

Kone

Company report

10/28/2024



Erkki Vesola
+358 50 549 5512
erkki.vesola@inderes.fi

This report is a summary translation of the report “Kiina on kiviriippa, mutta keventyvää sellainen” published on 10/27/2024 at 9:50 pm EET

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res.

The ball and chain from China is getting lighter

KONE's Q3 numbers were below forecasts except for order intake, with China as the main contributor. KONE tweaked its 2024 guidance downward due to China and referred to the recent Capital Markets Day for the 2025 outlook. Our forecast changes are minimal. KONE's share has slipped -5% since we downgraded our recommendation, and the valuation is attractive again. We raise our recommendation back to Accumulate (was Reduce). We set our target price to EUR 55.00 (was EUR 52.00), which would partially eliminate the currently unjustified discount relative to the nearest peers.

China nothing but a burden in Q3

KONE's Q3 order intake (+4 % y/y) exceeded both our ($\pm 0\%$ y/y) and the consensus estimate (+1% y/y). Orders in New Building Solutions (NBS) were slightly down, but growth in Service was over 10% y/y and particularly fast in Modernization (+20% y/y). In China, we estimate that orders fell by more than 20% year-on-year. Q3 revenue ($\pm 0\%$ y/y) was disappointing, with NBS revenue down 11% year-on-year. In contrast, both Service and Modernization revenue grew by 9...10% year-on-year. Regionally, revenue in China was down by 20% year-on-year, but the rest of the regions grew at a pace of 7...12% year-on-year. The Q3 EBIT margin (11.6%) was a slight disappointment. Margins were supported by the sales mix, but profitability was negatively impacted by the margin decline in China, broad-based cost inflation and increased bad debt provisions (20 MEUR). However, excluding this provision, the Q3 EBIT margin would have been 12.3%, in line with our forecast.

Minor estimate changes

KONE maintained its view on its target markets for 2024. Nevertheless, the Chinese market is becoming increasingly challenging, which led to a slight reduction in the full-year 2024 revenue guidance (growth of 0...3% y/y vs. 0...4% previously) and adjusted EBIT margin guidance (11.5...11.9% vs. 11.5...12.2% previously). For 2025, KONE referred to the indications given at the recent CMD and the new financial targets for 2025-2027. The company's target for this period is revenue growth of around +5% year-on-year and a comparable EBIT margin of 13...14% in 2027. KONE expects both the Service and Modernization markets to grow in 2025 and has previously estimated that the Chinese market for New Building Solutions will continue to shrink in 2025. KONE also expects to see the first results of the efficiency program presented at the CMD in 2025, with components such as better pricing, more efficient use of best practices throughout the supply chain and savings in procurement. Together, these are expected to improve the group EBIT margin by 1.5 percentage points, with the upward trend expected to accelerate towards the end of the period. Our forecasts for 2024 have been lowered by the Q3 figures and the new guidance. However, the changes to our projections for 2025-2026 are small.

Valuation starting to get attractive again

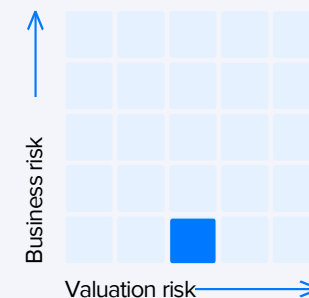
The expected total return of KONE's share in 2025 at P/E, EV/EBITDA and EV/EBIT ratios is consistently +8...+9% p.a., slightly above our 7% p.a. required return. Based on this, the risk-adjusted expected return for the share is attractive again. The 2025 EV/EBIT and EV/EBITDA are both -5% below the peer median and well below those of the main competitors Otis and Schindler (-15...-19%). Overall, peer valuation of the share is favorable. Our DCF model indicates a +11% upside for the share.

Recommendation

Accumulate
(was Reduce)

EUR 55.00
(was EUR 52.00)

Share price:
EUR 51.22



Key figures

	2023	2024e	2025e	2026e
Revenue	10952	11086	11636	12355
growth-%	0%	1%	5%	6%
EBIT adj.	1248.4	1286.9	1505.1	1645.4
EBIT-% adj.	11.4 %	11.6 %	12.9 %	13.3 %
Net Income	925.8	994.7	1163.2	1274.5
EPS (adj.)	1.88	1.92	2.25	2.46
P/E (adj.)	24.0	26.6	22.8	20.8
P/B	8.5	9.4	8.7	7.9
Dividend yield-%	3.9 %	3.5 %	3.7 %	4.1 %
EV/EBIT (adj.)	18.1	20.2	17.1	15.5
EV/EBITDA	15.4	16.5	14.3	13.1
EV/S	2.1	2.3	2.2	2.1

Source: Inderes

Guidance

(Downgraded)

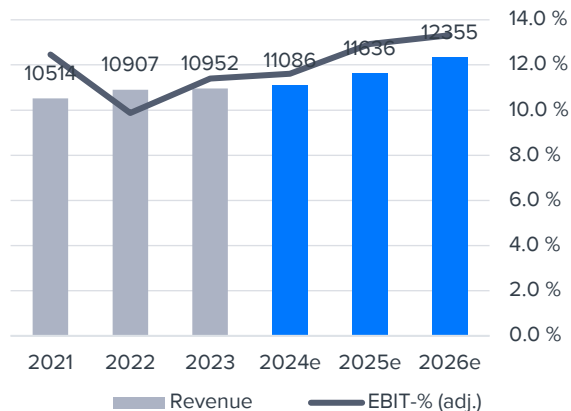
KONE estimates that in 2024, its revenue growth will be in the range of 0 to 3% at comparable exchange rates. The adjusted EBIT margin is expected to be in the range of 11.5-11.9%.

Share price



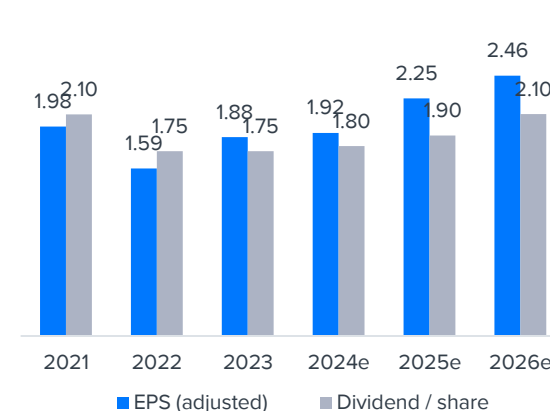
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Global growth in Modernization
- Demand recovery in the new equipment market
- The renewed operating model to support margins
- Rise of new digital services



Risk factors

- Delay in the recovery of the Chinese construction market and continued tight price competition
- The Western market remains sluggish
- Standing out with digital services proves difficult

Valuation	2024e	2025e	2026e
Share price	51.2	51.2	51.2
Number of shares, millions	517.2	517.2	517.2
Market cap	26493	26493	26493
EV	25935	25730	25459
P/E (adj.)	26.6	22.8	20.8
P/E	26.6	22.8	20.8
P/B	9.4	8.7	7.9
P/S	2.4	2.3	2.1
EV/Sales	2.3	2.2	2.1
EV/EBITDA	16.5	14.3	13.1
EV/EBIT (adj.)	20.2	17.1	15.5
Payout ratio (%)	93.5 %	84.4 %	85.2 %
Dividend yield-%	3.5 %	3.7 %	4.1 %

Source: Inderes

China nothing but a burden in Q3

China a drag on Q3 figures

KONE's Q3 numbers were below forecasts except for order intake, with China as the main contributor.

Strong growth in Modernization orders

KONE's Q3 order intake (2077 MEUR; +4 % y/y) exceeded both our ($\pm 0\%$ y/y) and the consensus estimate (+1 % y/y). Orders in New Building Solutions (NBS) were slightly down, but both Service and Modernization orders grew strongly: growth in Service was over 10% y/y and particularly fast in Modernization (+20% y/y). Order growth was double-digit at comparable exchange rates in all other regions except China, where we estimate that orders fell by more than 20% year-on-year. The margin of orders received declined slightly year-on-year, driven by China, while the margin of orders improved in the rest of the world.

Sales mix improved from a year ago

Q3 revenue ($\pm 0\%$ y/y) was disappointing, with NBS revenue down 11% year-on-year. In contrast, both Service and Modernization revenue grew by 9...10% year-on-year. Regionally, revenue in China was down by 20% year-on-year, but the rest of the regions grew at a pace of 7...12% year-on-year. The sales mix in Q3 was clearly better than a year ago, with the combined share of Service and Modernization increasing to 59% (Q3'23: 54%). The decrease in NBS revenue and the increase in Service and Modernization revenue played roughly equal roles in this change.

Both upside and downside drivers for margins

The Q3 EBIT margin (11.6%) was a slight disappointment. Margins improved thanks to an increase in the relative share of Service and Modernization, and improved margins on deliveries

in NBS and Modernization outside China also supported profitability. Profitability was negatively impacted by the margin decline in China, broad-based cost inflation and increased bad debt provisions (20 MEUR). However, excluding this provision, the Q3 EBIT margin would have been 12.3%, in line with our forecast.

Estimates MEUR / EUR	Q3'23	Q3'24	Q3'24e	Q3'24e	Consensus		Difference (%)	2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	2750	2754	2859	2806	2528	- 2871	-4%	11176
EBIT (adj.)	316	320	353	340	308	- 359	-9%	1347
EBIT	316	320	353	340	308	- 359	-9%	1347
PTP	320	322	355	341	307	- 362	-9%	1357
EPS (adj.)	0.47	0.48	0.53	0.51	0.46	- 0.54	-10%	2.02
EPS (reported)	0.48	0.48	0.53	0.50	0.45	- 0.54	-9%	2.02
Revenue growth-%	-8.3 %	0.1 %	4.0 %	2.0 %	-8.1 %	- 4.4 %	-3.8 pp	1.2 %
EBIT-% (adj.)	11.5 %	11.6 %	12.3 %	12.1 %	12.2 %	- 12.5 %	-0.7 pp	12.1 %

Source: Inderes & Vara Research (consensus)

Minor estimate changes

2024 guidance trimmed down

KONE tweaked its 2024 guidance downward due to China and referred to the recent Capital Markets Day for the 2025 outlook. The changes to our estimates are minor.

Guidance changes at the decimal level

KONE maintained its 2024 target market outlook and continues to expect the full-year NBS market, pulled by China, to decline by 0...5% year-on-year, the Service market to grow by 5...10% year-on-year and the Modernization market to rise by more than 10% year-on-year. The Chinese market was said to become increasingly challenging, which led to a subtle reduction in the full-year 2024 revenue guidance (growth of 0...3% y/y vs. 0...4% previously) and adjusted EBIT margin guidance (11.5...11.9% vs. 11.5...12.2% previously). During the conference call,

KONE emphasized that the company's priorities in China are profitability and cash flow, not volume.

Efficiency program to boost margins already by 2025

For the 2025 outlook, KONE referred to the indications given at the recent Capital Markets Day and the new financial targets for 2025-2027. The company's target for this period is revenue growth of around +5% year-on-year and a comparable EBIT margin of 13...14% in 2027. KONE stated that it believes that both the Service and Modernization markets will grow in 2025. KONE has previously estimated that the Chinese market for New Building Solutions will continue to shrink in 2025 but said that its own order book for NBS outside China is solid. In 2025, KONE also expects to see the first results of the efficiency program discussed at the Capital Markets Day. The components of the program are

1) better pricing, 2) better use of best practices throughout the supply chain, and 3) savings in procurement. Together, these are expected to improve the group EBIT margin by 1.5 percentage points, with the upward trend expected to accelerate towards the end of the period as China's negative impact on margins fades.

Forecasts for 2025-2026 held steady

Our forecasts for 2024 have been lowered by the Q3 figures and the new guidance. However, our forecast changes for 2025-2026 are small and the expected revenue growth for 2025 is now 5% (was 4%) year-on-year as our Modernization forecasts increase. Our EBIT margin expectations for 2025-2026 are almost unchanged (12.9% and 13.3%), i.e. we are quite considerably more optimistic than the pre-report consensus (12.5% and 13.0%).

Estimate revisions MEUR / EUR	2024e			2025e			2026e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
Revenue	11176	11086	-1%	11669	11636	0%	12342	12355	0%
EBITDA	1631	1576	-3%	1781	1796	1%	1922	1949	1%
EBIT (exc. NRIs)	1347	1287	-4%	1490	1505	1%	1624	1645	1%
EBIT	1347	1287	-4%	1490	1505	1%	1624	1645	1%
PTP	1357	1298	-4%	1504	1519	1%	1645	1664	1%
EPS (excl. NRIs)	2.02	1.92	-5%	2.23	2.25	1%	2.44	2.46	1%
DPS	1.85	1.80	-3%	1.90	1.90	0%	2.10	2.10	0%

Source: Inderes

Valuation starting to get attractive again

Valuation is again attractive; recommendation to Accumulate

KONE's stock may suffer from a lack of drivers in the very near future before the drag from China is sufficiently reduced, either by the recovery of the country's construction market or, more likely, by the decline in China's share of revenue. At the same time, however, most of KONE's businesses are in good shape to grow profitably, and we expect especially the Modernization business to drive good growth and margins in the coming years.

KONE's share has slipped -5% since we downgraded our recommendation (Sept. 30), and the valuation is back on the right side of the range of attractiveness. Of course, the valuation picture is somewhat inconsistent, and the justified upside is not shockingly high. Despite this, we raise our recommendation back to Accumulate (was Reduce). We set our target price to EUR 55.00 (was EUR 52.00), which would partially eliminate the unjustified discount to major peers.

Total expected return slightly above required return

The total expected return on KONE's share (upside potential in the share price based on earnings growth and expected change in valuation multiple plus dividend yield) with 2025 P/E, EV/EBITDA and EV/EBIT ratios is consistently +8...+9% p.a., slightly above our required return of 7% p.a. Based on this, the risk-adjusted expected return for the share is attractive again.

Multiple-based valuation is favorable

As KONE has a fair amount of net assets, the EV/EBIT and the EV/EBITDA ratios are better suited than the P/E to assess peer group pricing. The 2025 EV/EBIT

and EV/EBITDA are both -5% below the peer group median. The ratios are also well below those of the main competitors Otis and Schindler (-15...-19%). In the current situation, the discount to Otis and Schindler is still partly justified by KONE's higher exposure to China (23% vs. approx. 14...15%), but this factor is becoming less and less important. Overall, peer valuation of KONE's share is favorable.

DCF value potential not overwhelming

Our DCF model indicates an EUR 57 value for KONE's share to which the upside is +11%. Although the potential is quite modest, it is higher than KONE has seen in a long time.

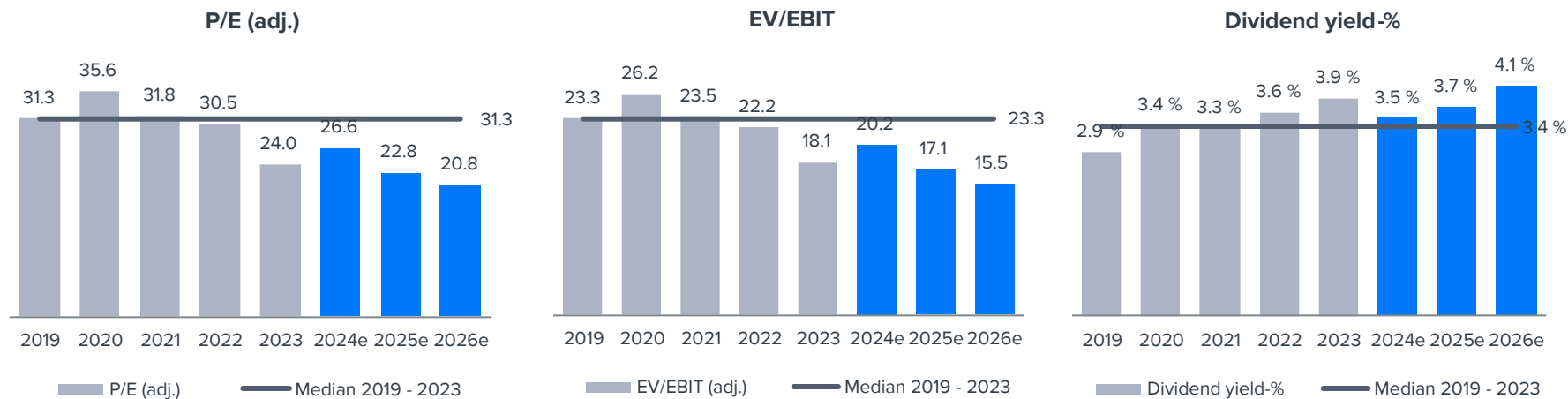
Valuation	2024e	2025e	2026e
Share price	51.2	51.2	51.2
Number of shares, millions	517.2	517.2	517.2
Market cap	26493	26493	26493
EV	25935	25730	25459
P/E (adj.)	26.6	22.8	20.8
P/E	26.6	22.8	20.8
P/B	9.4	8.7	7.9
P/S	2.4	2.3	2.1
EV/Sales	2.3	2.2	2.1
EV/EBITDA	16.5	14.3	13.1
EV/EBIT (adj.)	20.2	17.1	15.5
Payout ratio (%)	93.5 %	84.4 %	85.2 %
Dividend yield-%	3.5 %	3.7 %	4.1 %

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	58.3	66.5	63.0	48.3	45.2	51.2	51.2	51.2	51.2
Number of shares, millions	518.4	518.4	518.0	517.1	517.2	517.2	517.2	517.2	517.2
Market cap	30212	34452	32652	24975	23358	26493	26493	26493	26493
EV	28828	32722	30724	23908	22611	25935	25730	25459	25216
P/E (adj.)	31.3	35.6	31.8	30.5	24.0	26.6	22.8	20.8	19.5
P/E	32.4	36.7	32.2	32.2	25.2	26.6	22.8	20.8	19.5
P/B	9.5	10.9	10.3	8.8	8.5	9.4	8.7	7.9	7.3
P/S	3.0	3.5	3.1	2.3	2.1	2.4	2.3	2.1	2.0
EV/Sales	2.9	3.3	2.9	2.2	2.1	2.3	2.2	2.1	1.9
EV/EBITDA	20.1	22.5	20.0	18.5	15.4	16.5	14.3	13.1	12.2
EV/EBIT (adj.)	23.3	26.2	23.5	22.2	18.1	20.2	17.1	15.5	14.4
Payout ratio (%)	94.5 %	124.1 %	107.1 %	116.7 %	97.7 %	93.5 %	84.4 %	85.2 %	90.0 %
Dividend yield-%	2.9 %	3.4 %	3.3 %	3.6 %	3.9 %	3.5 %	3.7 %	4.1 %	4.6 %

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	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Schindler Holding AG	28628	33245	24.0	22.0	19.5	18.1	2.7	2.7	27.4	25.2	2.2	2.4	5.5
Assa Abloy AB	32515	38317	18.1	17.0	15.0	14.2	2.9	2.8	23.8	21.8	1.7	1.9	3.7
Koninklijke Philips NV	27709	34134	17.2	16.1	11.1	10.3	1.8	1.8	19.6	17.6	3.0	3.0	2.3
Otis Worldwide Corp	37446	43391	19.6	18.3	18.5	17.2	3.3	3.2	26.2	23.9	1.5	1.6	
Ingersoll Rand Inc	35805	39271	24.4	21.8	21.0	19.0	5.8	5.4	29.0	26.5	0.1	0.1	3.5
Johnson Controls International PLC	47327	56122	18.1	18.5	14.4	14.9	2.3	2.4	20.9	20.6	1.9	2.0	3.0
Dover Corp	23683	26307	19.6	17.7	16.7	15.4	3.6	3.4	21.0	19.8	1.1	1.1	4.8
Honeywell International Inc	124867	143778	17.5	15.9	15.5	14.1	4.0	3.7	20.5	18.7	2.1	2.2	8.0
Kone (Inderes)	26493	25935	20.2	17.1	16.5	14.3	2.3	2.2	26.6	22.8	3.5	3.7	9.4
Average			19.8	18.4	16.4	15.4	3.3	3.2	23.5	21.8	1.7	1.8	4.4
Median			18.8	18.0	16.1	15.1	3.1	3.0	22.4	21.2	1.8	2.0	3.7
Diff.% to median			7%	-5%	2%	-5%	-25%	-26%	19%	7%	91%	89%	158%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue	10907	10952	2568	2801	2754	2963	11086	11636	12355	13049
New Building Solutions	5399	4922	1029	1174	1124	1236	4563	4561	4741	4934
Service	3890	4127	1083	1114	1117	1102	4416	4715	4998	5256
Modernization	1617	1904	457	513	512	625	2106	2361	2616	2858
EBITDA	1291	1470	334	405	393	444	1576	1796	1949	2065
Depreciation	-259.3	-269.4	-71.5	-70.6	-73.4	-73.4	-288.9	-290.8	-303.2	-315.1
EBIT (excl. NRI)	1077	1248	262	335	320	370	1287	1505	1645	1750
EBIT	1031	1200	262	335	320	370	1287	1505	1645	1750
Net financial items	-2.7	6.1	3.3	2.2	2.6	2.6	10.7	13.8	18.7	25.7
PTP	1029	1206	266	337	322	373	1298	1519	1664	1776
Taxes	-244.0	-274.6	-59.8	-75.8	-72.4	-83.9	-291.9	-341.7	-374.4	-399.5
Minority interest	-10.0	-5.8	-2.9	-2.4	-2.8	-2.9	-11.0	-13.9	-15.2	-16.2
Net earnings	775	926	203	259	247	286	995	1163	1275	1360
EPS (adj.)	1.59	1.88	0.39	0.50	0.48	0.55	1.92	2.25	2.46	2.63
EPS (rep.)	1.50	1.79	0.39	0.50	0.48	0.55	1.92	2.25	2.46	2.63
Key figures	2022	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	3.7 %	0.4 %	0.5 %	-1.2 %	0.1 %	5.4 %	1.2 %	5.0 %	6.2 %	5.6 %
Adjusted EBIT growth-%	-17.8 %	16.0 %	8.5 %	0.8 %	1.1 %	3.3 %	3.1 %	17.0 %	9.3 %	6.4 %
EBITDA-%	11.8 %	13.4 %	13.0 %	14.5 %	14.3 %	15.0 %	14.2 %	15.4 %	15.8 %	15.8 %
Adjusted EBIT-%	9.9 %	11.4 %	10.2 %	11.9 %	11.6 %	12.5 %	11.6 %	12.9 %	13.3 %	13.4 %
Net earnings-%	7.1 %	8.5 %	7.9 %	9.2 %	9.0 %	9.7 %	9.0 %	10.0 %	10.3 %	10.4 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	2899	3085	3189	3214	3250
Goodwill	1415	1469	1500	1500	1500
Intangible assets	208	287	304	293	282
Tangible assets	717	780	786	821	868
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	124	101	138	138	138
Other non-current assets	10.0	9.2	12.3	12.3	12.3
Deferred tax assets	425	439	449	449	449
Current assets	6191	5645	5714	5998	6368
Inventories	844	821	831	872	926
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	3377	3127	3165	3322	3527
Cash and equivalents	1970	1698	1718	1804	1915
Balance sheet total	9090	8731	8903	9212	9619

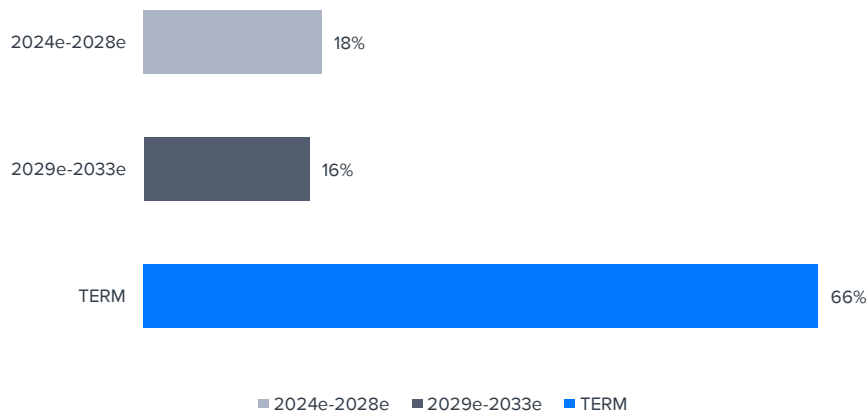
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	2867	2786	2851	3091	3391
Share capital	66.2	66.2	66.2	66.2	66.2
Retained earnings	2184	2387	2477	2711	3003
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	586	299	267	267	267
Minorities	29.9	33.9	40.5	47.4	55.0
Non-current liabilities	949	993	1045	919	765
Deferred tax liabilities	214	224	208	208	208
Provisions	177	197	168	168	168
Interest bearing debt	558	572	669	543	389
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	5275	4952	5008	5202	5462
Interest bearing debt	104	113	132	107	76.6
Payables	5171	4840	4876	5095	5385
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	9090	8731	8903	9212	9619

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	0.4 %	1.2 %	5.0 %	6.2 %	5.6 %	5.2 %	4.7 %	4.3 %	3.8 %	3.4 %	2.5 %	2.5 %
EBIT-%	11.0 %	11.6 %	12.9 %	13.3 %	13.4 %	13.9 %	14.2 %	13.6 %	13.1 %	12.8 %	12.5 %	12.5 %
EBIT (operating profit)	1200	1287	1505	1645	1750	1909	2043	2038	2039	2060	2062	
+ Depreciation	269	289	291	303	315	327	339	351	363	374	384	
- Paid taxes	-278.2	-317.9	-341.7	-374.4	-399.5	-436.3	-466.7	-465.6	-464.8	-468.5	-467.7	
- Tax, financial expenses	-8.9	-6.0	-5.6	-5.0	-4.0	-3.5	-3.5	-4.3	-5.6	-7.1	-8.7	
+ Tax, financial income	10.3	8.5	8.7	9.2	9.7	10.3	10.8	11.3	11.7	12.1	12.5	
- Change in working capital	-58.4	-11.3	20.5	30.9	26.2	22.1	17.6	12.8	7.7	2.4	25.5	
Operating cash flow	1134	1249	1478	1609	1698	1829	1940	1944	1951	1973	2008	
+ Change in other long-term liabilities	19.5	-28.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-442.0	-383.1	-315.2	-339.7	-353.5	-367.0	-379.6	-391.0	-401.2	-410.1	-419.0	
Free operating cash flow	712	837	1163	1270	1344	1462	1560	1553	1550	1563	1589	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	712	837	1163	1270	1344	1462	1560	1553	1550	1563	1589	36315
Discounted FCFF		828	1074	1096	1085	1103	1100	1023	954	900	855	19540
Sum of FCFF present value		29555	28728	27654	26558	25474	24371	23272	22248	21294	20394	19540
Enterprise value DCF		29555										
- Interest bearing debt		-684.2										
+ Cash and cash equivalents		1698										
-Minorities		-381.8										
-Dividend/capital return		-904.1										
Equity value DCF		29304										
Equity value DCF per share		56.7										

Cash flow distribution



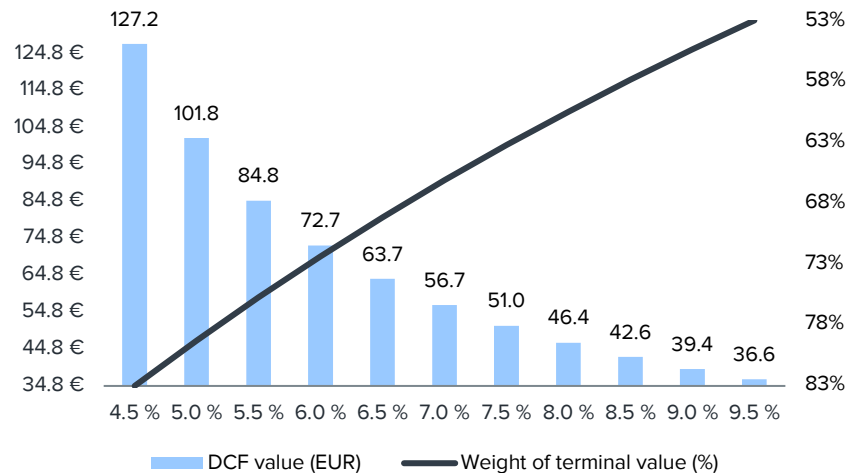
WACC

Tax-% (WACC)	22.5 %
Target debt ratio (D/(D+E))	5.0 %
Cost of debt	2.5 %
Equity Beta	1.00
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	7.3 %
Weighted average cost of capital (WACC)	7.0 %

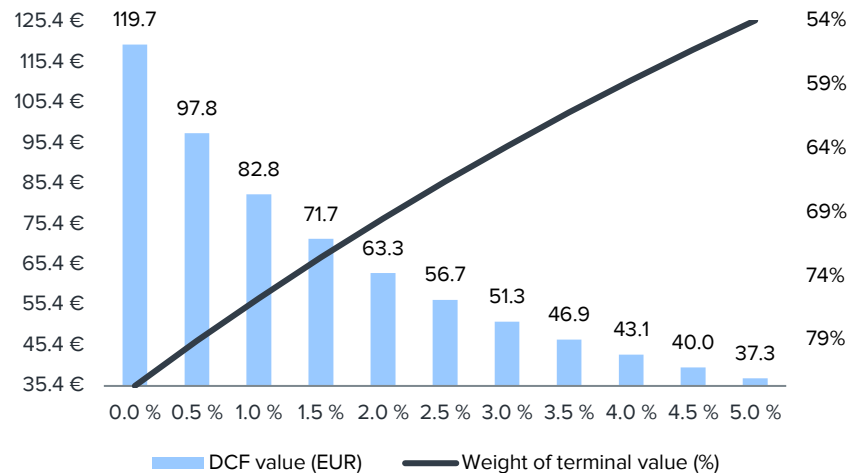
Source: Inderes

DCF sensitivity calculations and key assumptions in graphs

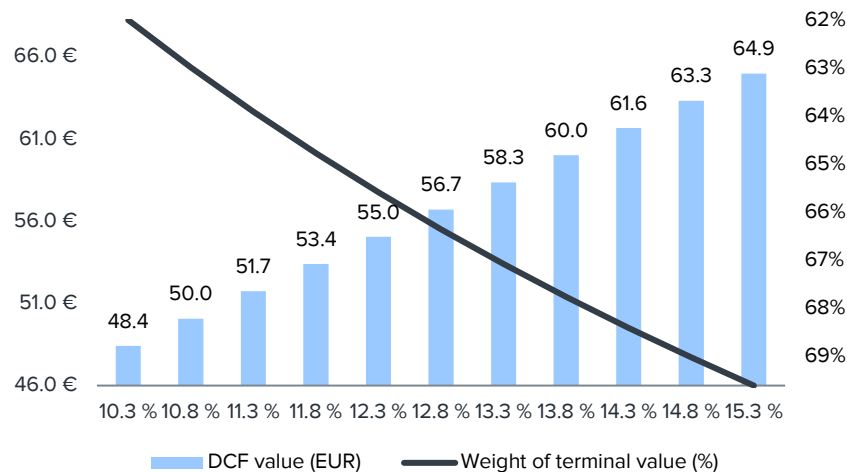
Sensitivity of DCF to changes in the WACC-%



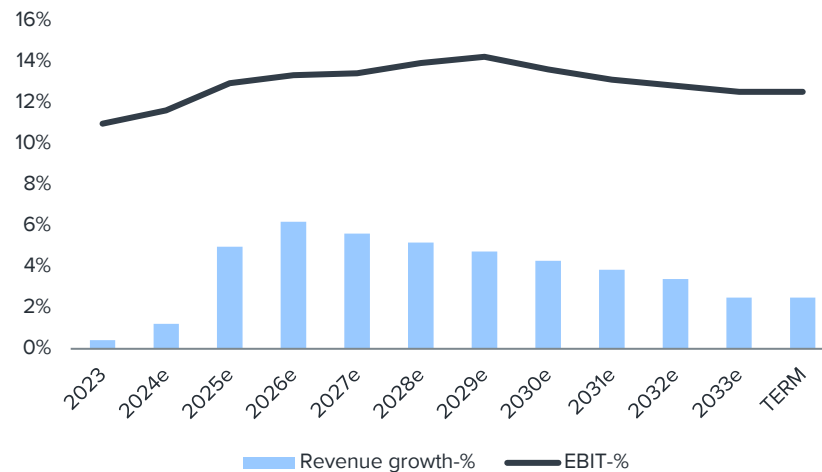
Sensitivity of DCF to changes in the risk-free rate



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	10514.2	10906.6	10952.3	11085.5	11636.4	EPS (reported)	1.96	1.50	1.79	1.92	2.25
EBITDA	1539.3	1290.5	1469.5	1575.8	1795.9	EPS (adj.)	1.98	1.59	1.88	1.92	2.25
EBIT	1295.3	1031.2	1200.1	1286.9	1505.1	OCF / share	3.02	0.86	2.19	2.41	2.86
PTP	1320.8	1028.5	1206.2	1297.6	1518.9	FCF / share	2.34	0.51	1.38	1.62	2.25
Net Income	1014.2	774.5	925.8	994.7	1163.2	Book value / share	6.13	5.49	5.32	5.43	5.88
Extraordinary items	-14.5	-45.4	-48.3	0.0	0.0	Dividend / share	2.10	1.75	1.75	1.80	1.90
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	9720.4	9090.4	8730.8	8903.4	9211.7	Revenue growth-%	6%	4%	0%	1%	5%
Equity capital	3199.2	2866.5	2786.0	2850.5	3090.8	EBITDA growth-%	6%	-16%	14%	7%	14%
Goodwill	1405.2	1414.7	1469.0	1500.0	1500.0	EBIT (adj.) growth-%	5%	-18%	16%	3%	17%
Net debt	-2164.1	-1309.0	-1013.4	-918.0	-1154.3	EPS (adj.) growth-%	6%	-20%	19%	2%	17%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	14.6 %	11.8 %	13.4 %	14.2 %	15.4 %
EBITDA	1539.3	1290.5	1469.5	1575.8	1795.9	EBIT (adj.)-%	12.5 %	9.9 %	11.4 %	11.6 %	12.9 %
Change in working capital	364.0	-559.8	-58.4	-11.3	20.5	EBIT-%	12.3 %	9.5 %	11.0 %	11.6 %	12.9 %
Operating cash flow	1563.0	443.4	1134.3	1249.0	1477.7	ROE-%	31.9 %	25.8 %	33.1 %	35.8 %	39.7 %
CAPEX	-349.3	-204.3	-442.0	-383.1	-315.2	ROI-%	34.6 %	28.4 %	35.4 %	37.2 %	41.8 %
Free cash flow	1211.3	264.2	711.8	837.4	1162.5	Equity ratio	41.2 %	40.3 %	40.9 %	41.5 %	43.8 %
						Gearing	-67.6 %	-45.7 %	-36.4 %	-32.2 %	-37.3 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	2.9	2.2	2.1	2.3	2.2						
EV/EBITDA	20.0	18.5	15.4	16.5	14.3						
EV/EBIT (adj.)	23.5	22.2	18.1	20.2	17.1						
P/E (adj.)	31.8	30.5	24.0	26.6	22.8						
P/B	10.3	8.8	8.5	9.4	8.7						
Dividend-%	3.3 %	3.6 %	3.9 %	3.5 %	3.7 %						

Source: Inderes

Climate target and taxonomic analysis

Low taxonomy eligibility

KONE's taxonomy eligibility percentages are low. Most of the company's business (manufacture, maintenance and modernization of elevators and escalators) is not included in taxonomy, as the elevator and escalator industry is not among high emission industries. Of revenue, the manufacture, installation, maintenance and repair of sliding doors, turning doors, revolving doors, turnstiles, rolling doors, express roll-up doors, and tilt-up doors, as well as the manufacture, installation, maintenance and repair of elevators with regenerative machinery are taxonomy eligible. Overall, KONE emphasizes its support for transition to more sustainable urban environments and buildings by offering energy-efficient and innovative solutions and using healthy and sustainable materials. The company has also set ambitious targets for 2030 to reduce greenhouse gas emissions.

Relatively low business risk from a taxonomy regulation perspective

As the proportion of elevators in the total energy consumption in buildings is surprisingly low, we do not believe that the tightening of energy or emissions regulations in the industry poses a significant risk to KONE's business. For the same reason, we do not believe that an increase in the taxonomy percentage is in the interests of either the legislator or operators in the elevator industry.

No significant economic impact so far

We do not yet see, nor do we expect, that taxonomy will have significant economic impact, such as, e.g., significantly lower financing costs.

Scope 1 and scope 2 targets realistic

KONE's climate targets set in 2020 are in line with the 1.5 °C warming scenario. In 2022, in total 85% of the company's scope 1 and scope 2 emissions consisted of emissions from the company's maintenance vehicle fleet and the remaining 15% of emissions from the company's premises. KONE's target by 2030 is a 50% reduction in Scope 1 and Scope 2 emissions compared to the reference year 2018. In addition, the company aims at a 40% reduction in the emissions of materials and energy consumption throughout the life cycle of ordered products (scope 3) in 2030 compared to 2018. We consider the company's Scope 1 and Scope 2 targets realistic, considering, e.g., the ongoing electrification of the maintenance vehicle fleet in the current decade. By contrast, we consider the reduction objective for Scope 3 emissions to be challenging, as it requires a lot of new innovations and investments, as well as energy consumption of elevators remaining at a high level in customer preferences.

Taxonomy eligibility	2022*	2023
Revenue	15%	44%
OPEX	0%	0%
CAPEX	27%	17%

Taxonomy alignment	2022	2023
Revenue	14%	14%
OPEX	0%	0%
CAPEX	0%	0%

Climate

Climate target	Yes
Target according to the Paris Agreement (1.5 °C warming scenario)	Yes

*Figures are not comparable due to changes in taxonomy.

We will begin to increase the visibility of sustainability metrics by looking at the company's climate target and taxonomy impacts, as we believe these are currently the clearest contributors on average to the company's value creation. We aim to gradually increase the visibility of other factors. The analyst will consider the impact of all sustainability issues on the company's growth and profitability potential and risk (i.e. required return) as part of forming an investment view.

Note: Taxonomy eligibility-% is shown in the table without taxonomy-aligned activities

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

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

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
7/20/2018	Reduce	43.00 €	47.30 €
10/26/2018	Reduce	42.00 €	40.60 €
1/25/2019	Reduce	40.00 €	42.73 €
4/29/2019	Sell	41.00 €	48.90 €
7/19/2019	Sell	41.00 €	51.12 €
10/24/2019	Sell	42.00 €	54.18 €
1/29/2020	Sell	45.00 €	61.02 €
3/24/2020	Sell	42.00 €	46.90 €
4/23/2020	Sell	46.00 €	55.00 €
7/20/2020	Sell	48.00 €	64.28 €
9/23/2020	Sell	61.00 €	73.38 €
10/23/2020	Sell	61.00 €	71.26 €
1/29/2021	Sell	61.00 €	67.08 €
4/30/2021	Sell	61.00 €	66.12 €
7/21/2021	Sell	61.00 €	70.82 €
11/1/2021	Reduce	59.00 €	58.72 €
2/3/2022	Reduce	57.00 €	56.80 €
5/2/2022	Accumulate	51.00 €	46.09 €
7/15/2022	Accumulate	51.00 €	45.85 €
7/22/2022	Accumulate	51.00 €	44.38 €
8/31/2022	Reduce	44.00 €	40.89 €
10/17/2022	Reduce	41.50 €	39.09 €
1/27/2023	Reduce	46.00 €	52.48 €
4/28/2023	Reduce	47.50 €	51.98 €
7/21/2023	Reduce	47.50 €	45.47 €
10/26/2023	Reduce	42.00 €	39.50 €
1/24/2024	Reduce	42.00 €	43.14 €
1/28/2024	Reduce	43.00 €	46.31 €
4/24/2024	Accumulate	50.00 €	45.05 €
7/22/2024	Accumulate	50.00 €	46.99 €
9/30/2024	Reduce	52.00 €	53.70 €
10/26/2024	Accumulate	55.00 €	51.22 €



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Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

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