

War worries push yields to 6%

War worries have pushed the proposed and estimated dividend net yields to 6%. Meanwhile, the company stands by its IPO plan, underpinned by the Green Generation segment. We re-initiate estimates based on the company's new strategic plan.

IPO dividend plan intact

For 2021, the company proposed a dividend of EUR 1.19/shr equal to a growth of 3.0% and a div. yield of 6.7% (net 5.7%). This is in-line with the IPO div. policy of min. 3% annual div. growth. Furthermore, the min. dividend targets of EUR 1.23/shr for 2022, and EUR 1.27 for 2023 were announced, pushing the expected yield to 6.9% (net 5.8%) and 7.1% (net 6.0%), respectively.

Green Generation boost earnings

The 2021 Group adj. EBITDA improved by 35% or EUR 87m to EUR 333m (7% above high-end guidance). The Green Generation segment was the main reason for the adj. EBITDA improvement representing two thirds of the EUR 87m increase. The adj. EBITDA guidance for 2022 is EUR 290-335 vs. our forecast of EUR 345m.

Fair value adjustment

We lower our DDM Base case FV to EUR 23.65/shr (prev. 27.13). This is mainly an effect of a higher market risk premium i.e., not company specific. Our DDM Base case assumes a terminal div. growth of 2.5% which is below the 3.0% medium-term minimum div. policy growth. Today's share price implies a terminal div. growth around 1%, which we believe is too pessimistic.

Key figures (MEUR)

| | 2020 | 2021 | 2022E | 2023E | 2024E |
|----------------------|--------|--------|--------|-------|-------|
| Total revenues | 1,223 | 1,890 | 1,895 | 2,019 | 2,058 |
| Total revenue growth | 11.3% | 54.6% | 0.3% | 6.5% | 1.9% |
| EBITDA adj. | 246 | 333 | 340 | 353 | 363 |
| EBITDA margin adj. | 21.7% | 17.6% | 18.2% | 17.8% | 18.0% |
| EBIT adj. | 127 | 207 | 203 | 215 | 225 |
| EBIT margin adj. | 10.4% | 10.9% | 10.7% | 10.7% | 10.9% |
| EV/Sales | 1.5 | 1.3 | 1.3 | 1.4 | 1.5 |
| EV/EBITDA adj. | 8.8 | 6.5 | 6.3 | 6.1 | 5.9 |
| EV/EBIT adj. | 17.0 | 10.4 | 10.6 | 10.0 | 9.6 |
| PE | 6.2 | 8.6 | 11.4 | 9.8 | 9.3 |
| P/BV | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 |
| EPS | 2.89 | 2.07 | 1.57 | 1.82 | 1.92 |
| EPS growth | 102.4% | -28.3% | -24.0% | 15.5% | 5.6% |
| Div. per share | 1.14 | 1.19 | 1.23 | 1.27 | 1.31 |
| Dividend yield* | 6.4% | 6.7% | 6.9% | 7.1% | 7.3% |

Source: Company data, Enlight Research estimates, *pre-tax yield on EUR 17.88 shr price

Fair value range (EUR)

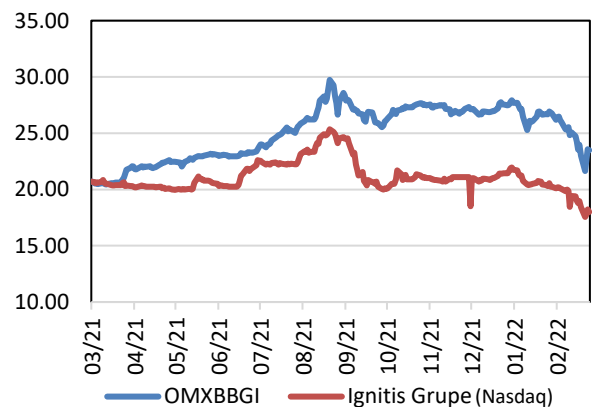
| | |
|-------------------------------|-------|
| Bull (3.0% term. Div. growth) | 26.17 |
| Base (2.5% term. Div. growth) | 23.65 |
| Bear (1.0% term. Div. growth) | 18.36 |

Key Data

| | |
|-------------|---------------------|
| Price (EUR) | 17.88 |
| Ticker | IGN1L |
| Country | Lithuania |
| Listed | Vilnius (Lithuania) |

| | |
|-------------------|-------|
| Market Cap (EURm) | 1 328 |
| Net debt (EURm) | 957 |

| | |
|------------|-------|
| Shares (m) | 74 |
| Free float | 25.7% |



Price range

| | |
|--------------|-------|
| 52-week high | 25.35 |
| 52-week low | 17.56 |

Analyst

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Coverage frequency

4x per year

Q4 2021 Key takeaways

IPO dividend plan stands

In the IPO prospectus published in October 2020, the dividend policy stated the following:

- EUR 85m (1.14 per share) in dividends for the financial year 2020
- For each subsequent financial year, allocate at least 3% more than the amount paid for the previous financial year.

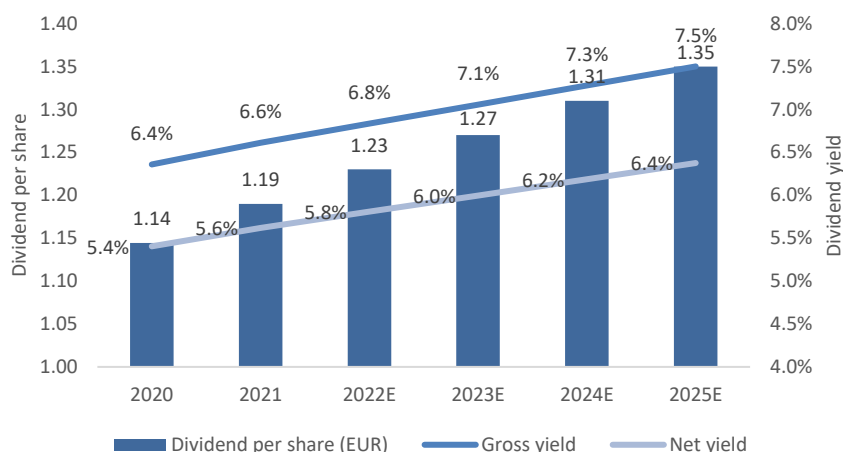
Both of above points have been fulfilled. The dividend for 2020 was EUR 1.14 per share and the dividend proposed for 2021 is EUR 1.19 per share, equal to a growth of 3.0%, and a gross yield of 6.6% (net yield 5.6%). In the Strategic Plan 2022-25, the company specified the minimum target dividend for the years 2022 to 2025. For 2022, the minimum target dividend is EUR 1.23 equal to 3.0% growth and a gross yield of 6.8% (net yield 5.8%). The target minimum dividend growth remains at 3.0% up until 2025 leading to a minimum 2025 dividend of EUR 1.35 equal to a gross yield of 7.5% (net yield 6.4%). Worth noting is that the dividend per share depends on the number of shares outstanding. The company plans to annul the shares bought in connection with the IPO to stabilize the share. If this happens, the dividend per share should increase slightly. We align our dividend forecast with the minimum targets stated in the Strategic plan 2022-25, which implies net yields (post-tax) around 6% at the current share price around EUR 18.00.

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 | 6.4% | 6.6% | 6.8% | 7.1% | 7.3% | 7.5% |
| Post 15% dividend tax yield | 5.4% | 5.6% | 5.8% | 6.0% | 6.2% | 6.4% |
| Share price (EUR) | 18.00 | 18.00 | 18.00 | 18.00 | 18.00 | 18.00 |

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

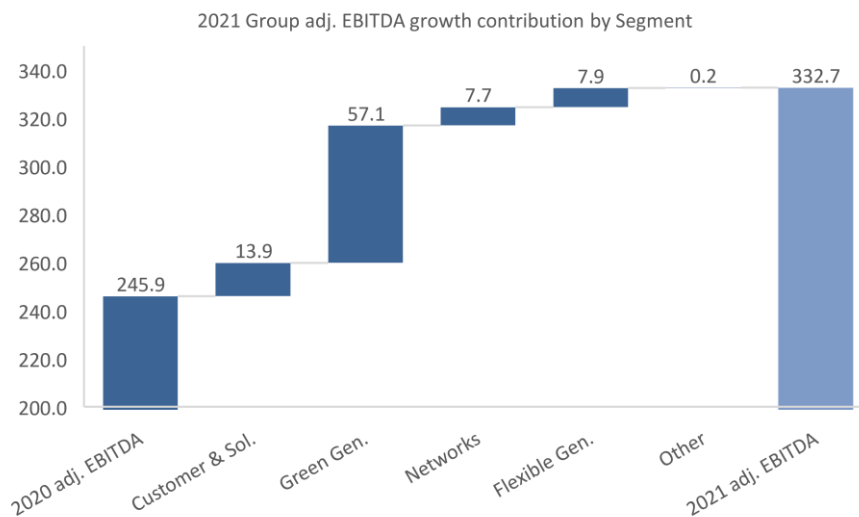
Dividend per share and Dividend yield forecast



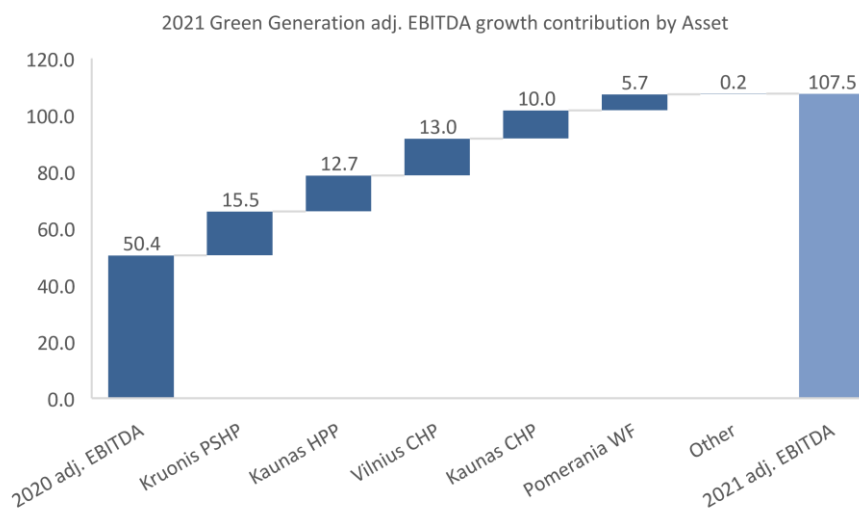
Source: Company reports, Enlight Research, dividend yield is based on share price of EUR 18.00

Green Generation boost adj. EBITDA

The 2021 Group adj. EBITDA increased by 35% or EUR 86.8m to EUR 332.7m. The Green Generation segment contributed the most to the adj. EBITDA improvement with an increase of EUR 57.1m equal to 66% of the Group EBITDA improvement. The hydro and CHP assets were the main reason for the Green Generation improvement, but the commissioning of the Pomerania wind farm also contributed (see below chart for contribution by asset). The Customer & Solutions segment was the second biggest contributor to the adj. EBITDA improvement with an increase of EUR 13.9m. However, this improvement should be regarded as temporary as it was a result of the gas inventory being written up as a result the average cost accounting method – gas bought earlier at lower price than the current price resulted in lower cost of goods sold. All else equal, the Customer & Solutions adj. EBITDA should be EUR 13.9m lower this year. The Flexible Generation and the Networks segment both increased their adj. EBITDA by almost EUR 8m. To summarize, EUR 73m or 84% of the Group adj. EBITDA improvement of EUR 87m should be permanent (all else equal).



Source: Company report



Source: Company report

Base case Fair value per share of EUR 23.65

In our view, the Ignitis Group share is a dividend case and hence, the Gordon Growth Model (GGM) is the most relevant valuation method. In our GGM, we assume a 2022 dividend per share of EUR 1.23, equal to an annual dividend growth of 3.0% vs. 2021 i.e., in-line with the company’s mid-term (2022-25) minimum target. Our Base case assume a perpetual dividend growth of 2.5% which indicate a Fair value (FV) share price of EUR 23.65 vs. our previous Base case FV share price of EUR 27.13. The lower Base case FV is a result of lower assumed 2022 dividend (EUR 1.23/shr vs. prev. EUR 1.26/shr), and higher cost of equity (7.0% vs. 8.0% earlier). Our Bull case assume a perpetual dividend growth of 3.0% which indicate a share price of EUR 26.17, while our Bear case assume a perpetual dividend growth of 1.0% which indicate a share price of EUR 18.36. The current share price of EUR 18.00 implies that the market is pricing in a perpetual dividend growth around 1%, which we believe is too conservative, even given the current Russia – Ukraine war uncertainties. See below for the implied share price at different assumed 2022 dividend per share and perpetual dividend growth rate.

| | Dividend growth | | | | | | | | | | | | | |
|-----------------|-----------------|-------|-------|-------|-----------|-------|-------|-------|-----------|-------|-------|-------|-----------|-------|
| | Priced in | | | | Bear case | | | | Base case | | | | Bull case | |
| | 0.00% | 0.25% | 0.50% | 0.75% | 1.00% | 1.25% | 1.50% | 1.75% | 2.00% | 2.25% | 2.50% | 2.75% | 3.00% | 3.25% |
| 1.55 | 20.13 | 20.81 | 21.53 | 22.30 | 23.13 | 24.03 | 25.00 | 26.05 | 27.19 | 28.44 | 29.81 | 31.31 | 32.98 | 34.83 |
| 1.53 | 19.87 | 20.54 | 21.25 | 22.01 | 22.84 | 23.72 | 24.68 | 25.71 | 26.84 | 28.07 | 29.42 | 30.91 | 32.55 | 34.38 |
| 1.51 | 19.61 | 20.27 | 20.97 | 21.73 | 22.54 | 23.41 | 24.35 | 25.38 | 26.49 | 27.71 | 29.04 | 30.51 | 32.13 | 33.93 |
| 1.49 | 19.35 | 20.00 | 20.69 | 21.44 | 22.24 | 23.10 | 24.03 | 25.04 | 26.14 | 27.34 | 28.65 | 30.10 | 31.70 | 33.48 |
| 1.47 | 19.09 | 19.73 | 20.42 | 21.15 | 21.94 | 22.79 | 23.71 | 24.71 | 25.79 | 26.97 | 28.27 | 29.70 | 31.28 | 33.03 |
| 1.45 | 18.83 | 19.46 | 20.14 | 20.86 | 21.64 | 22.48 | 23.39 | 24.37 | 25.44 | 26.61 | 27.88 | 29.29 | 30.85 | 32.58 |
| 1.43 | 18.57 | 19.19 | 19.86 | 20.58 | 21.34 | 22.17 | 23.06 | 24.03 | 25.09 | 26.24 | 27.50 | 28.89 | 30.43 | 32.13 |
| 1.41 | 18.31 | 18.93 | 19.58 | 20.29 | 21.04 | 21.86 | 22.74 | 23.70 | 24.74 | 25.87 | 27.12 | 28.48 | 30.00 | 31.69 |
| 1.39 | 18.05 | 18.66 | 19.31 | 20.00 | 20.75 | 21.55 | 22.42 | 23.36 | 24.39 | 25.50 | 26.73 | 28.08 | 29.57 | 31.24 |
| 1.37 | 17.79 | 18.39 | 19.03 | 19.71 | 20.45 | 21.24 | 22.10 | 23.03 | 24.04 | 25.14 | 26.35 | 27.68 | 29.15 | 30.79 |
| 1.35 | 17.53 | 18.12 | 18.75 | 19.42 | 20.15 | 20.93 | 21.77 | 22.69 | 23.68 | 24.77 | 25.96 | 27.27 | 28.72 | 30.34 |
| 1.33 | 17.27 | 17.85 | 18.47 | 19.14 | 19.85 | 20.62 | 21.45 | 22.35 | 23.33 | 24.40 | 25.58 | 26.87 | 28.30 | 29.89 |
| 1.31 | 17.01 | 17.58 | 18.19 | 18.85 | 19.55 | 20.31 | 21.13 | 22.02 | 22.98 | 24.04 | 25.19 | 26.46 | 27.87 | 29.44 |
| 1.29 | 16.75 | 17.32 | 17.92 | 18.56 | 19.25 | 20.00 | 20.81 | 21.68 | 22.63 | 23.67 | 24.81 | 26.06 | 27.45 | 28.99 |
| 1.27 | 16.49 | 17.05 | 17.64 | 18.27 | 18.96 | 19.69 | 20.48 | 21.34 | 22.28 | 23.30 | 24.42 | 25.66 | 27.02 | 28.54 |
| 1.25 | 16.23 | 16.78 | 17.36 | 17.99 | 18.66 | 19.38 | 20.16 | 21.01 | 21.93 | 22.94 | 24.04 | 25.25 | 26.60 | 28.09 |
| Div. 2022E 1.23 | 15.97 | 16.51 | 17.08 | 17.70 | 18.36 | 19.07 | 19.84 | 20.67 | 21.58 | 22.57 | 23.65 | 24.85 | 26.17 | 27.64 |
| 1.21 | 15.71 | 16.24 | 16.81 | 17.41 | 18.06 | 18.76 | 19.52 | 20.34 | 21.23 | 22.20 | 23.27 | 24.44 | 25.74 | 27.19 |
| 1.19 | 15.45 | 15.97 | 16.53 | 17.12 | 17.76 | 18.45 | 19.19 | 20.00 | 20.88 | 21.83 | 22.88 | 24.04 | 25.32 | 26.74 |
| 1.17 | 15.19 | 15.70 | 16.25 | 16.83 | 17.46 | 18.14 | 18.87 | 19.66 | 20.53 | 21.47 | 22.50 | 23.64 | 24.89 | 26.29 |
| 1.15 | 14.94 | 15.44 | 15.97 | 16.55 | 17.16 | 17.83 | 18.55 | 19.33 | 20.18 | 21.10 | 22.12 | 23.23 | 24.47 | 25.84 |
| 1.13 | 14.68 | 15.17 | 15.69 | 16.26 | 16.87 | 17.52 | 18.23 | 18.99 | 19.82 | 20.73 | 21.73 | 22.83 | 24.04 | 25.39 |
| 1.11 | 14.42 | 14.90 | 15.42 | 15.97 | 16.57 | 17.21 | 17.90 | 18.66 | 19.47 | 20.37 | 21.35 | 22.42 | 23.62 | 24.94 |
| 1.09 | 14.16 | 14.63 | 15.14 | 15.68 | 16.27 | 16.90 | 17.58 | 18.32 | 19.12 | 20.00 | 20.96 | 22.02 | 23.19 | 24.49 |
| 1.07 | 13.90 | 14.36 | 14.86 | 15.40 | 15.97 | 16.59 | 17.26 | 17.98 | 18.77 | 19.63 | 20.58 | 21.62 | 22.77 | 24.04 |
| 1.05 | 13.64 | 14.09 | 14.58 | 15.11 | 15.67 | 16.28 | 16.94 | 17.65 | 18.42 | 19.27 | 20.19 | 21.21 | 22.34 | 23.60 |
| 1.03 | 13.38 | 13.83 | 14.31 | 14.82 | 15.37 | 15.97 | 16.61 | 17.31 | 18.07 | 18.90 | 19.81 | 20.81 | 21.91 | 23.15 |
| 1.01 | 13.12 | 13.56 | 14.03 | 14.53 | 15.07 | 15.66 | 16.29 | 16.97 | 17.72 | 18.53 | 19.42 | 20.40 | 21.49 | 22.70 |
| 0.99 | 12.86 | 13.29 | 13.75 | 14.24 | 14.78 | 15.35 | 15.97 | 16.64 | 17.37 | 18.17 | 19.04 | 20.00 | 21.06 | 22.25 |
| 0.97 | 12.60 | 13.02 | 13.47 | 13.96 | 14.48 | 15.04 | 15.65 | 16.30 | 17.02 | 17.80 | 18.65 | 19.60 | 20.64 | 21.80 |
| 0.95 | 12.34 | 12.75 | 13.19 | 13.67 | 14.18 | 14.73 | 15.32 | 15.97 | 16.67 | 17.43 | 18.27 | 19.19 | 20.21 | 21.35 |
| 0.93 | 12.08 | 12.48 | 12.92 | 13.38 | 13.88 | 14.42 | 15.00 | 15.63 | 16.32 | 17.06 | 17.88 | 18.79 | 19.79 | 20.90 |
| 0.91 | 11.82 | 12.21 | 12.64 | 13.09 | 13.58 | 14.11 | 14.68 | 15.29 | 15.96 | 16.70 | 17.50 | 18.38 | 19.36 | 20.45 |

Source: Enlight Research

Forecast

The impact of the regulatory amendment for the Networks segment's electricity distribution was not as big as feared due to the introduction of a new tariff component that mitigates most of the negative impact from lower allowed return. The company management did an excellent job involving stakeholders to engage in a constructive dialogue with the regulator to ensure a sustainable regulatory framework. With the regulatory uncertainty back to normal levels, we re-launch our estimates (were "Under review"). For 2022, our new Group adj. EBITDA forecast is EUR 340m which is 1% above the high-end of the company guidance and corresponds to a 2% increase vs. 2020. This implies that the adj. EBITDA will once again come in above the high-end of the guidance like in 2021 and 2020. See below tables for Group and Segment forecast.

| Adj. EBITDA guidance vs. outcome/forecast | 2021 | 2022E |
|-------------------------------------------|------|-------|
| Adj. EBITDA guidance - High | 310 | 335 |
| Adj. EBITDA guidance - Mid | 305 | 313 |
| Adj. EBITDA guidance - Low | 300 | 290 |
| Adj. EBITDA outcome/forecast | 333 | 340 |
| Outcome vs. High | 7% | 1% |
| Outcome vs. Mid | 9% | 9% |
| Outcome vs. Low | 11% | 17% |

Source: Company reports (historical, guidance), Enlight Research (forecast)

Group forecast

| Income statement (EURm) | 2021 | 2022E | 2023E | 2024E | 2025E |
|--------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total Revenue & Other income | 1,890 | 1,895 | 2,019 | 2,058 | 2,106 |
| Purchase of electricity, gas for trade | -1,380 | -1,365 | -1,454 | -1,473 | -1,508 |
| Salaries and related expenses | -97 | -99 | -103 | -105 | -107 |
| Repair and maintenance expenses | -32 | -47 | -50 | -51 | -53 |
| Purchase of gas and heavy fuel oil | 0 | 0 | 0 | 0 | 0 |
| Other expenses | -46 | -47 | -50 | -51 | -53 |
| Total expenses | -1,555 | -1,558 | -1,657 | -1,681 | -1,721 |
| EBITDA | 335 | 337 | 361 | 377 | 385 |
| Depreciation and amortization | -122 | -168 | -174 | -185 | -191 |
| Write-offs, revaluations PP&E, Intang. | -28 | -4 | 0 | 0 | 0 |
| Revaluation of emission allowances | 0 | 0 | 0 | 0 | 0 |
| EBIT | 185 | 165 | 187 | 191 | 195 |
| <i>Financial net</i> | <i>-16</i> | <i>-25</i> | <i>-26</i> | <i>-28</i> | <i>-29</i> |
| Pre-tax profit | 168 | 140 | 161 | 164 | 166 |
| Current year income tax (expenses)/benefit | -19 | -10 | -11 | -11 | -12 |
| Deferred income tax (expenses)/benefit | 5 | -13 | -14 | -10 | -15 |
| Minority | 0 | 0 | 0 | 0 | 0 |
| Net profit (loss) | 154 | 117 | 135 | 143 | 139 |

| Segment revenue growth (IFRS reported) | 2021 | 2022E | 2023E | 2024E | 2025E |
|----------------------------------------|-------|-------|-------|-------|-------|
| q-on-q | nm | nm | nm | nm | nm |
| y-on-y | 54.6% | 0.3% | 6.5% | 1.9% | 2.3% |

| Margins | 2021 | 2022E | 2023E | 2024E | 2025E |
|----------------|-------|-------|-------|-------|-------|
| EBITDA | 17.7% | 17.8% | 17.9% | 18.3% | 18.3% |
| EBIT | 9.8% | 8.7% | 9.3% | 9.3% | 9.2% |
| Pre-tax profit | 8.9% | 7.4% | 8.0% | 8.0% | 7.9% |
| Net profit | 8.1% | 6.2% | 6.7% | 6.9% | 6.6% |

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

Segment forecast

| Revenue per segment (IFRS reported) | 2021 | 2022E | 2023E | 2024E | 2025E |
|-------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Networks | 533 | 498 | 600 | 621 | 643 |
| Green Generation | 209 | 210 | 223 | 241 | 264 |
| Flexible Generation | 153 | 140 | 145 | 141 | 142 |
| Customers and Solutions | 1,009 | 1,062 | 1,066 | 1,069 | 1,073 |
| Total Revenues bef. Other/elimin. | 1,905 | 1,910 | 2,034 | 2,073 | 2,122 |
| Other segments/eliminations | -14 | -15 | -15 | -16 | -16 |
| Revenue after Other segm./eliminations | 1,890 | 1,895 | 2,019 | 2,058 | 2,106 |
| Segment revenue growth (IFRS reported) | 2021 | 2022E | 2023E | 2024E | 2025E |
| Networks | 10.5% | -6.5% | 20.4% | 3.6% | 3.5% |
| Green Generation | 132.6% | 0.3% | 6.5% | 8.0% | 9.2% |
| Flexible Generation | 38.4% | -8.6% | 3.5% | -2.6% | 0.5% |
| Customers and Solutions | 84.0% | 5.2% | 0.4% | 0.4% | 0.4% |
| Total Revenues bef. Other/elimin. | 54.7% | 0.3% | 6.5% | 1.9% | 2.3% |
| Revenue after Other segm./eliminations | 54.6% | 0.3% | 6.5% | 1.9% | 2.3% |
| Adjusted EBITDA by Segment | 2021 | 2022E | 2023E | 2024E | 2025E |
| Networks | 145 | 164 | 170 | 173 | 176 |
| Green Generation | 107 | 111 | 112 | 120 | 131 |
| Flexible Generation | 37 | 35 | 34 | 33 | 32 |
| Customers and Solutions | 41 | 27 | 33 | 34 | 41 |
| Total adjusted EBITDA bef. Other/eliminations | 331 | 337 | 350 | 361 | 380 |
| Other segments/eliminations | 2 | 2 | 3 | 2 | 2 |
| Total adjusted EBITDA after Other/eliminations | 333 | 340 | 353 | 363 | 382 |
| Adjusted EBITDA margin by Segment | 2021 | 2022E | 2023E | 2024E | 2025E |
| Networks | 28.5% | 34.6% | 29.4% | 28.9% | 28.4% |
| Green Generation | 49.5% | 50.9% | 49.2% | 48.8% | 48.6% |
| Flexible Generation | 24.5% | 25.5% | 23.8% | 23.7% | 22.9% |
| Customers and Solutions | 4.0% | 2.6% | 3.2% | 3.2% | 3.9% |
| Total adjusted EBITDA | 17.4% | 18.0% | 17.5% | 17.7% | 18.2% |
| Total adjusted EBITDA after Other/eliminations | 17.6% | 18.2% | 17.8% | 18.0% | 18.4% |

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 effects on the Lithuanian economy from the Russia – Ukraine war are hard to predict. A significant increase in energy prices has already taken place. This is not necessarily bad for Ignitis Grupe.

Regulatory risk

Tariffs for electricity and gas distribution that form Ignitis Group's largest 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 under all scenarios. 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.

COVID-19 risk

The Company's direct exposure to COVID-19 is rather limited. However, there is an indirect risk that a COVID-19 induced recession could affect people's ability to pay their electricity and heating bills. Furthermore, the business client demand could fall significantly in the event of a prolonged recession.

| Income Statement (EURm) | 2020 | 2021 | 2022e | 2023e | 2024e |
|----------------------------------|-------|----------------------------|--------|--------|--------|
| Total revenues | 1,223 | 1,890 | 1,895 | 2,019 | 2,058 |
| Total operating costs | -889 | -1,555 | -1,558 | -1,657 | -1,681 |
| EBITDA | 334 | 335 | 337 | 361 | 377 |
| Depreciation | -110 | -133 | -168 | -174 | -185 |
| Amortizations | 0 | 0 | 0 | 0 | 1 |
| Impairment charges | -9 | -18 | -4 | 0 | 0 |
| EBIT | 215 | 185 | 165 | 187 | 191 |
| Associated companies' | 0 | 0 | 0 | 0 | 0 |
| Net financial items | -20 | -16 | -25 | -26 | -28 |
| Exchange rate differences | 0 | 0 | 0 | 0 | 0 |
| Pre-tax profit (PTP) | 195 | 168 | 140 | 161 | 164 |
| Net earnings | 171 | 154 | 117 | 135 | 143 |
| Balance Sheet | 2020 | 2021 | 2022e | 2023e | 2024e |
| Assets (EURm) | | | | | |
| Cash and cash equivalent | 659 | 449 | 227 | 242 | 247 |
| Receivables | 128 | 275 | 237 | 262 | 226 |
| Inventories | 66 | 186 | 186 | 198 | 202 |
| Other current assets | 169 | 395 | 395 | 395 | 395 |
| Total current assets | 1,022 | 1,304 | 1,045 | 1,098 | 1,070 |
| Tangible assets | 2,560 | 2,610 | 2,904 | 3,192 | 3,470 |
| 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 | 244 | 257 | 259 |
| Total fixed assets | 2,892 | 2,931 | 3,263 | 3,564 | 3,843 |
| Deferred tax assets | 6 | 16 | 16 | 16 | 16 |
| Total assets | 3,921 | 4,251 | 4,324 | 4,677 | 4,929 |
| Liabilities | | | | | |
| Non-ib current liabilities | 52 | 100 | 114 | 121 | 123 |
| Short-term debt | 29 | 242 | 247 | 301 | 337 |
| Other current liabilities | 223 | 355 | 355 | 355 | 355 |
| Total current liabilities | 304 | 698 | 716 | 778 | 816 |
| Long-term IB debt | 1,246 | 1,118 | 1,143 | 1,392 | 1,557 |
| 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 | 1,652 | 1,901 | 2,066 |
| Total (liabilities) | 2,108 | 2,402 | 2,446 | 2,756 | 2,959 |
| Deferred tax liabilities | 46 | 47 | 47 | 47 | 47 |
| Provisions | 41 | 30 | 30 | 30 | 30 |
| Shareholders' equity | 1,812 | 1,849 | 1,877 | 1,921 | 1,969 |
| Minority interest (BS) | 1 | 0 | 0 | 0 | 0 |
| Total shareholders equity | 1,813 | 1,849 | 1,877 | 1,921 | 1,969 |
| Total equity & liabilities | 3,921 | 4,251 | 4,324 | 4,677 | 4,929 |
| DCF valuation | | | | | |
| WACC (%) | 5.40% | Cash flow (EURm) | | | |
| | | NPV FCF (2022-2024) | | -310 | |
| | | NPV FCF (2025-2031) | | 62 | |
| Assumptions 2021-2026 (%) | | NPV FCF (2031-) | | 2,968 | |
| CAGR Sales growth | 3.0% | Non-operating assets | | 449 | |
| Average EBIT margin | 9.9% | Interest-bearing debt | | -1,406 | |
| | | Fair value estimate | | 1,763 | |
| | | Fair value per share (EUR) | | 23.73 | |
| | | Share price (EUR) | | 17.88 | |

| Free Cash Flow (EURm) | 2020 | 2021 | 2022e | 2023e | 2024e |
|--------------------------|------------------------|-------|--------|-------|-------|
| Operating profit | 215 | 185 | 165 | 187 | 191 |
| Depreciation | 119 | 151 | 172 | 174 | 185 |
| Change in wc | -29 | -311 | 51 | -30 | 35 |
| Other oper. CF items | -24 | 73 | -27 | -30 | -25 |
| Operating CF | 281 | 97 | 361 | 301 | 386 |
| CF from Investments | -258 | -229 | -463 | -463 | -463 |
| Other CF items | 0 | 1 | 0 | 0 | 0 |
| Free Cash Flow | 22 | -132 | -102 | -162 | -76 |
| Capital structure | 2020 | 2021 | 2022e | 2023e | 2024e |
| Equity ratio | 46% | 43% | 43% | 41% | 40% |
| Debt/Equity | 72% | 76% | 77% | 91% | 99% |
| Capital invested (EURm) | 3,116 | 3,255 | 3,314 | 3,660 | 3,910 |
| Profitability | 2020 | 2021 | 2022e | 2023e | 2024e |
| ROE % | 10.6% | 6.3% | 7.1% | 7.3% | 7.0% |
| EBITDA % | 27.6% | 17.7% | 17.8% | 17.9% | 18.3% |
| EBIT % | 17.6% | 9.8% | 8.7% | 9.3% | 9.3% |
| Net Margin | 13.8% | 8.1% | 6.2% | 6.7% | 6.9% |
| Valuation (x) | 2020 | 2021 | 2022e | 2023e | 2024e |
| P/E | 6.2 | 8.6 | 11.4 | 9.8 | 9.3 |
| P/E adjusted | 6.2 | 8.6 | 11.4 | 9.8 | 9.3 |
| P/Sales | 0.8 | 0.7 | 0.7 | 0.6 | 0.6 |
| EV/Sales | 1.5 | 1.3 | 1.3 | 1.4 | 1.5 |
| EV/EBITDA | 7.5 | 7.5 | 7.8 | 8.0 | 8.4 |
| EV/EBIT | 8.7 | 13.6 | 15.3 | 15.1 | 15.8 |
| P/BV | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 |
| Per share measures | 2020 | 2021 | 2022e | 2023e | 2024e |
| EPS | 2.89 | 2.07 | 1.57 | 1.82 | 1.92 |
| EPS adjusted | 2.89 | 2.07 | 1.57 | 1.82 | 1.92 |
| CEPS | 3.78 | 1.30 | 4.86 | 4.05 | 5.20 |
| EBITDA/share | 4.50 | 4.52 | 4.54 | 4.86 | 5.07 |
| Capital empl./share | 42.0 | 43.8 | 44.6 | 49.3 | 52.6 |
| Div. per share | 1.14 | 1.19 | 1.23 | 1.27 | 1.31 |
| Payout ratio | 40% | 57% | 78% | 70% | 68% |
| Dividend yield (%) | 6.4% | 6.7% | 6.9% | 7.1% | 7.3% |
| 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 Salielis | | | | |
| Infra. Develop. Director | TBA | | | | |

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

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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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