

Mandatum

Company report

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Sauli Vilén
+358 44 025 8908
sauli.vilen@inderes.fi



Kasper Mellas
+358 45 6717 150
kasper.mellas@inderes.fi

✓ Inderes corporate customer

This report is a summary translation of the report “Ensiaskleet eivät tarjonneet dramatiikkaa” published on 11/8/2023 at 9:17 pm EET

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res.**

The first steps offered no dramatics

Mandatum published its first quarterly report as a separate listed company from Sampo on Wednesday. The Group's reported result was clearly stronger than expected, but largely explained by the positive financial income recorded on the revaluation of technical provisions. In the capital-light businesses that are important for growth, performance was largely in line with expectations. Consequently, estimate changes were mainly limited to the 2023 result from investment activities. The valuation of the share has remained very attractive, and we repeat our Buy recommendation with a target price of EUR 4.2. Our recent extensive report is available [here](#).

The result from investment activities behind the estimate overshoot

Mandatum's commission income continued to grow in Q3 with AUM. Commission income from capital-light businesses (mainly unit-linked insurance, risk insurance and asset management) totaled EUR 12.7 million (estimate 11.6 MEUR). The result of term life insurance was well above expected at EUR 7.4 MEUR (estimate 3.3 MEUR), which was mainly explained by the transfer of If's portfolio that impacted earnings by some EUR 3 million. The most significant forecast overshoot came from the result of the with-profit portfolio. The portfolio's investment income at fair value was more moderate than we expected, but changes in the discount rate increased the income considerably. This is related to the valuation of insurance provisions, when interest rates increase the present value of the provisions decrease, which has a positive effect on earnings. The Group's PTP ended up at EUR 83.9 million in Q3, while we expected some EUR 40 million. The Group's solvency continued to improve as expected, so the company has an extra capital of approximately EUR 400-700 million in its balance sheet. Mandatum also issued a rather loose guidance, based on which it expects net subscriptions for the current year to exceed 5% of AUM.

Forecast changes mainly to 2023 earnings from investment activities

The most significant change in our forecasts relates to the income from the with-profit portfolio, which we increased by approximately the Q3 income overshoot. In other respects, the estimate changes have remained rather moderate. In our forecasts for the coming years, the asset management business is Mandatum's clearest growth sector, and we expect the Group's AUM to grow by an annual average of around 7% in 2023-2026. Investment income will continue to play a significant role in Mandatum's earnings development for a long time, but the ramp-down of the with-profit portfolio in line with the strategy will gradually reduce the weight of balance sheet investments. However, this also dampens the Group's performance, as capital released from the portfolio is returned to the owners. As a whole, we expect the company's PTP to remain around EUR 200 million in the next few years. We note that our estimates do not include possible acquisitions, which the company is interested in carrying out in the domestic asset management sector.

The share is cheap by all measures

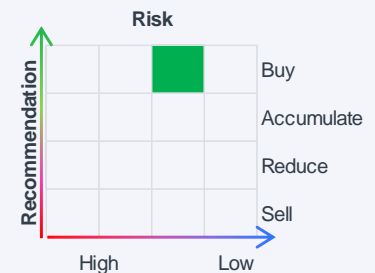
We have estimated the fair value through the sum of the parts, relative valuation multiples and an absolute dividend model. In our research, we focus in particular on the dividend model, as it best considers the high payout ratio and the unwinding of the overcapitalized balance sheet (value EUR 4.2 per share). Mandatum's expected return is largely based on a high dividend yield, as achieving earnings growth will be challenging in the coming years due to the structural decline in investment income in the balance sheet (gradual ramp-down of the with-profit portfolio). The balance sheet-based sum of the parts analysis is also included in our examination (value EUR 4.5). All of our valuation methods indicate that the share is clearly undervalued.

Recommendation

Buy
(previous Buy)

EUR 4.20
(previous EUR 4.20)

Share price:
3.62



Key figures

	2022	2023e	2024e	2025e
PTP	75.7	214.7	203.4	205.1
Net profit	172.0	162.7	164.1	159.3
EPS (ad.)	0.15	0.34	0.32	0.33
DPS	0.39	0.33	0.35	0.35
Payout ratio	265%	96%	108%	107%
ROE-%	4.4%	10.3%	9.8%	9.9%

P/E (adj.)	25.1	10.6	11.2	11.1
P/B	1.1	1.1	1.1	1.1
Dividend yield-%	10.5 %	9.1 %	9.7 %	9.7 %

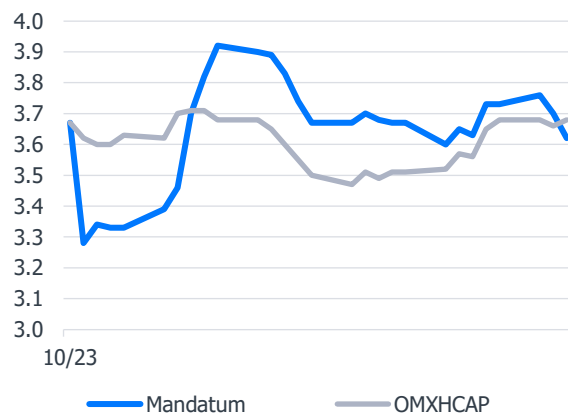
Source: Inderes

Guidance

(New guidance)

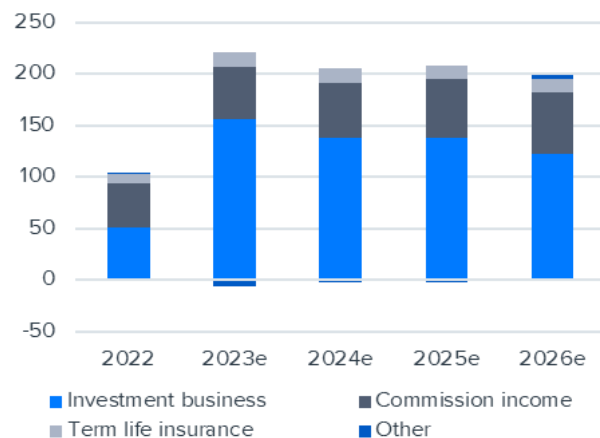
Mandatum Group's capital-light business related to customer asset management is expected to reach net subscriptions that represent 5% of AUM in 2023.

Share price



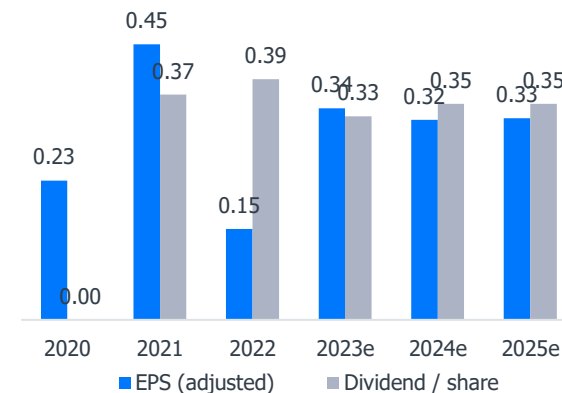
Source: Millstream Market Data AB

Mandatum's PTP breakdown (MEUR)



Source: Inderes

EPS and dividend



*From 2022 IFRS 17 accordant

Source: Inderes



Value drivers

- Growth in capital-light asset management
- Relative profitability has clear improvement potential with revenue growth
- With the rise in interest rates, the with-profit business has become clearly more attractive than before
- Release of capital from the with-profit portfolio and from PE investments
- Value creating acquisitions in the domestic asset management sector



Risk factors

- The company's result remains highly dependent on investment returns
- A fall in interest rates would weaken solvency and make it more difficult to manage with-profit business
- Life insurance risks (especially biometric risks)
- Maintaining good return levels for funds
- Adverse changes in the tax legislation on investment insurance

Valuation	2023e	2024e	2025e
Share price	3.62	3.62	3.62
Number of shares, million	501.8	501.8	501.8
Market cap	1817	1817	1817
P/E (adj.)	10.6	11.2	11.1
P/E	10.6	11.2	11.1
P/B	1.1	1.1	1.1
Payout ratio (%)	96.3 %	107.9 %	107.0 %
Dividend yield-%	9.1 %	9.7 %	9.7 %

Source: Inderes

The result for investment activities resulted in a clear forecast overshoot in Q3

Mandatum published its first quarterly results as a separate listed company from Sampo on Wednesday. The Group's reported result was clearly stronger than expected, but this was largely explained by the positive financial income that Mandatum recorded on the revaluation of technical provisions. In capital-light businesses (mainly unit-linked insurance, risk insurance and asset management), the performance was quite as expected. The Group's PTP ended up at EUR 83.9 million in Q3, while we expected some EUR 40 million.

Capital-light businesses

Mandatum's commission income continued to grow in Q3 with AUM. The Group's AUM at the end of the quarter amounted to EUR 11.2 billion (H1'23: EUR 11.2 bn.). Mandatum's commission income from the capital-light businesses totaled EUR 12.7 million (estimate 11.6 MEUR), which consisted of EUR 5.5 million from investment agreements and EUR 7.2 million in insurance service result. The result of term life insurance was well

above our expectations at EUR 7.4 million (estimate 3.3 MEUR). This was mainly related to the the transfer of IF's insurance portfolio, which had an earnings impact of around EUR 3 million in Q3.

With-profit portfolio

The most significant forecast overshoot in the report came from the result of the with-profit portfolio. The investment income of the portfolio at fair value was more moderate than we expected (0.5% vs. 1.0% estimate), but the changes in the discount rate increased revenue by some EUR 50 million according to our calculations. This relates to the valuation of insurance provisions, when interest rates increase the present value of the provisions decrease. This will have a positive impact on Mandatum's result. The total result of investment activities was EUR 64.7 million (estimate 26 MEUR).

Solvency continued to strengthen

The guidance provided little new information to support forecasts, as the company expects its net subscriptions in 2023 to exceed 5% of the AUM. According to our calculations, this can be achieved if the net subscriptions are at or above zero at the end of the year.

Mandatum's solvency requirement, on the other hand, continued to decline, as the increase in the discount rate reduced the technical provisions of the with-profit portfolio. In addition, the allocation of fixed income investments was raised and new investments were made mainly in targets with a good credit rating. This is possible as interest rates rise, since more moderate risk-taking is sufficient to cover the fixed interest payments on the with-profit portfolio (and to achieve sufficient return on equity). Solvency continued to rise as expected, so we estimate that the company still have some EUR 400-700 million extra capital in its balance sheet (considering arrangements with Sampo).

Estimates MEUR / EUR	Q3'22	Q3'23	Q3'23e	Q3'23e	Consensus		Difference (%)	2023e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
PTP	-	83.9	40.0				110%	215
EPS (adj.)	-	0.14	0.07				100%	0.34
EPS (reported)	-	0.14	0.07				100%	0.34
Revenue growth-%	0.0 %							5.4 %
EBIT-% (adj.)		227.0 %	131.8 %				95.2 pp	161.7 %

Source: Inderes

Estimate revisions

Estimate changes:

- Our earnings estimate for term life insurance has increased slightly due to the higher-than-expected balance sheet insurance service margin at the end of Q3.
- We have also raised the forecast for the current year's investment income (with-profit portfolio) after a much higher Q3 outcome than expected. Correspondingly, our 2024 forecast for investment income has moderately decreased due to the increase in interest rate weight and the weak market outlook.
- Otherwise, we made no material forecast changes based on the Q3 report.

Operational earnings drivers:

- Investment income still plays the key role in Mandatum's earnings development, but ramping down the with-profit portfolio will gradually reduce the weight of balance sheet investments. However, this will also contribute to the Group's earnings.
- The result from asset management will continue to grow markedly. We expect growth to mainly come from institutional asset management in Finland and in other Nordic countries. We also expect moderate growth in investment solutions for private and corporate customers (unit-linked pension and insurance products).
- The development of term life insurance is expected to continue as stable, as market growth is modest and the market shares of key players are quite stable. The importance of term life insurance in the current Group structure is also quite low.
- Overall, we expect that Mandatum's PTP will remain at approximately EUR 200 million in the next few years.

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	128	133	4%	138	136	-2%	144	142	-1%
EBITDA	180	220	23%	221	212	-4%	212	213	1%
EBIT (excl. NRIs)	172	215	25%	213	203	-5%	204	205	0%
EBIT	172	215	25%	213	203	-5%	204	205	0%
PTP	172	215	25%	213	203	-5%	204	205	0%
EPS (excl. NRIs)	0.27	0.34	26%	0.34	0.32	-5%	0.33	0.33	0%
DPS	0.33	0.33	0%	0.35	0.35	0%	0.35	0.35	0%

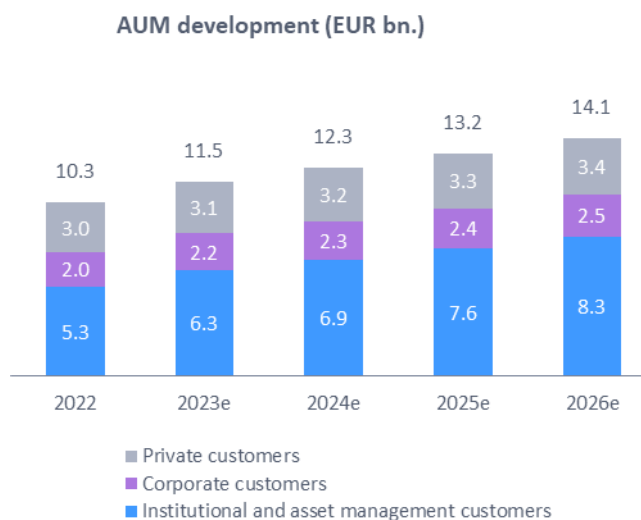
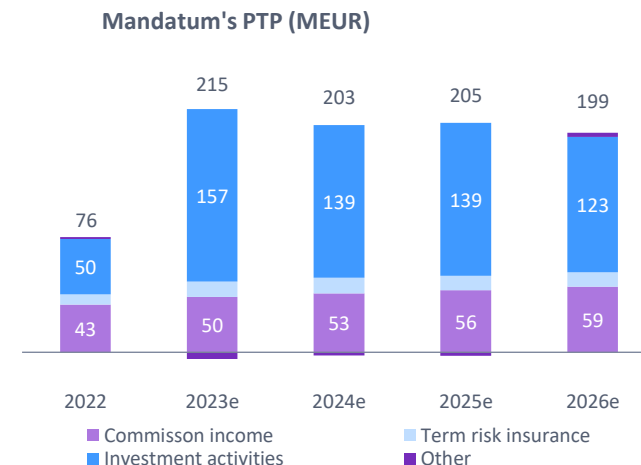
Source: Inderes

Q3 earnings call can be listened to here:



Estimate summary 1/2

Group	2022	2023e	2024e	2025e	2026e
Commisson income	43.3	50.3	53.4	56.4	59.5
Insurance service result	n/a	28.3	26.0	26.0	26.0
Result on investment agreements	n/a	22.0	27.4	30.4	33.5
Term life insurance result	9.2	14.0	14.2	13.2	13.2
Result from investment activities	50.3	156.6	138.5	138.6	122.9
Other	1.9	-6.1	-2.7	-3.0	3.6
Mandatum PTP	75.7*	214.7	203.4	205.1	199.1
EPS	0.15	0.34	0.32	0.33	0.32
DPS	0.39	0.33	0.35	0.35	0.35
AUM	2022	2023e	2024e	2025e	2026e
Group AUM (MEUR)	10,302	11,537	12,337	13,237	14,137
Institutional and asset management customers	5,301	6,256	6,856	7,556	8,256
Corporate customers	2,019	2,196	2,296	2,396	2,496
Private customers	2,982	3,085	3,185	3,285	3,385
Group's commission income (MEUR)	126	128	136	142	147
Net growth (AUM)	-798	1235	800	900	900
Institutional and asset management customers	201	955	600	700	700
Corporate customers	-181	177	100	100	100
Private customers	-818	103	100	100	100
Solvency	2022	2023e	2024e	2025e	2026e
Solvency 2 ratio	266%	259%	263%	340%	352%
Equity (MEUR)	2532	2452	2450	2438	2422
Solvency capital requirement (SCR)	943	948	933	717	689
Extra solvency capital at the lower limit	n/a	841	863	1220	1251
Extra solvency capital at the upper limit	n/a	556	584	1005	1045
Excess capital per share at the lower limit	n/a	1.68	1.72	2.43	2.49
Excess capital per share at the upper limit	n/a	1.11	1.16	2.00	2.08



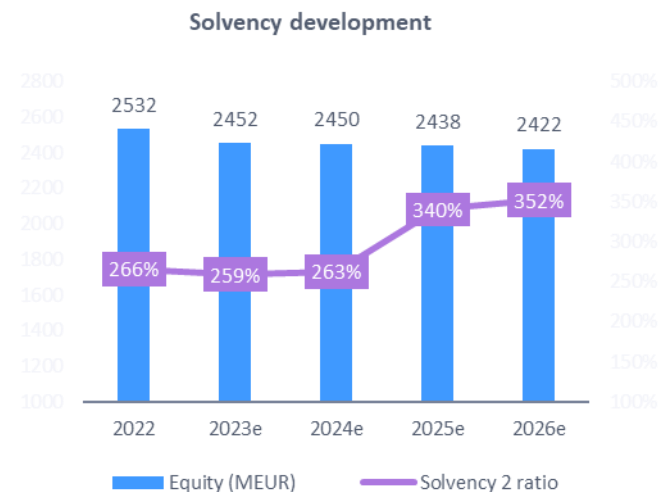
*Also includes items of the comprehensive result with retroactive effect, IFRS 17 comparable

Estimate summary 2/2

Capital-light business	2022	2023e	2024e	2025e	2026e
Result on investment agreements	33.1	22.0	27.4	30.4	33.5
Insurance service result	10.2	28.3	26.0	26.0	26.0
Result from term life insurance	n/a	14.0	14.2	13.2	13.2
Segment's PTP	43.3	64.2	67.6	69.6	72.7

With-profit business	2022	2023e	2024e	2025e	2026e
Net investment income	-433.3	199.1	225.7	215.8	195.7
Financing costs of insurance	483.7	-42.5	-87.2	-77.2	-72.8
PTP of investment activities	50.3	156.6	138.5	138.6	122.9

Others	2022	2023e	2024e	2025e	2026e
Net investment income	0.2	8.2	16.1	16.1	16.1
Other income	1.7	-14.3	-18.8	-19.1	-12.5
Segment's PTP	1.9	-6.1	-2.7	-3.0	3.6



Valuation 1/2

We have estimated Mandatum's fair value through the sum of the parts, multiple-based valuation and the dividend model. In our research, we focus in particular on the dividend model, as it best considers the company's high payout ratio and the unwinding of the overcapitalized balance sheet. The balance sheet-based sum of the parts analysis is also included in our examination.

Mandatum's expected return is slightly exceptionally primarily based on high dividend yields, as it will be challenging to achieve earnings growth in the coming years, and we believe that even maintaining current earnings would be a good performance for the company. However, the earnings distribution should improve clearly as the focus shifts from the structurally declining with-profit business to the growing capital-light business.

The different valuation methods all indicate that the share is clearly undervalued. In our view, the main reason for the undervaluation and the weak share price development is technical selling pressure, e.g., from index funds and institutions that cannot or do not want to own Mandatum. We find the current share price level attractive to investors. Our target price is unchanged at EUR 4.2, which is also in line with our view of the share's fair value

Dividend model (DDM)

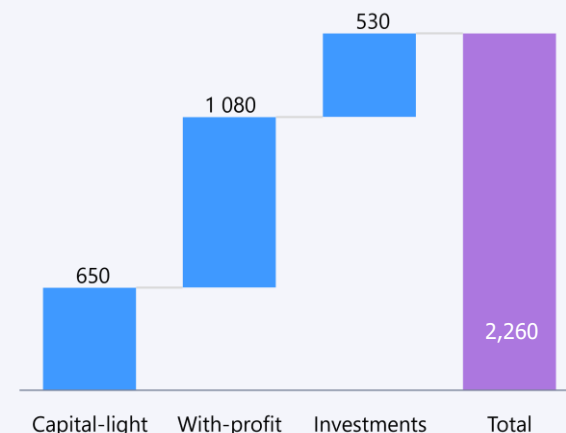
We believe that the dividend model works very well for Mandatum due to the company's modest investment needs (and thus high payout ratio) and the overly strong balance sheet that the company intends to unwind as the with-profit portfolio gradually decreases and when it exits from investments. In addition to cash flow from operating businesses and unwinding of the balance sheet, our model considers the time value related to the return of capital, as even with current management estimates, the ramp-down of the with-profit portfolio will take well over a decade.

Thus, we feel this method gives a rather good picture of Mandatum's fair value. We consider the dividend model to be Mandatum's primary valuation method, for which the sum of the parts calculation provides support.

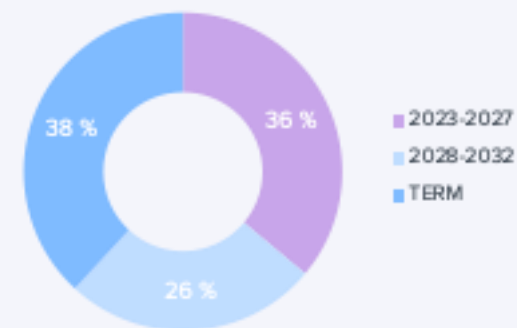
We note that our current balance sheet estimates do not include return of capital to shareholders from the ramp-down of the with-profit portfolio and investment exits in full. Therefore, the assumptions of the dividend model can be considered quite conservative. We feel this is justified considering the considerable market risk related to the result of the with-profit portfolio and the uncertainty surrounding the timing of the return of balance sheet capital.

With our current estimates, our DDM model indicates a value of some EUR 4.2 per share for Mandatum. In the long-term, we expect the company's PTP to remain around EUR 200 million. In 2027-2031, we expect the company's payout ratio to be 150%, so that model better reflects the unwinding of the company's significant overcapitalization. Our terminal growth assumption is 0%, as the company still has a significant structurally decreasing with-profit portfolio in our estimates in 2031. The ROE requirement we apply is 8.7%, which is below the key asset manager peers.

Sum-of-the-parts calculation



Cash flow distribution of DDM model



Valuation 2/2

Sum of the parts

The sum of the parts calculation describes the value that can be released from the company's balance sheet if the company exits from non-operational items (with-profit portfolio and PE investments) and the excess profits are returned to shareholders. However, the liquidation of significant balance sheet items is highly unlikely, as the company has communicated its objective of steadily reducing the with-profit portfolio. The method does not take a position on the timing of unwinding the balance sheet, which means the time value of money is ignored. However, the sum of the parts provides a fairly relevant perspective on the value committed to the Group's balance sheet items.

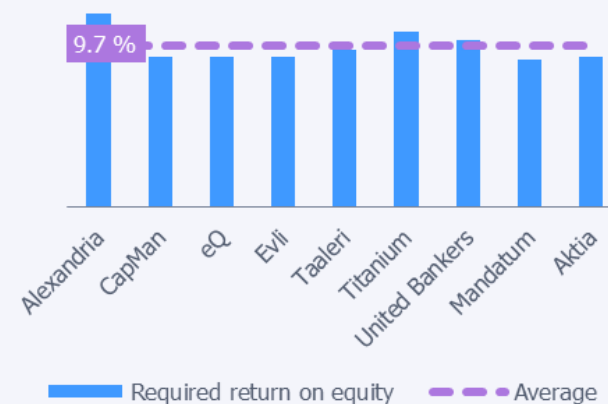
The value for Mandatum according to our sum of the parts calculation is unchanged at EUR 4.5 per share. Most of the value is committed to the with-profit portfolio. As a whole, we do not see such value in the sum of the parts that would not be realized within the company's current strategy. We, therefore, consider it reasonably unlikely that Mandatum would carry out significant balance sheet arrangements (excl. possible acquisitions). A more detailed description of the valuation principle of the parts is found in our recently published extensive report, which can be found [here](#).

Valuation multiples are neutral

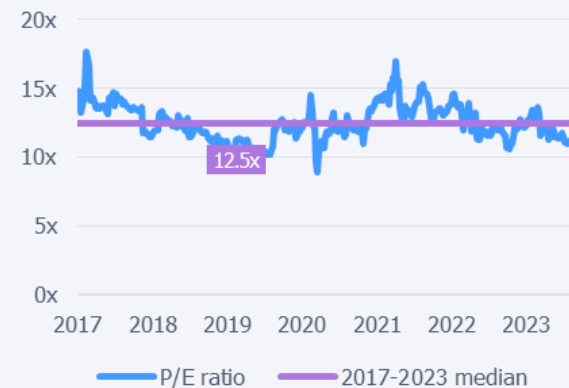
From an earnings-based perspective, Mandatum's share seems very affordable. The P/E ratios for the coming years will be at an absolute low level of just over 10x. Although the company's earnings do not increase in our forecasts, the earnings distribution improves gradually, which should support the valuation level and provide a gradual upside for the share price. In the components of the share's expected return, dividends play the key role with the

dividend yield being over 9% at the current share price. The long-term (5-10 years) dividend growth is modest, as the reduction in the with-profit portfolio affects the Group's net result negatively. Correspondingly, the ramp-down of the portfolio supports the dividend yield as assets are accumulated in the balance sheet so in our calculations the net effect from these is close to zero.

Peer companies' cost of equity



P/E ratio development of Mandatum's domestic peer group

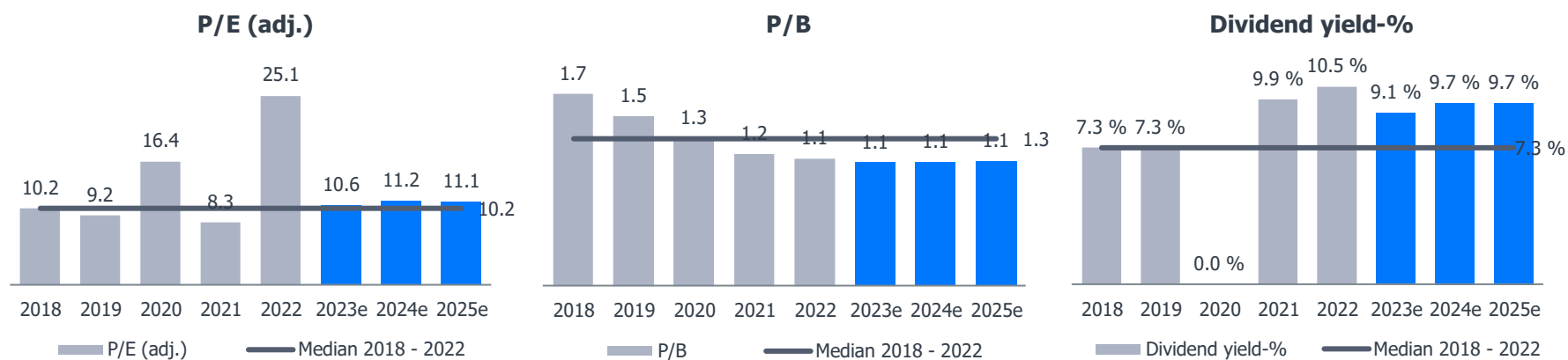


Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	3.70	3.70	3.70	3.70	3.70	3.62	3.62	3.62	3.62
Number of shares, millions	556.6	556.6	556.6	548.0	514.5	501.8	501.8	501.8	501.8
Market cap	2059	2059	2059	2028	1904	1817	1817	1817	1817
P/E (adj.)	10.2	9.2	16.4	8.3	25.1	10.6	11.2	11.1	11.4
P/E	10.2	9.2	16.4	8.3	25.1	10.6	11.2	11.1	11.4
P/B	1.7	1.5	1.3	1.2	1.1	1.1	1.1	1.1	1.1
Payout ratio (%)	74.2 %	67.1 %	0.0 %	81.7 %	265.1 %	96.3 %	107.9 %	107.0 %	110.3 %
Dividend yield-%	7.3 %	7.3 %	0.0 %	9.9 %	10.5 %	9.1 %	9.7 %	9.7 %	9.7 %

Source: Inderes

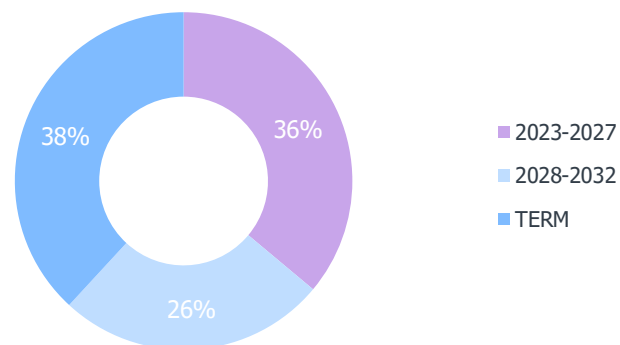
NB! The closing price of the first trading day used as the historical share price



DDM calculation

DDM valuation (MEUR)	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Mandatum's result	172	163	164	159	152	150	148	146	150	150	150
Dividend distributed by Mandatum	166	176	176	176	228	225	222	219	150	150	1734
-Dividend distribution-%	96%	108%	107%	110%	150%	150%	150%	150%	100%	100%	
Growth in Mandatum's dividend, %	-17.5 %	6.1 %	0.0 %	0.0 %	29.7 %	-1.1 %	-1.3 %	-1.5 %	-31.3 %	0.0 %	0.0 %
Discounted dividend	164	160	147	135	161	147	133	121	76	70	810
Discounted cumulative dividend	2125	1961	1802	1655	1520	1358	1211	1078	957	881	810
Equity value, DDM	2125										
Per share, EUR	4.2										

Cash flow distribution by period



Cost of equity

Risk-free interest rate	▼	2.5%
Market risk premium	▼	4.8%
Company Beta	▼	1.30
Liquidity premium		0.0%
Cost of equity		8.7%
WACC-%		8.7%

Peer group valuation

Peer group valuation Company	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
	MEUR	MEUR	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e
Alexandria	63	47	6.2	4.8	4.8	3.9	1.2	1.0	9.9	9.3	6.7	8.7	2.0
Aktia	675	675	6.5	6.2	6.6	6.2	2.4	2.3	8.1	7.7	7.3	8.5	1.0
CapMan	329	398	24.8	11.1	22.8	10.7	6.3	5.6	29.7	14.2	4.3	5.6	2.5
eQ	635	599	14.7	12.8	14.2	12.5	8.4	7.5	19.6	17.4	5.1	6.0	8.2
Taaleri	247	190	6.9	6.0	6.8	5.9	3.3	2.9	12.6	11.9	9.0	9.4	1.3
Titanium	173	154	10.1	8.8	9.7	8.5	5.5	4.9	14.3	12.5	7.0	8.0	6.9
United Bankers	146	135	8.5	7.7	7.5	6.8	2.6	2.4	12.1	11.6	7.3	8.0	2.8
Mandatum (Inderes)	1817	1901	8.9	9.4	8.6	9.0	14.3	14.0	10.6	11.2	9.1	9.7	1.1
Average			11.1	8.2	10.3	7.8	4.2	3.8	15.2	12.1	6.7	7.7	3.5
Median			8.5	7.7	7.5	6.8	3.3	2.9	12.6	11.9	7.0	8.0	2.5
Diff-% to median			5%	22%	15%	32%	338%	379%	-16%	-6%	30%	20%	-56%

Source: Refinitiv / Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	15197	13961	14392	14391	13960
Goodwill	41.4	41.2	41.2	41.2	41.2
Intangible assets	12.9	13.9	14.7	14.8	15.1
Tangible assets	27.6	25.6	26.3	25.1	24.3
Associated companies	1.3	4.3	4.3	4.3	4.3
Other investments	15114	13876	13876	13876	13876
Other non-current assets	0.0	0.0	430	430	0.0
Deferred tax assets	0.0	0.0	0.0	0.0	0.0
Current assets	1273	894	833	711	891
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	353	168	168	168	168
Receivables	1.5	1.5	1.3	1.4	1.4
Cash and equivalents	918	725	664	542	722
Balance sheet total	16470	14854	15225	15102	14852

Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	1738	1692	1663	1660	1648
Share capital	5.0	5.0	5.0	5.0	5.0
Retained earnings	559	534	505	502	490
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	1174	1153	1153	1153	1153
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	14295	12937	13200	13120	12977
Deferred tax liabilities	159	160	160	160	160
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	375	350	613	533	390
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	13762	12427	12427	12427	12427
Current liabilities	437	226	362	323	226
Interest bearing debt	0.0	0.0	136	96.5	0.0
Payables	0.0	0.0	0.0	0.0	0.0
Other current liabilities	437	226	226	226	226
Balance sheet total	16470	14854	15225	15102	14852

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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

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
10/12/2023	Buy	4.20 €	3.70 €
11/8/2023	Buy	4.20 €	3.62 €



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Inderes Oyj

Itämerentori 2
FI-00180 Helsinki, Finland
+358 10 219 4690

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