

Wärtsilä

Company report

10/11/2024



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Speed bumps coming up

Wärtsilä currently has a number of revenue and earnings drivers pointing in different directions, the impact of which we have now updated in our forecasts. The net effect is positive from 2025 onwards, but the changes are not large. However, the stock is fully priced, and we therefore maintain a Reduce recommendation. Nevertheless, we raise our target price to EUR 18.00 (was 17.00), following the changes in our forecasts for 2025-2026.

Marine and Energy forecasts moving in different directions

The order outlook for the Marine business has improved further after Clarkson raised its forecast for global ship orders in 2024. In addition, growth will be strongest in segments where Wärtsilä has a high market share, namely cruise ships, ferries and offshore. We have therefore raised our Marine equipment order estimates for 2024-2026 by 14-23%. Due to the shipyards' very long lead times, the impact on our revenue forecasts for Marine is less pronounced (+2...+6%) and the strengthening of order intake will be reflected more in the growth of Marine's order book over our forecast period. Marine's sales mix for 2024-2026 and thus our margin estimates are virtually unchanged. Another key variable is Wärtsilä Energy's storage business, where the company has lost market share as battery raw material prices have fallen. The combination of these factors, together with the slowdown in the expected delivery rate of the order book, has led to a significant reduction in the revenue projections for the storage business for 2024-2025. Across the whole Energy business, our 2024 revenue forecast is down 12%, our 2025 forecast is down 4%, and our 2026 forecast is down 2%. The changes we have made partially offset each other in the Wärtsilä group revenue figures. The changes in our group EBIT estimates for 2024-2026 are also quite small (-3...+4%).

High valuation and slowdown in growth drivers

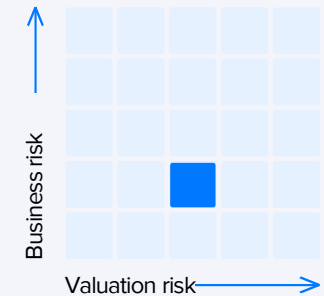
Wärtsilä's strengths as a company remain unchanged: a comprehensive technology portfolio, a very strong market position in many segments, and highly profitable service operations. There are, however, some slowdowns ahead. The expected order intake in the Marine business will only be realized in the long term due to the lack of capacity in the shipyards. In addition, the lack of infrastructure for the storage and distribution of low- or zero-emission fuels, both in ports and inland, is holding back growth in Marine as well as Energy. These problems are slow to be resolved, and therefore the main growth driver for Wärtsilä's share between 2025 and 2026 appears to be the growth in order intake and, at the same time, the order book. For reasons beyond Wärtsilä's control, we expect the growth in deliveries, and thus profitability, to slow down significantly. Indeed, we believe that Wärtsilä's strong demand outlook has already been largely discounted by the current valuation level of the stock. Based on 2025 P/E- and EV/EBIT-based calculations, the total expected return on the stock is on average +8...+9%. This is in line with a required return of around 9%, indicating that the stock is fully priced. The share's 2025 P/E and EV/EBIT ratios (21x and 14x) are 12...21% below the median of the peers. The discount is clear, but the peer group's valuation multiples are tough. Our cash flow model does not indicate upside potential for the share, but instead the price level is about 4% above the DCF value.

Recommendation

Reduce
(was Reduce)

EUR 18.00
(was EUR 17.00)

Share price:
19.98



Key figures

	2023	2024e	2025e	2026e
Revenue	6014	6784	7511	8097
growth-%	3%	13%	11%	8%
EBIT adj.	497	703	816	895
EBIT-% adj.	8.3 %	10.4 %	10.9 %	11.1 %
Net Income	258	459	560	620
EPS (adj.)	0.56	0.80	0.95	1.05

P/E (adj.)	23.6	25.1	21.0	19.0
P/B	3.5	4.7	4.2	3.7
Dividend yield-%	2.4 %	2.0 %	2.6 %	3.1 %
EV/EBIT (adj.)	15.7	17.0	14.4	12.8
EV/EBITDA	13.1	14.2	12.0	10.8
EV/S	1.3	1.8	1.6	1.4

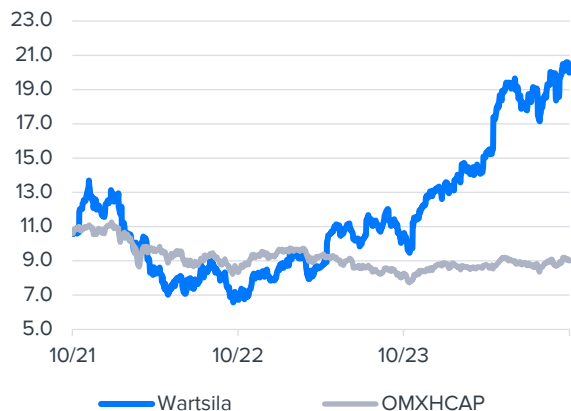
Source: Inderes

Guidance

(Unchanged)

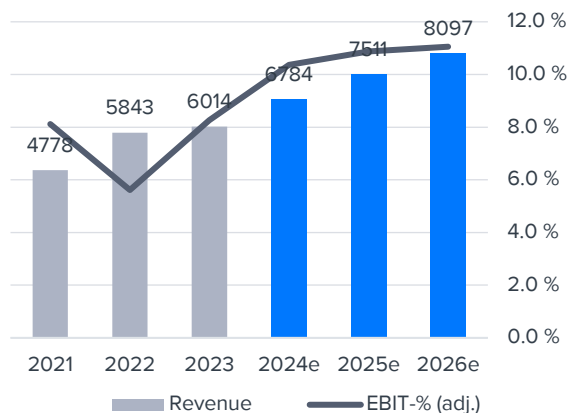
Wärtsilä expects the demand environment for both its marine (Wärtsilä Marine) and energy (Wärtsilä Energy) businesses to be better in the next 12 months (Q3/2024-Q2/2025) than in the comparison period.

Share price



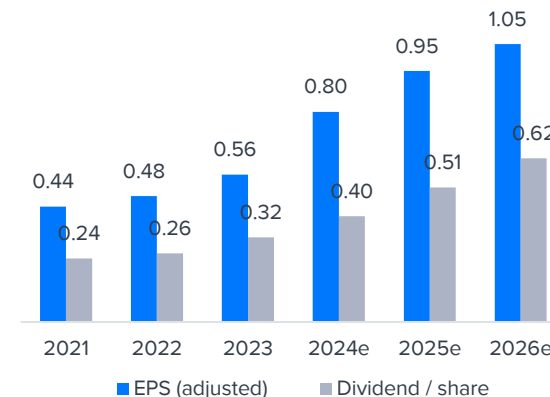
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Strong position in the selected segments
- Extensive installed equipment portfolio and significant share of services business
- Progress in high value-added services
- Profitability of energy storage solutions turns positive



Risk factors

- Cyclicity of shipbuilding
- Uncertainty about the winning renewable energy production forms
- Energy's deliveries focusing on storage solutions depress margins
- The strategic position of energy storage solutions is uncertain

Valuation	2024e	2025e	2026e
Share price	20.0	20.0	20.0
Number of shares, millions	589.0	589.0	589.0
Market cap	11769	11769	11769
EV	11939	11729	11501
P/E (adj.)	25.1	21.0	19.0
P/E	25.6	21.0	19.0
P/B	4.7	4.2	3.7
P/S	1.7	1.6	1.5
EV/Sales	1.8	1.6	1.4
EV/EBITDA	14.2	12.0	10.8
EV/EBIT (adj.)	17.0	14.4	12.8
Payout ratio (%)	51.3 %	53.7 %	58.9 %
Dividend yield-%	2.0 %	2.6 %	3.1 %

Source: Inderes

Marine and Energy forecasts moving in different directions

Forecast drivers in different directions

We see Wärtsilä having a number of revenue and earnings drivers pointing in different directions, the impact of which we have now updated in our forecasts. The net effect is positive from 2025 onwards, but the changes are not large.

Marine's equipment order estimates up, driven by strong market

The order outlook for the Marine business has further improved, as Wärtsilä itself recently pointed out when referring to Clarkson's increased global ship order forecasts for 2024. Growth will be strongest in segments where Wärtsilä has a high market share, namely cruise ships, ferries and offshore. We have raised our Marine equipment order estimates for 2024-2026 by 14-23% and service order estimates by 4%. Due to the shipyards' very long lead times, the

impact on our revenue forecasts for Marine is less pronounced (+2...+6%) and the strengthening of order intake will be reflected more in the growth of Marine's order book over our explicit forecast period (Q2'24: 3,155 MEUR vs. Q4'26: 4,635 MEUR or +47%). Marine's sales mix for 2024-2026 and thus our margin estimates are virtually unchanged.

Downward pressure on storage figures

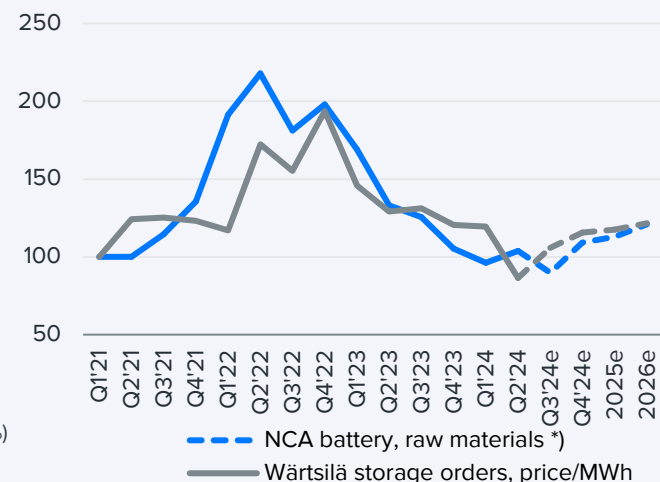
Another key variable is Wärtsilä Energy's storage business. Wärtsilä has lost market share in this business while also battery raw material prices have fallen. Wärtsilä stated in the Q3'24 pre-silent period conference call that it is now ranked 6...7 in the market, after a previous top 3 ranking. The combination of these factors, together with the slowdown in the expected delivery rate of the order book, has led to a reduction in the revenue

projections for the storage business by 18% for 2024 and by 7% for 2025, while the forecast for 2026 is broadly unchanged. Across the whole Energy business, our 2024 revenue forecast is down 12%, our 2025 forecast is down 4%, and our 2026 forecast is down 2%. However, our EBIT margin expectations have increased by 0.1...0.3 percentage points as a result of the change in mix.

Estimate revisions MEUR / EUR	2024e			2025e			2026e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
Revenue	7106	6784	-5%	7471	7511	1%	7884	8097	3%
EBIT (exc. NRIs)	722	703	-3%	799	816	2%	863	895	4%
EBIT	709	690	-3%	799	816	2%	863	895	4%
PTP	679	660	-3%	788	805	2%	863	892	3%
EPS (excl. NRIs)	0.82	0.80	-3%	0.93	0.95	2%	1.02	1.05	3%
DPS	0.40	0.40	0%	0.50	0.51	2%	0.60	0.62	3%

So urce: Inderes

Battery raw material prices vs. Wärtsilä storage prices, indexed (Q1'21 = 100)



*) Nickel (75%), lithium (11%) and cobalt (14%)

Source: Bloomberg

Challenging valuation level

High valuation and slowdown in growth drivers

Wärtsilä's strengths as a company remain unchanged. The company's technology portfolio is very comprehensive, and it has a solution for almost any fuel or fuels that will dominate after the energy transition. In addition, its market position is very strong in many segments and its service operations, based on a large installed base, are highly profitable.

There are, however, some slowdowns ahead. The expected order intake in the Marine business will only be realized in the long term and partly only in 2028-2029 due to the lack of capacity in the shipyards. In addition, the lack of infrastructure for the storage and distribution of low- or zero-emission fuels (e.g. ammonia, methanol, hydrogen), both in ports and inland, is holding back growth in Marine as well as Energy. Both of these problems are slow to be resolved, and therefore the main positive trigger for Wärtsilä's share price between 2025 and 2026 appears to be the growth in order intake and, at the same time, the order book. For reasons beyond Wärtsilä's control, we expect the growth in deliveries, and thus profits, to slow down significantly.

We believe that Wärtsilä's strong demand outlook has already been largely discounted by the current valuation level of the stock. Our updated forecasts are not pessimistic, as our adjusted EBIT expectations for 2025-2026 are 3...4% higher than the Vara Research consensus forecast (8/6/2024). The stock is fully priced using both the risk-adjusted return model and the DCF model. While the valuation multiples are below the peer group median, the multiples of the peer group itself are remarkably high. We therefore maintain a Reduce recommendation on the stock. Still, we raise our target price to EUR 18.00 (was 17.00), following the changes in our forecasts for 2025-2026.

Risk-adjusted return suggests full valuation

The total expected return on the share (the upside in the price determined by earnings growth and the change in valuation multiples plus the dividend yield) averages +8...+9% based on the P/E and EV/EBIT based calculations for 2025. The return comprises around 6% share price potential and a dividend yield of some 2...3%. The total expected return is in line with a required return of around 9%, indicating that the stock is fully priced. Thus, the share's risk-adjusted expected return is not attractive.

Multiple-based valuation below peers, but high overall

The share's 2025 P/E and EV/EBIT ratios (21x and 14x) are 12...21% below the median of the peers. The discount is clear, but the peer group's valuation multiples are tough. Wärtsilä's multiples are in line with the company's own historical multiples.

Lack of DCF potential

Our cash flow model does not indicate upside potential for the share, but instead the price level is about 4% above the DCF value. In addition, Wärtsilä's cash flow profile in the model is backloaded (terminal period = 65% of value). This is still offset by our rather conservative expectations for the terminal EBIT margin (9.5%).

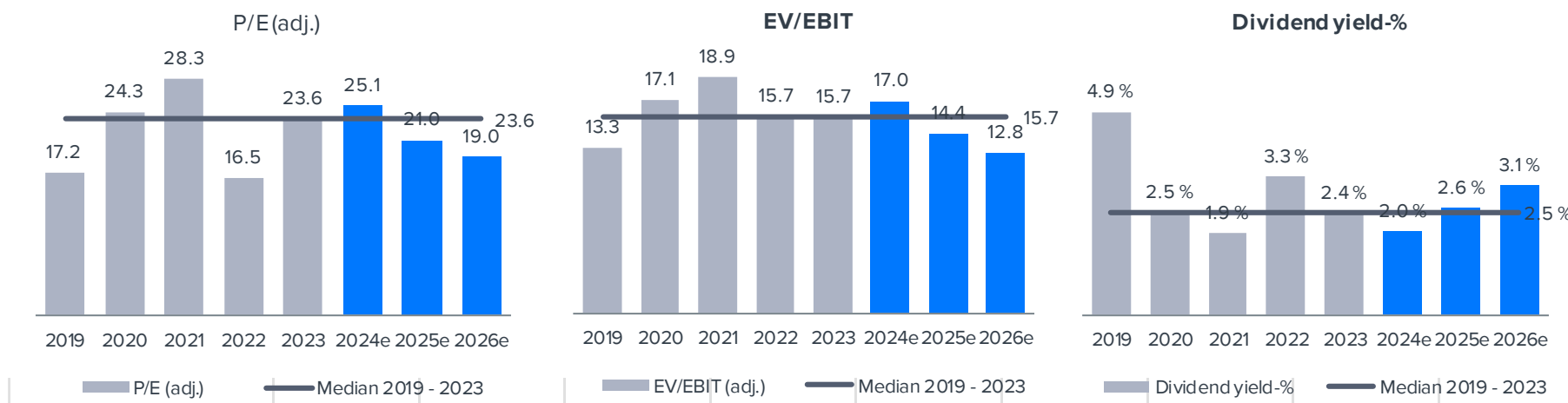
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P/E (adj.)	25.1	21.0	19.0
P/E	25.6	21.0	19.0
P/B	4.7	4.2	3.7
P/S	1.7	1.6	1.5
EV/Sales	1.8	1.6	1.4
EV/EBITDA	14.2	12.0	10.8
EV/EBIT (adj.)	17.0	14.4	12.8
Payout ratio (%)	51.3 %	53.7 %	58.9 %
Dividend yield-%	2.0 %	2.6 %	3.1 %

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	9.85	8.15	12.4	7.87	13.1	20.0	20.0	20.0	20.0
Number of shares, millions	591.7	591.7	590.0	590.0	589.0	589.0	589.0	589.0	589.0
Market cap	5828	4823	7293	4643	7734	11769	11769	11769	11769
EV	6601	5255	7326	5158	7804	11939	11729	11501	11256
P/E (adj.)	17.2	24.3	28.3	16.5	23.6	25.1	21.0	19.0	17.7
P/E	27.0	36.0	37.8	neg.	30.0	25.6	21.0	19.0	17.7
P/B	2.4	2.2	3.2	2.2	3.5	4.7	4.2	3.7	3.4
P/S	1.1	1.0	1.5	0.8	1.3	1.7	1.6	1.5	1.4
EV/Sales	1.3	1.1	1.5	0.9	1.3	1.8	1.6	1.4	1.3
EV/EBITDA	11.0	12.1	14.4	15.3	13.1	14.2	12.0	10.8	10.0
EV/EBIT (adj.)	13.3	17.1	18.9	15.7	15.7	17.0	14.4	12.8	11.9
Payout ratio (%)	131.5 %	88.3 %	73.4 %	neg.	73.1 %	51.3 %	53.7 %	58.9 %	57.7 %
Dividend yield-%	4.9 %	2.5 %	1.9 %	3.3 %	2.4 %	2.0 %	2.6 %	3.1 %	3.3 %

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
Metso Corp	7852	8892	11.5	10.7	9.7	9.0	1.8	1.7	14.8	13.4	3.8	4.1	2.9
Kone Oyj	27465	26970	20.3	18.7	16.8	15.6	2.4	2.3	26.3	24.2	3.5	3.7	9.4
Konecranes Abp	5332	5765	11.2	10.9	9.3	9.1	1.4	1.4	14.7	14.2	2.3	2.6	2.9
Siemens Energy AG	28391	25323	21.7	20.6	17.2	9.2	0.7	0.7	3238.2	40.0	0.1	0.1	3.1
Abb Ltd	98791	101693	20.2	18.2	17.5	15.9	3.4	3.2	26.0	24.0	1.7	1.8	7.2
Alfa Laval AB	17551	18477	19.0	17.0	15.8	14.4	3.0	2.9	25.2	22.3	1.7	1.8	4.8
Alstom SA	9103	10898	14.6	13.0	8.4	7.5	0.6	0.6	17.6	13.8	1.5	1.4	0.9
Caterpillar Inc	175477	205600	16.3	16.9	14.0	14.0	3.5	3.4	17.9	17.4	1.4	1.5	10.4
GE Vernova	66918	62512	75.4	37.0	31.8	21.2	2.0	1.9	85.4	40.5			6.4
Rolls-Royce Holdings PLC	53927	54953	20.7	18.5	14.7	13.3	2.7	2.5	29.8	25.4	1.0	1.2	
Woodward Inc	8827	9388	20.8	20.8	16.9	16.5	3.1	3.0	27.2	26.8	0.6	0.7	4.3
Wartsila (Inderes)	11769	11939	17.0	14.4	14.2	12.0	1.8	1.6	25.1	21.0	2.0	2.6	4.7
Average			22.9	18.4	15.6	13.2	2.2	2.1	320.3	23.8	1.8	1.9	5.2
Median			20.2	18.2	15.8	14.0	2.4	2.3	26.0	24.0	1.6	1.7	4.6
Diff-% to median			-16%	-21%	-10%	-14%	-28%	-33%	-3%	-12%	26%	54%	3%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	5843	6014	1322	1555	1811	2095	6784	7511	8097	8503
Marine	2758	2800	708	759	768	948	3183	3581	3897	4171
Energy	2721	2610	452	617	838	899	2806	3084	3366	3562
Portfolio Business	364	604	162	179	205	248	794	846	834	770
EBITDA	240	595	162	205	204	268	839	974	1065	1122
Depreciation	-263	-193	-35	-37	-38	-39	-149	-158	-169	-173
EBIT (excl. NRI)	328	497	132	176	166	229	703	816	895	949
EBIT	-23	402	127	168	166	229	690	816	895	949
Marine	-56	276	77	96	90	132	396	455	495	525
Energy	82	209	50	64	70	87	271	334	374	402
Portfolio Business	-52	-83	0	8	6	10	24	28	26	22
Net financial items	-7	-37	-9	-7	-7	-7	-30	-11	-3	5
PTP	-30	365	118	161	159	222	660	805	892	954
Taxes	-27	-95	-32	-44	-43	-61	-180	-220	-243	-260
Minority interest	-6	-12	-1	-1	-5	-14	-21	-26	-28	-30
Net earnings	-63	258	85	116	110	148	459	560	620	663
EPS (adj.)	0.48	0.56	0.15	0.21	0.19	0.25	0.80	0.95	1.05	1.13
EPS (rep.)	-0.11	0.44	0.14	0.20	0.19	0.25	0.78	0.95	1.05	1.13

Key figures	2022	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	22.3 %	2.9 %	-9.8 %	6.9 %	24.8 %	27.5 %	12.8 %	10.7 %	7.8 %	5.0 %
Adjusted EBIT growth-%	-15.5 %	51.5 %	48.3 %	64.5 %	33.8 %	29.6 %	41.5 %	16.1 %	9.6 %	6.0 %
EBITDA-%	4.1 %	9.9 %	12.3 %	13.2 %	11.3 %	12.8 %	12.4 %	13.0 %	13.1 %	13.2 %
Adjusted EBIT-%	5.6 %	8.3 %	10.0 %	11.3 %	9.2 %	10.9 %	10.4 %	10.9 %	11.1 %	11.2 %
Net earnings-%	-1.1 %	4.3 %	6.4 %	7.5 %	6.1 %	7.0 %	6.8 %	7.5 %	7.7 %	7.8 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	2559	2553	2597	2657	2693
Goodwill	1288	1273	1273	1273	1273
Intangible assets	392	402	418	427	427
Tangible assets	562	562	575	625	662
Associated companies	29	33	38	38	38
Other investments	19	19	18	18	18
Other non-current assets	72	52	52	52	52
Deferred tax assets	197	212	223	223	223
Current assets	4049	4250	4524	4995	5384
Inventories	1361	1485	1628	1803	1943
Other current assets	54	5	13	0	0
Receivables	2173	1943	2374	2629	2834
Cash and equivalents	461	817	509	563	607
Balance sheet total	6608	6803	7122	7651	8078

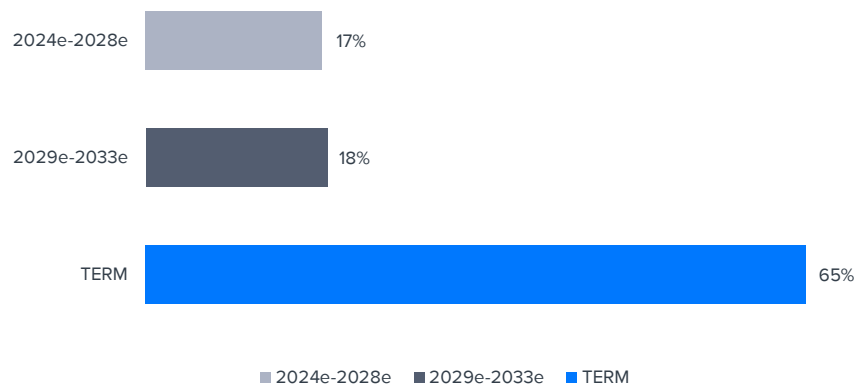
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	2148	2233	2505	2829	3148
Share capital	336	336	336	336	336
Retained earnings	1891	1989	2260	2584	2903
Hybrid bonds	0	0	0	0	0
Revaluation reserve	61	61	61	61	61
Other equity	-152	-161	-161	-161	-161
Minorities	12	8	9	9	9
Non-current liabilities	1355	1405	1166	1046	902
Deferred tax liabilities	65.0	69.0	59.0	59.0	59.0
Provisions	396	372	372	372	372
Interest bearing debt	740	739	510	390	246
Convertibles	0	0	0	0	0
Other long term liabilities	154	225	225	225	225
Current liabilities	3105	3165	3451	3777	4028
Interest bearing debt	209	120	127	97	61
Payables	2874	3045	3324	3680	3967
Other current liabilities	22	0	0	0	0
Balance sheet total	6608	6803	7122	7651	8078

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	2.9 %	12.8 %	10.7 %	7.8 %	5.0 %	6.6 %	5.7 %	4.8 %	3.8 %	2.9 %	2.5 %	2.5 %
EBIT-%	6.7 %	10.2 %	10.9 %	11.1 %	11.2 %	10.9 %	10.6 %	10.3 %	10.1 %	9.8 %	9.5 %	9.5 %
EBIT (operating profit)	402	690	816	895	949	987	1016	1037	1048	1048	1044	
+ Depreciation	193	149	158	169	173	162	170	175	181	183	183	
- Paid taxes	-106	-201	-220	-243	-260	-273	-281	-286	-288	-288	-286	
- Tax, financial expenses	-12	-12	-6	-4	-2	-1	0	-1	-2	-3	-3	
+ Tax, financial income	2	4	3	3	4	4	4	4	4	4	4	
- Change in working capital	304	-303	-60	-59	-41	-56	-51	-46	-39	-30	-27	
Operating cash flow	783	326	692	762	822	824	857	884	904	915	915	
+ Change in other long-term liabilities	47	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-168	-177	-217	-206	-188	-210	-208	-217	-200	-187	-214	
Free operating cash flow	662	149	475	555	634	614	649	667	705	728	701	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	662	149	475	555	634	614	649	667	705	728	701	14493
Discounted FCFF	147	435	473	503	453	446	426	419	403	361	7465	
Sum of FCFF present value		11530	11383	10948	10475	9972	9519	9073	8647	8228	7826	7465
Enterprise value DCF		11530										
- Interest bearing debt		-859										
+ Cash and cash equivalents		817										
-Minorities		-42										
-Dividend/capital return		-188										
Equity value DCF		11257										
Equity value DCF per share		19.1										

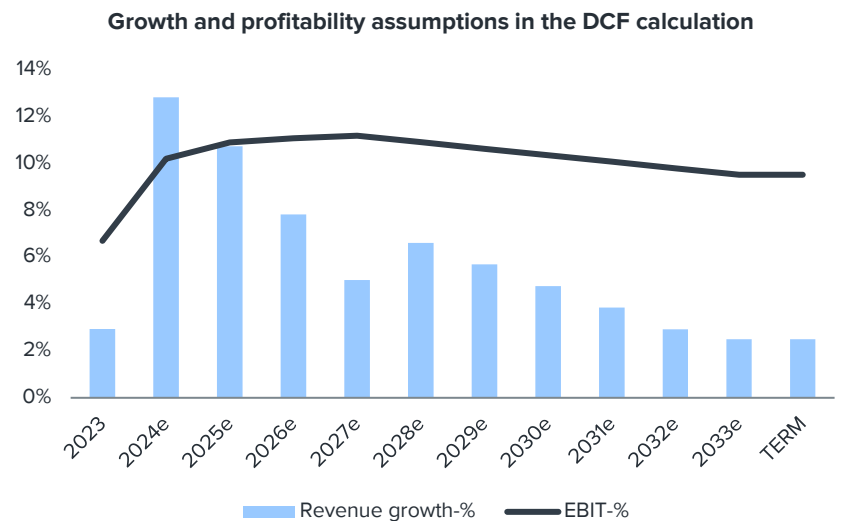
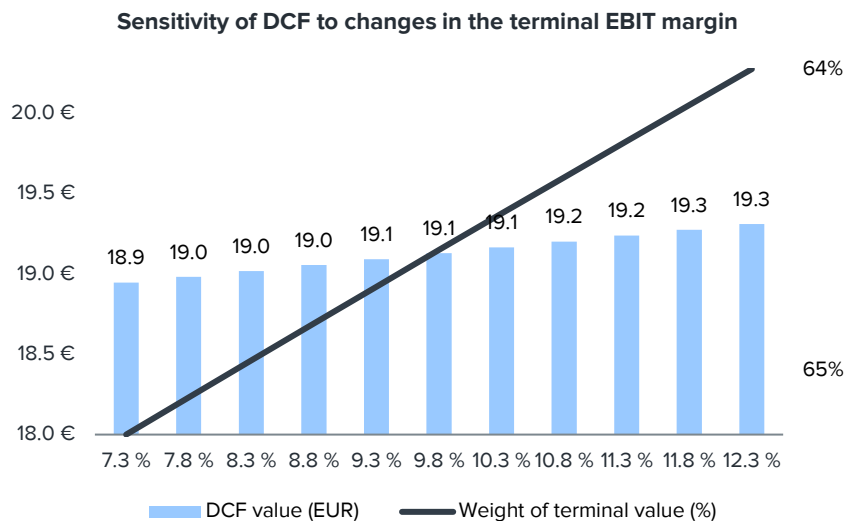
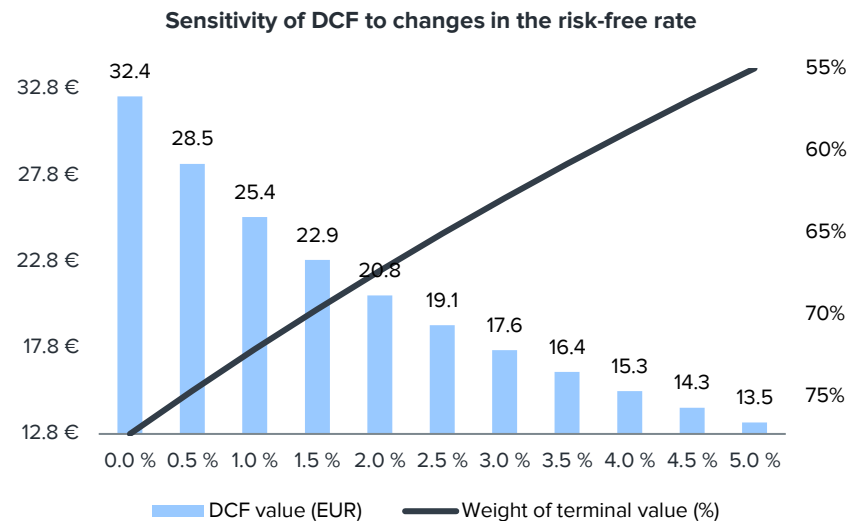
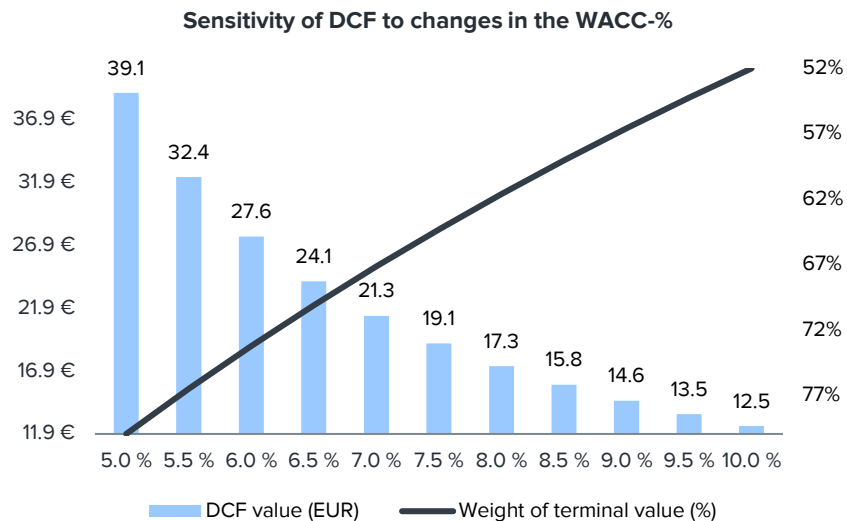
Cash flow distribution



WACC	
Tax-% (WACC)	26.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	3.5 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	8.7 %
Weighted average cost of capital (WACC)	7.5 %

Source: Inderes

DCF sensitivity calculations and key assumptions in graphs



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	4778.0	5843.0	6014.0	6783.7	7510.6	EPS (reported)	0.33	-0.11	0.44	0.78	0.95
EBITDA	476.0	240.0	595.0	839.2	974.1	EPS (adj.)	0.44	0.48	0.56	0.80	0.95
EBIT	314.0	-23.0	402.0	690.2	816.4	OCF / share	1.35	-0.30	1.33	0.55	1.17
PTP	296.0	-30.0	365.0	660.2	805.1	FCF / share	0.80	-0.60	1.12	0.25	0.81
Net Income	193.0	-63.0	258.0	459.1	559.8	Book value / share	3.92	3.62	3.78	4.24	4.79
Extraordinary items	-74.0	-351.0	-95.0	-13.0	0.0	Dividend / share	0.24	0.26	0.32	0.40	0.51
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	6523.0	6608.0	6803.0	7121.5	7651.3	Revenue growth-%	4%	22%	3%	13%	11%
Equity capital	2323.0	2148.0	2233.0	2504.6	2828.7	EBITDA growth-%	17%	-50%	148%	41%	16%
Goodwill	1374.0	1288.0	1273.0	1273.0	1273.0	EBIT (adj.) growth-%	26%	-15%	52%	41%	16%
Net debt	8.0	488.0	42.0	128.1	-76.9	EPS (adj.) growth-%	30%	9%	17%	43%	19%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	10.0 %	4.1 %	9.9 %	12.4 %	13.0 %
EBITDA	476.0	240.0	595.0	839.2	974.1	EBIT (adj.)-%	8.1 %	5.6 %	8.3 %	10.4 %	10.9 %
Change in working capital	424.0	-357.0	304.0	-303.4	-59.7	EBIT-%	6.6 %	-0.4 %	6.7 %	10.2 %	10.9 %
Operating cash flow	795.7	-175.8	783.4	326.5	691.6	ROE-%	8.6 %	-2.8 %	11.8 %	19.4 %	21.1 %
CAPEX	-286.0	-251.0	-168.0	-177.3	-217.1	ROI-%	9.5 %	0.2 %	13.2 %	22.6 %	25.6 %
Free cash flow	472.7	-354.8	662.4	149.1	474.5	Equity ratio	38.6 %	35.8 %	36.2 %	39.1 %	41.2 %
Valuation multiples	2021	2022	2023	2024e	2025e	Gearing	0.3 %	22.7 %	1.9 %	5.1 %	-2.7 %
EV/S	1.5	0.9	1.3	1.8	1.6						
EV/EBITDA	14.4	15.3	13.1	14.2	12.0						
EV/EBIT (adj.)	18.9	15.7	15.7	17.0	14.4						
P/E (adj.)	28.3	16.5	23.6	25.1	21.0						
P/B	3.2	2.2	3.5	4.7	4.2						
Dividend-%	1.9 %	3.3 %	2.4 %	2.0 %	2.6 %						

Source: Inderes

ESG

Taxonomy eligibility percentages stay low

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

The political dimension is considerable, but the regulatory risks associated with the taxonomy are unlikely to increase

The political dimension of Wärtsilä's business is significant, as zero-emission marine operations and energy production are the key to achieving global emission reduction targets. Wärtsilä is investing in technologies using zero-emission fuels like ammonia and hydrogen, and we will continue to wait for the potential impact of the extension of the marine emissions trading system on Wärtsilä's business. We consider it quite unlikely that the regulatory risk of Wärtsilä's operations will increase, as the company is at the forefront of the development and commercialization of emission-reducing technologies. So far, we do not see any direct short-term economic impact resulting from the taxonomy, for example on financing costs.

Realistic climate targets, although less ambitious than in other major Finnish machinery manufacturers

Wärtsilä's own climate targets for 2030 ("Set for 30") aim at carbon neutrality in its own operations, as well as a product range that is ready for carbon-free fuels. The carbon neutrality of own activities is related to Scope 1 and Scope 2 activities. Wärtsilä does not measure or at least it does not disclose all Scope 3 indirect emissions, as emissions from the use of products sold by the company are outside the scope of the review. We consider the company's Scope 1 and Scope 2 targets to be realistic but assessing the magnitude and costs of the Scope 3 objective requires more information, e.g., on the content of target setting and the magnitude of the impact. We assume that over time Wärtsilä will have to rethink its Scope 3 target setting in the context of the intensifying climate debate.

Taxonomy eligibility	2022*	2023
Revenue	15 %	17 %
OPEX	13 %	12 %
CAPEX	34 %	23 %

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

Climate

Climate target	Yes
Target according to the Paris Agreement (1.5 °C warming scenario)	No

*the figures are not comparable due to taxonomy development

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
10/28/2019	Reduce	9.00 €	9.27 €
11/27/2019	Accumulate	10.00 €	9.08 €
1/20/2020	Accumulate	12.00 €	10.83 €
1/31/2020	Accumulate	12.50 €	11.45 €
3/26/2020	Accumulate	7.50 €	6.78 €
4/22/2020	Accumulate	7.00 €	6.36 €
7/20/2020	Accumulate	8.00 €	7.51 €
10/26/2020	Accumulate	8.00 €	7.44 €
1/21/2021	Reduce	9.40 €	9.01 €
1/29/2021	Reduce	8.70 €	8.11 €
4/23/2021	Reduce	10.00 €	10.31 €
7/21/2021	Reduce	12.00 €	12.35 €
10/27/2021	Accumulate	12.60 €	11.88 €
11/19/2021	Accumulate	14.00 €	13.16 €
1/31/2022	Accumulate	13.00 €	10.84 €
3/30/2022	Accumulate	11.50 €	9.11 €
4/21/2022	Accumulate	10.60 €	8.41 €
4/29/2022	Accumulate	9.50 €	7.75 €
7/22/2022	Accumulate	9.50 €	8.58 €
10/3/2022	Buy	8.00 €	6.58 €
10/26/2022	Buy	8.00 €	6.76 €
11/15/2022	Accumulate	9.00 €	8.25 €
1/4/2023	Accumulate	9.00 €	8.01 €
2/1/2023	Accumulate	9.50 €	8.71 €
4/26/2023	Accumulate	11.00 €	10.10 €
7/24/2023	Accumulate	12.50 €	11.38 €
11/1/2023	Accumulate	12.50 €	11.24 €
1/5/2024	Accumulate	13.50 €	12.96 €
1/31/2024	Accumulate	15.00 €	13.70 €
4/29/2024	Reduce	16.50 €	17.40 €
7/22/2024	Reduce	17.00 €	18.49 €
10/11/2024	Reduce	18.00 €	19.98 €



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