

MANDATUM

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INDERES CORPORATE CUSTOMER
COMPANY REPORT



Valuation is the only problem

Sales of wealth management solutions, which are key to Mandatum's value creation, remained strong, and the earnings of capital-light businesses continued to grow clearly. Our earnings estimates for the next few years remained almost unchanged, but thanks to the increase in longer-term earnings estimates for wealth management, we revise our target price to EUR 5.6 (was EUR 5.4) in line with our dividend model. In light of this, the stock appears expensive and the expected return is modest, so we reiterate our Reduce recommendation.

Continued strong development in capital-light businesses

The Q1 report was well in line with our expectations. While there were anomalies at the segment level, the effects of these anomalies eventually offset each other. The Group's key indicators – net cash flow and the cost-to-income ratio of wealth management – developed very strongly, so the takeaway from the earnings day was skewed to the positive side. However, assets under management grew slightly more moderately than we expected, which was purely due to negative value changes.

The main focus of sales was again on international institutional clients and credit products. Net subscriptions in corporate clients' personnel funds also developed strongly. In Q1, Mandatum raised a total of 256 MEUR in new client assets, corresponding to an increase of 1.8% compared to the capital at the end of the previous quarter. As a result, the company is already ahead of its 5% annual new sales target after Q1.

Estimate changes were minor

We have slightly raised our fee result forecasts after strong development. Our new sales forecasts are unchanged, but our estimate of the cost efficiency of the wealth management business has again increased slightly. At the same time, we slightly increased our group costs forecasts. As a combined effect of these, our forecasts for Mandatum's pre-tax profit for the

coming years remained practically unchanged, while our earnings forecast for this year increased by approximately 4%.

We expect Mandatum's profit before taxes to have peaked for the time being and to decline moderately in the coming years. In our estimates, wealth management earnings will continue to grow strongly, but the decline in the with-profit portfolio will gradually reduce net financial income. With our estimates, growth in wealth management will only compensate for the earnings impact of the decline in the with-profit portfolio at the turn of the decade.

Profit distribution continues to be generous, although at a much more moderate level than in the financial year just ended. We estimate that the company will distribute all accumulated organic capital, which consists of earnings, as well as capital released from the with-profit portfolio. We have not yet included the additional capital created by the divestment of PE investments in our dividend estimates, as there is uncertainty regarding the use of the capital received from these. These will ultimately be distributed either as extra dividends or used for acquisitions as part of the consolidation of the Finnish asset management sector.

Valuation has taken an unnecessarily large head start

We gauge the value of Mandatum first and foremost by using the dividend model as it best reflects the company's high payout ratio and the unwinding of its overcapitalized balance sheet. Mandatum's expected return relies, somewhat exceptionally, to a large extent on a high dividend yield (6-7% in the coming years), as earnings will continue to decline structurally for several years to come. The value of Mandatum's stock according to our dividend model, which considers the earnings generated by the business and the additional capital on the balance sheet, is around EUR 5.6 (was EUR 5.4). The increase since our previous update is explained by the higher long-term earnings forecasts for the capital-light businesses. Our dividend discount model indicates that the stock is already fully priced, so at the current share price level, the expected return remains insufficient.

Recommendation

Reduce
(was Reduce)

Target price:
EUR 5.60
(was EUR 5.40)

Share price:
EUR 6.09

Business risk



Valuation risk



Key figure

	2024	2025e	2026e	2027e
PTP	202.9	189.3	179.6	172.3
Net income	151.5	143.6	137.9	141.9
EPS (adj.)	0.33	0.30	0.29	0.27
DPS	0.66	0.47	0.44	0.40
Payout ratio	201%	156%	154%	146%
ROE-%	10.3%	10.0%	10.5%	10.7%

P/E (adj.)	16.5	20.2	21.3	22.2
P/B	1.7	2.2	2.3	2.5
Dividend yield-%	12.2 %	7.7 %	7.2 %	6.6 %

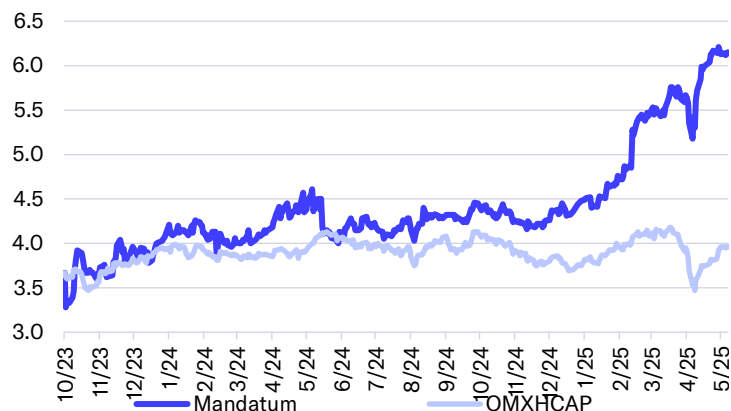
Source: Inderes

Guidance

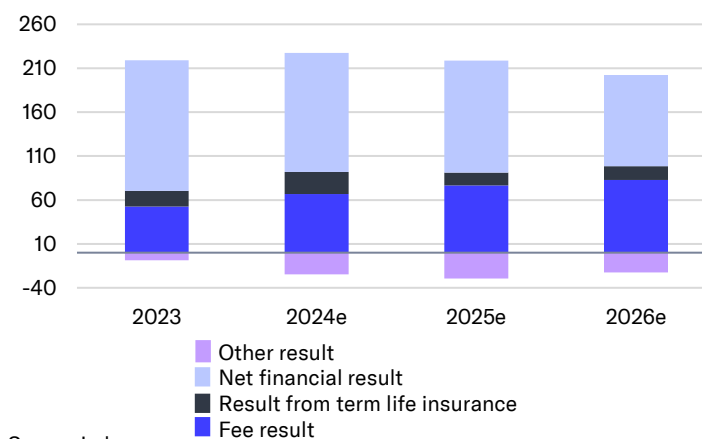
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The fee result is expected to increase from 2024, assuming stable market conditions. The with-profit portfolio is expected to decline further.

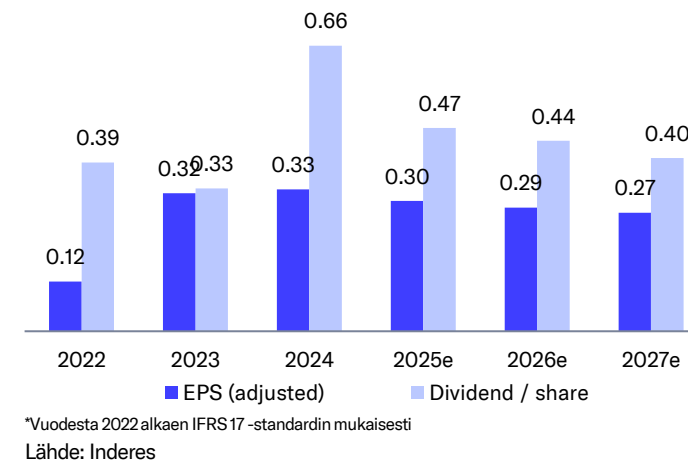
Share price



Mandatum's PTP breakdown (MEUR)



EPS and dividend



Value drivers

- Growth in capital-light Wealth management
- Relative profitability has improvement potential with revenue growth
- With the rise in interest rates, the with-profit business has become clearly more attractive than before
- Release of capital from the with-profit portfolio and from PE investments
- Value creating acquisitions in the domestic asset management sector

Risk factors

- The company's result remains highly dependent on investment returns
- Life insurance risks (especially biometric risks)
- Maintaining good return levels for funds
- Adverse changes in the tax legislation on investment insurance

Valuation	2025e	2026e	2027e
Share price	6.09	6.09	6.09
Number of shares, millions	502.7	503.2	503.7
Market cap	3061	3064	3068
P/E (adj.)	20.2	21.3	22.2
P/E	20.2	21.3	22.2
P/B	2.2	2.3	2.5
Payout ratio (%)	156.0 %	154.1 %	146.1 %
Dividend yield-%	7.7 %	7.2 %	6.6 %

Source: Inderes

Wealth management's earnings development remained strong

Wealth management sales were again good

The year started out strongly in the capital-light businesses. New sales in the group's most important source of growth, Wealth management, were again excellent with net cash flows of 256 MEUR. This corresponds to approximately 1.8% of the year-end capital, so after Q1, the company is already ahead of its annual new sales target of 5%. The performance in Q1 was also strong compared to domestic asset management peers. A majority of wealth management sales were to international institutional clients. In addition, corporate customers' sales were at an excellent level (+122 MEUR), accounting for about half of the group's new sales in Q1. As usual, interest rate products were the best-selling products. We also believe that strong sales figures reflect the quality and attractiveness of the company's products in the eyes of customers.

However, Mandatum's customer assets under management (AUM) grew more moderately than sales, as value changes were negative during the quarter. The company commented that this was due to, e.g., the weakening USD. AUM at the end of the quarter amounted to 14.0 BNEUR (Q4'24: 14.0 BNEUR).

Profitability development was also positive

Mandatum's fee result developed slightly better than we expected in Q1. This was again driven by the improved cost-to-income ratio in wealth management. The report shows that the cost-to-income ratio has fallen by a whopping 10 percentage points over the past 12 months. However, there is no reason to expect a similar improvement in the future, as the cost level actually decreased year-on-year. We believe this is explained by the elimination of items of a more non-recurring nature

(such as IT investments with cost impact and one-off listing-related investments). In any case, the progress has been strong.

Mandatum's Q1 fee result was 18.8 MEUR, beating our forecast of 18.4 MEUR slightly.

The result of term life insurance, on the other hand, was slightly weaker than our expectations. However, the item fluctuates quarterly, especially with insurance compensation, so investors should not be concerned about this.

Estimates	Q1'24	Q1'25	Q1'25e	Q1'25e	Consensus	Difference (%)	2025e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low High	Act. vs. Inderes	Inderes
Fee result	15.2	18.8	18.4	19.1	-	2 %	74.5
Result related to risk policies	2.2	2.3	3.9	3.6	-	-41 %	15.5
Net financial result	29.9	51.8	43.5	51.8	-	19 %	118.2
Other result	-0.6	-10.9	-6.6	-4.7	-	-65 %	-25.7
PTP	46.7	62.0	59.2	69.8	-	5 %	182.4
EPS	0.08	0.10	0.09	0.11	-	11 %	0.29
DPS					-		0.47

Source: Inderes, Vara Research (consensus)

Earnings broadly in line with expectations

Group-level earnings met expectations in the end

The net financial result was better than we expected. This was due to higher-than-expected returns on the investment assets in the with-profit portfolio. In addition, net financial income was positively affected by changes in the value of Saxo Bank shares and negatively by Enento's share price development. These came as no surprise, as the earnings effects were known in advance. Mandatum's Q1 net financial result was 51.8 MEUR.

The group's other income was deeper in the red than we expected. This was due to a one-off change in the insurance contract liability, and adjusted for this, group expenses were in line with forecasts.

The group's profit before taxes was eventually in line with our expectations at 59.2 MEUR, and EPS was EUR 0.10. Organic capital generation exceeded EPS, amounting to EUR 0.17.

Solvency or outlook did not offer any surprises

As expected, there was no material change in solvency and Mandatum's Solvency 2 ratio was slightly below the previous quarter at 207%. The solvency ratio remains above the group's target range (170-200%), and the amount of excess capital will clearly increase during the year as the with-profit portfolio decreases and Saxo shares are sold, probably towards the end of the year. Meanwhile, the outlook for the current year is fully in line with expectations, as Mandatum estimates that its fee result will increase from the previous year and that its with-profit portfolio will continue to decrease further.

Estimates	Q1'24	Q1'25	Q1'25e	Q1'25e	Consensus	Difference (%)	2025e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low High	Act. vs. Inderes	Inderes
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EPS	0.08	0.10	0.09	0.11	-	11 %	0.29
DPS					-		0.47

Source: Inderes, Vara Research (consensus)

Estimate changes were minor

Estimate revisions

- We have raised our fee result forecasts slightly following strong progress, as both new sales and cost efficiency have continued to have a positive impact. We estimate the normal sales volume of investment products to be approximately 700 MEUR per year on average. In addition, positive value changes support development. In our forecasts, AUM growth will continue to come mainly from institutional clients, as Mandatum's market share in investment insurance in Finland is already very high.
- We also raised our group cost forecasts (other income).
- Overall, our forecasts for Mandatum's profit before tax for the next few years remained almost unchanged, while our earnings forecast for this year increased by about 4%, mainly due to a slightly higher Q1 earnings accrual than expected.
- We expect Mandatum to distribute all of its accumulated excess capital (organic capital generation), which roughly consists of the with-profit portfolio reduction and accumulated earnings. As a result, the profit distribution exceeds the reported result. In addition, the exit from PE investments will increase the amount of excess capital on the balance sheet, but we have not factored this into our dividend projections so far.

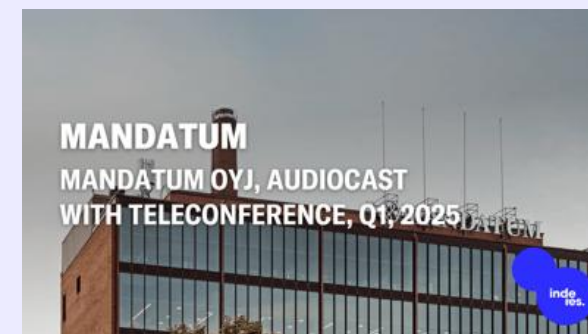
Operational earnings drivers:

- Investment income still plays the key role in Mandatum's earnings development, but ramping down the with-profit portfolio will gradually reduce the weight of balance sheet investments. However, this will also contribute to the group's earnings. We therefore expect the group's results to be in structural decline for several years to come.
- Asset management, on the other hand, will continue to grow strongly, thanks to both asset growth and new sales. We expect growth to mainly come from institutional asset management in Finland and in other Nordic countries. We also expect growth in investment solutions for corporate customers (unit-linked pension and insurance products). In the case of private customers, our expectations are modest. In addition, the fee result will still, for a while, get some support from the scaling of the cost level.
- The development of term life insurance is expected to continue as stable, as market growth is modest and the market shares of key players are quite stable. Risk life insurance also plays a limited role in the group's current structure, with premium income and investment activities accounting for the majority of revenue.
- Overall, we predict that Mandatum's pre-tax profit has already peaked and will gradually decline from this level. With our estimates, growth in wealth management will only compensate for the earnings impact of the decline in the with-profit portfolio after the turn of the decade. We have detailed our forecasts in the recently published extensive report, which is freely available [here](#).

Estimate revisions	2025e	2025e	Change	2026e	2026e	Change	2027e	2027e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Fee result	74.5	76.5	3 %	80.5	83.0	3 %	86.5	89.7	4 %
Result related to risk policies	15.5	14.6	-6 %	15.5	15.5	0 %	15.5	15.5	0 %
Net financial result	118.2	127.5	8 %	103.1	103.7	1 %	90.1	90.1	0 %
Other result	-25.7	-29.3	-14 %	-20.6	-22.6	-10 %	-21.1	-23.0	-9 %
PTP	182.4	189.3	4 %	178.5	179.6	1 %	171.1	172.3	1 %
EPS	0.29	0.30	4 %	0.28	0.29	1 %	0.27	0.27	1 %
DPS	0.46	0.47	2 %	0.43	0.44	2 %	0.40	0.40	0 %

Source: Inderes

Mandatum Oyj, Audiocast with teleconference, Q1'25



Valuation is the only problem

We have gauged Mandatum using the dividend model as it best reflects the company's high payout ratio and the upcoming unwinding of its overcapitalized balance sheet. Mandatum's expected return relies, somewhat exceptionally, on a high dividend yield, as our forecasts point to a downward earnings trend for several years to come. However, the earnings distribution should improve clearly as the focus shifts from the structurally declining with-profit business to the growing capital-light business.

Our dividend model indicates that the stock is already fully priced, so the investor's expected return at current levels remains insufficient. A higher valuation would require, above all, stronger earnings growth in asset management than our current forecasts.

Cash flows do not justify current valuation

We believe that the discounted dividend model (DDM) works very well for Mandatum due to the company's modest investment needs (and thus high payout ratio) and the overly strong balance sheet that the company unwinds as the with-profit portfolio gradually decreases and when it exits from PE investments. Our dividend model takes into account not only the result generated by the operating business, but also the excess capital resulting from the liquidation of the balance sheet, so we believe that the method gives a fairly good picture of Mandatum's fair value. We therefore consider the DDM to be preferred method in Mandatum valuation.

In our dividend model, we have also outlined the development of Mandatum's earnings in the longer term. The outcome of our assumptions is that the group's income level will decline to slightly under 140 MEUR towards 2030, after which the growth in asset management should

already offset the decline in the with-profit portfolio. The company's balance sheet is strong and solvency is above the target level, so we expect Mandatum to distribute a clearly higher dividend than reported profit in the coming years. In addition, we have incorporated the additional funds that the exit from PE investments will generate in the future, in addition to the current overcapitalization. However, we have not included these in our dividend forecasts, but we take them into account in the calculation as excess capital increasing the value of Mandatum's equity.

Our ROE requirement is 8.7%, which is the lowest in the peer group of asset managers. We have used a 1.5% growth assumption for the terminal period, as the decline in capital-light businesses by 2033 should more than offset the negative impact on earnings of the significantly reduced with-profit portfolio. However, some of the with-profit portfolio remains in our forecasts at this point, so the contraction in the portfolio will mitigate the impact of the growth in asset management on earnings for some time to come.

Our DDM model indicates a value of some EUR 5.6 per share for Mandatum (was EUR 5.4). The increase from our previous update is explained by a modest rise in our earnings estimates. Our estimates do not include possible acquisitions, which we consider quite possible in the coming years. While we believe that the conditions for value-creating M&A transactions are better than average, we have assumed the effect from these to be neutral in our valuation (expected return on investments equals the ROE requirement). The biggest forecast risks, on the other hand, relate to the return on the investment portfolio and the growth of asset management.

Valuation	2025e	2026e	2027e
Share price	6.09	6.09	6.09
Number of shares, millions	502.7	503.2	503.7
Market cap	3061	3064	3068
P/E (adj.)	20.2	21.3	22.2
P/E	20.2	21.3	22.2
P/B	2.2	2.3	2.5
Payout ratio (%)	156.0 %	154.1 %	146.1 %
Dividend yield-%	7.7 %	7.2 %	6.6 %

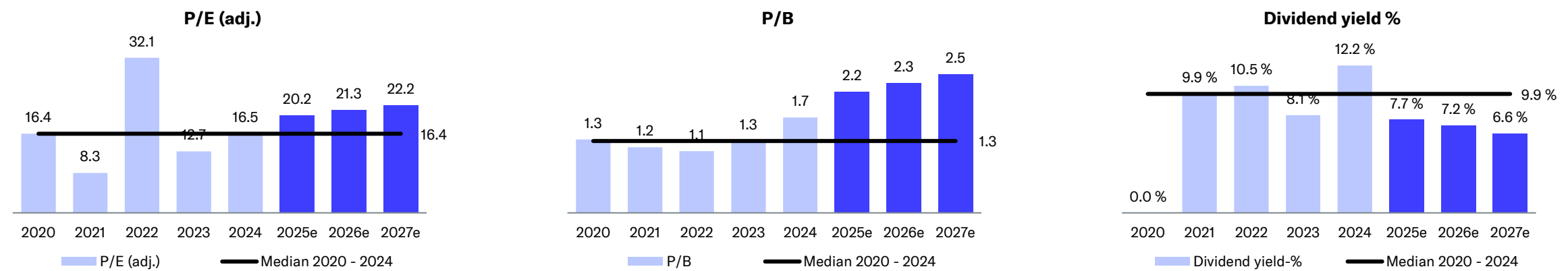
Source: Inderes

Valuation table

Valuation	2020	2021	2022	2023	2024	2025e	2026e	2027e	2028e
Share price	3.70	3.70	3.70	4.07	5.40	6.09	6.09	6.09	6.09
Number of shares, millions	556.6	548.0	501.8	501.8	502.7	502.7	503.2	503.7	504.2
Market cap	2059	2028	1857	2042	2715	3061	3064	3068	3071
P/E (adj.)	16.4	8.3	32.1	12.7	16.5	20.2	21.3	22.2	21.6
P/E	16.4	8.3	32.1	12.7	16.5	20.2	21.3	22.2	21.6
P/B	1.3	1.2	1.1	1.3	1.7	2.2	2.3	2.5	2.6
Payout ratio (%)	0.0 %	81.7 %	338.6 %	103.4 %	201.2 %	156.0 %	154.1 %	146.1 %	131.4 %
Dividend yield-%	0.0 %	9.9 %	10.5 %	8.1 %	12.2 %	7.7 %	7.2 %	6.6 %	6.1 %

Source: Inderes

NB! Historical share price used is the closing price on the first trading day.



Peer group valuation

Peer group valuation Company	Market cap MEUR	EV MEUR	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B 2025e
			2025e	2026e	2025e	2026e	2025e	2026e	2025e	2026e	2025e	2026e	
Alexandria	97	92	7.5	6.7	6.3	5.8	1.8	1.6	10.4	9.5	9.2	9.6	2.8
Aktia	694								8.7	8.5	8.8	10.4	1.0
CapMan	330	299	8.7	7.5	8.4	7.3	4.5	4.1	13.4	12.2	8.1	8.6	1.7
Evli	492	495	12.1	10.4	11.1	9.7	4.6	4.3	17.2	14.6	6.5	6.7	3.3
eQ	527	495	16.3	12.8	15.7	12.4	7.9	6.7	21.9	17.5	4.6	5.7	7.0
Taaleri	199	172	7.5	6.0	7.2	6.0	3.0	2.8	13.7	9.6	4.4	6.3	0.9
Titanium	72	60	8.7	9.6	7.9	8.6	2.9	2.9	13.2	14.4	7.9	7.3	4.6
United Bankers	191	176	11.3	8.8	9.7	7.9	3.2	2.8	16.7	13.1	6.6	6.9	3.1
Mandatum (Inderes)	3061	2648	14.0	15.3	14.0	15.3	15.9	15.3	20.2	21.3	7.7	7.2	2.2
Average			10.3	8.8	9.5	8.2	4.0	3.6	14.4	12.4	7.0	7.7	3.0
Median			8.7	8.8	8.4	7.9	3.2	2.9	13.5	12.6	7.2	7.1	2.9
Diff-% to median			60%	73%	66%	92%	392%	424%	49%	69%	7%	2%	-27%

Source: Refinitiv / Inderes

Income statement

Income statement	2023	Q1'24	Q2'24	Q3'24	Q4'24	2024	Q1'25	Q2'25e	Q3'25e	Q4'25e	2025e	2026e	2027e	2028e
Fee result	52.5	15.2	14.7	18.1	18.6	66.6	18.8	18.8	19.3	19.7	76.5	83.0	89.7	96.3
Insurance service result	31.3	7.2	7.4	8.4	7.1	30.1	7.2	7.2	7.2	7.3	28.9	28.5	29.0	29.5
Result from investment activities	21.3	8.0	7.3	9.7	11.5	36.5	11.6	11.6	12.1	12.4	47.6	54.5	60.7	66.8
Result from term life insurance	18.0	2.2	11.9	9.1	2.2	25.4	2.3	4.1	4.1	4.1	14.6	15.5	15.5	15.5
Net financial result	148.6	29.9	55.1	27.0	23.7	135.7	51.8	27.5	25.7	22.5	127.5	103.7	90.1	82.2
Other result	-8.8	-0.6	-5.8	-9.0	-9.4	-24.8	-10.9	-7.1	-5.4	-5.9	-29.3	-22.6	-23.0	-20.9
PTP	210.4	46.7	75.8	45.2	35.1	202.9	61.9	43.2	43.8	40.3	189.3	179.6	172.3	173.1
Taxes	-50.0	-9.1	-18.1	-8.7	-2.2	-38.0	-12.4	-8.6	-8.8	-8.1	-37.9	-35.9	-34.5	-31.2
Net profit	160.4	37.9	57.8	36.4	32.9	164.9	49.6	34.6	35.0	32.3	151.5	143.6	137.9	141.9
EPS	0.32	0.08	0.12	0.07	0.07	0.33	0.10	0.07	0.07	0.06	0.30	0.29	0.27	0.28
Organic capital creation per share	0.54	-	-	-	-	0.44	-	-	-	-	0.47	0.44	0.41	0.40
DPS	0.33	-	-	-	-	0.66	-	-	-	-	0.47	0.44	0.40	0.37
Equity(IFRS)	1599	-	-	-	-	1601	-	-	-	-	1421	1328	1245	1185
ROE	10.0 %	-	-	-	-	10.3 %	-	-	-	-	10.7 %	10.8 %	11.1 %	12.0 %
AUM	2023	Q1'24	Q2'24	Q3'24	Q4'24	2024	Q1'25	Q2'25e	Q3'25e	Q4'25e	2025e	2026e	2027e	2028e
Group AUM (BNEUR)	11.9	12.5	13.0	13.3	14.0	14.0	14.0	14.4	14.6	15.0	15.0	16.2	17.5	18.8
Institutional and wealth management clients	6.4	6.7	7.0	7.2	7.8	7.8	8.0	8.2	8.4	8.6	8.6	9.5	10.5	11.4
Corporate clients	2.3	2.4	2.5	2.5	2.6	2.6	2.7	2.7	2.7	2.8	2.8	3.0	3.2	3.3
Retail clients	3.2	3.4	3.5	3.5	3.5	3.5	3.4	3.5	3.5	3.5	3.5	3.7	3.8	4.0
Group's fee result (MEUR)	138.4	36.6	39.2	37.9	39.3	153.0	40.4	41.2	42.0	42.9	166.5	179.1	193.5	208.3
Solvency	2023	Q1'24	Q2'24	Q3'24	Q4'24	2024	Q1'25	Q2'25e	Q3'25e	Q4'25e	2025e	2026e	2027e	2028e
Solvency 2 ratio	221%	216%	224%	224%	210%	210%	207%	206%	213%	242%	242%	252%	254%	261%
Solvency 2 own funds (MEUR)	2140	2158	2173	2198	2048	2048	2041	2032	2032	1948	1948	1870	1806	1762
Solvency capital requirement (SCR)	966	997	970	980	973	973	984	986	955	804	804	742	712	674
Excess capital at target level*	353	314	379	383	249	249	222	208	266	460	460	496	488	515
Excess capital per share at target level*	0.70	0.62	0.75	0.76	0.49	0.49	0.44	0.41	0.53	0.91	0.91	0.99	0.97	1.02

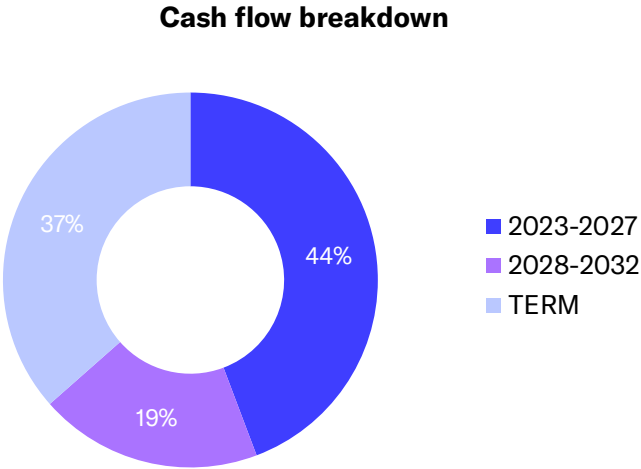
*The midpoint of the company's target (170–200%) used as target level

Dividend model (DDM)

DDM-valuation (MEUR)	2024	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Mandatum's net profit	165	151	144	138	142	140	139	137	136	138	
Dividend paid by Mandatum	332	236	221	201	187	177	177	157	147	127	1792
Payout ratio	201%	156%	154%	146%	131%	126%	127%	114%	108%	92%	
Growth % of dividend	100.4 %	-28.8 %	-6.3 %	-9.0 %	-7.4 %	-5.3 %	0.1 %	-11.3 %	-6.4 %	-13.7 %	1.5 %
Discounted dividend	331	217	187	157	134	116	107	87	75	60	846
Discounted cumulative dividend	2318	1987	1770	1583	1426	1292	1176	1069	981	906	846
Excess capital	500										
Equity value, DDM	2818										
Per share EUR	5.6										

Cost of capital

Risk-free interest	2.5%
Market risk premium	4.8%
Beta	1.30
Liquidity premium	0.0%
Cost of equity	8.7%



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Accumulate	The 12-month risk-adjusted expected shareholder return of the share is attractive
Reduce	The 12-month risk-adjusted expected shareholder return of the share is weak
Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
10/12/2023	Buy	4.20 €	3.70 €
11/8/2023	Osta	4.20 €	3.62 €
2/14/2024	Buy	4.40 €	3.84 €
5/10/2024	Accumulate	4.50 €	4.36 €
8/14/2024	Reduce	4.50 €	4.38 €
11/13/2024	Accumulate	4.50 €	4.16 €
2/14/2025	Reduce	4.80 €	5.28 €
4/11/2025	Reduce	5.40 €	5.61 €
5/9/2025	Reduce	5.60 €	6.09 €



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