

Nokia

Company report

7/9/2024 8:10 am EEST



Atte Riikola
+358 44 593 4500
atte.riikola@inderes.fi

This report is a summary translation of the report “Järkeviä strategisia liikkeitä Verkkoinfrastrukturissa” published on 7/9/2024 at 8:10 am EEST.

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Sensible strategic moves in Network Infrastructure

We reiterate our Reduce recommendation for Nokia but revise our target price to EUR 3.3 (was 3.1 EUR). We believe that the bid for Infinera and the sale of ASN, the submarine network business, are strategically sound moves and strengthen Network Infrastructure's position as Nokia's most valuable network business. However, the price paid for Infinera is high relative to the company's current profitability, and value creation requires the realization of targeted synergies, for which the growing scale of the Optical Networks business provides a good basis. However, the transaction does not completely change the big picture around Nokia, and we believe that the weak earnings outlook for Mobile Networks in the coming years will continue to weigh on Nokia's acceptable valuation level.

ASN divestment included in forecasts

Submarine Networks, which had long been on the list of potential divestments, were a different business from the rest of Network Infrastructure, with a more modest profitability profile. Therefore, we believe that the sale of the business makes sense for Nokia's sharper focus, even if the purchase price (350 MEUR) is not very high in relation to the business' revenue (2023: 1.1 BNEUR). Nokia expects to treat ASN as a discontinued operation from Q2'24, and we have also removed ASN from the Network Infrastructure forecasts, which we have also slightly adjusted for other businesses. As a result, revenue forecasts for the coming years fell by around 5%, but earnings forecasts (adj. EPS) by only 1-2%.

Infinera acquisition appears to make strategic sense

Strategically, the deal makes sense as Nokia has previously talked about the need for more scale in the Optical Networks business to improve profitability. In addition, Nokia and Infinera have limited overlapping customer relationships, and the transaction will strengthen Nokia's position particularly in the North American optical networks market (~60% of Infinera's revenue) and with Internet operators (over 30% of Infinera's revenue). The 2.3 BNU\$ price tag for Infinera seems high given the company's current performance, as weak market conditions caused the company's Q1 revenue to fall 22% and EBIT margin to plummet to -8.4%. The midpoint of the company's guidance for Q2 is for revenue to decline around 12% and EBIT margin to land at -3.5%. Therefore, the targeted 14-18% EBIT margin in Network Infrastructure after the merger will require an improvement in the market situation and the targeted synergies of 200 MEUR.

Infinera deal has value creation potential, but doesn't change big picture

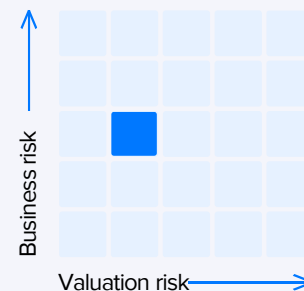
The potential value creation of the Infinera acquisition can be gauged, e.g., by using a sum-of-the-parts calculation. With a target EBIT margin of 14-18% in 2027, the new Network Infrastructure adj. EBIT could be around 1.3-1.65 BNEUR. Applying a multiple of 8.5x-9.0x to this, the SOTP value of Network Infrastructure would be around 2.4-5.2 BNEUR higher than our current estimate based on 2025 projections (EBIT: ~1.0 BNEUR). At the lower end of the range, the value creation would remain quite low compared to the purchase price of around 2.1 BNEUR, further underscoring the need to squeeze out successful integration and synergies. The risk, of course, is the fierce competition in optical networking, as evidenced by Nokia's and Infinera's own rather modest profitability in this business. In our view, the Infinera acquisition will not improve Nokia's cash flow profile enough to make the stock's valuation look attractive relative to free cash flow.

Recommendation

Reduce
(previous Reduce)

EUR 3.30
(previous EUR 3.10)

Share price:
3.64



Key figures

	2023	2024e	2025e	2026e
Revenue	22,279	20,420	20,493	20,832
growth-%	-11%	-8%	0%	2%
EBIT adj.	2,375	2,357	2,304	2,528
EBIT-% adj.	10.7 %	11.5 %	11.2 %	12.1 %
Net Income	660	1,329	1,240	1,520
EPS (adj.)	0.29	0.34	0.31	0.34

P/E (adj.)	10.6	10.7	11.6	10.8
P/B	0.8	0.9	0.9	0.9
Dividend yield-%	4.3 %	3.8 %	4.4 %	5.5 %
EV/EBIT (adj.)	6.2	7.2	7.2	6.5
EV/EBITDA	5.3	6.6	6.4	5.9
EV/S	0.7	0.8	0.8	0.8

Source: Inderes

Guidance

(Unchanged)

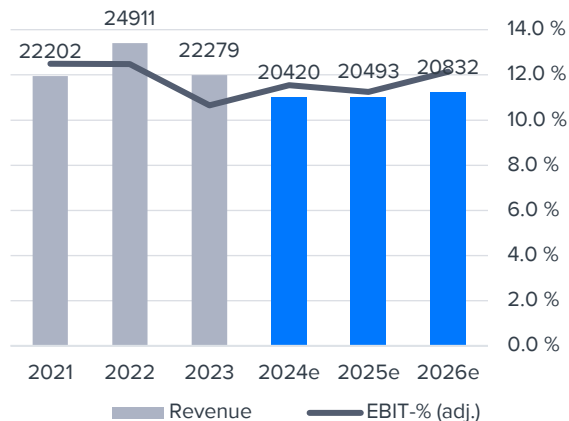
2024: Comparable operating profit 2.3-2.9 BNEUR. Free cash flow 30-60% of comparable EBIT.

Share price



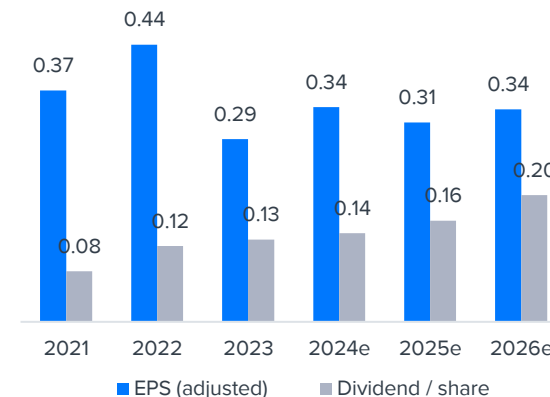
Source: Millstream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Carrying out cost savings measures to defend profitability in a declining market
- Normalization of difficult market conditions
- Leveraging the synergies of Infinera acquisition
- Strong net cash position and improving cash flow allow for increased profit distribution
- Huawei sanctions open up opportunities
- Strategic value of Nokia's technologies



Risk factors

- Fierce competitive pressure on the market and price erosion
- Impact of weak economic environment and rising interest rates on operator investments
- Declining market share in the important North American market
- The size of Nokia's target market has remained relatively stable over the long term, limiting earnings growth potential
- Challenges in Infinera integration

Valuation	2024e	2025e	2026e
Share price	3.64	3.64	3.64
Number of shares, millions	5525.6	5525.6	5565.6
Market cap	20102	20102	20248
EV	17003	16581	16343
P/E (adj.)	10.7	11.6	10.8
P/E	14.8	16.2	13.3
P/B	0.9	0.9	0.9
P/S	1.0	1.0	1.0
EV/Sales	0.8	0.8	0.8
EV/EBITDA	6.6	6.4	5.9
EV/EBIT (adj.)	7.2	7.2	6.5
Payout ratio (%)	57%	71%	73%
Dividend yield-%	3.8 %	4.4 %	5.5 %

Source: Inderes

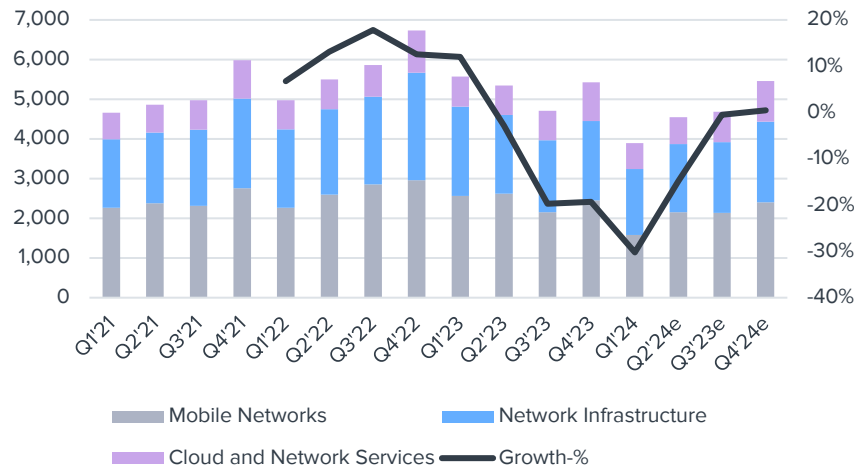
ASN business reclassified to discontinued operations in forecasts

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	21389	20420	-5%	21574	20493	-5%	21873	20832	-5%
Mobile Networks	8264	8264	0%	8561	8561	0%	8647	8647	0%
Network Infrastructure	8160	7191	-12%	8385	7304	-13%	8553	7512	-12%
Nokia Technologies	1752	1752	0%	1380	1380	0%	1394	1394	0%
Cloud and Network Services	3125	3125	0%	3156	3156	0%	3188	3188	0%
Others	98	98	0%	100	100	0%	100	100	0%
NRIs/non-IFRS adjustments	-10	-10	0%	-8	-8	0%	-8	-8	0%
EBITDA	2636	2561	-3%	2636	2592	-2%	2826	2793	-1%
EBIT excluding NRIs	2432	2357	-3%	2347	2304	-2%	2561	2528	-1%
EBIT	1635	1560	-5%	1697	1654	-3%	2111	2078	-2%
Mobile Networks	214	214	0%	339	339	0%	463	463	0%
Network Infrastructure	955	880	-8%	1059	1016	-4%	1110	1077	-3%
Nokia Technologies	1397	1397	0%	1029	1029	0%	1042	1042	0%
Cloud and Network Services	211	211	0%	260	260	0%	285	285	0%
Others	-345	-345	0%	-340	-340	0%	-340	-340	0%
NRIs/non-IFRS adjustments	-797	-797	0%	-650	-650	0%	-450	-450	0%
PTP	1726	1651	-4%	1702	1659	-3%	2066	2033	-2%
EPS (adjusted)	0.34	0.34	-1%	0.32	0.31	-2%	0.34	0.34	-1%
DPS	0.14	0.14	0%	0.16	0.16	0%	0.20	0.20	0%

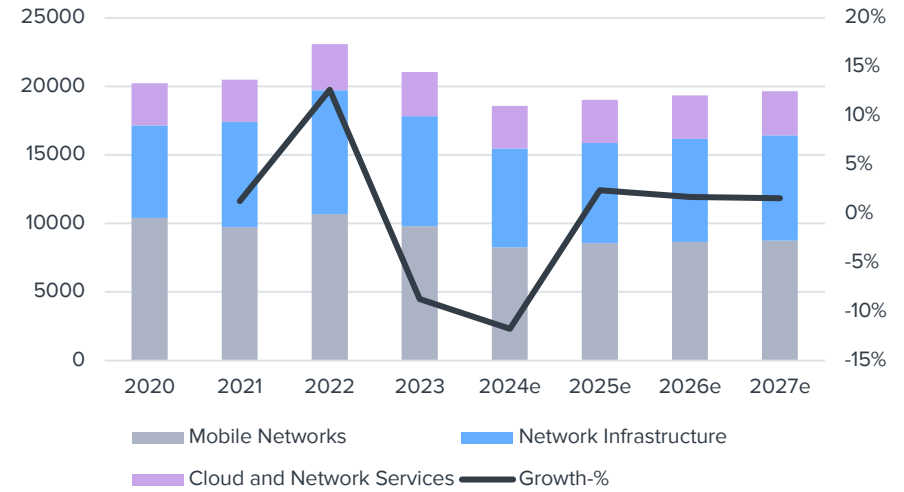
Source: Inderes

Summary of estiates for network businesses

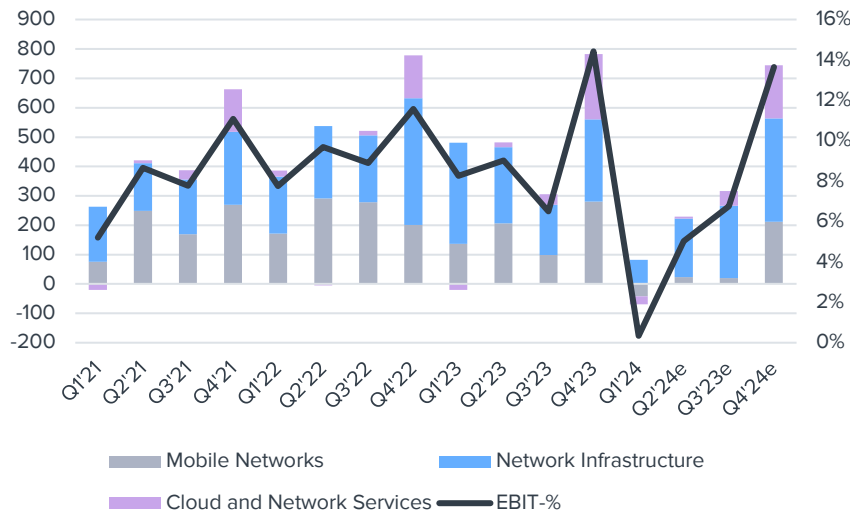
Quarterly revenue development in network business areas



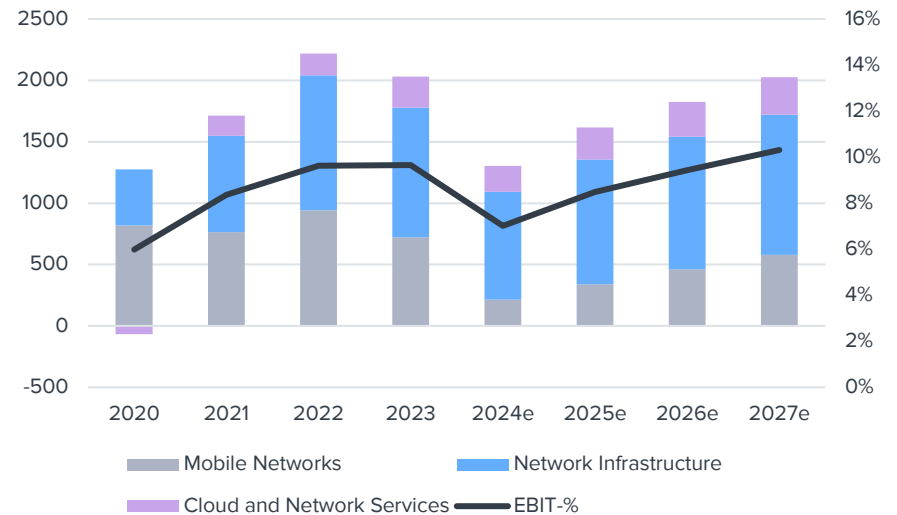
Annual revenue development in network business areas



Quarterly EBIT development in network business areas



Annual EBIT development in network business areas



Summary of estimates

Mobile Networks	2022	2023	2024e	2025e	2026e	2027e
Revenue	10672	9797	8264	8561	8647	8733
growth-%	9.8%	-8.2%	-15.6%	3.6%	1.0%	1.0%
Gross profit	4095	3433	2989	3039	3113	3179
Gross margin	38.4%	35.0%	36.2%	35.5%	36.0%	36.4%
EBIT	941	723	213	339	463	579
EBIT-%	8.8%	7.4%	2.6%	4.0%	5.4%	6.6%

Network Infrastructure	2022	2023	2024e	2025e	2026e	2027e
Revenue	9047	8036	7191	7304	7512	7699
growth-%	17.9%	-11.2%	-10.5%	1.6%	2.9%	2.5%
Gross profit	3309	3050	2876	2936	3027	3103
Gross margin	36.6%	38.0%	40.0%	40.2%	40.3%	40.3%
EBIT	1101	1054	880	1016	1077	1143
EBIT-%	12.2%	13.1%	12.2%	13.9%	14.3%	14.8%

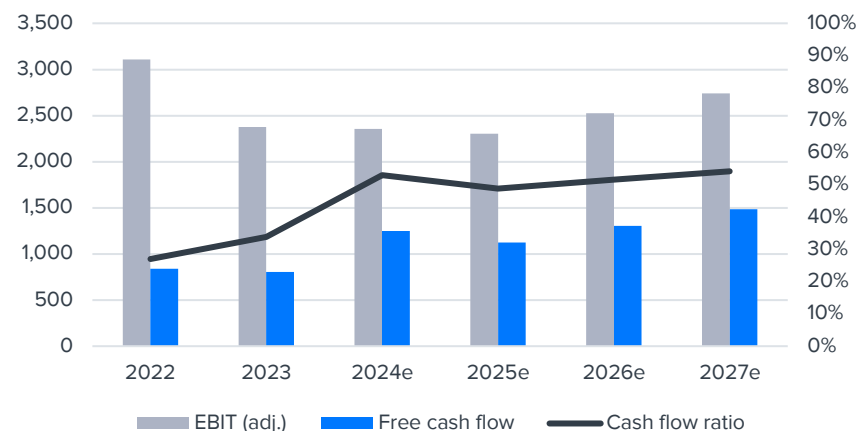
Cloud and Network Services	2022	2023	2024e	2025e	2026e	2027e
Revenue	3350	3221	3125	3156	3188	3219
growth-%	8.4%	-3.9%	-3.0%	1.0%	1.0%	1.0%
Gross profit	1340	1276	1217	1240	1265	1294
Gross margin	40.0%	39.6%	38.9%	39.3%	39.7%	40.2%
EBIT	178	255	211	260	285	304
EBIT-%	5.3%	7.9%	6.8%	8.2%	9.0%	9.4%

Nokia Technologies	2022	2023	2024e	2025e	2026e	2027e
Revenue	1595	1085	1752	1380	1394	1408
growth-%	6.3%	-32.0%	61.5%	-21.2%	1.0%	1.0%
EBIT	1208	735	1397	1029	1042	1056
EBIT-%	75.7%	67.7%	79.7%	74.5%	74.8%	75.0%

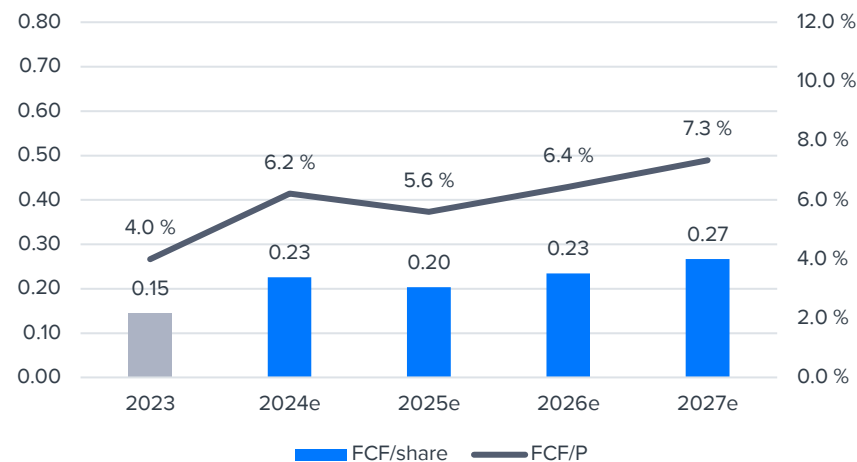
Shared group functions and other	2022	2023	2024e	2025e	2026e	2027e
Revenue	296	130	98	100	100	100
growth-%	15.2%	-56.1%	-24.6%	2.0%	0.0%	0.0%
EBIT	-318	-391	-345	-340	-340	-340

Source: Inderes

Development of Nokia's comparable EBIT and free cash flow



Free cash flow per share and FCF/P



Valuation

Valuation is low on adjusted earnings, but not particularly attractive relative to cash flow

Nokia's adjusted earnings multiples look moderate for the coming years, with EV/EBIT multiples for 2024-2025 at around 7x and P/E multiples at around 11-12x. Our sum-of-the-parts calculation based on adjusted earnings figures also suggests that the stock could justify an upside to next year through optimistic lenses.

However, due to significant restructuring charges and other one-time items in the coming years, Nokia's reported earnings and free cash flow are significantly below the adjusted figures. Based on reported earnings, the P/E multiples for the next few years are 15x-16x, which is not a particularly attractive level. Based on our projections, Nokia will generate around 1.1-1.3 BNEUR in FCF per annum between 2024 and 2026, which implies a moderate cash flow yield of around 5.6-6.4% at the current share price. Given these figures, we find it difficult to justify a material upside in the stock. By successfully integrating Infinera and realizing synergies, Nokia has the potential to increase its earnings and free cash flow in the medium term. However, we do not expect their impact to be significant enough to make Nokia's cash flow-based valuation attractive under current assumptions.

Our current forecasts are clearly more cautious than Nokia's long-term targets, and if market conditions were to recover faster than expected, they could come under upward pressure. However, we do not believe that the current fundamentals of the mobile network market are a reason for optimism at this stage. Thus, we see the modest performance of Mobile Networks in the coming years as a drag on Nokia's valuation that will be difficult to offset by the

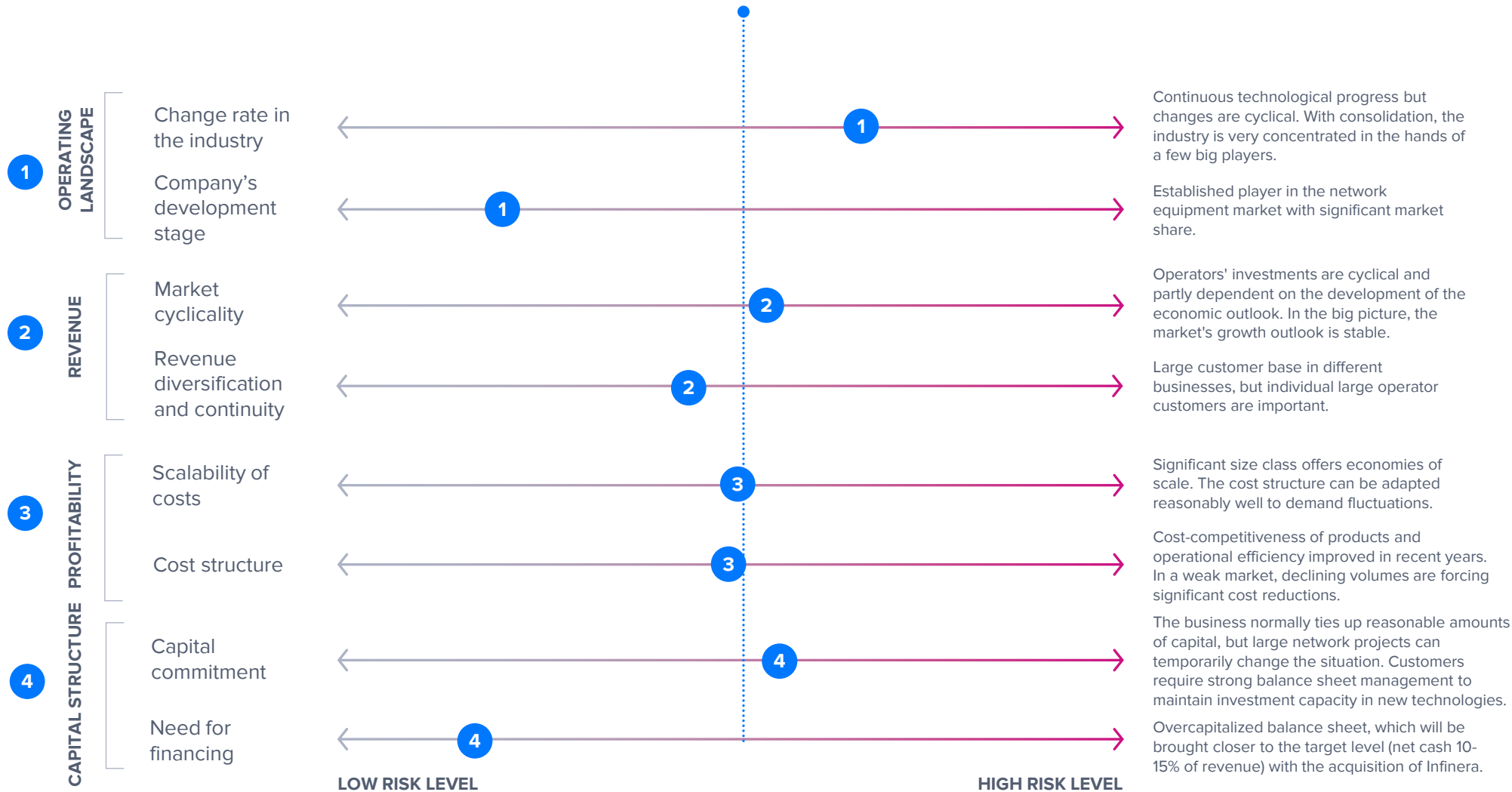
performance of other units. The weak performance of Mobile Networks is also reflected in our forecasts in the form of poor ROE figures (2025e-2026e ROE: 5.8-6.9%). In view of this, too, we do not think that it is justified to price the share at particularly high multiples. Ericsson is also valued at a low P/E of 11x for next year, against which Nokia's valuation is very similar.

Sum-of-the-parts calculation

Nokia Technologies	Lower end	Neutral	Upper end
Variable: Adj. EBIT 2025e	1.0	1.0	1.0
X valuation multiple	6.0	7.0	8.0
EV	6.2	7.2	8.2
<i>Per share (EUR)</i>	<i>1.1</i>	<i>1.3</i>	<i>1.5</i>
Network Infrastructure	Lower end	Neutral	Upper end
Variable: Adj. EBIT 2025e	1.0	1.0	1.0
X valuation multiple	7.5	8.5	9.5
EV	7.6	8.6	9.7
<i>Per share (EUR)</i>	<i>1.4</i>	<i>1.6</i>	<i>1.7</i>
Cloud and Network Services	Lower end	Neutral	Upper end
Variable: Adj. EBIT 2025e	0.3	0.3	0.3
X valuation multiple	6.0	6.5	7.0
EV	1.6	1.7	1.8
<i>Per share (EUR)</i>	<i>0.3</i>	<i>0.3</i>	<i>0.3</i>
Mobile Networks	Lower end	Neutral	Upper end
Variable: Adj. EBIT 2025e	0.3	0.3	0.3
X valuation multiple	5.0	6.0	7.0
EV	1.7	2.0	2.4
<i>Per share (EUR)</i>	<i>0.3</i>	<i>0.4</i>	<i>0.4</i>
Total	Lower end	Neutral	Upper end
Aggregate EV	17.0	19.6	22.1
Group expenses (NPV)	-3.0	-2.5	-2.0
Net cash at the end of Q1'24	5.1	5.1	5.1
Costs for restructuring	-1.4	-1.2	-1.0
SOTP total	18	21	24
<i>Per share (EUR)</i>	<i>3.2</i>	<i>3.8</i>	<i>4.4</i>

Risk profile of the business model

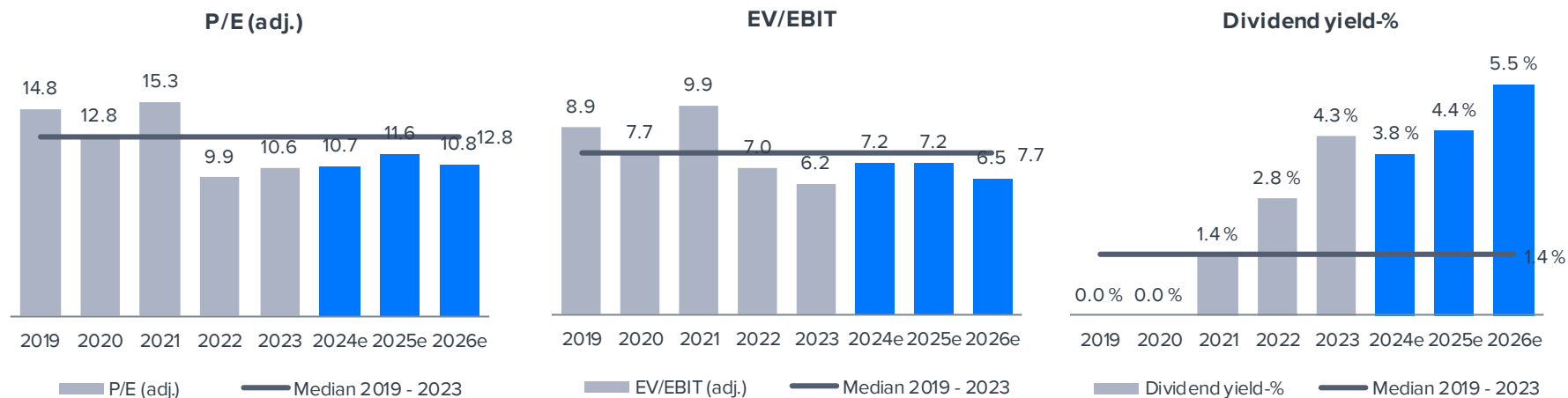
Assessment of Nokia's overall business risk



Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	3.30	3.15	5.57	4.33	3.05	3.64	3.64	3.64	3.64
Number of shares, millions	5606	5617	5629	5590	5526	5526	5526	5566	5566
Market cap	18476	17701	31378	24189	16864	20102	20102	20248	20248
EV	17799	15938	27543	21648	14698	17003	16581	16343	16006
P/E (adj.)	14.8	12.8	15.3	9.9	10.6	10.7	11.6	10.8	10.0
P/E	>100	neg.	19.3	5.7	25.4	14.8	16.2	13.3	11.8
P/B	1.2	1.4	1.8	1.1	0.8	0.9	0.9	0.9	0.9
P/S	0.8	0.8	1.4	1.0	0.8	1.0	1.0	1.0	1.0
EV/Sales	0.8	0.7	1.2	0.9	0.7	0.8	0.8	0.8	0.8
EV/EBITDA	8.3	7.9	8.5	6.3	5.3	6.6	6.4	5.9	5.3
EV/EBIT (adj.)	8.9	7.7	9.9	7.0	6.2	7.2	7.2	6.5	5.8
Payout ratio (%)	0.0 %	0.0 %	27.7 %	15.8 %	108.0 %	56.9 %	71.3 %	73.2 %	64.8 %
Dividend yield-%	0.0 %	0.0 %	1.4 %	2.8 %	4.3 %	3.8 %	4.4 %	5.5 %	5.5 %

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
Qualcomm	212527	214011	18.2	16.2	15.9	14.2	6.0	5.5	20.7	18.3	1.6	1.7	9.2
Ciena	6210	6486	16.8	12.3	13.7	10.5	1.8	1.6	23.8	16.3			2.3
Cisco	173645	185155	11.0	11.1	9.9	9.8	3.7	3.6	12.6	13.1	3.4	3.5	4.1
Juniper Networks	11026	11335	15.4	12.9	12.2	10.7	2.4	2.3	19.3	16.5	2.4	2.5	2.6
Motorola	59616	64059	23.3	21.5	20.5	19.4	6.5	6.1	29.6	27.4	1.0	1.0	61.6
ZTE	15622	14451	10.7	9.8	7.8	7.2	0.9	0.8	7.8	7.2	4.5	4.8	1.0
Ericsson	19313	19895	10.5	8.6	7.4	6.3	0.9	0.9	13.3	11.3	4.1	4.4	2.1
Amdocs	8404	8539	10.4	9.5	8.5	8.1	1.8	1.8	12.2	11.1	2.3	2.4	2.5
CommScope	210	9503	17.6	12.5	13.6	11.0	2.1	1.9		2.5			
Oracle	368764	439667	20.7	18.6	17.0	15.3	8.9	8.2	25.9	23.2	1.1	1.1	44.4
Viavi	1456	1606	15.2	11.7	11.4	9.2	1.7	1.7	22.0	15.2			2.1
Nokia (Inderes)	20102	17003	7.2	7.2	6.6	6.4	0.8	0.8	10.7	11.6	3.8	4.4	0.9
Average			15.4	13.2	12.5	11.1	3.3	3.1	18.7	14.7	2.6	2.7	13.2
Median			15.4	12.3	12.2	10.5	2.1	1.9	20.0	15.2	2.4	2.5	2.5
Diff-% to median			-53%	-42%	-45%	-39%	-60%	-57%	-46%	-24%	63%	79%	-63%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	24911	5859	5710	4982	5728	22279	4667	4904	5034	5815	20420	20493	20832	21151
Mobile Networks	10671	2567	2623	2157	2450	9797	1577	2151	2135	2401	8264	8561	8647	8733
Network Infrastructure	9047	2248	1979	1807	2003	8037	1662	1717	1782	2030	7191	7304	7512	7699
Nokia Technologies	1595	242	334	258	260	1094	757	330	330	335	1752	1380	1394	1408
Cloud and Network Services	3351	760	741	742	977	3220	652	683	764	1026	3125	3156	3188	3219
Other	295	48	36	22	40	146	23	25	25	25	98	100	100	100
NRIs/non-IFRS adjustments	-48	-6	-3	-4	-2	-15	-4	-2	-2	-2	-10	-8	-8	-8
EBITDA	3458	692	746	508	829	2775	661	430	518	952	2561	2592	2793	3039
Depreciation	-1140	-266	-272	-267	-282	-1087	-261	-247	-247	-247	-1001	-938	-715	-697
EBIT (excl. NRI)	3109	479	626	424	846	2375	597	384	471	905	2357	2304	2528	2742
EBIT	2318	426	474	241	547	1688	400	184	271	705	1560	1654	2078	2342
Mobile Networks	940	137	205	99	282	723	-42	23	20	212	214	339	463	579
Network Infrastructure	1102	344	260	171	279	1054	82	200	246	352	880	1016	1077	1143
Nokia Technologies	1208	149	236	180	169	734	658	245	245	250	1397	1029	1042	1056
Cloud and Network Services	177	-20	16	36	223	255	-27	6	51	181	211	260	285	304
Other	-318	-131	-91	-63	-107	-391	-75	-90	-90	-90	-345	-340	-340	-340
NRIs/non-IFRS adjustments	-791	-53	-153	-183	-299	-687	-197	-200	-200	-200	-797	-650	-450	-400
Net financial items	-108	-19	-55	-38	-39	-150	51	15	15	10	91	0	-50	-50
PTP	2184	401	407	179	512	1499	451	199	286	715	1651	1659	2033	2297
Taxes	2026	-111	-116	-45	-552	-825	-12	-50	-72	-179	-312	-414	-507	-573
Minority interest	-9	-10	1	5	-10	-14	-4	-2	-2	-2	-9	-6	-6	-6
Net earnings	4250	279	290	139	-43	665	434	157	223	545	1359	1240	1520	1718
EPS (adj.)	0.44	0.06	0.07	0.05	0.10	0.29	0.088	0.06	0.07	0.13	0.34	0.31	0.34	0.36
EPS (rep.)	0.76	0.05	0.05	0.03	-0.01	0.12	0.08	0.03	0.04	0.10	0.25	0.22	0.27	0.31

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	12.2 %	9.6 %	-2.8 %	-20.2 %	-23.1 %	-10.6 %	-20.3 %	-14.1 %	1.0 %	1.5 %	-8.3 %	0.4 %	1.7 %	1.5 %
Adjusted EBIT growth-%	12.0 %	-17.8 %	-12.2 %	-35.5 %	-26.8 %	-23.6 %	24.6 %	-38.7 %	11.2 %	7.0 %	-0.8 %	-2.2 %	9.7 %	8.5 %
EBITDA-%	13.9 %	11.8 %	13.1 %	10.2 %	14.5 %	12.5 %	14.2 %	8.8 %	10.3 %	16.4 %	12.5 %	12.6 %	13.4 %	14.4 %
Adjusted EBIT-%	12.5 %	8.2 %	11.0 %	8.5 %	14.8 %	10.7 %	12.8 %	7.8 %	9.4 %	15.6 %	11.5 %	11.2 %	12.1 %	13.0 %
Net earnings-%	17.1 %	4.8 %	5.1 %	2.8 %	-0.7 %	3.0 %	9.3 %	3.2 %	4.4 %	9.4 %	6.7 %	6.0 %	7.3 %	8.1 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	24810	23255	22441	21891	21415
Goodwill	5667	5504	5224	5154	5154
Intangible assets	3396	2647	2292	1930	1543
Tangible assets	2944	2857	2678	2560	2471
Associated companies	199	88.0	88.0	88.0	88.0
Other investments	828	715	715	715	715
Other non-current assets	7942	7571	7571	7571	7571
Deferred tax assets	3834	3873	3873	3873	3873
Current assets	20266	18131	16438	16292	16561
Inventories	3265	2684	2552	2562	2604
Other current assets	0.0	79.0	0.0	0.0	0.0
Receivables	7839	7128	6534	6558	6666
Cash and equivalents	9162	8240	7351	7172	7291
Balance sheet total	42943	39825	37476	36971	37176

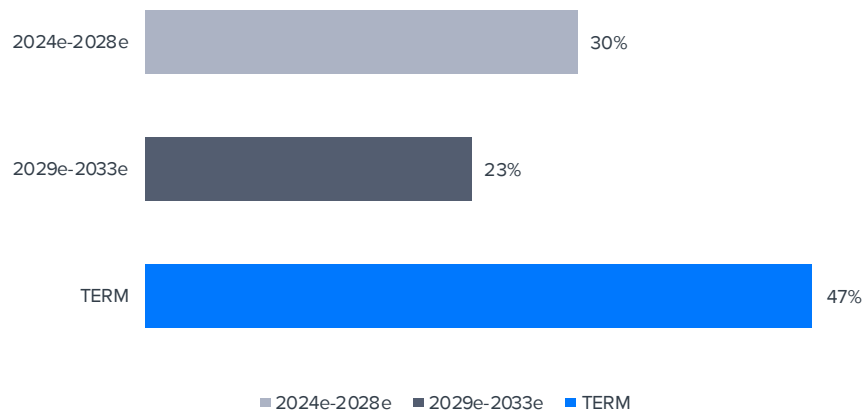
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	21426	20628	21269	21735	22371
Share capital	246	246	246	246	246
Retained earnings	1375	1404	2045	2511	3147
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	3905	3605	3605	3605	3605
Other equity	15807	15282	15282	15282	15282
Minorities	93	91	91	91	91
Non-current liabilities	9556	9043	7412	6563	6066
Deferred tax liabilities	332	725	600	500	500
Provisions	1435	1262	900	700	500
Interest bearing debt	5107	4436	3392	2943	2746
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	2682	2620	2520	2420	2320
Current liabilities	11961	10154	8794	8673	8740
Interest bearing debt	1450	1582	831	681	615
Payables	10511	8572	7964	7992	8124
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	42943	39825	37476	36971	37176

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-10.6 %	-8.3 %	0.4 %	1.7 %	1.5 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %	1.0 %
EBIT-%	7.6 %	7.6 %	8.1 %	10.0 %	11.1 %	10.7 %	10.2 %	9.8 %	9.5 %	9.3 %	9.0 %	9.0 %
EBIT (operating profit)	1688	1560	1654	2078	2342	2286	2201	2136	2091	2067	2021	
+ Depreciation	1087	1001	938	715	697	684	674	666	661	657	655	
- Paid taxes	-471	-437	-514	-507	-573	-559	-506	-491	-485	-483	-476	
- Tax, financial expenses	-38	17	0	-13	-13	-13	-44	-43	-38	-34	-29	
+ Tax, financial income	0	0	0	0	0	0	0	0	0	0	0	
- Change in working capital	-726	196	-4	-19	-18	-12	-12	-12	-12	-12	-12	
Operating cash flow	1541	2337	2075	2255	2436	2386	2313	2256	2217	2196	2158	
+ Change in other long-term liabilities	-235	-462	-300	-300	-300	-300	-200	-100	-100	-100	-100	
- Gross CAPEX	-176	-345	-580	-650	-650	-650	-650	-650	-650	-650	-650	
Free operating cash flow	1130	1530	1195	1305	1486	1436	1463	1506	1467	1446	1408	
+/- Other	-295	-270	-300	0	0	0	0	0	0	0	0	
FCFF	835	1260	895	1305	1486	1436	1463	1506	1467	1446	1408	17864
Discounted FCFF		1209	788	1055	1102	978	914	864	772	698	624	7920
Sum of FCFF present value		16926	15717	14929	13874	12771	11793	10879	10015	9243	8545	7920
Enterprise value DCF		16926										
- Interest bearing debt		-6018										
+ Cash and cash equivalents		8240										
-Minorities		-86										
-Dividend/capital return		-718										
Equity value DCF		18400										
Equity value DCF per share		3.3										

Cash flow distribution



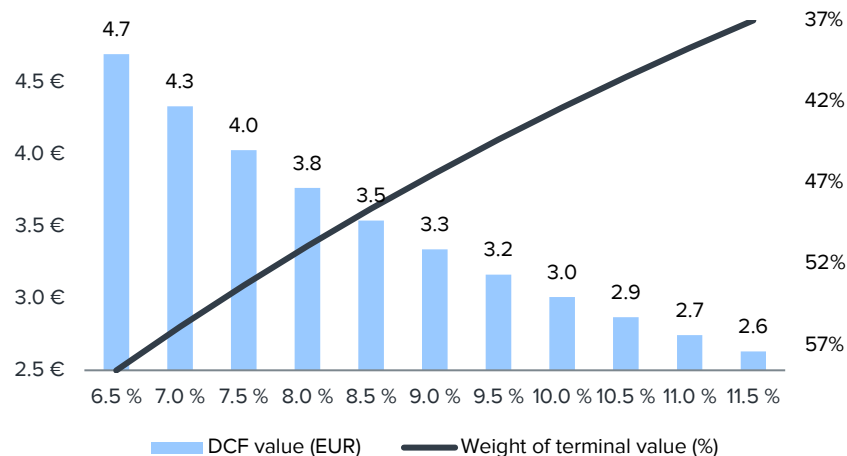
WACC

Tax-% (WACC)	25.0 %
Target debt ratio (D/(D+E))	0.0 %
Cost of debt	4.0 %
Equity Beta	1.4
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	9.0 %
Weighted average cost of capital (WACC)	9.0 %

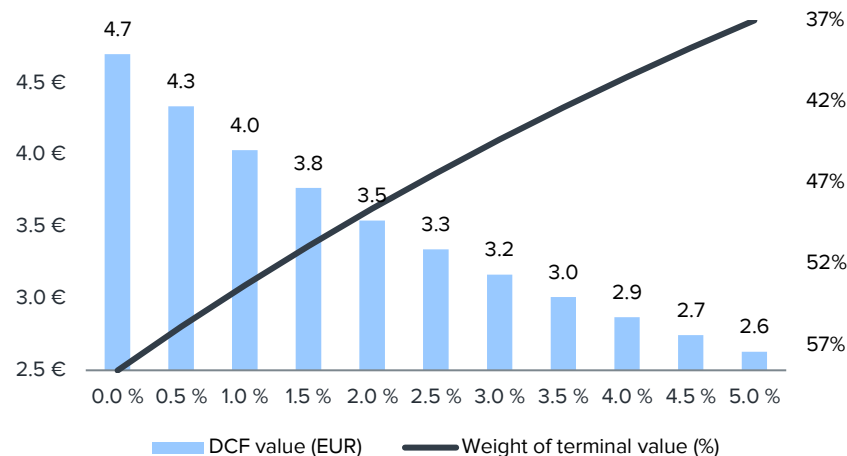
Source: Inderes

DCF sensitivity calculations and key assumptions in graphs

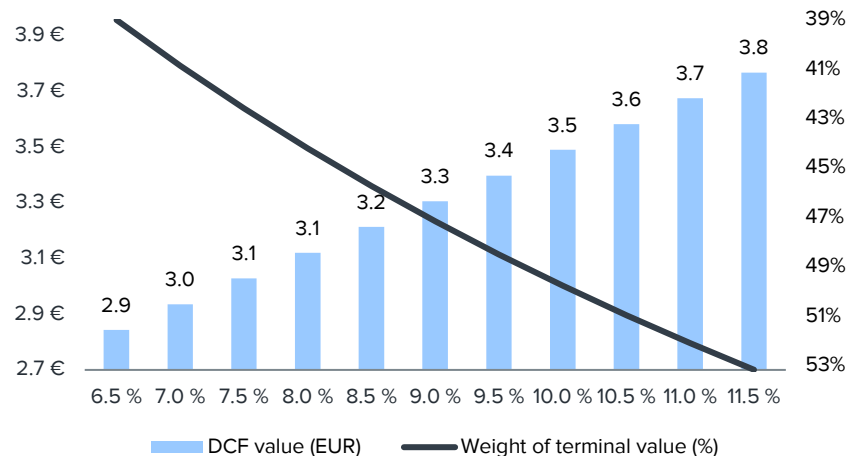
Sensitivity of DCF to changes in the WACC-%



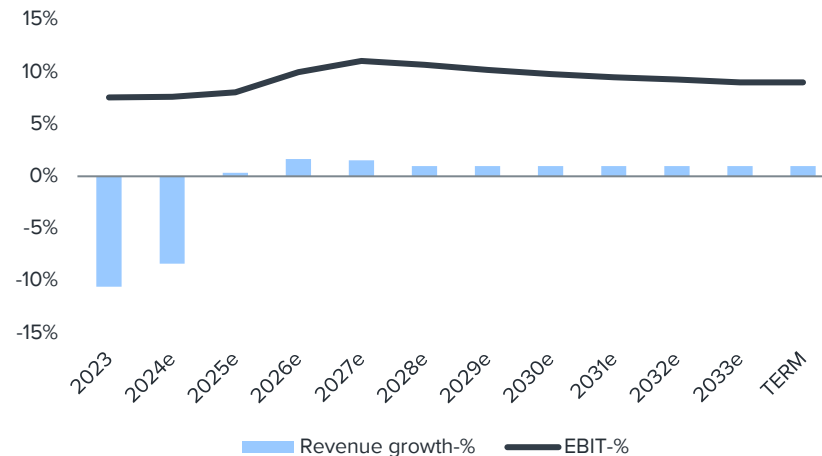
Sensitivity of DCF to changes in the risk-free rate



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	22202	24911	22279	20420	20493	EPS (reported)	0.29	0.76	0.12	0.25	0.22
EBITDA	3253	3458	2775	2561	2592	EPS (adj.)	0.37	0.44	0.29	0.34	0.31
EBIT	2158	2318	1688	1560	1654	OCF / share	0.73	0.26	0.28	0.42	0.38
PTP	1926	2184	1499	1651	1659	FCF / share	-0.16	-0.18	0.15	0.23	0.16
Net Income	1623	4250	665	1359	1240	Book value / share	3.08	3.82	3.72	3.83	3.92
Extraordinary items	-617	-791	-687	-797	-650	Dividend / share	0.08	0.12	0.13	0.14	0.16
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	40049	42943	39825	37476	36971	Revenue growth-%	2%	12%	-11%	-8%	0%
Equity capital	17462	21426	20628	21269	21735	EBITDA growth-%	61%	6%	-20%	-8%	1%
Goodwill	5431	5667	5504	5224	5154	EBIT (adj.) growth-%	33%	12%	-24%	-1%	-2%
Net debt	-3942	-2605	-2222	-3128	-3548	EPS (adj.) growth-%	49%	20%	-34%	18%	-7%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	14.7 %	13.9 %	12.5 %	12.5 %	12.6 %
EBITDA	3253	3458	2775	2561	2592	EBIT (adj.)-%	12.5 %	12.5 %	10.7 %	11.5 %	11.2 %
Change in working capital	608	-1476	-726	196	-4	EBIT-%	9.7 %	9.3 %	7.6 %	7.6 %	8.1 %
Operating cash flow	4127	1469	1541	2337	2075	ROE-%	10.9 %	22.0 %	3.2 %	6.5 %	5.8 %
CAPEX	-4111	-847	-176	-345	-580	ROI-%	10.3 %	9.0 %	6.0 %	6.0 %	6.5 %
Free cash flow	-911	-979	835	1260	895	Equity ratio	43.6 %	49.9 %	51.8 %	56.8 %	58.8 %
						Gearing	-22.6 %	-12.2 %	-10.8 %	-14.7 %	-16.3 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	1.2	0.9	0.7	0.8	0.8						
EV/EBITDA	8.5	6.3	5.3	6.6	6.4						
EV/EBIT (adj.)	9.9	7.0	6.2	7.2	7.2						
P/E (adj.)	15.3	9.9	10.6	10.7	11.6						
P/B	1.8	1.1	0.8	0.9	0.9						
Dividend-%	1.4 %	2.8 %	4.3 %	3.8 %	4.4 %						

Lähde: Inderes

ESG

Taxonomy eligibility

The EU taxonomy and its technical evaluation criteria have changed in 2023. Not all sectors or economic activities are yet included in the taxonomy and its criteria. The telecommunications sector is one of the sectors that has not yet been included as a whole in the sectors or economic activities identified by the EU taxonomy. Nevertheless, the taxonomy regulation includes economic activities appropriate to Nokia's business under Objective 1 (climate change mitigation), Objective 4 (transition to a circular economy) and Objective 5 (prevention and reduction of pollution).

There is currently no legal requirement to report on taxonomy compliance other than for the climate change objective. Thus, Nokia has only reported taxonomy eligibility at this stage. Nokia estimates that 61% of its revenue is eligible for the taxonomy's circular economy objective.

Capital expenditures (CAPEX) also include tax-eligible capital expenditures related to the climate change objective, but primarily tax-eligible capital expenditures related to the circular economy objective.

Taxonomy legislation is evolving, which is reflected in the evolution of Nokia's taxonomy figure. We will continue to monitor developments and it is not yet clear whether the taxonomy will have an impact on the cost of financing a business.

Climate targets

Of the 6 climate targets set by Nokia, 5 have already been achieved or are developing in the right direction. However, in 2020-2023, the target of halving emissions throughout the value chain in scope

1, scope 2 and scope 3 emissions during 2019-2030 has not developed along the expected paths in linear terms. According to Nokia, there is no reason to expect linear development in reducing emissions, which is also justified in our view. As a whole, Nokia still considers achieving this target by 2030 possible.

Nokia's connectivity and digitalization solutions enable increased efficiency in other industries, which supports the reduction of emissions. At the same time, the company's own products have features that enable energy saving, e.g., for operators. Thus, in our view, the company's current business supports the achievement of set climate targets. We do, however, consider the reduction of scope 3 emissions challenging if the green transition in the energy sector is not achieved in line with underlying assumptions.

Taxonomy eligibility	2022*	2023
Revenue	0%	61%
OPEX	0%	52%
CAPEX	2%	66%

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

Climate

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

*the 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
7/29/2021	Accumulate	5.80 €	5.18 €
10/29/2021	Accumulate	5.90 €	5.02 €
1/12/2022	Accumulate	6.20 €	5.44 €
2/4/2022	Accumulate	6.00 €	5.17 €
3/8/2022	Buy	5.20 €	4.33 €
4/29/2022	Accumulate	5.40 €	4.66 €
7/22/2022	Accumulate	5.70 €	5.01 €
10/21/2022	Accumulate	5.30 €	4.39 €
1/11/2023	Accumulate	5.30 €	4.56 €
1/27/2023	Accumulate	5.30 €	4.38 €
4/21/2023	Buy	4.80 €	3.90 €
7/5/2023	Buy	4.80 €	3.91 €
7/17/2023	Accumulate	4.10 €	3.54 €
7/21/2023	Accumulate	4.00 €	3.53 €
10/20/2023	Reduce	3.20 €	3.05 €
12/7/2023	Reduce	2.90 €	2.82 €
12/13/2023	Reduce	2.90 €	3.01 €
1/18/2024	Reduce	2.90 €	3.18 €
1/26/2024	Reduce	3.10 €	3.50 €
4/19/2024	Reduce	3.10 €	3.23 €
7/9/2024	Reduce	3.30 €	3.64 €



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Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

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