Wärtsilä

Company report

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This report is a summary translation of the report "Vihreän siirtymän vetojuhtana" published on 4/25/2023 at 11:32 pm

A workhorse in the green transition

Wärtsilä's reported Q1 figures were either better than expected or in line with them. Overall, performance was very satisfactory. The market outlook comment for 2023 was quite cautious. However, our confidence in the market pull and the company's competitiveness has strengthened and we raised our 2023-2025 estimates moderately. The share price remains attractive. We maintain our Accumulate recommendation with a new target price of EUR 11.00 (previous EUR 9.50).

Q1 numbers had positive momentum

The order intake for Q1 exceeded both our and consensus expectations. Orders exceeded expectations in all businesses and energy storage system orders grew strongly. The good order intake for the Group's services (+21%y-o-y) continues to support profitability, as high value added service contracts increased by +43% y-o-y. In Q1 net sales growth (+19% y-o-y), the growth in equipment net sales was only slightly higher than the growth in service business net sales (+16% y-o-y). The adjusted EBIT margin (6.0%) was as expected. Profitability was supported by strong service sales and decreasing losses from storage systems. On the other hand, profitability was still depressed by 1) the sub-optimal capacity utilization rate, while ramp-down in Trieste is still ongoing; 2) continuing deliveries of old low-margin contracts; and 3) cost inflation, which was reflected in energy prices and wages, in particular.

Our confidence in the company's outlook strengthened

Wärtsilä still expects the demand environment for its Marine businesses to be similar in 2023 as in 2022. The demand environment for Energy is now expected to be similar (previously better) in this year as last year. Some European and Asian power plant customers are delaying their decisions due to volatile fuel prices and higher interest rates. Wärtsilä, however, believes that, even if the demand for power plants is slower in H1'23 it will pick up again in H2'23. As regards the outlook, Wärtsilä also praised the strong energy storage system market and service demand as a whole. Wärtsilä's profitability is supported by 1) growth in the high-margin service business; 2) completion of the last low-margin projects during Q3; 3) constantly increasing margins in storage; and 4) continued turnaround in the Voyage business. Cost inflation still causes headwind for profitability. Wärtsilä's strong order intake and good outlook in both services and storage led us to raise our order intake estimates for 2023-2025 by +5...+10%. We have also considered the above-mentioned factors that support margins more carefully and raised our 2025 EBIT margin estimate from 9.1% to 9.5%.

Plenty of justified upside

With the indicators we use, the total expected return on Wärtsilä's share is well above the COE requirement of some 9%. Thus the share's risk-adjusted expected return is attractive. The share's 2024 P/E and EV/EBIT ratios are 23-29% below the median of peers, and overall peer pricing is remarkably favorable. Our DCF model indicates an upside potential of over 30% for the share. However, the risk level of the model is high, as the cash-flow profile is highly backloaded due to the profitability factors of storage systems.

Recommendation

Accumulate
(previous Accumulate)

EUR 11.00

(previous EUR 9.50)

Share price:

10.10

Key figures

	2022	2023e	2024e	2025e
Revenue	5842	6475	7091	7514
growth-%	22%	11%	10%	6%
EBIT adj.	325	502	611	714
EBIT-% adj.	5.6 %	7.8 %	8.6 %	9.5 %
Net Income	-66	333	424	499
EPS (adj.)	0.48	0.59	0.72	0.84
P/E (adj.)	16.3	17.2	14.1	12.0
P/B	2.2	2.6	2.4	2.2
Dividend yield-%	3.3 %	4.0 %	5.0 %	6.4 %
EV/EBIT (adj.)	15.9	13.3	10.8	9.1
EV/EBITDA	15.5	10.4	8.5	7.3
EV/S	0.9	1.0	0.9	0.9

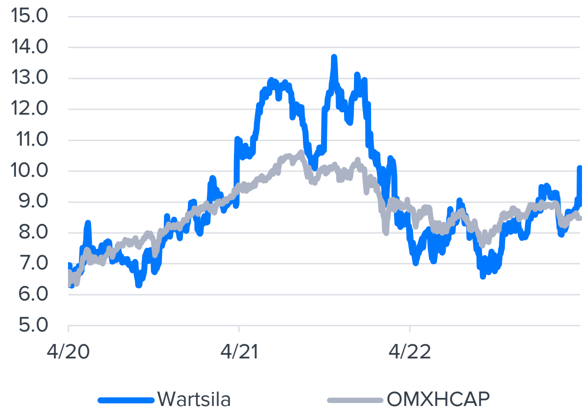
Source: Inderes

Guidance

(New guidance)

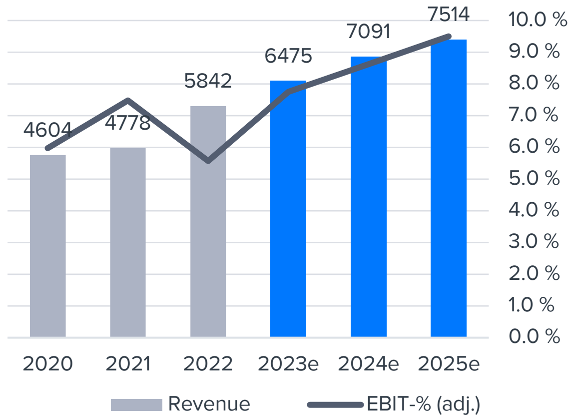
Wärtsilä expects the demand environment for both the Marine business (including Marine Power and Marine Systems) and Energy to in Q2'23-Q1'24 be similar as in the comparison period.

Share price



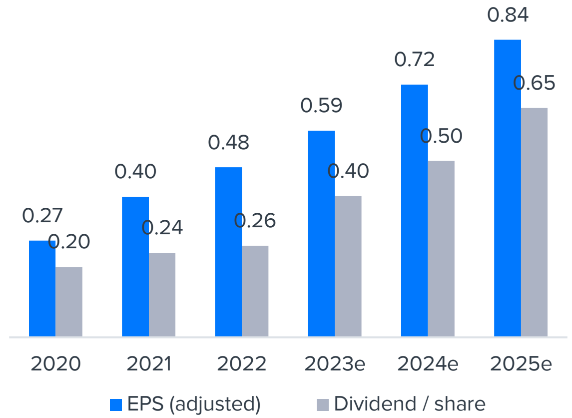
Source: Millistream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Strong position in the selected segments
- Growing role of special-purpose vessels and automation in marine operations
- Extensive installed equipment portfolio and significant share of services business
- Profitability of energy storage solutions turns positive

Risk factors

- Cyclicality of shipbuilding
- Uncertainty about the winning renewable energy production forms
- Energy's deliveries focusing on storage solutions depress margins

Valuation	2023e	2024e	2025e
Share price	10.1	10.1	10.1
Number of shares, millions	591.7	591.7	591.7
Market cap	5976	5976	5976
EV	6685	6603	6478
P/E (adj.)	17.2	14.1	12.0
P/E	17.9	14.1	12.0
P/FCF	neg.	17.5	13.4
P/B	2.6	2.4	2.2
P/S	0.9	0.8	0.8
EV/Sales	1.0	0.9	0.9
EV/EBITDA	10.4	8.5	7.3
EV/EBIT (adj.)	13.3	10.8	9.1
Payout ratio (%)	71.0 %	69.8 %	77.1 %
Dividend yield-%	4.0 %	5.0 %	6.4 %

Source: Inderes

Q1 numbers had positive momentum

Nice Q1 sequence

Wärtsilä's reported Q1 figures were either better than expected or in line with them. Overall, performance was very satisfactory.

Great order growth all around

Wärtsilä's Q1 order intake (1,739 MEUR; +26% y-o-y) was between our (1,428 MEUR) and consensus expectations (1,504 MEUR). Orders exceeded expectations in all businesses. The growth in energy storage system orders was strong (257 MEUR; +256% y-o-y). The good order intake for the Group's services (+21% y-o-y) continues to support profitability: services accounted for 51% of all orders. Noteworthy in the service order intake was the increase in high value-added service contracts (+43% y-o-y). Service contracts already covered 27% (Q1'22: 23%) of all service orders.

Net sales also grew on a broad front

Q1 net sales growth (+19% y-o-y) came from a broad front: the growth in Marine businesses was +18% y-o-y and in Energy it was +21% y-o-y. On Group level, growth in equipment net sales was only slightly faster than growth in service business (+16% y-o-y).

Buoyancy and pressure in Q1 margins

The adjusted EBIT margin (6.0%) was as expected. Profitability was supported by strong service sales and decreasing losses from storage systems. Rolling 12-month EBIT margin for storage increased to -3%, having been -4% in Q4'22. On the other hand, profitability was still depressed by 1) the sub-optimal capacity utilization rate, while ramp-down in Trieste is still ongoing; 2) continuing deliveries of old low-margin contracts (1,200 MEUR at start of the year); and 3) cost inflation, which was reflected in energy prices and wages, in particular. The reported result only included EUR -6 million in expected ramp-down costs from the Trieste plant (Inderes' estimate -25 MEUR; consensus -30 MEUR) which was offset by positive non-recurring items, so reported EPS was higher than estimated.

Estimates	Q1'22	Q1'23	Q1'23e	Q1'23e	Consensus			Difference (%)	2023e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low		High	Act. vs. inderes	Inderes
Revenue	1231	1465	1459	1414	1226	-	1639	0%	6475
EBIT (adj.)	65	88	87	86	70	-	120	1%	502
EBIT	-147	92	62	56	22	-	92	49%	489
PTP	-147	84	58	56	17	-	89	45%	469
EPS (adj.)	0.12	0.09	0.11	0.11	0.09	-	0.16	-24%	0.59
EPS (reported)	-0.24	0.09	0.07	0.07	0.02	-	0.11	27%	0.56
Revenue growth-%	30.1 %	19.0 %	18.5 %	14.8 %	-0.4 %	-	33.2 %	0.5 pp	10.8 %
EBIT-% (adj.)	5.3 %	6.0 %	6.0 %	6.0 %	5.7 %	-	7.3 %	0.1 pp	7.8 %

Source: Inderes & Vara Research (consensus)

Our confidence in the company's outlook strengthened

Our confidence in positive development increased

Wärtsilä's market outlook comment for 2023 was quite cautious. However, our confidence in the market pull and the company's competitiveness has strengthened and we raised our 2023-2025 estimates moderately.

The demand view is mainly favorable

Wärtsilä still expects the demand environment for its Marine businesses (Marine Power and Marine Systems) to be similar in 2023 as in 2022. The demand environment for Energy is now expected to be similar (previously better) in this year as last year. Wärtsilä said that some European and Asian power plant customers are delaying their decisions due to volatile fuel prices and higher interest rates. Wärtsilä believes that, even if the demand for power plants is slower in H1'23 it will pick up again in H2'23. The company said that the key competitive factor for engines now delivered to both the marine and power sectors is the possibility of later converting them to renewable fuels like methanol, and here Wärtsilä is well placed. As regards the outlook, Wärtsilä also praised the strong energy storage system market and service demand as a whole.

Plenty of positive margin drivers

Wärtsilä sees the following factors supporting profitability in the future: 1) strong growth in the service business with strong margins; 2) completion of the last old low-margin projects during Q3 (we have estimated that this factor alone will increase the Group's EBIT margin by some 1 pp in the future); 3) constantly increasing margins in storage; and 4) continued turnaround in the Voyage business that now is part of Marine Power. Cost inflation causes headwind for profitability, which in the short term can only be partly offset with own price increases.

Estimates raised slightly

Wärtsilä's strong order intake on a broad front and good outlook in both services and storage led us to raise our order intake estimates for 2023-2025 by +5...+10%. We have also included the recently announced Australian storage system order of EUR >300 million, which is expected to be signed in Q3'23. We also revised the effects of the above-mentioned factors that support margins and raised our 2025 EBIT margin estimate from 9.1% to 9.5%.

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	6349	6475	2%	6888	7091	3%	7247	7514	4%
EBITDA	608	641	5%	728	773	6%	816	886	9%
EBIT (exc. NRIs)	491	502	2%	582	611	5%	663	714	8%
EBIT	466	489	5%	582	611	5%	663	714	8%
PTP	450	469	4%	561	589	5%	642	693	8%
EPS (excl. NRIs)	0.58	0.59	1%	0.68	0.72	5%	0.78	0.84	8%
DPS	0.40	0.40	0%	0.50	0.50	0%	0.60	0.65	8%

Source: Inderes

Plenty of justified upside

Megatrend offers tailwind

With the current valuation levels we still find Wärtsilä a highly interesting investment target as the company's development is strongly supported by the green transition while its own competitive position is robust. Although the next 3-6 months may be a time of slower earnings growth, we believe that the completion of old low-margin projects in particular and the constantly increasing profitability of storage systems will act as positive share price drivers this year.

The share's valuation is still attractive despite the share price rally following the Q1 report. Positive business drivers, our estimate hikes and the valuation level that remains attractive with all indicators support maintaining our Accumulate recommendation. We raise our target price to EUR 11.00 (previous 9.50) so the 2024 P/E and EV/EBITDA ratios would still be 15-17% below the median of the peer group.

Risk-adjusted return remains lucrative

The total expected return of Wärtsilä's share (upside in the share price determined by earnings growth and change in valuation multiple plus dividend yield) clearly exceeds the 9% COE requirement both with P/E and EV/EBIT based calculations. Thus, the share's risk-adjusted expected return is attractive.

Multiples clearly below peers

The share's 2024 P/E and EV/EBIT ratios (15x and 12x) are 23-29% below the median of the peers. Overall, the pricing of Wärtsilä's share relative to its peers is still remarkably favorable.

DCF potential is high, but model risk is elevated

Our DCF model indicates an upside potential of over 30% for the share. However, the risk level of the model is high, as the cash-flow profile is backloaded. This, in turn, is because we expect Wärtsilä to get close to 10% EBIT margin levels only in 2026-2027, when the energy storage systems have reached a stable profitability level. Thereafter, we expect the margin to turn towards our assumed terminal level of good 8% (Wärtsilä's strategic target is a 12% EBIT margin). Due to the high risk profile, the indication provided by the DCF model should be treated with caution.

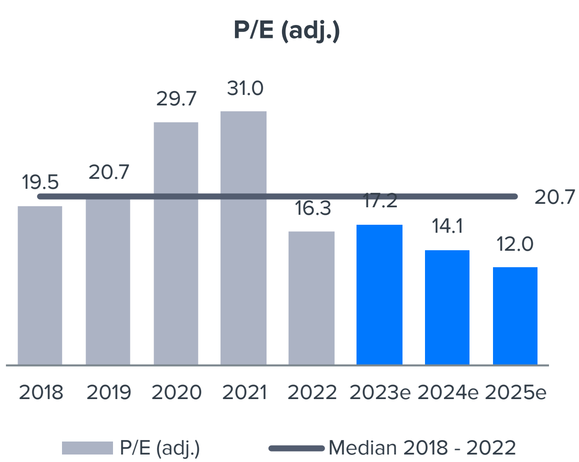
Valuation	2023e	2024e	2025e
Share price	10.1	10.1	10.1
Number of shares, millions	591.7	591.7	591.7
Market cap	5976	5976	5976
EV	6685	6603	6478
P/E (adj.)	17.2	14.1	12.0
P/E	17.9	14.1	12.0
P/FCF	neg.	17.5	13.4
P/B	2.6	2.4	2.2
P/S	0.9	0.8	0.8
EV/Sales	1.0	0.9	0.9
EV/EBITDA	10.4	8.5	7.3
EV/EBIT (adj.)	13.3	10.8	9.1
Payout ratio (%)	71.0 %	69.8 %	77.1 %
Dividend yield-%	4.0 %	5.0 %	6.4 %

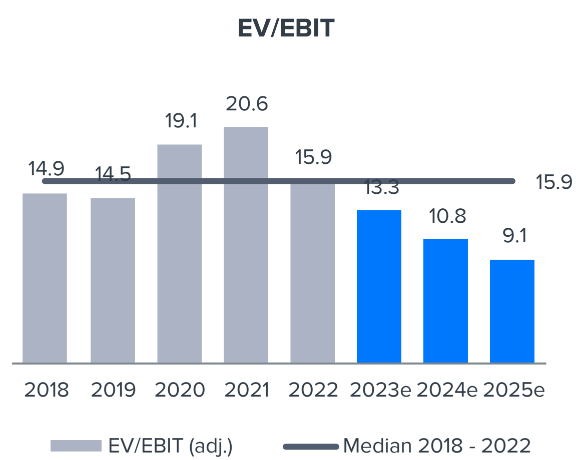
Source: Inderes

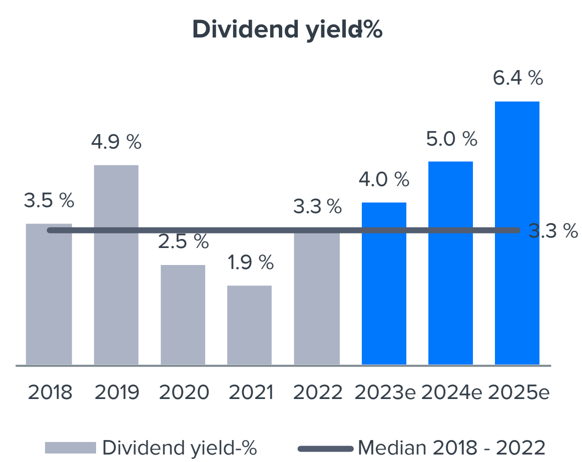
Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	13.9	9.85	8.15	12.4	7.87	**10.1**	**10.1**	**10.1**	**10.1**
Number of shares, millions	591.7	591.7	591.7	591.7	591.7	**591.7**	**591.7**	**591.7**	**591.7**
Market cap	8225	5828	4823	7314	4657	**5976**	**5976**	**5976**	**5976**
EV	8608	6601	5255	7347	5171	**6685**	**6603**	**6478**	**6405**
P/E (adj.)	19.5	20.7	29.7	31.0	16.3	**17.2**	**14.1**	**12.0**	**10.4**
P/E	21.3	27.0	36.0	37.9	neg.	**17.9**	**14.1**	**12.0**	**10.4**
P/FCF	32.8	neg.	6.9	15.5	neg.	**neg.**	**17.5**	**13.4**	**12.4**
P/B	3.4	2.4	2.2	3.2	2.2	**2.6**	**2.4**	**2.2**	**2.1**
P/S	1.6	1.1	1.0	1.5	0.8	**0.9**	**0.8**	**0.8**	**0.7**
EV/Sales	1.7	1.3	1.1	1.5	0.9	**1.0**	**0.9**	**0.9**	**0.8**
EV/EBITDA	12.5	11.0	12.1	14.5	15.5	**10.4**	**8.5**	**7.3**	**6.5**
EV/EBIT (adj.)	14.9	14.5	19.1	20.6	15.9	**13.3**	**10.8**	**9.1**	**7.9**
Payout ratio (%)	73.5 %	131.5 %	88.3 %	73.6 %	neg.	**71.0 %**	**69.8 %**	**77.1 %**	**67.1 %**
Dividend yield-%	3.5 %	4.9 %	2.5 %	1.9 %	3.3 %	**4.0 %**	**5.0 %**	**6.4 %**	**6.4 %**

Source: Inderes







Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**
Metso Outotec Corp	8679	9291	12.0	11.5	9.9	9.5	1.6	1.6	15.6	14.8	3.2	3.5	3.3
Kone Oyj	26057	24628	21.3	17.8	17.3	15.0	2.3	2.2	28.2	23.7	3.7	3.9	9.0
Konecranes Abp	2617	3265	9.3	8.8	7.1	6.7	0.9	0.9	11.1	10.3	4.1	4.4	1.7
Siemens Energy AG	16833	16149	73.1	13.8	10.9	5.9	0.5	0.5		19.6	0.6	1.6	1.1
Abb Ltd	63479	66392	16.5	15.5	13.7	12.9	2.4	2.3	21.2	19.9	2.6	2.8	5.3
Alfa Laval AB	13527	14694	18.6	17.1	14.8	14.0	2.8	2.7	23.2	21.4	1.9	2.1	4.0
Alstom SA	8244	9656	15.8	13.0	9.0	7.3	0.6	0.6	16.4	12.2	1.4	1.8	0.9
Caterpillar Inc	104602	131813	14.2	13.5	12.2	11.7	2.3	2.2	14.0	13.0	2.2	2.4	6.8
General Electric Co	99003	106929	24.9	15.6	16.8	12.4	1.9	1.8	50.5	25.3	0.4	0.4	2.9
Rolls-Royce Holdings PLC	14524	18187	17.9	14.1	9.0	7.7	1.2	1.1	31.2	20.6		1.1	
Woodward Inc	5069	5736	22.7	18.6	16.0	13.7	2.4	2.2	29.4	22.7	0.9	1.0	2.0
Wartsila (Inderes)	**5976**	**6685**	**13.3**	**10.8**	**10.4**	**8.5**	**1.0**	**0.9**	**17.2**	**14.1**	**4.0**	**5.0**	**2.6**
Average			**22.4**	**14.5**	**12.4**	**10.6**	**1.7**	**1.6**	**24.1**	**18.5**	**2.1**	**2.3**	**3.7**
Median			**17.9**	**14.1**	**12.2**	**11.7**	**1.9**	**1.8**	**22.2**	**19.9**	**2.0**	**2.1**	**3.1**
Diff-% to median			***-26%***	***-23%***	***-14%***	***-27%***	***-46%***	***-47%***	***-22%***	***-29%***	***94%***	***137%***	***-17%***

Source: Refinitiv / Inderes

Income statement

Income statement	2021	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	**4778**	**5842**	**1465**	**1552**	**1487**	**1971**	**6475**	**7091**	**7514**	**8076**
Marine Power	1863	2247	640	662	622	782	2706	2932	3043	3245
Marine Systems	654	765	158	167	174	188	687	752	780	806
Energy	1861	2721	645	698	668	971	2981	3313	3601	3939
Portfolio Business	121	109	21	26	23	30	99	94	90	85
EBITDA	**476**	**237**	**130**	**153**	**151**	**206**	**641**	**773**	**886**	**993**
Depreciation	-162	-263	-38	-38	-38	-38	-152	-162	-172	-178
EBIT (excl. NRI)	**357**	**325**	**88**	**132**	**113**	**168**	**502**	**611**	**714**	**815**
EBIT	**314**	**-26**	**92**	**115**	**113**	**168**	**489**	**611**	**714**	**815**
Marine Power	180	-125	52	54	54	83	243	282	317	338
Marine Systems	47	48	6	13	15	15	48	62	68	71
Energy	134	82	34	47	44	70	195	265	326	403
Portfolio Business	-9	-30	0	1	0	1	2	3	3	3
Net financial items	-18	-7	-8	-4	-4	-4	-20	-23	-21	-19
PTP	**296**	**-33**	**84**	**111**	**109**	**164**	**469**	**589**	**693**	**796**
Taxes	-103	-27	-23	-30	-30	-45	-128	-156	-184	-211
Minority interest	0	-6	-6	0	0	-1	-7	-9	-10	-12
Net earnings	**193**	**-66**	**55**	**81**	**79**	**118**	**333**	**424**	**499**	**573**
EPS (adj.)	**0.40**	**0.48**	**0.09**	**0.16**	**0.13**	**0.20**	**0.59**	**0.72**	**0.84**	**0.97**
EPS (rep.)	**0.33**	**-0.11**	**0.09**	**0.14**	**0.13**	**0.20**	**0.56**	**0.72**	**0.84**	**0.97**

Key figures	2021	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue growth-%	3.8 %	22.3 %	19.0 %	10.3 %	3.8 %	11.3 %	10.8 %	9.5 %	6.0 %	7.5 %
Adjusted EBIT growth-%	29.8 %	-9.0 %	35.4 %	53.4 %	41.1 %	80.1 %	54.4 %	21.7 %	16.8 %	14.2 %
EBITDA-%	10.0 %	4.1 %	8.9 %	9.9 %	10.2 %	10.5 %	9.9 %	10.9 %	11.8 %	12.3 %
Adjusted EBIT-%	7.5 %	5.6 %	6.0 %	8.5 %	7.6 %	8.6 %	7.8 %	8.6 %	9.5 %	10.1 %
Net earnings-%	4.0 %	-1.1 %	3.8 %	5.2 %	5.3 %	6.0 %	5.2 %	6.0 %	6.6 %	7.1 %

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	**2539**	**2557**	**2605**	**2652**	**2668**
Goodwill	1374	1288	1288	1288	1288
Intangible assets	401	392	404	410	406
Tangible assets	504	562	593	632	652
Associated companies	27	29	29	29	29
Other investments	18	19	19	19	19
Other non-current assets	48	72	80	80	80
Deferred tax assets	167	195	193	193	193
Current assets	**3984**	**4049**	**4585**	**4964**	**5260**
Inventories	1185	1361	1554	1702	1803
Other current assets	2	54	52	0	0
Receivables	1833	2173	2396	2624	2780
Cash and equivalents	964	461	583	638	676
Balance sheet total	**6523**	**6606**	**7190**	**7616**	**7927**

Source: Inderes

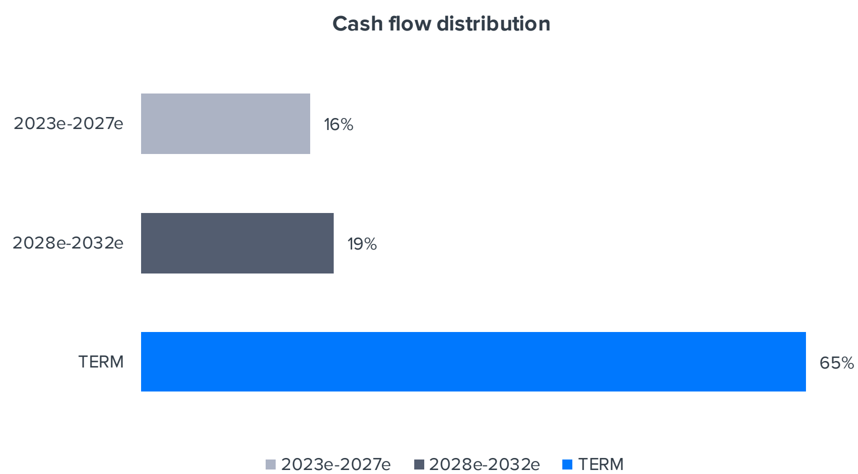
Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	**2323**	**2146**	**2321**	**2508**	**2710**
Share capital	336	336	336	336	336
Retained earnings	2094	1889	2069	2256	2458
Hybrid bonds	0	0	0	0	0
Revaluation reserve	61	61	61	61	61
Other equity	-176	-152	-152	-152	-152
Minorities	8	12	7	7	7
Non-current liabilities	**1394**	**1355**	**1616**	**1597**	**1529**
Deferred tax liabilities	65.0	65.0	48.0	48.0	48.0
Provisions	314	396	396	396	396
Long term debt	851	740	1018	999	931
Convertibles	0	0	0	0	0
Other long term liabilities	164	154	154	154	154
Current liabilities	**2806**	**3105**	**3253**	**3511**	**3688**
Short term debt	121	209	254	249	232
Payables	2685	2874	2979	3262	3456
Other current liabilities	0	22	20	0	0
Balance sheet total	**6523**	**6606**	**7190**	**7616**	**7927**

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	22.3 %	10.8 %	9.5 %	6.0 %	7.5 %	6.6 %	5.7 %	4.7 %	3.8 %	2.9 %	2.0 %	2.0 %
EBIT-%	-0.4 %	7.5 %	8.6 %	9.5 %	10.1 %	9.7 %	9.3 %	8.9 %	8.5 %	8.5 %	8.2 %	8.2 %
EBIT (operating profit)	**-26.0**	**489**	**611**	**714**	**815**	**835**	**846**	**848**	**841**	**865**	**851**	
+ Depreciation	263	152	162	172	178	178	173	178	182	186	192	
- Paid taxes	-55	-143	-156	-184	-211	-216	-219	-218	-216	-221	-217	
- Tax, financial expenses	-10	-8	-9	-9	-9	-9	-10	-11	-13	-14	-15	
+ Tax, financial income	8	2	3	3	4	4	5	5	5	6	6	
- Change in working capital	-357	-311	-60	-63	-84	-80	-73	-65	-55	-43	-31	
Operating cash flow	**-177**	**181**	**551**	**633**	**692**	**712**	**721**	**737**	**746**	**779**	**787**	
+ Change in other long-term liabilities	72	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-251	-202	-208	-188	-210	-210	-208	-204	-204	-221	-216	
Free operating cash flow	**-356**	**-22**	**342**	**445**	**483**	**502**	**513**	**533**	**541**	**557**	**570**	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	-356	-22	342	445	483	502	513	533	541	557	570	10803
Discounted FCFF		**-21**	**304**	**368**	**371**	**359**	**342**	**331**	**313**	**300**	**286**	**5419**
Sum of FCFF present value		8373	8393	8090	7722	7351	6991	6649	6318	6005	5705	5419
Enterprise value DCF		**8373**										
- Interesting bearing debt		-949										
+ Cash and cash equivalents		461										
-Minorities		-18										
-Dividend/capital return		-154										
Equity value DCF		**7713**										
Equity value DCF per share		**13.0**										

WACC	
Tax-% (WACC)	26.0 %
Target debt ratio (D/(D+E)	20.0 %
Cost of debt	3.0 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	**8.7 %**
Weighted average cost of capital (WACC)	**7.4 %**

Source: Inderes



Summary

Income statement	2020	2021	2022	2023e	2024e
Revenue	4604.0	4778.0	5842.3	**6475.1**	**7091.5**
EBITDA	408.0	476.0	237.0	**640.9**	**772.9**
EBIT	234.0	314.0	-26.0	**488.9**	**611.0**
PTP	191.0	296.0	-33.0	**468.9**	**588.5**
Net Income	134.0	193.0	-66.0	**333.5**	**423.7**
Extraordinary items	-41.0	-43.0	-351.0	**-13.0**	**0.0**

Balance sheet	2020	2021	2022	2023e	2024e
Balance sheet total	6232.0	6523.0	6606.0	**7190.0**	**7615.7**
Equity capital	2187.0	2323.0	2146.0	**2320.6**	**2507.6**
Goodwill	1325.0	1374.0	1288.0	**1288.0**	**1288.0**
Net debt	408.0	8.0	488.0	**690.1**	**609.8**

Cash flow	2020	2021	2022	2023e	2024e
EBITDA	408.0	476.0	237.0	**640.9**	**772.9**
Change in working capital	469.0	424.0	-357.0	**-311.3**	**-60.4**
Operating cash flow	770.9	795.7	-176.8	**180.7**	**550.5**
CAPEX	-73.0	-286.0	-251.0	**-202.4**	**-208.1**
Free cash flow	695.9	472.7	-355.8	**-21.7**	**342.4**

Valuation multiples	2020	2021	2022	2023e	2024e
EV/S	1.1	1.5	0.9	**1.0**	**0.9**
EV/EBITDA (adj.)	12.1	14.5	15.5	**10.4**	**8.5**
EV/EBIT (adj.)	19.1	20.6	15.9	**13.3**	**10.8**
P/E (adj.)	29.7	31.0	16.3	**17.2**	**14.1**
P/B	2.2	3.2	2.2	**2.6**	**2.4**
Dividend-%	2.5 %	1.9 %	3.3 %	**4.0 %**	**5.0 %**

Source: Inderes

Per share data	2020	2021	2022	2023e	2024e
EPS (reported)	0.23	0.33	-0.11	**0.56**	**0.72**
EPS (adj.)	0.27	0.40	0.48	**0.59**	**0.72**
OCF / share	1.30	1.34	-0.30	**0.31**	**0.93**
FCF / share	1.18	0.80	-0.60	**-0.04**	**0.58**
Book value / share	3.68	3.91	3.61	**3.91**	**4.23**
Dividend / share	0.20	0.24	0.26	**0.40**	**0.50**

Growth and profitability	2020	2021	2022	2023e	2024e
Revenue growth-%	-11%	4%	22%	**11%**	**10%**
EBITDA growth-%	-25%	17%	-50%	**170%**	**21%**
EBIT (adj.) growth-%	-40%	30%	-9%	**54%**	**22%**
EPS (adj.) growth-%	-42%	45%	21%	**22%**	**22%**
EBITDA-%	8.9 %	10.0 %	4.1 %	**9.9 %**	**10.9 %**
EBIT (adj.)-%	6.0 %	7.5 %	5.6 %	**7.8 %**	**8.6 %**
EBIT-%	5.1 %	6.6 %	-0.4 %	**7.5 %**	**8.6 %**
ROE-%	5.9 %	8.6 %	-3.0 %	**15.0 %**	**17.6 %**
ROI-%	6.7 %	9.5 %	0.1 %	**14.9 %**	**16.9 %**
Equity ratio	37.8 %	38.6 %	35.8 %	**35.6 %**	**36.5 %**
Gearing	18.7 %	0.3 %	22.7 %	**29.7 %**	**24.3 %**

ESG

Taxonomy eligibility

Wärtsilä's low taxonomy eligibility percentages for net sales and operating costs reflects the fact that the service businesses (over 50% of Wärtsilä's net sales) are not taxonomy-eligible according to Wärtsilä's interpretation. Maritime systems that support the reduction of Wärtsilä's emissions are excluded from taxonomy, as taxonomy only includes ship manufacturing. In the energy business, finished engines for carbon-neutral fuels that also run on natural gas or other fossil fuels are also excluded from taxonomy. On the other hand, the higher taxonomy percentage of investments indicates Wärtsilä's investments in technologies using zero-emission fuels like ammonia and hydrogen. The company wants to be ready in terms of its product offering when these fuels enter the market. The taxonomy eligibility percentages are zero due to Wärtsilä's tight interpretation, and we wait for further information on the development and interpretation in the future.

So far, we do not see direct short-term economic effects, such as significantly lower financing costs, for taxonomy.

Climate targets

The social dimension of Wärtsilä's business is significant, as zero-emission marine operations and energy production are key to achieving global emission reduction targets. This is directly reflected in the needs of Wärtsilä's customer base and thus on Wärtsilä. The company's own climate targets for 2030 ("Set for 30") aim at carbon neutrality in its own operations, as well as a product range that is ready for carbon-free fuels. The carbon neutrality of own activities is related to Scope 1 and Scope 2 activities. So far, Wärtsilä has not set targets for Scope 3 emissions and is thus not involved in the Science-based target (SBT 1.5) initiative. We consider the company's Scope 1 and Scope 2 targets to be realistic. We believe Wärtsilä has opportunities to reduce Scope 3 emissions through a greener product offering and consider it possible that relatively high taxonomy-eligible investments support this development.

Taxonomy eligibility	2021*	2022
Revenue	-	15 %
OPEX	-	13 %
CAPEX	-	34 %

Taxonomy alignment	2021*	2022
Revenue	-	0 %
OPEX	-	0 %
CAPEX	-	0 %

Climate		
Climate goal	Yes	Yes
Target according to Paris agreement (1.5 °C warming scenario)	No	No

*figures are not comparable due to taxonomy development

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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
28-10-19	Reduce	9.00 €	9.27 €
27-11-19	Accumulate	10.00 €	9.08 €
20-01-20	Accumulate	12.00 €	10.83 €
31-01-20	Accumulate	12.50 €	11.45 €
26-03-20	Accumulate	7.50 €	6.78 €
22-04-20	Accumulate	7.00 €	6.36 €
20-07-20	Accumulate	8.00 €	7.51 €
26-10-20	Accumulate	8.00 €	7.44 €
21-01-21	Reduce	9.40 €	9.01 €
29-01-21	Reduce	8.70 €	8.11 €
23-04-21	Reduce	10.00 €	10.31 €
21-07-21	Reduce	12.00 €	12.35 €
27-10-21	Accumulate	12.60 €	11.88 €
19-11-21	Accumulate	14.00 €	13.16 €
31-01-22	Accumulate	13.00 €	10.84 €
30-03-22	Accumulate	11.50 €	9.11 €
21-04-22	Accumulate	10.60 €	8.41 €
29-04-22	Accumulate	9.50 €	7.75 €
22-07-22	Accumulate	9.50 €	8.58 €
03-10-22	Buy	8.00 €	6.58 €
26-10-22	Buy	8.00 €	6.76 €
15-11-22	Accumulate	9.00 €	8.25 €
04-01-23	Accumulate	9.00 €	8.01 €
01-02-23	Accumulate	9.50 €	8.71 €
26-04-23	Accumulate	11.00 €	10.10 €

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