Green Generation at significant discount

Once again, earnings came in above forecast and the full-year guidance was exceeded. Our sum-of-the-parts valuation imply a significant discount on the Green Generation segment. We make minor adjustments to our adj. EBITDA and dividend estimates and keep our Base case Fair value unchanged.

Beating estimates and guidance

The Q4/22 adj. EBITDA of EUR 112m was 9% or EUR 9m above our estimate of EUR 103m. The outperformance was mainly due to the Green Generation segment which posted EUR 23m better than expected adj. EBITDA. The 2022 adj. EBITDA of 469m was 2% above the top-end guidance and our forecast of EUR 460m.

Green Generation at over 50% discount

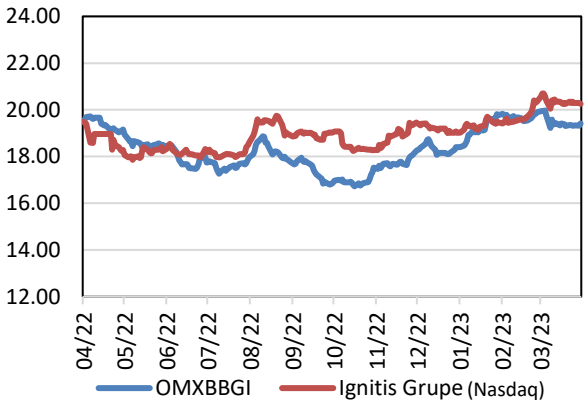
Our sum-of-the-parts valuation indicate an EV for the regulated business of EUR 1,545m, which given Ignitis Grupe's EV of EUR 2,464m, leaves an EV for the Green Generation segment of EUR 878m. Given the 2022 reported adj. EBITDA for the Green Generation segment of EUR 253m, the implied EV/EBITDA multiple is 3.5x, which corresponds to a discount of 68% to renewable peers and a 59% discount to Enefit Green.

Dividend estimates indicate 5-6% net yield

We raise our adj. EBITDA forecast by 0.6% for this year to EUR 466m (2% above mid-value guidance) and lower it by 6.5% to EUR 472m for next year to reflect lower assumed energy prices. Our dividend per share is raised by EUR 0.01 for 2023, and 2024, resulting in a net yield of 5.4%, and 5.5%, respectively. Our yield based Base case Fair value per share is unchanged at EUR 27.85.

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

Key Data	
Price (EUR)	20.40
Ticker	IGN1L
Country	Lithuania
Listed	Vilnius (Lithuania)
Market Cap (EURm)	1,481
Net debt (EURm)	987
Shares (m)	72.4
Free float	25%



Key figures (MEUR)

	2021	2022	2023E	2024E	2025E
Total revenues	1,899	4,387	3,871	3,467	3,267
Total revenue growth	55.2%	131.1%	-12.2%	-10.0%	-5.8%
EBITDA adj.	333	469	466	472	481
EBITDA margin adj.	17.6%	10.9%	12.1%	13.6%	14.7%
EBIT	192	388	332	289	266
EBIT margin	10.1%	8.8%	8.6%	8.3%	8.2%
EV/Sales	1.3	0.5	0.7	0.8	0.9
EV/EBITDA adj.	7.6	5.0	5.9	6.0	6.2
EV/EBIT	13.1	6.1	8.3	9.8	11.3
PE	9.4	5.0	6.7	7.8	8.5
P/BV	0.7	0.6	0.6	0.6	0.6
EPS	2.16	4.04	3.03	2.61	2.40
EPS growth	-6.1%	87.3%	-25.1%	-13.8%	-8.0%
Div. per share	1.19	1.25	1.29	1.32	1.36
Dividend yield*	5.7%	6.6%	6.3%	6.5%	6.7%

Source: Company (historical), Enlight Research (estimates)
*Estimates are Pre-tax yield on EUR 20.40 share price

Price range	
52-week high	20.80
52-week low	17.80

Analyst

ResearchTeam@enlightresearch.net

Coverage frequency

4x per year

Q4 2022 Key takeaways

Another solid year to add to the track record

2022 was the second year in a row when the adj. EBITDA beat the top end of the guidance range (reported 2022 EBITDA was EUR 469m, which was 2% above the EUR 460m top end of the guided range and 7% above the guided mid-value of EUR 440m). In 2023, the guidance is for an adj. EBITDA of EUR 430-480m (mid EUR 455m). We see no reason why the company should not be able to reach their guidance and forecast an adj. EBITDA of EUR 466m, which is 2% above the mid-value of EUR 455m and 3% below the top end of EUR 480m.

Adj. EBITDA Guidance vs. Outcome	2021	2022	2023E
Adj. EBITDA high	310	460	480
Adj. EBITDA mid	305	440	455
Adj. EBITDA low	300	420	430
Outcome/Forecast	333	469	466
Diff to high	7.3%	2.0%	-3.0%
Diff to mid	9.1%	6.7%	2.3%
Diff to low	10.9%	11.7%	8.3%

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

The approved 2022 dividend of EUR 1.248 per share is in-line with the dividend policy/guidance to grow dividends by at least 3.0% per annum (increase on a per share basis was 5.0% due to a reduced number of shares). The 2022 net dividend yield is 5.2%, which is slightly higher than Enefit Green's proposed yield of 4.8%. In the forecast period 2023-25E, we expect the dividend per share to grow by 3.0% per annum, which corresponds to a net yield of 5.4% to 5.7%.

Dividend & yield	2020	2021	2022	2023E	2024E	2025E
H1 dividend (EURm)	42.0	43.8	45.2	46.6	48.0	49.4
Growth y-on-y		4.2%	3.3%	3.0%	3.0%	3.0%
H2 dividend (EURm)	43.0	43.8	45.4	46.8	48.2	49.6
Growth y-on-y		1.9%	3.7%	3.0%	3.0%	3.0%
Total dividend paid (EURm)	**85.0**	**87.6**	**90.6**	**93.3**	**96.1**	**99.0**
Growth y-on-y		**3.0%**	**3.5%**	**3.0%**	**3.0%**	**3.0%**
H1 dividend per share (EUR)*	0.57	0.59	0.62	0.643	0.662	0.682
H2 dividend per share (EURm)	0.58	0.60	0.62	0.643	0.662	0.682
Total dividend per share (EUR)	**1.14**	**1.19**	**1.25**	**1.29**	**1.32**	**1.36**
Dividend growth	nm	3.0%	5.0%	3.0%	3.0%	3.0%
Pre-tax dividend yield	5.6%	5.8%	6.1%	6.3%	6.5%	6.7%
Post-tax dividend yield	4.8%	5.0%	5.2%	5.4%	5.5%	5.7%
Share price (EUR)	20.35	20.35	20.35	20.35	20.35	20.35

Source: Company (historic), Enlight Research (estimates), Historic dividend yield is based on current share price while dividend yield on front page and back page is based on year-end share price.

Undervalued based on Sum-of-the-parts valuation (SOTP valuation)

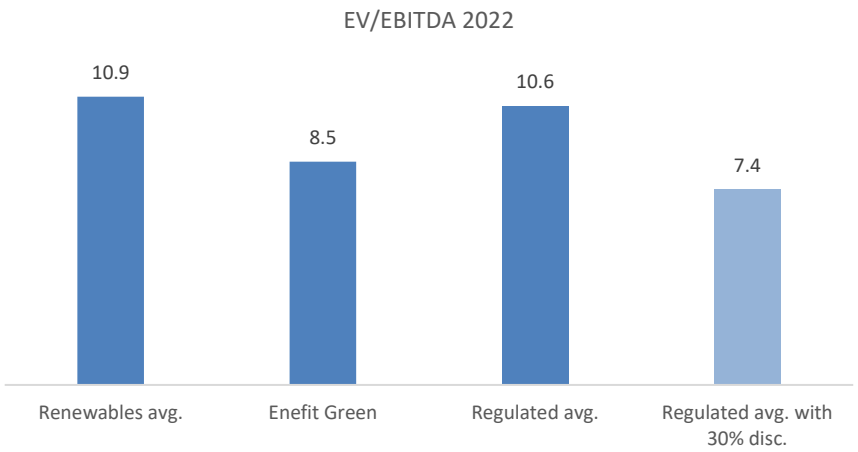
Applying Enefit Green's (EGR's) EV/EBITDA 2022 multiple of 8.5x to Ignitis Grupe (IGN) Green Generation segment's reported 2022 adj. EBITDA of EUR 253m implies an EV for IGN's Green Generation segment of EUR 2,135m. Deducting the Green Generation segment's reported 2022 Net debt of EUR 759m implies an equity value of EUR 1,376m or EUR 18.96 per share for the Green Generation segment (very close to today's share price i.e., the value of whole Ignitis Grupe). To calculate the value of the remaining regulated segments (Networks, Flexible Generation, Customers &

Solutions), we apply an EV/EBITDA of 7.4x (regulated utilities peer multiple of 10.6x with a 30% discount) to their combined reported 2022 EBITDA, which indicate an EV of EUR 1,586m. Hence, our total motivated EV for Ignitis Grupe is EUR 3,721m, which after deducting the total Net debt of EUR 987m, leaves an equity value of EUR 2,734m equal to EUR 37.66 per share, implying an upside around 85%. Worth noting is that we do not believe Enefit Green is overvalued as it is trading with a discount of around 20% to the renewable peers. We rather think both Ignitis Grupe and Enefit Green are undervalued with Ignitis Grupe having the most valuation upside potential due to its implied low valuation of the green generation assets.

Ignitis Grupe SOTP valuation

	Reported 2022 adj. EBITDA (EURm)	Motivated EV/EBITDA	Motivated EV (EURm)	Reported 2022 Net debt (EURm)	Motivated Equity value (EURm)	Motivated value/Shr. (EUR)
Green Generation	253	8.5	2,135	759	1,376	18.96
Networks	165	7.4	1,216	776	440	6.06
Flexible Generation	35	7.4	255	72	183	2.52
Customers & Solutions	16	7.4	115	418	-303	-4.17
Parent company/Other/Eliminations	2			-1,038	1,038	14.30
Ignitis Grupe	**469**		**3,721**	**987**	**2,734**	**37.66**
					Current price:	20.35
					Upside/downside:	85%

Source: Company reports (EBITDA, Net debt), Enlight Research (EV/EBITDA multiple, EV, Equity value, Equity value/Shr.)



Source: Company reports (reported EBITDA), Enlight Research (EV based on current market price).

Valuation

Base case Fair value re-iterated at EUR 27.85

Our valuation is based on the normalized long-term dividend when the Green Generation expansion is completed. Assuming the long-term Green Generation capacity target of 4.0 GW is met (current pipeline exceeds 2030 target of 4 GW), 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 dividend results in an undiscounted share price of EUR 46, which discounted by 6.5% for 8 years gives our Base case Fair value of EUR 27.85 per share. Our Bear case assumes a motivated yield of 6.0% and indicates a share price of EUR 23.21, while our Bull case assumes a yield of 4.0% which indicates a share price of 34.81.

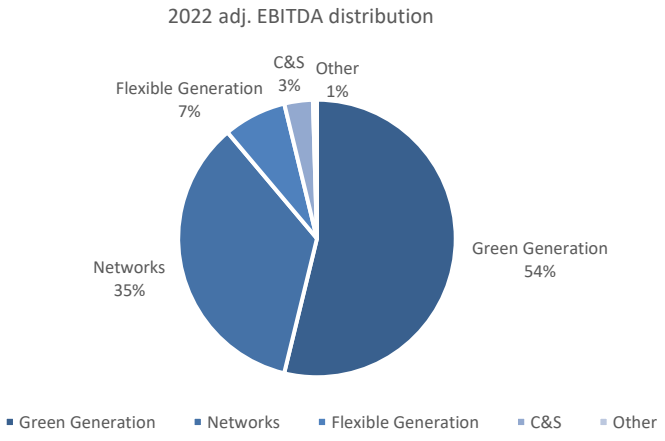
Fair value/shr at different motivated div. yield based on 2030 dividend of EUR 2.30 per share

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%	25.31
6.0%	6.5%	23.21
6.5%	6.5%	21.42
7.0%	6.5%	19.89

Source: Enlight Research

Peer 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 2023 EV/EBITDA multiple, the Ignitis Grupe share is trading at a 25% discount to the Integrated utilities peer group (5.3x vs. 7.1x for peers), despite having an estimated dividend yield that is higher than the peer average (6.1% vs. 5.6% for peers). Given Ignitis Grupe's strong focus on renewable energy (Green Generation accounted for 54% of the Group's total adjusted EBITDA in 2022), one could argue that Ignitis Grupe should trade more towards the Renewables peer group average, which has the highest EV/EBITDA multiple among our peer subgroups (11.1x vs. 9.8x for Regulated utilities, and 7.1x for Integrated utilities). Compared to the regulated and renewable peer groups, Ignitis Grupe is trading at a discount of 46%, and 52%, respectively, based on estimated EV/EBITDA 2023 (see per table below).



Source: Company reports

Peer valuation

	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2022	EV/EBITDA 2023E	EV/EBITDA 2024E	Div. yield 2022E	Div. yield 2023E	Div. yield 2024E
Ignitis Grupe	IGN1L	EUR	20.35	1,477	2,464	5.3	5.3	5.2	6.1%	6.3%	6.5%

Integrated

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2022	EV/EBITDA 2023E	EV/EBITDA 2024E	Div. yield 2022E	Div. yield 2023E	Div. yield 2024E
EDP	EDP	EUR	4.84	19,206	34,426	8.1	7.3	6.8	3.9%	4.3%	4.5%
Endesa	ELE	EUR	19.60	20,749	31,881	6.5	7.1	6.6	7.1%	5.5%	6.0%
Enel	ENEL	EUR	5.52	56,151	118,569	6.2	5.8	5.6	7.2%	7.8%	7.8%
Engie	ENGI	EUR	14.21	34,615	56,118	4.1	4.6	4.4	9.6%	7.5%	8.1%
E.ON	EOAN	EUR	11.38	30,045	65,798	8.5	8.8	8.6	4.5%	4.7%	4.8%
Iberdrola	IBE	EUR	11.32	72,019	117,278	9.1	8.3	7.6	4.2%	4.4%	4.8%
SSE	SSE	GBP	17.33	18,503	27,376	9.5	8.7	7.6	5.5%	3.5%	3.6%
Average						**7.4**	**7.2**	**6.8**	**6.0%**	**5.4%**	**5.7%**

Renewables

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2022	EV/EBITDA 2023E	EV/EBITDA 2024E	Div. yield 2022E	Div. yield 2023E	Div. yield 2024E
EDP Renewables	EDPR	EUR	20.24	19,442	24,611	11.6	11.4	10.3	0.5%	0.4%	0.5%
Neoen	NEOEN	EUR	27.78	2,982	5,898	14.4	12.2	10.4	0.4%	0.9%	1.1%
Orsted	ORSTED	DKK	552	232,134	279,887	9.3	11.7	10.3	2.4%	2.6%	2.8%
Enefit Green	EGR1T	EUR	4.39	1,161	1,309	8.5	8.9	7.5	4.7%	3.5%	3.2%
Average						**10.9**	**11.0**	**9.6**	**2.0%**	**1.9%**	**1.9%**

Regulated

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2022	EV/EBITDA 2023E	EV/EBITDA 2024E	Div. yield 2022E	Div. yield 2023E	Div. yield 2024E
National grid	NG	GBP	10.74	38,836	80,916	12.5	11.5	10.8	5.1%	5.4%	5.5%
Red Electrica	RED	EUR	15.94	8,622	13,886	9.2	9.0	10.1	6.3%	6.1%	5.3%
REN	RENE	EUR	2.68	1,788	3,972	8.3	8.1	8.1	6.0%	5.6%	5.6%
Italgas	IG	EUR	5.57	4,513	10,298	9.8	8.9	8.0	5.6%	5.9%	6.5%
Terna	TRN	EUR	7.71	15,503	25,691	13.0	12.8	11.7	4.0%	4.4%	4.5%
Average						**10.6**	**10.0**	**9.7**	**5.4%**	**5.5%**	**5.5%**

Source: MarketScreener (consensus), Enlight Research (Ignitis Grupe)
Based on share prices on 29 March 2023
Dividend yield is based on current share price (front page and back page dividend yield is based on year-end share price)

Estimate deviations

Group deviation

The Q4/22 Group adj. EBITDA was 9% or EUR 9m higher than estimated (EUR 112m vs. est. EUR 103m), while the Q4/22 IFRS EBITDA was 65% or EUR 81m above estimates (we focus on the adj. EBITDA). The Q4/22 Net profit was 40% or EUR 31m above forecast.

Group forecast deviation table

P&L (EURm)	Q4/22 Estimate	Q4/22 Outcome	Deviation EURm	%
Total Revenue & Other income	1220	1359	139	11.4%
Purchase of electricity, gas for trade	-898	-1181	-283	31.5%
Salaries and related expenses	-98	-32	67	-67.9%
Repair and maintenance expenses	-43	-15	27	-64.1%
Purchase of gas and heavy fuel oil	0	0	0	nm
Other expenses	-55	75	130	-235.7%
Total expenses	*-1094*	*-1153*	*-59*	*5.3%*
EBITDA	**125**	**206**	**81**	**64.6%**
Adjusted EBITDA	**103**	**112**	**9**	**9.1%**
Depreciation and amortization	-35	-35	0	1.2%
Write-offs, revaluations PP&E, Intang.	-1	-8	-8	778.0%
Revaluation of emission allowances	*0*	*0*	0	nm
EBIT	**90**	**163**	**73**	**81.5%**
Financial net	-7	-37	-30	466.2%
Pre-tax profit	**83**	**126**	**43**	**51.5%**
Current year income tax (expenses)/benefit	17	-6	-23	-133.6%
Deferred income tax (expenses)/benefit	-23	-12	12	-50.1%
Minority	0	0	0	nm
Net profit (loss)	**77**	**109**	**31**	**40.4%**

Growth	Q4/22 Estimate	Q4/22 Outcome	Deviation EURm	%-pts
Sales	68.2%	85.4%	nm	17

Margins	Q4/22 Estimate	Q4/22 Outcome	Deviation EURm	%-pts
EBITDA margin	10.3%	15.2%	nm	4.9
Adj. EBITDA margin	8.1%	8.9%	nm	0.7
EBIT margin	7.4%	12.0%	nm	4.6
Pre-tax margin	6.8%	9.3%	nm	2.4
Net margin	6.3%	8.0%	nm	1.7

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

Adjusted EBITDA Deviation by segment

At the adjusted EBITDA level, the Green Generation segment came in 52% or EUR 23m higher than forecast in Q4/22, while the Networks segment was exactly in-line with estimates. The Q4/22 adj. EBITDA for the Flexible Generation segment was EUR 13m above forecast while the Customers & Solutions segment came in EUR 29m below forecast (loss of EUR 20m vs. estimate profit of EUR 9m).

Adjusted EBITDA by Segment	Q4/22 Estimate	Q4/22 Outcome	Deviation EURm	%
Networks	48	48	0	0.4%
Green Generation	44	67	23	52.4%
Flexible Generation	4	17	13	365.9%
Customers and Solutions	9	-20	-29	-308.2%
Total adjusted EBITDA bef. Other/eliminations	**105**	**112**	**7**	**7.1%**
Other segments/eliminations	-2	0	2	-102.4%
Total adjusted EBITDA after Other/eliminations	**103**	**112**	**10**	**9.4%**

Adjusted EBITDA margin by Segment	Q4/22 Estimate	Q4/22 Outcome	Deviation EURm	%-pts
Networks	29.1%	21.5%	nm	-7.6
Green Generation	25.9%	na	nm	na
Flexible Generation	5.8%	23.4%	nm	17.6
Customers and Solutions	1.2%	-2.1%	nm	-3.3
Total adjusted EBITDA	**8.9%**	**8.4%**	**nm**	**-0.6**
Total adjusted EBITDA after Other/eliminations	**8.1%**	**8.9%**	**nm**	**0.7**

Source: Company reports (historical), Enlight Research (estimates)
*Adjusted EBITDA divided by Adjusted Revenues (might differ from company reported Adjusted EBITDA margin calculated due to different calculation method used)

Estimate changes

Our 2023 estimated Group adj. EBITDA is roughly unchanged at EUR 466m (prev. 463m) vs. guidance range of EUR 430-480, while our 2024E Group adj. EBITDA is lowered by 6.5% to EUR 472m, mainly due to lower assumed electricity prices. Our Dividend per share for this year is raised marginally by 0.5% to EUR 1.29, while it is raised by 1% for next year to EUR 1.34 (prev. 1.32). The estimates for 2025 are initiated as we enter the new explicit forecast period 2023-25E.

Estimate changes per Segment

Sales per segment (EURm)

Networks	2023E	2024E	2025E
Old estimate	579	585	na
New estimate	623	608	602
Change	44	23	na
Change (pct)	7.6%	3.9%	na

Green Generation	2023E	2024E	2025E
Old estimate	571	681	na
New estimate	435	435	448
Change	-136	-246	na
Change (pct)	-23.9%	-36.1%	na

Flexible Generation	2023E	2024E	2025E
Old estimate	116	117	na
New estimate	192	185	185
Change	76	68	na
Change (pct)	65.3%	58.2%	na

Customers & Solutions	2023E	2024E	2025E
Old estimate	2,395	2,118	na
New estimate	2,640	2,278	2,070
Change	245	160	na
Change (pct)	10.2%	7.6%	na

Adjusted EBITDA per segment (EURm)

Networks	2023E	2024E	2025E
Old estimate	171	174	na
New estimate	179	182	186
Change	8	8	na
Change (pct)	4.9%	4.8%	na

Green Generation	2023E	2024E	2025E
Old estimate	240	286	na
New estimate	226	226	231
Change	-14	-60	na
Change (pct)	-5.8%	-20.9%	na

Flexible Generation	2023E	2024E	2025E
Old estimate	22	23	na
New estimate	35	32	32
Change	13	10	na
Change (pct)	57.7%	42.6%	na

Customers & Solutions	2023E	2024E	2025E
Old estimate	33	23	na
New estimate	23	28	30
Change	-10	5	na
Change (pct)	-29.0%	21.0%	na

Group estimate changes (EURm)

Total Revenue	2023E	2024E	2025E
Old estimate	3,611	3,450	na
New estimate	3,851	3,467	3,267
Change	239.4	16.4	na
Change (pct)	6.6%	0.5%	na

EBIT	2023E	2024E	2025E
Old estimate	288	270	na
New estimate	329	287	266
Change	42	17	na
Change (pct)	14.5%	6.4%	na

EPS (EUR)	2023E	2024E	2025E
Old estimate	3.18	2.95	na
New estimate	2.90	2.43	2.22
Change	-0.28	-0.52	na
Change (pct)	-8.9%	-17.6%	na

Adjusted EBITDA	2023E	2024E	2025E
Old estimate	463	504	na
New estimate	466	472	481
Change	3	-33	na
Change (pct)	0.6%	-6.5%	na

Pre-tax profit	2023E	2024E	2025E
Old estimate	256	237	na
New estimate	232	196	179
Change	-24	-41	na
Change (pct)	-9.4%	-17.4%	na

Dividend (EUR)	2023E	2024E	2025E
Old estimate	1.29	1.32	na
New estimate	1.29	1.32	1.36
Change	0.00	0.00	na
Change (pct)	0.0%	0.0%	na

Source: Enlight Research

Forecast

Revenue per segment (IFRS reported)	2022	2023E	2024E	2025E
Networks	681	623	608	602
Green Generation	458	435	435	448
Flexible Generation	241	192	185	185
Customers and Solutions	3,084	2,640	2,278	2,070
Total Revenues bef. Other/elimin.	**4,464**	**3,889**	**3,505**	**3,305**
Other segments/eliminations	-77	-39	-39	-39
Revenue after Other segm./eliminations	**4,387**	**3,851**	**3,467**	**3,267**

Segment revenue growth (IFRS reported)	2022	2023E	2024E	2025E
Networks	27.9%	-8.5%	-2.5%	-0.9%
Green Generation	111.0%	-5.2%	0.1%	2.9%
Flexible Generation	56.8%	-20.3%	-3.7%	0.2%
Customers and Solutions	205.5%	-14.4%	-13.7%	-9.1%
Total Revenues bef. Other/elimin.	**133.4%**	**-12.9%**	**-9.9%**	**-5.7%**
Revenue after Other segm./eliminations	**131.1%**	**-12.2%**	**-10.0%**	**-5.8%**

Adjusted EBITDA by Segment	2022	2023E	2024E	2025E
Networks	165	179	182	186
Green Generation	253	226	226	231
Flexible Generation	35	35	32	32
Customers and Solutions	16	23	28	30
Total adjusted EBITDA bef. Other/eliminations	**467**	**463**	**469**	**479**
Other segments/eliminations	2	2	2	2
Total adjusted EBITDA after Other/eliminations	**469**	**466**	**472**	**481**

Adjusted EBITDA margin by Segment	2022	2023E	2024E	2025E
Networks	23.6%	28.7%	30.0%	30.9%
Green Generation	55.2%	52.0%	52.0%	51.5%
Flexible Generation	14.5%	18.3%	17.6%	17.5%
Customers and Solutions	0.5%	0.9%	1.2%	1.5%
Total adjusted EBITDA	**10.6%**	**11.9%**	**13.4%**	**14.5%**
Total adjusted EBITDA after Other/eliminations	**10.9%**	**12.1%**	**13.6%**	**14.7%**

Income statement (EURm)	2022	2023E	2024E	2025E
Total Revenue & Other income	4,387	3,851	3,467	3,267
Purchase of electricity, gas for trade	-3,609	-3,037	-2,685	-2,499
Salaries and related expenses	-116	-135	-146	-157
Repair and maintenance expenses	-41	-77	-87	-82
Purchase of gas and heavy fuel oil	0	0	0	0
Other expenses	-82	-116	-104	-98
Total expenses	*-3,847*	*-3,365*	*-3,021*	*-2,835*
EBITDA	**540**	**486**	**446**	**432**
Adj. EBITDA	**469**	**466**	**472**	**481**
Depreciation and amortization	-138	-150	-156	-165
Write-offs, revaluations PP&E, Intang.	-14	-5	0	0
Revaluation of emission allowances	0	0	0	0
EBIT	**388**	**332**	**289**	**266**
Financial net	*-51*	*-78*	*-72*	*-66*
Pre-tax profit	**337**	**253**	**218**	**200**
Current year income tax (expenses)/benefit	-58	-33	-28	-26
Deferred income tax (expenses)/benefit	15	3	2	2
Minority	0	0	0	0
Net profit (loss)	**293**	**223**	**192**	**176**

Segment revenue growth (IFRS reported)	2022	2023E	2024E	2025E
y-on-y	nm	-12.2%	-10.0%	-5.8%

Margins	2022	2023E	2024E	2025E
EBITDA	12.3%	12.6%	12.9%	13.2%
EBIT	8.8%	8.6%	8.3%	8.2%
Pre-tax profit	7.7%	6.6%	6.3%	6.1%
Net profit	6.7%	5.8%	5.5%	5.4%

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 Grupe IPO prospectus, and annual/interim reports.

Russia's invasion of Ukraine

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 must be covered by the Customer & Solutions segments. However, the Lithuanian Parliament has amended legislation both to cover regulatory differences and partially compensate directly to the consumers the increase in energy prices. Supply chain issues such as e.g., shortage of spare parts is another effect of the war that needs to be considered.

Regulatory risk

Tariffs for electricity and gas distribution that form one of Ignitis Grupe'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 a 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.

Price risk

The Green Generation segment in partial 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 by the end of 2025, which may most likely result in a decrease in the number of electricity customers

Dividend risk

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

Income Statement (EURm)	2021	2022	2023e	2024e	2025e
Total revenues	1,899	4,387	3,871	3,467	3,267
Total operating costs	-1,555	-3,847	-3,385	-3,021	-2,835
EBITDA	343	540	486	446	432
Depreciation	-123	-138	-150	-156	-165
Amortizations	0	0	0	1	2
Impairment charges	-28	-14	-5	0	0
EBIT	192	388	332	289	266
Associated companies'	0	0	0	0	0
Net financial items	-16	-51	-78	-72	-66
Exchange rate differences	0	0	0	0	0
Pre-tax profit (PTP)	176	337	253	218	200
Net earnings	160	293	220	189	174

Balance Sheet	2021	2022	2023e	2024e	2025e
Assets (EURm)					
Cash and cash equivalent	449	694	612	549	517
Receivables	275	424	387	347	327
Inventories	186	570	523	430	405
Other current assets	395	333	483	483	483
Total current assets	1,304	2,022	2,005	1,808	1,731
Tangible assets	2,618	2,811	3,184	3,488	3,750
Goodwill & Other Intangibles	114	148	144	144	144
Long-term investments	5	6	6	6	6
Associated Companies	0	0	0	0	0
Other non-current assets	203	254	283	288	293
Total fixed assets	2,940	3,218	3,616	3,925	4,193
Deferred tax assets	14	31	31	31	31
Total assets	4,258	5,272	5,652	5,764	5,955
Liabilities					
Non-ib current liabilities	100	177	232	208	196
Short-term debt	242	213	238	243	260
Other current liabilities	355	692	692	692	692
Total current liabilities	698	1,082	1,162	1,143	1,148
Long-term IB debt	1,118	1,423	1,594	1,629	1,738
Convertibles & Lease liabilities	46	45	45	45	45
Other long-term liabilities	463	523	523	523	523
Total long-term liabilities	1,628	1,991	2,162	2,197	2,306
Total (liabilities)	2,402	3,146	3,397	3,413	3,526
Deferred tax liabilities	47	55	55	55	55
Provisions	30	18	18	18	18
Shareholders' equity	1,856	2,126	2,255	2,351	2,429
Minority interest (BS)	0	0	0	0	0
Total shareholders equity	1,856	2,126	2,255	2,351	2,429
Total equity & liabilities	4,258	5,272	5,652	5,764	5,955

DCF valuation		Cash flow (EURm)	
WACC (%)	6.23%	NPV FCF (2022-2024)	-35
		NPV FCF (2025-2031)	-1,307
Assumptions 2022-2028 (%)		NPV FCF (2031-)	152
CAGR Sales growth	2.8%	Non-operating assets	4,619
Average EBIT margin	8.4%	Interest-bearing debt	-1,406
		Fair value estimate	2,023
		Fair value per share (EUR)	27.87
		Share price (EUR)	20.40

Free Cash Flow (EURm)	2020	2021	2022	2023e	2024e	2025e
Operating profit	215	192	388	332	289	266
Depreciation	119	151	152	155	156	165
Change in wc	-29	-311	-59	-9	109	33
Other oper. CF items	-24	73	-59	-44	-38	-35
Operating CF	281	105	421	433	517	430
CF from Investments	-258	-229	-440	-523	-460	-428
Other CF items	0	1	47	0	0	0
Free Cash Flow	22	-124	29	-90	57	2

Capital structure	2020	2021	2022	2023e	2024e	2025e
Equity ratio	46%	44%	40%	40%	41%	41%
Debt/Equity	72%	76%	79%	83%	82%	84%
Capital invested (EURm)	3,116	3,262	3,807	4,132	4,268	4,472

Profitability	2020	2021	2022	2023e	2024e	2025e
ROE %	10.6%	10.0%	8.2%	7.3%	6.7%	0.0%
EBITDA %	27.6%	18.1%	12.3%	12.6%	12.9%	13.2%
EBIT %	17.6%	10.1%	8.8%	8.6%	8.3%	8.2%
Net Margin	13.8%	8.4%	6.7%	5.8%	5.5%	5.4%

Valuation (x)	2020	2021	2022	2023e	2024e	2025e
P/E	7.1	9.5	5.0	6.7	7.8	8.5
P/E adjusted	8.9	9.5	5.0	6.7	7.8	8.5
P/Sales	0.3	0.8	0.3	0.4	0.4	0.5
EV/Sales*	1.5	1.3	0.5	0.7	0.8	0.9
EV/EBITDA*	4.4	7.3	4.4	5.6	6.4	7.0
EV/EBIT*	8.7	13.1	6.1	8.3	9.8	11.3
P/BV	0.6	0.8	0.6	0.7	0.6	0.6

*Estimated end of year Net debt used in EV calculation

Per share measures (EUR)	2020	2021	2022	2023e	2024e	2025e
EPS	2.89	2.16	4.04	3.03	2.61	2.40
EPS adjusted	2.30	2.16	4.04	3.03	2.61	2.40
CEPS	3.78	1.41	5.80	5.97	7.12	5.92
EBITDA/share	4.50	4.62	7.43	6.70	6.14	5.94
Capital empl./share	42.0	43.9	52.4	56.9	58.8	61.6
Div. per share	1.14	1.19	1.25	1.29	1.32	1.36
Payout ratio	40%	55%	31%	42%	51%	57%
Dividend yield (%)	5.5%	5.7%	6.6%	6.3%	6.5%	6.7%

Shareholders	
Ministry of Finance	74.99%
EBRD	4.14%
Institutional investors - other	12.48%
Retail invetors	8.39%

Key people	
CEO	Darius Maikstenas
CFO	Jonas Rimavicius
Head of Group Organisational Development	Dr. Zivile Skibarkiene
Head of Group Commercial Activities	Vidmantas Salietis
Head of Group Regulated Activities	Mantas Mikalajunas

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

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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