

# Wärtsilä

## Company report

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# Turning into tailwinds

Wärtsilä's Q4 figures went against expectations, but were good overall. The company raised its 2024 market outlook for the Marine business and management comments were positive. We reiterate our Accumulate recommendation on the stock and raise our target price to EUR 15.00 (previous EUR 13.50).

## Mostly clean Q4 figures

Wärtsilä's Q4 order intake (+13% y/y) exceeded both our and consensus expectations. The order book was also up 13% year-on-year and the delivery volume for this year is 9% higher than a year ago, providing a good basis for growth. The group's revenue was weighed down by Energy (-16% y/y), where equipment revenue in particular declined unexpectedly. At group level, the percentage of services revenue increased to 51% (Q4'22: 44%). The adjusted EBIT margin for Q4 exceeded expectations despite the lower revenue. In addition, profitability was burdened by a -19 MEUR cost provision in Marine Systems for a single turnkey project in Gas Solutions. Excluding this item, the group's adjusted EBIT margin would have been 11.9%, which is a very healthy figure. Between adjusted and reported EBIT there was a surprising one-off item of -49 MEUR, mainly related to staff reductions. The dividend proposal (EUR 0.32) was also disappointing. However, the operating cash flow in Q4 was very strong at 405 MEUR, thanks to a reduction in net working capital. As a result, the net debt/EBITDA ratio also fell to a very low level of 0.1x.

## Better demand outlook creates confidence in 2024 forecasts

Wärtsilä has raised its market outlook for the Marine business, expecting the demand environment in 2024 to be better than in the comparison period (previously similar). In Energy, the outlook is unchanged, meaning that the demand environment is expected to be better than in the comparison period. In Marine, demand is expected to improve for both services and equipment. The demand outlook is particularly good for offshore and cruise ships. Vessel demand is also likely to be boosted by shorter delivery times as shipyards in China, South Korea and Japan increase their capacity. In Marine, service agreements already cover 29% of the total installed base and their annual revenue is now around 490 MEUR (+20% y/y). In Energy, Wärtsilä has a strong sales pipeline in smaller power plants in Indonesia and elsewhere in Southeast Asia, the Middle East and Latin America. The sales pipeline in the storage business is also good. Due to the challenges in forecasting Wärtsilä's equipment sales, we have slightly lowered our revenue estimates for 2024. However, growth expectations are still strong (18% y/y) and are based on growing equipment sales (23% y/y) after a sluggish 2023 (-7% y/y). Our expectation for the adjusted EBIT margin improvement in 2024 remains unchanged (9.4% vs. 8.3% in 2023), supported by volume growth, the removal of low-margin projects from the agenda and good growth in high-margin service contracts.

## Valuation not yet overwhelming

We anticipate that the news flow around Wärtsilä will remain positive this year. Based on P/E and EV/EBIT based calculations for 2024–2025, the total expected return on the stock averages 12 %, which is above the required return of around 9%. Thus, the share's risk-adjusted expected return remains attractive. The share's P/E and EV/EBIT ratios for 2024–2025 are 15–26% below the peer group median. Peer group pricing is therefore favorable. Our DCF model indicates an upside potential of around 12% for the share.

## Recommendation

**Accumulate**  
(previous Accumulate)

**EUR 15.00**  
(previous EUR 13.50)

**Share price:**  
EUR 13.70



## Key figures

	2023	2024e	2025e	2026e
<b>Revenue</b>	6015	7114	7619	7974
<b>growth-%</b>	3%	18%	7%	5%
<b>EBIT adj.</b>	497	670	754	814
<b>EBIT-% adj.</b>	8.3 %	9.4 %	9.9 %	10.2 %
<b>Net Income</b>	258	447	508	556
<b>EPS (adj.)</b>	0.56	0.78	0.89	0.97

<b>P/E (adj.)</b>	23.6	17.5	15.4	14.1
<b>P/B</b>	3.5	3.2	2.9	2.7
<b>Dividend yield-%</b>	2.4 %	2.9 %	3.6 %	4.4 %
<b>EV/EBIT (adj.)</b>	15.7	12.4	10.8	9.7
<b>EV/EBITDA</b>	13.1	9.7	8.4	7.6
<b>EV/S</b>	1.3	1.2	1.1	1.0

Source: Inderes

## Guidance

(Improved)

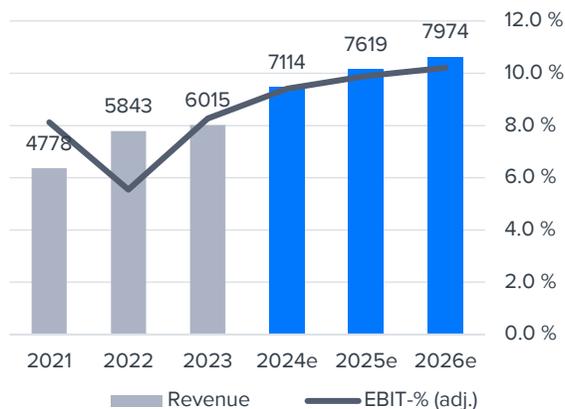
Wärtsilä expects the demand environment for both its marine (Wärtsilä Marine) and energy (Wärtsilä Energy) businesses to be better in the next 12 months (Q1/2024–Q4/2024) than in the comparison period.

## Share price



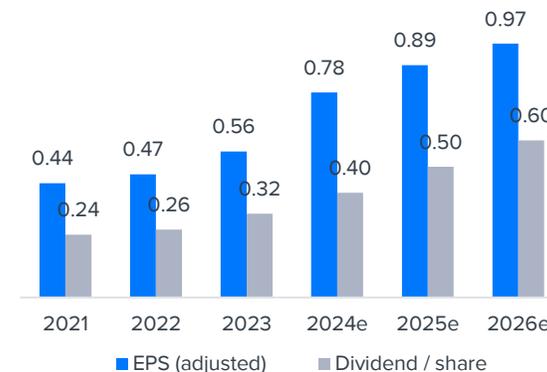
Source: Millistream Market Data AB

## Revenue and EBIT-%



Source: Inderes

## EPS and dividend



Source: Inderes



## Value drivers

- Strong position in the selected segments
- Extensive installed equipment portfolio and significant share of services business
- Progress in high value-added services
- Profitability of energy storage solutions turns positive



## Risk factors

- Cyclicity of shipbuilding
- Uncertainty about the winning renewable energy production forms
- Energy's deliveries focusing on storage solutions depress margins
- The strategic position of energy storage solutions is uncertain

Valuation	2024e	2025e	2026e
Share price	13.7	13.7	13.7
Number of shares, million:	589.0	589.0	589.0
Market cap	8070	8070	8070
EV	8318	8116	7886
P/E (adj.)	17.5	15.4	14.1
P/E	18.1	15.9	14.5
P/B	3.2	2.9	2.7
P/S	1.1	1.1	1.0
EV/Sales	1.2	1.1	1.0
EV/EBITDA	9.7	8.4	7.6
EV/EBIT (adj.)	12.4	10.8	9.7
Payout ratio (%)	52.8 %	58.0 %	63.5 %
Dividend yield-%	2.9 %	3.6 %	4.4 %

Source: Inderes

# Mostly clean Q4 figures

## Good Q4 figures overall

Wärtsilä's Q4 figures went against expectations, but were good overall.

## Orders continue to grow

Wärtsilä's Q4 order intake (1,856 MEUR; +13% y/y) exceeded both our (1,798 MEUR) and consensus expectations (1,804 MEUR). Orders grew organically by 21% year-on-year, the difference resulting from currencies and acquisitions. Orders exceeded expectations in Energy (+34% y/y) but fell short of forecasts in Marine systems (+5% y/y). On a 12-month rolling total, Q4'23 was the 11th consecutive quarter in which book-to-bill exceeded 1.0x. The order book (6,694 MEUR) grew by 13% year-on-year, of which 63% will be delivered in 2024. The delivery volume for this year is 9% higher than a year ago, providing a good basis for growth.

Order intake in the energy storage business amounted to 263 MEUR (1,099 MWh), an increase of 56% year-on-year. The figure was slightly below expectations as the price per MWh fell by as much as 38% year-on-year due to the fall in lithium prices. This is of little importance to Wärtsilä, as battery prices are indexed in system deliveries. Wärtsilä reports being the third largest storage system integrator in the market (source: S&P) and being particularly praised by customers for the consistency and uniformity of deliveries.

## Softness in revenue due to timing factors

The group's revenue fell short of expectations because of Energy (-16% y/y), where equipment revenue in particular declined unexpectedly. However, this was only a question of timing, which Wärtsilä had already given advance information about. At group level, equipment revenue decreased by 19% year-on-year, but service revenue grew by 8%

year-on-year. Services' share of revenue increased to 51% (Q4'22: 44%).

## Underlying profitability at a good level

The adjusted EBIT margin in Q4 exceeded expectations despite the lower revenue. In addition, profitability was burdened by a -19 MEUR cost provision in Marine Systems for a single turnkey project in Gas Solutions, which is already nearing completion. Excluding this item, the group's adjusted EBIT margin would have been 11.9%, which is a very healthy figure. Between adjusted and reported EBIT there was a surprising one-off item of -49 MEUR, mainly related to staff reductions. The dividend proposal (EUR 0.32) was also disappointing.

The operating cash flow in Q4 was very strong at +405 MEUR, thanks to a reduction in net working capital. As a result, the net debt/EBITDA ratio also fell to a very low level of 0.1x.

Estimates	Q4'22	Q4'23	Q4'23e	Q4'23e	Consensus		Difference (%)	2023
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Actualized
Revenue	1771	1644	1789	1729	1597	- 1800	-8%	6015
EBIT (adj.)	92	177	185	183	156	- 212	-5%	497
EBIT	35	128	180	169	106	- 208	-29%	402
PTP	33	121	171	177	129	- 229	-29%	364
EPS (adj.)	0.14	0.23	0.22	0.24	0.20	- 0.38	3%	0.56
EPS (reported)	0.04	0.16	0.21	0.23	0.18	- 0.30	-25%	0.44
DPS	0.26	0.32	0.40	0.35	0.28	- 0.46	-20%	0.32
Revenue growth-%	10.9 %	-7.2 %	1.0 %	-2.4 %	-9.8 %	- 1.6 %	-8.2 pp	2.9 %
EBIT-% (adj.)	5.2 %	10.8 %	10.4 %	10.6 %	9.8 %	- 11.8 %	0.4 pp	8.3 %

Source: Inderes & Vara Research (consensus)

# Better demand outlook creates confidence in 2024 forecasts

## More positive outlook comments

Wärtsilä raised its 2024 market outlook for the Marine business and management comments were positive. Our estimate changes are relatively minor.

## Improving demand activity in 2024

Wärtsilä has raised its market outlook for the Marine business, expecting the demand environment in 2024 to be better than in the comparison period (previously similar). In Energy, the outlook is unchanged, meaning that the demand environment is expected to remain better than in the comparison period. In Marine, demand is expected to improve for both services and equipment. The demand outlook is particularly good for offshore and cruise ships. Vessel demand is also likely to be boosted by shorter delivery times, because Chinese shipyards have increased their capacity by 8–10% and South Korean

and Japanese shipyards by 4% since 2020. The modernization market should also be very successful: according to Wärtsilä, 50,000 of the world's 100,000 largest vessels will need new emission-reducing technologies in the next 10–15 years, and this is Wärtsilä's core competence. In Marine, Wärtsilä highlights its service agreements that already cover 29% of the total installed base and whose annual revenue is now around 490 MEUR (+20% y/y).

In Energy, Wärtsilä has a strong sales pipeline in smaller power plants in Indonesia and elsewhere in Southeast Asia, the Middle East and Latin America. Although the sales pipeline in storage is also good, Wärtsilä emphasized that it is a project business, where the project sizes vary widely and where it can take years from first customer contact to project order.

## A tweak in revenue, margins continue to rise

Forecasting Wärtsilä's equipment sales on the basis of order intake alone is difficult in the short term due to long delivery times. We have therefore slightly lowered our revenue estimates for 2024, but the growth expectations remain strong (+18% y/y). This expectation is based in particular on growing equipment sales (23% y/y) after a sluggish 2023 (-7% y/y). Our expectation for the adjusted EBIT margin improvement in 2024 remains unchanged (9.4% vs. 8.3% in 2023), supported by 1) volume growth, 2) the removal of low-margin projects from the agenda in Gas Solutions and Energy, and 3) the good growth in high-margin service contracts. Although Wärtsilä reports that it is well on track towards its 12% EBIT margin target, our forecasts for the next few years do not see the company reaching the target (2025e: 9.9%; 2026e: 10.2%).

Estimate revisions	2023e	2023	Change	2024e	2024e	Change	2025e	2025e	Change
MEUR / EUR	Inderes	Actualized	%	Old	New	%	Old	New	%
Revenue	6160	6015	-2%	7394	7114	-4%	7646	7619	0%
EBITDA	636	595	-6%	878	858	-2%	957	971	1%
EBIT (exc. NRIs)	505	497	-2%	690	670	-3%	763	754	-1%
EBIT	454	402	-12%	670	650	-3%	743	734	-1%
PTP	415	365	-12%	638	632	-1%	714	719	1%
EPS (excl. NRIs)	0.55	0.56	1%	0.79	0.78	-1%	0.89	0.89	0%
DPS	0.40	0.32	-20%	0.50	0.40	-20%	0.70	0.50	-29%

Source: Inderes

# Valuation not yet overwhelming

## News flow remains positive and so does the recommendation

We continue to see many positive share price drivers for Wärtsilä: 1) a strong position in the recovering market for balancing power plants, which we expect to translate into good order intake in 2024; 2) continued robust market growth in storage systems, despite volatility; 3) an improved EBIT margin for the structural and strategic reasons outlined above; and 4) activity in M&A, facilitated by a very strong balance sheet. We anticipate that the news flow around the company will remain positive this year.

Although Wärtsilä's share has risen strongly in recent months (+22% since the Q3 report), we still see potential. This is due to falling interest rates, a virtually debt-free balance sheet, a lower risk profile following the completion of low-profit projects and the continued upside indicated by the various valuation methods. We reiterate our Accumulate recommendation and raise our target price to EUR 15.00 for the reasons above (was EUR 13.50). Even at the new target price, the stock would still be significantly discounted to its peers on 2024-2025 multiples.

## Risk-adjusted expected return is adequate

The total expected return on the share (the upside in the price determined by earnings growth and the change in valuation multiples plus the dividend yield) averages 12% based on the P/E and EV/EBIT based calculations for 2024–2025, above the required return of around 9%. Thus, the share's risk-adjusted expected return remains attractive.

## Multiples below peers

The share's P/E and EV/EBIT ratios for 2024–2025 (17x and 15x; 12x and 11x respectively) total 15–26% below the median of the peers. Therefore, peer group pricing remains favorable. The multiples are also well below the stock's own long-term historical levels.

## Limited DCF potential, but also moderate forecasts

Our DCF model indicates an upside potential of around 12% for the share. In addition, the company's cash flow profile in the model is backloaded (terminal period = 64% of value). However, this is offset by our conservative expectation for the terminal EBIT margin (8.5%), which can be compared to Wärtsilä's own strategic EBIT margin target of 12%.

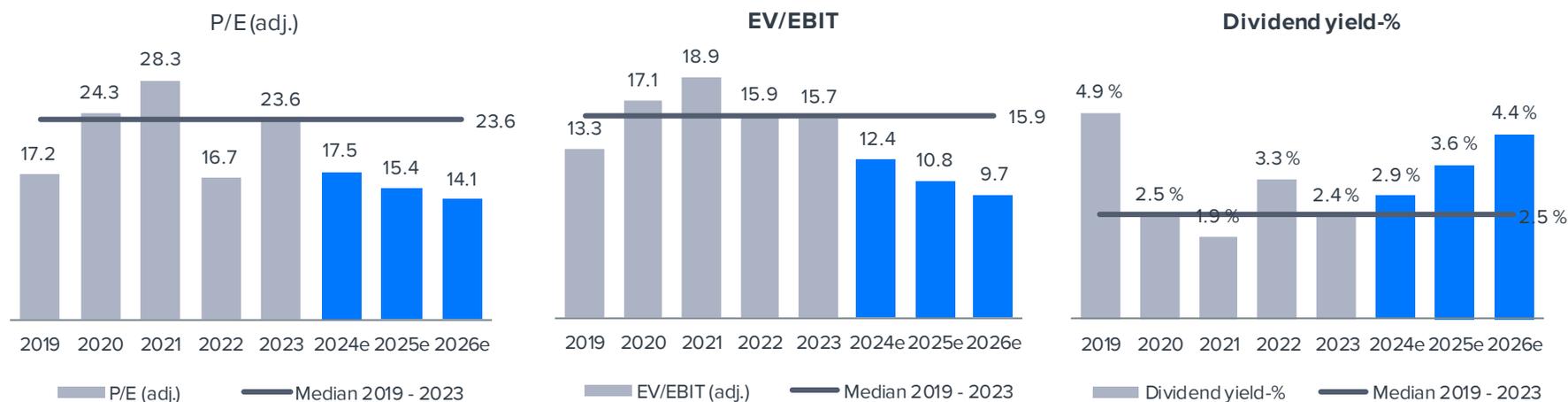
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P/E	18.1	15.9	14.5
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P/S	1.1	1.1	1.0
EV/Sales	1.2	1.1	1.0
EV/EBITDA	9.7	8.4	7.6
EV/EBIT (adj.)	12.4	10.8	9.7
Payout ratio (%)	52.8 %	58.0 %	63.5 %
Dividend yield-%	2.9 %	3.6 %	4.4 %

Source: Inderes

# Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	9.85	8.15	12.4	7.87	13.1	13.7	13.7	13.7	13.7
Number of shares, millions	591.7	591.7	590.0	590.0	589.0	589.0	589.0	589.0	589.0
Market cap	5828	4823	7293	4643	7734	8070	8070	8070	8070
EV	6601	5255	7326	5158	7804	8318	8116	7886	7699
P/E (adj.)	17.2	24.3	28.3	16.7	23.6	17.5	15.4	14.1	13.9
P/E	27.0	36.0	37.8	neg.	30.0	18.1	15.9	14.5	13.9
P/B	2.4	2.2	3.2	2.2	3.5	3.2	2.9	2.7	2.5
P/S	1.1	1.0	1.5	0.8	1.3	1.1	1.1	1.0	1.0
EV/Sales	1.3	1.1	1.5	0.9	1.3	1.2	1.1	1.0	0.9
EV/EBITDA	11.0	12.1	14.4	15.5	13.1	9.7	8.4	7.6	7.2
EV/EBIT (adj.)	13.3	17.1	18.9	15.9	15.7	12.4	10.8	9.7	9.4
Payout ratio (%)	131.5 %	88.3 %	73.4 %	neg.	73.1 %	52.8 %	58.0 %	63.5 %	66.0 %
Dividend yield-%	4.9 %	2.5 %	1.9 %	3.3 %	2.4 %	2.9 %	3.6 %	4.4 %	4.7 %

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
Metso Corp	7703	8490	10.7	10.0	9.0	8.5	1.6	1.6	13.4	12.5	3.9	4.2	2.7
Kone Oyj	24178	23065	17.0	15.8	14.1	13.3	2.1	2.0	22.4	20.6	4.2	4.3	8.1
Konecranes Abp	3179	3680	8.7	8.3	6.9	6.6	0.9	0.9	11.3	10.7	3.7	4.0	1.8
Siemens Energy AG	11158	10916		14.9	7.3	4.6	0.3	0.3	97.4	15.8		1.8	1.2
Abb Ltd	75053	77640	15.9	14.7	13.6	12.7	2.5	2.4	21.1	19.3	2.4	2.5	5.2
Alfa Laval AB	13787	14925	15.4	14.6	12.7	12.1	2.5	2.4	19.6	18.2	2.1	2.2	3.6
Alstom SA	4487	7123	10.1	7.2	5.3	4.4	0.4	0.4	8.5	6.6	2.7	3.3	0.5
Caterpillar Inc	143176	171409	14.0	13.8	12.6	12.2	2.8	2.7	14.9	14.2	1.8	1.9	6.6
General Electric Co	134519	134030	18.6	14.7	14.3	11.9	2.0	1.9	29.3	22.5	0.3	0.3	5.0
Rolls-Royce Holdings PLC	30214	33436	16.9	14.1	10.8	9.4	1.8	1.7	24.5	19.3	0.8	1.4	
Woodward Inc	7838	8368	20.4	18.8	16.0	14.7	2.8	2.7	26.9	23.7	0.7	0.7	3.8
<b>Wartsila (Inderes)</b>	<b>8070</b>	<b>8318</b>	<b>12.4</b>	<b>10.8</b>	<b>9.7</b>	<b>8.4</b>	<b>1.2</b>	<b>1.1</b>	<b>17.5</b>	<b>15.4</b>	<b>2.9</b>	<b>3.6</b>	<b>3.2</b>
<b>Average</b>			<b>14.7</b>	<b>13.3</b>	<b>11.1</b>	<b>10.0</b>	<b>1.8</b>	<b>1.7</b>	<b>26.3</b>	<b>16.7</b>	<b>2.2</b>	<b>2.4</b>	<b>3.8</b>
<b>Median</b>			<b>15.6</b>	<b>14.6</b>	<b>12.6</b>	<b>11.9</b>	<b>2.0</b>	<b>1.9</b>	<b>21.1</b>	<b>18.2</b>	<b>2.2</b>	<b>2.2</b>	<b>3.7</b>
<b>Diff-% to median</b>			<b>-20%</b>	<b>-26%</b>	<b>-23%</b>	<b>-30%</b>	<b>-42%</b>	<b>-43%</b>	<b>-17%</b>	<b>-15%</b>	<b>31%</b>	<b>64%</b>	<b>-11%</b>

Source: Refinitiv / Inderes

# Income statement

Income statement	2022	2023	Q1'24e	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
<b>Revenue</b>	<b>5843</b>	<b>6015</b>	<b>1612</b>	<b>1766</b>	<b>1699</b>	<b>2036</b>	<b>7114</b>	<b>7619</b>	<b>7974</b>	<b>8336</b>
Marine	2758	3031	814	870	826	940	3450	3770	3852	4039
Energy	2721	2610	710	805	782	991	3288	3492	3782	3974
Portfolio Business	364	374	88	92	91	105	376	358	340	323
<b>EBITDA</b>	<b>236</b>	<b>595</b>	<b>180</b>	<b>212</b>	<b>193</b>	<b>273</b>	<b>858</b>	<b>971</b>	<b>1040</b>	<b>1062</b>
Depreciation	-263	-193	-52	-52	-52	-52	-208	-237	-246	-242
<b>EBIT (excl. NRI)</b>	<b>324</b>	<b>497</b>	<b>132</b>	<b>165</b>	<b>146</b>	<b>226</b>	<b>670</b>	<b>754</b>	<b>814</b>	<b>821</b>
<b>EBIT</b>	<b>-27</b>	<b>402</b>	<b>127</b>	<b>160</b>	<b>141</b>	<b>221</b>	<b>650</b>	<b>734</b>	<b>794</b>	<b>821</b>
Marine	-56	228	72	77	70	127	346	376	395	395
Energy	82	209	51	78	68	99	296	348	390	416
Portfolio Business	-52	-35	5	5	3	-5	8	10	10	10
Net financial items	-7	-37	-5	-5	-5	-5	-18	-15	-7	0
<b>PTP</b>	<b>-34</b>	<b>365</b>	<b>123</b>	<b>156</b>	<b>136</b>	<b>217</b>	<b>632</b>	<b>719</b>	<b>787</b>	<b>821</b>
Taxes	-27	-95	-32	-41	-35	-56	-164	-187	-205	-213
Minority interest	-6	-12	-3	-5	-5	-8	-21	-24	-26	-27
<b>Net earnings</b>	<b>-67</b>	<b>258</b>	<b>88</b>	<b>110</b>	<b>96</b>	<b>152</b>	<b>447</b>	<b>508</b>	<b>556</b>	<b>580</b>
<b>EPS (adj.)</b>	<b>0.47</b>	<b>0.56</b>	<b>0.16</b>	<b>0.19</b>	<b>0.17</b>	<b>0.26</b>	<b>0.78</b>	<b>0.89</b>	<b>0.97</b>	<b>0.98</b>
<b>EPS (rep.)</b>	<b>-0.11</b>	<b>0.44</b>	<b>0.15</b>	<b>0.19</b>	<b>0.16</b>	<b>0.26</b>	<b>0.76</b>	<b>0.86</b>	<b>0.94</b>	<b>0.98</b>
<b>Key figures</b>	<b>2022</b>	<b>2023</b>	<b>Q1'24e</b>	<b>Q2'24e</b>	<b>Q3'24e</b>	<b>Q4'24e</b>	<b>2024e</b>	<b>2025e</b>	<b>2026e</b>	<b>2027e</b>
<b>Revenue growth-%</b>	22.3 %	2.9 %	10.1 %	21.5 %	17.0 %	23.9 %	18.3 %	7.1 %	4.7 %	4.5 %
<b>Adjusted EBIT growth-%</b>	-16.5 %	53.4 %	50.6 %	54.6 %	16.6 %	27.8 %	34.8 %	12.6 %	8.0 %	0.7 %
<b>EBITDA-%</b>	4.0 %	9.9 %	11.1 %	12.0 %	11.3 %	13.4 %	12.1 %	12.7 %	13.0 %	12.7 %
<b>Adjusted EBIT-%</b>	5.5 %	8.3 %	8.2 %	9.4 %	8.6 %	11.1 %	9.4 %	9.9 %	10.2 %	9.8 %
<b>Net earnings-%</b>	-1.1 %	4.3 %	5.5 %	6.2 %	5.6 %	7.5 %	6.3 %	6.7 %	7.0 %	7.0 %

Source: Inderes

# Balance sheet

Assets	2022	2023	2024e	2025e	2026e
<b>Non-current assets</b>	<b>2559</b>	<b>2553</b>	<b>2668</b>	<b>2691</b>	<b>2689</b>
Goodwill	1288	1273	1273	1273	1273
Intangible assets	392	402	433	430	418
Tangible assets	562	562	646	672	682
Associated companies	29	33	33	33	33
Other investments	19	19	19	19	19
Other non-current assets	72	52	52	52	52
Deferred tax assets	197	212	212	212	212
<b>Current assets</b>	<b>4049</b>	<b>4250</b>	<b>4731</b>	<b>5067</b>	<b>5302</b>
Inventories	1361	1485	1707	1829	1914
Other current assets	54	5	0	0	0
Receivables	2173	1943	2490	2667	2791
Cash and equivalents	461	817	534	571	598
<b>Balance sheet total</b>	<b>6608</b>	<b>6803</b>	<b>7399</b>	<b>7758</b>	<b>7991</b>

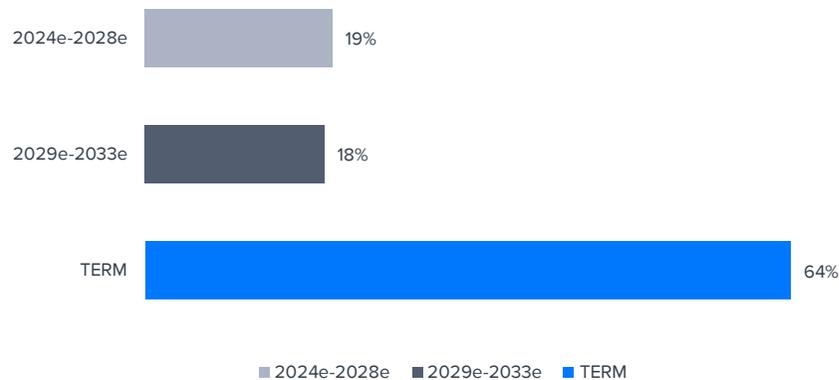
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
<b>Equity</b>	<b>2148</b>	<b>2233</b>	<b>2491</b>	<b>2764</b>	<b>3025</b>
Share capital	336	336	336	336	336
Retained earnings	1891	1989	2247	2520	2781
Hybrid bonds	0	0	0	0	0
Revaluation reserve	61	61	61	61	61
Other equity	-152	-161	-161	-161	-161
Minorities	12	8	8	8	8
<b>Non-current liabilities</b>	<b>1355</b>	<b>1405</b>	<b>1271</b>	<b>1142</b>	<b>981</b>
Deferred tax liabilities	65.0	69.0	69.0	69.0	69.0
Provisions	396	372	372	372	372
Interest bearing debt	740	739	605	476	315
Convertibles	0	0	0	0	0
Other long term liabilities	154	225	225	225	225
<b>Current liabilities</b>	<b>3105</b>	<b>3165</b>	<b>3637</b>	<b>3852</b>	<b>3985</b>
Interest bearing debt	209	120	151	119	78
Payables	2874	3045	3486	3733	3907
Other current liabilities	22	0	0	0	0
<b>Balance sheet total</b>	<b>6608</b>	<b>6803</b>	<b>7399</b>	<b>7758</b>	<b>7991</b>

# DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	2.9 %	18.3 %	7.1 %	4.7 %	4.5 %	4.2 %	3.9 %	3.5 %	3.2 %	2.8 %	2.5 %	2.5 %
EBIT-%	6.7 %	9.1 %	9.6 %	10.0 %	9.8 %	9.6 %	9.4 %	9.2 %	8.9 %	8.7 %	8.5 %	8.5 %
<b>EBIT (operating profit)</b>	<b>402</b>	<b>650</b>	<b>734</b>	<b>794</b>	<b>821</b>	<b>836</b>	<b>848</b>	<b>857</b>	<b>862</b>	<b>865</b>	<b>863</b>	
+ Depreciation	193	208	237	246	242	233	236	238	241	249	256	
- Paid taxes	-106	-164	-187	-205	-213	-219	-222	-224	-225	-225	-224	
- Tax, financial expenses	-12	-8	-7	-5	-3	-2	-1	-2	-2	-3	-4	
+ Tax, financial income	2	4	3	3	3	3	3	3	3	3	4	
- Change in working capital	304	-323	-50	-35	-36	-35	-34	-32	-30	-27	-25	
<b>Operating cash flow</b>	<b>783</b>	<b>366</b>	<b>729</b>	<b>798</b>	<b>813</b>	<b>817</b>	<b>830</b>	<b>840</b>	<b>850</b>	<b>861</b>	<b>870</b>	
+ Change in other long-term liabilities	47	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-168	-323	-260	-244	-246	-245	-244	-253	-277	-282	-286	
<b>Free operating cash flow</b>	<b>662</b>	<b>43</b>	<b>470</b>	<b>554</b>	<b>566</b>	<b>571</b>	<b>586</b>	<b>587</b>	<b>572</b>	<b>579</b>	<b>584</b>	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	662	43	470	554	566	571	586	587	572	579	584	12072
<b>Discounted FCFF</b>	<b>40</b>	<b>409</b>	<b>449</b>	<b>427</b>	<b>401</b>	<b>383</b>	<b>357</b>	<b>324</b>	<b>305</b>	<b>286</b>	<b>5915</b>	
Sum of FCFF present value		9297	9257	8847	8398	7971	7570	7187	6830	6505	6201	5915
<b>Enterprise value DCF</b>		<b>9297</b>										
- Interest bearing debt		-859										
+ Cash and cash equivalents		817										
-Minorities		-26										
-Dividend/capital return		-188										
<b>Equity value DCF</b>		<b>9040</b>										
<b>Equity value DCF per share</b>		<b>15.3</b>										

Cash flow distribution



WACC	
Tax-% (WACC)	26.0 %
Target debt ratio (D/(D+E))	20.0 %
Cost of debt	3.5 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
<b>Cost of equity</b>	<b>8.7 %</b>
<b>Weighted average cost of capital (WACC)</b>	<b>7.5 %</b>

Source: Inderes

# Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	4778.0	5843.0	6015.0	<b>7114.4</b>	<b>7619.2</b>	EPS (reported)	0.33	-0.11	0.44	<b>0.76</b>	<b>0.86</b>
EBITDA	476.0	236.0	595.0	<b>858.1</b>	<b>970.8</b>	EPS (adj.)	0.44	0.47	0.56	<b>0.78</b>	<b>0.89</b>
EBIT	314.0	-27.0	402.0	<b>649.9</b>	<b>734.1</b>	OCF / share	1.35	-0.30	1.33	<b>0.62</b>	<b>1.24</b>
PTP	296.0	-34.0	365.0	<b>631.9</b>	<b>718.8</b>	FCF / share	0.80	-0.61	1.12	<b>0.07</b>	<b>0.80</b>
Net Income	193.0	-67.0	258.0	<b>446.6</b>	<b>508.0</b>	Book value / share	3.92	3.62	3.78	<b>4.22</b>	<b>4.68</b>
Extraordinary items	-74.0	-351.0	-95.0	<b>-20.0</b>	<b>-20.0</b>	Dividend / share	0.24	0.26	0.32	<b>0.40</b>	<b>0.50</b>
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	6523.0	6608.0	6803.0	<b>7399.1</b>	<b>7757.6</b>	Revenue growth-%	4%	22%	3%	<b>18%</b>	<b>7%</b>
Equity capital	2323.0	2148.0	2233.0	<b>2491.1</b>	<b>2763.5</b>	EBITDA growth-%	17%	-50%	152%	<b>44%</b>	<b>13%</b>
Goodwill	1374.0	1288.0	1273.0	<b>1273.0</b>	<b>1273.0</b>	EBIT (adj.) growth-%	26%	-16%	53%	<b>35%</b>	<b>13%</b>
Net debt	8.0	488.0	42.0	<b>222.3</b>	<b>23.2</b>	EPS (adj.) growth-%	30%	8%	18%	<b>41%</b>	<b>13%</b>
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	10.0 %	4.0 %	9.9 %	<b>12.1 %</b>	<b>12.7 %</b>
EBITDA	476.0	236.0	595.0	<b>858.1</b>	<b>970.8</b>	EBIT (adj.)-%	8.1 %	5.5 %	8.3 %	<b>9.4 %</b>	<b>9.9 %</b>
Change in working capital	424.0	-357.0	304.0	<b>-323.4</b>	<b>-50.5</b>	EBIT-%	6.6 %	-0.5 %	6.7 %	<b>9.1 %</b>	<b>9.6 %</b>
Operating cash flow	795.7	-179.8	783.4	<b>365.7</b>	<b>729.5</b>	ROE-%	8.6 %	-3.0 %	11.8 %	<b>19.0 %</b>	<b>19.4 %</b>
CAPEX	-286.0	-251.0	-168.0	<b>-323.2</b>	<b>-259.6</b>	ROI-%	9.5 %	0.1 %	13.2 %	<b>20.9 %</b>	<b>22.6 %</b>
Free cash flow	472.7	-358.8	662.4	<b>42.5</b>	<b>469.9</b>	Equity ratio	38.6 %	35.8 %	36.2 %	<b>37.4 %</b>	<b>39.7 %</b>
						Gearing	0.3 %	22.7 %	1.9 %	<b>8.9 %</b>	<b>0.8 %</b>
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	1.5	0.9	1.3	<b>1.2</b>	<b>1.1</b>						
EV/EBITDA (adj.)	14.4	15.5	13.1	<b>9.7</b>	<b>8.4</b>						
EV/EBIT (adj.)	18.9	15.9	15.7	<b>12.4</b>	<b>10.8</b>						
P/E (adj.)	28.3	16.7	23.6	<b>17.5</b>	<b>15.4</b>						
P/B	3.2	2.2	3.5	<b>3.2</b>	<b>2.9</b>						
Dividend-%	1.9 %	3.3 %	2.4 %	<b>2.9 %</b>	<b>3.6 %</b>						

Source: Inderes

# ESG

## Taxonomy eligibility percentages stay low

Wärtsilä's low taxonomy eligibility percentages for revenue and operating costs reflect the fact that the service businesses (over 50% of Wärtsilä's revenue) are not taxonomy-eligible according to Wärtsilä's interpretation. Maritime systems that support the reduction of Wärtsilä's emissions are excluded from taxonomy, as taxonomy only includes ship manufacturing. In the energy business, finished engines for carbon-neutral fuels that also run on natural gas or other fossil fuels are also excluded from taxonomy. On the other hand, the higher taxonomy percentage of investments indicates Wärtsilä's investments in technologies using zero-emission fuels like ammonia and hydrogen, and the company wants to be ready in terms of its product offering when these fuels enter the market.

## The political dimension is considerable, but the regulatory risks associated with the taxonomy are unlikely to increase

The political dimension of Wärtsilä's business is significant, as zero-emission marine operations and energy production are the key to achieving global emission reduction targets. Wärtsilä is investing in technologies using zero-emission fuels like ammonia and hydrogen, and we will continue to wait for the potential impact of the extension of the marine emissions trading system on Wärtsilä's business. We consider it quite unlikely that the regulatory risk of Wärtsilä's operations will increase, as the company is at the forefront of the development and commercialization of emission-reducing technologies. So far, we do not see any direct short-term economic impact resulting from the taxonomy, for example on financing costs.

## Realistic climate targets, although less ambitious than in other major Finnish machinery manufacturers

Wärtsilä's own climate targets for 2030 ("Set for 30") aim at carbon neutrality in its own operations, as well as a product range that is ready for carbon-free fuels. The carbon neutrality of own activities is related to Scope 1 and Scope 2 activities. Wärtsilä does not measure or at least it does not disclose all Scope 3 indirect emissions, as emissions from the use of products sold by the company are outside the scope of the review. We consider the company's Scope 1 and Scope 2 targets to be realistic but assessing of the magnitude and costs of the Scope 3 objective requires more information, e.g, on the content of target setting and the magnitude of the impact. We assume that over time Wärtsilä will have to rethink its Scope 3 target setting in the context of the intensifying climate debate.

Taxonomy eligibility	2022*	2023
Revenue	15 %	
OPEX	13 %	
CAPEX	34 %	

Taxonomy alignment	2022*	2023
Revenue	0 %	
OPEX	0 %	
CAPEX		

## Climate

Climate target	Yes
Target according to Paris agreement (1.5°C warming scenario)	No

\*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)

Input	Date	Recommendation	Target	Share price
Reduce	10/28/2019	Reduce	9.00 €	9.27 €
Accumulate	11/27/2019	Accumulate	10.00 €	9.08 €
Accumulate	1/20/2020	Accumulate	12.00 €	10.83 €
Accumulate	1/31/2020	Accumulate	12.50 €	11.45 €
Accumulate	3/26/2020	Accumulate	7.50 €	6.78 €
Accumulate	4/22/2020	Accumulate	7.00 €	6.36 €
Accumulate	7/20/2020	Accumulate	8.00 €	7.51 €
Accumulate	10/26/2020	Accumulate	8.00 €	7.44 €
Reduce	1/21/2021	Reduce	9.40 €	9.01 €
Reduce	1/29/2021	Reduce	8.70 €	8.11 €
Reduce	4/23/2021	Reduce	10.00 €	10.31 €
Reduce	7/21/2021	Reduce	12.00 €	12.35 €
Accumulate	10/27/2021	Accumulate	12.60 €	11.88 €
Accumulate	11/19/2021	Accumulate	14.00 €	13.16 €
Accumulate	1/31/2022	Accumulate	13.00 €	10.84 €
Accumulate	3/30/2022	Accumulate	11.50 €	9.11 €
Accumulate	4/21/2022	Accumulate	10.60 €	8.41 €
Accumulate	4/29/2022	Accumulate	9.50 €	7.75 €
Accumulate	7/22/2022	Accumulate	9.50 €	8.58 €
Buy	10/3/2022	Buy	8.00 €	6.58 €
Buy	10/26/2022	Buy	8.00 €	6.76 €
Accumulate	11/15/2022	Accumulate	9.00 €	8.25 €
Accumulate	1/4/2023	Accumulate	9.00 €	8.01 €
Accumulate	2/1/2023	Accumulate	9.50 €	8.71 €
Accumulate	4/26/2023	Accumulate	11.00 €	10.10 €
Accumulate	7/24/2023	Accumulate	12.50 €	11.38 €
Accumulate	11/1/2023	Accumulate	12.50 €	11.24 €
Accumulate	1/5/2024	Accumulate	13.50 €	12.96 €
Accumulate	1/31/2024	Accumulate	15.00 €	13.70 €



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