

# Fortum

## Company report

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

This report is a summary translation of the report “Vahva aloitus vuodelle” published on 5/2/2024 at 8:10 am EEST.

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# Strong start to the year

We reiterate our Accumulate recommendation and EUR 13.50 target price for Fortum. Q1 results clearly exceeded market expectations, with positive developments in all segments. Generation delivered an excellent optimization margin in Q1, Consumer Solutions delivered a strong performance as the market normalized, and costs under Other Operations were impacted by efficiency measures. The outlook was revised, but the positive changes were driven more by operational performance. We think the stock is undervalued, but in the short term there are few upside drivers.

## Earnings exceeded expectations clearly

Fortum's Q1 comparable EBIT was 530 MEUR, above our forecast of 483 MEUR and consensus of 451 MEUR. The result was well above consensus and strong overall. The Generation segment achieved a good electricity price of EUR 63.9/MWh and the company's optimization margin in Q1 was "double digit" (normally EUR 6-8/MWh). Generation's positive deviation from our forecasts was due to volume and possibly to the district heating business. On the cost side, we are already seeing at least a nascent positive trend, and the Consumer Solutions segment also had a very good first quarter after a very difficult year in 2023. Cash flow from operating activities was also at a good level (538 MEUR) and investments were moderate (117 MEUR), resulting in an increase in liquid assets of 695 MEUR in Q1. This further strengthened the already overcapitalized balance sheet.

## Back and forth in forecasts

In our Q1 pre-comment, we lowered our earnings forecasts due to, among other things, electricity price developments and the extended annual maintenance of OL3. This turned out to be a mistake, and in the big picture, our forecasts came back close to previous levels. The hedges in the Generation segment for Nordic wholesale power generation were roughly 70% at EUR 43/MWh at the end of 2024 and roughly 50% at EUR 42/MWh in 2025 (previously 40% at EUR 43/MWh). In our view, hedge levels increased systematically, and price movements were also in line with expectations. In Q1, hedges were again used at a higher price level and new hedges were made at a lower price level as the market price fell, but our expectations were for a slightly larger fall. This, together with a revision of production volumes and mix, as well as an increase in volumes outside own-account generation, has led to an increase in Generation's forecasts. The situation in Consumer Solutions has returned to normal, while the high costs in Other Operations appear to be coming down faster than expected. The earnings growth outlook is still a declining one for the coming years, but even in weak years we expect EPS of close to one euro. On a positive note for the outlook in the coming years, electricity futures for 2025 and 2026 show a slight pick-up, but the "turnaround" is still weak.

## Valuation is moderate, but requires patience

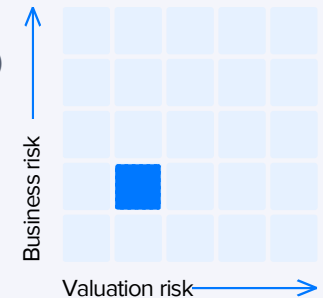
Fortum's valuation multiples for the coming years are low (2024e P/E 11x and EV/EBITDA 7x), but as earnings decline, it will be difficult to get a significant positive driver from the valuation in the coming years. The dividend yield remains high at around 7%, providing a reasonable "base return". We believe the company is slightly undervalued compared to relevant peers. In our view, Fortum is still significantly undervalued relative to the current value of its assets, and in the long term, demand will increase as electrification progresses. In the medium term, we expect electricity prices to rise from current levels, at which point the outlook for earnings growth will improve significantly. For investors, the situation is paradoxical: the stock is undervalued, but there are few near-term upside drivers.

## Recommendation

**Accumulate**  
(previous Accumulate)

**EUR 13.50**  
(previous EUR 13.50)

**Share price:**  
12.38



## Key figures

	2023	2024e	2025e	2026e
<b>Revenue</b>	6711	6554	6623	6651
<b>growth-%</b>	-14%	-2%	1%	0%
<b>EBIT adj.</b>	1544	1267	1174	1143
<b>EBIT-% adj.</b>	23.0 %	19.3 %	17.7 %	17.2 %
<b>Net Income</b>	1513	1025	899	871
<b>EPS (adj.)</b>	1.28	1.10	1.00	0.97
<b>P/E (adj.)</b>	10.2	11.3	12.4	12.8
<b>P/B</b>	1.4	1.3	1.3	1.3
<b>Dividend yield-%</b>	8.8 %	7.8 %	7.1 %	6.9 %
<b>EV/EBIT (adj.)</b>	8.2	9.4	10.2	10.6
<b>EV/EBITDA</b>	6.3	7.1	7.9	8.1
<b>EV/S</b>	1.9	1.8	1.8	1.8

Source: Inderes

## Guidance

(Adjusted)

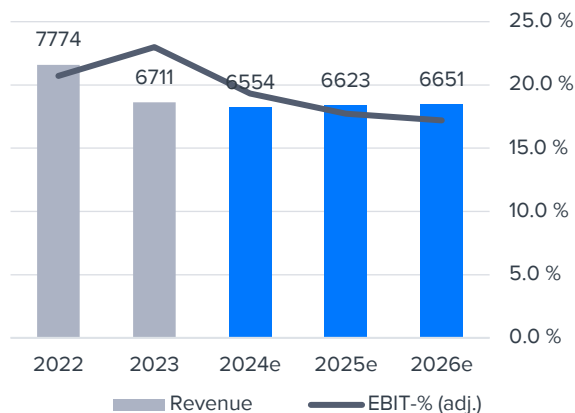
The Generation segment's Nordic outright generation hedges: approximately 70% at EUR 43 per MWh for the remainder of 2024, and approximately 50% at EUR 42 per MWh for 2025.

## Share price



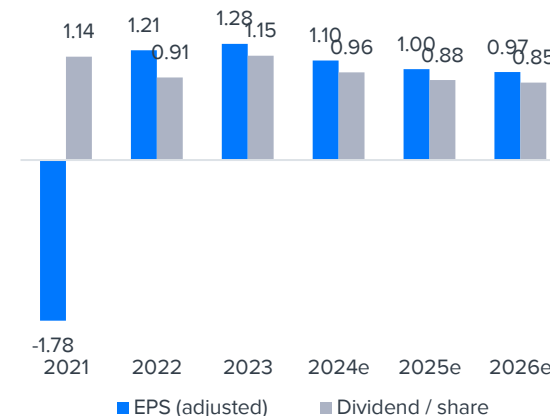
Source: Millstream Market Data AB

## Revenue and EBIT-%



Source: Inderes

## EPS and dividend



Source: Inderes



## Value drivers

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



## Risk factors

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

Valuation	2024e	2025e	2026e
Share price	12.4	12.4	12.4
Number of shares, millions	897.3	897.3	897.3
Market cap	11108	11108	11108
EV	11894	12012	12123
P/E (adj.)	11.3	12.4	12.8
P/E	10.8	12.4	12.8
P/B	1.3	1.3	1.3
P/S	1.7	1.7	1.7
EV/Sales	1.8	1.8	1.8
EV/EBITDA	7.1	7.9	8.1
EV/EBIT (adj.)	9.4	10.2	10.6
Payout ratio (%)	84.5 %	88.0 %	88.0 %
Dividend yield-%	7.8 %	7.1 %	6.9 %

Source: Inderes

# Earnings exceeded expectations clearly

## Strong start to the year

Fortum's Q1 comparable EBIT was 530 MEUR, above our forecast of 483 MEUR and consensus of 451 MEUR. Items affecting comparability included 39 MEUR of changes in the fair value of derivatives not included in hedge accounting, which resulted in an even higher reported EBIT of 571 MEUR. We recommend that investors follow comparable measures, which provide a better picture of the company's operating performance. Comparable EPS landed at EUR 0.48, well above our guidance of EUR 0.42 (consensus: EUR 0.39).

The result was well above consensus and strong overall. On the cost side, we are already seeing at least a budding positive trend and the Consumer Solutions segment also performed very well. Cash flow from operating activities was also at a good level (538 MEUR) and investments were moderate (117 MEUR), resulting in an increase in liquid assets of 695 MEUR in Q1. This further strengthened the balance sheet.

## Generation segment figures came as a surprise

The Generation segment's electricity production increased significantly in Q1 to 12.8 TWh (Q1'23: 11.9 TWh). Hydropower production increased by 10%, which was a positive surprise, and nuclear production increased slightly due to the start of Olkiluoto 3. The entire month of March on OL3 was spent on annual maintenance, which extended into Q2. Wind power generation increased by 0.2 TWh due to the phased commissioning of the Pjelax wind farm, but its role in the results is small.

The electricity price achieved in the Generation segment was EUR 63.9/MWh, compared to our forecast of EUR 69/MWh. Although there was a relatively large number of high-priced hedges in Q1, the hedge price for Q1 must have been well below our forecast. According to the company, the optimization margin in Q1 was "double-digit" (normally EUR 6-8/MWh) and the electricity spot price was EUR 62.6/MWh in Fortum's generation price areas, so there are few alternatives.

Generation's Q1 revenue totaled 1,412 MEUR, well above our forecast (1,263 MEUR). The beat came

from outside the core, from other power and heat sales, where margins are generally lower. Nevertheless, Generation's comparable EBIT (513 MEUR) exceeded our forecast (483 MEUR). In particular, the sharp increase in other electricity sales makes the figures difficult to estimate.

## Consumer Solutions improved strongly

The Consumer Solutions segment, which struggled last year, started the year strongly, with a comparable EBIT of 42 MEUR. This was well above our cautious forecast of 15 MEUR. This was mainly due to the normalization of market conditions and profitability, but the segment also benefited slightly from lower electricity prices (which support margins). In any case, it is positive that the segment seems to have returned to an annual EBIT level of around 100 MEUR.

On the expense side, there was also a positive development, as the operating loss of the Other Operations segment decreased to 25 MEUR (Q1'23: -31 MEUR). The company's efficiency measures are particularly visible here.

Estimates MEUR / EUR	Q1'23	Q1'24	Q1'24e	Q1'24e	Consensus		Difference (%)	2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	2265	2015	1857	1828	1544	- 1976	9%	6554
Comparable EBITDA	781	622	574	549	473	- 653	8%	1675
Comparable EBIT	698	530	483	451	383	- 569	10%	1267
EPS (adj.)	0.54	0.48	0.42	0.39	0.32	- 0.51	14%	1.10
Revenue growth-%	-	-11.0 %	-18.0 %	-19.3 %	-31.8 %	- -12.8 %	7 pp	-2.3 %
Comparable EBIT-%	30.8 %	26.3 %	26.0 %	24.7 %	24.8 %	- 28.8 %	0.3 pp	19.3 %

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

# Back and forth in forecasts

## Outlook was roughly as expected

The Generation segment's Nordic outright generation hedges: approximately 70% at EUR 43 per MWh for the remainder of 2024, and approximately 50% at EUR 42 per MWh for 2025. We believe that the levels of hedging increased systematically and were as expected. The price development was also in line with expectations, i.e.m in Q1 hedges were again used at a higher price level, while new hedges were entered into at a lower price level as the market price fell. Our own expectations had been for a slightly larger decline, which had a positive impact on the Generation segment's outlook. At the beginning of the year, the hedge price for the whole year 2024 was EUR 47/MWh.

Electricity prices were about the same as in our pre-comment, but we made revisions to the volume and mix of electricity generation. In its outlook, Fortum reported that the current annual wholesale production is approximately 47 TWh (+2 TWh) and the price, based on the normalized wholesale production price areas, is distributed as follows: Finland about 46%, Sweden's SE3 area about 37% and Sweden's SE2 area about 17%. In the past, this

was a simplified 40/40/20, but Olkiluoto 3 and the Pjelax wind farm are increasing Finland's role. Updating the weights has a slightly positive impact on the forecasts.

Ultimately, the EBIT forecast for the Generation segment in 2024 was increased by around 100 MEUR. However, a significant part of this has already been realized through the Q1 earnings beat. We raised both our revenue and cost forecasts outside Nordic power generation. Volumes are also boosted by the Pjelax wind farm, but we do not expect much contribution to earnings at the bottom lines.

## Positive changes outside Generation

We have increased our earnings forecasts for the Consumer Solutions and Other Operations segments. We have raised our EBIT forecast for the Consumer Solutions segment to 98 MEUR in 2024 (was 79 MEUR), which is very moderate compared to the Q1 result. There should be scope for better in the coming years.

The Other Operations segment includes Circular Solutions, Innovation and Venturing, corporate functions serving the businesses and corporate

management. Costs decreased significantly in Q1 compared to year-end levels and EBIT is now -25 MEUR (Q4'23: -43 MEUR). It is difficult to say what the "normal" level is at the moment, but efficiency improvements will reduce the loss significantly in the coming years. We now expect the segment's EBIT to be -109 MEUR in 2024 (previously -140 MEUR). Thus, positive changes took place in both smaller segments, and in one of them they were already significant.

## Nasty back and forth in forecasts

In our Q1 pre-comment, we lowered our earnings forecasts mainly due to electricity price developments and the extended annual maintenance of OL3. However, our forecast is now back close to previous levels as the first quarter beat our expectations, we raised expectations for all segments, and financial expenses have continued to decline as the balance sheet has strengthened. The earnings growth outlook is still a declining one for the coming years, but even in weak years we expect EPS of close to one euro. We expect a turnaround in 2027, but it could happen sooner, depending on electricity prices.

Estimate revisions MEUR / EUR	2024e	2024e	Change %	2025e	2025e	Change %	2026e	2026e	Change %
	Old	New		Old	New		Old	New	
Revenue	6104	6554	7%	6119	6623	8%	6170	6651	8%
EBITDA	1467	1675	14%	1469	1527	4%	1453	1500	3%
EBIT (exc. NRIs)	1115	1267	14%	1115	1174	5%	1096	1143	4%
EBIT	1115	1308	17%	1115	1174	5%	1096	1143	4%
PTP	1045	1267	21%	1025	1112	8%	1008	1078	7%
EPS (excl. NRIs)	0.93	1.10	18%	0.91	1.00	10%	0.90	0.97	8%
DPS	0.82	0.96	18%	0.80	0.88	10%	0.79	0.85	8%

# Valuation is moderate, but requires patience

## Valuable core in hydro and nuclear power

Fortum has returned to being a creditworthy Nordic energy company, with 45% of its electricity production in 2023 coming from high-value hydropower and 53% from nuclear power in Finland and Sweden. In particular, the value of Fortum's hydropower as balancing power will continue to increase as the impact of wind power on the electricity market continues to grow. As a result, fluctuations in electricity prices will continue to intensify, with the prices sometimes being negative and sometimes high. About 1/3 of Fortum's hydropower is highly flexible, 1/3 relatively flexible and 1/3 poorly flexible (run-of-river). Through physical optimization, hydropower will produce earnings, even if the price of electricity is low in general.

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

## Valuation multiples are low

Fortum's 2024e adjusted P/E on updated forecasts is around 11x, which we consider low despite a slightly declining earnings trajectory in the coming years. In the medium term, the electricity market seems to assume that the generation/demand balance will remain favorable for consumers in areas important to Fortum, which means that electricity price forecasts are low. At the same time, we do not want to lose sight of the long-term positive picture, as the electricity

market has been very volatile in recent years and is also sensitive to a positive turnaround. A rise in electricity prices would quickly change Fortum's earnings outlook, as the company's production is very cost-efficient in the grand scheme of things.

With a very strong balance sheet today, Fortum's valuation is moderate even on EV multiples. EV/EBITDA multiples for 2025-2026 are around 8x and EV/EBIT multiples are around 10-11x. With the P/B ratio below 1.3x, the balance sheet valuation is also attractive. Today, for example, the balance sheet includes hydroelectric and nuclear power plants that have largely been decommissioned. If these do not generate a significant return on capital under current conditions (ROE forecast at 10-12% in the coming years), there will be no new equivalents on the market. So, the balance of the electricity market will eventually tighten, with the risk of so-called foolish investments and state subsidies.

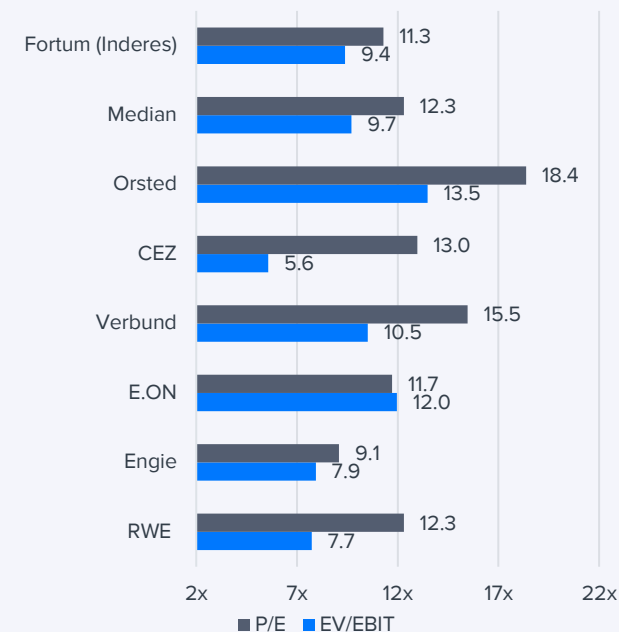
## Relative valuation is reasonable

Fortum's multiples are reasonably in line with the peer group median (2024e P/E 12x and EV/EBIT 10x). In our view, the company's best peer is Verbund, which is now valued significantly higher than Fortum (2024e P/E 15x and EV/EBIT 11x). Electricity prices in Europe are significantly higher than in the Nordic countries, which supports the performance levels of Fortum's peers. Overall, we believe Fortum's relative valuation is reasonable, but it does not offer major upside.

Valuation	2024e	2025e	2026e
Share price	12.4	12.4	12.4
Number of shares, millions	897.3	897.3	897.3
Market cap	11108	11108	11108
EV	11894	12012	12123
P/E (adj.)	11.3	12.4	12.8
P/E	10.8	12.4	12.8
P/B	1.3	1.3	1.3
P/S	1.7	1.7	1.7
EV/Sales	1.8	1.8	1.8
EV/EBITDA	7.1	7.9	8.1
EV/EBIT (adj.)	9.4	10.2	10.6
Payout ratio (%)	84.5 %	88.0 %	88.0 %
Dividend yield-%	7.8 %	7.1 %	6.9 %

Source: Inderes

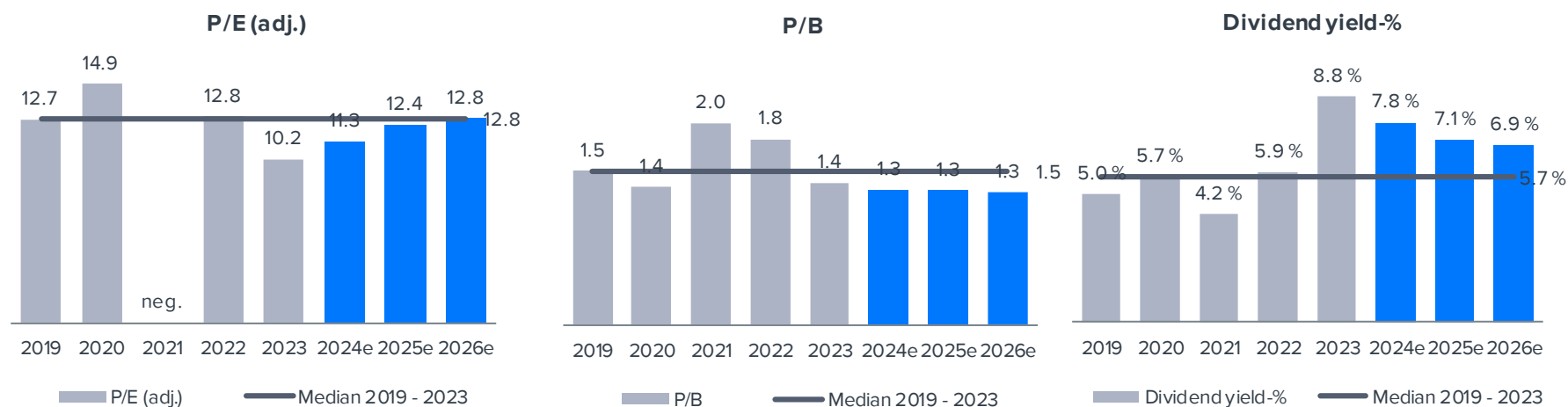
## Peer group valuation multiples (2024e)



# Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	22.0	19.7	27.0	15.5	13.1	12.4	12.4	12.4	12.4
Number of shares, millions	888.3	888.4	888.3	897.3	897.3	897.3	897.3	897.3	897.3
Market cap	19542	17501	23975	13943	11718	11108	11108	11108	11108
EV	18665	25567	32676	16661	12660	11894	12012	12123	12212
P/E (adj.)	12.7	14.9	neg.	12.8	10.2	11.3	12.4	12.8	11.7
P/E	13.2	12.0	32.4	6.7	7.7	10.8	12.4	12.8	11.7
P/B	1.5	1.4	2.0	1.8	1.4	1.3	1.3	1.3	1.3
P/S	3.6	3.9	3.7	1.8	1.7	1.7	1.7	1.7	1.6
EV/Sales	3.4	5.7	5.1	2.1	1.9	1.8	1.8	1.8	1.8
EV/EBITDA	11.0	11.0	6.7	7.0	6.3	7.1	7.9	8.1	7.5
EV/EBIT (adj.)	15.7	26.1	22.9	10.3	8.2	9.4	10.2	10.6	9.7
Payout ratio (%)	66.0 %	68.1 %	137.0 %	39.3 %	68.2 %	84.5 %	88.0 %	88.0 %	87.0 %
Dividend yield-%	5.0 %	5.7 %	4.2 %	5.9 %	8.8 %	7.8 %	7.1 %	6.9 %	7.4 %

Source: Inderes



# Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
RWE	24643	25242	7.7	9.0	4.8	5.0	12.3	15.6	3.3	3.6	0.7
Engie	39573	70088	7.9	8.3	5.0	5.1	9.1	9.8	7.5	7.1	1.2
E.ON	33016	66900	12.0	11.9	7.7	7.6	11.7	11.9	4.4	4.6	1.9
Verbund	24632	27483	10.5	11.4	9.0	9.5	15.5	16.6	3.5	3.2	2.5
CEZ	18503	20407	5.6	7.1	4.1	4.7	13.0	15.6	6.7	6.1	2.1
Enel	63033	140343	9.7	9.7	6.3	6.2	9.2	9.2	7.4	7.6	1.8
Orsted	22124	29973	13.5	10.6	8.4	7.3	18.4	14.0			2.1
<b>Fortum (Inderes)</b>	<b>11108</b>	<b>11894</b>	<b>9.4</b>	<b>10.2</b>	<b>7.1</b>	<b>7.9</b>	<b>11.3</b>	<b>12.4</b>	<b>7.8</b>	<b>7.1</b>	<b>1.3</b>
<b>Average</b>			<b>9.6</b>	<b>9.7</b>	<b>6.5</b>	<b>6.5</b>	<b>12.7</b>	<b>13.2</b>	<b>5.5</b>	<b>5.4</b>	<b>1.8</b>
<b>Median</b>			<b>9.7</b>	<b>9.7</b>	<b>6.3</b>	<b>6.2</b>	<b>12.3</b>	<b>14.0</b>	<b>5.6</b>	<b>5.4</b>	<b>1.9</b>
<b>Diff-% to median</b>			<b>-3%</b>	<b>6%</b>	<b>13%</b>	<b>27%</b>	<b>-8%</b>	<b>-11%</b>	<b>40%</b>	<b>33%</b>	<b>-32%</b>

Source: Refinitiv / Inderes



# Income statement

Income statement	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
<b>Revenue</b>	<b>2265</b>	<b>1367</b>	<b>1221</b>	<b>1858</b>	<b>6711</b>	<b>2015</b>	<b>1313</b>	<b>1223</b>	<b>2003</b>	<b>6554</b>	<b>6623</b>	<b>6651</b>	<b>6808</b>
<i>Generation (new)</i>	1429	805	847	1339	4420	1412	797	768	1362	4340	4282	4245	4382
<i>Consumer Solutions</i>	1384	750	563	1069	3766	1154	749	666	1111	3679	3728	3777	3858
<i>Others (new)</i>	136	126	139	147	548	144	126	135	143	547	540	540	540
<i>Eliminations</i>	-684	-314	-328	-697	-2023	-695	-359	-346	-613	-2012	-1927	-1910	-1972
<b>EBITDA</b>	<b>852</b>	<b>349</b>	<b>344</b>	<b>476</b>	<b>2021</b>	<b>663</b>	<b>261</b>	<b>247</b>	<b>504</b>	<b>1675</b>	<b>1527</b>	<b>1500</b>	<b>1623</b>
Depreciation	-83	-82	-93	-101	-359	-92	-91	-90	-94	-367	-353	-357	-362
<b>EBIT (excl. NRI)</b>	<b>698</b>	<b>262</b>	<b>226</b>	<b>358</b>	<b>1544</b>	<b>530</b>	<b>170</b>	<b>157</b>	<b>410</b>	<b>1267</b>	<b>1174</b>	<b>1143</b>	<b>1262</b>
<b>EBIT</b>	<b>769</b>	<b>267</b>	<b>251</b>	<b>375</b>	<b>1662</b>	<b>571</b>	<b>170</b>	<b>157</b>	<b>410</b>	<b>1308</b>	<b>1174</b>	<b>1143</b>	<b>1262</b>
<i>Generation (new)</i>	723	304	262	390	1679	513	181	169	414	1277	1162	1123	1231
<i>Consumer Solutions</i>	6	10	11	11	38	42	17	16	23	98	102	110	120
<i>Others (new)</i>	-31	-52	-47	-43	-173	-25	-28	-28	-28	-109	-90	-90	-90
<i>Items affecting comparability</i>	71	5	25	17	118	41	0	0	0	41	0	0	0
Share of associates' profit/loss	22	-42	-10	89	59	21	-5	-10	23	29	30	30	30
Net financial items	-95	-50	-17	24	-138	-13	-19	-19	-19	-70	-91	-95	-104
<b>PTP</b>	<b>696</b>	<b>175</b>	<b>224</b>	<b>488</b>	<b>1583</b>	<b>580</b>	<b>146</b>	<b>128</b>	<b>414</b>	<b>1267</b>	<b>1112</b>	<b>1078</b>	<b>1188</b>
Taxes	-154	199	-38	-76	-69	-106	-29	-26	-74	-235	-206	-199	-232
Minority interest	-2	2	0	-1	-1	-2	0	0	-5	-7	-7	-7	-8
<b>Net earnings</b>	<b>540</b>	<b>376</b>	<b>186</b>	<b>411</b>	<b>1513</b>	<b>471</b>	<b>117</b>	<b>102</b>	<b>335</b>	<b>1025</b>	<b>899</b>	<b>871</b>	<b>948</b>
<b>EPS (adj.)</b>	<b>0.54</b>	<b>0.16</b>	<b>0.23</b>	<b>0.35</b>	<b>1.28</b>	<b>0.48</b>	<b>0.13</b>	<b>0.11</b>	<b>0.37</b>	<b>1.10</b>	<b>1.00</b>	<b>0.97</b>	<b>1.06</b>
<b>EPS (rep.)</b>	<b>0.60</b>	<b>0.42</b>	<b>0.21</b>	<b>0.46</b>	<b>1.69</b>	<b>0.53</b>	<b>0.13</b>	<b>0.11</b>	<b>0.37</b>	<b>1.14</b>	<b>1.00</b>	<b>0.97</b>	<b>1.06</b>

Key figures	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
<b>Revenue growth-%</b>	16.8 %	-11.0 %	-35.4 %	-22.8 %	-13.7 %	-11.0 %	-3.9 %	0.2 %	7.8 %	-2.3 %	1.1 %	0.4 %	2.4 %
<b>Adjusted EBIT growth-%</b>	114.1 %	0.0 %	-36.2 %	-46.5 %	-4.2 %	-24.1 %	-35.1 %	-30.5 %	14.5 %	-18.0 %	-7.3 %	-2.6 %	10.3 %
<b>EBITDA-%</b>	37.6 %	25.5 %	28.2 %	25.6 %	30.1 %	32.9 %	19.9 %	20.2 %	25.2 %	25.6 %	23.1 %	22.6 %	23.8 %
<b>Adjusted EBIT-%</b>	30.8 %	19.2 %	18.5 %	19.3 %	23.0 %	26.3 %	12.9 %	12.8 %	20.5 %	19.3 %	17.7 %	17.2 %	18.5 %
<b>Net earnings-%</b>	23.8 %	27.5 %	15.2 %	22.1 %	22.5 %	23.4 %	8.9 %	8.3 %	16.7 %	15.6 %	13.6 %	13.1 %	13.9 %

Source: Inderes

# Balance sheet

Assets	2023	2024e	2025e	2026e
<b>Non-current assets</b>	<b>11392</b>	<b>11585</b>	<b>11792</b>	<b>12045</b>
Goodwill	0.0	0.0	0.0	0.0
Intangible assets	643	653	663	673
Tangible assets	6612	6795	6992	7235
Associated companies	1059	1059	1059	1059
Other investments	644	644	644	644
Other non-current assets	1476	1476	1476	1476
Deferred tax assets	958	958	958	958
<b>Current assets</b>	<b>7347</b>	<b>6178</b>	<b>5908</b>	<b>5932</b>
Inventories	452	393	397	399
Other current assets	389	389	389	389
Receivables	2323	1966	1987	1995
Cash and equivalents	4183	3430	3135	3148
<b>Balance sheet total</b>	<b>18739</b>	<b>17763</b>	<b>17700</b>	<b>17977</b>

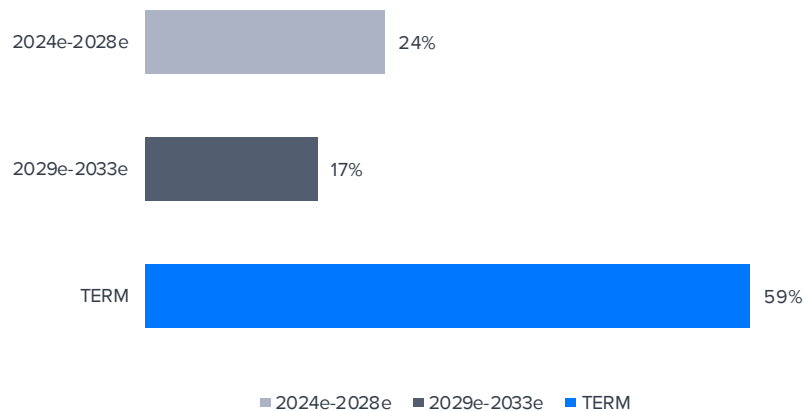
Source: Inderes

Liabilities & equity	2023	2024e	2025e	2026e
<b>Equity</b>	<b>8498</b>	<b>8491</b>	<b>8524</b>	<b>8604</b>
Share capital	3046	3046	3046	3046
Retained earnings	5592	5585	5618	5698
Hybrid bonds	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0
Other equity	-200.0	-200.0	-200.0	-200.0
Minorities	60.0	60.0	60.0	60.0
<b>Non-current liabilities</b>	<b>6534</b>	<b>5761</b>	<b>5702</b>	<b>5814</b>
Deferred tax liabilities	428	428	428	428
Provisions	1185	1185	1185	1185
Interest bearing debt	4573	3800	3741	3853
Convertibles	0.0	0.0	0.0	0.0
Other long term liabilities	348	348	348	348
<b>Current liabilities</b>	<b>3707</b>	<b>3511</b>	<b>3473</b>	<b>3558</b>
Interest bearing debt	1337	1200	1082	1095
Payables	1312	1311	1391	1463
Other current liabilities	1058	1000	1000	1000
<b>Balance sheet total</b>	<b>18739</b>	<b>17763</b>	<b>17700</b>	<b>17977</b>

# DCF calculation

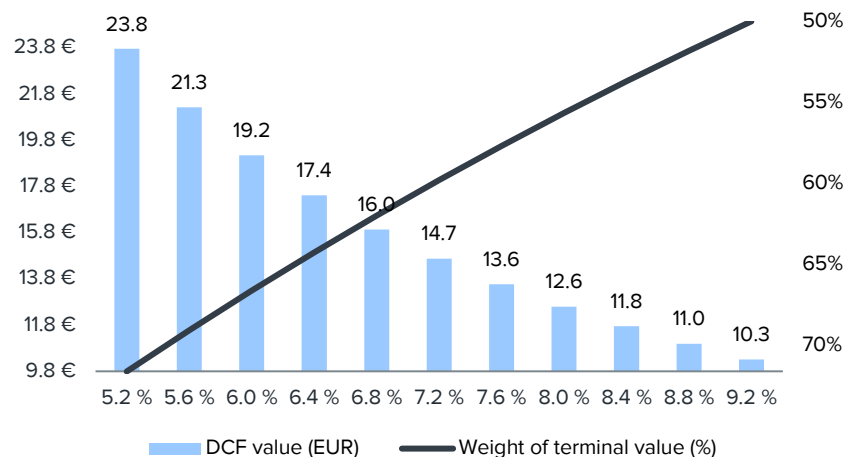
DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-13.7 %	-2.3 %	1.1 %	0.4 %	2.4 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %	1.5 %	1.5 %
EBIT-%	24.8 %	20.0 %	17.7 %	17.2 %	18.5 %	18.5 %	18.5 %	18.5 %	18.5 %	18.0 %	18.0 %	18.0 %
<b>EBIT (operating profit)</b>	<b>1662</b>	<b>1308</b>	<b>1174</b>	<b>1143</b>	<b>1262</b>	<b>1291</b>	<b>1323</b>	<b>1356</b>	<b>1384</b>	<b>1373</b>	<b>1394</b>	
+ Depreciation	359	367	353	357	362	374	385	396	406	416	425	
- Paid taxes	182	-235	-206	-199	-232	-231	-236	-241	-245	-242	-245	
- Tax, financial expenses	-14	-41	-41	-39	-39	-39	-41	-43	-44	-46	-47	
+ Tax, financial income	7	28	24	21	18	12	12	12	13	13	13	
- Change in working capital	280	356	55	62	-22	-24	-24	-25	-21	-21	-16	
<b>Operating cash flow</b>	<b>2477</b>	<b>1782</b>	<b>1360</b>	<b>1345</b>	<b>1349</b>	<b>1383</b>	<b>1419</b>	<b>1456</b>	<b>1492</b>	<b>1493</b>	<b>1524</b>	
+ Change in other long-term liabilities	-454	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	752	-560	-560	-610	-610	-657	-618	-619	-616	-608	-526	
<b>Free operating cash flow</b>	<b>2775</b>	<b>1222</b>	<b>800</b>	<b>735</b>	<b>739</b>	<b>726</b>	<b>801</b>	<b>837</b>	<b>877</b>	<b>885</b>	<b>998</b>	
+/- Other	368	0	0	0	0	0	0	0	0	0	0	
FCFF	3143	1222	800	735	739	726	801	837	877	885	998	17687
<b>Discounted FCFF</b>		<b>1167</b>	<b>712</b>	<b>610</b>	<b>572</b>	<b>524</b>	<b>539</b>	<b>526</b>	<b>513</b>	<b>483</b>	<b>508</b>	<b>9010</b>
Sum of FCFF present value		15166	13999	13287	12676	12104	11580	11041	10515	10002	9518	9010
<b>Enterprise value DCF</b>		<b>15166</b>										
- Interest bearing debt		-5910										
+ Cash and cash equivalents		4183										
+ Sijoitukset osakkuusyhtiöihin		1059										
-Minorities		-274										
-Dividend/capital return		-1032										
<b>Equity value DCF</b>		<b>13192</b>										
<b>Equity value DCF per share</b>		<b>14.7</b>										
<b>WACC</b>												
Tax-% (WACC)		20.0 %										
Target debt ratio (D/(D+E))		25.0 %										
Cost of debt		4.5 %										
Equity Beta		1.25										
Market risk premium		4.75%										
Liquidity premium		0.00%										
Risk free interest rate		2.5 %										
<b>Cost of equity</b>		<b>8.4 %</b>										
<b>Weighted average cost of capital (WACC)</b>		<b>7.2 %</b>										

Cash flow distribution

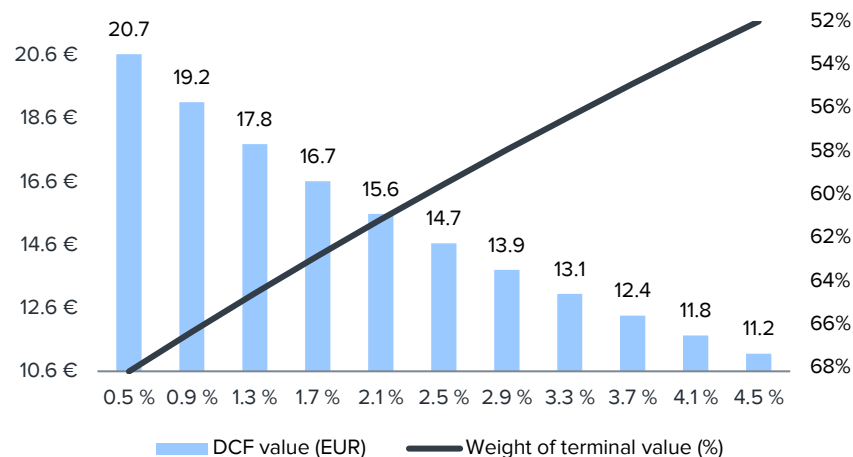


# DCF sensitivity calculations and key assumptions in graphs

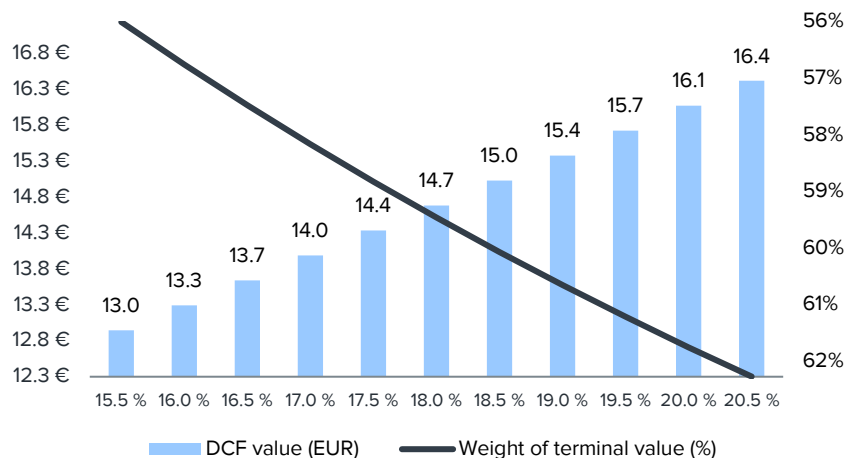
Sensitivity of DCF to changes in the WACC-%



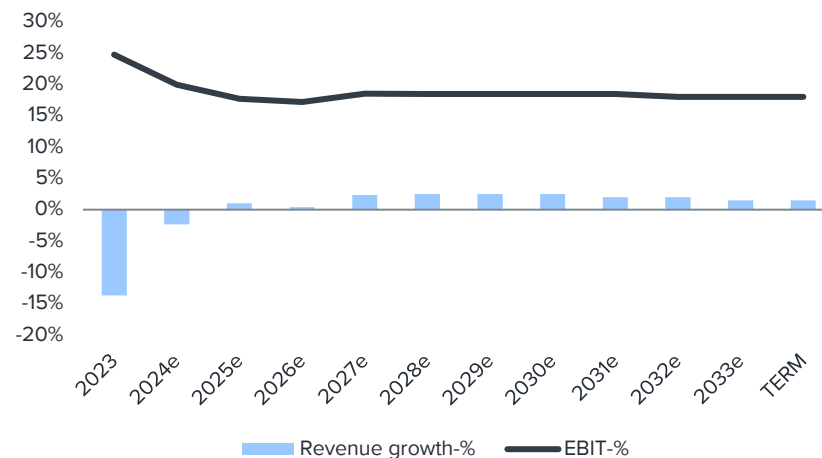
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



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

# Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	6422	7774	6711	<b>6554</b>	<b>6623</b>	EPS (reported)	0.83	2.32	1.69	<b>1.14</b>	<b>1.00</b>
EBITDA	4913	2382	2021	<b>1675</b>	<b>1527</b>	EPS (adj.)	-1.78	1.21	1.28	<b>1.10</b>	<b>1.00</b>
EBIT	4326	1967	1662	<b>1308</b>	<b>1174</b>	OCF / share	1.23	6.35	2.76	<b>1.99</b>	<b>1.52</b>
PTP	4333	1564	1583	<b>1267</b>	<b>1112</b>	FCF / share	1.05	3.94	3.50	<b>1.36</b>	<b>0.89</b>
Net Income	739	2080	1513	<b>1025</b>	<b>899</b>	Book value / share	13.66	8.55	9.40	<b>9.40</b>	<b>9.43</b>
Extraordinary items	2897	356	118	<b>41</b>	<b>0</b>	Dividend / share	1.14	0.91	1.15	<b>0.96</b>	<b>0.88</b>
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	149661	23642	18739	<b>17763</b>	<b>17700</b>	Revenue growth-%	43%	21%	-14%	<b>-2%</b>	<b>1%</b>
Equity capital	13665	7737	8498	<b>8491</b>	<b>8524</b>	EBITDA growth-%	111%	-52%	-15%	<b>-17%</b>	<b>-9%</b>
Goodwill	1021	0	0	<b>0</b>	<b>0</b>	EBIT (adj.) growth-%	46%	13%	-4%	<b>-18%</b>	<b>-7%</b>
Net debt	9628	3866	1727	<b>1571</b>	<b>1689</b>	EPS (adj.) growth-%	-234%	-168%	6%	<b>-14%</b>	<b>-9%</b>
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	76.5 %	30.6 %	30.1 %	<b>25.6 %</b>	<b>23.1 %</b>
EBITDA	4913	2382	2021	<b>1675</b>	<b>1527</b>	EBIT (adj.)-%	22.3 %	20.7 %	23.0 %	<b>19.3 %</b>	<b>17.7 %</b>
Change in working capital	-1365	2189	280	<b>356</b>	<b>55</b>	EBIT-%	67.4 %	25.3 %	24.8 %	<b>20.0 %</b>	<b>17.7 %</b>
Operating cash flow	1092	5697	2477	<b>1782</b>	<b>1360</b>	ROE-%	5.9 %	21.0 %	18.8 %	<b>12.1 %</b>	<b>10.6 %</b>
CAPEX	-12840	33888	752	<b>-560</b>	<b>-560</b>	ROI-%	15.8 %	7.7 %	12.6 %	<b>10.6 %</b>	<b>9.9 %</b>
Free cash flow	929	3536	3143	<b>1222</b>	<b>800</b>	Equity ratio	9.1 %	32.7 %	45.3 %	<b>47.8 %</b>	<b>48.2 %</b>
Valuation multiples	2021	2022	2023	2024e	2025e	Gearing	70.5 %	50.0 %	20.3 %	<b>18.5 %</b>	<b>19.8 %</b>
EV/S	5.1	2.1	1.9	<b>1.8</b>	<b>1.8</b>						
EV/EBITDA (adj.)	6.7	7.0	6.3	<b>7.1</b>	<b>7.9</b>						
EV/EBIT (adj.)	22.9	10.3	8.2	<b>9.4</b>	<b>10.2</b>						
P/E (adj.)	neg.	12.8	10.2	<b>11.3</b>	<b>12.4</b>						
P/B	2.0	1.8	1.4	<b>1.3</b>	<b>1.3</b>						
Dividend-%	4.2 %	5.9 %	8.8 %	<b>7.8 %</b>	<b>7.1 %</b>						

Source: Inderes

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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
3/17/2020	Buy	15.00 €	13.31 €
4/27/2020	Buy	17.00 €	14.86 €
5/18/2020	Buy	17.50 €	14.92 €
7/21/2020	Buy	20.00 €	17.84 €
8/20/2020	Buy	20.00 €	17.02 €
11/18/2020	Buy	20.00 €	17.63 €
12/4/2020	Buy	20.00 €	18.30 €
2/15/2021	Accumulate	22.50 €	21.97 €
5/14/2021	Accumulate	24.00 €	22.74 €
8/18/2021	Accumulate	26.50 €	24.49 €
11/15/2021	Reduce	25.00 €	25.30 €
2/28/2022	Reduce	19.00 €	19.47 €
3/7/2022	Accumulate	16.00 €	15.26 €
4/27/2022	Reduce	16.00 €	15.63 €
5/13/2022	Reduce	16.00 €	15.31 €
6/21/2022	Accumulate	18.00 €	16.31 €
7/25/2022	Accumulate	13.00 €	11.36 €
8/18/2022	Reduce	11.00 €	11.41 €
8/23/2022	Reduce	11.00 €	10.47 €
8/26/2022	Reduce	11.00 €	10.32 €
9/22/2022	Accumulate	14.50 €	13.25 €
10/13/2022	Accumulate	14.50 €	12.73 €
11/11/2022	Accumulate	16.50 €	14.38 €
12/7/2022	Accumulate	18.00 €	15.87 €
2/28/2023	Accumulate	16.00 €	14.51 €
3/3/2023	Accumulate	16.50 €	14.63 €
5/8/2023	Accumulate	15.00 €	13.57 €
5/12/2023	Buy	16.00 €	13.62 €
8/7/2023	Buy	15.00 €	11.81 €
11/3/2023	Buy	14.00 €	12.07 €
1/4/2024	Buy	14.50 €	13.26 €
2/8/2024	Buy	13.50 €	11.78 €
4/25/2024	Accumulate	13.50 €	12.13 €
5/1/2024	Accumulate	13.50 €	12.38 €



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