valuation is limited by the subdued growth potential in radiators and thus the entire company and the return on capital of close on 10% even in the medium term. However, even in a difficult market, we believe that the combination of flat or rising earnings, a favorable valuation and a good dividend yield provides a good return on the stock. Our DCF indicate a clearly higher level than the current share price. This requires, however, a sustainable improvement in profitability and/or a better growth profile. We also see the business acquisition of Purmo's peer as supporting a higher valuation for Purmo. Our comments on the deal can be found here.

Recommendation

Buy
(previous Buy)

EUR 8.50
(previous EUR 8.00)

Share price:
7.40



Key figures

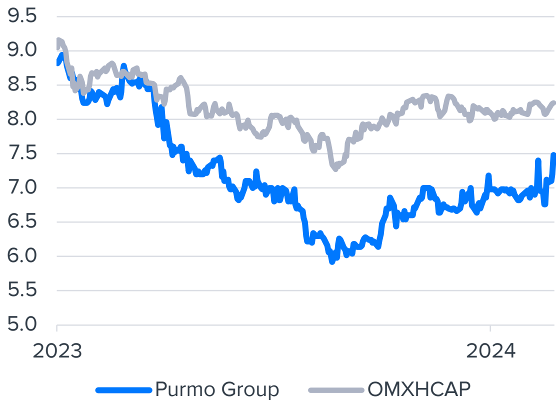
	2023	2024e	2025e	2026e
Revenue	743.2	720.0	743.0	763.8
growth-%	-18%	-3%	3%	3%
EBITDA adj.	92.9	100.1	103.6	104.9
EBITDA-% adj.	12.5%	13.9%	13.9%	13.7%
Net Income	-13.2	23.0	32.6	44.4
EPS (adj.)	0.68	0.88	1.00	1.04
P/E (adj.)	9.1	8.4	7.4	7.1
P/B	0.6	0.7	0.7	0.7
Dividend yield-%	5.7%	4.7%	5.0%	5.4%
EV/EBIT (adj.)	8.7	6.8	6.4	6.8
EV/EBITDA	5.2	5.1	5.1	4.9
EV/S	0.6	0.7	0.6	0.7

Source: Inderes

Guidance (Unchanged)

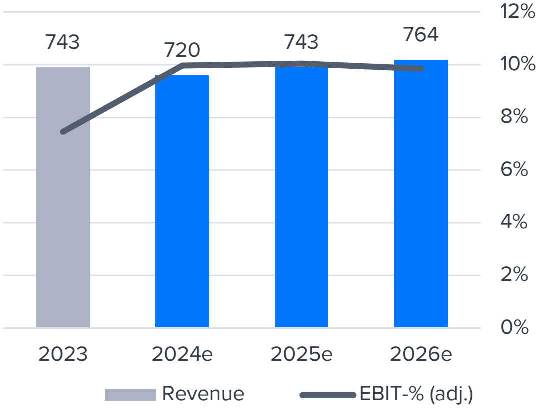
Adjusted EBITDA in 2024 is expected to be on a similar or higher level than in 2023 (92.3 MEUR).

Share price



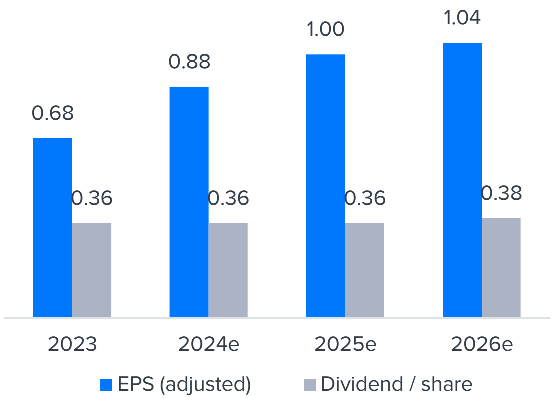
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- One of the largest product portfolios on the market
- Strong brands and market positions in Europe's radiator business
- Sustainable development, renovation debt, digitalization support the growth outlook of the market

Risk factors

- Dependency on construction cycles, especially in housing construction
- Distribution is dependent on large wholesale customers
- Capacity management and successful growth investment

Valuation	2024e	2025e	2026e
Share price	7.40	7.40	7.40
Number of shares, millions	42.7	42.7	42.6
Market cap	316	316	316
EV	546	534	510
P/E (adj.)	8.4	7.4	7.1
P/B	0.7	0.7	0.7
P/S	0.4	0.4	0.4
EV/Sales	0.7	0.6	0.7
EV/EBITDA	5.1	5.1	4.9
EV/EBIT (adj.)	6.8	6.4	6.8
Payout ratio (%)	65%	48%	38%
Dividend yield-%	4.7 %	5.0 %	5.4 %

Source: Inderes

Expectations beat, on par with last year

Revenue declines slightly less than expected versus prior year

Purmo's revenue declined already in Q1'23 compared to a very strong comparison period, but demand weakened further last spring and was flat in Q2-Q4'23. Q1'24 revenue declined less than forecast year-on-year and was also higher than in previous quarters. Revenue beat our expectations, particularly in the larger Climate Product & Systems segment, where Purmo saw an upturn in demand for radiators in certain regions. However, revenue for the segment as a whole and for radiators declined year-on-year, while revenue for Climate Solutions fell by almost 20%, which was more than we expected.

Efficiency program supported margin improvement

The drop in revenue and its negative leverage effect has a downward impact on earnings development. However, the company's efficiency program has made good progress and is supporting Purmo's results. The impact of the efficiency program was 34 MEUR by the end of Q1'24 and Purmo still estimates the full impact of the program to be 50 MEUR by the end of 2024. As a result of the efficiency measures, Purmo's adjusted EBITDA was virtually flat year-on-year and exceeded our forecast.

As with revenue, the better-than-expected performance was entirely driven by the Climate Product & Systems segment, where Purmo improved its real EBITDA margin by 1 MEUR year-on-year. The margin improved in both segments and was already above 14% at group level, compared to the company's target of above 15%. One-off items burdening the result were only 1 MEUR in Q1, which is why the reported figures exceeded our forecast even more. As far as one-offs are concerned, it is mainly a question of timing, although they should be significantly lower than last year.

Net debt relatively stable

Purmo's operating cash flow is at a good level, but is currently burdened by the costs of the efficiency program. Q1 is also a seasonally weak quarter in terms of cash flow. Net debt was relatively unchanged, as was net debt/adj. EBITDA (excluding the hybrid loan), which was 2.5x. This is at a reasonable level and in line with the company's target (below 3.0x). As one-off costs decrease, cash flow should reduce debt and the increase in profits should support a decrease in the ratio.

Estimates	Q1'23	Q1'24	Q1'24e	Q1'24e	Consensus		Difference (%)	2024e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	212	188	177	184			6%	720
EBITDA (adj.)	26.4	26.6	23.5	-			13%	100
EBIT	15.1	17.9	11.5	12.0			56%	57.4
EPS (reported)	0.16	0.22	0.09	0.16			155%	0.54
Revenue growth-%	-	-11.2 %	-16.4 %	-13.3 %			5.1 pp	-3.1 %
EBITDA-% (adj.)	12.5 %	14.2 %	13.3 %				0.9 pp	13.9 %

Source: Inderes & Bloomberg, 4 analyytikkoa (consensus)

Good result brings forecasts slightly up

Guidance unchanged

Purmo reiterated its guidance and expects adjusted EBITDA in 2024 to be at the same level or above compared to 2023 (92 MEUR). At the same level means +/- 5% and above means more than 5% improvement. This means that the estimate range is quite wide.

Purmo reports that retailer inventory levels have leveled off and the above-mentioned efficiency program is supporting the result this year, as expected. On the one hand, the guidance takes into account the impact of a weak market and potentially declining price levels, as well as the risk associated with the market in general as the year progresses. However, the guidance is based on the assumption that the market will still be negative this year. On the other hand, the comparison periods for the coming quarters are already quite weak and we believe that Purmo will be able to turn the result into growth year-on-year.

New EBITDA improvement target of 15 MEUR for 2025

In addition to the ongoing efficiency program, Purmo announced in connection with the results a clearer shift towards growth. The Accelerate PG efficiency program is therefore expected to deliver net savings of 50 MEUR by the end of 2024, in addition to an adjusted EBITDA improvement of 15 MEUR from growth projects. This is also a net target, although it includes one-off costs of about half of the improvement, i.e. 7-8 MEUR. On these measures alone, Purmo's earnings should rise in 2024-25, even if the market does not improve next year.

Forecasts up 2024-25

The good Q1 result support the increase in our forecasts. We now expect adjusted EBITDA to grow by 8% this year to reach exactly 100 MEUR. Purmo's targets for efficiency and growth projects suggest higher earnings growth in 2025-26 than we have forecast. However, we expect that growth investments may be more expensive than estimated and that the company may have to pass on some of the efficiency gains made in recent years to customers in the form of lower prices.

We have also slightly raised our 2025 forecast due to the strong margin development, but our longer-term forecasts are virtually unchanged.

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	708	720	2%	734	743	1%	755	764	1%
EBITDA (adj.)	96	100	4%	102	104	2%	105	105	0%
EBIT	53.0	57.4	8%	73.2	64.6	-12%	75.9	75.2	-1%
PTP	34.5	36.9	7%	57.2	48.6	-15%	59.4	58.7	-1%
EPS (excl. NRIs)	0.85	0.88	4%	0.92	1.00	9%	1.05	1.04	-1%
DPS	0.36	0.36	0%	0.38	0.38	0%	0.40	0.40	0%

Source: Inderes

Earnings growth supports good expected return

Earnings-based valuation is cheap

Purmo's historical profile is of a company with relatively weak growth and average profitability. We believe the company's valuation level is negatively affected at least by the fact that nearly half of its sales come from radiators, where the market has been structurally declining for a long time and stable development is expected for the next few years. In addition, the company's return on capital is average, reflecting historically weak capital allocation (a large amount of goodwill in the balance sheet). We do not believe that the company will be able to achieve significant (more than 5%) sustainable revenue growth with the current structure. M&A is an opportunity to accelerate growth, but we don't think they are likely in the near term, at least not on a significant scale, and historically they have not been very successful.

The acceptable valuation level we have determined for Purmo is P/E 10-12x and EV/EBIT 9-11x. This includes an assumption of a positive earnings trend from 2024 onwards. If we were convinced that the company would reach its margin target (above 15% adjusted EBITDA) in the medium term, the valuation could be slightly higher, as faster earnings growth in the coming years would compensate.

The company's valuation for this year is P/E around 8x and EV/EBIT around 7x, considering the hybrid bond and its interest rates in EPS. So, the valuation is below the acceptable multiples. Expected earnings growth will put further downward pressure on the multiples in 2025-26. It is also worth noting that with our estimates the company can repay the hybrid bond in 2026, which reduces the company's interest expenses.

DCF valuation

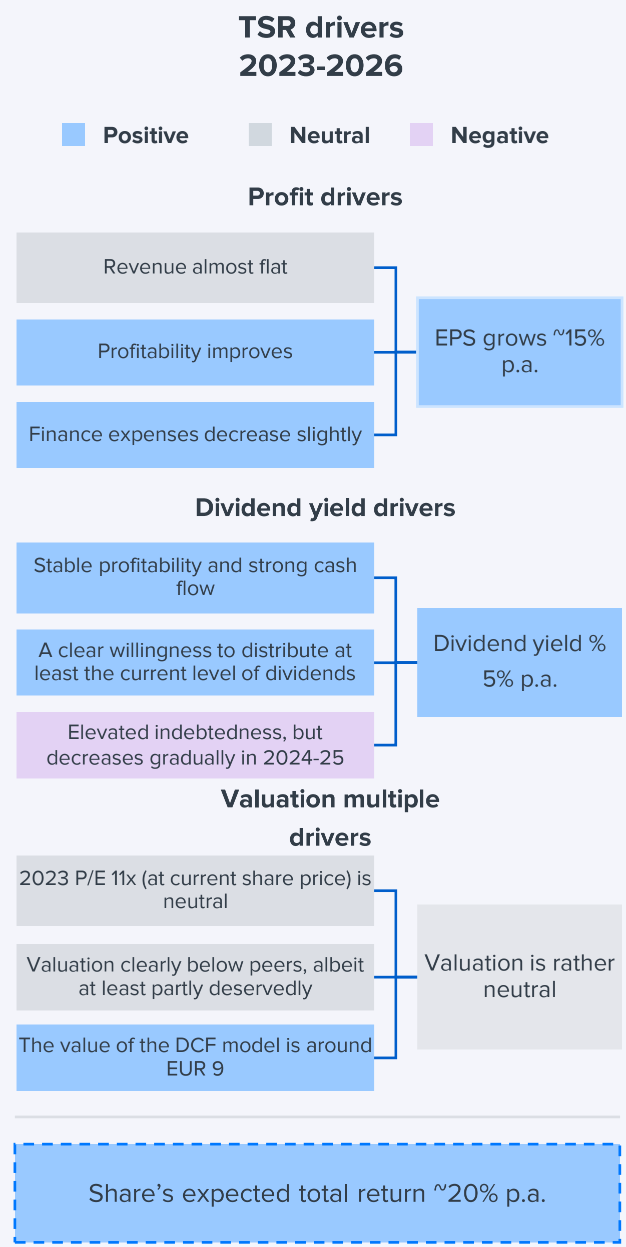
The lack of historical financial information and changes in the focus of the business make it difficult to determine Purmo's DCF. However, due to the moderate growth profile and relatively stable profitability, the DCF model is, in our opinion, suitable for Purmo as such. Our margin forecast for the longer term is lower than in the next few years and we project growth of 2-2.5% p.a. The weight of the terminal period is under 50% in our model.

Our required return on capital (WACC) for Purmo is about 8.8% and the cost of equity is around 10%. The lowish WACC is supported by relatively stable business operations and the use of debt leverage, while a higher WACC is supported by, e.g., business cyclicality.

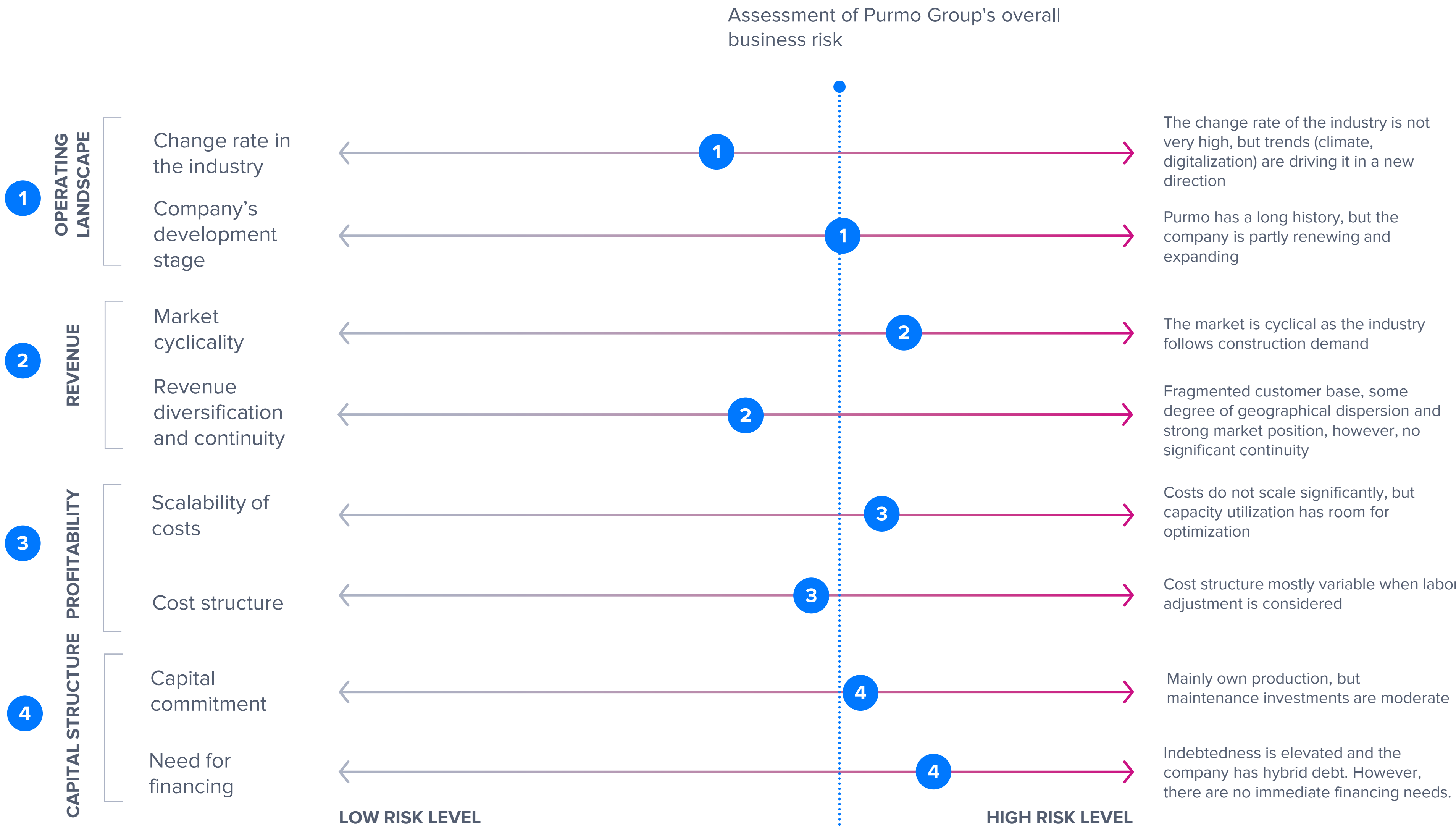
Our DCF model indicates that Purmo's debt-free value is about 670 MEUR and the value of the share capital is about 390 MEUR, or about EUR 9 per share. We put more weight on the multiples of the next few years when defining the target price, but the DCF model shows the company's potential in the longer term.

Balance sheet-based valuation also looks cheap

With our forecasts, Purmo's return on capital will remain moderate even in the medium term, with both return on equity and return on capital as a whole remaining in the range of 8–10%. Therefore, a P/B ratio of 1.0x or even slightly below seems justified for the company. However, the hybrid bond must be adjusted from the figures, which has been recognized as equity, although we believe that it is in practice a debt. Considering this, the current P/B valuation is about 0.8x. Purmo's book value for this year (excluding the hybrid bond) is just under EUR 9, which would mean a fair value of P/B 1.0x. The return on capital is depressed by the large amount of goodwill that the company has generated from acquisitions.



Risk profile of the business model



Source: Inderes

Investment profile

1. **Strong market position and well-known brands, especially in radiators**

2. **Energy efficiency investments support market growth**

3. **Business supports sustainability**

4. **Largest product category radiators does not support growth at least in the near future**

5. **Weakish balance sheet limits acquisition possibilities**

Potential

- A wide product range and well-known, strong brands
- Megatrends of sustainable development and digitalization play a large part in the business
- Potential to shape more into a growth company through acquisitions

Risks

- The industry is cyclical and depends on construction growth
- Risks generated by acquisitions or expansion investments
- Structural lack of growth in the radiator market and tightish competition

Source: Inderes

Strategy 1/2

Purmo's strategic objectives

Solution selling	Growth markets	Smart products
• Providing end-to-end solutions to unlock growth potential	• Exploiting the best opportunities outside the current market	• Delivering smarter, more sustainable, and aesthetically pleasing products

Inderes' comments on Purmo's strategic objectives

Solution selling

- Purmo's largest division by far is Climate Products & Systems, whose distribution channel is mainly construction/HVAC industry wholesalers.
- We, therefore, believe that solution selling mainly concerns the smaller Climate Solutions division. Growing sales in this division is, therefore, Purmo's main growth project.
- There is definitely demand for solutions related to lowering energy consumption but, on the other hand, there is also a lot of supply.
- We believe that Purmo can grow in this area, but we are not convinced that it has competitive advantages that will enable it to gain market shares.
- The key to the success of the strategy is that HVAC designers adopt Purmo's solutions, as they usually make decisions on behalf of end-users or make recommendations on solutions. Thus, growth in solution selling requires development of the currently small sales channel for Purmo.

Growth markets

- Purmo's original growth strategy (published at the end of 2021) highlighted the Chinese and Russian markets in particular. Now Russia is, naturally, out of the picture.
- Purmo is still small in China, and we do not see Purmo having a competitive advantage that would enable it to become a serious player in China. With the support of an own local factory, some growth can be achieved that supports the growth of the company as a whole. However, China only represents about 1% of the company's revenue.
- The aim is also to increase radiator sales outside the current markets. We find this challenging, because already in its current market, Purmo faces fierce price competition from radiators from cheaper production countries and we believe that it is challenging to win over new areas
- Purmo is also pursuing acquisitions, which we believe are necessary to change the company's structure more towards growth areas and to reduce the weight of radiators.

Smart products

- New products are a natural part of any product company.
- We also believe that Purmo's competitors are developing similar products, and we do not believe that Purmo has a major advantage in this respect.
- Purmo's Italian Emmeti brand/company focuses on integrated system solutions, where smart products also play a role.

Source: Inderes

Strategy 2/2

Vision of an indoor climate system supplier

The company announces that its vision is that perfect indoor climate should not cost the planet's climate. Purmo's mission is to be the global leader in sustainable indoor climate comfort solutions.

The strategy is built on three pillars

- Solution selling
- Smart products
- Growth markets

We already discussed these on the previous page, and we believe that the most important of these is growing solution sales, which in practice will determine the growth profile of the entire company in coming years.

In addition, the company says that its strategy is supported by:

- Operational excellence
- People and culture

Improving business efficiency is a natural part of any company. With this Purmo refers in particular to improving the efficiency in operational, commercial and business support. The efficiency program launched last year, which we described earlier, aims specifically at this.

People and culture are also a natural part of any company, and in fact a prerequisite for the existence of a company. So we do not believe that these activities that support the strategy in themselves constitute a particular competitive advantage for the company, but rather how they are implemented in practice. Under the current management, the company successfully completed a previous efficiency improvement program in 2020-21, so the company has expertise in this area. On the other hand, when a relatively short time has passed since the previous efficiency program, implementing new savings that are double the size is a bit more challenging in our view.

Business acquisitions as a growth enabler

In addition to the previous strategic points, Purmo sees acquisitions as an enabler of growth and aims to be active in acquisitions. However, the current balance sheet situation does not allow the company to carry out significant acquisitions with debt, and we do not believe that the company at the current share price level is particularly willing to use its own shares to finance the transaction either. Thus, we believe that in 2023-24 Purmo will focus more on improving own operations and efficiency, e.g., by implementing the efficiency improvement program. The company's management has also commented that they are currently disciplined and cautious about acquisitions.

The company has also been active in acquisitions in the past and acted as a consolidator in the radiator market in past years. It is impossible to assess the quality of these transactions comprehensively afterwards, but in light of the drop in the demand of radiators, market consolidation has not generated value in the long run. On page 14, we have mentioned some more recent acquisitions. Here too, the lack of information makes it challenging to assess success, but generally we believe that the Emmeti and Thermotech acquisitions were sensible, as they have moved the company to more growth areas. However, we estimate that Emmeti's revenue in 2021 were about 100 MEUR, which was slightly lower than at the time of the acquisition in 2015. In 2022, Emmeti grew strongly supported by Italy's generous energy renovation subsidies, but a clear growth trend in previous years is not visible in Emmeti (however, we do not know the figures for 2016-2020 or their background). Hewing is more component production and Sigarth is a rather small company in the complementary product category, so we do not see them as strategically important and we do not have sufficient information to evaluate their economic success.

ESG

Purmo's business is largely taxonomy-eligible, but to a lesser extent taxonomy-aligned

Purmo manufactures equipment for heating and cooling buildings, which also contribute to the buildings' energy efficiency. Energy use in buildings is an important part of energy consumption, for example in the EU as a whole, and is therefore included in the taxonomy. This means that the majority of Purmo's activities and products are taxonomy-eligible.

However, with 4% of revenue last year and even less in terms of investment and expenditure, the company has little taxonomy-aligned activity. This consists mainly of the total package installations in the Climate Solutions segment. Purmo considers its taxonomy-aligned products to be the underfloor heating systems of its Thermotech business (part of Climate Solutions) and the system components of its Emmeti business (also part of Climate Solutions). So by no means all the products of these businesses are taxonomy-aligned and, of Purmo's larger Climate Products & Systems division, we understand that there are no taxonomy-aligned activities at all. This is because there is no energy labeling available for Purmo's main product groups, radiators and underfloor heating, that would allow them to be defined according to the taxonomy. However, we do not believe that energy labeling alone would make product sales taxonomy-aligned; in addition to the labeling, products should be part of an overall solution that clearly improves energy efficiency.

Taxonomy could have a positive impact on Purmo

Purmo's industry is covered by the taxonomy and is important for energy efficiency objectives. We therefore believe that a taxonomy system that emphasizes this could support Purmo's attractiveness in the eyes of investors or financiers. But in order to have a significant impact, we think that taxonomy-alignment should also increase. Purmo already has a Green Finance Framework in place and we do not believe that the taxonomy will have a material impact on its financing costs.

Climate targets yet to be set and published

In 2023, Purmo has submitted for validation the emissions targets in line with the 1.5 degrees scenario of the Paris Agreement and the Science Based Targets project. However, the company has so far not published any targets for emissions. It has stated that it aims to achieve carbon neutral operations by 2050.

Purmo's Scope 1 & 2 emissions have decreased significantly in 2022-23, but this is mainly due to significantly lower volumes, as carbon intensity (emissions/revenue) decreased by only 2% last year. Scope 3 emissions are currently only reported for the steel used, which has also decreased along with volumes. Purmo has a high level of its own production, so we believe that reducing the carbon footprint is a relevant issue.

Taxonomy eligibility	2022	2023
Revenue	79 %	81 %
OPEX	91 %	88 %
CAPEX	78 %	66 %

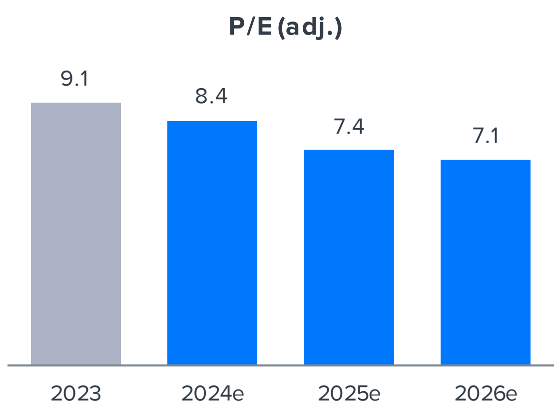
Taxonomy alignment	2022	2023
Revenue	6 %	4 %
OPEX	2 %	3 %
CAPEX	3 %	1 %

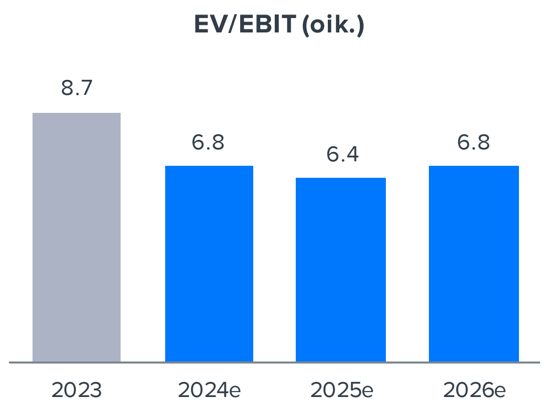
Climate		
Climate target	No	No
Target according to the Paris Agreement (1.5 °C warming scenario)	No	No

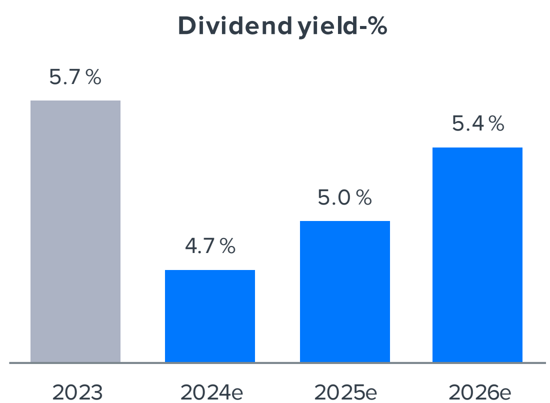
Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price				8.22	6.18	**7.40**	**7.40**	**7.40**	**7.40**
Number of shares, millions				41.2	42.7	**42.7**	**42.7**	**42.6**	**42.6**
Market cap				351	264	**316**	**316**	**316**	**316**
EV				627	479	**546**	**534**	**510**	**485**
P/E (adj.)				9.7	9.1	**8.4**	**7.4**	**7.1**	**6.8**
P/B				0.9	0.6	**0.7**	**0.7**	**0.7**	**0.7**
P/S				0.4	0.4	**0.4**	**0.4**	**0.4**	**0.4**
EV/Sales				0.7	0.6	**0.7**	**0.6**	**0.7**	**0.6**
EV/EBITDA				6.8	5.2	**5.1**	**5.1**	**4.9**	**4.6**
EV/EBIT (adj.)				10.3	8.7	**6.8**	**6.4**	**6.8**	**6.4**
Payout ratio (%)				112.9 %	neg.	**64.9 %**	**48.3 %**	**38.4 %**	**40.0 %**
Dividend yield-%				4.3 %	5.7 %	**4.7 %**	**5.0 %**	**5.4 %**	**5.9 %**

Source: Inderes







Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/Liikevaihto		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**
Nibe Industrier AB	8888	10462	22.7	18.1	17.3	14.3	2.7	2.5	29.3	22.6	1.1	1.4	3.2
Lindab International AB	1449	1711	14.5	12.0	10.1	8.8	1.4	1.3	17.4	13.4	2.5	2.7	2.1
Systemair AB	1312	1404	16.0	13.7	11.3	9.7	1.3	1.3	22.2	17.8	1.7	2.0	2.6
Uponor Oyj	2079	2145	14.2	12.8	10.1	9.7	1.6	1.6	20.0	17.8	2.7	2.8	3.9
Arbonia AG	870	1076	61.0	23.6	15.4	11.8	1.3	1.2		47.5	1.9	2.1	0.9
Volution Group PLC	944	1053	12.6	12.1	10.7	10.3	2.6	2.5	15.4	14.6	2.1	2.2	
Zehnder Group AG	1080	1027	18.5	15.7	12.8	11.3	1.4	1.4	14.7	12.4	2.5	2.9	1.7
Stelrad Group PLC	193	274	7.7	6.9	5.5	5.1	0.8	0.7	9.7	8.3	5.8	5.9	
Ecoclime Group AB	9	9	6.0	2.8	3.1	1.9	0.3	0.3	6.0	3.3			0.5
Purmo Group (Inderes)	**316**	**486**	**6.8**	**6.4**	**5.1**	**5.1**	**0.7**	**0.6**	**8.4**	**7.4**	**4.7**	**5.0**	**0.7**
Average			**19.2**	**13.1**	**10.7**	**9.2**	**1.5**	**1.4**	**16.8**	**17.5**	**2.5**	**2.8**	**2.1**
Median			**14.5**	**12.8**	**10.7**	**9.7**	**1.4**	**1.3**	**16.4**	**14.6**	**2.3**	**2.4**	**2.1**
Diff-% to median			***-53%***	***-51%***	***-53%***	***-48%***	***-52%***	***-52%***	***-48%***	***-49%***	***107%***	***104%***	***-66%***

Source: Refinitiv / Inderes

Income statement

Income statement	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	**212**	**180**	**176**	**175**	**743**	**188**	**176**	**174**	**182**	**720**	**743**	**764**	**785**
Climate Products & Systems	169	145	143	135	592	153	140	140	145	578	593	605	617
Climate Solutions	43	36	33	40	152	35	36	34	37	142	150	159	169
EBITDA	**23.1**	**16.9**	**17.3**	**-10.8**	**46.6**	**25.3**	**18.5**	**19.5**	**22.5**	**85.8**	**93.6**	**104.9**	**106.2**
EBITDA (adj.)	**29.2**	**27.8**	**19.6**	**16.3**	**92.9**	**26.6**	**23.5**	**24.5**	**25.5**	**100.1**	**103.6**	**104.9**	**106.2**
Depreciation	-8.0	-8.0	-6.1	-14.8	-36.9	-7.4	-7.0	-7.0	-7.0	-28.4	-29.0	-29.6	-30.2
EBIT (excl. NRI)	**18.5**	**13.1**	**17.4**	**6.4**	**55.4**	**19.3**	**16.5**	**17.5**	**18.5**	**71.8**	**74.6**	**75.2**	**76.0**
EBIT	**15.1**	**8.9**	**11.2**	**-25.5**	**9.7**	**17.9**	**11.5**	**12.5**	**15.5**	**57.4**	**64.6**	**75.2**	**76.0**
Climate Products & Systems (adj. EBITDA)	22.7	17.3	22.2	16.3	78.5	23.7	20.0	21.5	22.0	87.2	90.0	90.0	90.0
Climate Solutions (adj. EBITDA)	6.2	6.6	3.6	7.3	23.7	5.6	6.0	5.5	6.0	23.1	24.0	25.5	27.0
Other	-2.5	-2.7	-2.3	-2.4	-9.9	-2.7	-2.5	-2.5	-2.5	-10.2	-10.4	-10.6	-10.8
Share of profits in assoc. compan.	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
Net financial items	-5.6	-4.8	-4.0	-4.9	-19.3	-5.5	-5.0	-5.0	-5.0	-20.5	-16.0	-16.5	-15.6
PTP	**9.5**	**4.1**	**7.2**	**-30.4**	**-9.6**	**12.4**	**6.5**	**7.5**	**10.5**	**36.9**	**48.6**	**58.7**	**60.4**
Taxes	-2.7	-1.3	-2.7	7.0	0.3	-3.0	-1.6	-1.9	-2.6	-9.1	-11.2	-13.5	-13.9
Minority interest	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
Net earnings	**6.5**	**1.9**	**4.5**	**-26.1**	**-13.2**	**8.2**	**3.7**	**4.4**	**6.7**	**23.0**	**32.6**	**44.4**	**46.5**
EPS (adj.)	**0.23**	**0.12**	**0.23**	**0.10**	**0.68**	**0.23**	**0.20**	**0.22**	**0.23**	**0.88**	**1.00**	**1.04**	**1.09**
EPS (rep.)	**0.15**	**0.04**	**0.11**	**-0.61**	**-0.31**	**0.19**	**0.09**	**0.10**	**0.16**	**0.54**	**0.76**	**1.04**	**1.09**

Key figures	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	-10.4 %	-26.3 %	-18.6 %	-15.3 %	-17.8 %	-11.2 %	-2.4 %	-1.2 %	4.0 %	-3.1 %	3.2 %	2.8 %	2.8 %
Adj. EBITDA growth-%	0.3 %	3.8 %	-22.8 %	-27.9 %	-10.6 %	-8.9 %	-15.5 %	25.0 %	56.4 %	7.7 %	3.5 %	1.2 %	1.3 %
EBITDA-%	10.9 %	9.4 %	9.8 %	-6.1 %	6.3 %	13.5 %	10.5 %	11.2 %	12.4 %	11.9 %	12.6 %	13.7 %	13.5 %
EBITDA-% (adj.)	13.8 %	15.4 %	11.1 %	3.7 %	12.5 %	14.1 %	13.4 %	14.1 %	14.0 %	13.9 %	13.9 %	13.7 %	13.5 %
Net earnings-%	3.1 %	1.1 %	2.6 %	-14.9 %	-1.8 %	4.4 %	2.1 %	2.5 %	3.7 %	3.2 %	4.4 %	5.8 %	5.9 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**619**	**628**	**615**	**618**	**622**
Goodwill	371	371	371	371	371
Intangible assets	47.0	45.9	45.7	45.5	45.4
Tangible assets	167	163	168	172	176
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	0.0	0.0	0.0	0.0	0.0
Other non-current assets	5.6	5.5	5.5	5.5	5.5
Deferred tax assets	29.2	42.8	25.0	25.0	25.0
Current assets	**365**	**370**	**353**	**371**	**311**
Inventories	174	144	122	126	130
Other current assets	45.4	38.9	38.9	38.9	38.9
Receivables	89.1	75.2	72.0	74.3	76.4
Cash and equivalents	56.3	112	119	132	66.1
Balance sheet total	**984**	**998**	**967**	**990**	**933**

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**403**	**436**	**445**	**462**	**431**
Share capital	3.1	3.1	3.1	3.1	3.1
Retained earnings	24.4	22.8	30.9	48.6	77.3
Hybrid bonds	0.0	59.3	60.0	60.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	376	351	351	351	351
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**346**	**344**	**294**	**284**	**254**
Deferred tax liabilities	5.4	6.4	6.4	6.4	6.4
Provisions	7.8	8.1	8.1	8.1	8.1
Interest bearing debt	312	310	260	250	220
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	20.1	19.6	19.6	19.6	19.6
Current liabilities	**235**	**218**	**228**	**243**	**248**
Interest bearing debt	20.7	17.7	30.0	40.0	40.0
Payables	193	161	158	163	168
Other current liabilities	20.7	40.0	40.0	40.0	40.0
Balance sheet total	**984**	**998**	**967**	**990**	**933**

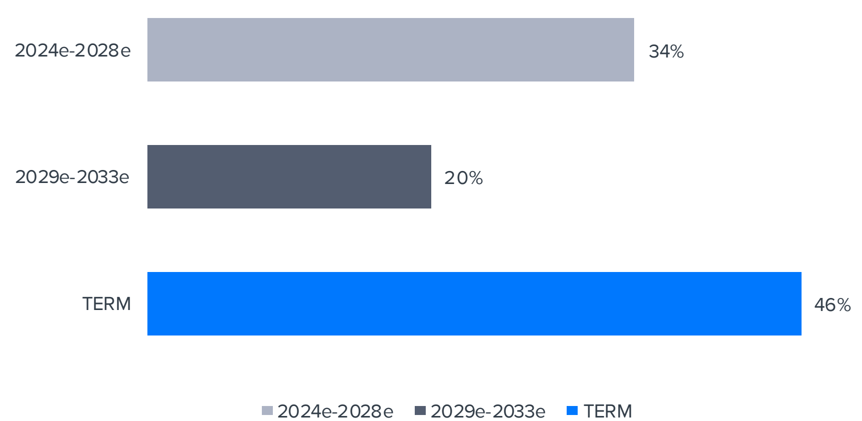
DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-17.8 %	-3.1 %	3.2 %	2.8 %	2.8 %	2.5 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	1.3 %	8.0 %	8.7 %	9.8 %	9.7 %	9.0 %	9.0 %	9.0 %	9.0 %	7.0 %	7.0 %	7.0 %
EBIT (operating profit)	**9.7**	**57.4**	**64.6**	**75.2**	**76.0**	**72.5**	**74.3**	**76.1**	**78.0**	**62.2**	**63.5**	
+ Depreciation	36.9	28.4	29.0	29.6	30.2	30.7	31.1	31.6	32.0	33.0	33.1	
- Paid taxes	-12.3	8.7	-11.2	-13.5	-13.9	-13.1	-13.5	-13.9	-14.4	-10.7	-11.0	
- Tax, financial expenses	-0.6	-5.1	-3.7	-3.8	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	-3.6	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	37.2	22.4	-1.1	-1.0	-1.1	-1.0	-1.0	-1.0	-1.1	-1.1	-0.9	
Operating cash flow	**70.9**	**112**	**77.6**	**86.5**	**87.6**	**85.5**	**87.3**	**89.2**	**91.0**	**79.8**	**81.1**	
+ Change in other long-term liabilities	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-32.5	-32.6	-32.9	-33.2	-33.5	-33.8	-34.1	-34.4	-38.8	-33.4	-34.1	
Free operating cash flow	**38.2**	**79.2**	**44.7**	**53.3**	**54.1**	**51.7**	**53.3**	**54.8**	**52.3**	**46.5**	**47.0**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	38.2	79.2	44.7	53.3	54.1	51.7	53.3	54.8	52.3	46.5	47.0	702
Discounted FCFF		**74.7**	**38.8**	**42.5**	**39.6**	**34.8**	**32.9**	**31.1**	**27.3**	**22.3**	**20.7**	**309**
Sum of FCFF present value		674	599	560	518	478	443	411	379	352	330	309
Enterprise value DCF		**674**										
- Interest bearing debt		-387										
+ Cash and cash equivalents		112										
-Minorities		0.0										
-Dividend/capital return		-14.9										
Equity value DCF		**384**										
Equity value DCF per share		**9.0**										

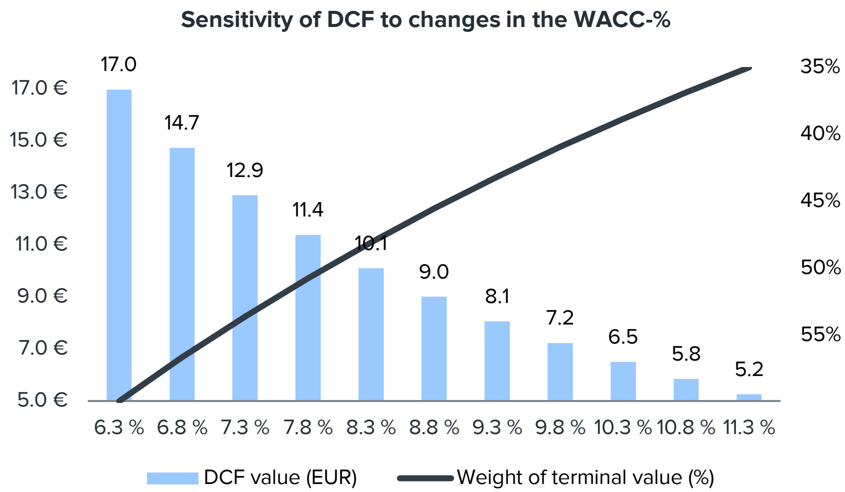
WACC	
Tax-% (WACC)	23.0 %
Target debt ratio (D/(D+E)	20.0 %
Cost of debt	5.0 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	1.40%
Risk free interest rate	2.5 %
Cost of equity	**10.1 %**
Weighted average cost of capital (WACC)	**8.8 %**

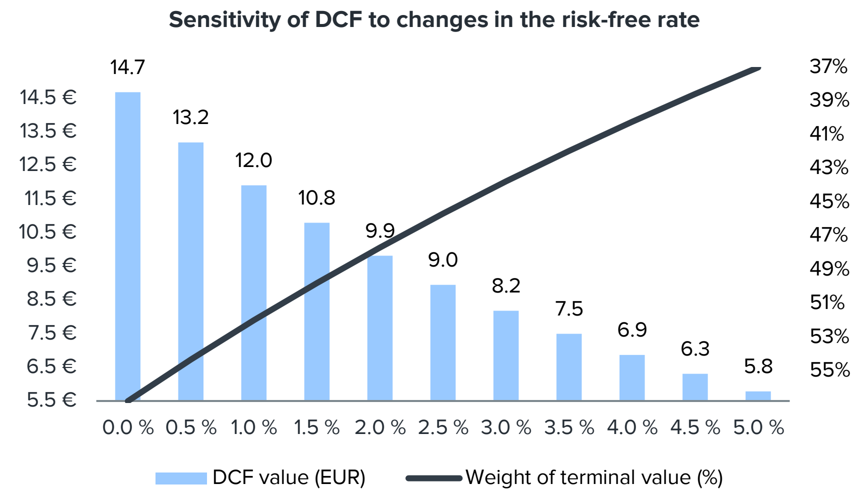
Source: Inderes

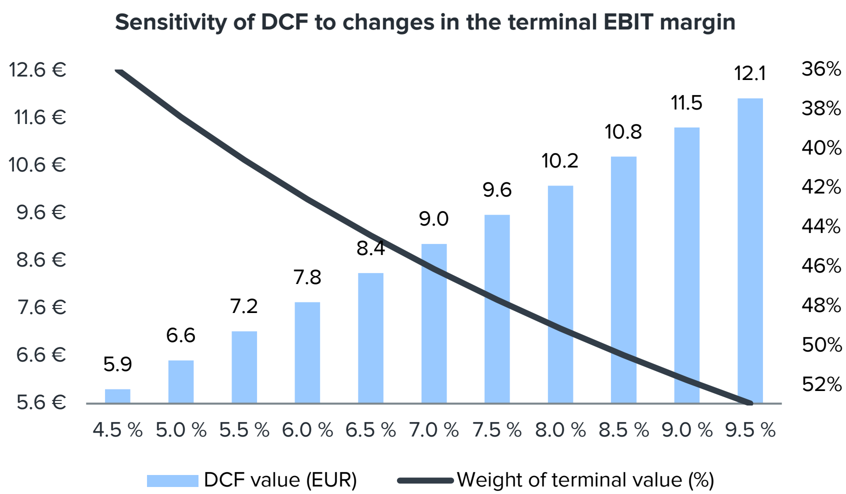
Cash flow distribution

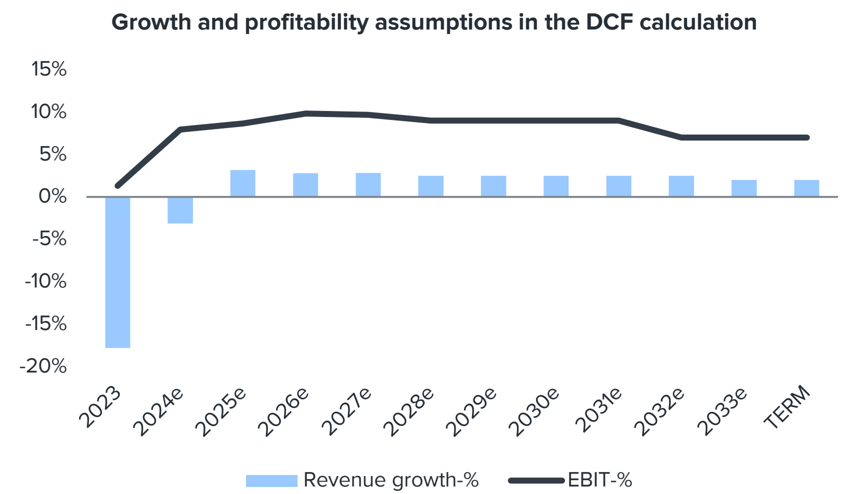


DCF sensitivity calculations and key assumptions in graphs









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

Summary

Income statement	2022	2023	2024e	2025e
Revenue	904.1	743.2	**720.0**	**743.0**
EBITDA	78.4	46.6	**85.8**	**93.6**
EBIT	39.0	9.7	**57.4**	**64.6**
PTP	21.6	-9.6	**36.9**	**48.6**
Net Income	13.2	-13.2	**23.0**	**32.6**
Extraordinary items	-21.7	-45.7	**-14.4**	**-10.0**

Balance sheet	2022	2023	2024e	2025e
Balance sheet total	983.9	997.7	**967.2**	**989.9**
Equity capital	403.3	435.9	**444.7**	**462.4**
Goodwill	370.6	370.6	**370.6**	**370.6**
Net debt	276.8	215.6	**170.7**	**158.0**

Cash flow	2022	2023	2024e	2025e
EBITDA	78.4	46.6	**85.8**	**93.6**
Change in working capital	-32.0	37.2	**22.4**	**-1.1**
Operating cash flow	33.1	70.9	**111.8**	**77.6**
CAPEX	-53.3	-32.5	**-32.6**	**-32.9**
Free cash flow	-24.6	38.2	**79.2**	**44.7**

Valuation multiples	2022	2023	2024e	2025e
EV/S	0.7	0.6	**0.7**	**0.6**
EV/EBITDA (adj.)	6.8	5.2	**5.1**	**5.1**
EV/EBIT (adj.)	10.3	8.7	**6.8**	**6.4**
P/E (adj.)	9.7	9.1	**8.4**	**7.4**
P/B	0.9	0.6	**0.7**	**0.7**
Dividend-%	4.3 %	5.7 %	**4.7 %**	**5.0 %**

Source: Inderes

Per share data	2022	2023	2024e	2025e
EPS (reported)	0.32	-0.31	**0.54**	**0.76**
EPS (adj.)	0.85	0.68	**0.88**	**1.00**
OCF / share	0.80	1.66	**2.62**	**1.82**
FCF / share	-0.60	0.90	**1.86**	**1.05**
Book value / share	9.79	10.22	**10.42**	**10.84**
Dividend / share	0.36	0.36	**0.36**	**0.38**

Growth and profitability	2022	2023	2024e	2025e
Revenue growth-%	7%	-18%	**-3%**	**3%**
EBITDA growth-%	133%	-41%	**84%**	**9%**
EBIT (adj.) growth-%	-18%	-9%	**30%**	**4%**
EPS (adj.) growth-%	-53%	-19%	**28%**	**14%**
EBITDA-%	8.7 %	6.3 %	**11.9 %**	**12.6 %**
EBIT (adj.)-%	6.7 %	7.5 %	**10.0 %**	**10.0 %**
EBIT-%	4.3 %	1.3 %	**8.0 %**	**8.7 %**
ROE-%	3.3 %	-3.1 %	**5.2 %**	**7.2 %**
ROI-%	5.1 %	1.3 %	**7.7 %**	**8.7 %**
Equity ratio	41.0 %	43.7 %	**46.0 %**	**46.7 %**
Gearing	68.6 %	49.5 %	**38.4 %**	**34.2 %**

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
1/5/2022	Accumulate	16.00 €	14.80 €
3/4/2022	Accumulate	12.50 €	10.90 €
4/13/2022	Accumulate	13.00 €	12.00 €
5/13/2022	Buy	13.00 €	10.35 €
8/12/2022	Buy	13.00 €	11.00 €
11/9/2022	Buy	12.00 €	10.00 €
11/11/2022	Buy	12.00 €	9.00 €
12/9/2022	Accumulate	10.00 €	9.20 €
2/10/2023	Accumulate	9.50 €	8.38 €
4/5/2023	Accumulate	9.50 €	8.32 €
4/27/2023	Accumulate	9.50 €	8.68 €
7/20/2023	Accumulate	8.50 €	7.20 €
10/26/2023	Buy	8.00 €	6.18 €
2/14/2024	Buy	8.00 €	6.90 €
4/25/2024	Buy	8.50 €	7.40 €

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