

Winning Business Model

The 2023 adj. EBITDA exceeded both the guidance and our estimate. Ignitis Grupe’s integrated business model and skillful hedging were key to the earnings beat. We raise our adj. EBITDA estimates and Base case Fair value slightly and continue to forecast steadily increasing dividends.

Integrated business model

The portfolio of regulated (RAB & WACC dependent) and unregulated (electricity price dependent) business segments provides diversification away from the market electricity price. Hence, the Green Generation segment’s (unregulated) EUR 30m EBITDA decline in 2023 was offset by the mainly regulated segments (Networks and Reserve Capacities). In our view, the integrated utilities discount (30%) to renewable utilities is too large given the high electricity price volatility.

Effective electricity hedging & strong balance sheet

With 81% of the electricity volume secured at 143 EUR/MWh (vs. mkt. price 93) in 2023, the Green Generation segment contained its adj. EBITDA decline to 30% (vs. electricity price decline 50-60%). This year, 74% of the volume is hedged at 132 EUR/MWh (vs. mkt price around 80-90). Furthermore, effective financing management meant the effective interest rate increased just 49 bps in 2023 (vs. 6M Euribor increase of 419 bps), which kept the balance sheet strong.

Dividends continue according to policy

We expect the dividends to continue to grow at the policy minimum of 3%. We see room for higher dividend growth once most the Green Generation expansion is completed.

Key figures (MEUR)

	2022	2023	2024E	2025E	2026E
Total revenues	4,387	2,549	2,428	2,557	2,758
Total revenue growth	131.1%	-41.9%	-4.8%	5.3%	7.9%
EBITDA adj.	469	485	478	490	553
EBITDA margin adj.	10.9%	19.2%	19.7%	19.2%	20.1%
EBIT	388	352	325	345	396
EBIT margin	8.8%	13.8%	13.4%	13.5%	14.3%
EV/Sales	0.5	1.1	1.3	1.3	1.2
EV/EBITDA adj.	5.0	5.7	6.7	6.9	6.1
EV/EBIT	6.1	7.9	9.9	9.8	8.6
PE	4.4	4.2	5.8	5.5	4.7
P/BV	0.6	0.6	0.5	0.5	0.5
EPS	4.04	4.42	3.24	3.42	3.99
EPS growth	87.3%	9.4%	-26.8%	5.7%	16.5%
Div. per share	1.24	1.29	1.32	1.36	1.41
Dividend yield*	6.9%	6.9%	7.1%	7.3%	7.5%

Source: Company data, Enlight Research estimates

*Estimated dividend yield is before 15% tax based on share price of EUR 18.70

Fair value range (EUR)

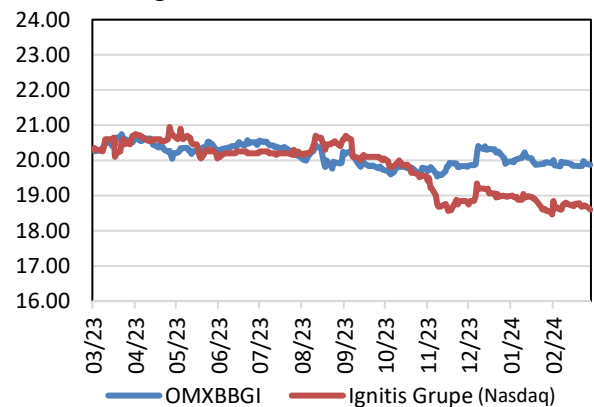
Bull	32.83
Base	27.36
Bear	23.45

Key Data

Price (EUR)	18.60
Ticker	IGN1L
Country	Lithuania
Listed	Vilnius (Lithuania)
Market Cap (EURm)	1,354
Net debt* (EURm)	1,318
Shares (m)	72.4
Free float	25%

*Last reported

Ignitis share vs Baltic Benchmark



Price range

52-week high	20.95
52-week low	18.46

Analyst

ResearchTeam@enlightresearch.net

Coverage frequency

4x per year

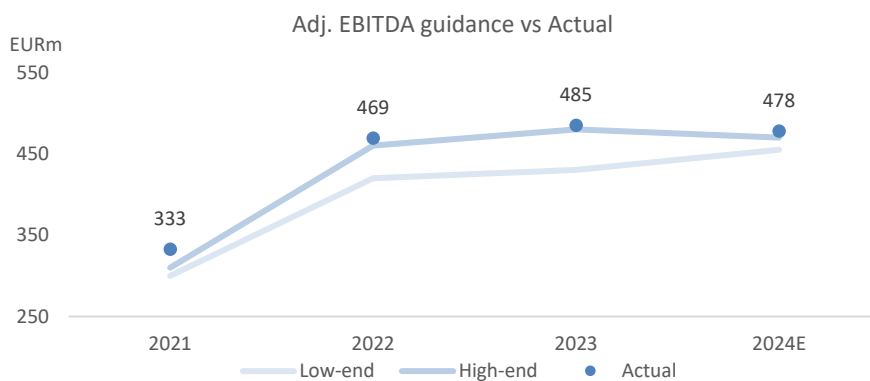
Key takeaways

Another guidance beat

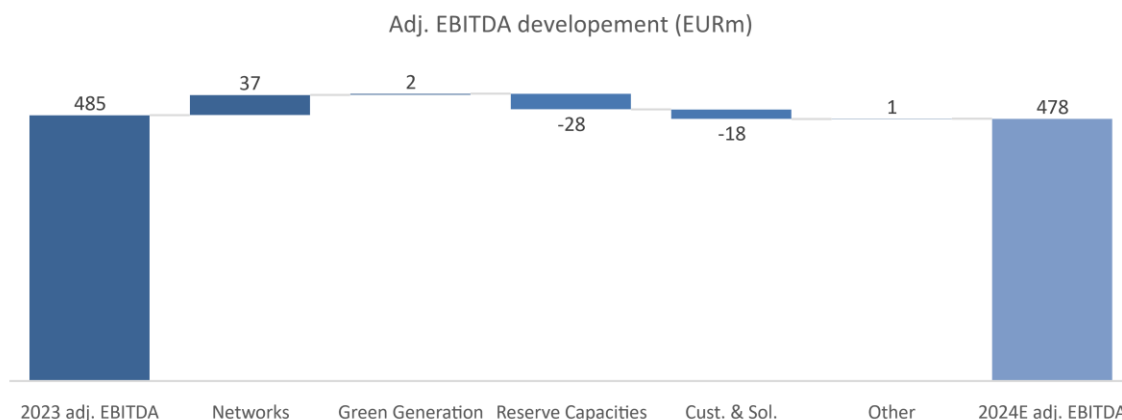
Ignitis Grupe finished 2023 with a EUR 5m adj. EBITDA guidance beat (EUR 485m actual vs EUR 480m high-end of the guidance) driven by the Networks, Flexible Generation, and Customer & Solutions segments. Since 2020 when the guidance was announced for the first time, Ignitis has beaten the high-end of the guidance by 1-7%. We believe 2024 will be the fourth year in a row when upper guidance is exceeded and estimate 2024 adj. EBITDA of EUR 478m which is EUR 8m or 1.7% above the high-end of the guidance (EUR 455-470m). The lower year-over-year adj. EBITDA is mainly due to EUR 28m lower Reserve Capacities result (the 2023 result was inflated due to positive one-offs) and EUR 18m lower Customer & Solutions segment result (we expect worse market conditions in 2024). The estimated 2024 adj. EBITDA decline of the Reserve Capacities and the Customer & Solutions segments is partly offset by the Networks segment which we forecast to increase its adj. EBITDA by EUR 37m due to higher RAB/WACC values and an increase in the additional tariff component. The Green Generation 2024E adj. EBITDA is expected to be roughly the same as lower expected electricity prices are offset by increased capacity.

Adj. EBITDA guidance (EURm)	2021	2022	2023	2024E
Low-end	300	420	430	455
High-end	310	460	480	470
Actual	333	469	485	478
High-end beat	23	9	5	8
Beat %	7.3%	2.0%	1.0%	1.7%

Source: Company reports, Enlight Research







Source: Company reports, Enlight Research



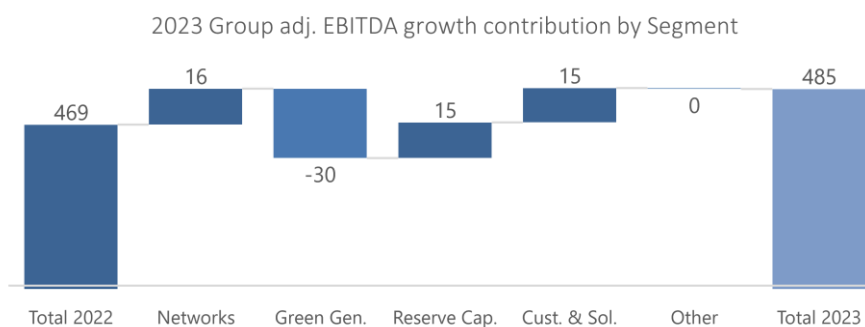
Source: Company (historic), Enlight Research (estimates)

Integrated business model & Hedging strategies behind success

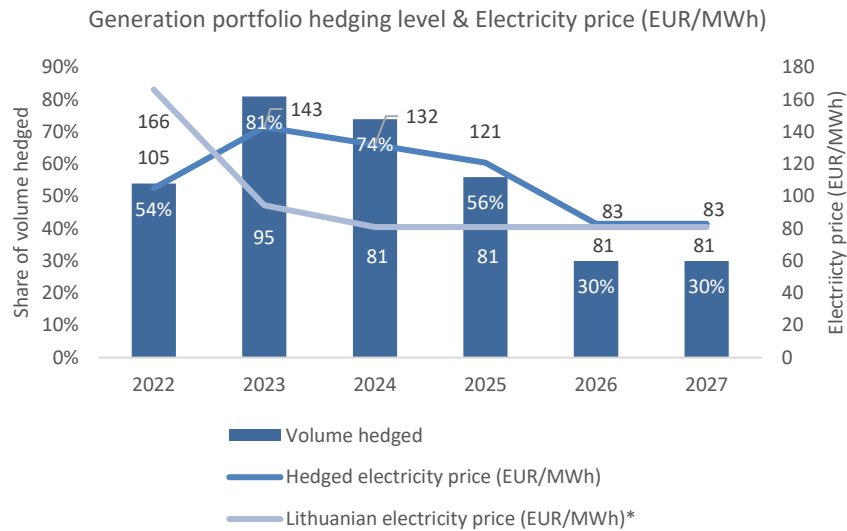
Ignitis Grupe’s integrated business model (generation, energy supply, and networks) and successful electricity price management and strong balance sheet have resulted in significantly lower electricity price sensitivity compared to e.g., purely renewable energy companies. For example, while Baltic electricity prices declined by around 50-60% in 2023, Ignitis Grupe’s adj. EBITDA increased by 3% or EUR 15m as other segments (Networks, Flexible Generation, Customers & Solutions) more than offset the Green Generation segment’s adj. EBITDA decline of EUR 30m. The Networks segment benefited from increased RAB and WACC (set by regulator) that are related grid investments rather than electricity price. The Reserve Capacities segment successfully used a wider clean spark spread (difference between the combined cost of gas and emissions, and the equivalent price of electricity) to increase its 2023 adj. EBITDA, while the Customer & Solutions segment managed to generate a return on top of the regulated return as the B2B segment turned profitable. Worth noting is that the Green Generation segment’s 2023 adj. EBITDA decline was contained to 12% or EUR 30m vs. the electricity price decline of 50-60% in the Baltics and 33% in Poland, mainly due to successful hedging strategies. In 2023, 81% of the electricity volume was hedged at 143 EUR/MWh (vs. Baltic market price of around 93 EUR/MWh). Moreover, a strong balance sheet ensured that the effective interest rate was 2.59% vs. the 6M Euribor of 3.65%. We believe the integrated business model combined with a strong balance sheet supported by regulated business part cushions the impact of volatile electricity prices. Ultimately, this enables the company to continue its investment program and reach, or even exceed (in our view), the Green Generation capacity target of 2.2-2.4 GW (forecast 2.8 GW) by 2026 and 4.0-5.0 GW by 2030 (forecast 6.2 GW). The total portfolio was 7.1 GW at the end of 2023.

				
Business segment	Green Generation	Networks	Reserve Capacities	Customer & Solutions
Market prices impact	Benefits from high and volatile electricity market prices	No impact	Benefits from volatility in electricity and natural gas prices	Benefits from decreasing market prices
Adj. EBITDA influencing factors	Electricity market price, power purchase agreements (PPA), uptime of the assets	Investments into the utility grid (RAB) and allowed return on the investments (WACC)	Clean spark spread (difference between natural gas price and cost to produce electricity using it)	Number of signed customers, electricity market price, natural gas market price

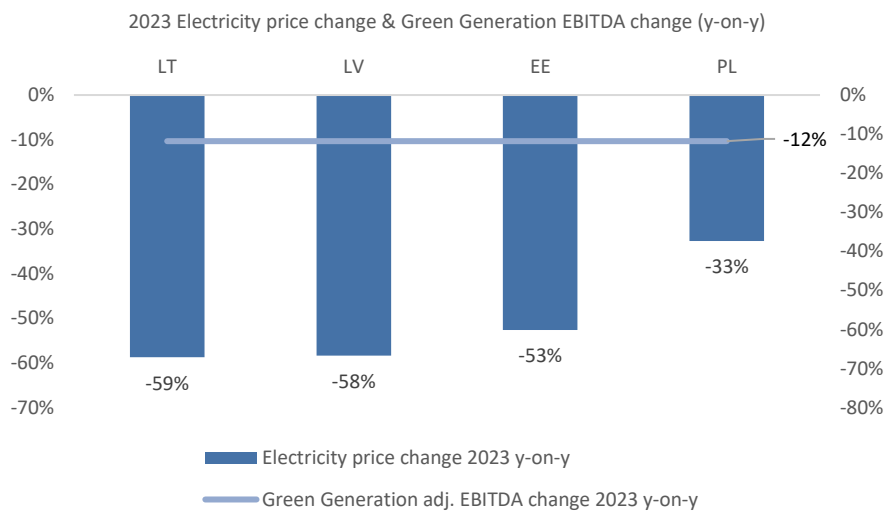
Source: Company presentation



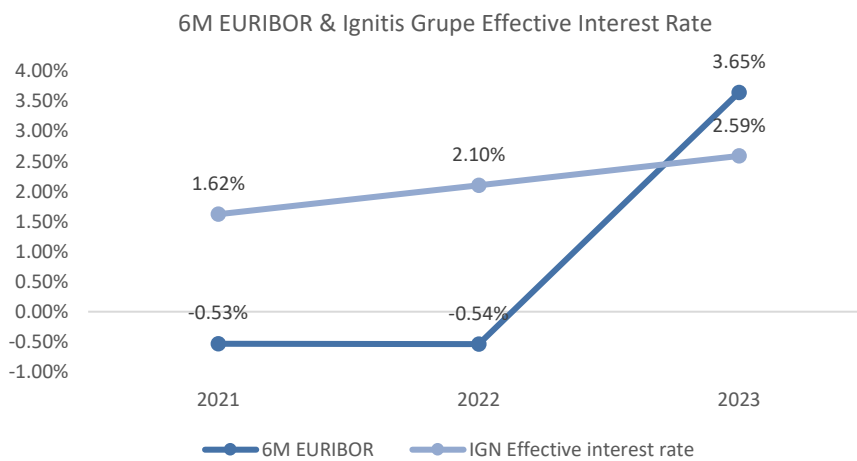
Source: Company presentation



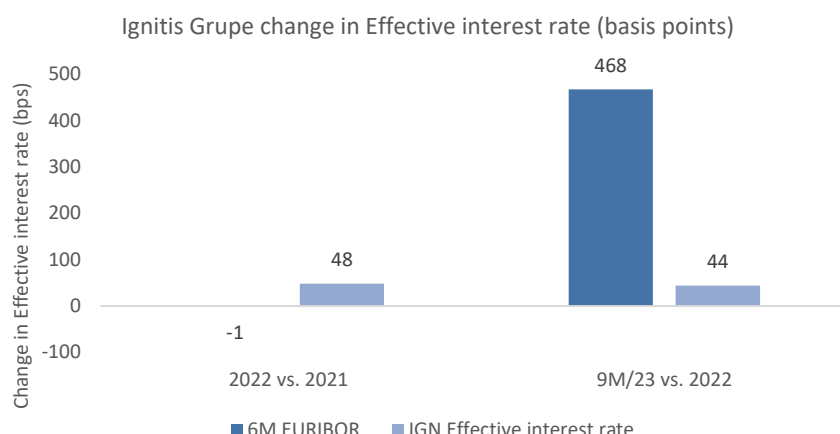
Source: Company report (volume hedged, hedged electricity price), EMBER (historical electricity prices until 2022 until 19 Mar. 2024), Enlight Research* (estimated electricity price 2024-27 based on 2024 year to date electricity price change)



Source: EMBER (historical electricity prices until 21 Nov. 2023)



Source: Company report



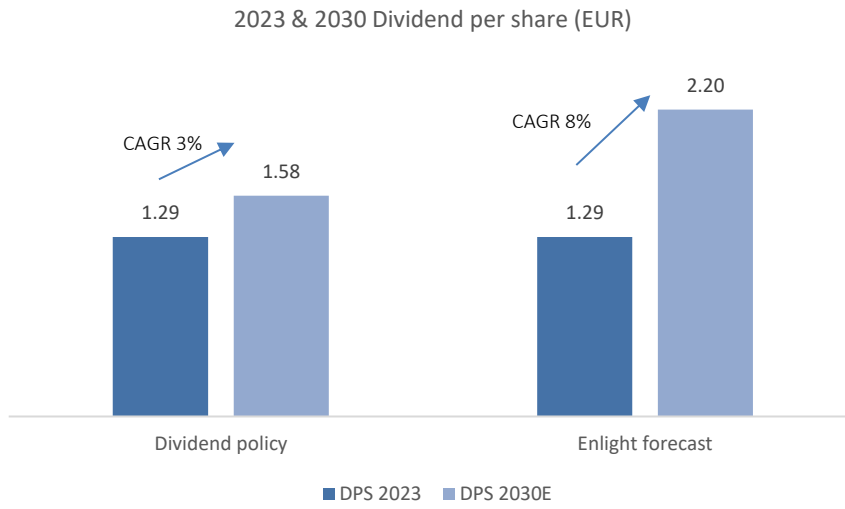
Source: Company report

The power of the dividend policy

Ignitis Grupe is set to follow its dividend policy by proposing a full-year 2023 dividend of EUR 1.29 per share (in line with our forecast), which is equal to a 6.9% pre-tax dividend yield or 5.9% post-tax dividend yield. We believe Ignitis Grupe will continue to live up to its dividend policy (increase dividends by a minimum 3%) in 2024 and 2025, indicating dividend yields of 7.1% (6.0% net) and 7.3% (6.2% net), respectively. In our opinion, there could be room for more than 3% dividend growth in 2024, but the company prioritize substantial investments (guidance EUR 850-1,000m in 2024) into green generation capacity that should bring higher dividends in the long term. At the annual minimum dividend policy growth of 3%, the 2030 dividend yield would reach EUR 1.58/shr. Indicating a yield of 8.4% (7.1% net). However, we believe that as the Green Generation investments taper off, there will be room for higher than 3% dividend growth. For this reason, our estimated 2030 dividend is EUR 2.20 per share (the basis for our yield based Fair value) indicating a dividend CAGR 2023-30E of 8.0% vs. the dividend policy minimum of 3.0%.

Dividend & yield	2022	2023	2024E	2025E	2026E
H1 dividend (EURm)	45.2	46.5	47.9	49.4	51.1
Growth y-on-y	3.2%	3.0%	3.0%	3.0%	3.5%
H2 dividend (EURm)	45.2	46.5	47.9	49.4	51.1
Growth y-on-y	3.1%	3.0%	3.0%	3.0%	3.5%
Total dividend paid (EURm)	90.3	93.1	95.8	98.7	102.2
Growth y-on-y	3.2%	3.0%	3.0%	3.0%	3.5%
H1 dividend per share (EUR)	0.62	0.643	0.662	0.682	0.706
H2 dividend per share (EURm)	0.62	0.643	0.662	0.682	0.706
Total dividend per share (EUR)	1.24	1.29	1.32	1.36	1.40
Dividend growth	5.0%	3.0%	3.0%	3.0%	3.5%
Pre-tax dividend yield	6.6%	6.9%	7.1%	7.3%	7.5%
Post-tax dividend yield	5.6%	5.9%	6.0%	6.2%	6.4%
Share price (EUR)	18.78	18.78	18.78	18.78	18.78

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



Source: Company (DPS 2023 proposed), Enlight Research (DPS 2030E)

Valuation

Base case Fair value EUR 27.36

Our Base case Fair value per share is increased to EUR 27.36 (prev. 26.53) implying an upside of around 46%. Applying a motivated dividend yield of 5.00% on the long-term Dividend per share of EUR 2.20 results in an undiscounted share price of EUR 36.67, which is discounted by 5% for 6 years gives our Base case Fair value of EUR 27.36 per share. Our Bear case assumes a motivated yield of 7.00% and indicates a share price of EUR 23.45 (prev. 22.28), while our Bull case assumes a yield of 5.00% which indicates a share price of EUR 32.83 (prev. 32.77). The main reasons behind our slightly higher Fair value are lower discount rate (5.0% vs. prev. 6.5%) and higher estimates.

Fair value/shr at different motivated div. yield based on 2030 dividend of EUR 2.20 per share

Motivated dividend yield	Discount rate	Discounted Fair value per share (EUR)
4.00%	5.0%	41.04
4.50%	5.0%	36.48
5.00%	5.0%	32.83
5.50%	5.0%	29.85
6.00%	5.0%	27.36
6.50%	5.0%	25.26
7.00%	5.0%	23.45
7.50%	5.0%	21.89
8.00%	5.0%	20.52

Source: Enlight Research

Peer valuation

We believe Integrated Utilities is the best peer sub-group for Ignitis Grupe as it consists of companies with distribution, supply, and generation business segments. Based on the estimated 2024 EV/EBITDA multiple, the Ignitis Grupe share is trading at a small discount of around 3% to the Integrated utilities peer group (6.5x vs. 6.7x for peers), despite having an estimated dividend yield that is better than the peer average (7.1% vs. 5.8% for peers). Given Ignitis Grupe's strong focus on renewable energy (Green Generation typically makes up 40-50% of the Group's total adjusted EBITDA), 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 (10.0x vs 9.4x for Regulated utilities, and 6.7x for Integrated utilities). Compared to the regulated and renewable peer groups, Ignitis Grupe is trading at a discount of around 31%, and 35%, respectively, based on estimated EV/EBITDA 2024 (see peer table below).

Peer valuation										Div.	Div.	Div.	Div.
	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2023	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBITDA 2026E	yield 2023	yield 2024E	yield 2025E	yield 2026E
Ignitis Grupe	IGN1L	EUR	18.78	1,357	2,784	5.5	6.5	6.2	5.6	6.9%	7.1%	7.3%	7.5%

Integrated										Div.	Div.	Div.	Div.
Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2023	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBITDA 2026E	yield 2023	yield 2024E	yield 2025E	yield 2026E
EDP	EDP	EUR	3.47	14,409	31,875	6.3	6.4	6.2	5.9	5.5%	5.8%	5.9%	6.1%
Endesa	ELE	EUR	16.22	17,173	27,999	7.4	5.7	5.5	5.3	6.2%	6.8%	7.5%	8.0%
Enel	ENEL	EUR	6.08	61,773	121,841	7.4	5.6	5.4	5.4	6.6%	7.1%	7.5%	7.7%
Engie	ENGI	EUR	15.38	37,455	83,955	5.6	5.9	6.1	6.2	9.3%	7.9%	7.3%	7.0%
E.ON	EOAN	EUR	12.39	32,726	67,742	7.2	7.7	7.7	7.5	4.1%	4.5%	4.7%	4.8%
Iberdrola	IBE	EUR	11.00	71,057	118,857	8.2	7.9	7.6	7.3	4.8%	5.1%	5.3%	5.5%
SSE	SSE	GBP	15.98	17,473	26,373	7.8	7.8	7.2	6.8	6.1%	3.8%	4.1%	4.4%
Average						7.2	6.7	6.5	6.4	6.1%	5.8%	6.0%	6.2%

Renewables										Div.	Div.	Div.	Div.
Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2023	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBITDA 2026E	yield 2023	yield 2024E	yield 2025E	yield 2026E
EDP Renewables	EDPR	EUR	12.62	12,923	18,728	10.2	9.1	7.2	7.1	2.1%	1.7%	2.0%	2.4%
Neoen	NEOEN	EUR	24.60	3,741	7,545	15.9	14.0	10.7	9.1	0.6%	0.7%	0.8%	0.9%
Orsted	ORSTED	DKK	361	151,821	199,200	10.6	7.6	6.2	5.9	0.0%	4.3%	4.6%	3.7%
Enefit Green	EGR1T	EUR	3.51	928	1,345	12.7	11.5	8.2	6.6	3.0%	3.5%	4.5%	4.6%
Hidroelectrica	H2O	RON	127.90	57,530	53,233	6.5	7.7	8.3	8.5	9.8%	8.2%	7.7%	7.4%
Average						11.2	10.0	8.1	7.4	3.1%	3.7%	3.9%	3.8%

Regulated										Div.	Div.	Div.	Div.
Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2023	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBITDA 2025E	yield 2023	yield 2024E	yield 2025E	yield 2026E
National grid	NG	GBP	10.53	41,775	82,748	13.2	11.9	11.2	10.3	5.3%	5.5%	5.7%	5.8%
Redeia Corp.	RED	EUR	15.74	8,517	13,492	8.9	10.0	9.6	8.8	6.4%	5.3%	5.3%	5.4%
REN	RENE	EUR	2.15	1,434	3,478	6.8	6.9	6.9	6.9	7.0%	7.0%	7.0%	7.0%
Italgas	IG	EUR	5.28	4,277	10,911	9.2	8.3	8.0	7.8	6.7%	7.2%	7.4%	7.6%
Terna	TRN	EUR	7.85	15,778	24,224	11.2	10.0	10.0	9.8	4.3%	4.7%	4.6%	4.7%
Average						9.9	9.4	9.1	8.7	5.9%	5.9%	6.0%	6.1%

Source: MarketScreener (consensus), Enlight Research (Ignitis Grupe)
Based on share prices on 20 March 2024

Estimate deviations

The most important reported line is the adjusted EBITDA as this is the main indicator for the dividends in our model. This is also the line where guidance is given. The Q4/23 Group adj. EBITDA of EUR 140m was 29% or EUR 31m above our forecast mainly due to the Green Generation and the Customers & Solutions segments. The Green Generation segment Q4/23 adj. EBITDA was 30% or EUR 16m above our EUR 53m forecast while the Customer & Solutions segment Q4/23 adj. EBITDA was EUR 15m above forecast (profit of EUR 9m vs. estimated loss of EUR 6m). Both Networks and Reserve Capacities came in EUR 1m above estimate.

Forecast deviation table by Segment

Revenue by Segment (EURm)	Q4/23	Q4/23	Deviation	
	Estimate	Outcome	EURm	%
Networks	363	167	-197	-54.1%
Green Generation	83	105	22	26.1%
Reserve Capacities	118	43	-75	-63.6%
Customers and Solutions	480	442	-37	-7.8%
Revenue bef. Other segm./eliminations	1,044	757	-287	-27.5%
Other segments/eliminations	19	-50	-68	-363.6%
Revenue after Other segm./eliminations	1,063	708	-355	-33.4%

Revenue growth	Q4/23	Q4/23	Deviation	
	Estimate	Outcome	EURm	%-pts
Networks	28.0%	-41.3%	nm	-69.3
Green Generation	-35.9%	-19.1%	nm	16.8
Reserve Capacities	56.9%	-42.9%	nm	-99.8
Customers and Solutions	-49.4%	-53.3%	nm	-3.9
Revenue bef. Other segm./eliminations	-27.3%	-47.3%	nm	-20.0
Revenue after Other segm./eliminations	-21.8%	-47.9%	nm	-26.1

Adjusted EBITDA by Segment	Q4/23	Q4/23	Deviation	
	Estimate	Outcome	EURm	%
Networks	50	51	1	2.5%
Green Generation	53	68	16	29.6%
Reserve Capacities	11	12	1	4.5%
Customers and Solutions	-6	10	15	-260.2%
Total adj. EBITDA bef. Other/eliminations	108	141	33	30.4%
Other segments/eliminations	1	-1	-2	-247.1%
Total adjusted EBITDA after Other/eliminations	108	139	31	28.7%

Adjusted EBITDA margin by Segment*	Q4/23	Q4/23	Deviation	
	Estimate	Outcome	EURm	%-pts
Networks	14.6%	35.6%	nm	21.0
Green Generation	63.0%	65.1%	nm	na
Reserve Capacities	9.4%	27.2%	nm	17.7
Customers and Solutions	-1.3%	2.1%	nm	3.4
Total adjusted EBITDA	10.6%	19.1%	nm	8.5
Total adjusted EBITDA after Other/eliminations	10.5%	20.3%	nm	9.9

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 2024 Group adj. EBITDA estimate is roughly unchanged at EUR 478m, which is 1.7% above the high end of EUR 440-470m guidance provided by the company. We increase our 2025 Group adj. EBITDA by 2.2% or EUR 10m to EUR 490m from EUR 479m and expect a 2026 Group adj. EBITDA of EUR 553m.

Adjusted EBITDA per segment (EURm)

	2024E	2025E	2026E
Networks			
Old estimate	205	206	na
New estimate	217	219	225
Change	12	13	na
Change (pct)	5.9%	6.3%	na
Green Generation			
Old estimate	219	220	na
New estimate	225	229	279
Change	6	9	na
Change (pct)	2.6%	4.3%	na
Reserve Capacities			
Old estimate	34	34	na
New estimate	22	24	26
Change	-12	-11	na
Change (pct)	-35.7%	-31.3%	na
Customers & Solutions			
Old estimate	16	16	na
New estimate	13	16	21
Change	-4	0	na
Change (pct)	-22.3%	-0.5%	na
Group Adjusted EBITDA			
Old estimate	477	479	na
New estimate	478	490	553
Change	1	10	na
Change (pct)	0.2%	2.2%	na
Adj. EBITDA Guidance			
	2024E		
Adj. EBITDA high	470		
Adj. EBITDA mid	455		
Adj. EBITDA low	440		
Forecast	478		
Diff to high	1.7%		
Diff to mid	5.1%		
Diff to low	8.6%		

Source: Company (Guidance), Enlight Research (Forecast)

Forecast

Adjusted EBITDA by Segment	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2023	2024E	2025E	2026E
Networks	59	48	48	62	180	217	219	225
Green Generation	66	37	47	74	223	225	229	279
Reserve Capacities	5	6	6	4	50	22	24	26
Customers and Solutions	4	3	3	4	30	13	16	21
Total adjusted EBITDA bef. Other/eliminations	134	94	105	143	483	476	488	551
Other segments/eliminations	2	1	1	-1	2	2	2	2
Total adjusted EBITDA after Other/eliminations	136	95	106	141	485	478	490	553

Adjusted EBITDA margin by Segment	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2023	2024E	2025E	2026E
Networks	38.4%	39.1%	37.7%	28.2%	37.5%	34.8%	34.4%	34.5%
Green Generation	69.5%	61.1%	61.6%	65.9%	65.1%	65.1%	63.1%	62.1%
Reserve Capacities	18.5%	17.5%	21.5%	11.3%	38.9%	17.1%	18.3%	19.5%
Customers and Solutions	0.7%	1.1%	1.1%	0.9%	1.8%	0.9%	1.0%	1.3%
Total adjusted EBITDA	16.7%	20.4%	21.7%	18.4%	18.0%	18.8%	18.4%	19.3%
Total adjusted EBITDA after Other/eliminations	17.4%	22.0%	22.4%	19.1%	19.2%	19.7%	19.2%	20.1%

Income statement (EURm)	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2023	2024E	2025E	2026E
Total Revenue & Other income	783	431	473	741	2,549	2,428	2,557	2,758
Purchase of electricity, gas for trade	-548	-302	-303	-499	-1,758	-1,651	-1,713	-1,820
Salaries and related expenses	-28	-28	-33	-44	-137	-134	-143	-160
Repair and maintenance expenses	-9	-13	-18	-21	-61	-61	-64	-69
Purchase of gas and heavy fuel oil	0	0	0	0	0	0	0	0
Other expenses	-16	-22	-18	-30	-86	-85	-89	-97
<i>Total expenses</i>	<i>-601</i>	<i>-364</i>	<i>-371</i>	<i>-594</i>	<i>-2,042</i>	<i>-1,930</i>	<i>-2,009</i>	<i>-2,145</i>
EBITDA	182	67	102	148	507	498	547	612
Adj. EBITDA	136	95	106	141	485	478	490	553
Depreciation and amortization	-43	-43	-43	-43	-153	-173	-202	-217
Write-offs, revaluations PP&E, Intang.	0	0	0	0	-2	0	0	0
Revaluation of emission allowances	0	0	0	0	0	0	0	0
EBIT	138	24	58	104	352	325	345	396
<i>Financial net</i>	<i>-12</i>	<i>-12</i>	<i>-12</i>	<i>-12</i>	<i>2</i>	<i>-49</i>	<i>-53</i>	<i>-56</i>
Pre-tax profit	126	11	46	92	354	276	291	339
Current year income tax (expenses)/benefit	-19	-2	-7	-14	-34	-41	-44	-51
Deferred income tax (expenses)/benefit	0	0	0	0	0	0	0	0
Minority	0	0	0	0	0	0	0	0
Net profit (loss)	107	10	39	78	320	234	248	289

Segment revenue growth (IFRS reported)	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2023	2024E	2025E	2026E
y-on-y	-15.7%	-2.6%	0.4%	4.8%	-41.9%	-4.8%	5.3%	7.9%

Margins	Q1/24E	Q2/24E	Q3/24E	Q4/24E	2023	2024E	2025E	2026E
EBITDA	23.2%	15.5%	21.5%	19.9%	19.9%	20.5%	21.4%	22.2%
EBIT	17.7%	5.5%	12.4%	14.1%	13.8%	13.4%	13.5%	14.3%
Pre-tax profit	16.1%	2.6%	9.8%	12.4%	13.9%	11.4%	11.4%	12.3%
Net profit	13.7%	2.2%	8.3%	10.6%	12.6%	9.7%	9.7%	10.5%

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.

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). The regulated assets base (RAB) depends on approved investments while the allowed rate of return (WACC) depends on the approved calculation method. Both values are reconsidered on an annual basis.

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.

Electricity 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.

Commodities price risk

The Reserve Capacities segment's profitability is dependent on natural gas market price, moreover, commodity prices can influence power plants development costs. Higher commodity prices could result in lower Group's earnings and increased capital expenditures.

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)	2022	2023	2024e	2025e	2026e
Total revenues	4,387	2,549	2,428	2,557	2,758
Total operating costs	-3,847	-2,042	-1,930	-2,009	-2,145
EBITDA	540	507	498	547	612
Depreciation	-138	-153	-173	-202	-217
Amortizations	0	0	1	2	3
Impairment charges	-14	-2	0	0	0
EBIT	388	352	325	345	396
Associated companies'	0	0	0	0	0
Net financial items	-51	2	-49	-53	-56
Exchange rate differences	0	0	0	0	0
Pre-tax profit (PTP)	337	354	276	291	339
Net earnings	293	320	234	248	289
Balance Sheet	2022	2023	2024e	2025e	2026e
Assets (EURm)					
Cash and cash equivalent	694	205	196	206	222
Receivables	424	266	243	256	276
Inventories	570	275	301	317	342
Other current assets	333	282	282	282	282
Total current assets	2,022	1,028	1,021	1,060	1,121
Tangible assets	2,811	3,363	3,889	4,167	4,371
Goodwill & Other Intangibles	148	315	315	315	315
Long-term investments	6	6	6	6	6
Associated Companies	0	0	0	0	0
Other non-current assets	254	477	485	496	504
Total fixed assets	3,218	4,160	4,696	4,984	5,196
Deferred tax assets	31	57	57	57	57
Total assets	5,272	5,244	5,773	6,101	6,374
Liabilities					
Non-ib current liabilities	177	177	146	153	193
Short-term debt	213	70	88	95	97
Other current liabilities	692	414	414	414	414
Total current liabilities	1,082	661	648	663	704
Long-term IB debt	1,423	1,521	1,922	2,082	2,123
Convertibles & Lease liabilities	45	42	42	42	42
Other long-term liabilities	523	608	608	608	608
Total long-term liabilities	1,991	2,172	2,572	2,732	2,773
Total (liabilities)	3,146	2,981	3,368	3,544	3,626
Deferred tax liabilities	55	87	87	87	87
Provisions	18	61	61	61	61
Shareholders' equity	2,126	2,263	2,405	2,557	2,748
Minority interest (BS)	0	0	0	0	0
Total shareholders equity	2,126	2,263	2,405	2,557	2,748
Total equity & liabilities	5,272	5,244	5,773	6,101	6,374
DCF valuation	Cash flow (EURm)				
WACC (%)	7.81%	NPV FCF (2023-2025)			-275
		NPV FCF (2026-2032)			1,174
Assumptions 2022-2028 (%)		NPV FCF (2032-)			151
CAGR Sales growth	-4.6%	Non-operating assets			2,568
Average EBIT margin	12.5%	Interest-bearing debt			-1,633
		Fair value estimate			1,985
		Fair value per share (EUR)			27.42
		Share price (EUR)			18.70

Free Cash Flow (EURm)	2022	2023	2024e	2025e	2026e
Operating profit	293	320	325	345	396
Depreciation	138	153	173	202	217
Change in wc	-25	420	-35	-21	-5
Other oper. CF items	158	-93	-49	-52	-59
Operating CF	564	801	414	474	547
CF from Investments	-456	-1081	-700	-480	-420
Other CF items	137	-209	0	0	0
Free Cash Flow	17	-212	-286	-6	127

Capital structure	2022	2023	2024e	2025e	2026e
Equity ratio	40%	43%	42%	42%	43%
Debt/Equity	79%	72%	85%	87%	82%
Capital invested (EURm)	3,807	3,897	4,457	4,777	5,010

Profitability	2022	2023	2024e	2025e	2026e
ROE %	14.6%	10.0%	10.0%	10.9%	11.5%
EBITDA %	12.3%	19.9%	20.5%	21.4%	22.2%
EBIT %	8.8%	13.8%	13.4%	13.5%	14.3%
Net Margin	6.7%	12.6%	9.7%	9.7%	10.5%

Valuation (x)	2022	2023	2024e	2025e	2026e
P/E	4.4	4.2	5.8	5.5	4.7
P/E adjusted	4.8	4.2	5.8	5.5	4.7
P/Sales	0.5	0.6	0.5	0.5	0.5
EV/Sales*	0.5	1.1	1.3	1.3	1.2
EV/EBITDA*	5.5	6.4	6.2	5.5	5.0
EV/EBIT*	6.1	7.9	9.9	9.8	8.6
P/BV	0.6	0.6	0.5	0.5	0.5

*Estimated end of year Net debt used in EV calculation

Per share measures	2022	2023	2024e	2025e	2026e
EPS	4.04	4.42	3.24	3.42	3.99
EPS adjusted	4.04	4.42	3.24	3.42	3.99
CEPS	7.79	11.06	5.72	6.55	7.56
EBITDA/share	7.46	7.01	6.88	7.56	8.46
Capital empl./share	52.6	53.8	61.6	66.0	69.2
Div. per share	1.24	1.29	1.32	1.35	1.40
Payout ratio	31%	29%	41%	40%	35%
Dividend yield (%)	6.9%	6.9%	7.0%	7.2%	7.5%

Shareholders

Ministry of Finance	74.99%
Institutional investors - other	15.92%
Retail investors	9.09%

Key people

CEO	Darius Maikštėnas
CFO	Jonas Rimavičius
Chief Organisational Development Officer	Dr. Živilė Skibarkienė
Chief Commercial Officer	Vidmantas Saliėtis
Head of Group Regulated Activities	Mantas Mikalajūnas

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