Green Transformation Progressing

Better than expected Q1 numbers and raised guidance have increased confidence in our dividend forecast. As the stock market sentiment remains muted, the net dividend yields still hover around 6%. We raise our estimates and Fair value per share.

Guidance raised

Following better than expected results by the Green Generation segment, the company raised its full-year 2022 guidance and is now expecting adj. EBITDA of EUR 330-360m. This is ~10% above the prior guidance and hence, we increase our forecast to EUR 366m from EUR 340m.

Truly Green

Almost 63% of the total adjusted EBITDA in Q1/22 was related to the Green Generation segment, a significant increase from the 24% in Q1/21. The amount of green electricity generated jumped by 56% to 0.54 TWh and the green share of generation amounted to 94%. The installed Green Generation capacity has increased to 1.2 GW from 1.1 GW at the IPO, and the company is on track to reach its 2025 target of 2.0-2.2 GW.

Fair value raised

We believe investors fail to appreciate the long-term effects of the Green Generation capacity expansion. We raise our Fair value to EUR 27.85/shr (prev. 23.65) based on the normalized dividend after the green generation expansion is completed. The company's green generation pipeline increase and commitment to pay dividends even during current turbulent industry and geopolitical times is encouraging in our view.

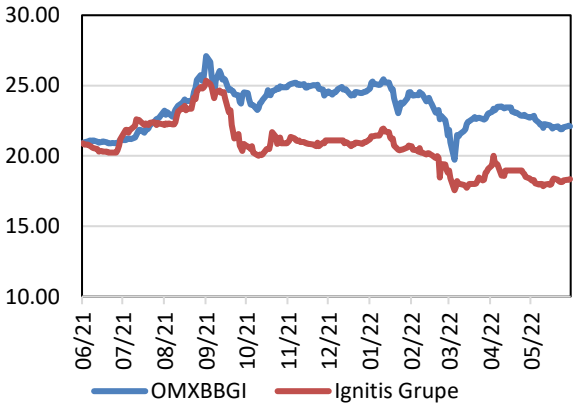
Key figures (MEUR)

	2020	2021	2022E	2023E	2024E
Total revenues	1,223	1,890	3,173	2,978	3,017
Total revenue growth	11.3%	54.6%	67.8%	-6.1%	1.3%
EBITDA adj.	246	333	366	380	402
EBITDA margin adj.	21.7%	17.6%	11.5%	12.8%	13.4%
EBIT	215	185	203	217	224
EBIT margin	17.6%	9.8%	6.4%	7.3%	7.4%
EV/Sales	1.5	1.3	0.8	1.0	1.0
EV/EBITDA adj.	9.4	7.0	6.3	6.1	5.8
EV/EBIT	10.8	12.5	11.4	10.7	10.4
PE	6.3	8.8	8.2	7.6	7.5
P/BV	0.8	0.7	0.7	0.6	0.6
EPS	2.89	2.07	2.20	2.39	2.43
EPS growth	99.9%	-28.3%	6.2%	8.7%	1.6%
Div. per share	1.14	1.19	1.23	1.27	1.31
Dividend yield*	6.3%	6.6%	6.8%	7.0%	7.2%

Source: Company (historical), Enlight Research (estimates)
*Pre-tax yield on EUR 18.14 share price

Fair value range (EUR)	
Bull	34.81
Base	27.85
Bear	23.21

Key Data	
Price (EUR)	18.14
Ticker	IGN1L
Country	Lithuania
Listed	Vilnius (Lithuania)
Market Cap (EURm)	1,313
Net debt (EURm)	1,001
Shares (m)	73
Free float	25.7%



Price range	
52-week high	25.35
52-week low	17.56

Analyst

ResearchTeam@enlightresearch.net

Coverage frequency

4x per year

Q1 2022 Key takeaways

Guidance raised….

Following the better than expected performance by the Green Generation segment in Q1 2022, management decided to raise its full-year 2022 guidance and is now expecting the adjusted EBITDA to be in the range of EUR 330-360m. At the midpoint, this marks an increase of some 10% compared to the prior guidance of EUR 290-335m, which was announced in the 2021 Annual report. We raise our adjusted EBITDA estimate by 8% or EUR 26m to EUR 366m from EUR 340m, which means we are 2% over the upper guidance range.

The company reiterated its directional 2022 vs. 2021 adjusted EBITDA guidance for all the business segments, which implies an increase in results for both the core segments – Green Generation and Networks. The Green Generation adj. EBITDA is expected to grow mainly due to the full year effect of the Pomerania WF (commissioned December 2021), as well as the implementation of the asset rotation programme. Furthermore, due to higher market electricity prices, management expects better results from the existing unhedged portfolio Green Generation units. For Networks, the better results are related to the additional tariff component established in the updated regulatory Methodology. The guidance for lower adjusted EBITDA for the Flexible Generation and the Customers & Solutions segments were reiterated.

Guidance vs. outcome/estimates	2021	2022 old	2022 new	2022 chg (EURm)	2022 chg (%)
Adj. EBITDA guidance - High	310	335	360	25	7%
Adj. EBITDA guidance - Mid	305	313	345	33	10%
Adj. EBITDA guidance - Low	300	290	330	40	14%
Adj. EBITDA outcome/forecast	333	340	366	26	8%
Outcome/estimate vs. High	7%	1%	2%		
Outcome/estimate vs. Mid	9%	9%	6%		
Outcome/estimate vs. Low	11%	17%	11%		

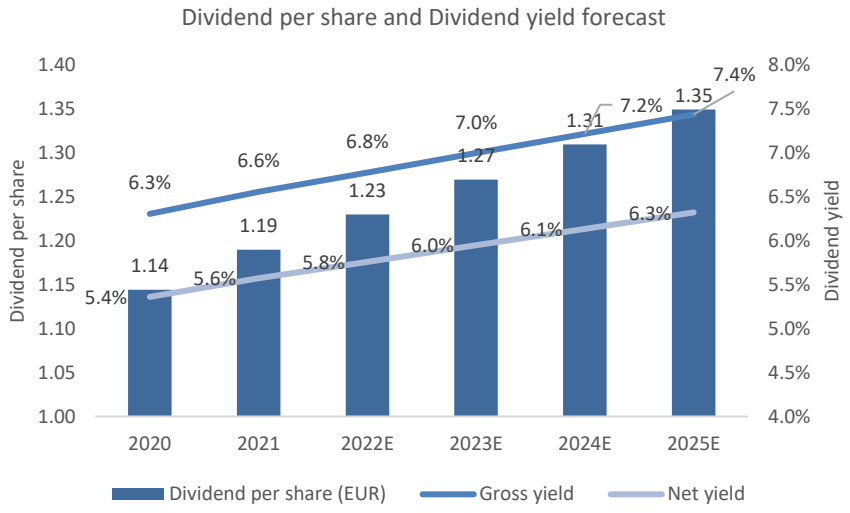
Source: Company reports, Enlight Research (forecast)

…increasing confidence in dividend forecast

We are encouraged by the increased guidance, which naturally also increases our confidence in our dividend forecast. In-line with the company's minimum target, we expect a dividend of EUR 1.23 per share for 2022, which at current share price levels implies a gross yield of around 6.7% (net yield 5.7%). We find it encouraging that the company stands by its dividend policy despite the global uncertainty related to the pandemic and the ongoing Russia – Ukraine war. In its Strategic Plan 2022-25, the company has specified the minimum target dividend for the years 2022 to 2025. With a target minimum growth rate of 3.0% per year, dividends are expected to gradually grow to a minimum of EUR 1.35 by 2025, equal to a gross yield of 7.3% (net yield 6.2%). Worth noting is that the dividend per share for H2 2021 increased somewhat following the acquisition of 1,243,243 treasury shares and should increase even further as a result of further treasury shares acquisition of 651,554 this spring with expected dividend payment for H1 2022 (treasure share acquisitions are related to the IPO stabilization program). On 2 June this year, the stabilization manager, Swedbank, sold the remaining 105,202 shares to an investor at market price i.e., the overhang from the IPO stabilization program is gone.

Dividend per share & yield	2020	2021	2022E	2023E	2024E	2025E
H1 dividend per share (EUR)*	0.57	0.59	0.62	0.64	0.66	0.68
H2 dividend per share (EURm)	0.58	0.60	0.62	0.64	0.66	0.68
Total dividend per share (EUR)	1.14	1.19	1.23	1.27	1.31	1.35
Dividend growth	nm	3.0%	3.0%	3.0%	3.0%	3.0%
Pre-tax dividend yield	6.3%	6.6%	6.8%	7.0%	7.2%	7.4%
Post-tax dividend yield	5.4%	5.6%	5.8%	6.0%	6.1%	6.3%
Share price (EUR)	18.14	18.14	18.14	18.14	18.14	18.14

Source: Company reports, *H1 2020 dividend was paid to Lithuanian government before the IPO



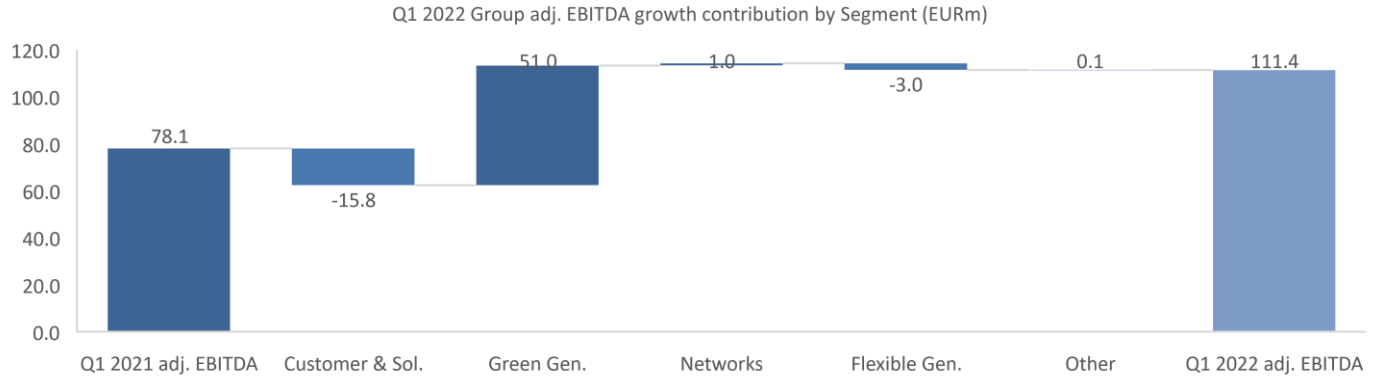
Source: Company reports, Enlight Research, dividend yield is based on share price of EUR 18.40

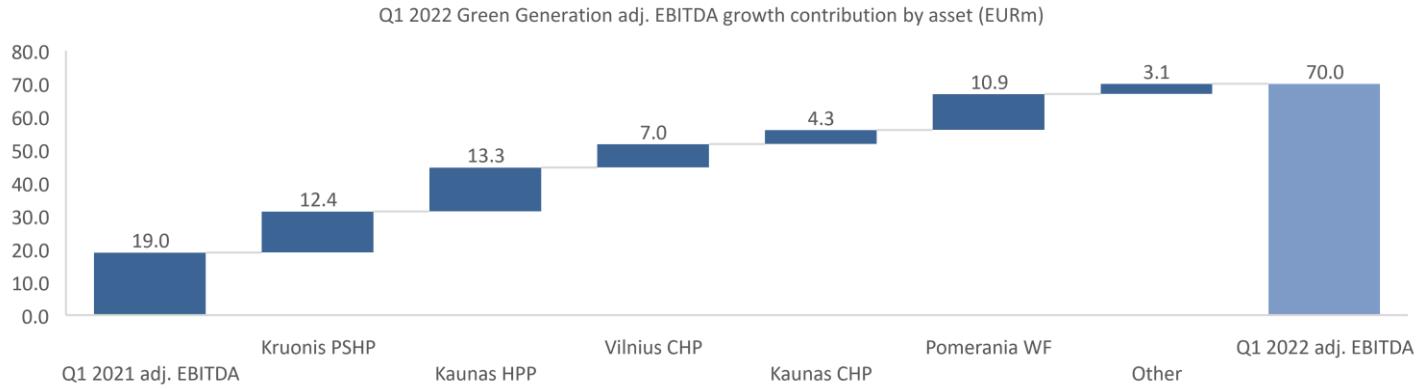
Government takes the blow from higher energy prices

The significant increase in energy prices means the regulated price at which Ignitis Grupe sells energy is below the market price at which they buy. The company covers the price difference with the help of loans – during 2021 until the end of H1/22, loans in the amount of EUR 370m has been taken to cover the difference. After the reporting period, the Lithuanian Parliament amended legislation with the following two effects: (1) the government will take over the EUR 370m consumers debt that arose to cover the difference in the regulated and market energy price until H1/22, and (2) the government will prevent Ignitis Grupe from having to take on future debt due to price difference in regulated vs. market energy prices by directly compensating consumers during H2/22 in the amount of EUR 200m. We adjust our estimates accordingly i.e., we reduce our debt level by EUR 370m by the end of 2022 and do not assume a further debt buildup from amortizing prices for consumers. Furthermore, we believe the government will continue to protect consumers from high energy prices beyond 2022 and therefore do not assume a debt buildup from higher energy prices in the mid-period forecast. Given that investors have been worried if Ignitis Grupe would take the hit from higher energy prices, we believe the government's decision to step in and take over the consumers debt and directly compensate consumers, the increase in energy prices during H2/22 is a positive sign.

Truly Green

Ignitis Grupe's focus on Green Generation is becoming increasingly successful. Almost 63% of the total adjusted EBITDA in Q1/22 was related to the Green Generation segment, a significant increase from the 24% seen Q1/21. When the Pomerania WF was commissioned in December 2021, the installed Green Generation capacity increased by 94 MW to 1,214 MW. Furthermore, the company continues to work on its Green Generation expansion, increasing the pipeline by around 80 MW in the Q1/22 and by an additional 150 MW after the reporting period. All Green Generation projects are on schedule. Following a successful start of early-stage greenfield developments in 2021 (by securing land plots for onshore wind and solar projects in Lithuania and Poland), the greenfield portfolio pipeline now amounts to around 400 MW (to be launched during 2024-2026). During Q1/22, 0.54 TWh of green electricity was generated, an increase of 56.4% vs. Q1/21. This was mainly driven by the Pomerania WF, as well as a higher generation at the Kaunas HPP and the Vilnius CHP's WtE unit. The green share of generation during the period amounted to 94%, which was 33 percentage points above Q1 2021 and truly an impressive number in our view.

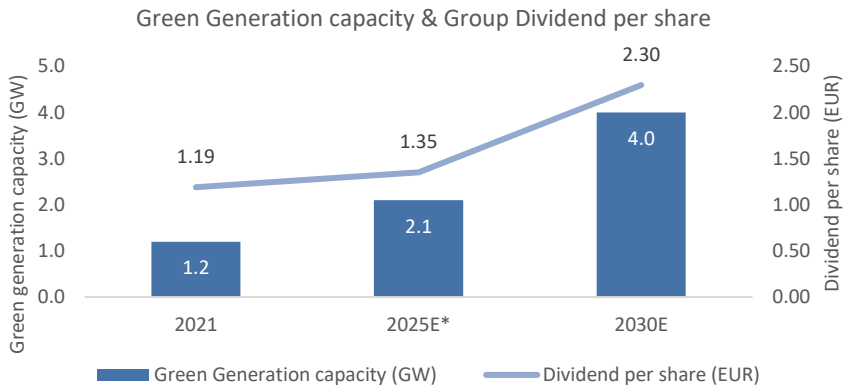




Source: Company report

Base case Fair value raised to EUR 27.85

We believe the market is too focused on the short-term dividends according to the dividend policy's minimum targets, which fails to capture the long-term value of Ignitis Grupe after the ongoing Green Generation expansion is completed. Therefore, we change our valuation approach to focus on the normalized long-term dividend when the Green Generation expansion is completed, rather than the GGM model where the current year dividend is in focus. Assuming the long-term green generation capacity target of 4.0 GW is met, then we believe a dividend per share in 2030 of EUR 2.30 is possible. Applying a motivated dividend yield of 5.0% (on the EUR 2.30 div.) results in an undiscounted share price of EUR 46.09, which discounted by 6.5% for 8 years gives our new Base case Fair value of EUR 27.85 per share (prev. 23.65). Our Bear case assumes a motivated yield of 6.0% (current yield) and indicate share price of EUR 23.21 (prev. 18.36), while our Bull case assumes a yield of 4.0% which indicates a share price of 34.81 (prev. 26.17).



Source: Company, Enlight Research, *Target is 2.0-2.2 (mid-range 2.1)

Fair value/shr at different motivated div. yield based on 2030 dividend of EUR 2.30 per share

Motivated dividend yield	Discount rate	Discounted Fair value per share (EUR)
3.0%	6.5%	46.41
3.5%	6.5%	39.78
4.0%	6.5%	34.81
4.5%	6.5%	30.94
5.0%	6.5%	27.85
5.5%	6.5%	25.32
6.0%	6.5%	23.21
6.5%	6.5%	21.42
7.0%	6.5%	19.89

Source: Enlight Research

Valuation

We believe Integrated utilities is the best peer sub-group for Ignitis Grupe as it consists of companies with both distribution and generation assets. Based on the estimated 2022 EV/EBITDA multiple, the Ignitis Group share is trading at 19% discount to the Integrated utilities peer group (6.6x vs. 8.1x for peers), despite having a dividend yield that is slightly higher than the peer average (6.7% vs. 5.4% for peers). Given Ignitis Grupe's strong focus on renewable energy, one could argue that the Ignitis Grupe share should trade more towards the Renewables peer group average, which has the highest EV/EBITDA multiple among our peer subgroups (14.0x vs. 11.5x for Regulated utilities, and 8.1x for Integrated utilities).

Regulated										Div.	Div.	Div.	Div.
Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2020	EV/EBITDA 2021	EV/EBITDA 2022E	EV/EBITDA 2023E	yield 2020	yield 2021	yield 2022E	yield 2023E
National grid	NG	GBP	11.18	40 732	82 881	16.8	18.0	14.7	13.5	4.4%	4.4%	4.6%	4.7%
Red Electrica	REE	EUR	19.07	10 284	15 913	10.1	10.6	10.4	10.4	5.2%	5.2%	5.2%	4.7%
REN	RENE	EUR	2.88	1 910	4 119	8.8	8.9	8.8	8.8	5.9%	5.2%	6.3%	5.2%
Italgas	IG	EUR	5.97	4 840	10 548	10.9	10.5	10.2	9.3	4.7%	5.0%	5.0%	5.4%
Terna	TRN	EUR	7.77	15 596	25 762	14.1	13.9	13.6	13.2	3.5%	3.7%	4.0%	4.2%
Average						**12.1**	**12.4**	**11.5**	**11.1**	**4.7%**	**4.7%**	**5.0%**	**4.8%**

Renewables										Div.	Div.	Div.	Div.
Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2020	EV/EBITDA 2021	EV/EBITDA 2022E	EV/EBITDA 2023E	yield 2020	yield 2021	yield 2022E	yield 2023E
EDP Renewables	EDPR	EUR	23.05	22 141	26 791	16.2	15.2	14.6	13.3	0.3%	0.4%	0.4%	0.5%
Neoen	NEOEN	EUR	40.04	4 278	7 245	26.8	24.2	19.6	16.4	0.0%	0.2%	0.2%	0.6%
Orsted Energy	ORSTED	DKK	771	323 740	351 196	19.4	14.5	12.0	14.2	1.5%	1.6%	1.7%	1.9%
Enefit	EGR1T	EUR	3.94	1 041	1 169	10.6	9.6	9.6	7.5	2.5%	3.8%	4.2%	4.7%
Average						**18.3**	**15.9**	**14.0**	**12.8**	**1.1%**	**1.5%**	**1.6%**	**1.9%**

Integrated										Div.	Div.	Div.	Div.
Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2020	EV/EBITDA 2021	EV/EBITDA 2022E	EV/EBITDA 2023E	yield 2020	yield 2021	yield 2022E	yield 2023E
EDP	EDP	EUR	4.73	18 659	31 936	8.7	8.6	8.2	7.4	4.0%	4.0%	4.0%	4.2%
Endesa	ELE	EUR	20.72	21 934	31 561	7.8	7.4	8.2	7.2	9.7%	6.9%	5.0%	6.1%
Enel	ENEL	EUR	5.96	60 564	117 915	6.6	6.1	6.1	5.8	6.0%	6.4%	6.7%	7.2%
Engie	ENGI	EUR	12.55	30 374	52 160	5.6	4.9	4.3	4.5	4.2%	6.8%	8.1%	8.1%
E.ON	EOAN	EUR	9.95	25 967	63 022	9.1	8.0	8.2	8.4	4.7%	4.9%	5.1%	5.3%
Iberdrola	IBE	EUR	10.84	68 877	112 727	11.3	9.4	9.3	8.5	3.9%	4.1%	4.2%	4.6%
SSE	SSE	GBP	18.15	19 206	27 681	12.1	12.4	12.3	11.5	4.4%	4.5%	4.7%	4.8%
Average						**8.8**	**8.1**	**8.1**	**7.6**	**5.3%**	**5.4%**	**5.4%**	**5.8%**
Ignitis	**IGN1L**	**EUR**	**18.34**	**1 328**	**2 836**	**9.5**	**7.0**	**6.6**	**6.3**	**6.2%***	**6.5%**	**6.7%**	**6.9%**

Source: MarketScreener, Based on share prices on 06 June 2022, *EUR 0.58 to minority investors, yield 3.2%

Q1/22 Forecast vs. Outcome

Deviation by segment

The Q1/22 Revenues for the Customer and Solutions segment was 249% or EUR 484m higher than forecast (due to higher electricity and gas prices as well as higher volumes sold), which lead to a significant beat at the Group level as both the Green Generation and the Flexible Generation segments also beat our forecast (Networks was roughly in-line). At the adjusted EBITDA level, the Green Generation segment came in 118% or EUR 38m higher than forecast. The positive deviation was offset by lower than expected result from the other segments i.e., the Group adj. EBITDA was in-line with our estimate of EUR 111m.

Revenue by Segment (EURm)	Q1/22 Estimate	Q1/22 Outcome	Deviation EURm	%
Networks	136.8	134.6	-2.1	-1.5%
Green Generation	63.0	120.7	57.7	91.7%
Flexible Generation	27.1	72.4	45.3	167.1%
Customers and Solutions	193.9	677.4	483.5	249.3%
Revenue bef. Other segm./eliminations	**420.7**	**1005.1**	**584.4**	**138.9%**
Other segments/eliminations	0.0	-13.8	-13.8	-38313.6%
Revenue after Other segm./eliminations	**420.7**	**991.3**	**570.6**	**135.6%**

Sales growth	Q1/22 Estimate	Q1/22 Outcome	Deviation EURm	%-pts
Networks	-6.5%	-7.9%	nm	-1
Green Generation	90.0%	264.3%	nm	174
Flexible Generation	-8.6%	144.2%	nm	153
Customers and Solutions	5.2%	267.5%	nm	262
Revenue bef. Other segm./eliminations	6.9%	155.5%	nm	149
Revenue after Other segm./eliminations	**6.9%**	**152.0%**	**nm**	**145**

Adjusted EBITDA by Segment	Q1/22 Estimate	Q1/22 Outcome	Deviation EURm	%
Networks	67.0	45.1	-21.9	-32.7%
Green Generation	32.2	70.0	37.9	117.6%
Flexible Generation	7.7	4.9	-2.8	-35.9%
Customers and Solutions	2.7	-9.7	-12.4	-460.3%
Total adjusted EBITDA bef. Other/eliminations	**109.6**	**110.3**	**0.7**	**0.7%**
Other segments/eliminations	1.2	1.0	-0.1	-10.9%
Total adjusted EBITDA after Other/eliminations	**110.8**	**111.4**	**0.6**	**0.5%**

Adjusted EBITDA margin by Segment	Q1/22 Estimate	Q1/22 Outcome	Deviation EURm	%-pts
Networks	49.0%	33.5%	nm	-16
Green Generation	51.1%	58.0%	nm	7
Flexible Generation	28.4%	6.8%	nm	-22
Customers and Solutions	1.4%	-1.4%	nm	-3
Total adjusted EBITDA	**26.1%**	**11.0%**	**nm**	**-15**
Total adjusted EBITDA after Other/eliminations	**26.5%**	**11.0%**	**nm**	**-15**

Source: Company reports (historical), Enlight Research (estimates)

Group deviation

The Q1/22 Total Revenues were 136% or EUR 571m higher than forecast, while the Total expenses were EUR 563m higher than forecast, leaving a positive deviation of EUR 7.5m at the EBITDA level (9% above forecast). The positive deviation increased to EUR 16m at the EBIT level as the depreciation came in EUR 8m lower than expected. The Q1/22 Net profit of EUR 47m was 58% or EUR 17m above our estimate.

P&L (EURm)	Q1/22 Estimate	Q1/22 Outcome	Deviation EURm	%
Total Revenue & Other income	420.7	991.3	570.6	135.6%
Purchase of electricity, gas for trade	-274.7	-801.5	-526.7	191.7%
Salaries and related expenses	-27.8	-28.3	-0.6	2.1%
Repair and maintenance expenses	-13.0	-6.2	6.9	-52.7%
Purchase of gas and heavy fuel oil	0.0	0.0	0.0	nm
Other expenses	-21.0	-63.6	-42.6	202.5%
Total expenses	*-336.6*	*-899.7*	*-563.1*	*167.3%*
EBITDA	**84.1**	**91.7**	**7.5**	**8.9%**
Adjusted EBITDA	**110.8**	**111.4**	**0.6**	**0.5%**
Depreciation and amortization	-42.0	-33.8	8.2	-19.5%
Write-offs, revaluations PP&E, Intang.	-1.0	-0.6	0.4	-36.6%
Revaluation of emission allowances	*0.0*	0.0	0.0	nm
EBIT	**41.1**	**57.2**	**16.1**	**39.0%**
Financial net	-6.2	-4.9	1.3	-20.7%
Pre-tax profit	**34.9**	**52.3**	**17.3**	**49.6%**
Current year income tax (expenses)/benefit	-2.4	-15.6	-13.1	536.7%
Deferred income tax (expenses)/benefit	-2.9	10.1	13.0	-442.9%
Minority	0.0	0.0	0.0	nm
Net profit (loss)	**29.6**	**46.8**	**17.2**	**58.2%**

Growth	Q1/22 Estimate	Q1/22 Outcome	Deviation EURm	%-pts
Sales	6.9%	152.0%	nm	145

Margins	Q1/22 Estimate	Q1/22 Outcome	Deviation EURm	%-pts
EBITDA margin	20.0%	9.2%	nm	-10.8
Adj. EBITDA margin	26.5%	11.0%	nm	-15.4
EBIT margin	9.8%	5.8%	nm	-4.0
Pre-tax margin	8.3%	5.3%	nm	-3.0
Net margin	7.0%	4.7%	nm	-2.3

Source: Company reports (historical), Enlight Research (estimates)

Estimate changes

Following the much better-than-expected Q1/22 Sales, we raise our Sales forecast significantly in the forecast period 2022-24E (sales estimates increased by 47-67%). Our adj. EBITDA is raised by 8-11% in the forecast period 2022-24E. The EPS forecast is raised by 40% this year, 32% in 2023, and 27% in 2024. Our dividend forecast is unchanged which could be considered conservative given the increased EPS estimates.

Estimate changes per Segment

Sales per segment (EURm)

Networks	2022E	2023E	2024E
Old estimate	498.1	599.7	621.3
New estimate	530.3	535.7	539.0
Change	32.3	-64.1	-82.3
Change (pct)	6.5%	-10.7%	-13.2%

Green Generation	2022E	2023E	2024E
Old estimate	209.7	223.4	241.3
New estimate	393.2	399.3	430.4
Change	183.4	175.9	189.1
Change (pct)	87.5%	78.7%	78.4%

Flexible Generation	2022E	2023E	2024E
Old estimate	140.3	145.2	141.5
New estimate	195.5	156.3	155.6
Change	55.2	11.0	14.1
Change (pct)	39.3%	7.6%	10.0%

Customers & Solutions	2022E	2023E	2024E
Old estimate	1061.8	1065.5	1069.3
New estimate	2068.0	1901.0	1906.0
Change	1006.3	835.5	836.8
Change (pct)	94.8%	78.4%	78.3%

Adjusted EBITDA per segment (EURm)

Networks	2022E	2023E	2024E
Old estimate	164.3	169.7	173.0
New estimate	164.3	171.7	175.0
Change	0.0	2.0	2.0
Change (pct)	0.0%	1.2%	1.2%

Green Generation	2022E	2023E	2024E
Old estimate	110.9	112.4	120.2
New estimate	156.5	163.7	182.5
Change	45.5	51.4	62.3
Change (pct)	41.1%	45.7%	51.8%

Flexible Generation	2022E	2023E	2024E
Old estimate	35.5	34.2	33.2
New estimate	24.5	24.2	24.1
Change	-11.0	-10.0	-9.1
Change (pct)	-31.0%	-29.2%	-27.4%

Customers & Solutions	2022E	2023E	2024E
Old estimate	26.7	33.5	34.2
New estimate	18.7	18.5	18.6
Change	-8.1	-15.0	-15.6
Change (pct)	-30.2%	-44.7%	-45.6%

Group estimate changes (EURm)

Total Revenue	2022E	2023E	2024E
Old estimate	1,895	2,019	2,058
New estimate	3,173	2,978	3,017
Change	1277.6	959.2	959.0
Change (pct)	67.4%	47.5%	46.6%

EBIT	2022E	2023E	2024E
Old estimate	165	187	191
New estimate	203	217	224
Change	38	29	32
Change (pct)	22.9%	15.7%	16.8%

EPS (EUR)	2022E	2023E	2024E
Old estimate	1.57	1.82	1.92
New estimate	2.20	2.39	2.43
Change	0.63	0.57	0.51
Change (pct)	39.7%	31.6%	26.6%

Adjusted EBITDA	2022E	2023E	2024E
Old estimate	340	353	363
New estimate	366	380	402
Change	26	27	39
Change (pct)	7.7%	7.8%	10.8%

Pre-tax profit	2022E	2023E	2024E
Old estimate	140	161	164
New estimate	181	192	195
Change	41	31	32
Change (pct)	29.1%	19.5%	19.3%

Dividend (EUR)	2022E	2023E	2024E
Old estimate	1.23	1.27	1.31
New estimate	1.23	1.27	1.31
Change	0.00	0.00	0.00
Change (pct)	0.0%	0.0%	0.0%

Source: Company reports (historical), Enlight Research (estimates)

Forecast

Revenue per segment (IFRS reported)	2021	2022E	2023E	2024E
Networks	533	530	536	539
Green Generation	209	393	399	430
Flexible Generation	153	195	156	156
Customers and Solutions	1,009	2,068	1,901	1,906
Total Revenues bef. Other/elimin.	1,905	3,187	2,992	3,031
Other segments/eliminations	-14	-14	-14	-14
Revenue after Other segm./eliminations	1,890	3,173	2,978	3,017

Segment revenue growth (IFRS reported)	2021	2022E	2023E	2024E
Networks	10.5%	-0.4%	1.0%	0.6%
Green Generation	132.6%	88.1%	1.6%	7.8%
Flexible Generation	38.4%	27.4%	-20.1%	-0.4%
Customers and Solutions	84.0%	104.9%	-8.1%	0.3%
Revenue after Other segm./eliminations	54.6%	67.8%	-6.1%	1.3%

Adjusted EBITDA by Segment	2021	2022E	2023E	2024E
Networks	145	164	172	175
Green Generation	107	156	164	182
Flexible Generation	37	24	24	24
Customers and Solutions	41	19	19	19
Total adjusted EBITDA bef. Other/eliminations	331	364	378	400
Other segments/eliminations	2	2	2	2
Total adjusted EBITDA after Other/eliminations	333	366	380	402

Adjusted EBITDA margin by Segment	2021	2022E	2023E	2024E
Networks	28.5%	31.9%	33.0%	33.4%
Green Generation	49.5%	39.0%	40.5%	41.9%
Flexible Generation	24.5%	12.5%	15.6%	15.5%
Customers and Solutions	4.0%	0.9%	1.0%	1.0%
Total adjusted EBITDA after Other/eliminations	17.6%	11.5%	12.8%	13.4%

Income statement (EURm)	2021	2022E	2023E	2024E
Total Revenue & Other income	1,890	3,173	2,978	3,017
Purchase of electricity, gas for trade	-1,380	-2,484	-2,323	-2,320
Salaries and related expenses	-97	-136	-143	-145
Repair and maintenance expenses	-32	-51	-60	-75
Purchase of gas and heavy fuel oil	0	0	0	0
Other expenses	-46	-159	-89	-91
Total expenses	*-1,555*	*-2,830*	*-2,615*	*-2,631*
EBITDA	335	343	363	386
Depreciation and amortization	-122	-136	-147	-163
Write-offs, revaluations PP&E, Intang.	-28	-4	0	0
Revaluation of emission allowances	0	0	0	0
EBIT	185	203	217	224
Financial net	*-16*	*-22*	*-24*	*-28*
Pre-tax profit	168	181	192	195
Current year income tax (expenses)/benefit	-19	-22	-21	-21
Deferred income tax (expenses)/benefit	5	2	2	2
Minority	0	0	0	0
Net profit (loss)	154	161	173	176

Segment revenue growth (IFRS reported)	2021	2022E	2023E	2024E
y-on-y	54.6%	67.8%	-6.1%	1.3%

Margins	2021	2022E	2023E	2024E
EBITDA	17.7%	10.8%	12.2%	12.8%
EBIT	9.8%	6.4%	7.3%	7.4%
Pre-tax profit	8.9%	5.7%	6.5%	6.5%
Net profit	8.1%	5.1%	5.8%	5.8%

Source: Company reports (historical), Enlight Research (estimates)

Risk factors

Below is a list of risk factors that we have chosen to highlight. It should not be regarded as an extensive list of all risk factors. For more risk factors, we recommend reading the Ignitis Group IPO prospectus, and annual/interim reports.

Russia – Ukraine war

The final impact of the Russian invasion of Ukraine on Ignitis Grupe's business cannot be assessed fully yet. Higher energy prices are positive for the Green Generation segment, while the difference in regulatory price and market price (till H2/22) must be covered by the Customer & Solutions segments. However, the Lithuanian Parliament has amended legislation that protects both the company and consumers from most of the increase in energy prices. Supply chain issues such as e.g., shortage of spare parts is another effect of the Russia – Ukraine war that needs to be considered. For a more information on the Russia – Ukraine risk, we recommend reading company's Q1/22 report, page 64.

Regulatory risk

Tariffs for electricity and gas distribution that form one of Ignitis Group's core business area are set by the Lithuanian regulator, NERC, based on regulated assets and reasonable rate of return (WACC). Significantly lower allowed return (WACC) could mean that our forecast is too optimistic. Also, lower approved investments could result in lower RAB, which could also affect our forecast negatively.

Expansion risk

The group plans to expand its renewable generation capacity substantially in the coming years. The expansion projects are large in terms of capital expenditure which means delays or lower than planned generation could affect our forecast negatively.

Weather risk

The Green Generation segment is exposed to weather conditions. For example, the water level affects the hydro plants, and the wind level affects the wind farms.

Price risk

The Green Generation segment sells its electricity production on the unregulated market, and hence, the electricity market price has a significant impact on the financial performance.

Deregulation risk

The electricity supply market will be fully deregulated in the years to come, which will most likely result in a decrease in the number of electricity customers. We forecast a decline of 10% over 3 years. If the decline is larger than this, our Customer & Supply segment forecast is most likely too optimistic.

Dividend risk

If for whatever reason (large investments, weak financial performance, regulatory changes), the dividend growth is below our forecast, the dividend yield will most likely be below our forecast.

Income Statement (EURm)	2020	2021	2022e	2023e	2024e
Total revenues	1,223	1,890	3,173	2,978	3,017
Total operating costs	-889	-1,555	-2,830	-2,615	-2,631
EBITDA	334	335	343	363	386
Depreciation	-110	-133	-136	-147	-163
Amortizations	0	0	0	0	1
Impairment charges	-9	-18	-4	0	0
EBIT	215	185	203	217	224
Associated companies'	0	0	0	0	0
Net financial items	-20	-16	-22	-24	-28
Exchange rate differences	0	0	0	0	0
Pre-tax profit (PTP)	195	168	181	192	195
Net earnings	171	154	161	173	176
Balance Sheet	2020	2021	2022e	2023e	2024e
Assets (EURm)					
Cash and cash equivalent	659	449	381	357	362
Receivables	128	275	190	387	332
Inventories	66	186	312	292	296
Other current assets	169	395	359	359	359
Total current assets	1,022	1,304	1,242	1,396	1,349
Tangible assets	2,560	2,610	2,936	3,252	3,552
Goodwill & Other Intangibles	95	114	110	110	110
Long-term investments	5	5	5	5	5
Associated Companies	0	0	0	0	0
Other non-current assets	233	203	185	184	186
Total fixed assets	2,892	2,931	3,236	3,551	3,853
Deferred tax assets	6	16	16	16	16
Total assets	3,921	4,251	4,493	4,962	5,217
Liabilities					
Non-ib current liabilities	52	100	190	179	181
Short-term debt	29	242	264	334	364
Other current liabilities	223	355	355	355	355
Total current liabilities	304	698	809	868	900
Long-term IB debt	1,246	1,118	1,218	1,544	1,683
Convertibles & Lease liabilities	29	46	46	46	46
Other long-term liabilities	442	463	463	463	463
Total long-term liabilities	1,717	1,628	1,728	2,053	2,192
Total (liabilities)	2,108	2,402	2,614	2,999	3,170
Deferred tax liabilities	46	47	47	47	47
Provisions	41	30	30	30	30
Shareholders' equity	1,812	1,849	1,880	1,964	2,048
Minority interest (BS)	1	0	0	0	0
Total shareholders equity	1,813	1,849	1,880	1,964	2,048
Total equity & liabilities	3,921	4,251	4,493	4,962	5,217

DCF valuation		Cash flow (EURm)	
WACC (%)	5.98%	NPV FCF (2022-2024)	-257
		NPV FCF (2025-2031)	769
Assumptions 2021-2026 (%)		NPV FCF (2031-)	2,542
CAGR Sales growth	10.5%	Non-operating assets	361
Average EBIT margin	7.4%	Interest-bearing debt	-1,406
		Fair value estimate	2,009
		Fair value per share (EUR)	27.75
		Share price (EUR)	18.14

Free Cash Flow (EURm)	2020	2021	2022e	2023e	2024e
Operating profit	215	185	203	217	224
Depreciation	119	151	139	147	163
Change in wc	-29	-311	84	-189	54
Other oper. CF items	-24	73	-22	-22	-22
Operating CF	281	97	405	152	418
CF from Investments	-258	-229	-337	-463	-463
Other CF items	0	1	0	0	0
Free Cash Flow	22	-132	68	-310	-45

Capital structure	2020	2021	2022e	2023e	2024e
Equity ratio	46%	43%	42%	40%	39%
Debt/Equity	72%	76%	81%	98%	102%
Capital invested (EURm)	3,116	3,255	3,408	3,888	4,141

Profitability	2020	2021	2022e	2023e	2024e
ROE %	10.6%	8.7%	9.0%	8.8%	8.5%
EBITDA %	27.6%	17.7%	10.8%	12.2%	12.8%
EBIT %	17.6%	9.8%	6.4%	7.3%	7.4%
Net Margin	13.8%	8.1%	5.1%	5.8%	5.8%

Valuation (x)	2020	2021	2022e	2023e	2024e
P/E	6.3	8.8	8.2	7.6	7.5
P/E adjusted	6.3	8.8	8.2	7.6	7.5
P/Sales	0.8	0.4	0.4	0.4	0.4
EV/Sales	1.5	1.3	0.8	1.0	1.0
EV/EBITDA	7.5	7.2	7.9	7.9	8.0
EV/EBIT	8.7	13.6	12.1	13.3	13.6
P/BV	0.8	0.7	0.7	0.6	0.6

Per share measures	2020	2021	2022e	2023e	2024e
EPS	2.89	2.07	2.20	2.39	2.43
EPS adjusted	2.89	2.07	2.20	2.39	2.43
CEPS	3.78	1.30	5.45	2.05	5.62
EBITDA/share	4.50	4.52	4.61	4.89	5.20
Capital empl./share	42.0	43.8	45.9	52.3	55.7
Div. per share	1.14	1.19	1.23	1.27	1.31
Payout ratio	40%	57%	56%	53%	54%
Dividend yield (%)	6.3%	6.6%	6.8%	7.0%	7.2%

Shareholders	Capital	Votes
Ministry of Finance	1,105	73.10%
EBRD	15	1.10%

Key people	
Chairman	Alfonso Faubel
CEO	Darius Maikstenas
CFO	Jonas Rimavicius
Org. Develop. Director	Dr. Zivile Skibarkiene
Commerce & Serv.	Vidmantas Salietis
Infra. Develop. Director	TBA

P/E Price per share / Earnings per share	**EPS** Profit before extraordinary items and taxes – income taxes + minority interest / Number of shares
P/Sales Market cap / Sales	**DPS** Dividend for financial period per share
P/BV Price per share / Shareholders' equity + taxed provisions per share	**CEPS** Gross cash flow from operations / Number of shares
P/CF Price per share / Operating cash flow per share	**EV/Share** Enterprise value / Number of shares
EV (Enterprise value) Market cap + Net debt + Minority interest at market value – share of associated companies at market value	**Sales/Share** Sales / Number of shares
Net debt Interest-bearing debt – financial assets	**EBITDA/Share** Earnings before interest, tax, depreciation and amortization / Number of shares
EV/Sales Enterprise value / Sales	**EBIT/Share** Operating profit / Number of shares
EV/EBITDA Enterprise value / Earnings before interest, tax, depreciation and amortization	**EAFI/Share** Pre-tax profit / Number of shares
EV/EBIT Enterprise value / Operating profit	**Capital employed/Share** Total assets – non-interest-bearing debt / Number of shares
Div yield, % Dividend per share / Price per share	**Total assets** Balance sheet total
Payout ratio, % Total dividends / Earnings before extraordinary items and taxes – income taxes + minority interest	**Interest coverage (x)** Operating profit / Financial items
Net cash/Share Financial assets – interest-bearing debt / Number of shares	**Asset turnover (x)** Turnover / Balance sheet total (average)
ROA, % Operating profit + financial income + extraordinary items / Balance sheet total – interest-free short-term debt – long-term advances received and accounts payable (average)	**Debt/Equity, %** Interest-bearing debt / Shareholders' equity + minority interest + taxed provisions
ROCE, % Profit before extraordinary items + interest expenses + other financial costs / Balance sheet total – non-interest-bearing debt (average)	**Equity ratio, %** Shareholders' equity + minority interest + taxed provisions / Total assets – interest-free loans
ROE, % Profit before extraordinary items – income taxes / Shareholders' equity + minority interest + taxed provisions (average)	**CAGR, %** Cumulative annual growth rate = Average growth rate per year

Disclaimer

Enlight Research OÜ's main valuation methods are discounted cash flow valuation and peer valuation with common multiples such as Price to Earnings, Enterprise Value to EBITDA, dividend yield etc. Aforementioned methods are used to estimate a company's fair value according to the following three scenarios: Bull (positive), Base (main scenario), and Bear (negative).

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ResearchTeam@EnlightResearch.net