

Kone

Company report

1/29/2024



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This report is a summary translation of the report “Kurssinousu tarvitsisi enemmän eväitä” published on 1/29/2024 at 6:40 pm EET.

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Better development required for share price rise

KONE's Q4 figures were good. Order intake was a positive surprise and the adjusted EBIT margin and dividend were in line with expectations. The guidance given for 2024 was fairly broad and our projections are almost unchanged. The share is fully priced. We reiterate our Reduce recommendation but raise the target price to EUR 43.00 (42.00).

Not too shabby Q4 figures

The group's Q4 order intake (+5% y/y) was significantly better than expected, and KONE reported an increase in market share as well. This was driven by China, where orders grew by a good 10% year-on-year in monetary terms. The margin of orders received was stable. Q4 revenue landed between our and consensus estimates. Revenue in New Building Solutions were down sharply (-16% y/y), while revenue in Service and Modernization grew. In Q4, the adjusted EBIT margin (12.8%) was slightly below expectations. KONE reported improved margins due to growth in Service and Modernization, improved price/cost dynamics and the renewed operating model. In 2023, the combined revenue share of the best performing business areas, Service and Modernization, increased to 55% (2022: 50%) and in Q4'23 they already accounted for 57% (Q4'22: 51%). Wage inflation continued to have a negative impact: in 2023, revenue/employee grew by only 0.5% year-on-year, but wage costs/employee grew by 3.5% year-on-year. Adjusted EPS for Q4'23 was in line with our own expectations, but below consensus. The dividend proposal (EUR 1.75) was in line with estimates. The payout ratio is high at 98% and the dividend yield is 3.9%.

2024 outlook stable overall

Comments on the 2024 market outlook were lukewarm for New Building Solutions, as the market is expected to shrink in units delivered. However, the Service market is expected to grow in units and the Modernization market will increase even faster. KONE expects its revenue at comparable exchange rates to remain at the same level as in 2023 or to grow slightly. The adjusted EBIT margin is expected to continue to improve, although there are fewer upside drivers than in 2023. Margins are supported by growth in Service and Modernization, a more profitable order book and the new operating model. However, margin pressure will come from market uncertainty in China, Europe and the Americas, wage inflation and rising R&D and IT costs. Based on the guidance, the pre-report consensus expectation of an 8% year-on-year improvement in adjusted EBIT in 2024 seems optimistic. We did not see reason to make major revisions to our forecasts. Our revised forecast for 2024 implies 2% year-on-year revenue growth and an adjusted EBIT margin of 11.8% (2023a: 11.4%).

No justifiable upside in valuation

The expected total return of KONE's share with models based on 2024–2025 P/E and EV/EBIT ratios is at only 1–2% which is well below our 7% required return. On this basis, the risk-adjusted expected return for the share is not attractive. As KONE has about 1,000 MEUR in net assets, the EV/EBIT ratio is better suited than the P/E to assess peer group valuation. The 2024–2025 EV/EBIT ratio is 14–16% above the median of peers and on average 7–9% above the ratios of the closest competitors Otis and Schindler. Overall, peer valuation of KONE's share is on the high side. There is also no upside to the value indicated by our DCF model.

Recommendation

Reduce

(previous Reduce)

EUR 43.00

(previous EUR 42.00)

Share price:

46.31



Key figures

	2023	2024e	2025e	2026e
Revenue	10952	11162	11683	12121
growth-%	0%	2%	5%	4%
EBIT adj.	1248.4	1313.3	1384.8	1448.2
EBIT-% adj.	11.4 %	11.8 %	11.9 %	11.9 %
Net Income	925.8	1011.6	1068.7	1121.1
EPS (adj.)	1.88	1.96	2.07	2.17
P/E (adj.)	24.0	23.7	22.4	21.4
P/B	8.5	8.4	8.0	7.5
Dividend yield-%	3.9 %	3.9 %	3.9 %	4.2 %
EV/EBIT (adj.)	18.1	17.6	16.6	15.8
EV/EBITDA	15.4	14.5	13.8	13.1
EV/S	2.1	2.1	2.0	1.9

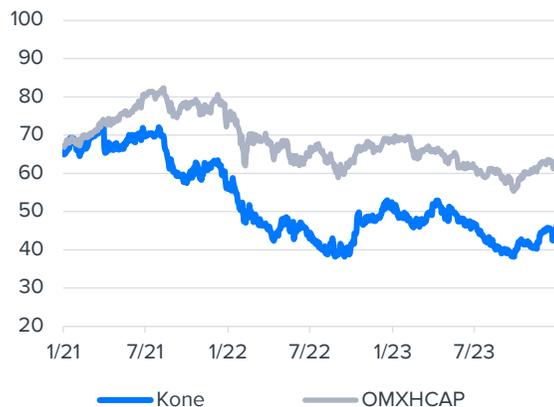
Source: Inderes

Guidance

(New guidance)

Revenue is expected to remain stable or increase slightly at comparable exchange rates in 2024. The improvement in the adjusted EBIT margin is expected to continue, although there are expected to be fewer profitability drivers than in 2023.

Share price



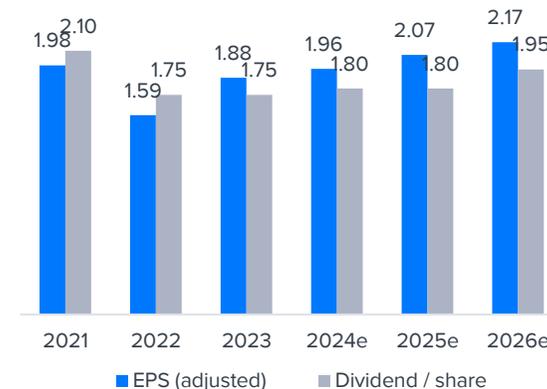
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes



Value drivers

- Demand recovery in the new equipment market
- Growth in the maintenance markets in China and other Asian countries
- The renewed operating model to support margins
- Rise of new digital services



Risk factors

- Delay in the recovery of the Chinese construction market and continued tight price competition
- The Western market remains sticky
- Standing out with digital services proves difficult

Valuation	2024e	2025e	2026e
Share price	46.3	46.3	46.3
Number of shares, millions	517.2	517.2	517.2
Market cap	23953	23953	23953
EV	23136	23015	22837
P/E (adj.)	23.7	22.4	21.4
P/E	23.7	22.4	21.4
P/B	8.4	8.0	7.5
P/S	2.1	2.1	2.0
EV/Sales	2.1	2.0	1.9
EV/EBITDA	14.5	13.8	13.1
EV/EBIT (adj.)	17.6	16.6	15.8
Payout ratio (%)	91.9 %	87.0 %	90.0 %
Dividend yield-%	3.9 %	3.9 %	4.2 %

Source: Inderes

Not too shabby Q4 figures

Quite solid Q4 numbers

KONE's Q4 figures were good. Order intake was a positive surprise and the adjusted EBIT margin and dividend were in line with expectations.

Market share growth reflected in orders

The group's Q4 order intake (2,049 MEUR; +5% y/y and +11% y/y at comparable FX) was well above the consensus expectation (1,878 MEUR; -3% y/y) and our forecast (1,964 MEUR; +1% y/y), and KONE reported an increase in market share as well. This was driven by China, where KONE's equipment orders increased by almost 30% in unit terms, albeit against very weak comparison figures. Overall, orders in China grew by a good 10% year-on-year in monetary terms. At group level, orders at comparable exchange rates in New Building Solutions grew clearly (5–10%) and in Modernization (>10%) significantly. The margin of

orders received was stable compared to both Q4'22 and Q3'23.

Drop in New Building Solutions revenue

Q4 revenue landed between our and consensus estimates. Revenue in New Building Solutions were down sharply (-16% y/y), while revenue in Service and Modernization grew (+5 % y/y and +16 % y/y respectively). Geographically, revenue was down 15% year-on-year in the Asia-Pacific region (about -20% y/y in China), but up by 4% year-on-year in the EMEA and the Americas.

Revenue mix more favorable than before

In Q4, the adjusted EBIT margin (12.8%) was slightly below expectations. KONE reported a slight year-on-year margin improvement due to growth in Service and Modernization, improved price/cost dynamics

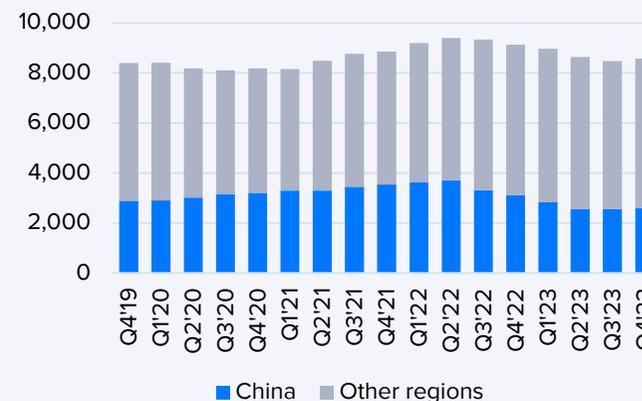
and the renewed operating model. In 2023, the combined revenue share of the best performing business areas, Service and Modernization, increased to 55% (2022: 50%), and in Q4'23 they already accounted for 57% (Q4'22: 51%). For the full year 2023, savings from the operating model renewal were just under 50 MEUR, or 0.4–0.5 percentage points of the EBIT margin. Wage inflation continued to have a negative impact: in 2023, revenue/employee grew by only 0.5% year-on-year, while wage costs/employee grew by 3.5%.

There were no major surprises in Q4'23 net financial income and taxes, and adjusted EPS was in line with our expectations but below consensus. The dividend proposal (EUR 1.75) was in line with our forecast and slightly below consensus. The payout ratio is 98% and the dividend yield is 3.9%.

Estimates MEUR / EUR	Q4'22	Q4'23	Q4'23e	Q4'23e	Consensus		Difference (%)	2023
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Actualized
Revenue	2912	2810	2728	2857	2682	3229	3%	10952
EBIT (adj.)	365	359	351	373	351	406	2%	1248
EBIT	367	362	336	357	336	391	8%	1200
PTP	364	361	339	359	338	398	6%	1206
EPS (adj.)	0.52	0.52	0.52	0.58	0.52	0.66	0%	1.88
EPS (reported)	0.53	0.53	0.49	0.53	0.48	0.61	8%	1.79
DPS	1.75	1.75	1.75	1.80	1.75	1.90	0%	1.75
Revenue growth-%	5.2 %	-3.5 %	-6.3 %	-1.9 %	-7.9 %	10.9 %	2.8 pp	0.4 %
EBIT-% (adj.)	12.5 %	12.8 %	12.9 %	13.1 %	13.1 %	12.6 %	-0.1 pp	11.4 %

Source: Inderes & Vara Research (consensus)

Order intake, MEUR, rolling 12 months



2024 outlook stable overall

Outlook and guidance for 2024 rather weak

KONE does not expect the new equipment market to grow in 2024 and the guidance was fairly broad. Our estimates remain almost unchanged.

Modernization and Asia outside China to perform well in 2024

Comments on the 2024 market outlook were lukewarm for New Building Solutions, as the market is expected to shrink in units delivered by 0–5% year-on-year in both Europe and the Americas and by 5–10% in China. However, the Service market is expected to grow in units by 0–5% in Europe and the Americas and by 5–10% in other markets. Modernization is the fastest growing market: 0–5% in the Americas, 5–10% in Europe and >10% in other markets.

Considering our estimate of KONE's revenue distribution by business function in different geographies, KONE seems to grow the fastest in Modernization and MEA+APAC (excl. China) in the coming year. Growth in Service business is moderate, but revenue in New Building Solutions continues to decline. Geographically, growth is on both sides of zero in the Americas, Europe and China.

Different drivers for margins in 2024

In 2024, KONE expects its revenue at comparable exchange rates to remain at the same level as in 2023 or to grow slightly. The adjusted EBIT margin is expected to continue to improve, although there are fewer upside drivers than in 2023. Margins are supported by growth in Service and Modernization, a more profitable order book and the new operating model. The latter is expected to generate additional

savings of 50 MEUR in 2024. However, margin pressure will come from market uncertainty in China, Europe and the Americas, cost inflation (wages around +5 % y/y) and rising R&D and IT costs. Based on the guidance, the pre-report consensus expectation of a +8% year-on-year improvement in adjusted EBIT in 2024 seems optimistic.

No need for major forecast revisions

KONE's view of the market in 2024 and the guidance provided are in line with our expectations, so there is no need for significant forecast revisions. Our revised forecast for 2024 implies 2% year-on-year revenue growth and an adjusted EBIT margin of 11.8% (2023 actual: 11.4%).

Estimate revisions	2023e	2023	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Inderes	Actualized	%	Old	New	%	Old	New	%
Revenue	10871	10952	1 %	11284	11162	-1 %	11800	11683	-1 %
EBIT (exc. NRIs)	1241	1248	1 %	1304	1313	1 %	1363	1385	2 %
EBIT	1174	1200	2 %	1304	1313	1 %	1363	1385	2 %
PTP	1185	1206	2 %	1307	1321	1 %	1372	1396	2 %
EPS (excl. NRIs)	1,88	1,88	0 %	1,93	1,96	1 %	2,03	2,07	2 %
DPS	1,75	1,75	0 %	1,80	1,80	0 %	1,80	1,80	0 %

Source: Inderes

No justifiable upside in valuation

Stable business, share price gone northeast

In the coming year, KONE's main revenue and earnings drivers will be Service and Modernization. Growth in New Building Solutions will only come from Asia (excl. China), but the importance of this segment is still relatively small; we estimate it at 7–8% of KONE's revenue. This means that even rapid growth is not yet reflected very strongly in KONE's group-level figures. All in all, it is currently difficult for us to identify clear positive share price drivers in the short and medium term. On the other hand, there are hardly any negative share price drivers in sight either, as expectations of KONE's development are very moderate in general.

KONE's share is fully priced with the indicators we use. Since there is no support from the share price drivers, we reiterate our Reduce recommendation on the stock. We raise the target price to EUR 43.00 (42.00) following our slightly positive forecast changes.

Expected total return is not encouraging

The total expected return on KONE's share (upside potential in the share price based on earnings growth and expected change in valuation multiple plus dividend yield) with 2024–2025 P/E and EV/EBIT ratios is only 1–2% which is well below our required return of around 7%. On this basis, the risk-adjusted expected return for the share is not attractive.

Multiple valuation is in line

As KONE has about 1,000 MEUR in net assets, the EV/EBIT ratio is better suited than the P/E to assess peer group valuation. With 2024–2025 ratios EV/EBIT (18x and 17x) is 14–16% above the median of peers and

on average 7–9% above the ratios of the closest competitors Otis and Schindler. Overall, peer valuation of KONE's share is on the high side.

DCF value below current share price

Our DCF model puts KONE's share value at around EUR 45, indicating a small downside margin. Again, this method does not support a higher share price.

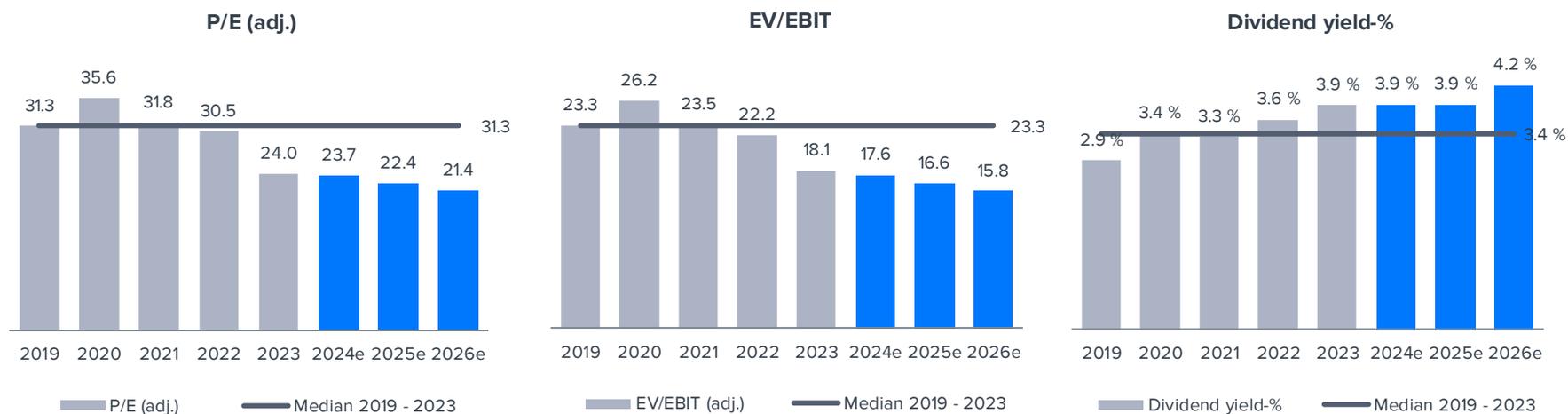
Valuation	2024e	2025e	2026e
Share price	46.3	46.3	46.3
Number of shares, millions	517.2	517.2	517.2
Market cap	23953	23953	23953
EV	23136	23015	22837
P/E (adj.)	23.7	22.4	21.4
P/E	23.7	22.4	21.4
P/B	8.4	8.0	7.5
P/S	2.1	2.1	2.0
EV/Sales	2.1	2.0	1.9
EV/EBITDA	14.5	13.8	13.1
EV/EBIT (adj.)	17.6	16.6	15.8
Payout ratio (%)	91.9 %	87.0 %	90.0 %
Dividend yield-%	3.9 %	3.9 %	4.2 %

Source: Inderes

Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	58.3	66.5	63.0	48.3	45.2	46.3	46.3	46.3	46.3
Number of shares, millions	518.4	518.4	518.0	517.1	517.2	517.2	517.2	517.2	517.2
Market cap	30212	34452	32652	24975	23358	23953	23953	23953	23953
EV	28828	32722	30724	23908	22611	23136	23015	22837	22685
P/E (adj.)	31.3	35.6	31.8	30.5	24.0	23.7	22.4	21.4	20.3
P/E	32.4	36.7	32.2	32.2	25.2	23.7	22.4	21.4	20.3
P/B	9.5	10.9	10.3	8.8	8.5	8.4	8.0	7.5	7.1
P/S	3.0	3.5	3.1	2.3	2.1	2.1	2.1	2.0	1.9
EV/Sales	2.9	3.3	2.9	2.2	2.1	2.1	2.0	1.9	1.8
EV/EBITDA	20.1	22.5	20.0	18.5	15.4	14.5	13.8	13.1	12.4
EV/EBIT (adj.)	23.3	26.2	23.5	22.2	18.1	17.6	16.6	15.8	14.9
Payout ratio (%)	94.5 %	124.1 %	107.1 %	116.7 %	97.7 %	91.9 %	87.0 %	90.0 %	90.0 %
Dividend yield-%	2.9 %	3.4 %	3.3 %	3.6 %	3.9 %	3.9 %	3.9 %	4.2 %	4.4 %

Source: Inderes



Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	MEUR	MEUR	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e
Schindler Holding AG	23969	21434	15.4	14.3	12.5	11.7	1.7	1.7	23.2	21.5	2.2	2.4	4.4
Assa Abloy AB	28058	34014	16.1	15.0	13.4	12.5	2.6	2.5	20.2	18.0	2.0	2.2	3.0
Koninklijke Philips NV	19230	26236	14.3	12.0	8.7	7.8	1.4	1.3	14.7	12.2	4.2	4.5	1.5
Otis Worldwide Corp	33391	38704	17.4	16.3	16.3	15.2	2.9	2.8	23.0	21.0	1.6	1.9	
Ingersoll Rand Inc	29551	30964	21.3	19.5	17.8	16.3	4.7	4.4	25.0	22.5	0.1	0.1	3.0
Johnson Controls International PLC	35502	43882	13.7	12.5	10.8	10.0	1.7	1.6	15.4	13.6	2.7	2.9	2.2
Gree Electric Appliances Inc of Zhuhai	24298	15957	4.1	3.8	3.4	3.2	0.6	0.5	6.4	5.9	7.5	8.5	1.5
Dover Corp	19309	21949	14.5	13.7	12.4	11.8	2.7	2.6	16.2	15.0	1.4	1.4	3.8
Honeywell International Inc	122469	133840	16.4	15.3	14.4	13.5	3.7	3.5	20.3	18.4	2.2	2.4	7.3
Lennox International Inc	14534	15769	18.5	16.7	17.0	15.5	3.3	3.1	22.4	20.1	1.0	1.0	26.1
Melco International Development Ltd	1044	7791	14.7	12.2	6.5	5.8	1.8	1.7	486.7	13.8	0.2	0.2	2.2
Kone (Inderes)	23953	23136	17.6	16.6	14.5	13.8	2.1	2.0	23.7	22.4	3.9	3.9	8.4
Average			15.1	13.8	12.1	11.2	2.5	2.3	61.2	16.5	2.3	2.5	5.5
Median			15.4	14.3	12.5	11.8	2.6	2.5	20.3	18.0	2.0	2.2	3.0
Diff-% to median			14%	16%	16%	17%	-20%	-20%	17%	24%	99%	81%	178%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	10907	10952	2411	2853	2855	3042	11162	11683	12121	12544
EBITDA	1291	1470	310	413	414	457	1594	1673	1745	1824
Depreciation	-259.3	-269.4	-70.3	-70.3	-70.3	-70.3	-281.0	-288.3	-296.9	-303.6
EBIT (excl. NRI)	1077	1248	240	343	344	387	1313	1385	1448	1520
EBIT	1031	1200	240	343	344	387	1313	1385	1448	1520
Net financial items	-2.7	6.1	2.0	2.0	2.0	2.0	8.0	11.0	15.5	20.6
PTP	1029	1206	242	345	346	389	1321	1396	1464	1541
Taxes	-244.0	-274.6	-55.6	-79.1	-79.4	-89.3	-303.4	-320.5	-336.1	-353.9
Minority interest	-10.0	-5.8	-1.0	-1.5	-1.5	-2.3	-6.3	-6.6	-6.6	-6.6
Net earnings	775	926	185	264	265	297	1012	1069	1121	1181
EPS (adj.)	1.586	1.883	0.359	0.510	0.512	0.575	1.956	2.066	2.167	2.283
EPS (rep.)	1.498	1.790	0.359	0.510	0.512	0.575	1.956	2.066	2.167	2.283

Key figures	2022	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	3.7 %	0.4 %	-5.7 %	0.6 %	3.8 %	8.3 %	1.9 %	4.7 %	3.8 %	3.5 %
Adjusted EBIT growth-%	-17.8 %	16.0 %	-0.8 %	3.2 %	8.8 %	7.9 %	5.2 %	5.4 %	4.6 %	5.0 %
EBITDA-%	11.8 %	13.4 %	12.9 %	14.5 %	14.5 %	15.0 %	14.3 %	14.3 %	14.4 %	14.5 %
Adjusted EBIT-%	9.9 %	11.4 %	10.0 %	12.0 %	12.0 %	12.7 %	11.8 %	11.9 %	11.9 %	12.1 %
Net earnings-%	7.1 %	8.5 %	7.7 %	9.3 %	9.3 %	9.8 %	9.1 %	9.1 %	9.2 %	9.4 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	2899	3085	3099	3126	3147
Goodwill	1415	1469	1469	1469	1469
Intangible assets	208	287	289	283	276
Tangible assets	717	780	791	825	852
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	124	101	101	101	101
Other non-current assets	10.0	9.2	9.2	9.2	9.2
Deferred tax assets	425	439	439	439	439
Current assets	6191	5645	5754	6022	6248
Inventories	844	821	837	876	908
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	3377	3127	3187	3335	3461
Cash and equivalents	1970	1698	1730	1811	1879
Balance sheet total	9090	8731	8852	9148	9395

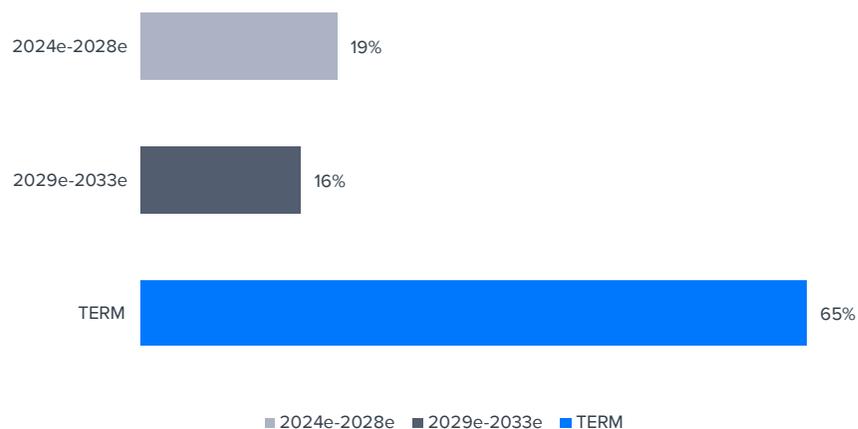
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	2867	2786	2897	3039	3233
Share capital	66.2	66.2	66.2	66.2	66.2
Retained earnings	2184	2387	2494	2633	2824
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	586	299	299	299	299
Minorities	29.9	33.9	37.0	40.3	43.6
Non-current liabilities	949	993	943	899	803
Deferred tax liabilities	214	224	224	224	224
Provisions	177	197	197	197	197
Interest bearing debt	558	572	522	478	382
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
Current liabilities	5275	4952	5013	5210	5359
Interest bearing debt	104	113	103	94.1	75.1
Payables	5171	4840	4910	5116	5283
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	9090	8731	8852	9148	9395

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	0.4 %	1.9 %	4.7 %	3.8 %	3.5 %	3.5 %	3.5 %	3.5 %	3.7 %	3.7 %	2.5 %	2.5 %
EBIT-%	11.0 %	11.8 %	11.9 %	11.9 %	12.1 %	12.1 %	12.0 %	11.5 %	11.5 %	11.5 %	11.5 %	11.5 %
EBIT (operating profit)	1200	1313	1385	1448	1520	1564	1609	1598	1657	1718	1761	
+ Depreciation	269	281	288	297	304	310	318	326	335	345	355	
- Paid taxes	-278.2	-303.4	-320.5	-336.1	-353.9	-364.9	-376.0	-374.2	-388.5	-403.5	-414.3	
- Tax, financial expenses	-8.9	-6.8	-6.4	-5.7	-4.9	-4.3	-3.7	-3.4	-3.1	-2.6	-2.0	
+ Tax, financial income	10.3	8.7	8.9	9.3	9.7	10.0	10.3	10.7	11.1	11.5	11.9	
- Change in working capital	-58.4	-5.2	18.0	9.7	6.8	6.1	5.3	4.4	5.9	5.0	23.7	
Operating cash flow	1134	1288	1373	1422	1482	1521	1563	1562	1617	1674	1736	
+ Change in other long-term liabilities	19.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-442.0	-294.4	-315.4	-317.7	-326.3	-336.5	-346.9	-357.5	-370.8	-382.8	-389.2	
Free operating cash flow	712	993	1058	1105	1155	1185	1216	1204	1247	1291	1347	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	712	993	1058	1105	1155	1185	1216	1204	1247	1291	1347	30074
Discounted FCFF		932	927	904	883	846	810	749	724	701	682	15241
Sum of FCFF present value		23397	22465	21538	20634	19751	18905	18095	17345	16621	15921	15238
Enterprise value DCF		23397										
- Interest bearing debt		-684.2										
+ Cash and cash equivalents		1698										
-Minorities		-310.2										
-Dividend/capital return		-904.1										
Equity value DCF		23217										
Equity value DCF per share		44.9										

Cash flow distribution



WACC

Tax-% (WACC)	23.5 %
Target debt ratio (D/(D+E))	3.0 %
Cost of debt	2.5 %
Equity Beta	1.00
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	7.3 %
Weighted average cost of capital (WACC)	7.1 %

Source: Inderes

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	10514.1	10906.7	10952.3	11162.4	11682.7	EPS (reported)	1.96	1.50	1.79	1.96	2.07
EBITDA	1539.3	1290.5	1469.5	1594.3	1673.1	EPS (adj.)	1.98	1.59	1.88	1.96	2.07
EBIT	1295.3	1031.2	1200.1	1313.3	1384.8	OCF / share	3.02	0.86	2.19	2.49	2.65
PTP	1320.8	1028.5	1206.2	1321.3	1395.9	FCF / share	2.34	0.51	1.38	1.92	2.04
Net Income	1014.2	774.5	925.8	1011.6	1068.7	Book value / share	6.13	5.49	5.32	5.53	5.80
Extraordinary items	-14.5	-45.4	-48.3	0.0	0.0	Dividend / share	2.10	1.75	1.75	1.80	1.80
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	9720.4	9090.4	8730.8	8852.5	9147.8	Revenue growth-%	6%	4%	0%	2%	5%
Equity capital	3199.2	2866.5	2786.0	2896.7	3038.8	EBITDA growth-%	6%	-16%	14%	8%	5%
Goodwill	1405.2	1414.7	1469.0	1469.0	1469.0	EBIT (adj.) growth-%	5%	-18%	16%	5%	5%
Net debt	-2164.1	-1309.0	-1013.4	-1105.5	-1238.4	EPS (adj.) growth-%	6%	-20%	19%	4%	6%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	14.6 %	11.8 %	13.4 %	14.3 %	14.3 %
EBITDA	1539.3	1290.5	1469.5	1594.3	1673.1	EBIT (adj.)-%	12.5 %	9.9 %	11.4 %	11.8 %	11.9 %
Change in working capital	364.0	-559.8	-58.4	-5.2	18.0	EBIT-%	12.3 %	9.5 %	11.0 %	11.8 %	11.9 %
Operating cash flow	1563.0	443.4	1134.3	1287.5	1373.1	ROE-%	31.9 %	25.8 %	33.1 %	36.1 %	36.5 %
CAPEX	-349.3	-204.3	-442.0	-294.4	-315.4	ROI-%	34.6 %	28.4 %	35.4 %	38.6 %	39.9 %
Free cash flow	1211.3	264.2	711.8	993.1	1057.7	Equity ratio	41.2 %	40.3 %	40.9 %	42.4 %	43.4 %
Valuation multiples	2021	2022	2023	2024e	2025e	Gearing	-67.6 %	-45.7 %	-36.4 %	-38.2 %	-40.8 %
EV/S	2.9	2.2	2.1	2.1	2.0						
EV/EBITDA (adj.)	20.0	18.5	15.4	14.5	13.8						
EV/EBIT (adj.)	23.5	22.2	18.1	17.6	16.6						
P/E (adj.)	31.8	30.5	24.0	23.7	22.4						
P/B	10.3	8.8	8.5	8.4	8.0						
Dividend-%	3.3 %	3.6 %	3.9 %	3.9 %	3.9 %						

Source: Inderes

ESG

Low taxonomy eligibility

KONE's taxonomy eligibility percentages are low. Most of the company's business (manufacture, maintenance and modernization of elevators and escalators) is not included in taxonomy, as the elevator and escalator industry is not among high emission industries. Of revenue, the manufacture, installation, maintenance and repair of sliding doors, turning doors, revolving doors, turnstiles, rolling doors, express roll-up doors, and tilt-up doors, as well as the manufacture, installation, maintenance and repair of elevators with regenerative machinery are taxonomy eligible. Overall, KONE emphasizes its support for transition to more sustainable urban environments and buildings by offering energy-efficient and innovative solutions and using healthy and sustainable materials. The company has also set ambitious targets for 2030 to reduce greenhouse gas emissions.

Relatively low business risk from a taxonomy regulation perspective

As the proportion of elevators in the total energy consumption in buildings is surprisingly low, we do not believe that the tightening of energy or emissions regulations in the industry poses a significant risk to KONE's business. For the same reason, we do not believe that an increase in the taxonomy percentage is in the interests of either the legislator or operators in the elevator industry.

No significant economic impact so far

We do not yet see, nor do we expect, that taxonomy will have significant economic impact, such as, e.g., significantly lower financing costs.

Scope 1 and scope 2 targets realistic

KONE's climate targets set in 2020 are in line with the 1.5 °C warming scenario. In 2022, in total 85% of the company's scope 1 and scope 2 emissions consisted of emissions from the company's maintenance vehicle fleet and the remaining 15% of emissions from the company's premises. KONE's target by 2030 is a 50% reduction in Scope 1 and Scope 2 emissions compared to the reference year 2018. In addition, the company aims at a 40% reduction in the emissions of materials and energy consumption throughout the life cycle of ordered products (scope 3) in 2030 compared to 2018. We consider the company's Scope 1 and Scope 2 targets realistic, considering, e.g., the ongoing electrification of the maintenance vehicle fleet in the current decade. By contrast, we consider the reduction objective for Scope 3 emissions to be challenging, as it requires a lot of new innovations and investments, as well as energy consumption of elevators remaining at a high level in customer preferences. In 2022, KONE's Scope 3 emissions were 4% lower than in 2018.

Taxonomy eligibility	2022*	2023
Revenue	15 %	
OPEX	0 %	
CAPEX	27 %	

Taxonomy alignmen	2022*	2023
Revenue	14 %	
OPEX	0 %	
CAPEX	0 %	

Climate

Climate target	Yes
Target according to Paris agreement (1.5°C warming scenario)	Yes

*the figures are not comparable due to taxonomy development

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Buy The 12-month risk-adjusted expected shareholder

return of the share is very attractive

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

The assessment of the 12-month risk-adjusted expected total shareholder return based on the above-mentioned definitions is company-specific and subjective. Consequently, similar 12-month expected total shareholder returns between different shares may result in different recommendations, and the recommendations and 12-month expected total shareholder returns between different shares should not be compared with each other. The counterpart of the expected total shareholder return is Inderes' view of the risk taken by the investor, which varies considerably between companies and scenarios. Thus, a high expected total shareholder return does not necessarily lead to positive performance when the risks are exceptionally high and, correspondingly, a low expected total shareholder return does not necessarily lead to a negative recommendation if Inderes considers the risks to be moderate.

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
7/20/2018	Reduce	43.00 €	47.30 €
10/26/2018	Reduce	42.00 €	40.60 €
1/25/2019	Reduce	40.00 €	42.73 €
4/29/2019	Sell	41.00 €	48.90 €
7/19/2019	Sell	41.00 €	51.12 €
10/24/2019	Sell	42.00 €	54.18 €
1/29/2020	Sell	45.00 €	61.02 €
3/24/2020	Sell	42.00 €	46.90 €
4/23/2020	Sell	46.00 €	55.00 €
7/20/2020	Sell	48.00 €	64.28 €
9/23/2020	Sell	61.00 €	73.38 €
10/23/2020	Sell	61.00 €	71.26 €
1/29/2021	Sell	61.00 €	67.08 €
4/30/2021	Sell	61.00 €	66.12 €
7/21/2021	Sell	61.00 €	70.82 €
11/1/2021	Reduce	59.00 €	58.72 €
2/3/2022	Reduce	57.00 €	56.80 €
5/2/2022	Accumulate	51.00 €	46.09 €
7/15/2022	Accumulate	51.00 €	45.85 €
7/22/2022	Accumulate	51.00 €	44.38 €
8/31/2022	Reduce	44.00 €	40.89 €
10/17/2022	Reduce	41.50 €	39.09 €
1/27/2023	Reduce	46.00 €	52.48 €
4/28/2023	Reduce	47.50 €	51.98 €
7/21/2023	Reduce	47.50 €	45.47 €
10/26/2023	Reduce	42.00 €	39.50 €
1/24/2024	Reduce	42.00 €	43.14 €
1/28/2024	Reduce	43.00 €	46.31 €



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