

Fortum

Company report

03/03/2023



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The prodigal sons returns home with the new strategy

We reiterate our Accumulate recommendation for Fortum and revise our target price to EUR 16.5 (was EUR 16.0). The company's Q4 operating profit was well above our expectations thanks to the Generation segment. The outlook for the segment (hedging prices) was also slightly higher than we had anticipated, supporting a slight positive change in our estimates for the coming years. As expected, the new strategy marks a homecoming for Fortum as a Nordic electricity company, and the balance sheet is already largely in good shape, so the company's risk profile has dropped a notch. We think the valuation level is attractive (2023 adj. P/E 12 and EV/EBIT 7x) but being stuck in Russia weakens the company's investment profile.

Strong performance from the Generation segment

Fortum's comparable operating profit for Q4 was EUR 744 million, well above our estimate (553 MEUR) and the consensus (612 MEUR). This is due to the Generation segment, which delivered an excellent performance in Q4, considering the conditions. The Generation segment's comparable operating profit was EUR 650 million, compared to our own estimate of only EUR 447 million. The main reason for this was the electricity price of €80.5MWh achieved by the Generation segment, which can be considered excellent considering that at the end of Q3, 80% of sales for the rest of the year were hedged at €49/MWh. The company did an excellent job of physical optimization and was supported by the increased price in the SE2 area (where there are fewer hedges). The dividend proposal of EUR 0.91 per share based on the updated dividend policy was significantly above our moderate estimate (EUR 0.38), which was somewhat encouraging. Liquidity is good after the repatriation of the Uniper funds, and the balance sheet is in good shape as the company is expected to enter the debt markets soon, but there is still work to be done.

Small positive estimate changes after a strong performance

Fortum's outlook focuses on the Generation segment, which is practically responsible for the group's results. Hedging prices in the segment had risen slightly faster than we had anticipated, and we raised our earnings estimates for the coming years slightly (0-7%). Another positive takeaway was that the impact of the windfall tax is ultimately going to be limited. We only made significant changes to our dividend estimates, and the dividend again became an important driver of returns. We removed the contribution of the Russia segment from the adjusted earnings estimates, which caused them to fall despite the otherwise positive changes. This brings the figures more in line with the future Fortum, although in the reported figures Russia will still be around for a long time. As expected, the focus of the new strategy is on the Nordic countries and particularly on hydro and nuclear power, naturally with a green angle (reduction of industrial emissions and more ambitious targets). Based on the financial targets (increase in required returns) and management's comments, we estimate that the company is making very selective progress with investments. The return to a strong core is very welcome news for us and, in our view, lowers the company's risk profile.

Valuation is moderate under Russia pressure

After exceptional stages, Fortum achieved adjusted EPS (excluding the Russia segment) of EUR 1.21 in 2022. After minor estimate revisions, we now expect a broadly similar result for 2023 (estimate EUR 1.19), and we expect this to be a relatively sustainable level also in the future. Thus, the 2023e adjusted P/E is around 12x and due to moderate net financial debt, EV/EBITDA is just over 5x. However, the sector is priced moderately, which is of course understandable with regulatory clouds lurking overhead. As Fortum returns to being a creditworthy, Nordic energy company, we see clear upside potential in valuation multiples. However, Russia should be let go, as Fortum's ESG profile would be quite different without it.

Recommendation

Accumulate

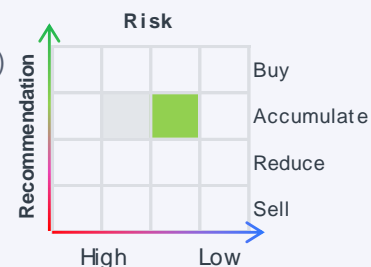
(previous Accumulate)

EUR 16.50

(previous EUR 16.00)

Share price:

14.63



Key figures

	2022	2023e	2024e	2025e
Revenue	8804	8679	8700	8641
growth-%	37%	-1%	0%	-1%
EBIT adj.	1871	1970	1759	1594
EBIT-% adj.	21.3 %	22.7 %	20.2 %	18.4 %
Net Income	1012	1263	1393	1303
EPS (adj.)	-2.03	1.19	1.34	1.24

P/E (adj.)	neg.	12.3	10.9	11.8
P/B	1.8	1.6	1.5	1.4
Dividend yield-%	5.9 %	6.5 %	6.9 %	6.9 %
EV/EBIT (adj.)	8.9	7.3	7.7	8.1
EV/EBITDA	9.0	5.3	5.4	5.4
EV/S	1.9	1.7	1.6	1.5

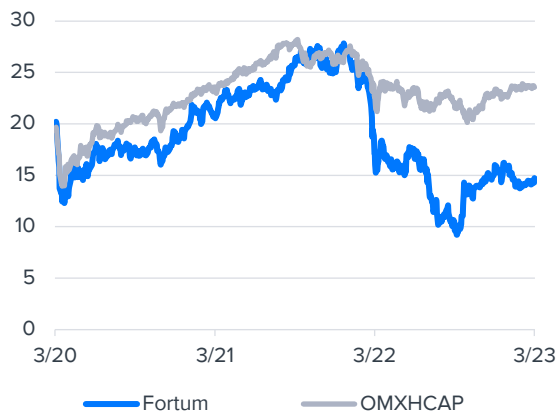
Source: Inderes

Guidance

(New guidance)

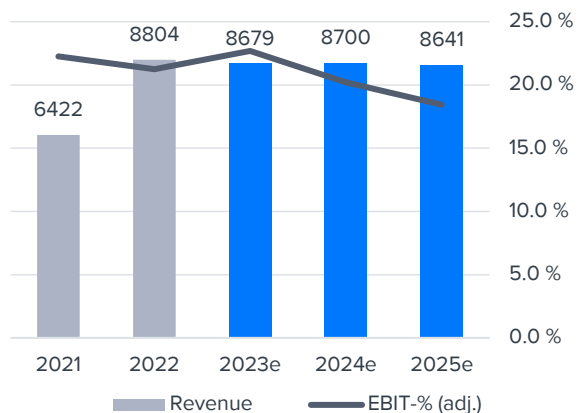
The Generation segment's Nordic generation hedges: approximately 75% at EUR 58 per MWh for 2023, and approximately 45% at EUR 42 per MWh for 2024.

Share price



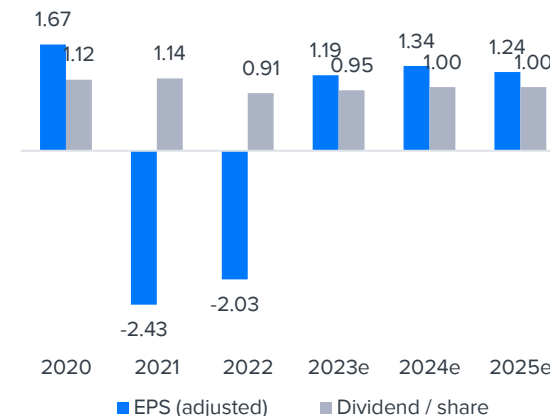
Source: Millstream Market Data AB

Revenue and EBIT %



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Successful exit from Russia
- Improved investment profile and lower risk profile as the financial situation becomes clearer
- High electricity prices enable excellent earnings levels if they persist
- Improving operational efficiency
- Successful investments and divestments in accordance with the strategy



Risk factors

- Write-down risks associated with Russian business, which may also result in balance sheet problems
- 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
- Success in debt restructuring

Valuation	2023e	2024e	2025e
Share price	14.6	14.6	14.6
Number of shares, millions	897.3	897.3	897.3
Market cap	13127	13127	13127
EV	14451	13602	12872
P/E (adj.)	12.3	10.9	11.8
P/E	10.4	9.4	10.1
P/FCF	6.1	8.2	8.9
P/B	1.6	1.5	1.4
P/S	1.5	1.5	1.5
EV/Sales	1.7	1.6	1.5
EV/EBITDA	5.3	5.4	5.4
EV/EBIT (adj.)	7.3	7.7	8.1
Payout ratio (%)	67.8 %	64.7 %	69.1 %
Dividend yield-%	6.5 %	6.9 %	6.9 %

Source: Inderes

Strong performance from the Generation segment

Operating result clearly exceeded expectations

Fortum's comparable EBITDA and EBIT for Q4 were EUR 895 million and EUR 744 million, respectively. These figures are well above our estimates (697 MEUR and 553 MEUR) and the consensus. The reason for the strong earnings beat is the Generation segment, which posted an excellent result in Q4, considering the circumstances. In Q4, the Generation segment's comparable operating profit was EUR 650 million, compared to our own estimate of only EUR 447 million. The main reason for this was the electricity price of €80.5/MWh achieved by the Generation segment, which was significantly higher than expected (€72/MWh, consensus €73.2/MWh). The level achieved can be considered excellent given that at year-end 80% of the estimated electricity sales for the rest of the year were hedged at 49 €/MWh.

Fortum did comment that it had been "very successful" with physical optimization, which explains part of the good performance. Another explanation is probably that the price difference between the system price in Sweden and the spot price in SE2 (Sundsvall) narrowed significantly in the reporting

period compared to previous quarters. In addition, as the liquidity of the SE2 area price products was still low, the hedging ratio of the SE2 area remained lower than that of the system price, which had a positive impact on the achieved electricity price. Volumes were also slightly higher than expected, further confirming the anomaly.

For the other segments, the quarter was broadly in line with our expectations. Overall, Fortum's Q4 results were very strong operationally, but the reported results were again a mixed bag.

There were a lot of moving parts in the reported result

Fortum's reported earnings were weak, as expected, and EPS of EUR -0.68 were reasonably in line with our estimate (EUR -0.63). However, there were many deviations within the result, and items related to comparability finally totaled EUR -1,397 million at EBIT level. The Russia write-downs were on the expected rows, but the result was also impacted by a EUR -808 million item related to changes in fair values of non-hedge-accounted derivatives. In practice, these are irrelevant for operational development. However, Fortum's taxes in Q4 were EUR 948 million positive

due to an income tax adjustment, which was driven by a one-off tax effect of EUR 746 million recorded in Ireland, mainly due to the huge loss on the sale of Uniper.

Russia is also differentiated in the key figures

Fortum started to report a new key figure, which is comparable EPS excluding Russia. This was EUR 0.42 in Q4 (Q4'21: EUR 0.34) and EUR 1.21 for the whole of last year (2021: EUR 0.96). This reflects the profitability of Fortum's core business and is more relevant than the reported figure also in the sense that there are currently no cash outflows from Russia. This is why we try to make similar adjustments in our Fortum estimates.

Fortum also based its dividend proposal on this figure, which was EUR 0.91 per share, strongly exceeding our estimate of EUR 0.38 per share. According to the updated dividend policy, the dividend payout ratio is 60-90% of comparable EPS. The proposed dividend corresponds to 75% of comparable EPS from continuing operations of EUR 1.21 (excluding Russian operations). The dividend will be paid in two installments in Q2 and Q4.

Estimates MEUR / EUR	Q4'21	Q4'22	Q4'22e	Q4'22e	Consensus		Difference (%)	2022
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Actualized
Revenue	2171	2736	2591	2752	2449	- 4113	6%	8659
Comparable EBITDA	673	895	697	775	317	- 949	28%	2238
Comparable EBIT	520	744	553	612	107	- 782	35%	1679
EBIT (reported)	548	-653	3	-	-	-	-	1933
EPS (reported)	0.95	-0.68	-0.63	-	-	-	8%	-2.65
Revenue growth-%	-	26%	19.3 %	27%	13%	- 89%	6.7 pp	37.1 %
Comparable EBIT-%	24.0 %	27.2 %	21.3 %	22.2 %	4.4 %	- 19.0 %	5.9 pp	19.4 %

Source: Inderes & Vara Research (27.2.2023) (consensus)

The balance sheet is fine as such, but there is still work to be done

Net debt is already moderate and liquidity is good

At the end of the year, Fortum's net financial debt was only EUR 1.1 billion, which in itself is a very moderate amount for a business that generated a comparable EBITDA of EUR 2.4 billion in 2022. However, it's again probably more sensible to follow the ratios without Russia (no money moves from there), but even without Russia net financial debt / comparable EBITDA was only 0.6x. In this sense, net debt is very low, and the balance sheet is in good shape. Of course, the situation was greatly improved by the fact that at the end of December the company received around EUR 4.5 billion for Uniper.

As this money came in, Fortum's liquidity worries came to an end. At the end of the year, the cash position stood at EUR 3.9 billion, after the company had already reduced its limits. The company is repaying the EUR 350 million high interest loan drawn from Solidium in September as soon as March, while the EUR 2,350 million bridge financing facility will be terminated. However, there remains a dilution

of 1% of the share capital, which was a condition of the arrangement.

Access to debt markets is still important

However, Fortum still has plenty of interest-bearing debt, totaling EUR 7.8 billion. Strikingly, the debt maturing in 2023 is over EUR 4 billion, which means that debt refinancing is imminent. Part of the debt has an option to defer payment and Fortum has plenty of unused credit limits (EUR 7.2 billion or EUR 5.2 billion without Solidium), so the situation is not alarming, but access to the debt market is still important. The business can't be developed without access to affordable and sustainable finance.

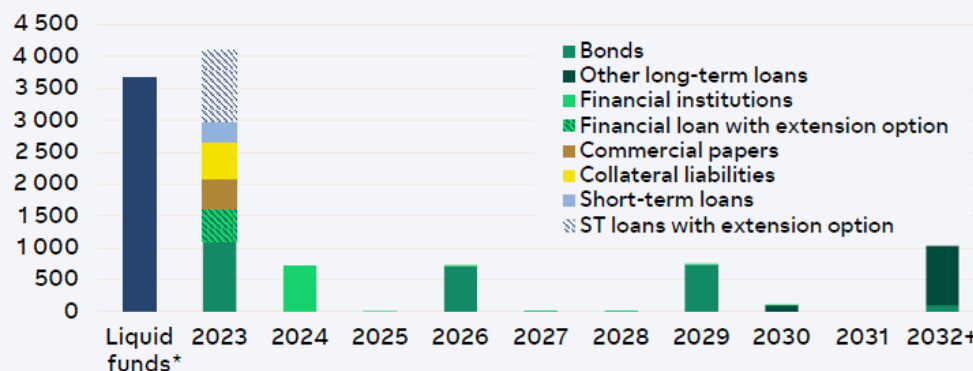
Part of this is also linked to the pressure to reform the strategy and to unbundle Russia, as rating agencies want to know the new direction of the company before making their assessments. The road to the debt markets should then ease and the company's elevated financial risk should normalize. Net margin receivables at the end of the year totaled EUR 2,255 million, meaning that a lot of money has already been

recovered from provisions. The balance sheet could have been in better shape, but cash flow from operating activities in Q4 was below our estimates (607 MEUR). Still, the balance sheet is back to a reasonable size and the biggest worries are gone now that the Uniper money has arrived.

Financial targets updated

Fortum also updated its financial targets to ensure at least a BBB credit rating and the financial flexibility required for future growth. The new long-term comparable ratio of net financial debt to EBITDA is 2.0-2.5x. The current level is therefore around 0.6x excluding Russia, so the net debt level is far from the target. However, officially Fortum's financial position is in shape when the credit ratings are secured, the company has access to relatively low-interest debt money in the market and the 2023 maturity peak is removed. Nevertheless, we believe the company's risk profile has declined significantly, and we don't expect any material problems with the issues mentioned above.

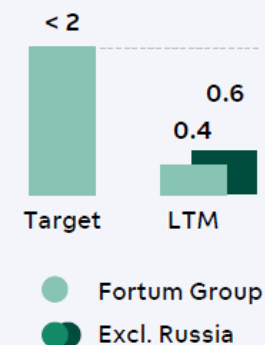
Maturity of Fortum's liabilities (MEUR at the end of 2022)



Source: Fortum's financial statements

*Liquid funds excluding Russia

Leverage target and current level



Small positive estimate changes after a strong performance

Positive development in hedge prices

Fortum's outlook focuses on the Generation segment, which is practically responsible for the whole group's results. The Generation segment's hedges for Nordic generation at the turn of the year were as follows: for 2023, around 75% at €58/MWh (Q3'22: 65% at EUR 49) and for 2024 around 45% at €42/MWh (Q3'22: 40% for EUR 31). Hedging levels were broadly in line with our expectations, but prices had risen slightly faster than we had anticipated. This slightly raised our estimates, although the changes in other segments were marginal. The reported hedging rates are based on segment hedges and electricity generation forecasts, and don't indicate quarterly hedges.

Fortum expects investments excluding acquisitions to be around EUR 700 million in 2023, excluding the Russia segment. The estimate includes annual maintenance investments, which are estimated to be around EUR 300 million, well below the level of depreciation (Inderes 2023e: 576 MEUR). This means that the cash flow profile should be good. In addition, we continue to expect working capital to be freed up from hedging, which should be supported by lower

electricity prices. Moreover, we suspect that Fortum will proceed cautiously with its investments in the near term, so we foresee ample free cash flows in the coming years.

Fortum also updated its tax guidance to take into account the temporary windfall tax law for the Finnish energy sector, which was approved by the Finnish Parliament on February 27, 2023. The impact is expected to be small: in 2023, the comparable effective income tax rate is expected to be at the level of 21-24%, which is only slightly higher than the "normal" level. In practice, therefore, the tax will be very small in overall terms if it really remains temporary.

Biggest changes in dividend forecasts

The biggest forecast changes were in our dividend forecasts, as Fortum's dividend proposal was a positive surprise and comments on the stabilization of the financial situation also indicated that the future is secure. The updated dividend policy suggests a dividend payout ratio of 60-90% of comparable EPS (in the current situation excluding Russia). In our view, it's noteworthy that the company's management no

longer promised an increasing or even stable dividend, but that in future the dividend will be paid based on the operating result, considering the company's financial situation. In the future, Fortum's results will be increasingly dependent on the electricity price level in the Nordic countries, meaning that the results will live with the electricity market. It's therefore logical not to commit to fixed dividend levels, especially in the current situation (no substantial buffer).

Russia excluded from our future EPS estimates

We have also made one structural change to our estimates, which is reflected in adjusted operating profit and earnings per share (EPS excluding one-off items). Russia is still included in the reported figures as it is part of the Fortum Group for the time being, but we have adjusted for the operating profit from Russia. The adjusted figures are a reasonable reflection of Fortum's operating result excluding Russia. Mainly due to the removal of the Russia segment's contribution, the adjusted figures fell in the projections, although otherwise the changes were slightly positive.

Estimate revisions	2022e	2022	Change	2023e	2023e	Change	2024e	2024e	Change
MEUR / EUR	Inderes	Toteutunut	%	Old	New	%	Old	New	%
Revenue	8659	8804	2%	8559	8679	1%	8659	8700	0%
EBITDA	2492	1843	-26%	2653	2739	3%	2545	2534	0%
EBIT (exc. NRIs)	1679	1871	11%	2077	1970	-5%	1956	1759	-10%
EBIT	1933	1277	-34%	2077	2163	4%	1956	1950	0%
PTP	1537	455	-70%	1792	1908	6%	1670	1783	7%
EPS (excl. NRIs)	-2.93	-2.03	31%	1.32	1.19	-10%	1.44	1.34	-7%
DPS	0.38	0.91	139%	0.57	0.95	67%	1.10	1.00	-9%

Source: Inderes

Coming back home with the new strategy

No major surprises in the new strategy

Fortum's new strategy focuses on delivering reliable clean energy and reducing carbon dioxide emissions from industry in the Nordic countries. The focus is therefore very much on the Nordic countries, and particularly on hydro and nuclear power. This will be reinforced by a new business structure with separate Hydro Generation and Nuclear Generation areas. As expected, these will be supported by renewables (wind and solar power) in a separate business unit.

Reducing industrial carbon emissions wasn't exactly what we expected, but we anticipated that the strategy would include a "green angle". Moreover, in its simplest form, this also simply means that an industrial customer buys emission-free energy from Fortum while reducing its own carbon footprint to meet its climate targets. Fortum and the customer could lock in the price far into the future, making both businesses more predictable. Of course, cooperation can mean more complex collaborative projects or

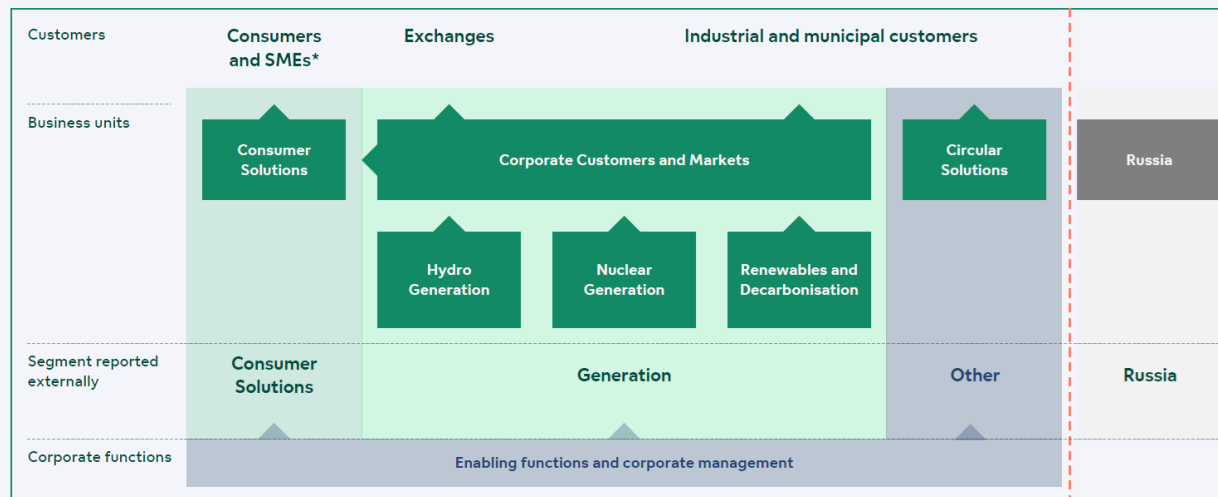
investments, but Fortum doesn't stray far from its core. The green angle is complemented by more demanding sustainability and climate targets. In the big picture, the strategy was thus the expected homecoming and a return to the previous core business after the massive disappointments of Uniper and Russia. This significantly lowers Fortum's risk profile in our eyes.

Focus is now clear

In 2022, Fortum's Nordic hydro and nuclear generation will be 45 TWh, accounting for almost 90% of the Group's EBITDA (excluding Russia). Fortum's other businesses include wind and solar energy, district heating and cooling, electricity retail, and circular economy activities. Efforts are being made to break away from Russia as soon as possible, but this will still take time. However, the company has clearly cut Russia out of its strategy, which is very understandable.

Fortum has updated its financial targets, of which we have already discussed leverage and dividend policy. In addition, Fortum aims to achieve controlled growth in clean energy in 2023-2025. According to the company, the maximum investment over this period will be around EUR 1.5 billion. The minimum required return for new investments is the weighted average cost of capital (WACC) per project + 150-400 interest points.

Required returns have increased slightly from the previous level (prev. 100-200 interest points), and the company also stressed the importance of accuracy, patience and risk management in investments. The cost of capital is rising anyway, so for us the demands and comments mean a strict screening of future investments. There will certainly be opportunities in the coming years, but in the short term we expect Fortum's investments to be moderate and the company to focus on strengthening its financial position (including access to debt markets).



* SMEs=small- and medium-size enterprises

Reporting is changing

In addition, Fortum commits to stricter sustainability and climate targets: carbon neutral operations by 2030, decarbonization by the end of 2027 and a specific target for carbon dioxide emissions will be set. In addition, Fortum commits to the SBTi target (1.5°C) and sets biodiversity targets.

More information on Fortum's strategy can be found in the company's [stock exchange release](#).

Fortum's reporting structure is changing

At the same time, Fortum will renew its financial segment reporting in line with the new business structure and the company's strategy. From the beginning of 2023, Fortum will report its financial performance in the following segments:

- The Generation segment comprises the Hydro Generation, Nuclear Generation, Corporate Customers and Markets and Renewables and Decarbonization business units. The segment's comparable EBIT in 2022 was around EUR 1.6 billion.
- The Consumer Solutions segment includes the Consumer Solutions businesses. The segment's comparable EBIT in 2022 was around EUR 100 million.
- The Other Operations segment includes the Circular Solutions business unit, the Innovation and Venturing functions, the group functions serving the businesses and group management. The segment's comparable EBIT in 2022 was around EUR -130 million.

- Fortum continues to report its Russian business as a separate segment, as before. However, Fortum stressed that the company is committed to exiting the Russian market, and the process of divesting businesses is ongoing. The Russian business operates independently and has, for example, separate IT systems, according to the company. Management has been differentiated to support the ongoing exit phase while ensuring compliance with applicable laws and regulations, including sanctions.

Fortum announced that it will publish adjusted segment financial data for 2022 on a quarterly basis before the publication of Q1'23 results on May 11, 2023. We will take consider of the new reporting structure once we have the comparable figures. For the time being, the analysis follows the old reporting structure.

Valuation is moderate under Russia pressure

Nordic at heart

The current market value of the Fortum's Nordic hydro and nuclear assets of more than EUR 13 billion is still very low. The whole sector is priced moderately, which is understandable given Europe's focus on the energy crisis and politicians' plans to impose additional taxes and price caps on the sector. In addition, Fortum is still burdened by the Russia segment, but its contribution to earnings has now been eliminated from the adjusted figures (and thus from the adjusted multiples). We estimate that exiting Russia will be extremely difficult as the deal effectively requires the stamp of the Russian president.

In our view, Fortum's risk profile has decreased significantly as the new strategy focuses on the Nordic countries, in line with our expectations. Soon, the debt market should also open up for Fortum, after which the debt can be restructured and the uncertainties surrounding the financial situation will be removed. The liquidity situation is already in place and the high dividend proposal indicates that the company considers its financial situation to be secure (although the company also paid a high dividend before last year's crisis). The dividend is now also an important factor in expected returns.

However, the Q4 report and the new strategy significantly increased our confidence in Fortum's direction. As a result, we believe the risk profile has fallen significantly. The company moved down one notch in our risk rating, which is also reflected in our required return. However, one risk has increased with the strategy, and that is the dependence on electricity price developments.

Valuation picture is quite attractive

After exceptional stages, Fortum achieved adjusted EPS (excluding the Russia segment) of EUR 1.21 in

2022. After minor estimate revisions, we now expect broadly similar EPS for 2023 (estimate EUR 1.19), and we expect this to be a relatively sustainable level also in the future. This depends on the development of the electricity market, but since prices fell sharply in the past, the one-sided negative risk has become more neutral.

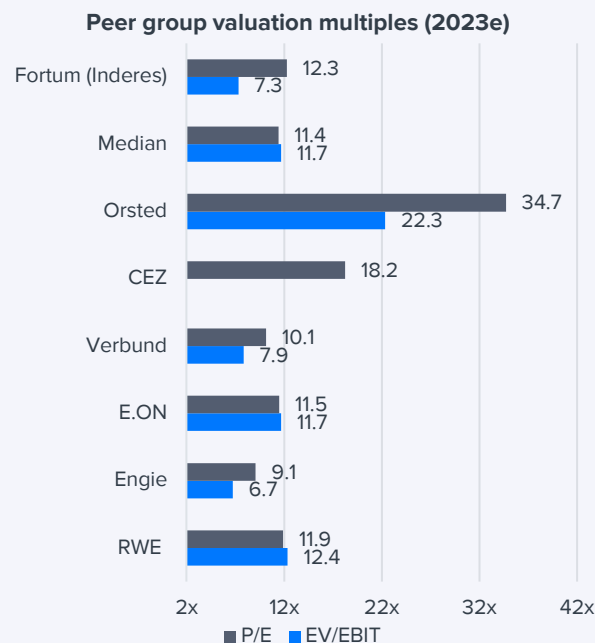
Although Fortum has a large amount of interest-bearing debt given the circumstances (no access to debt markets), net debt is low and thus, with EV multiples, we believe Fortum is very attractively priced. EV/EBITDA multiples for the coming years are 5-6x and EV/EBIT multiples 7-8x. As Fortum returns to being a creditworthy, Nordic energy company, we see clear upside potential in valuation multiples. Fortum's ESG profile would be completely different without Russia.

Cash flows remain challenging to project

Fortum's cash flows may continue to fluctuate significantly with electricity prices and hedging collateral requirements, but we expect the balance sheet to break even in the coming years. After the normalization of the consolidated balance sheet, the cash flow statement again gives a reasonable result, and our DCF calculation indicates the stock value of around EUR 17-18. We have lowered Fortum's return on equity requirement to 8.2% (was 9.6%) as the risk profile normalizes. At the same time, however, we have tried to eliminate from our DCF calculation the cash flow from the Russian business, which is currently not flowing into Fortum's coffers anyway. This means a negative cash flow adjustment of more than EUR 250 million for the coming years, which is a rough estimate of the cash flow generated by the Russian business. In addition, we have reduced the assumed debt leverage.

Valuation	2023e	2024e	2025e
Share price	14.6	14.6	14.6
Number of shares, millions	897.3	897.3	897.3
Market cap	13127	13127	13127
EV	14451	13602	12872
P/E (adj.)	12.3	10.9	11.8
P/E	10.4	9.4	10.1
P/FCF	6.1	8.2	8.9
P/B	1.6	1.5	1.4
P/S	1.5	1.5	1.5
EV/Sales	1.7	1.6	1.5
EV/EBITDA	5.3	5.4	5.4
EV/EBIT (adj.)	7.3	7.7	8.1
Payout ratio (%)	67.8 %	64.7 %	69.1 %
Dividend yield-%	6.5 %	6.9 %	6.9 %

Source: Inderes

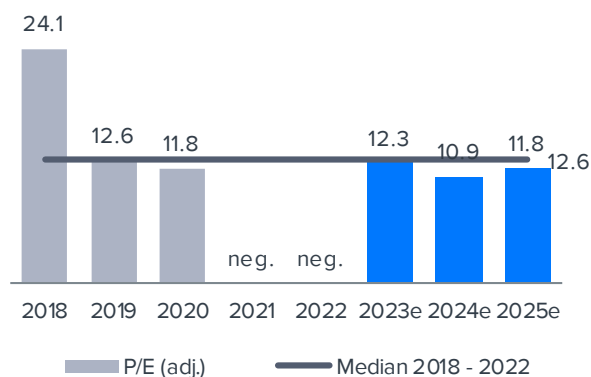


Valuation table

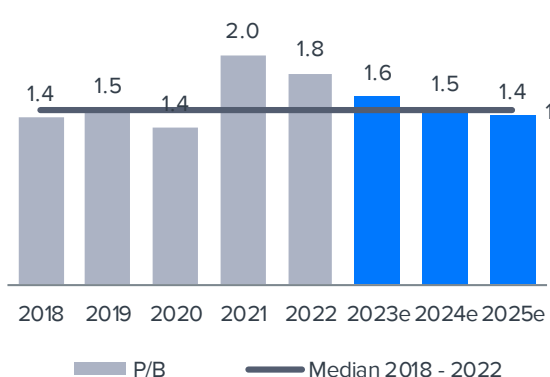
Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	19.1	22.0	19.7	27.0	15.5	14.6	14.6	14.6	14.6
Number of shares, millions	888.4	888.3	888.4	888.3	897.3	897.3	897.3	897.3	897.3
Market cap	16968	19542	17501	23975	13943	13127	13127	13127	13127
EV	16805	18665	25567	32676	16661	14451	13602	12872	12245
P/E (adj.)	24.1	12.6	11.8	neg.	neg.	12.3	10.9	11.8	11.6
P/E	20.1	13.2	9.6	32.4	neg.	10.4	9.4	10.1	9.9
P/FCF	10.0	46.5	neg.	25.8	1.6	6.1	8.2	8.9	9.6
P/B	1.4	1.5	1.4	2.0	1.8	1.6	1.5	1.4	1.4
P/S	3.2	3.6	0.4	3.7	1.6	1.5	1.5	1.5	1.5
EV/Sales	3.2	3.4	0.5	5.1	1.9	1.7	1.6	1.5	1.4
EV/EBITDA	10.0	11.0	9.5	6.7	9.0	5.3	5.4	5.4	5.2
EV/EBIT (adj.)	17.0	15.7	19.0	22.9	8.9	7.3	7.7	8.1	7.7
Payout ratio (%)	115.9 %	66.0 %	54.6 %	137.0 %	neg.	67.8 %	64.7 %	69.1 %	85.0 %
Dividend yield-%	5.8 %	5.0 %	5.7 %	4.2 %	5.9 %	6.5 %	6.9 %	6.9 %	8.5 %

Source: Inderes

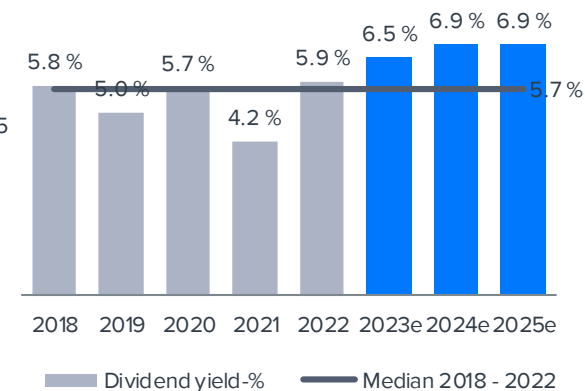
P/E (adj.)



P/B



Dividend yield-%



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e
RWE	26460	45608	12.4	13.2	7.7	8.1	11.9	13.8	2.4	2.4	1.4
Engie	33125	48925	6.7	6.3	4.0	3.8	9.1	8.3	7.8	8.3	0.9
E.ON	26558	53665	11.7	11.9	7.2	7.1	11.5	11.6	5.3	5.5	1.8
Verbund	26994	31257	7.9	8.4	7.0	7.6	10.1	11.2	5.1	4.6	3.2
EDF	45953	87402	12.7	10.3	4.8	4.2	11.4	8.3	4.0	4.1	1.0
CEZ	24183						18.2	13.7	7.0	5.2	3.2
Enel	52867	85442	6.8	6.5	4.2	4.1	8.9	8.4	8.1	8.2	1.4
Uniper	22756	23469		46.2	25.7	13.9		21.3		0.3	1.8
Orsted	34251	38353	22.3	17.9	12.2	10.5	34.7	26.4	2.4	2.5	2.8
Fortum (Inderes)	13127	14451	7.3	7.7	5.3	5.4	12.3	10.9	6.5	6.9	1.6
Average			11.5	15.1	9.1	7.4	14.5	13.7	5.2	4.6	1.9
Median			11.7	11.1	7.1	7.3	11.4	11.6	5.2	4.6	1.8
Diff-% to median			-37%	-30%	-26%	-27%	7%	-6%	26%	51%	-8%

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

Income statement

Income statement	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23e	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Revenue	6422	2162	1754	2152	2736	8804	2435	1893	1946	2405	8679	8700	8641	8733
<i>Generation</i>	2869	701	715	894	1345	3655	1103	1023	916	1303	4345	4220	3929	3920
<i>City Solutions</i>	1302	390	229	254	409	1282	386	244	282	456	1368	1369	1386	1416
<i>Consumer Solutions</i>	2622	1168	856	1094	1460	4578	1072	708	899	1197	3876	3959	4044	4131
<i>Russia</i>	906	223	218	261	328	1030	230	212	220	264	926	926	926	926
<i>Uniper</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Other</i>	138	35	34	34	33	136	35	34	34	33	135	139	137	139
<i>Eliminations</i>	-1415	-355	-298	-385	-839	-1877	-391	-328	-404	-847	-1970	-1913	-1781	-1799
EBITDA	4913	386	901	1058	-502.0	1843	766	619	496	859	2739	2534	2364	2356
Depreciation	-587	-140	-134	-141	-151	-566	-145	-142	-142	-147	-576	-584	-581	-579
EBIT (excl. NRI)	1429	388	318	420	745	1871	572	439	312	647	1970	1759	1594	1590
EBIT	4326	246	767	917	-653	1277	621	477	354	712	2163	1950	1783	1777
<i>Generation</i>	1123	275	300	375	650	1600	550	488	323	595	1955	1764	1586	1577
<i>City Solutions</i>	135	48	-36	-16	32	28	34	-32	-7	56	51	35	26	29
<i>Consumer Solutions</i>	52	35	21	17	24	97	19	13	26	26	84	80	102	104
<i>Russia</i>	261	61	57	67	75	260	49	38	41	65	193	191	189	187
<i>Uniper</i>	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<i>Other</i>	-142	-31	-24	-23	-36	-114	-30	-30	-30	-30	-120	-120	-120	-120
<i>Items affecting comparability</i>	2897	-142	449	497	-1398	-594	0	0	0	0	0	0	0	0
<i>Share of assoc. companies' profit or loss</i>	168	-215	-79	-39	-296	-629	8	3	0	9	20	20	20	20
Net financial items	-161	59	499	-141	-610	-193	-75	-60	-70	-70	-275	-187	-133	-106
PTP	4333	90	1187	737	-1559	455	554	420	284	651	1908	1783	1671	1692
Taxes	-325	-104	-150	-137	948	557	-181	-138	-94	-213	-625	-370	-347	-351
Minority interest	-23	-7	2	1	4	0	-7	2	0	-15	-20	-20	-21	-21
Net earnings	739	-2222	-5686	6099	-607	-2416	366	284	190	423	1263	1393	1303	1319
EPS (adj.)	-2.43	-2.32	-6.84	6.24	0.88	-2.03	0.35	0.27	0.17	0.40	1.19	1.34	1.24	1.26
EPS (rep.)	0.83	-2.48	-6.34	6.80	-0.68	-2.69	0.41	0.32	0.21	0.47	1.41	1.55	1.45	1.47

Source: Inderes

Balance sheet

Assets	2021	2022	2023e	2024e	2025e
Non-current assets	49399	12668	12829	12697	12812
Goodwill	1021	0.0	0.0	0.0	0.0
Intangible assets	1146	657	694	696	691
Tangible assets	19049	7266	7390	7506	7625
Associated companies	2461	1249	1249	1249	1249
Other investments	6477	628	628	628	628
Other non-current assets	17096	1935	1935	1685	1685
Deferred tax assets	2149	933	933	933	933
Current assets	100262	10974	8473	7136	7410
Inventories	2275	465	477	478	475
Other current assets	65500	1486	1486	1236	1236
Receivables	24895	5104	3472	3045	2592
Cash and equivalents	7592	3919	3038	2376	3106
Balance sheet total	149661	23642	21302	19833	20221

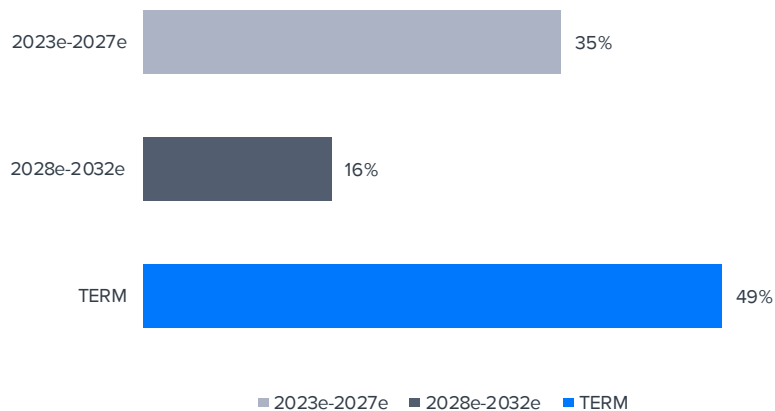
Source: Inderes

Liabilities & equity	2021	2022	2023e	2024e	2025e
Equity	13665	7737	8184	8720	9122
Share capital	3046	3046	3046	3046	3046
Retained earnings	10062	6467	6914	7450	7852
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	-977.0	-1843.0	-1843.0	-1843.0	-1843.0
Minorities	1534	67.0	67.0	67.0	67.0
Non-current liabilities	38070	5797	6196	5139	5139
Deferred tax liabilities	827	152	152	152	152
Provisions	10298	1097	1097	1097	1097
Long term debt	8701	3658	4057	3000	3000
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	18244	890	890	890	890
Current liabilities	97926	10108	6922	5974	5961
Short term debt	8519	4127	1453	1000	1000
Payables	17462	2008	1996	2001	1988
Other current liabilities	71945	3973	3473	2973	2973
Balance sheet total	149661	23642	21302	19833	20221

DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	37.1 %	-1.4 %	0.2 %	-0.7 %	1.1 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %
EBIT-%	14.5 %	24.9 %	22.4 %	20.6 %	20.3 %	20.0 %	19.5 %	19.0 %	18.5 %	18.0 %	18.0 %	18.0 %
EBIT (operating profit)	1277	2163	1950	1783	1777	1764	1737	1710	1681	1652	1669	
+ Depreciation	566	576	584	581	579	581	590	598	606	613	619	
- Paid taxes	1098	-625	-370	-347	-351	-349	-343	-338	-332	-326	-329	
- Tax, financial expenses	-41	-65	-45	-34	-29	-29	-29	-29	-29	-29	-29	
+ Tax, financial income	0	7	6	6	7	8	8	8	8	8	8	
- Change in working capital	2189	1108	180	442	338	-7	-7	-8	-8	-8	-8	
Operating cash flow	5089	3164	2305	2432	2321	1967	1955	1941	1926	1910	1930	
+ Change in other long-term liabilities	-26555	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	33737	-737	-452	-695	-707	-707	-707	-707	-707	-707	-663	
Free operating cash flow	12271	2427	1853	1736	1613	1260	1248	1234	1219	1203	1267	
+/- Other	-3428	-263	-258	-254	-249	-249	-249	-249	-249	-249	-249	
FCFF	8843	2164	1595	1483	1364	1011	999	985	970	954	1018	17306
Discounted FCFF		2047	1410	1226	1055	731	675	623	574	527	526	8947
Sum of FCFF present value	18342	16295	14885	13659	12604	11872	11197	10574	10001	9473	8947	
Enterprise value DCF		18342										
- Interesting bearing debt		-7785										
+ Cash and cash equivalents		3919										
+ Associated companies		1249										
- Minorities		-101										
- Dividend/capital return		0										
Equity value DCF		15624										
Equity value DCF per share		17.4										
Wacc												
Tax-% (WACC)		21.0 %										
Target debt ratio (D/(D+E))		25.0 %										
Cost of debt		4.0 %										
Equity Beta		1.20										
Market risk premium		4.75%										
Liquidity premium		0.00%										
Risk free interest rate		2.5 %										
Cost of equity		8.2 %										
Weighted average cost of capital (WACC)		6.9 %										

Cash flow distribution



Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	49015	6422	8804	8679	8700	EPS (reported)	2.05	0.83	-2.69	1.41	1.55
EBITDA	2689	4913	1843	2739	2534	EPS (adj.)	1.67	-2.43	-2.03	1.19	1.34
EBIT	1599	4326	1277	2163	1950	OCF / share	1.75	1.23	5.67	3.53	2.57
PTP	2199	4333	455	1908	1783	FCF / share	-8.69	1.05	9.86	2.41	1.78
Net Income	1823	739	-2416	1263	1393	Book value / share	14.58	13.66	8.55	9.05	9.64
Extraordinary items	255	2897	-594	193	191	Dividend / share	1.12	1.14	0.91	0.95	1.00
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	57810	149661	23642	21302	19833	Revenue growth-%	800%	-87%	37%	-1%	0%
Equity capital	15577	13665	7737	8184	8720	EBITDA growth-%	59%	83%	-62%	49%	-7%
Goodwill	1069	1021	0	0	0	EBIT (adj.) growth-%	13%	6%	31%	5%	-11%
Net debt	8354	9628	3866	2473	1624	EPS (adj.) growth-%	-4%	-245%	-16%	-159%	12%
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	5.5 %	76.5 %	20.9 %	31.6 %	29.1 %
EBITDA	2689	4913	1843	2739	2534	EBIT (adj.)-%	2.7 %	22.3 %	21.3 %	22.7 %	20.2 %
Change in working capital	-785	-1365	2189	1108	180	EBIT-%	3.3 %	67.4 %	14.5 %	24.9 %	22.4 %
Operating cash flow	1556	1092	5089	3164	2305	ROE-%	14.1 %	5.9 %	-24.4 %	16.0 %	16.6 %
CAPEX	-20567	-12840	33737	-737	-452	ROI-%	10.3 %	15.8 %	2.8 %	15.2 %	15.1 %
Free cash flow	-7721	929	8843	2164	1595	Equity ratio	26.9 %	9.1 %	32.7 %	38.4 %	44.0 %
Valuation multiples	2020	2021	2022	2023e	2024e	Gearing	53.6 %	70.5 %	50.0 %	30.2 %	18.6 %
EV/S	0.5	5.1	1.9	1.7	1.6						
EV/EBITDA (adj.)	9.5	6.7	9.0	5.3	5.4						
EV/EBIT (adj.)	19.0	22.9	8.9	7.3	7.7						
P/E (adj.)	11.8	neg.	neg.	12.3	10.9						
P/E	1.4	2.0	1.8	1.6	1.5						
Dividend-%	5.7 %	4.2 %	5.9 %	6.5 %	6.9 %						

Source: Inderes

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Recommendation history (>12 mo)

Date	Recommendation	Target price	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 €



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