

Fortum

Company report

4/25/2024 7:45 am EEST



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

This report is a summary translation of the report “Sähköistyminen on ottanut taukoa” published on 4/25/2024 at 7:45 am EEST.

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Electrification is taking a break

We lower our recommendation for Fortum to Accumulate (was Buy) but reiterate our EUR 13.5 target price. The share price has recovered slightly and the first tranche of the dividend has been paid, which means that the upside potential has shrunk. At the same time, we have made negative revisions to the Q1 earnings forecast due to the Olkiluoto 3 problems and lower electricity prices, which has weakened the risk/reward of the stock. In our view, the long-term outlook is still good, but the electrification megatrend appears to be taking a pause in the downturn.

Q1 results next Tuesday: Should still be a good quarter

Fortum will publish its Q1 report next Tuesday at about 9.00 am EEST. We expect the company to post a relatively strong result for a seasonally good period, but with electricity prices, the result will be down sharply year-on-year. We expect the Generation segment's comparable Q1 EBIT to be around 503 MEUR (Q1'23: 698 MEUR), slightly higher than consensus (~469 MEUR). We have assumed that the highest-priced hedges in 2024 will fall in Q1 (like last year), as a result of which we estimate the average sales price achieved by Generation in Q1 to be around EUR 67/MWh, with Fortum's optimization premium (assumed to be EUR 6/MWh) playing a significant role. The consensus is significantly lower at EUR 59/MWh, probably due to a more even distribution of hedges. On the expense side, we expect a negative contribution mainly from Olkiluoto 3, where the annual maintenance, which started in early March, is still ongoing. There is no production, but fixed costs are rolling in and eating into profits. On the other hand, the maintenance shutdown has presumably supported electricity prices in a weak demand situation. Overall, we expect Fortum's comparable EBIT to be around 483 MEUR and adjusted EPS to be around EUR 0.42, slightly above consensus.

Downward curve in forecasts continues

We have made negative revisions to our earnings forecasts ahead of the Q1 report. In simple terms, there are two reasons behind this: 1) the evolution of electricity prices and 2) a reassessment of the costs of Olkiluoto 3. Earnings forecasts for 2024 fell by almost 10% and those for the coming years by around 5%. In the Q1 report, the outlook will focus on the development of hedge prices, where we will see if the highest priced hedges were in Q1. We could see a significant drop in the hedge price in 2024, which has to be evaluated in the context of the Q1 result. In principle, new hedging was done at rather low levels, with futures hovering around EUR 40/MWh. We expect the hedge price for 2024 to drop significantly (Q4'23: EUR 47/MWh), but the hedge price for 2025 (EUR 43/MWh) should be quite stable. In the big picture, a pick-up in the demand outlook would be critical.

Valuation is moderate, but not without problems

Fortum's valuation multiples for the next few years are reasonable (2024e P/E 13x and EV/EBITDA 8x), but no longer particularly attractive given the declining earnings trajectory. Half of the clearest return driver, the dividend, has already been enjoyed for 2024, weakening this element as well. However, we believe that Fortum is still significantly undervalued relative to the current value of its generation assets and that electrification will continue in the long run. In the coming years, Fortum's earnings growth will be subdued as electricity prices are expected to be mostly low, but in the medium term we expect electricity prices to rise from current levels and support the company. At the moment, the gloomy outlook for economic growth may make the wait a long one, which is why we are taking a slightly more negative view ahead of the Q1 results.

Recommendation

Accumulate
(previous Buy)

EUR 13.50
(previous EUR 13.50)

Share price:
12.13



Key figures

	2023	2024e	2025e	2026e
Revenue	6711	6104	6119	6170
growth-%	-14%	-9%	0%	1%
EBIT adj.	1544	1115	1115	1096
EBIT-% adj.	23.0 %	18.3 %	18.2 %	17.8 %
Net Income	1513	834	818	804
EPS (adj.)	1.28	0.93	0.91	0.90

P/E (adj.)	10.2	13.1	13.3	13.5
P/B	1.4	1.3	1.3	1.3
Dividend yield-%	8.8 %	6.7 %	6.6 %	6.5 %
EV/EBIT (adj.)	8.2	10.6	10.6	10.9
EV/EBITDA	6.3	8.0	8.1	8.2
EV/S	1.9	1.9	1.9	1.9

Source: Inderes

Guidance

(Unchanged)

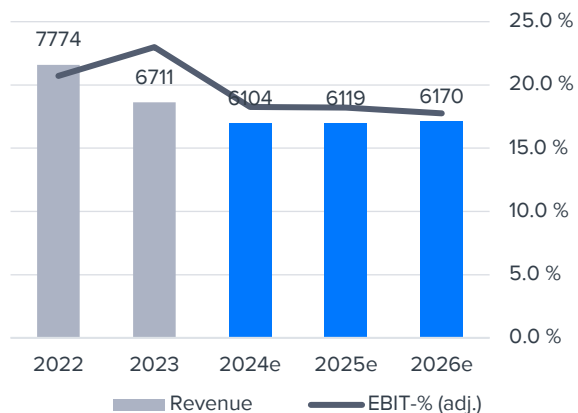
The Generation segment's Nordic outright generation hedges: approximately 70% at EUR 47 per MWh for 2024, and approximately 40% at EUR 43 per MWh for 2025.

Share price



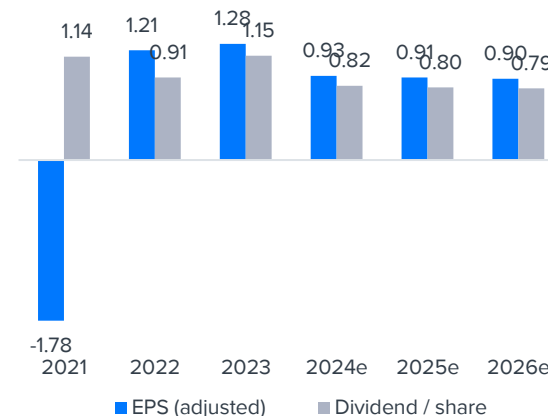
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Increase in relative valuation as the risk profile normalizes
- High electricity prices would enable excellent earnings levels
- Improving operational efficiency
- Successful investments and divestments in accordance with the strategy
- Making rational use of the strong balance sheet



Risk factors

- Developments in energy policy, industry regulation and taxation
- A drop in electricity prices would be reflected in the result, despite hedging
- Risks related to the state owner
- Mistakes in capital allocation

Valuation	2024e	2025e	2026e
Share price	12.1	12.1	12.1
Number of shares, millions	897.3	897.3	897.3
Market cap	10884	10884	10884
EV	11803	11866	11981
P/E (adj.)	13.1	13.3	13.5
P/E	13.1	13.3	13.5
P/B	1.3	1.3	1.3
P/S	1.8	1.8	1.8
EV/Sales	1.9	1.9	1.9
EV/EBITDA	8.0	8.1	8.2
EV/EBIT (adj.)	10.6	10.6	10.9
Payout ratio (%)	88.0 %	88.0 %	88.0 %
Dividend yield-%	6.7 %	6.6 %	6.5 %

Source: Inderes

Q1 results next Tuesday: Should still be a good quarter

Fortum will publish its Q1 report on Tuesday, April 30 at 9.00 am EEST. We expect the company to post a strong result for a seasonally good period, but with electricity prices, the result will be down sharply year-on-year. However, we lowered our forecasts taking into account the maintenance shutdown of Olkiluoto 3 and electricity prices. Although electricity prices have remained sluggish, futures contracts for the next few years have stabilized.

Electricity prices have continued to be under pressure

Electricity prices, which had been falling for a long time, began to rise with the onset of winter frosts, but since then the pressure has been significant again, especially given the extended maintenance shutdown of Olkiluoto 3. In addition to the nuclear outage, we believe that Fortum's production was affected by the sluggish hydro situation, but we still expect volumes to have been good due to the strong start to the year.

We estimate that the prices of the Nordpool market prices (FI, SE3 and SE2) relevant for Fortum were around EUR 58/MWh on a weighted basis (was EUR 62/MWh). In the Generation segment, at the turn of

the year, 70% of Nordic generation in 2024 was hedged at EUR 47/MWh, but the distribution within the year is not known. We have assumed that peak prices will fall in Q1 (as they did last year), but there is considerable uncertainty around this assumption. As a result, we estimate that the average sales price achieved by Generation in Q1 was around EUR 67/MWh, with Fortum's optimization premium (assumed to be EUR 6/MWh) playing a significant role. The consensus is significantly lower at EUR 59/MWh, probably due to a more even distribution of hedges.

Our earnings forecasts are above consensus

We expect the Generation segment's comparable Q1 EBIT to be around 503 MEUR (Q1'23: 698 MEUR), slightly higher than consensus (~469 MEUR). In principle, the difference would be greater with a significantly higher electricity price assumption, but the situation changes with the maintenance shutdown of OL3 that started in March and is still ongoing. There is no production, but fixed costs are rolling in and eating into Generation's profits. On the other hand, the maintenance shutdown has presumably supported electricity prices in a weak demand situation.

In the Consumer Solutions segment, we expect a gradual normalization of results, with a weak operating result of 15 MEUR for Q1. We also expect group expenses to normalize slightly, but to remain high at -35 MEUR. Overall, we expect Fortum's comparable EBIT to be around 483 MEUR and adjusted EPS to be around EUR 0.42, slightly above consensus.

Hedge prices under review

In terms of hedge price developments, we will see if the highest priced hedges of the year were used in Q1. In other words, we see a significant decline, which has to be evaluated in the context of the Q1 result. In principle, new hedging has been done at relatively low levels, with futures for the rest of the year averaging around EUR 40/MWh. A decline from the EUR 47/MWh level is therefore expected, but the depth of the decline will be crucial. However, we do not expect a significant change in the 2025 hedge price (EUR 43/MWh), although the level will increase (Q4'23: 40%). Still, the downward curve puts pressure on performance in the coming years.

Estimates MEUR / EUR	Q1'23	Q1'24	Q1'24e	Q1'24e	Consensus		2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Inderes
Revenue	2265		1857	1828	1544	- 1976	6104
Comparable EBITDA	781		574	549	473	- 653	1467
Comparable EBIT	698		483	451	383	- 569	1115
EPS (adj.)	0.54		0.42	0.39	0.32	- 0.51	0.93
Revenue growth-%	-		-18.0 %	-19.3 %	-31.8 %	- -12.8 %	-9.0 %
Comparable EBIT-%	30.8 %		26.0 %	24.7 %	24.8 %	- 28.8 %	18.3 %

Source: Inderes & Vara Research 4/24/2024, median figures (consensus)

Downward curve in forecasts continues

We have made negative revisions to our earnings forecasts ahead of the Q1 report. Simply put, there are two reasons behind this: 1) the evolution of electricity prices and 2) a reassessment of the costs of Olkiluoto 3. Earnings forecasts for 2024 fell by almost 10% and those for the coming years by around 5%.

Electricity demand outlook has not brightened

Electricity prices began to fall after a winter spike. This is perfectly normal seasonally as heating consumption declines. However, the drop has been steep, especially given the withdrawal of the large Olkiluoto 3 production from the Finnish market. The economic and industrial downturn has not been good for electricity demand, while the megatrend of electrification has stalled.

Although the demand outlook is currently weak, the long-term trends remain intact. Electrification will advance over time simply because there is no alternative. The latest interesting driver is artificial intelligence, which would require a huge amount of

electricity to become widespread. In this way, the AI boom could lead to a sharp rise in electricity consumption in the coming years, but it is of course unclear how much of an impact this will have in Finland, for example. Nevertheless, in the long term, electricity consumption will rise, and since at the current price level the investments are not profitable, this must be reflected in prices. However, the wait could be long if the economy continues to perform poorly.

Olkiluoto 3 maintenance delayed

Fortum Olkiluoto 3 (OL3) was shut down in early March for a planned maintenance outage. This is the first annual maintenance of the new plant unit. The maintenance outage was originally estimated to last around 37 days, but after several delays, the plant is now expected to return to service on May 4. This means that the shutdown will last almost a month longer than planned.

Fortum owns 25% of Olkiluoto 3 (through its ownership of TVO). The impact on Fortum's earnings

is partly complicated by the relatively high estimated Mankala cost price of OL3 of EUR 40-45/MWh. Therefore, operating the plant at the current electricity price (EUR ~40 /MWh) is not really profitable, and the removal of significant production from the market will in principle support the electricity price. Interestingly, the cost of building new nuclear power plants is now estimated to be around EUR 80/MWh, against which OL3 remains very competitive.

The cost structure of OL3 is largely fixed, and these fixed costs do not disappear when the plant is not in operation. As a result, OL3 makes a significant loss during the annual shutdown, and a longer shutdown increases the losses. We had not taken this into account in our previous forecasts, and it has put significant pressure on our projections for 2024. On the positive side, OL3 will ultimately account for a small share of Fortum's total production at around 5%, so the damage should be limited.

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Ennuste	Toteutunut	%	Old	New	%	Old	New	%
Revenue	6185	6104	-1%	6172	6119	-1%	6240	6170	-1%
EBITDA	1565	1467	-6%	1508	1469	-3%	1504	1453	-3%
EBIT (exc. NRIs)	1227	1115	-9%	1174	1115	-5%	1159	1096	-5%
EBIT	1227	1115	-9%	1174	1115	-5%	1159	1096	-5%
PTP	1163	1045	-10%	1092	1025	-6%	1078	1008	-6%
EPS (excl. NRIs)	1.04	0.93	-10%	0.97	0.91	-6%	0.96	0.90	-7%
DPS	0.91	0.82	-10%	0.86	0.80	-6%	0.84	0.79	-7%

Source: Inderes

Valuation is moderate, but not without problems

Valuable core in hydro and nuclear power

Fortum has returned to being a creditworthy Nordic energy company, with 45% of its production coming from high-quality hydropower and 53% from nuclear power in Finland and Sweden. In particular, the value of Fortum's hydropower as balancing power will continue to increase as the impact of wind power on the electricity market continues to grow. As a result, fluctuations in electricity prices will continue to intensify, with the prices sometimes being negative and sometimes high. About 1/3 of Fortum's hydropower is highly flexible, 1/3 relatively flexible and 1/3 poorly flexible (run-of-river). Through physical optimization, hydropower will produce earnings, even if the price of electricity is low in general.

If Fortum's value were conceptualized in terms of the sum of its parts, we believe that the value would be particularly concentrated in hydropower and would support a significantly higher valuation than today. However, in our view, the sum of the parts is only relevant if the value can be realized. We do not think this is realistic for Fortum in the medium term, but it still provides a basis for valuation.

Valuation multiples are low, but earnings prospects are also weak

Fortum's 2024e adjusted P/E on updated forecasts is around 13x, which we consider reasonable given the slightly declining earnings trajectory in the coming years. The challenge is that, as electrification slows down, there is no prospect of a turnaround in earnings and it is difficult to rely on a downward earnings trend. At the same time, we do not want to lose sight of the long-term positive picture, as the electricity market has been very volatile in recent years and is also sensitive

to a positive turnaround. A rise in electricity prices would quickly change Fortum's earnings outlook, as the company's production is very cost-efficient in the grand scheme of things.

In terms of EV multiples, we also believe that Fortum is reasonably priced for the next few years. EV/EBITDA multiples for 2025-2026 are around 8x and EV/EBIT multiples are around 10-11x. With the P/B ratio below 1.3x, the balance sheet valuation is also attractive. Today, for example, the balance sheet includes hydroelectric and nuclear power plants that have largely been decommissioned. If these do not generate a significant return on capital in the current environment, there will be no new equivalents on the market.

Relative valuation is reasonable

Fortum's multiples are reasonably in line with the peer group median (2024e P/E 12x and EV/EBIT 9x). In our view, the company's best peer is Verbund, whose valuation has now risen slightly above Fortum (2024e P/E 15x and EV/EBIT 11x). At the same time, it is interesting to note that electricity prices in Europe are significantly higher than in the Nordic countries, which supports the performance levels of Fortum's peers. Overall, we believe Fortum's relative valuation is reasonable, but it does not offer significant upside.

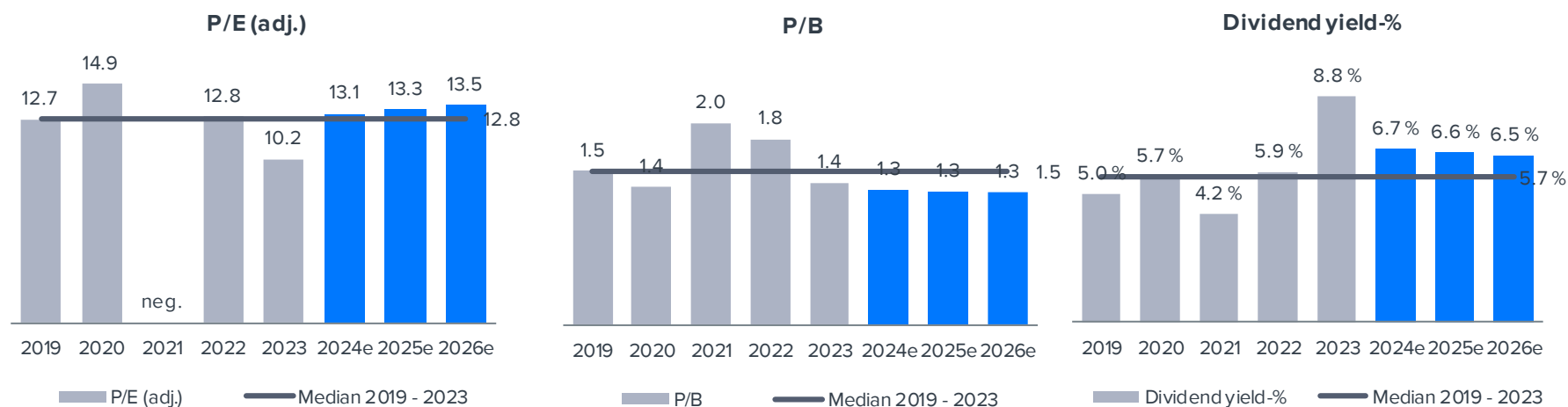
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Share price	12.1	12.1	12.1
Number of shares, millions	897.3	897.3	897.3
Market cap	10884	10884	10884
EV	11803	11866	11981
P/E (adj.)	13.1	13.3	13.5
P/E	13.1	13.3	13.5
P/B	1.3	1.3	1.3
P/S	1.8	1.8	1.8
EV/Sales	1.9	1.9	1.9
EV/EBITDA	8.0	8.1	8.2
EV/EBIT (adj.)	10.6	10.6	10.9
Payout ratio (%)	88.0 %	88.0 %	88.0 %
Dividend yield-%	6.7 %	6.6 %	6.5 %

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	22.0	19.7	27.0	15.5	13.1	12.1	12.1	12.1	12.1
Number of shares, millions	888.3	888.4	888.3	897.3	897.3	897.3	897.3	897.3	897.3
Market cap	19542	17501	23975	13943	11718	10884	10884	10884	10884
EV	18665	25567	32676	16661	12660	11803	11866	11981	12066
P/E (adj.)	12.7	14.9	neg.	12.8	10.2	13.1	13.3	13.5	12.2
P/E	13.2	12.0	32.4	6.7	7.7	13.1	13.3	13.5	12.2
P/B	1.5	1.4	2.0	1.8	1.4	1.3	1.3	1.3	1.3
P/S	3.6	3.9	3.7	1.8	1.7	1.8	1.8	1.8	1.7
EV/Sales	3.4	5.7	5.1	2.1	1.9	1.9	1.9	1.9	1.9
EV/EBITDA	11.0	11.0	6.7	7.0	6.3	8.0	8.1	8.2	7.6
EV/EBIT (adj.)	15.7	26.1	22.9	10.3	8.2	10.6	10.6	10.9	9.9
Payout ratio (%)	66.0 %	68.1 %	137.0 %	39.3 %	68.2 %	88.0 %	88.0 %	88.0 %	87.0 %
Dividend yield-%	5.0 %	5.7 %	4.2 %	5.9 %	8.8 %	6.7 %	6.6 %	6.5 %	7.1 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
RWE	23803	24402	7.5	8.7	4.6	4.9	11.8	15.2	3.4	3.7	0.7
Engie	39001	69516	7.9	8.2	5.0	5.1	9.0	9.7	7.6	7.2	1.2
E.ON	33096	66980	12.0	12.0	7.7	7.6	11.9	12.0	4.4	4.6	1.9
Verbund	24493	27345	10.5	11.3	8.8	9.4	15.1	16.5	3.5	3.2	2.5
CEZ	18208	20104	5.5	7.0	4.1	4.7	12.5	15.2	6.9	6.2	2.1
Enel	62220	139530	9.7	9.6	6.2	6.2	9.1	9.1	7.5	7.7	1.8
Orsted	21939	29786	13.8	10.8	8.3	7.2	19.0	14.6			2.1
Fortum (Inderes)	10884	11803	10.6	10.6	8.0	8.1	13.1	13.3	6.7	6.6	1.3
Average			9.5	9.6	6.4	6.4	12.6	13.2	5.6	5.4	1.7
Median			9.7	9.6	6.2	6.2	11.9	14.6	5.7	5.4	1.9
Diff-% to median			10%	11%	29%	31%	10%	-9%	19%	22%	-31%

Source: Refinitiv / Inderes

Income statement

Income statement	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	2265	1367	1221	1858	6711	1857	1268	1133	1846	6104	6119	6170	6324
<i>Generation (new)</i>	1429	805	847	1339	4420	1263	726	748	1174	3910	3742	3697	3835
<i>Consumer Solutions</i>	1384	750	563	1069	3766	1031	743	587	1058	3418	3520	3597	3675
<i>Others (new)</i>	136	126	139	147	548	132	126	135	143	535	540	540	540
<i>Eliminations</i>	-684	-314	-328	-697	-2023	-568	-327	-336	-528	-1760	-1684	-1664	-1726
EBITDA	852	349	344	476	2021	574	302	248	344	1467	1469	1453	1584
Depreciation	-83	-82	-93	-101	-359	-91	-84	-85	-92	-352	-354	-357	-362
EBIT (excl. NRI)	698	262	226	358	1544	483	218	163	252	1115	1115	1096	1222
EBIT	769	267	251	375	1662	483	218	163	252	1115	1115	1096	1222
<i>Generation (new)</i>	723	304	262	390	1679	503	234	179	261	1176	1135	1090	1203
<i>Consumer Solutions</i>	6	10	11	11	38	15	19	19	25	79	100	116	118
<i>Others (new)</i>	-31	-52	-47	-43	-173	-35	-35	-35	-35	-140	-120	-110	-100
<i>Items affecting comparability</i>	71	5	25	17	118	0	0	0	0	0	0	0	0
Share of associates profit/loss	22	-42	-10	89	59	9	0	-5	10	14	14	14	14
Net financial items	-95	-50	-17	24	-138	-21	-21	-21	-21	-84	-104	-102	-105
PTP	696	175	224	488	1583	471	197	137	241	1045	1025	1008	1131
Taxes	-154	199	-38	-76	-69	-88	-37	-27	-44	-196	-192	-189	-223
Minority interest	-2	2	0	-1	-1	-4	0	0	-11	-15	-15	-16	-16
Net earnings	540	376	186	411	1513	379	159	110	186	834	818	804	892
EPS (adj.)	0.54	0.16	0.23	0.35	1.28	0.42	0.18	0.12	0.21	0.93	0.91	0.90	0.99
EPS (rep.)	0.60	0.42	0.21	0.46	1.69	0.42	0.18	0.12	0.21	0.93	0.91	0.90	0.99

Key figures	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	16.8 %	-11.0 %	-35.4 %	-22.8 %	-13.7 %	-18.0 %	-7.2 %	-7.2 %	-0.6 %	-9.0 %	0.2 %	0.8 %	2.5 %
Adjusted EBIT growth-%	114.1 %	0.0 %	-36.2 %	-46.5 %	-4.2 %	-30.9 %	-16.9 %	-27.9 %	-29.7 %	-27.8 %	0.0 %	-1.7 %	11.5 %
EBITDA-%	37.6 %	25.5 %	28.2 %	25.6 %	30.1 %	30.9 %	23.8 %	21.9 %	18.6 %	24.0 %	24.0 %	23.6 %	25.0 %
Adjusted EBIT-%	30.8 %	19.2 %	18.5 %	19.3 %	23.0 %	26.0 %	17.2 %	14.4 %	13.6 %	18.3 %	18.2 %	17.8 %	19.3 %
Net earnings-%	23.8 %	27.5 %	15.2 %	22.1 %	22.5 %	20.4 %	12.6 %	9.7 %	10.1 %	13.7 %	13.4 %	13.0 %	14.1 %

Source: Inderes

Balance sheet

Assets	2023	2024e	2025e	2026e
Non-current assets	11392	11600	11806	12059
Goodwill	0.0	0.0	0.0	0.0
Intangible assets	643	653	663	673
Tangible assets	6612	6810	7006	7249
Associated companies	1059	1059	1059	1059
Other investments	644	644	644	644
Other non-current assets	1476	1476	1476	1476
Deferred tax assets	958	958	958	958
Current assets	7347	5781	5488	5531
Inventories	452	366	367	370
Other current assets	389	389	389	389
Receivables	2323	1831	1836	1851
Cash and equivalents	4183	3194	2896	2920
Balance sheet total	18739	17381	17294	17589

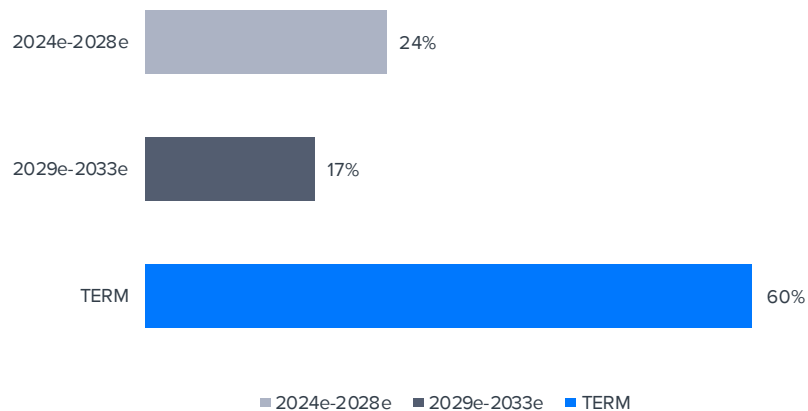
Source: Inderes

Liabilities & equity	2023	2024e	2025e	2026e
Equity	8498	8300	8384	8468
Share capital	3046	3046	3046	3046
Retained earnings	5592	5394	5478	5562
Hybrid bonds	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0
Other equity	-200.0	-200.0	-200.0	-200.0
Minorities	60.0	60.0	60.0	60.0
Non-current liabilities	6534	5680	5558	5683
Deferred tax liabilities	428	428	428	428
Provisions	1185	1185	1185	1185
Interest bearing debt	4573	3719	3597	3722
Convertibles	0.0	0.0	0.0	0.0
Other long term liabilities	348	348	348	348
Current liabilities	3707	3401	3351	3438
Interest bearing debt	1337	1180	1066	1080
Payables	1312	1221	1285	1357
Other current liabilities	1058	1000	1000	1000
Balance sheet total	18739	17381	17294	17589

DCF calculation

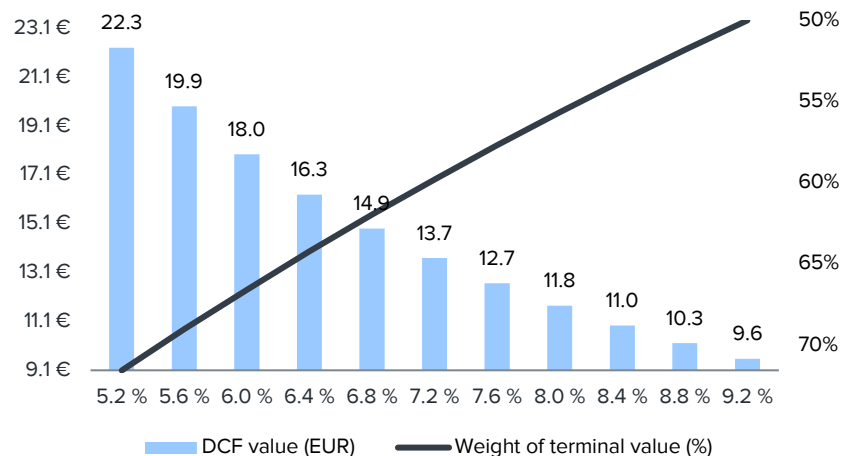
DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-13.7 %	-9.0 %	0.2 %	0.8 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %	1.5 %	1.5 %
EBIT-%	24.8 %	18.3 %	18.2 %	17.8 %	19.3 %	19.0 %	18.5 %	18.5 %	18.5 %	18.5 %	18.5 %	18.5 %
EBIT (operating profit)	1662	1115	1115	1096	1222	1232	1229	1260	1285	1311	1330	
+ Depreciation	359	352	354	357	362	374	386	396	406	416	425	
- Paid taxes	182	-196	-192	-189	-223	-219	-217	-222	-225	-229	-233	
- Tax, financial expenses	-14	-43	-40	-36	-38	-38	-40	-42	-43	-45	-46	
+ Tax, financial income	7	27	20	17	17	11	11	11	12	12	12	
- Change in working capital	280	428	59	54	-22	-22	-23	-23	-19	-19	-15	
Operating cash flow	2477	1683	1316	1299	1318	1337	1346	1381	1415	1445	1475	
+ Change in other long-term liabilities	-454	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	752	-560	-560	-610	-610	-604	-617	-618	-614	-608	-528	
Free operating cash flow	2775	1123	756	689	708	733	729	763	801	838	947	
+/- Other	368	0	0	0	0	0	0	0	0	0	0	
FCFF	3143	1123	756	689	708	733	729	763	801	838	947	16774
Discounted FCFF		1071	672	571	548	529	490	479	469	457	482	8533
Sum of FCFF present value		14301	13230	12557	11986	11438	10909	10419	9940	9472	9015	8533
Enterprise value DCF		14301										
- Interest bearing debt		-5910										
+ Cash and cash equivalents		4183										
+ Sijoitukset osakkuusyhtiöihin		1059										
-Minorities		-274										
-Dividend/capital return		-1032										
Equity value DCF		12327										
Equity value DCF per share		13.7										
WACC												
Tax-% (WACC)		20.0 %										
Target debt ratio (D/(D+E))		25.0 %										
Cost of debt		4.5 %										
Equity Beta		1.25										
Market risk premium		4.75%										
Liquidity premium		0.00%										
Risk free interest rate		2.5 %										
Cost of equity		8.4 %										
Weighted average cost of capital (WACC)		7.2 %										

Cash flow distribution

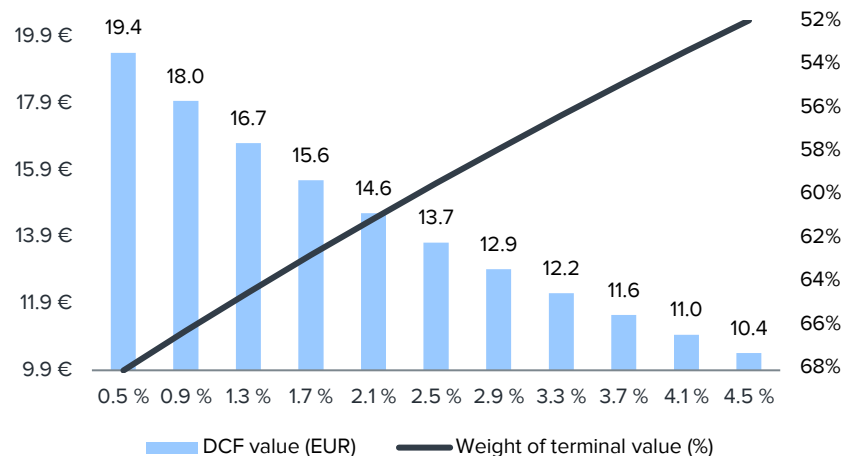


DCF sensitivity calculations and key assumptions in graphs

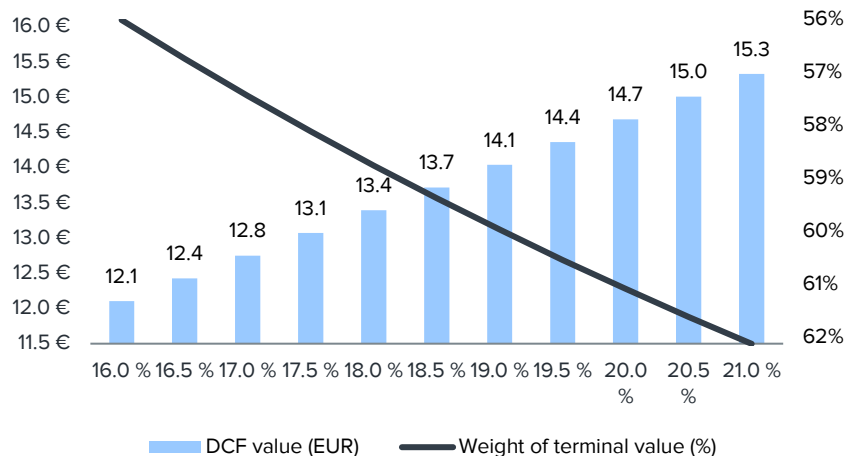
Sensitivity of DCF to changes in the WACC-%



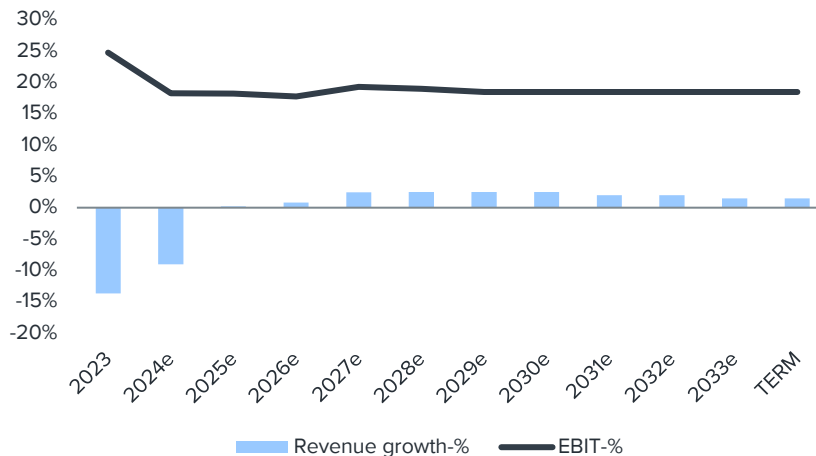
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



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

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	6422	7774	6711	6104	6119	EPS (reported)	0.83	2.32	1.69	0.93	0.91
EBITDA	4913	2382	2021	1467	1469	EPS (adj.)	-1.78	1.21	1.28	0.93	0.91
EBIT	4326	1967	1662	1115	1115	OCF / share	1.23	6.35	2.76	1.88	1.47
PTP	4333	1564	1583	1045	1025	FCF / share	1.05	3.94	3.50	1.25	0.84
Net Income	739	2080	1513	834	818	Book value / share	13.66	8.55	9.40	9.18	9.28
Extraordinary items	2897	356	118	0	0	Dividend / share	1.14	0.91	1.15	0.82	0.80
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	149661	23642	18739	17381	17294	Revenue growth-%	43%	21%	-14%	-9%	0%
Equity capital	13665	7737	8498	8300	8384	EBITDA growth-%	111%	-52%	-15%	-27%	0%
Goodwill	1021	0	0	0	0	EBIT (adj.) growth-%	46%	13%	-4%	-28%	0%
Net debt	9628	3866	1727	1705	1768	EPS (adj.) growth-%	-234%	-168%	6%	-27%	-2%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	76.5 %	30.6 %	30.1 %	24.0 %	24.0 %
EBITDA	4913	2382	2021	1467	1469	EBIT (adj.)-%	22.3 %	20.7 %	23.0 %	18.3 %	18.2 %
Change in working capital	-1365	2189	280	428	59	EBIT-%	67.4 %	25.3 %	24.8 %	18.3 %	18.2 %
Operating cash flow	1092	5697	2477	1683	1316	ROE-%	5.9 %	21.0 %	18.8 %	10.0 %	9.9 %
CAPEX	-12840	33888	752	-560	-560	ROI-%	15.8 %	7.7 %	12.6 %	9.2 %	9.4 %
Free cash flow	929	3536	3143	1123	756	Equity ratio	9.1 %	32.7 %	45.3 %	47.8 %	48.5 %
						Gearing	70.5 %	50.0 %	20.3 %	20.5 %	21.1 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	5.1	2.1	1.9	1.9	1.9						
EV/EBITDA (adj.)	6.7	7.0	6.3	8.0	8.1						
EV/EBIT (adj.)	22.9	10.3	8.2	10.6	10.6						
P/E (adj.)	neg.	12.8	10.2	13.1	13.3						
P/B	2.0	1.8	1.4	1.3	1.3						
Dividend-%	4.2 %	5.9 %	8.8 %	6.7 %	6.6 %						

Source: Inderes

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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
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 €	15.26 €
4/27/2022	Reduce	16.00 €	15.63 €
5/13/2022	Reduce	16.00 €	15.31 €
6/21/2022	Accumulate	18.00 €	16.31 €
7/25/2022	Accumulate	13.00 €	11.36 €
8/18/2022	Reduce	11.00 €	11.41 €
8/23/2022	Reduce	11.00 €	10.47 €
8/26/2022	Reduce	11.00 €	10.32 €
9/22/2022	Accumulate	14.50 €	13.25 €
10/13/2022	Accumulate	14.50 €	12.73 €
11/11/2022	Accumulate	16.50 €	14.38 €
12/7/2022	Accumulate	18.00 €	15.87 €
2/28/2023	Accumulate	16.00 €	14.51 €
3/3/2023	Accumulate	16.50 €	14.63 €
5/8/2023	Accumulate	15.00 €	13.57 €
5/12/2023	Buy	16.00 €	13.62 €
8/7/2023	Buy	15.00 €	11.81 €
11/3/2023	Buy	14.00 €	12.07 €
1/4/2024	Buy	14.50 €	13.26 €
2/8/2024	Buy	13.50 €	11.78 €
5/25/2024	Accumulate	13.50 €	12.13 €



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