Fortum

Company report

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This report is a summary translation of the report “Pois Venäjältä” published on 05/13/2022 at 08:35 am.

Leaving Russia

We reiterate our Reduce recommendation for Fortum with a EUR 16.0 target price after its Q1 report. The operating result of the "old Fortum" was in line with expectations and the company said it would withdraw in a controlled manner from Russia, which is difficult in the current situation. There is plenty of commotion around Russian gas, but in addition to the accelerating bans, we also received news from Germany that diluted the risks around Uniper. Fortum's valuation on paper is very low (2023e P/E 10x) and this can be a great place to buy for those who can stand uncertainty. However, the valuation is neutral in relation to peers. For us, there is still too much uncertainty about the development of Uniper when Europe alienates itself from Russian gas.

No surprises in the operating result

Fortum's Q1 result was broadly in line with our expectations after Uniper reported its weak Q1 figures and Fortum reported on Russia related write-downs. Comparable operating profit was EUR -438 million, exactly as we had forecasted. The Generation segment made an adjusted operating profit of EUR 282 million (estimate: 307 MEUR), as the result was burdened by a higher-than-expected drop in hydro power production and a lower-than-expected electricity price (EUR 44.1/MWh vs. EUR 47/MWh). Behind this were the problems related to hedges in the SE2 price area, which proved to be higher than expected. Overall, Fortum's operating result was in line with expectations, but the result was on a downward trajectory in all segments other than Generation. In addition, the cash flow from operations was weak (-1,529 MEUR) and the balance sheet expanded with Uniper's derivative positions. Fortum's liquidity situation is still good.

Rise in electricity prices supported the forecasts for the coming years, much commotion around Russian gas

We raised our earnings estimates for the next few years by about 5-10%, driven by a significant rise in electricity futures as Russia's invasion in Ukraine launched an energy crisis in Europe. This supports the outlook of the Generation segment. Fortum's outlook came with no surprises, but logically both hedge prices and levels went up. Our concerns regarding the biggest single result maker, the Global Commodities segment, are also on the rise, as Europe's exit from Russian gas may leave a significant gap in the result of the segment. Uncertainty about Russian gas has continued to increase as the controversy between Russia and Germany has escalated. It's positive that the German Parliament approved yesterday the "Energy Security" bill, which, to our understanding, at least significantly limits the price risk of Uniper in a situation where gas supplies from Russia ceased. Both Fortum and Uniper are now officially seeking to exit Russia, but it's not easy in the current situation. Russia isn't attractive to Western companies or investors at the moment, and potential sales require the approval of the Russian authorities. Therefore, we would be very surprised if Fortum could get the post-write-down balance sheet value of EUR 3.3 billion from Russia.

Share price is low, but we are still waiting for the dust to settle

Although the valuation of Fortum (2023e P/E 10x) is very low, it is in line with the peers of the European energy sector that is in crisis. In normal circumstances, we believe that Fortum would deserve a clear premium for high-quality water and nuclear assets, but the dust will have to settle in Russia before this. This can happen quickly, making waiting look stupid in hindsight, but change can also take a very long time and there may be more unpleasant surprises along the way. While we are confident about the "old Fortum", we feel that it's justified to employ a large security margin regarding the value of Uniper. In view of the risks that we see in the company, we are skeptical about the current market cap of Uniper (~EUR 8 billion). Although Germany is creating a safety net around the energy sector, there are still a great many open questions .

Recommendation

Reduce
(previous Reduce)

EUR 16.00
(previous EUR 16.00)

Share price:
15.31

Key figures

	2021	2022e	2023e	2024e
Revenue	112400	140378	134138	127520
growth-%	129%	25%	-4%	-5%
EBIT adj.	2536	2142	2019	1937
EBIT-% adj.	2.3 %	1.5 %	1.5 %	1.5 %
Net Income	739	-140	1360	1296
EPS (adj.)	2.00	1.39	1.53	1.46

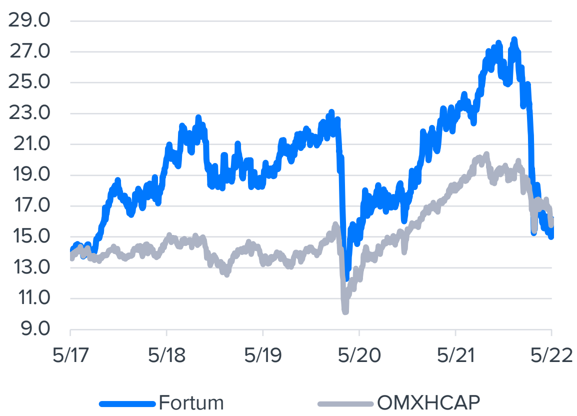
P/E (adj.)	13.5	11.0	10.0	10.5
P/B	2.0	1.2	1.2	1.2
Dividend yield-%	4.2 %	7.4 %	7.4 %	7.4 %
EV/EBIT (adj.)	12.9	10.5	10.4	9.9
EV/EBITDA	47.2	10.8	6.3	5.8
EV/S	0.3	0.2	0.2	0.2

Source: Inderes

Guidance (Adjusted)

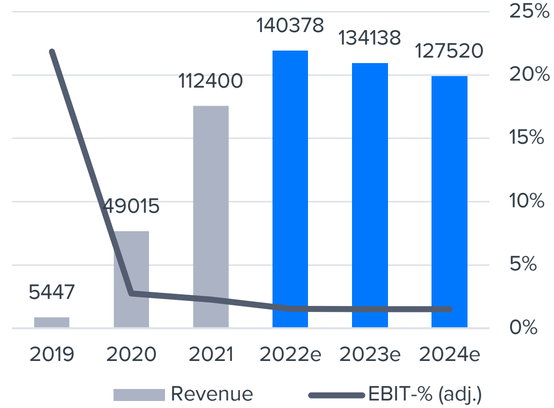
The Generation segment's Nordic generation hedges: approximately 80% at EUR 35 per MWh for the remainder of 2022, and approximately 55% at EUR 33 per MWh for 2023.

Share price



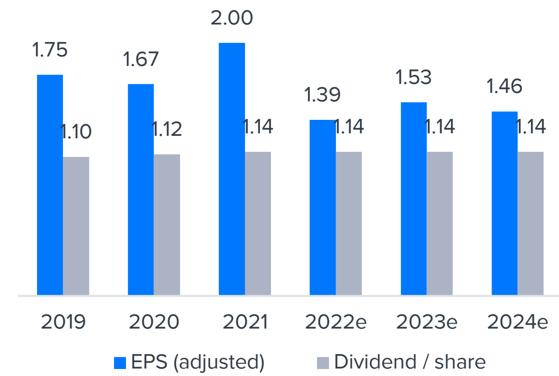
Source: Thomson Reuters

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Lessening of Russia risks
- Improving the investment profile
- 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
- Genuine merger of Fortum and Uniper, which would enable significant synergies
- New potential from a possible rise in the hydrogen economy

Risk factors

- Russian war in Ukraine and related cycle of sanctions
- Concerns about the possible end to Russian gas flows and the impact this has on Uniper
- A drop in electricity prices would ultimately be reflected in the result, despite hedging
- Unfavorable regulatory developments in the Nordic countries, Europe or Russia
- Uncertainty related to coal power brought on by Uniper

Valuation	2022e	2023e	2024e
Share price	15.3	15.3	15.3
Number of shares, millions	888.3	888.3	888.3
Market cap	13595	13595	13595
EV	22471	21093	19170
P/E (adj.)	11.0	10.0	10.5
P/E	neg.	10.0	10.5
P/FCF	7.6	5.3	4.4
P/B	1.2	1.2	1.2
P/S	0.1	0.1	0.1
EV/Sales	0.2	0.2	0.2
EV/EBITDA	10.8	6.3	5.8
EV/EBIT (adj.)	10.5	10.4	9.9
Payout ratio (%)	neg.	74.5 %	78.2 %
Dividend yield-%	7.4 %	7.4 %	7.4 %

Source: Inderes

Q1 operationally in line with our expectations (1/2)

Fortum's core performance was good as expected

In Q1, Fortum's operating result was largely in line with our forecasts. Comparable operating profit was EUR -438 million, exactly as we had forecasted. Fortum's reported earnings per share (EPS) were EUR -2.50, which was clearly below our forecast (EUR -2.12). The reported figures for Fortum and Uniper are influenced by a significant number of extraordinary items, most of which were known before the result. Overall, Fortum's operating result was in line with expectations, but the result was on a downward trajectory in all segments other than Generation. There were logical reasons for the drop in result, but we don't believe that the first quarter of the "old Fortum" could be called a success.

At the same time, it must be stressed that the gloomy earnings figures come from Uniper. Uniper's ugly Q1 result was already known, and the adjusted Q1 operating profit for the Uniper segment was EUR -833 million (Q1'21: 711 MEUR). The earnings collapse was mainly caused by the gas storage optimization of Global Commodities gas business ("gas mid-stream"). In view of the current market environment, Uniper has reduced its anticipated gas storage withdrawals in Q1, which shifts a significant amount of earnings (estimate: ca. 750 MEUR) to rest of the quarters this year. However, Uniper and the Global Commodities business' earnings were clearly weaker than in the comparison period, even if the item was fully included in Q1. Some of this was well justified by the exceptional nature of the comparison period, but we still have concerns about the development of Uniper.

Fortum's core performance was good as expected

The Generation segment made an adjusted operating profit of EUR 282 million (estimate 307 MEUR), falling slightly short our forecast. The result was burdened by a higher-than-expected drop in hydro power production, which was negatively reflected on the costs. Variable costs of hydro power are non-existent, which is why the large proportion of hydro power production supports profitability.

In addition, the segment's electricity price for Q1 was EUR 44.1/MWh, while we expected about EUR 47/MWh. We knew the SE2 area's price was poor for Fortum, but we assumed that the company hadn't hedged the sale of the area at all. Apparently, part was hedged at a significantly higher system price, when the increased price difference had an even stronger impact on the electricity price achieved. The liquidity of the SE2 (Sundsvall) area is very weak and the production/consumption balance of the area has been distorted, which means that the problematic situation can continue for years without significant investment in transmission networks. Even if there were no similar problems with hedging in the future, the spot price in the region will probably remain significantly below average in the future. If this happens, it will continue to undermine Fortum's electricity price.

The City Solutions segment's result weakened from the comparison period, albeit less than we expected. The segment's result was burdened by higher fuel and emission allowance prices, yet the increase in electricity prices supported it. The Consumer Solutions segment's result remained almost at the level of the comparison period, which was a positive surprise after the very weak Q4. The market situation seems to have normalized rapidly, which is also good for the future.

"Controlled exit" is the objective in Russia

Fortum's Russia segment, which is the object unpleasant attention, made EUR 61 million of adjusted operating profit on Q1, slightly surpassing our forecast (55 MEUR). As expected, the operating result weakened year-on-year due to the cessation of capacity payments of Nyaga 1. Of the write-downs Fortum announced earlier about EUR 0.3 billion was from Russia and about EUR 0.2 billion from Fortum's ownership in TGC-1 and joint ventures for renewable electricity production. There was also Russia-related depreciation to Uniper's Unipro assets (EUR 0.6 billion) and to Nord Stream 2 (EUR 1.0 billion). All of these were known, but in reporting they slightly deviated from our expectations (shown as a deviation from reported operating profit).

What was new with Q1 was that Fortum announced that it was preparing to withdraw in a controlled manner from Russia with the aim of selling the businesses. The market has been generally expecting the decision, although it was officially announced only now. The Russian invasion in Ukraine has made the situation unsustainable. However, in the current situation, selling businesses at a reasonable price is easier said than done because Western companies or investors are hardly interested in assets in Russia at the moment. In addition, any sale will require the approval of the Russian authorities, which may significantly limit the number of potential buyers. Due to political tension, the situation is exceptionally difficult to assess.

Q1 operationally in line with our expectations (2/2)

After the write-downs that have been made, Fortum's total book value of Russia assets is about EUR 3.3 billion at the end of the first quarter of 2022 (2021: EUR 5.5 billion). The figure also includes Uniper's business in Russia. Fortum expects that the sale process of Uniper's Russian subsidiary Unipro continues as soon as possible.

The exit from Russia has quite understandably started, but it's happening at a very challenging time. From the investors' point of view, it's positive that the Russia assets haven't been given substantial value for a long time. Therefore, even the worst economic outcome could well be welcomed on the market if even a reasonable price was received for the Russia business. At the moment, we don't believe it's possible to repatriate capital from Russia.

Cash flow was weak

In Q1, Fortum's operational cash flow was EUR -1,529 million (Q1'21 831 MEUR). The collapse was particularly due to the changes in Uniper's working capital in relation to emission allowances and to the earlier improvement in liquidity situation in Q4'21. Then, Uniper optimized the cash flow due to the tight cash situation, which now weakened the cash flow in the early part of the year. However, cash flow was supported by the change in collateral received, so Uniper has managed to release capital from collateral despite the fact that the number of derivative instruments in the balance sheet increased significantly. In total, Fortum's liquid assets amounted to EUR 1,158 million in Q1, from which it hadn't yet paid dividends of about EUR 1 billion at the end of the period (payment date was 4/6/2022).

Balance sheet has been inflated, but there is still liquidity

Fortum's balance sheet is currently huge, with a balance sheet total of more than EUR 200 billion. In relation to this, Fortum's equity, which at the end of Q1 was about EUR 8.8 billion, is very small (equity weakened by write-downs). This with the still significant risks related to Russia isn't naturally an ideal combination, but the huge size of Fortum's balance sheet is result of Uniper's accounting methods. In fact, the balance sheet contains some EUR 150 billion of derivative instruments, which are shown on the balance sheet as gross, although the positions are expected to be hedged. This is the result of Uniper's policies of not applying hedge accounting (unlike Fortum). Thus, the book value of the derivatives used by Uniper is reflected in the price of the hedged items. In any case, it's extremely difficult to analyze and model the whole.

Fortum and the credit rating agencies follow completely different key figures. Fortum's financial net debt/comparable EBITDA went up to 1.0x, compared to 0.2x at the end of 2021. Fortum's goal is to keep the level below 2x, so the level is not worrying. In addition, Fortum still has a lot of liquid assets (EUR 6.4 billion) and at the end of the quarter the company had EUR 5.8 billion of undrawn stand-by credit. Thus, the liquidity situation is still very good.

However, the fact that the rating agency S&P placed on 3/14/2022 Fortum and Uniper's BBB credit ratings on long-term CreditWatch Negative. Since 2018, Fortum and Uniper have had a BBB investment grade rating from S&P. Another credit rating agency, Fitch, maintained Fortum's rating as of 3/17/2022 at BBB with a stable outlook.

Estimates	Q1'21	Q1'22	Q1'22e	Q1'22e	Consensus			Difference (%)	2022e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low		High	Act. vs. inderes	Inderes
Comparable EBITDA	1479	-104	-113	-95.0	-1327	-	787	8%	3451
Comparable operating profit	1171	-438	-438	-436.0	-482.0	-	-390.0	0%	2142
Operating profit (reported)	1345	-2416	-1338	-1333	-2750	-	-458	-81%	764
EPS (reported)	1.23	-2.50	-2.23	-2.12	-2.38	-	-0.25	-12%	-0.16

Source: Inderes & Vara Research (10.5.2022) (consensus)

Earnings estimates for the coming years up with the electricity price

High electricity prices supported estimates for the coming years

Our 2022 estimates changed significantly due to several one-off items (write-downs and the sale of Oslo district heating business) and partly due to the Q1 result of Uniper. However, the Q1 report didn't lead to major changes to the estimates for the current year. We note that in the table below we present the changes of the previous report where we made estimate revisions. After that, we adjusted the forecasts in connection with our Q1 pre-comment.

In turn, our estimates for the next few years increased by about 5-10% with the update. The main reason for this is the increase in electricity prices and the significant rise in electricity futures particularly in the next few years as Russia's invasion in Ukraine launched an energy crisis in Europe. High price of electricity naturally supports the result of Fortum's Generation segment. Based on current futures prices alone, the estimate changes would have been greater, but we are also trying to account for the potential continuation of the problems in the SE2 price area in the price of electricity achieved by Fortum. In addition, we aren't sure whether current futures prices will eventually be sustainable, so we try to be conservative in our estimates and avoid strong movements back and forth. Olkiluoto 3 also partly mixes up the situation, which is expected to finally be commercially available in the fall of 2022. The number of moving parts in the energy market in general is very high.

Fortum's outlook came with no surprises, but logically both hedge prices and levels went up. At the end of the first quarter of 2022, about 80% of the estimated wholesale electricity sales in the Nordic countries in the Generation segment were hedged at EUR 35/MWh for the rest of 2022 (Q4'21: 75 % to EUR 34/MWh) and approximately 55 % to EUR 33/MWh for 2023 (Q4'21: 50% for EUR 31/MWh). The hedging measures currently limit the impact of a high electricity price on the Generation segment's result. However, in 2020, for example, they saved the company's result.

Uniper's future performance is worrying

While we are still confident about the performance of the "old Fortum", our concerns with Uniper have increased. In recent years, Uniper's most important contributor has been the Global Commodities segment, which will be in turmoil in the coming years. In 2021, the segment made a huge EUR 756 million in adjusted operating profit (64% of Uniper's adjusted operating profit). About 50% of the natural gas sold by the Global Commodities business in Europe comes from Russia. This is a problem for the whole of Europe, but particularly for Germany. In the next few years, the aim is to break the dependence on Russian natural gas, even if Russian gas deliveries would continue without any new problems.

We don't know how significant gap the decline in Russian gas flow will eventually leave, but we believe that Russia has been a very important factor in the Global Commodities segment's result. In principle, we assume that the required return for the Russia business has been above normal (like for Fortum). The company's infrastructure (e.g. gas storage) will continue to play a very important role in the future, but the result generation within the company is a mystery to us. In addition, the company is in principle withdrawing from the Russian operations, which would also make a significant dent in the result when implemented. Analysts following Uniper still predict that the company's result will remain roughly stable in the next few years (median operating profit 2023e 960 MEUR and 2024e 1,026 MEUR). Despite this, we have taken a little more safety margin into our own Uniper projections.

Estimate revisions	2022e	2022e	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	101975	140378	38%	92107	134138	46%	87862	127520	45%
EBITDA	3448	2073	-40%	3200	3369	5%	3186	3294	3%
EBIT (exc. NRIs)	2148	2142	0%	1850	2019	9%	1829	1937	6%
EBIT	2148	764	-64%	1850	2019	9%	1829	1937	6%
PTP	2108	-431	-120%	1781	1919	8%	1759	1837	4%
EPS (excl. NRIs)	1.59	1.39	-12%	1.33	1.53	15%	1.31	1.46	11%
DPS	1.14	1.14	0%	1.14	1.14	0%	1.14	1.14	0%

Source: Inderes

Plenty of commotion around Russian gas again

Concerns about gas supply on the rise…

There has been a lot of commotion around Russian gas recently, and yesterday was no exception. Some of the news was negative in our view, but one piece of news positive for Uniper (and Fortum). What is negative is that Russia is using gas in practice as a weapon against Europe and particularly Germany, and the situation seems to continue to escalate.

According to the Bloomberg news yesterday, Russia had cut about 3% of German imports. The number is not significant at the moment, but rather a threat from Russia and the escalation of the currently very tense situation. According to Reuters, Russian has imposed sanctions on the company operating the Polish portion of the Jamal gas pipeline and on the former Gazprom unit whose subsidiaries are responsible for gas supplies in Europe.

The effects of the news on gas flows are unclear to us, but they have again increased gas prices in Europe considerably (yesterday +20%). This can be only another threat from Russia, but the uncertainty surrounding gas supplies is growing significantly. There have been problems with gas connections in both Poland and Ukraine before. We stress that the overall situation is unclear and that we are dependent on partly conflicting media information.

…But the probability of the worst possible scenario is decreasing

On the other hand, it's positive that the German Parliament approved yesterday the "Energy Security Law" bill. In our opinion, if nothing else, the law significantly limits the Uniper's price risk, which has been the greatest "open risk" in relation to Russian gas. In the worst-case scenario, this could have destroyed the value of Uniper as a whole, although the worst scenario has always been highly unlikely.

In our 3/7/2022 report, we commented on Uniper's price risk as follows: "We believe that the disruption of the Russian gas flow (e.g. sanctions) could lead at worst to a situation where Uniper would have to source significant quantities of gas on the market in a situation where prices would be extremely high. At the same time, however, the company has already locked up a sales price in part of its contracts, and the company would make a huge loss due to the negative price difference. It's impossible to say what would happen eventually happen in this scenario, because the problem in the European gas market would be systematic and the regulators would have to start manually control the market. However, we can't rule out the fact that an end to gas flow would create a chain of events at the end of which Uniper ownership wouldn't have any value. We don't think this scenario is likely, and some of the risk is alleviated with continuing gas supplies all the time."

To our understanding, the bill that the German Parliament passed yesterday will significantly reduce the above-mentioned price risk, since the supplier (such as Uniper) may seem to be able to pass on the sharp price increase due to possible disturbances to the customer, who can decide whether to accept the delivery at the new price. The legislative text of the bill indicated that all suppliers are entitled to price adjustments for gas after an alert or emergency. In our view, the obligation to supply at the price set by the previous agreement will therefore be terminated if the German authority increases the risk level of the gas system to level two (currently at level one). To our understanding, this would be done quickly if the gas flow from Russia were to decrease significantly, thereby reducing the risk of confusion in a potential problematic situation.

We'd like to stress that we haven't yet had time to look more closely at the bill that was passed last night, and we aren't sure whether any substantial changes have been made to the bill before the vote. We will investigate this more thoroughly today. Furthermore, the law isn't expected to enter into force until next week.

The share is cheap if Uniper's performance keeps up

The core of Fortum is undoubtedly valuable

Since Fortum's market cap has fallen by more than EUR 10 billion this year, we can safely say that Russia business only has an option value. In our opinion, the share price is very favorable if earnings development remains on track and no new negative surprises come up. In addition, if Fortum and Uniper were able to exit Russia at even reasonable trade prices, there would be significant upside potential in the share. Therefore, it may well be worth the risk, but we are waiting for the situation to become clearer with a Reduce recommendation and reiterate the target price of EUR 16.0. Although the valuation of Fortum (2023e P/E 10x) is very low, it is in line with the European energy sector that is in crisis. In normal circumstances, we believe that Fortum would deserve a clear premium for high-quality water and nuclear assets, but the dust will have to settle in Russia before this.

In our view, Fortum can make an operating profit of about EUR 1 billion in 2022 without Russia and Uniper, and in a good scenario these businesses could make EPS of about one euro. Then P/E would be slightly above 15x (assuming a reasonable debt structure and number of shares not changing) and the result would come largely from safe water and nuclear power in the Nordic countries. However, with Uniper the assumptipn becomes significantly more uncertain. If Uniper's Global Commodities business were to get off slightly from the situation, there would be significant upside potential in the share. However, we recommend investors to be extremely cautious, because not all the risks to Uniper's Russia have been realized and things can get worse. In our view, the risk profile of Fortum, which is normally stable, is now high in the exceptional situation, because its fate is at least partly at the mercy of external factors.

Uniper's value is questionable

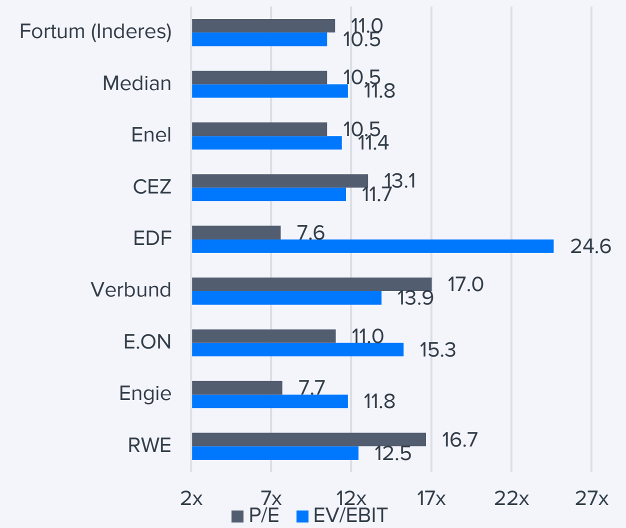
While we are quite confident about the "old Fortum", we feel that it's justified to employ a large security margin regarding the value of Uniper. In view of the risks that we see in the company, we are skeptical about the current market cap of Uniper (ca. EUR 8 billion). In our opinion, it's particularly strange that Uniper is priced at virtually the same valuation factors (2023e adj. P/E 11x) than Fortum, although we believe that the quality of the latter is significantly better. The reason is probably that Fortum is expected to buy the rest of Uniper.

Uniper has the potential, but in addition to the risks related to Russia, recent earnings development and uncertainties related to, for example, hedging have weakened our confidence. On one hand, it's positive that, the potential disaster related to the price risk of the Global Commodities business has significantly decreased. On the other, we believe that the escalation of the situation in Russia and the skirmish around gas have clearly increased the likelihood that the gas streams will actually be cut off. In any case, for Russia and for Uniper, the transition will happen in the coming years, when the Global Commodities business performance and value will be re-evaluated. It may well be that business will prove very profitable even without Russia, but we don't have visibility to this. Uniper is the most swinging part of Fortum's valuation, and at the moment we see it as more of a risk than an opportunity. However, the situation may change rapidly, which has been normal recently.

Valuation	2022e	2023e	2024e
Share price	15.3	15.3	15.3
Number of shares, millions	888.3	888.3	888.3
Market cap	13595	13595	13595
EV	22471	21093	19170
P/E (adj.)	11.0	10.0	10.5
P/E	neg.	10.0	10.5
P/FCF	7.6	5.3	4.4
P/B	1.2	1.2	1.2
P/S	0.1	0.1	0.1
EV/Sales	0.2	0.2	0.2
EV/EBITDA	10.8	6.3	5.8
EV/EBIT (adj.)	10.5	10.4	9.9
Payout ratio (%)	neg.	74.5 %	78.2 %
Dividend yield-%	7.4 %	7.4 %	7.4 %

Source: Inderes

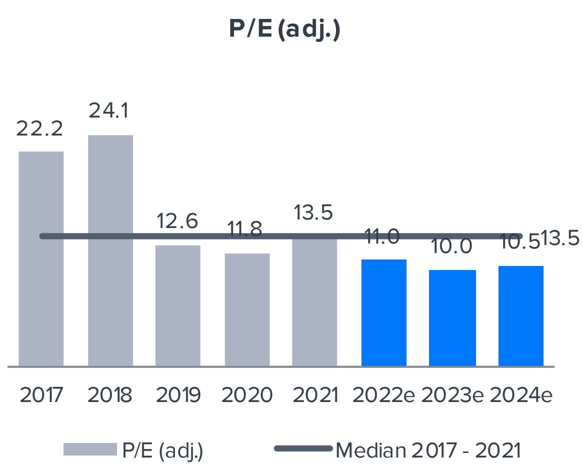
Peer group valuation multiples (2022e)

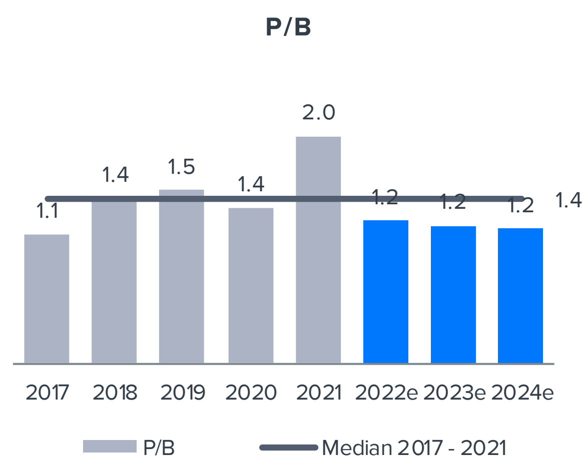


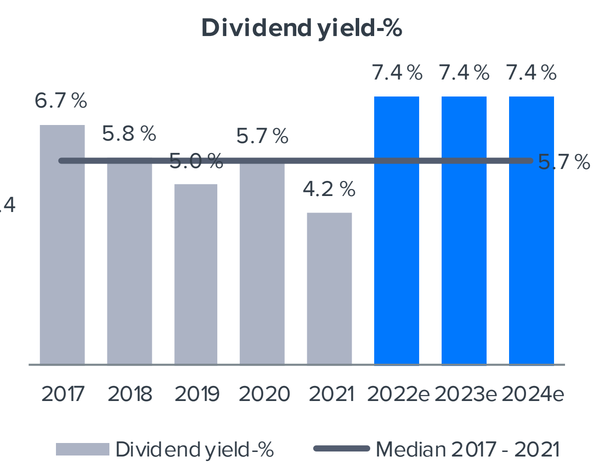
Valuation table

Valuation	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e
Share price	16.5	19.1	22.0	19.7	27.0	**15.3**	**15.3**	**15.3**	**15.3**
Number of shares, millions	888.4	888.4	888.3	888.4	888.3	**888.3**	**888.3**	**888.3**	**888.3**
Market cap	14658	16968	19542	17501	23975	**13595**	**13595**	**13595**	**13595**
EV	13955	16805	18665	25567	32676	**22471**	**21093**	**19170**	**18739**
P/E (adj.)	22.2	24.1	12.6	11.8	13.5	**11.0**	**10.0**	**10.5**	**11.6**
P/E	16.9	20.1	13.2	9.6	32.5	**neg.**	**10.0**	**10.5**	**11.6**
P/FCF	neg.	10.0	46.5	neg.	neg.	**7.6**	**5.3**	**4.4**	**8.3**
P/B	1.1	1.4	1.5	1.4	2.0	**1.2**	**1.2**	**1.2**	**1.2**
P/S	3.2	3.2	3.6	0.4	0.2	**0.1**	**0.1**	**0.1**	**0.1**
EV/Sales	3.1	3.2	3.4	0.5	0.3	**0.2**	**0.2**	**0.2**	**0.2**
EV/EBITDA	8.6	10.0	11.0	9.5	47.2	**10.8**	**6.3**	**5.8**	**6.0**
EV/EBIT (adj.)	16.9	17.0	15.7	19.0	12.9	**10.5**	**10.4**	**9.9**	**10.6**
Payout ratio (%)	112.8 %	115.9 %	66.0 %	54.6 %	137.1 %	**neg.**	**74.5 %**	**78.2 %**	**86.5 %**
Dividend yield-%	6.7 %	5.8 %	5.0 %	5.7 %	4.2 %	**7.4 %**	**7.4 %**	**7.4 %**	**7.4 %**

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**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**	**2023e**	**2022e**
RWE	38.85	26271	26272	12.5	16.0	7.6	9.0	16.7	21.5	2.3	2.4	1.6
Engie	11.08	26988	56809	11.8	11.6	7.0	6.7	7.7	7.7	8.6	9.0	0.8
E.ON	9.95	26271	63243	15.3	15.5	9.2	9.5	11.0	11.3	5.1	5.3	1.9
Verbund	79.20	13483	17452	13.9	12.1	11.9	10.4	17.0	16.5	2.8	3.0	3.8
EDF	8.28	30934	68925	24.6	18.3	14.3	6.7	7.6	7.9	7.7	5.0	0.7
CEZ	1014.00	21508	24798	11.7	10.1	7.5	6.5	13.1	10.5	5.1	5.5	2.8
Enel	5.84	59353	126376	11.4	11.0	7.2	6.9	10.5	9.7	6.9	7.4	1.9
Uniper	21.82	7985	8190	8.2	8.5	4.8	4.8	9.4	11.1	6.2	5.7	1.1
Fortum (consensus)	15.31	13595	25742	9.6	10.3	6.1	6.3	8.9	9.7	7.4	7.4	1.1
Fortum (Inderes)	**15.31**	**13595**	**22471**	**10.5**	**10.4**	**10.8**	**6.3**	**11.0**	**10.0**	**7.4**	**7.4**	**1.2**
Average				**13.2**	**12.6**	**8.4**	**7.4**	**11.3**	**11.8**	**5.8**	**5.6**	**1.7**
Median				**11.8**	**11.6**	**7.5**	**6.7**	**10.5**	**10.5**	**6.2**	**5.5**	**1.6**
Diff-% to median				***-11%***	***-10%***	***44%***	***-7%***	***5%***	***-5%***	***20%***	***35%***	***-20%***

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

Income statement

Income statement	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue	**49015**	**21493**	**17128**	**23701**	**50078**	**112400**	**43623**	**18437**	**17649**	**60669**	**140378**	**134138**	**127520**	**121448**
Generation	*2006*	*675*	*576*	*684*	*964*	*2899*	*710*	*610*	*594*	*898*	*2812*	*3074*	*2715*	*2569*
City Solutions	*1075*	*418*	*256*	*202*	*426*	*1302*	*390*	*258*	*210*	*414*	*1272*	*1326*	*1353*	*1381*
Consumer Solutions	*1267*	*661*	*424*	*485*	*1052*	*2622*	*1168*	*562*	*642*	*1210*	*3582*	*3719*	*3800*	*3882*
Russia	*929*	*264*	*182*	*193*	*267*	*906*	*223*	*174*	*184*	*254*	*835*	*827*	*827*	*827*
Uniper	*44514*	*19770*	*15893*	*22411*	*47918*	*105992*	*41484*	*17042*	*16302*	*58354*	*133182*	*126523*	*120196*	*114187*
Other	*140*	*34*	*36*	*33*	*35*	*138*	*35*	*37*	*34*	*36*	*141*	*144*	*148*	*151*
Eliminations	*-916*	*-329*	*-239*	*-307*	*-584*	*-1459*	*-387*	*-246*	*-316*	*-496*	*-1446*	*-1475*	*-1519*	*-1549*
EBITDA	**2689**	**1653**	**-527**	**-2791**	**2358**	**693**	**-2082.0**	**1630**	**991**	**1533**	**2073**	**3369**	**3294**	**3142**
Depreciation	-1090	-308	-313	-314	-346	-1281	-334	-320	-325	-330	-1309	-1350	-1357	-1367
EBIT (excl. NRI)	**1344**	**1171**	**35**	**260**	**1070**	**2536**	**-438**	**710**	**666**	**1203**	**2142**	**2019**	**1937**	**1774**
EBIT	**1599**	**1345**	**-840**	**-3105**	**2012**	**-588**	**-2416**	**1310**	**666**	**1203**	**764**	**2019**	**1937**	**1774**
Generation	*722*	*269*	*195*	*245*	*401*	*1110*	*282*	*197*	*133*	*307*	*920*	*921*	*854*	*708*
City Solutions	*47*	*86*	*-4*	*-20*	*73*	*135*	*48*	*-7*	*-25*	*69*	*85*	*77*	*71*	*65*
Consumer Solutions	*90*	*36*	*19*	*13*	*-16*	*52*	*35*	*21*	*27*	*55*	*138*	*148*	*151*	*154*
Russia	*251*	*100*	*37*	*45*	*79*	*261*	*61*	*29*	*36*	*67*	*193*	*173*	*161*	*148*
Uniper	*363*	*711*	*-177*	*9*	*577*	*1120*	*-833*	*500*	*525*	*735*	*927*	*820*	*820*	*820*
Other	*-129*	*-31*	*-35*	*-32*	*-44*	*-142*	*-31*	*-30*	*-30*	*-30*	*-121*	*-120*	*-120*	*-120*
Items affecting comparability	*255*	*174*	*-875*	*-3365*	*942*	*-3124*	*-1978*	*600*	*0*	*0*	*-1378*	*0*	*0*	*0*
Share of minority holdings results	656	79	62	11	40	192	-190	15	0	25	-150	50	50	51
Net financial items	-56	36	35	-40	76	107	-955	-30	-25	-35	-1045	-150	-150	-150
PTP	**2199**	**1460**	**-743**	**-3134**	**2128**	**-289**	**-3561**	**1295**	**641**	**1193**	**-431**	**1919**	**1837**	**1675**
Taxes	-344	-150	84	1366	-1125	176	729	-301	-151	-274	3	-439	-420	-382
Minority interest	-32	-218	185	1047	-162	852	610	-95	-98	-129	288	-120	-121	-122
Net earnings	**1823**	**1092**	**-474**	**-721**	**842**	**739**	**-2222**	**900**	**392**	**789**	**-140**	**1360**	**1296**	**1171**
EPS (adj.)	**1.67**	**0.94**	**0.09**	**0.19**	**0.78**	**2.00**	**-0.27**	**0.34**	**0.44**	**0.89**	**1.39**	**1.53**	**1.46**	**1.32**
EPS (rep.)	**2.05**	**1.23**	**-0.53**	**-0.81**	**0.95**	**0.83**	**-2.50**	**1.01**	**0.44**	**0.89**	**-0.16**	**1.53**	**1.46**	**1.32**

Key figures	2020	Q1'21	Q2'21	Q3'21	Q4'21	2021	Q1'22	Q2'22e	Q3'22e	Q4'22e	2022e	2023e	2024e	2025e
Revenue growth-%	799.9 %	1483.9 %	38.9 %	68.7 %	135.3 %	129.3 %	103.0 %	7.6 %	-25.5 %	21.1 %	24.9 %	-4.4 %	-4.9 %	-4.8 %
Adjusted EBIT growth-%	12.9 %	198.0 %	-82.8 %	-245.3 %	15.4 %	88.7 %	-137.4 %	1929.9 %	156.3 %	12.4 %	-15.5 %	-5.7 %	-4.1 %	-8.4 %
EBITDA-%	5.5 %	7.7 %	-3.1 %	-11.8 %	4.7 %	0.6 %	-4.8 %	8.8 %	5.6 %	2.5 %	1.5 %	2.5 %	2.6 %	2.6 %
Adjusted EBIT-%	2.7 %	5.4 %	0.2 %	1.1 %	2.1 %	2.3 %	-1.0 %	3.9 %	3.8 %	2.0 %	1.5 %	1.5 %	1.5 %	1.5 %
Net earnings-%	3.7 %	5.1 %	-2.8 %	-3.0 %	1.7 %	0.7 %	-5.1 %	4.9 %	2.2 %	1.3 %	-0.1 %	1.0 %	1.0 %	1.0 %

Source: Inderes

Balance sheet

Assets	2020	2021	2022e	2023e	2024e
Non-current assets	**35604**	**49399**	**64390**	**44540**	**39683**
Goodwill	1069	1021	1021	1021	1021
Intangible assets	1739	1146	1146	1146	1146
Tangible assets	19367	19049	19240	19390	19533
Associated companies	2912	2461	2261	2261	2261
Other investments	7959	6477	6477	6477	6477
Other non-current assets	2402	17096	32096	12096	7096
Deferred tax assets	156	2149	2149	2149	2149
Current assets	**22206**	**100262**	**107856**	**74631**	**56426**
Inventories	1396	2275	2841	2715	2581
Other current assets	8998	65500	65500	35500	20500
Receivables	9504	24895	31092	29710	26969
Cash and equivalents	2308	7592	8423	6707	6376
Balance sheet total	**57810**	**149661**	**172246**	**119171**	**96108**

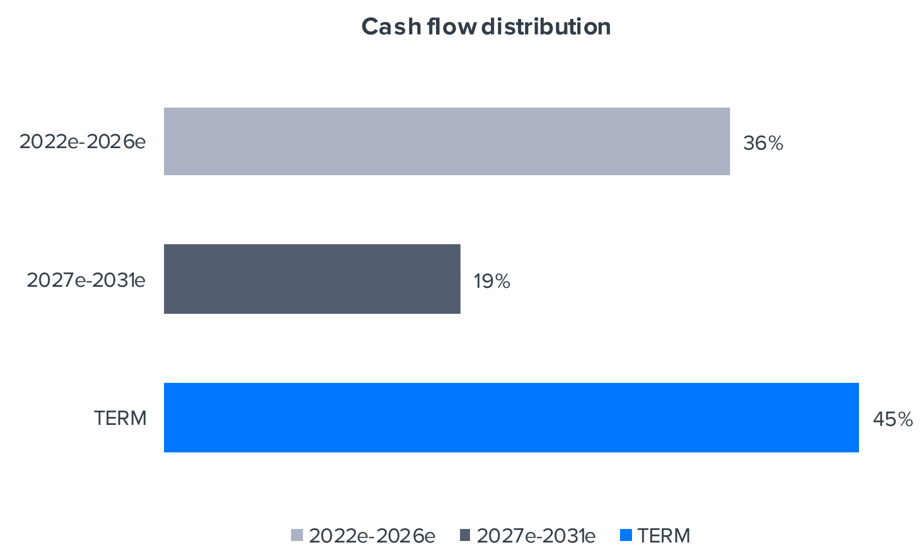
Source: Inderes

Liabilities & equity	2020	2021	2022e	2023e	2024e
Equity	**15577**	**13665**	**12512**	**12859**	**13142**
Share capital	3046	3046	3046	3046	3046
Retained earnings	10149	10062	8909	9256	9539
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	-242.0	-977.0	-977.0	-977.0	-977.0
Minorities	2624	1534	1534	1534	1534
Non-current liabilities	**22356**	**38070**	**59545**	**38470**	**32418**
Deferred tax liabilities	952	827	827	827	827
Provisions	8098	10298	10298	10298	10298
Long term debt	8785	8701	12176	11101	10049
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	4521	18244	36244	16244	11244
Current liabilities	**19877**	**97926**	**100189**	**67843**	**50548**
Short term debt	1877	8519	5784	3765	2562
Payables	9525	17462	22461	22133	21041
Other current liabilities	8475	71945	71945	41945	26945
Balance sheet total	**57810**	**149661**	**172246**	**119171**	**96108**

DCF calculation

DCF model	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	TERM
EBIT (operating profit)	**-588**	**764**	**2019**	**1937**	**1774**	**1840**	**1858**	**1877**	**1896**	**1915**	**1934**	
+ Depreciation	1281	1309	1350	1357	1367	1475	1478	1482	1487	1492	1499	
- Paid taxes	-1943	3	-439	-420	-382	-387	-394	-401	-405	-409	-413	
- Tax, financial expenses	30	-11	-35	-35	-35	-56	-53	-50	-50	-51	-52	
+ Tax, financial income	9	0	0	0	0	10	10	10	10	10	11	
- Change in working capital	-1365	-1765	1181	1783	405	-81	1157	-70	-71	-72	-72	
Operating cash flow	**-2575**	**300**	**4075**	**4622**	**3130**	**2801**	**4057**	**2847**	**2866**	**2885**	**2905**	
+ Change in other long-term liabilities	15923	18000	-20000	-5000	0	0	0	0	0	0	0	
- Gross CAPEX	-13534	-16500	18500	3500	-1500	-1515	-1530	-1545	-1679	-1589	-1711	
Free operating cash flow	**-186**	**1800**	**2575**	**3122**	**1630**	**1286**	**2526**	**1302**	**1187**	**1296**	**1194**	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	-186	1800	2575	3122	1630	1286	2526	1302	1187	1296	1194	20665
Discounted FCFF		**1726**	**2311**	**2622**	**1282**	**947**	**1740**	**839**	**716**	**732**	**632**	**10927**
Sum of FCFF present value		24475	22749	20437	17815	16533	15587	13846	13007	12290	11558	10927
Enterprise value DCF		**24475**										
- Interesting bearing debt		-17220										
+ Cash and cash equivalents		7592										
+ Associated companies		2261										
-Minorities		-1600										
-Dividend/capital return		-1013										
Equity value DCF		**14495**										
Equity value DCF per share		**16.3**										

Wacc	
Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E)	30.0 %
Cost of debt	2.0 %
Equity Beta	1.50
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.0 %
Cost of equity	**9.1 %**
Weighted average cost of capital (WACC)	**6.8 %**



Summary

Income statement	2019	2020	2021	2022e	2023e
Revenue	5447	49015	112400	**140378**	**134138**
EBITDA	1693	2689	693	**2073**	**3369**
EBIT	1118	1599	-588	**764**	**2019**
PTP	1728	2199	-289	**-431**	**1919**
Net Income	1482	1823	739	**-140**	**1360**
Extraordinary items	-72	255	-3124	**-1378**	**0**

Balance sheet	2019	2020	2021	2022e	2023e
Balance sheet total	23364	57810	149661	**172246**	**119171**
Equity capital	13235	15577	13665	**12512**	**12859**
Goodwill	612	1069	1021	**1021**	**1021**
Net debt	5255	8354	9628	**9537**	**8159**

Cash flow	2019	2020	2021	2022e	2023e
EBITDA	1693	2689	693	**2073**	**3369**
Change in working capital	-240	-785	-1365	**-1765**	**1181**
Operating cash flow	1340	1556	-2575	**300**	**4075**
CAPEX	-617	-20567	-13534	**-16500**	**18500**
Free cash flow	420	-7721	-186	**1800**	**2575**

Valuation multiples	2019	2020	2021	2022e	2023e
EV/S	3.4	0.5	0.3	**0.2**	**0.2**
EV/EBITDA (adj.)	11.0	9.5	47.2	**10.8**	**6.3**
EV/EBIT (adj.)	15.7	19.0	12.9	**10.5**	**10.4**
P/E (adj.)	12.6	11.8	13.5	**11.0**	**10.0**
P/E	1.5	1.4	2.0	**1.2**	**1.2**
Dividend-%	5.0 %	5.7 %	4.2 %	**7.4 %**	**7.4 %**

Source: Inderes

Per share data	2019	2020	2021	2022e	2023e
EPS (reported)	1.67	2.05	0.83	**-0.16**	**1.53**
EPS (adj.)	1.75	1.67	2.00	**1.39**	**1.53**
OCF / share	1.51	1.75	-2.90	**0.34**	**4.59**
FCF / share	0.47	-8.69	-0.21	**2.03**	**2.90**
Book value / share	14.62	14.58	13.66	**12.36**	**12.75**
Dividend / share	1.10	1.12	1.14	**1.14**	**1.14**

Growth and profitability	2019	2020	2021	2022e	2023e
Revenue growth-%	4%	800%	129%	**25%**	**-4%**
EBITDA growth-%	1%	59%	-74%	**199%**	**63%**
EBIT (adj.) growth-%	21%	13%	89%	**-16%**	**-6%**
EPS (adj.) growth-%	120%	-4%	19%	**-30%**	**10%**
EBITDA-%	31.1 %	5.5 %	0.6 %	**1.5 %**	**2.5 %**
EBIT (adj.)-%	21.8 %	2.7 %	2.3 %	**1.5 %**	**1.5 %**
EBIT-%	20.5 %	3.3 %	-0.5 %	**0.5 %**	**1.5 %**
ROE-%	11.9 %	14.1 %	5.9 %	**-1.2 %**	**12.2 %**
ROI-%	9.9 %	10.3 %	-1.3 %	**2.0 %**	**7.1 %**
Equity ratio	56.6 %	26.9 %	9.1 %	**7.3 %**	**10.8 %**
Gearing	39.7 %	53.6 %	70.5 %	**76.2 %**	**63.5 %**

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

Accumulate The 12-month risk-adjusted expected shareholder return of the share is attractive

Reduce The 12-month risk-adjusted expected shareholder return of the share is weak

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

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

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Recommendation history (>12 mo)

Date	Recommendation	Target price	Share price
2/4/2019	Accumulate	21.00 €	19.95 €
4/29/2019	Accumulate	20.00 €	18.67 €
7/22/2019	Accumulate	21.00 €	20.86 €
9/18/2019	Reduce	21.00 €	21.40 €
Analyst changed			
10/25/2019	Reduce	21.00 €	21.60 €
2/7/2020	Accumulate	23.00 €	21.99 €
3/17/2020	Buy	15.00 €	13.31 €
4/27/2020	Buy	17.00 €	14.86 €
5/18/2020	Buy	17.50 €	14.92 €
7/21/2020	Buy	20.00 €	17.84 €
8/20/2020	Buy	20.00 €	17.02 €
11/18/2020	Buy	20.00 €	17.63 €
12/4/2020	Buy	20.00 €	18.30 €
2/15/2021	Accumulate	22.50 €	21.97 €
5/14/2021	Accumulate	24.00 €	22.74 €
8/18/2021	Accumulate	26.50 €	24.49 €
11/15/2021	Reduce	25.00 €	25.30 €
2/28/2022	Reduce	19.00 €	19.47 €
3/7/2022	Accumulate	16.00 €	15.63 €
4/27/2022	Reduce	16.00 €	15.63 €
5/13/2022	Reduce	16.00 €	15.31 €

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

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2019, 2020

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2018, 2020

Petri Gostowski
2020

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Research belongs
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