

# Fortum

## Company report

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This report is a summary translation of the report “Venäjän varjosta kohti valoa” published on 05/12/2023 at 8:00 am.

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# From the shadows of Russia towards the light

We raise Fortum's recommendation to Buy (was Accumulate) and the target price to EUR 16.0 (was EUR 15.0). The company's Q1 results were well above our expectations, but the most important part of yesterday's performance was the cutting of Russia from the group. Although this will again put a big dent in the balance sheet, the company will withstand this blow and the financial situation is quite good. The journey from the gloom of Russia toward the light is underway, but this is not reflected in the valuation. The stock price is attractive both in absolute terms (2023e P/E 10x) and relative to peers (around 20% discount), which should correct over time.

## Strong operating profit and cash flow

In Q1, Fortum achieved a comparable operating profit of EUR 784 million, which clearly exceeded partly unclear expectations. Excluding Russia, which is becoming history as part of the Fortum Group, the corresponding operating profit is EUR 698 million (our estimate was 548 MEUR). This excellent result was driven by the Generation segment's average sales price of as much as €85.2/MWh, which pushed the segment to a comparable operating profit of EUR 723 million. Also positive was the repayment of margin receivables (1293 MEUR), which raised cash flow from operating activities before financing to an excellent level of EUR 1665 million and was also positively reflected in the balance sheet. Net financial debt amounted to EUR 794 million, which represents a ratio of only 0.4x to comparable EBITDA (LTM) without Russia.

## Structural changes in estimates as Russia is left behind

Hedging in the Generation segment was disappointing, with the hedge price for the remainder of 2023 (70% at €50/MWh) falling sharply from the turn of the year (Q4'22: 75% at €58/MWh) with the highest hedges taking place in Q1. We do not consider it a real disappointment that in Q1 part of the hedges were realized as income and cash flow. However, this significantly mitigated the significant earnings beat in Q1, and our operational earnings estimates for 2023 increased by a few percent. For 2024, hedges were around 45% at €43/MWh (+€1/MWh). We had previously adjusted for Russia in our operational performance estimates, but the reported figures still included the Russia segment. Now we removed Russia from the group, which of course shook the reported figures. At the same time, we aligned our estimates with the new segment structure. Thus, there were a lot of structural changes, but our Russia-adjusted estimates went up about 5%. A total write-down of EUR 1.9 billion from Russia (~200 MEUR in FX effects) will ruin the reported result for 2023, but the balance sheet can take the hit. After the Russian write-down, there will be around EUR 8 billion in equity.

## From the shadows of Russia towards the light

Despite the ongoing turmoil, Fortum's core business is performing well and as the balance sheet unwinds cash flow is abundant. With Russia out of the picture, we find Fortum's profile attractive: 43% of production is valuable hydropower and 53% nuclear in Finland and Sweden. This is not reflected in the valuation, but 2023e adj. P/E is 10x and due to moderate net financial debt, EV/EBITDA is around 7x. The entire sector is understandably priced moderately in the current situation, but Fortum's multiples are still around 20% lower than for the peers. In our view, this mainly reflects the shadow of Russia, from which the company is nevertheless emerging. In our view, the undervaluation will melt once Russia is out of the picture and the debt market doors will also open for the company, allowing the financial situation to return to normal. The journey towards light and investor confidence may take a long time after difficult years, but we see the risk/return ratio of the stock as very attractive at the moment.

## Recommendation

**Buy**

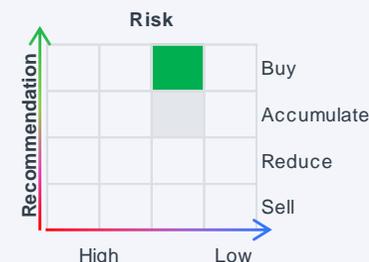
(previous Accumulate)

**EUR 16.00**

(previous EUR 15.00)

**Share price:**

EUR 13.62



## Key figures

	2022	2023e	2024e	2025e
<b>Revenue</b>	7754	7347	7441	7392
<b>growth-%</b>	21%	-5%	1%	-1%
<b>EBIT adj.</b>	1611	1860	1716	1625
<b>EBIT-% adj.</b>	20.8 %	25.3 %	23.1 %	22.0 %
<b>Net Income</b>	2080	1289	1180	1162
<b>EPS (adj.)</b>	2.00	1.36	1.31	1.29
<b>P/E (adj.)</b>	7.8	10.0	10.4	10.5
<b>P/B</b>	1.8	2.0	1.9	1.8
<b>Dividend yield-%</b>	5.9 %	7.3 %	7.3 %	7.3 %
<b>EV/EBIT (adj.)</b>	10.3	8.0	8.2	8.5
<b>EV/EBITDA</b>	7.0	6.5	6.9	7.0
<b>EV/S</b>	2.1	2.0	1.9	1.9

Source: Inderes

## Guidance

(Adjusted)

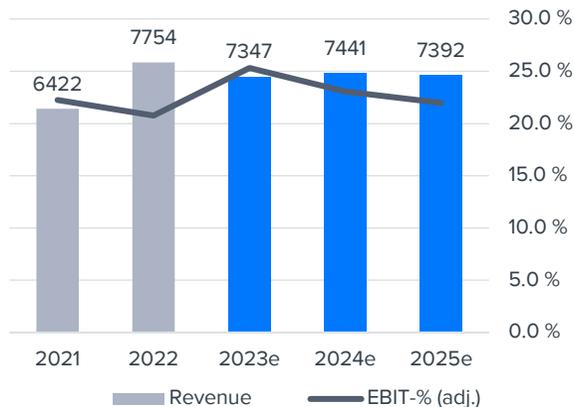
The Generation segment's Nordic generation hedges: approximately 70% at EUR 50 per MWh for 2023, and approximately 45% at EUR 43 per MWh for 2024.

### Share price



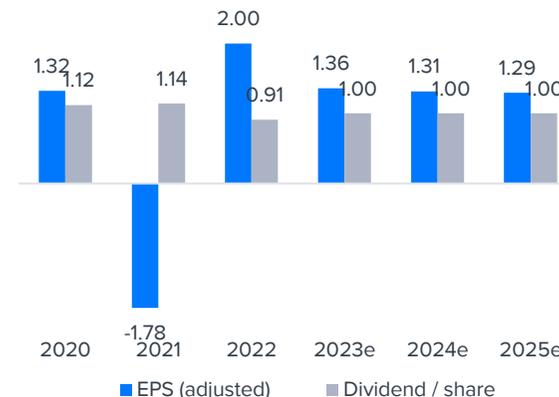
Source: Millstream Market Data AB

### Revenue and EBIT %



Source: Inderes

### EPS and dividend



Source: Inderes



### Value drivers

- Exit from Russia
- Improved investment profile and lower risk profile as the financial situation becomes clearer
- High electricity prices would enable excellent earnings levels
- Improving operational efficiency
- Successful investments and divestments in accordance with the strategy



### Risk factors

- A drop in electricity prices would be reflected in the result, despite hedging
- Developments in energy policy, industry regulation and taxation
- Risks related to the state owner
- Success in debt restructuring

Valuation	2023e	2024e	2025e
Share price	13.6	13.6	13.6
Number of shares, millions	897.3	897.3	897.3
Market cap	12216	12216	12216
EV	14872	14119	13800
P/E (adj.)	10.0	10.4	10.5
P/E	9.5	10.4	10.5
P/FCF	4.1	6.7	9.1
P/B	2.0	1.9	1.8
P/S	1.7	1.6	1.7
EV/Sales	2.0	1.9	1.9
EV/EBITDA	6.5	6.9	7.0
EV/EBIT (adj.)	8.0	8.2	8.5
Payout ratio (%)	69.6 %	76.1 %	77.2 %
Dividend yield-%	7.3 %	7.3 %	7.3 %

Source: Inderes

# Strong operating profit and cash flow

## Strong Q1 for continuing operations

Fortum's Q1 result was strong, with a comparable EBITDA of EUR 891 million and an operating profit of EUR 784 million. Both were well above the consensus, although there is some confusion about actual expectations. Our own estimates did not include the Russia segment for comparable figures, and the same may be true for others. In any case, the figures were strong.

The strong result was driven by the Generation segment, which achieved a comparable operating profit of EUR 723 million (Q1'22: 307 MEUR). The average sales price achieved by the segment in Q1 was €85.2/MWh, well above estimates (Inderes around 68 €/MWh and consensus 70.3 €/MWh). The electricity supplied by Fortum in Q1 was hedged at a very high price relative to the full 2023 level. In its outlook, Fortum always states the hedge ratio and price for the whole year (Q4'22: for 2023 75% at 58 €/MWh), but not for different quarters. In last year's exceptional environment, the company appears to have managed to lock in high prices, particularly for

the early part of the year. The company had also done well in physical optimization.

Generation's production volumes were largely as expected. Hydropower generation was 5.0 TWh, down year-on-year as expected (Q1'22: 5.4 TWh) due to slightly lower water reserves. Nuclear power generated 6.5 TWh, slightly more than in the comparison period (Q1'22: 6.3 TWh).

## Results made in Russia, but it does not matter

Fortum's Russia segment still achieved a comparable operating profit of EUR 86 million in Q1. This was still reflected in the reported figures, but in practice it is irrelevant, and we have corrected Russia out of the figures. Excluding Russia, Fortum's comparable operating profit is EUR 698 million and EPS EUR 0.54, reflecting continuing operations. There is still a major write-down ahead in Q2, but ultimately the most important thing is that Fortum's exposure in Russia will be zero.

The Consumer Solutions segment posted a disappointing result in Q1 (comparable EBIT of 6

MEUR), but this is not material. The Other segment (EBIT -31 MEUR) mainly bears group expenses. Overall, Fortum's Q1 results were operationally very strong, although the reported results were again mixed due to several exceptional items.

## Excellent cash flow

In Q1, cash flow from operating activities was a good EUR 583 million, but the change in margin receivables reflected in investments amounted to EUR 1,293 million, bringing cash flow from continuing operations before financing to an excellent EUR 1665 million. In other words, margin receivables unwound at a rapid pace, which was also expected.

In Q1, this cash flow was used to repay loans (cash flow from financing activities -1796 MEUR), but at the same time the amount of loans decreased again significantly. Net financial debt amounted to EUR 794 million, which represents a ratio of only 0.4x to comparable EBITDA (LTM ) without Russia.

Estimates MEUR / EUR	Q1'22	Q1'23	Q1'23e	Q1'23e	Consensus		Difference (%)	2023e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. Inderes	Inderes
Revenue	1940	2265	2411	2312	2171	3158	-6%	7347
Comparable EBITDA	527	781	631	772	754	830	24%	2200
Comparable EBIT	326	698	548	594	553	680	27%	1860
EBIT (reported)	480	769	596	618	553	680	29%	1931
EPS (reported)	0.31	0.54	0.44	0.46	0.35	0.59	22%	1.44
Revenue growth-%	-	16.8 %	24.3 %	19.2 %	11.9 %	62.8 %	-7.5 pp	-5.2 %
Comp. EBIT-%	16.8 %	30.8 %	22.7 %	25.7 %	25.5 %	21.5 %	8.1 pp	25.3 %

Source: Inderes & Vara Research 3/10/2023 (median figures)

NB! Reported and Inderes estimates don't include Russia.

# Structural changes in estimates as Russia is left behind

## High-price hedges burned in Q1

Fortum's Generation segment hedges for Nordic generation were disappointing in the Q1 report, with the hedge price for the rest of 2023 falling significantly. Hedges were now at around 70% for the rest of 2023 at €50/MWh (Q4'22: 75% at €58/MWh), and for 2024 at around 45% at €43/MWh (Q4'22: 45% at €42/MWh). The 2023 hedge price therefore fell sharply during Q1, which was presumably a clear disappointment for the market. However, we suspect that the entire 2023 hedge price did not change, but in Q1 part of it was realized as earnings and cash flow. The realized result is better than expected for the future, so we would not see this as a negative thing.

It is true, however, that the outlook significantly diluted the strong earnings beat in Q1. Our operating profit estimates for 2023 increased by a few percent, but this is not very significant. Estimates for 2024 rose slightly more, but by next year there is still a lot that can happen in the electricity market and Fortum's hedging ratio for 2024 is a reasonably low 45%. As a result, there is still considerable uncertainty in the forecast, and as we reported in the previous

update, electricity prices have been falling recently.

## Russia has now been cut out completely

As Russia has now left the Fortum Group, we naturally removed it from our projections entirely and also adjusted the historical figures for 2022 based on the comparison figures provided. We note that further back in history the figures are not reliable due to a number of significant changes (mainly Uniper and Russia).

We had previously adjusted for Russia in our operational performance estimates, but the reported figures still included the Russia segment. Through this, the complete removal of Russia naturally reduced net sales and reported results. In contrast, the changes in the adjusted figures (EBIT/EPS excl. NRI in the table below) were positive, and EPS were also reduced by a slightly lower tax guidance (20-23%) for 2023 due to the end of Russia consolidation. The dividend has also been based on the Russia-adjusted earnings, so we saw a positive change there as well.

The total write-down of EUR 1.9 billion from Russia

will naturally ruin the reported results for Q2 and the full year 2023. Balance sheet equity takes a big hit, but capital is sufficient. We have taken this into account in the one-off item for discontinued operations (Russia is now one).

## New segment reporting

At the same time, we have updated our estimates to reflect the new segment structure: The Generation segment includes the Corporate Customers and Markets, Nuclear Generation, Hydro Generation and Renewables and Decarbonization business units, the Consumer Solutions segment is unchanged, and the Other Operations segment includes the Circular Solutions business unit, innovation and venturing activities, enabling functions and corporate management. We will revise the segment estimates later, when we are able to create more accurate models for them (for now, the changes are mechanical).

Estimate revisions	2023e	2023e	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Old	New	%	Old	New	%	Old	New	%
Revenue	8521	7347	-14%	8538	7441	-13%	8574	7392	-14%
EBITDA	2580	2271	-12%	2366	2045	-14%	2364	1965	-17%
EBIT (exc. NRIs)	1812	1860	3%	1591	1716	8%	1594	1625	2%
EBIT	2004	1931	-4%	1782	1716	-4%	1783	1625	-9%
PTP	1749	1670	-5%	1618	1504	-7%	1670	1481	-11%
EPS (excl. NRIs)	1.25	1.36	9%	1.19	1.31	10%	1.24	1.29	4%
DPS	1.00	1.00	0%	0.90	1.00	12%	0.93	1.00	7%

Source: Inderes

# From the shadows of Russia towards the light

## The balance sheet can take this hit too

We believe Fortum's risk profile is reasonable, although the balance sheet takes another big hit from Russia's EUR 1.9 billion write-down. In general, the risk profile of the business is moderate as the new strategy focuses on the Nordic countries. Of the write-down, EUR 1.7 billion is an actual write-down, which reduces equity, and the rest is exchange rate differences (already included in equity but passed through the P&L). After the Russian write-down, there will be around EUR 8 billion in equity, which is sufficient and will not jeopardize the dividend payment.

According to comments from the company's management, rating agencies have taken a cautiously positive view of the exit from Russia, and we understand that they had already previously cut Russia from the group as unworthy. Therefore, we do not believe that credit ratings are at risk either. Exiting Russia will also completely change Fortum's ESG profile, as it will remove the company's biggest problems. Access to the debt market should therefore be fully realistic within a relatively short timeframe, which would normalize the financial situation.

By far Fortum's biggest risk today is related to the development of electricity prices in the Nordic countries. If the price of electricity collapses, earnings and cash flows will sooner or later follow suit, despite hedging. The risk is, of course, a two-way street.

## A valuable core in the Nordic countries

In our view, the current market value of the Fortum's Nordic hydro and nuclear assets of around n EUR 12 billion is still very low. Of course, the whole sector is currently priced moderately, which is understandable given Europe's position at the center of the energy

crisis and politicians' plans for possible new additional taxes and/or price caps on the sector. However, Fortum's current valuation also includes a clear discount to peers, which we do not believe is justified as the company is getting rid of its Russian exposure. It has not been a pretty ride, but Russia is no longer part of the Fortum Group.

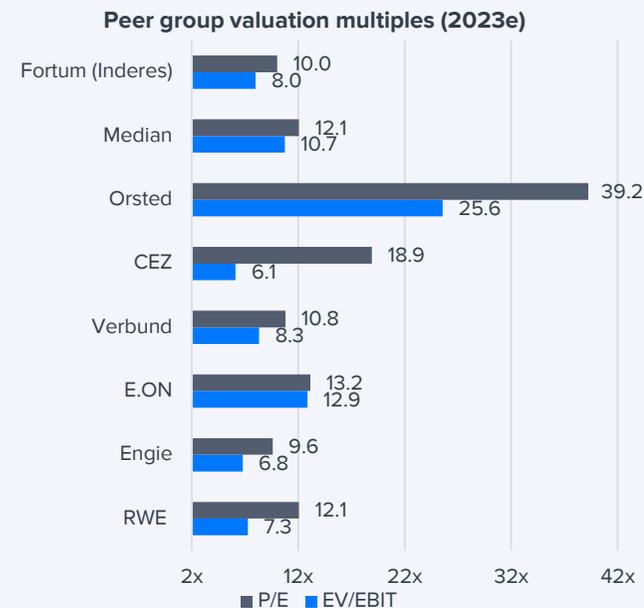
## There is already a margin of safety in the valuation

We expect Fortum's adjusted EPS (excluding Russia) to be around EUR 1.3 in 2023 (2022: EUR 1.21). Fortum's adjusted P/E is thus around 10x, which can be considered attractive, especially considering the good cash flow profile of the next few years. We believe that a similar earnings level is realistic also in the future, but this will depend on the development of the electricity market.

Although Fortum has a lot of interest-bearing debt given the circumstances (the debt market is still closed), it has little net debt and thus, with EV multiples, we believe Fortum is very attractively priced. EV/EBITDA ratios for the coming years are around 6-7x and EV/EBIT ratios some 8x. In our view, Fortum is returning to being a credible Nordic energy company, with 43% of its generation coming from valuable hydropower and 53% from nuclear power (2022 figures) in Finland and Sweden. Without Russia, we think Fortum's profile is very attractive, although it may take time to repair its reputation. Yet Fortum is currently priced at a discount of around 20% compared to the peer group, which we do not consider justified. We estimate that the gap will gradually disappear, making Fortum's expected return attractive. While waiting, shareholders can enjoy an estimated dividend yield of more than 7%, which should be satisfactory even in the current interest rate environment.

Valuation	2023e	2024e	2025e
Share price	13.6	13.6	13.6
Number of shares, millions	897.3	897.3	897.3
Market cap	12216	12216	12216
EV	14872	14119	13800
P/E (adj.)	10.0	10.4	10.5
P/E	9.5	10.4	10.5
P/FCF	4.1	6.7	9.1
P/B	2.0	1.9	1.8
P/S	1.7	1.6	1.7
EV/Sales	2.0	1.9	1.9
EV/EBITDA	6.5	6.9	7.0
EV/EBIT (adj.)	8.0	8.2	8.5
Payout ratio (%)	69.6 %	76.1 %	77.2 %
Dividend yield-%	7.3 %	7.3 %	7.3 %

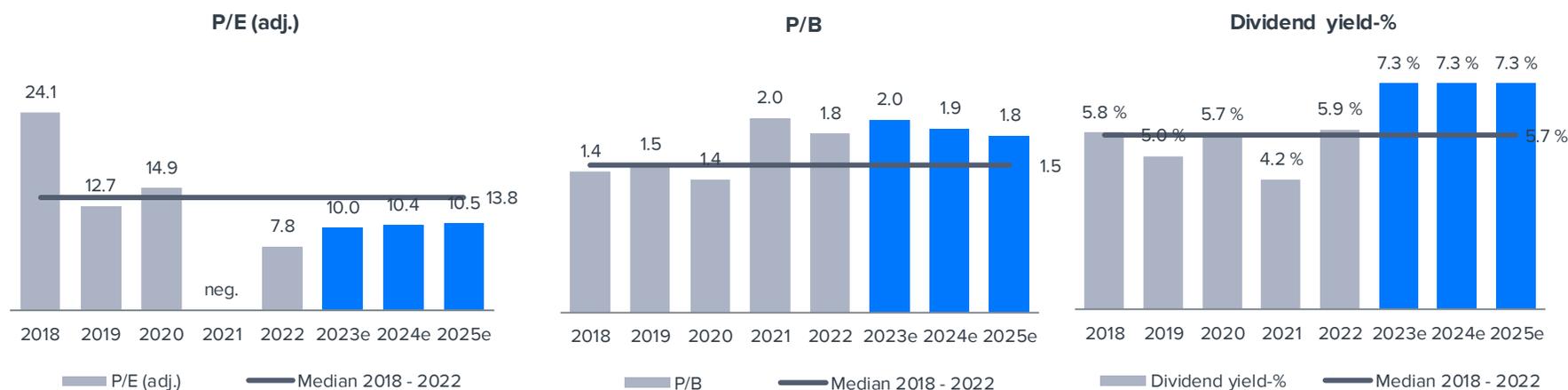
Source: Inderes



# Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	19.1	22.0	19.7	27.0	15.5	13.6	13.6	13.6	13.6
Number of shares, millions	888.4	888.3	888.4	888.3	897.3	897.3	897.3	897.3	897.3
Market cap	16968	19542	17501	23975	13943	12216	12216	12216	12216
EV	16805	18665	25567	32676	16661	14872	14119	13800	13608
P/E (adj.)	24.1	12.7	14.9	neg.	7.8	10.0	10.4	10.5	10.7
P/E	20.1	13.2	12.0	32.4	6.7	9.5	10.4	10.5	10.7
P/FCF	10.0	46.5	neg.	25.8	1.1	4.1	6.7	9.1	10.3
P/B	1.4	1.5	1.4	2.0	1.8	2.0	1.9	1.8	1.7
P/S	3.2	3.6	3.9	3.7	1.8	1.7	1.6	1.7	1.6
EV/Sales	3.2	3.4	5.7	5.1	2.1	2.0	1.9	1.9	1.8
EV/EBITDA	10.0	11.0	11.0	6.7	7.0	6.5	6.9	7.0	7.1
EV/EBIT (adj.)	17.0	15.7	26.1	22.9	10.3	8.0	8.2	8.5	8.7
Payout ratio (%)	115.9 %	66.0 %	68.1 %	137.0 %	39.3 %	69.6 %	76.1 %	77.2 %	78.3 %
Dividend yield-%	5.8 %	5.0 %	5.7 %	4.2 %	5.9 %	7.3 %	7.3 %	7.3 %	7.3 %

Source: Inderes



# Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2023e	2024e	2023e	2024e	2023e	2024e	2023e	2024e	2023e
RWE	31234	29691	7.3	8.8	4.7	5.3	12.1	15.4	2.3	2.4	1.1
Engie	35769	51569	6.8	6.3	4.1	3.9	9.6	8.8	7.4	7.7	1.0
E.ON	32026	62603	12.9	12.4	8.1	7.8	13.2	12.9	4.4	4.5	1.8
Verbund	27029	31757	8.3	8.8	7.4	7.8	10.8	11.5	4.6	4.5	3.1
EDF	48011	89460	13.5	10.6	4.9	4.3	11.9	8.4	3.6	3.9	1.0
CEZ	27998	23244	6.1	4.7	4.5	3.7	18.9	16.8	5.9	4.5	3.3
Enel	61946	138112	10.7	10.2	6.7	6.5	10.2	9.5	6.9	7.0	1.7
Uniper	32685	32767	24.2	27.4	12.9	16.4	36.0	31.9		0.2	2.4
Orsted	35191	41026	25.6	19.5	13.4	11.4	39.2	28.7	2.3	2.4	2.9
<b>Fortum (Inderes)</b>	<b>12216</b>	<b>14872</b>	<b>8.0</b>	<b>8.2</b>	<b>6.5</b>	<b>6.9</b>	<b>10.0</b>	<b>10.4</b>	<b>7.3</b>	<b>7.3</b>	<b>2.0</b>
<b>Average</b>			<b>12.8</b>	<b>12.1</b>	<b>7.4</b>	<b>7.4</b>	<b>18.0</b>	<b>16.0</b>	<b>4.7</b>	<b>4.1</b>	<b>2.0</b>
<b>Median</b>			<b>10.7</b>	<b>10.2</b>	<b>6.7</b>	<b>6.5</b>	<b>12.1</b>	<b>12.9</b>	<b>4.5</b>	<b>4.5</b>	<b>1.8</b>
<b>Diff-% to median</b>			<b>-26%</b>	<b>-19%</b>	<b>-3%</b>	<b>6%</b>	<b>-17%</b>	<b>-20%</b>	<b>64%</b>	<b>64%</b>	<b>7%</b>

Source: Refinitiv / Inderes

# Income statement

Income statement	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
<b>Revenue</b>	<b>1940</b>	<b>1536</b>	<b>1891</b>	<b>2387</b>	<b>7754</b>	<b>2265</b>	<b>1386</b>	<b>1552</b>	<b>2145</b>	<b>7347</b>	<b>7441</b>	<b>7392</b>	<b>7454</b>
<i>Generation (new)</i>	985	840	1023	1617	4465	1429	986	939	1475	4830	4772	4517	4459
<i>Consumer Solutions</i>	1168	856	1094	1460	4578	1384	708	899	1197	4188	4277	4368	4462
<i>Others (new)</i>	137	136	155	161	589	136	136	136	136	544	540	540	540
<i>Items affecting comparability</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Eliminations</i>	-350.0	-296.0	-381.0	-851.0	-1878.0	-684.0	-443.8	-422.7	-663.9	-2214.3	-2147.2	-2032.4	-2006.4
<i>Generation (OLD)</i>	0	0	0	0	0	0	0	0	0	0	0	0	0
<i>City Solutions (OLD)</i>	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>EBITDA</b>	<b>589</b>	<b>860</b>	<b>1001</b>	<b>-68.0</b>	<b>2382</b>	<b>852</b>	<b>457</b>	<b>313</b>	<b>649</b>	<b>2271</b>	<b>2045</b>	<b>1965</b>	<b>1924</b>
Depreciation	-109	-100	-100	-106	-415	-83	-85	-85	-87	-340	-330	-341	-358
<b>EBIT (excl. NRI)</b>	<b>326</b>	<b>262</b>	<b>354</b>	<b>669</b>	<b>1611</b>	<b>698</b>	<b>372</b>	<b>228</b>	<b>562</b>	<b>1860</b>	<b>1716</b>	<b>1625</b>	<b>1566</b>
<b>EBIT</b>	<b>480</b>	<b>760</b>	<b>901</b>	<b>-174</b>	<b>1967</b>	<b>769</b>	<b>372</b>	<b>228</b>	<b>562</b>	<b>1931</b>	<b>1716</b>	<b>1625</b>	<b>1566</b>
<i>Generation (new)</i>	307	282	357	683	1629	723	389	232	566	1910	1742	1629	1571
<i>Consumer Solutions</i>	35	21	17	24	97	6	13	26	26	71	94	118	120
<i>Others (new)</i>	-16	-41	-20	-38	-115	-31	-30	-30	-30	-121	-120	-122	-125
<i>Items affecting comparability</i>	154	498	547	-843	356	71	0	0	0	71	0	0	0
<i>Eliminations</i>	0	0	0	0	0	0	0	0	0	0	0	0	0
<i>Generation (OLD)</i>	0	0	0	0	0	0	0	0	0	0	0	0	0
<i>Russia (OLD)</i>	0	0	0	0	0	0	0	0	0	0	0	0	0
<i>Share of associates' profit/loss</i>	-55	-57	-14	-59	-185	22	3	0	9	34	34	34	35
Net financial items	-42	-53	-6	-117	-218	-95	-60	-70	-70	-295	-246	-178	-139
<b>PTP</b>	<b>383</b>	<b>650</b>	<b>881</b>	<b>-350</b>	<b>1564</b>	<b>696</b>	<b>315</b>	<b>158</b>	<b>501</b>	<b>1670</b>	<b>1504</b>	<b>1481</b>	<b>1461</b>
Taxes	-95	-7	-155	777	520	-154	-69	-35	-108	-366	-309	-304	-300
Minority interest	-11	2	1	4	-4	-2	2	0	-15	-15	-15	-16	-16
<b>Net earnings</b>	<b>277</b>	<b>645</b>	<b>727</b>	<b>431</b>	<b>2080</b>	<b>540</b>	<b>248</b>	<b>123</b>	<b>378</b>	<b>1289</b>	<b>1180</b>	<b>1162</b>	<b>1146</b>
<b>EPS (adj.)</b>	<b>0.17</b>	<b>0.27</b>	<b>0.32</b>	<b>1.23</b>	<b>2.00</b>	<b>0.52</b>	<b>0.28</b>	<b>0.14</b>	<b>0.42</b>	<b>1.36</b>	<b>1.31</b>	<b>1.29</b>	<b>1.28</b>
<b>EPS (rep.)</b>	<b>0.31</b>	<b>0.72</b>	<b>0.81</b>	<b>0.48</b>	<b>2.32</b>	<b>0.60</b>	<b>0.28</b>	<b>0.14</b>	<b>0.42</b>	<b>1.44</b>	<b>1.31</b>	<b>1.29</b>	<b>1.28</b>

Source: Inderes

# Balance sheet

Assets	2022	2023e	2024e	2025e
<b>Non-current assets</b>	<b>12668</b>	<b>11476</b>	<b>11606</b>	<b>11930</b>
Goodwill	0.0	0.0	0.0	0.0
Intangible assets	657	617	627	591
Tangible assets	7266	6726	7096	7456
Associated companies	1249	1000	1000	1000
Other investments	628	628	628	628
Other non-current assets	1935	1735	1485	1485
Deferred tax assets	933	770	770	770
<b>Current assets</b>	<b>10974</b>	<b>7772</b>	<b>6491</b>	<b>5715</b>
Inventories	465	441	446	444
Other current assets	1486	1086	836	836
Receivables	5104	2939	2604	2218
Cash and equivalents	3919	3306	2604	2218
<b>Balance sheet total</b>	<b>23642</b>	<b>19248</b>	<b>18098</b>	<b>17645</b>

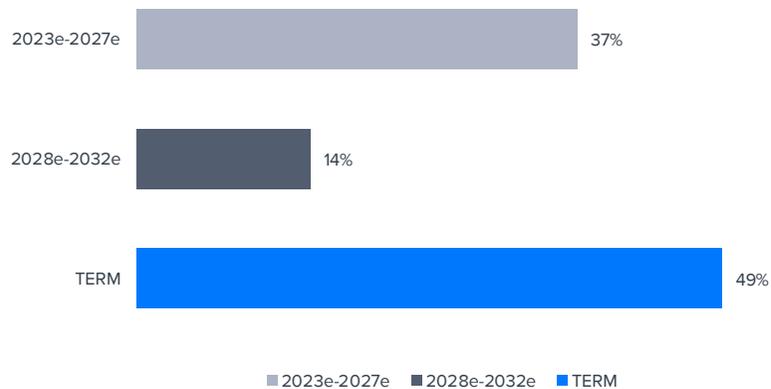
Source: Inderes

Liabilities & equity	2022	2023e	2024e	2025e
<b>Equity</b>	<b>7737</b>	<b>6310</b>	<b>6592</b>	<b>6857</b>
Share capital	3046	3046	3046	3046
Retained earnings	6467	5040	5322	5587
Hybrid bonds	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0
Other equity	-1843.0	-1843.0	-1843.0	-1843.0
Minorities	67.0	67.0	67.0	67.0
<b>Non-current liabilities</b>	<b>5797</b>	<b>7390</b>	<b>6513</b>	<b>6018</b>
Deferred tax liabilities	152	400	400	400
Provisions	1097	1097	1097	1097
Long term debt	3658	5003	4126	3631
Convertibles	0.0	0.0	0.0	0.0
Other long term liabilities	890	890	890	890
<b>Current liabilities</b>	<b>10108</b>	<b>5548</b>	<b>4993</b>	<b>4770</b>
Short term debt	4127	1858	1281	1070
Payables	2008	1690	1712	1700
Other current liabilities	3973	2000	2000	2000
<b>Balance sheet total</b>	<b>23642</b>	<b>19248</b>	<b>18098</b>	<b>17645</b>

# DCF calculation

DCF model	2022	2023e	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	TERM
Revenue growth-%	20.7 %	-5.2 %	1.3 %	-0.7 %	0.8 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	1.0 %	1.0 %
EBIT-%	25.4 %	26.3 %	23.1 %	22.0 %	21.0 %	21.0 %	21.0 %	20.0 %	19.0 %	18.0 %	18.0 %	18.0 %
<b>EBIT (operating profit)</b>	<b>1967</b>	<b>1931</b>	<b>1716</b>	<b>1625</b>	<b>1566</b>	<b>1597</b>	<b>1629</b>	<b>1582</b>	<b>1533</b>	<b>1481</b>	<b>1496</b>	
+ Depreciation	415	340	330	341	358	374	390	405	419	432	445	
- Paid taxes	1061	45	-309	-304	-300	-306	-312	-301	-289	-276	-278	
- Tax, financial expenses	65	-74	-58	-42	-34	-34	-35	-36	-38	-40	-41	
+ Tax, financial income	0	8	6	5	5	5	5	5	5	5	5	
- Change in working capital	2189	298	600	378	290	-13	-14	-14	-14	-15	-7	
<b>Operating cash flow</b>	<b>5697</b>	<b>2549</b>	<b>2286</b>	<b>2003</b>	<b>1885</b>	<b>1622</b>	<b>1663</b>	<b>1641</b>	<b>1616</b>	<b>1588</b>	<b>1620</b>	
+ Change in other long-term liabilities	-26555	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	33888	440	-460	-664	-705	-712	-712	-712	-713	-713	-545	
<b>Free operating cash flow</b>	<b>13030</b>	<b>2989</b>	<b>1826</b>	<b>1338</b>	<b>1180</b>	<b>910</b>	<b>951</b>	<b>928</b>	<b>903</b>	<b>875</b>	<b>1075</b>	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	13030	2989	1826	1338	1180	910	951	928	903	875	1075	18282
<b>Discounted FCFF</b>		<b>2863</b>	<b>1635</b>	<b>1121</b>	<b>925</b>	<b>667</b>	<b>651</b>	<b>595</b>	<b>541</b>	<b>490</b>	<b>563</b>	<b>9574</b>
Sum of FCFF present value		19624	16761	15126	14005	13081	12414	11763	11168	10627	10137	9574
<b>Enterprise value DCF</b>		<b>19624</b>										
- Interesting bearing debt		-7785										
+ Cash and cash equivalents		3919										
+ Sijoitukset osakkuusyriytyksiin		1000										
-Minorities		-101										
-Dividend/capital return		-817										
<b>Equity value DCF</b>		<b>15841</b>										
<b>Equity value DCF per share</b>		<b>17.7</b>										
<b>WACC</b>												
Tax-% (WACC)		21.0 %										
Target debt ratio (D/(D+E))		25.0 %										
Cost of debt		4.0 %										
Equity Beta		1.20										
Market risk premium		4.75%										
Liquidity premium		0.00%										
Risk free interest rate		2.5 %										
<b>Cost of equity</b>		<b>8.2 %</b>										
<b>Weighted average cost of capital (WACC)</b>		<b>6.9 %</b>										

Cash flow distribution



# ESG

Fortum's taxonomy percentage mainly reflects the company's electricity generation from hydro and nuclear power, the latter from existing plants as defined in the taxonomy. The Generation segment is by far the most important part of Fortum and is responsible for the majority of the company's results. Fortum's situation is confused by the fact that, in theory, the company owns a business in Russia that it no longer controls. The Russian administration has taken control of the business and its consolidation to group numbers has been removed (as of Q2'23), so we do not expect the business to continue to burden Fortum's ESG profile. However, so far we have used figures where Russia is still part of the group.

## The main business activities fall under the taxonomy

Fortum's main taxonomy-aligned activities are electricity generation from hydropower, existing nuclear power and wind power, and the distribution of district heating or cooling. A small proportion of these activities are taxonomy-eligible, i.e., they do not meet the criteria required by the taxonomy. Activities in Russia are also counted as taxonomy-eligible, so we expect the figures to change in the near future.

The political dimension of Fortum's business is very important, because the functioning and emission-free energy sector is one of the key elements in the development of the European, and to some extent global, energy market. The high taxonomy percentage gives credibility to the fact that the energy produced by Fortum contributes to the environmentally beneficial activities that policy decisions will support in the future. Similarly, a high compliance rate reflects the use of fundamental sustainability processes in the company's value chain.

## Economic impact still difficult to assess

The potential direct short-term financial impact of the taxonomy on Fortum's business, such as significantly lower financing costs, is currently difficult to assess. However, we believe it is likely that the Russian operations have made the company's position in the financial markets more difficult. In any case, financing costs are affected by the situation on the European energy market and by regulation, one of the factors behind which is taxonomy.

Fortum updated its climate targets to be in line with the Paris Agreement targets during 2023 and is thus committed to carbon neutrality by 2050. For Europe's energy production, the aim is to achieve carbon neutrality by 2035. This commitment will first require an exit from the Russian business, but this issue is expected to be resolved soon. In addition, Fortum has several individual climate targets, such as phasing out coal-fired power plants by 2027.

## Synergies between taxonomy and economy

Based on current data, we see that there is a clear synergy between increasing the taxonomy percentage, business and meeting climate targets, which is supported by the exit from Russia. Thus, in principle, developments in taxonomy also support economic development. However, regulation of the sector is constantly evolving, making it difficult to assess the final impact.

Taxonomy eligibility	2021*	2022
Net sales	-	13%
OPEX	-	15%
CAPEX	-	17%

Taxonomy alignment	2021*	2022
Net sales	-	44%
OPEX	-	51%
CAPEX	-	51%

Climate		
Climate target	Yes	Yes
Target according to the Paris Agreement (1.5 °C warming scenario)	No	Yes* (without Russia)

# Summary

Income statement	2020	2021	2022	2023e	2024e	Per share data	2020	2021	2022	2023e	2024e
Revenue	4501	6422	7754	<b>7347</b>	<b>7441</b>	EPS (reported)	1.64	0.83	2.32	<b>1.44</b>	<b>1.31</b>
EBITDA	2326	4913	2382	<b>2271</b>	<b>2045</b>	EPS (adj.)	1.32	-1.78	2.00	<b>1.36</b>	<b>1.31</b>
EBIT	1236	4326	1967	<b>1931</b>	<b>1716</b>	OCF / share	1.34	1.23	6.35	<b>2.84</b>	<b>2.55</b>
PTP	1836	4333	1564	<b>1670</b>	<b>1504</b>	FCF / share	-9.10	1.05	14.52	<b>3.33</b>	<b>2.03</b>
Net Income	1460	739	2080	<b>-611</b>	<b>1180</b>	Book value / share	14.58	13.66	8.55	<b>6.96</b>	<b>7.27</b>
Extraordinary items	255	2897	356	<b>71</b>	<b>0</b>	Dividend / share	1.12	1.14	0.91	<b>1.00</b>	<b>1.00</b>
Balance sheet	2020	2021	2022	2023e	2024e	Growth and profitability	2020	2021	2022	2023e	2024e
Balance sheet total	57810	149661	23642	<b>19248</b>	<b>18098</b>	Revenue growth-%	-17%	43%	21%	<b>-5%</b>	<b>1%</b>
Equity capital	15577	13665	7737	<b>6310</b>	<b>6592</b>	EBITDA growth-%	37%	111%	-52%	<b>-5%</b>	<b>-10%</b>
Goodwill	1069	1021	0	<b>0</b>	<b>0</b>	EBIT (adj.) growth-%	-18%	46%	13%	<b>15%</b>	<b>-8%</b>
Net debt	8354	9628	3866	<b>3555</b>	<b>2803</b>	EPS (adj.) growth-%	-24%	-234%	-213%	<b>-32%</b>	<b>-3%</b>
Cash flow	2020	2021	2022	2023e	2024e	EBITDA-%	51.7 %	76.5 %	30.7 %	<b>30.9 %</b>	<b>27.5 %</b>
EBITDA	2326	4913	2382	<b>2271</b>	<b>2045</b>	EBIT (adj.)-%	21.8 %	22.3 %	20.8 %	<b>25.3 %</b>	<b>23.1 %</b>
Change in working capital	-785	-1365	2189	<b>298</b>	<b>600</b>	EBIT-%	27.5 %	67.4 %	25.4 %	<b>26.3 %</b>	<b>23.1 %</b>
Operating cash flow	1189	1092	5697	<b>2549</b>	<b>2286</b>	ROE-%	11.3 %	5.9 %	21.0 %	<b>18.5 %</b>	<b>18.5 %</b>
CAPEX	-20567	-12840	33888	<b>440</b>	<b>-460</b>	ROI-%	8.7 %	15.8 %	7.7 %	<b>13.9 %</b>	<b>14.1 %</b>
Free cash flow	-8088	929	13030	<b>2989</b>	<b>1826</b>	Equity ratio	26.9 %	9.1 %	32.7 %	<b>32.8 %</b>	<b>36.4 %</b>
Valuation multiples	2020	2021	2022	2023e	2024e	Gearing	53.6 %	70.5 %	50.0 %	<b>56.3 %</b>	<b>42.5 %</b>
EV/S	5.7	5.1	2.1	<b>2.0</b>	<b>1.9</b>						
EV/EBITDA (adj.)	11.0	6.7	7.0	<b>6.5</b>	<b>6.9</b>						
EV/EBIT (adj.)	26.1	22.9	10.3	<b>8.0</b>	<b>8.2</b>						
P/E (adj.)	14.9	neg.	7.8	<b>10.0</b>	<b>10.4</b>						
P/B	1.4	2.0	1.8	<b>2.0</b>	<b>1.9</b>						
Dividend-%	5.7 %	4.2 %	5.9 %	<b>7.3 %</b>	<b>7.3 %</b>						

Source: Inderes

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Date	Recommendation	Target	Share price
3/17/2020	Buy	15.00 €	13.31 €
4/27/2020	Buy	17.00 €	14.86 €
5/18/2020	Buy	17.50 €	14.92 €
7/21/2020	Buy	20.00 €	17.84 €
8/20/2020	Buy	20.00 €	17.02 €
11/18/2020	Buy	20.00 €	17.63 €
12/4/2020	Buy	20.00 €	18.30 €
2/15/2021	Accumulate	22.50 €	21.97 €
5/14/2021	Accumulate	24.00 €	22.74 €
8/18/2021	Accumulate	26.50 €	24.49 €
11/15/2021	Reduce	25.00 €	25.30 €
2/28/2022	Reduce	19.00 €	19.47 €
3/7/2022	Accumulate	16.00 €	15.26 €
4/27/2022	Reduce	16.00 €	15.63 €
5/13/2022	Reduce	16.00 €	15.31 €
6/21/2022	Accumulate	18.00 €	16.31 €
7/25/2022	Accumulate	13.00 €	11.36 €
8/18/2022	Reduce	11.00 €	11.41 €
8/23/2022	Reduce	11.00 €	10.47 €
8/26/2022	Reduce	11.00 €	10.32 €
9/22/2022	Accumulate	14.50 €	13.25 €
10/13/2022	Accumulate	14.50 €	12.73 €
11/11/2022	Accumulate	16.50 €	14.38 €
12/7/2022	Accumulate	18.00 €	15.87 €
2/28/2023	Accumulate	16.00 €	14.51 €
3/3/2023	Accumulate	16.50 €	14.63 €
5/8/2023	Accumulate	15.00 €	13.57 €
5/12/2023	Buy	16.00 €	13.62 €



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