

Wärtsilä

Company report

10/30/2024



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Here we go again

Wärtsilä's Q3 order intake was below expectations, mainly due to Energy, but profitability was better than forecast, also due to Energy. The company's demand outlook remains strong. Thanks to the solid performance in storage and Portfolio Business, we have significantly raised our margin forecasts for the group. After the share price decline we have seen and the upgrades to our earnings forecasts, the stock is once again attractively valued on multiple metrics. We raise our recommendation back to Accumulate and, following our forecast changes, increase our target price to EUR 19.50 (was EUR 18.00).

Mixed figures in Q3

Wärtsilä's Q3 order intake (+1% y/y) was clearly below both our own expectations (+9% y/y) and the consensus (+7% y/y). Orders were particularly weak in Energy (-19% y/y) due to an 80% year-on-year decline in storage orders. However, Wärtsilä expects storage order intake to pick up in Q4 and explained that the weak order flow in Q3 was due to "the timing of some large orders". As expected, Wärtsilä's order intake was positively impacted by the Portfolio Business, which grew 69% year-on-year. The group's Q3 EBIT margin was slightly above consensus and more clearly above our own estimates. In Marine, the difference to forecasts was negative as profitability was weighed down by an unfavorable mix within services. However, Energy's EBIT margin was well above our forecasts, driven by a strong increase in storage profitability. The group's margins were also supported by the Portfolio Business, which achieved its best EBIT margin ever (9.0%). The group's net financial expenses were slightly lower than expected, as was the tax rate, resulting in adjusted EPS coming in quite well above expectations.

Profitability forecasts on the rise

Wärtsilä commended the market outlook for both Marine and Energy. In Wärtsilä's key segments, activity is strong in cruise ships and also in offshore vessel services. In addition, Marine's demand is driven by decarbonization, including the retrofitting of environmentally friendly engines. Energy's strongest demand driver is the increased need for balancing power driven by the green transition, and the company also highlighted the additional demand for power generated by artificial intelligence and data centers. As expected, Wärtsilä reiterated its view that the demand environment for the next 12 months will be better than the comparison period in both Marine and Energy. Our revenue forecasts for 2024-2026 have been lowered by 1...4% following the disappointing order intake seen in Q3. However, due to a positive surprise in the profitability of storage and Portfolio Business, we have significantly raised our margin projections for these businesses. Our new EBIT margin forecasts for the group as a whole for 2024, 2025 and 2026 are 10.6% (was 10.3%), 11.4% (was 10.7%) and 11.7% (was 11.0%), respectively.

Valuation is back to an interesting level

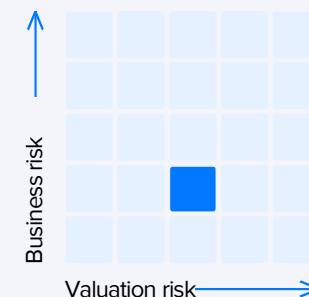
Based on EV/EBIT-based calculations for 2025, the total expected return on the stock is +15% p.a. The expected return is thus well above the required return of around 8%, meaning that the risk-adjusted expected return for the stock is attractive. Wärtsilä's 2025 P/E and EV/EBIT ratios (17x and 12x) are 26...32% below the median of the peers. In our view, the discount is now higher than can be considered acceptable given the high valuation multiples of the peer group. Our DCF model indicates a +14% upside potential for the share, which is reasonable.

Recommendation

Accumulate
(was Reduce)

EUR 19.50
(was EUR 18.00)

Share price:
17.82



Key figures

	2023	2024e	2025e	2026e
Revenue	6014	6511	7489	8053
growth-%	3%	8%	15%	8%
EBIT adj.	497	689	857	943
EBIT-% adj.	8.3 %	10.6 %	11.4 %	11.7 %
Net Income	258	478	607	673
EPS (adj.)	0.56	0.81	1.03	1.14

P/E (adj.)	23.6	22.0	17.3	15.6
P/B	3.5	4.2	3.7	3.3
Dividend yield-%	2.4 %	2.4 %	3.1 %	3.8 %
EV/EBIT (adj.)	15.7	15.4	12.1	10.7
EV/EBITDA	13.1	12.6	10.2	9.1
EV/S	1.3	1.6	1.4	1.3

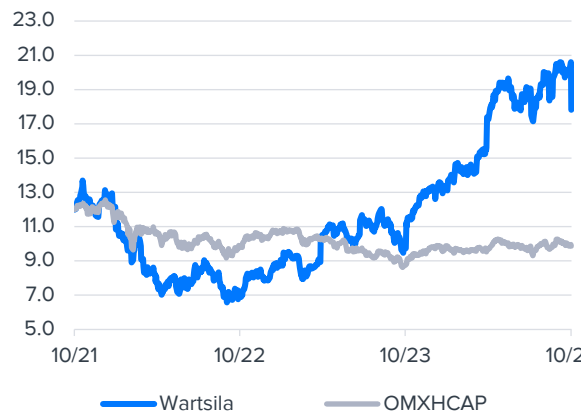
Source: Inderes

Guidance

(New guidance)

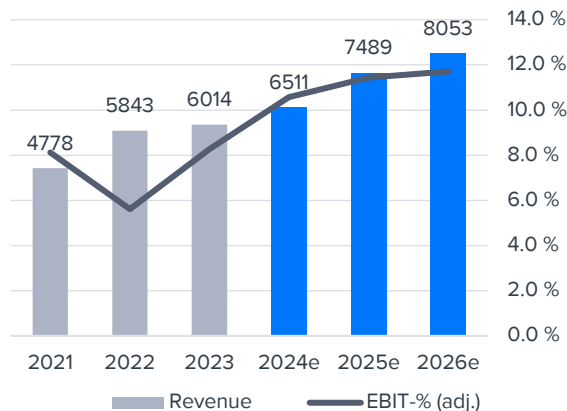
Wärtsilä expects the demand environment for both its marine (Wärtsilä Marine) and energy (Wärtsilä Energy) businesses to be better in the next 12 months (Q4/2024-Q3/2025) than in the comparison period.

Share price



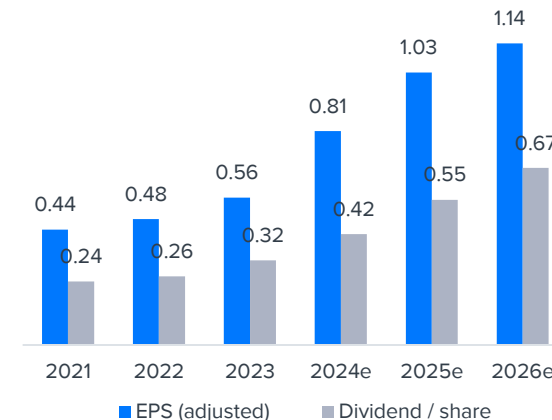
Source: Millistream Market Data AB

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	17.8	17.8	17.8
Number of shares, millions	589.0	589.0	589.0
Market cap	10496	10496	10496
EV	10587	10353	10084
P/E (adj.)	22.0	17.3	15.6
P/E	21.9	17.3	15.6
P/B	4.2	3.7	3.3
P/S	1.6	1.4	1.3
EV/Sales	1.6	1.4	1.3
EV/EBITDA	12.6	10.2	9.1
EV/EBIT (adj.)	15.4	12.1	10.7
Payout ratio (%)	51.7 %	53.3 %	58.6 %
Dividend yield-%	2.4 %	3.1 %	3.8 %

Source: Inderes

Mixed figures in Q3

Peaks and valleys in Q3 figures

Wärtsilä's Q3 order intake was below expectations, mainly due to Energy, but profitability was better than forecast, also due to Energy.

Timing issues affected storage orders

Wärtsilä's Q3 order intake was 1,803 MEUR (+1% y/y) and clearly below both our own expectations (+9% y/y) and the consensus (+7% y/y). Orders were weak, especially in Energy (-19% y/y). This was due to an 80% year-on-year drop in storage orders, which in turn was due to a downturn in both MWh (-59% y/y) and price per MWh (-50% y/y). However, Wärtsilä expects storage order intake to pick up in Q4 and explained that the weak order flow in Q3 was due to "the timing of some large orders". In turn, the price per MWh of storage orders decreased due to a significant drop in the price of battery metals (nickel,

lithium, cobalt), but this is a pass-through item for Wärtsilä and does not affect the profitability of storage. As expected, the order intake was positively impacted by the Portfolio Business, which grew 69% year-on-year with the addition of Gas Solutions. At group level, service orders were also up 4% year-on-year, which was positive.

Revenue was equipment-driven

Group revenue in Q3 came in close to consensus, but narrowly missed our own forecast in Marine and Energy and even more so in Portfolio Business. The sales mix was clearly more equipment-driven than in the comparison period (53% vs. 48% in Q3'23), as the company had already indicated.

Much good in the margins

The Q3 EBIT margin was slightly above consensus and more clearly above our own estimates. In Marine,

the difference to forecasts was negative by 1.4...-1.7 percentage points. According to Wärtsilä, Marine's profitability was also burdened by an unfavorable mix within services, referring to different margins for spare parts, field services, projects and agreement-based maintenance. However, Energy's EBIT margin was well above our forecasts (act. 10.5% vs. forecast 8.7%), driven by a strong increase in storage profitability. For the second quarter in a row, storage posted a margin of around 7...8%. Wärtsilä attributed this to its selective approach to projects, high-quality deliveries and strict cost discipline. The group's margins were also supported by the Portfolio Business, which achieved its best EBIT margin ever (9.0%) thanks to a strong performance by Gas Solutions. The group's net financial expenses were slightly lower than expected, as was the tax rate, resulting in adjusted EPS coming in quite well above expectations.

Estimates MEUR / EUR	Q3'23	Q3'24	Q3'24e	Q3'24e	Consensus		Difference (%)	2024e
	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. Inderes	Inderes
Revenue	1452	1718	1779	1714	1574	- 1811	-3%	6785
EBIT (adj.)	124	177	166	171	145	- 196	6%	700
EBIT	116	192	166	166	145	- 178	16%	687
PTP	107	190	159	163	143	- 183	19%	657
EPS (adj.)	0.15	0.22	0.19	0.21	0.18	- 0.23	19%	0.79
EPS (reported)	0.14	0.24	0.19	0.19	0.14	- 0.22	28%	0.78
Revenue growth-%	1.3 %	18.3 %	22.5 %	18.1 %	8.4 %	- 24.7 %	-4.2 pp	8.3 %
EBIT-% (adj.)	8.5 %	10.3 %	9.3 %	10.0 %	9.2 %	- 10.8 %	1 pp	10.3 %

Source: Inderes & Vara Research (consensus)

Profitability forecasts on the rise

Earnings forecasts increased

Wärtsilä's demand outlook remains strong. Thanks to the solid performance in storage and Portfolio Business, we have significantly raised our margin forecasts for the group.

Demand drivers in place

Wärtsilä commended the market outlook for both Marine and Energy. According to Clarkson, global vessel orders in Q3'24 were up 52% year-on-year (884 vs. 583 units) and orders for alternative-fuel vessels, which are important for Wärtsilä, were up 89% year-on-year (244 vs. 129 units). In Wärtsilä's key segments, activity is strong in cruise ships and also in offshore vessel services. Container ships are also on the rise. In addition to actual vessel orders, Marine's demand is driven by decarbonization, including the retrofitting of environmentally friendly engines. Energy's strongest demand driver is the increased

need for balancing power driven by the green transition, and the company also highlighted the additional demand for power generated by artificial intelligence and data centers, which will double electricity demand in this sector by 2026. Today, data centers account for 1...2% of global electricity demand. In terms of Energy, however, Wärtsilä pointed out that geopolitics and rising protectionism pose challenges. The company is preparing for these by, for instance, diversifying its procurement chains.

Sales mix puts pressure on margins in Q4'24

As expected, Wärtsilä reiterated its previous view that the demand environment for the next 12 months (Q4'24-Q3'25) will be better than the comparison period in both Marine and Energy. Regarding the outlook for the rest of the year, Wärtsilä stated that the increase in equipment deliveries will prevent the typical Q4 "hockey stick effect" in profitability and specified that this means that the adjusted EBIT

margin for H2'24 is likely to be lower than the 10.7% seen in H1'24.

Margin expectations up for 2024-2026

Our revenue forecasts for 2024-2026 have been lowered by 1...4% following the disappointing order intake seen in Q3. However, due to a strongly positive surprise in the profitability of storage, which is part of Energy, and Portfolio Business, we have significantly raised our margin projections for these businesses. Our new forecasts for 2024, 2025 and 2026 are 10.6% (was 10.3%), 11.4% (was 10.7%) and 11.7% (was 11.0%), respectively. Other changes shown in the table below are a slight decrease in net financial expenses, as Wärtsilä already had net assets of 405 MEUR at the end of Q3, and a reduction of the corporate tax rate from 27% to 26%, which is in line with the Q1-Q3'24 outcome.

Estimate revisions	2024e			2025e			2026e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
MEUR / EUR									
Revenue	6785	6511	-4%	7622	7489	-2%	8173	8053	-1%
EBITDA	836	843	1%	977	1014	4%	1071	1108	3%
EBIT (exc. NRIs)	700	689	-2%	819	857	5%	899	943	5%
EBIT	687	691	1%	819	857	5%	899	943	5%
PTP	657	671	2%	808	852	6%	895	944	6%
EPS (excl. NRIs)	0.79	0.81	2%	0.95	1.03	8%	1.06	1.14	8%
DPS	0.40	0.42	5%	0.51	0.55	8%	0.62	0.67	8%

Source: Inderes

Valuation is back to an interesting level

Positive drivers + lowered valuation = raise to Accumulate

The positive drivers for Wärtsilä's business remain unchanged. The company's technology portfolio is very comprehensive, and its market position is very strong in many segments, while its service operations, based on a large installed base, are quite profitable. We have previously raised the possibility that Marine's strong order intake may not be realized until 2028-2029 due to a lack of capacity in the shipyards. We asked Wärtsilä about this and the company assured us that its delivery times in Marine have not changed very much, meaning that while shipyards used to order the engine 12 months before delivery, the range has now been widened to 12...18 months. However, we are not talking about several years, and Wärtsilä's own capacity does not constrain delivery times.

Overall, we think Wärtsilä's outlook is nice: The traditional businesses of Marine and Energy are doing well, and the significantly improved profitability of storage and Portfolio Business should at least help to raise the sale price if/when these businesses are divested.

Tuesday's -14% plunge in the share price was surprisingly sharp, and after taking a closer look at the disappointing factors, we are not too concerned. After the share price decline we have seen and the upgrades to our earnings forecasts, the share is once again attractively valued on multiple metrics. We raise our recommendation back to Accumulate and, following our forecast changes, increase our target price to EUR 19.50 (was EUR 18.00). We consider Wärtsilä's peer group multiples to be high, but even at our target price, the stock would be discounted by around 20% to peers on all key 2025 multiples.

Risk-adjusted return back on track

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) is +15% p.a. based on the EV/EBIT based calculations for 2025. The return comprises around +12 % share price potential and a dividend yield of some 3%. The total expected return is thus well above the required return of around 8%, meaning that the risk-adjusted expected return for the stock is attractive.

Discount to peers is already too high

Wärtsilä's 2025 P/E and EV/EBIT ratios (17x and 12x) are 26...32% below the median of the peers. In our view, the discount is now higher than can be considered acceptable given the high valuation multiples of the peer group.

Reasonable DCF potential

Our DCF model indicates a +14% upside potential for the share, which can be considered reasonable. Wärtsilä's cash flow profile is now slightly less back-loaded in the model, with the terminal period accounting for 63% of the value instead of 65%.

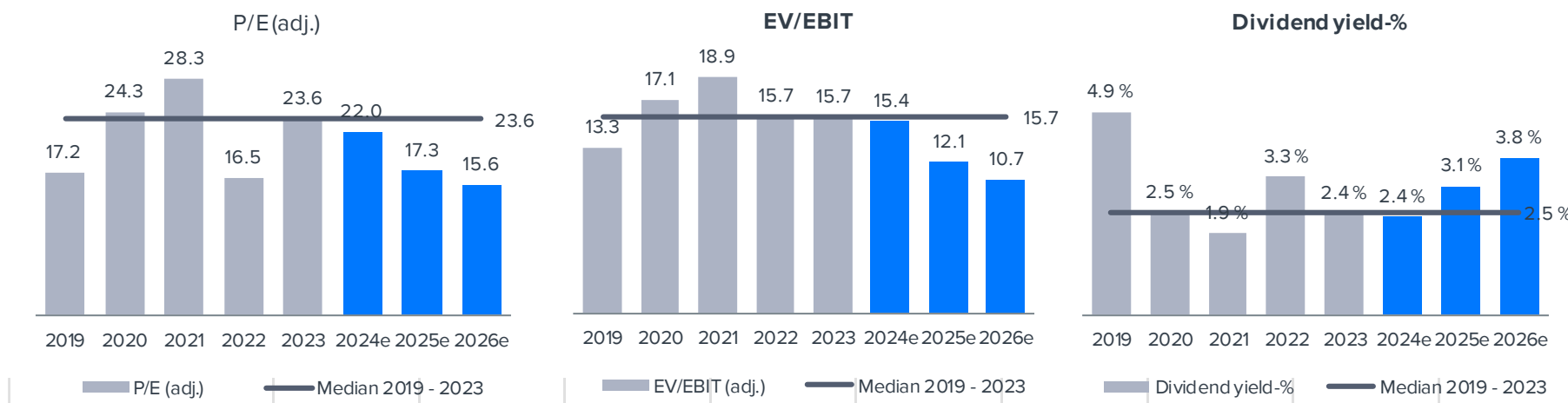
Valuation	2024e	2025e	2026e
Share price	17.8	17.8	17.8
Number of shares, millions	589.0	589.0	589.0
Market cap	10496	10496	10496
EV	10587	10353	10084
P/E (adj.)	22.0	17.3	15.6
P/E	21.9	17.3	15.6
P/B	4.2	3.7	3.3
P/S	1.6	1.4	1.3
EV/Sales	1.6	1.4	1.3
EV/EBITDA	12.6	10.2	9.1
EV/EBIT (adj.)	15.4	12.1	10.7
Payout ratio (%)	51.7 %	53.3 %	58.6 %
Dividend yield-%	2.4 %	3.1 %	3.8 %

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	17.8	17.8	17.8	17.8
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	10496	10496	10496	10496
EV	6601	5255	7326	5158	7804	10587	10353	10084	9813
P/E (adj.)	17.2	24.3	28.3	16.5	23.6	22.0	17.3	15.6	14.7
P/E	27.0	36.0	37.8	neg.	30.0	21.9	17.3	15.6	14.7
P/B	2.4	2.2	3.2	2.2	3.5	4.2	3.7	3.3	3.0
P/S	1.1	1.0	1.5	0.8	1.3	1.6	1.4	1.3	1.2
EV/Sales	1.3	1.1	1.5	0.9	1.3	1.6	1.4	1.3	1.2
EV/EBITDA	11.0	12.1	14.4	15.3	13.1	12.6	10.2	9.1	8.5
EV/EBIT (adj.)	13.3	17.1	18.9	15.7	15.7	15.4	12.1	10.7	9.9
Payout ratio (%)	131.5 %	88.3 %	73.4 %	neg.	73.1 %	51.7 %	53.3 %	58.6 %	56.2 %
Dividend yield-%	4.9 %	2.5 %	1.9 %	3.3 %	2.4 %	2.4 %	3.1 %	3.8 %	3.8 %

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	7393	8519	11.2	10.5	9.4	8.8	1.7	1.7	14.4	12.9	4.3	4.4	2.8
Kone Oyj	27306	26682	20.5	18.7	16.7	15.6	2.4	2.3	26.5	24.3	3.5	3.7	9.4
Konecranes Abp	4991	5241	10.1	10.0	8.4	8.3	1.3	1.3	13.8	13.5	2.5	2.8	2.7
Siemens Energy AG	30230	27162	25.6	22.2	18.4	9.9	0.8	0.7	372.1	42.4			3.3
Abb Ltd	97647	100141	19.7	17.8	17.1	15.5	3.3	3.1	25.4	23.3	1.8	1.9	7.1
Alfa Laval AB	17720	18403	19.3	17.1	16.0	14.4	3.1	2.9	25.9	22.7	1.7	1.8	5.0
Alstom SA	9364	11159	15.0	13.8	8.6	7.7	0.6	0.6	18.1	13.8	1.4	1.4	0.9
Caterpillar Inc	175075	205558	16.1	16.8	13.8	13.9	3.4	3.4	17.7	17.3	1.4	1.5	10.3
GE Vernova	73694	69225	103.3	39.7	36.0	23.0	2.1	2.0	103.9	42.7			7.3
Rolls-Royce Holdings PLC	57186	58216	21.8	19.5	15.5	14.0	2.8	2.6	31.5	26.8	0.9	1.1	
Woodward Inc	9092	9661	21.2	21.2	17.2	16.8	3.2	3.1	27.6	28.1	0.6	0.6	4.4
Wartsila (Inderes)	10496	10587	15.4	12.1	12.6	10.2	1.6	1.4	22.0	17.3	2.4	3.1	4.2
Average			25.8	18.8	16.1	13.4	2.3	2.2	61.5	24.3	2.0	2.1	5.3
Median			19.7	17.8	16.0	14.0	2.4	2.3	25.9	23.3	1.7	1.8	4.7
Diff-% to median			-22%	-32%	-22%	-27%	-33%	-40%	-15%	-26%	43%	70%	-10%

Source: Refinitiv / Inderes

Income statement

Income statement	2022	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue	5843	6014	1322	1555	1718	1916	6511	7489	8053	8449
Marine	2758	2800	708	759	739	862	3068	3602	3887	4065
Energy	2721	2610	452	617	804	845	2718	2945	3231	3430
Portfolio Business	364	604	162	179	175	210	726	943	935	955
EBITDA	240	595	162	205	230	246	843	1014	1108	1158
Depreciation	-263	-193	-35	-37	-38	-42	-152	-158	-165	-165
EBIT (excl. NRI)	328	497	132	176	177	204	689	857	943	993
EBIT	-23	402	127	168	192	204	691	857	943	993
Marine	-56	276	77	96	91	94	358	456	496	521
Energy	82	209	50	64	85	92	291	347	388	415
Portfolio Business	-52	-83	0	8	16	18	42	54	59	57
Net financial items	-7	-37	-9	-7	-2	-2	-20	-5	1	6
PTP	-30	365	118	161	190	202	671	852	944	999
Taxes	-27	-95	-32	-44	-46	-49	-172	-218	-242	-256
Minority interest	-6	-12	-1	-1	-1	-18	-21	-27	-30	-31
Net earnings	-63	258	85	116	142	135	478	607	673	712
EPS (adj.)	0.48	0.56	0.15	0.21	0.22	0.23	0.81	1.03	1.14	1.21
EPS (rep.)	-0.11	0.44	0.14	0.20	0.24	0.23	0.81	1.03	1.14	1.21

Key figures	2022	2023	Q1'24	Q2'24	Q3'24	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	22.3 %	2.9 %	-9.8 %	6.9 %	18.3 %	16.6 %	8.3 %	15.0 %	7.5 %	4.9 %
Adjusted EBIT growth-%	-15.5 %	51.5 %	48.3 %	64.5 %	42.7 %	15.3 %	38.6 %	24.3 %	10.1 %	5.3 %
EBITDA-%	4.1 %	9.9 %	12.3 %	13.2 %	13.4 %	12.8 %	12.9 %	13.5 %	13.8 %	13.7 %
Adjusted EBIT-%	5.6 %	8.3 %	10.0 %	11.3 %	10.3 %	10.6 %	10.6 %	11.4 %	11.7 %	11.8 %
Net earnings-%	-1.1 %	4.3 %	6.4 %	7.5 %	8.3 %	7.0 %	7.3 %	8.1 %	8.4 %	8.4 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	2559	2553	2567	2605	2632
Goodwill	1288	1273	1273	1273	1273
Intangible assets	392	402	402	425	424
Tangible assets	562	562	575	590	618
Associated companies	29	33	37	37	37
Other investments	19	19	17	17	17
Other non-current assets	72	52	48	48	48
Deferred tax assets	197	212	215	215	215
Current assets	4049	4250	4303	4943	5315
Inventories	1361	1485	1563	1797	1933
Other current assets	54	5	6	0	0
Receivables	2173	1943	2279	2621	2819
Cash and equivalents	461	817	456	524	564
Balance sheet total	6608	6803	6871	7547	7947

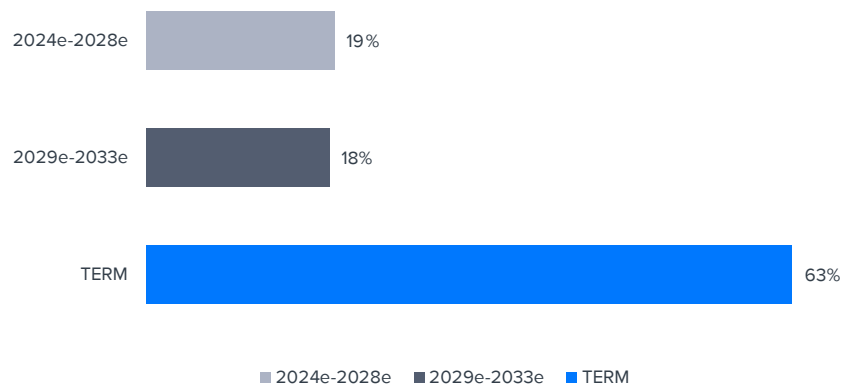
Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	2148	2233	2508	2868	3217
Share capital	336	336	336	336	336
Retained earnings	1891	1989	2279	2639	2988
Hybrid bonds	0	0	0	0	0
Revaluation reserve	61	61	61	61	61
Other equity	-152	-161	-176	-176	-176
Minorities	12	8	8	8	8
Non-current liabilities	1355	1405	1070	940	760
Deferred tax liabilities	65.0	69.0	62.0	62.0	62.0
Provisions	396	372	372	372	372
Interest bearing debt	740	739	411	281	101
Convertibles	0	0	0	0	0
Other long term liabilities	154	225	225	225	225
Current liabilities	3105	3165	3293	3739	3970
Interest bearing debt	209	120	102	70	24
Payables	2874	3045	3191	3670	3946
Other current liabilities	22	0	0	0	0
Balance sheet total	6608	6803	6871	7547	7947

DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	2.9 %	8.3 %	15.0 %	7.5 %	4.9 %	6.5 %	5.6 %	4.7 %	3.8 %	2.9 %	2.5 %	2.5 %
EBIT-%	6.7 %	10.6 %	11.4 %	11.7 %	11.8 %	11.5 %	11.2 %	10.9 %	10.6 %	10.3 %	10.0 %	10.0 %
EBIT (operating profit)	402	691	857	943	993	1031	1062	1083	1094	1094	1090	
+ Depreciation	193	152	158	165	165	155	161	165	169	172	174	
- Paid taxes	-106	-182	-218	-242	-256	-266	-274	-280	-282	-282	-281	
- Tax, financial expenses	-12	-8	-3	-1	0	0	0	0	0	0	0	
+ Tax, financial income	2	2	2	2	2	3	3	3	3	3	2	
- Change in working capital	304	-269	-92	-56	-40	-55	-51	-45	-38	-30	-27	
Operating cash flow	783	387	703	810	864	867	900	926	945	957	958	
+ Change in other long-term liabilities	47	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-168	-159	-195	-192	-174	-194	-190	-198	-193	-185	-203	
Free operating cash flow	662	228	508	618	690	674	710	728	753	771	755	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	662	228	508	618	690	674	710	728	753	771	755	15160
Discounted FCFF		225	466	527	547	496	486	463	445	424	385	7742
Sum of FCFF present value		12207	11982	11515	10988	10441	9945	9459	8996	8551	8127	7742
Enterprise value DCF		12207										
- Interest bearing debt		-859										
+ Cash and cash equivalents		817										
-Minorities		-34										
-Dividend/capital return		-188										
Equity value DCF		11943										
Equity value DCF per share		20.3										

Cash flow distribution

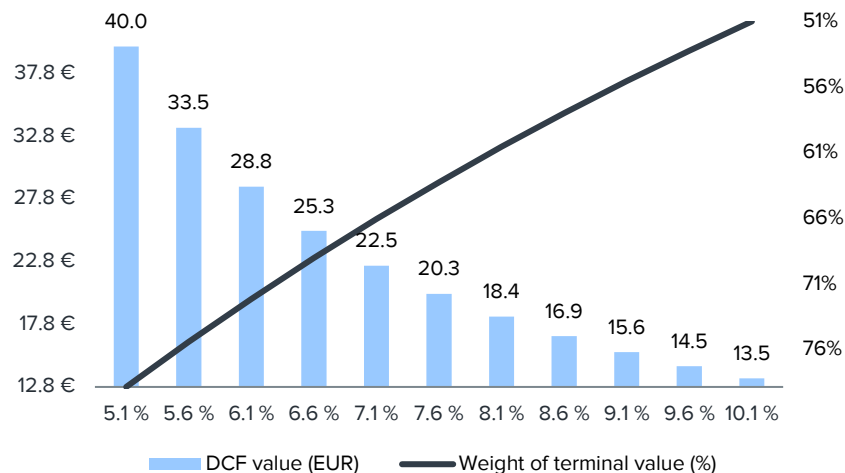


WACC	
Tax-% (WACC)	26.0 %
Target debt ratio (D/(D+E))	10.0 %
Cost of debt	3.0 %
Equity Beta	1.20
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	8.2 %
Weighted average cost of capital (WACC)	7.6 %

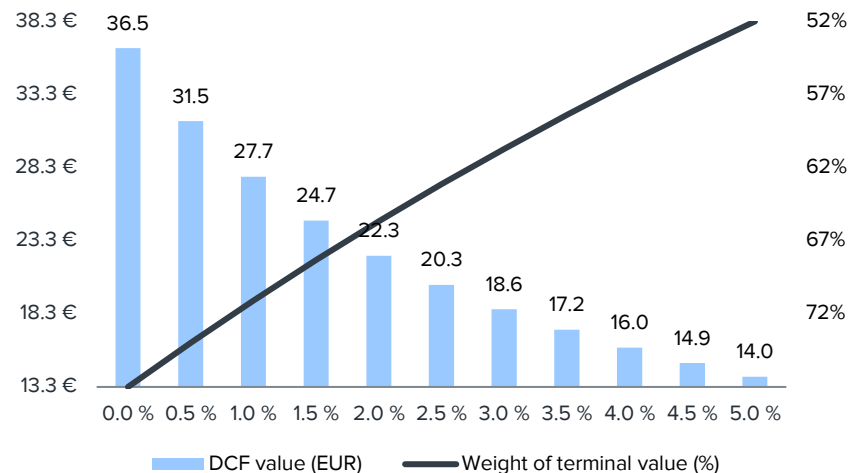
Source: Inderes

DCF sensitivity calculations and key assumptions in graphs

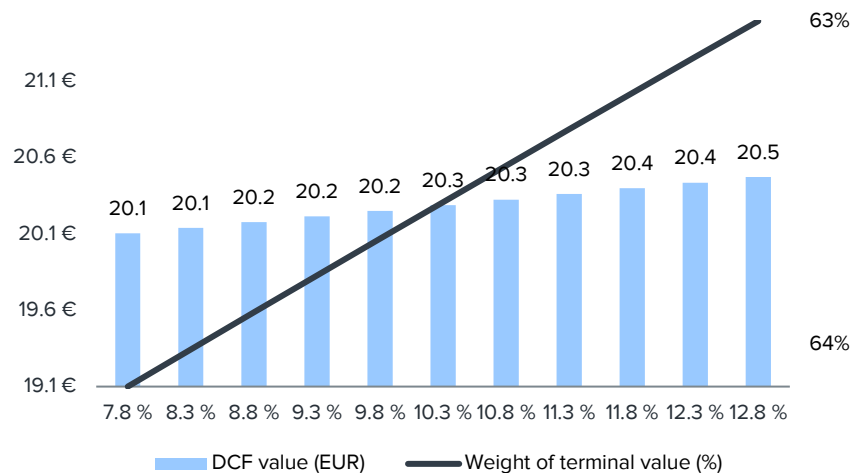
Sensitivity of DCF to changes in the WACC-%



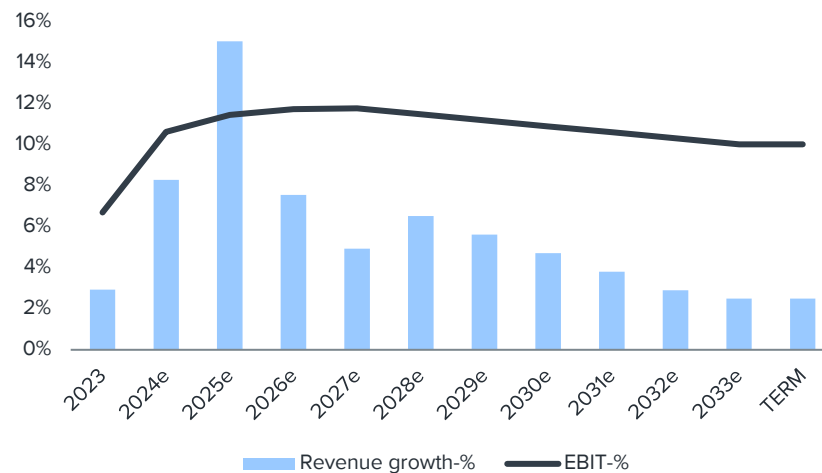
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e	Per share data	2021	2022	2023	2024e	2025e
Revenue	4778.0	5843.0	6014.0	6511.3	7489.1	EPS (reported)	0.33	-0.11	0.44	0.81	1.03
EBITDA	476.0	240.0	595.0	842.7	1014.4	EPS (adj.)	0.44	0.48	0.56	0.81	1.03
EBIT	314.0	-23.0	402.0	691.0	856.7	OCF / share	1.35	-0.30	1.33	0.66	1.19
PTP	296.0	-30.0	365.0	671.0	852.0	FCF / share	0.80	-0.60	1.12	0.39	0.86
Net Income	193.0	-63.0	258.0	478.3	607.3	Book value / share	3.92	3.62	3.78	4.24	4.86
Extraordinary items	-74.0	-351.0	-95.0	2.0	0.0	Dividend / share	0.24	0.26	0.32	0.42	0.55
Balance sheet	2021	2022	2023	2024e	2025e	Growth and profitability	2021	2022	2023	2024e	2025e
Balance sheet total	6523.0	6608.0	6803.0	6870.6	7547.4	Revenue growth-%	4%	22%	3%	8%	15%
Equity capital	2323.0	2148.0	2233.0	2507.8	2867.7	EBITDA growth-%	17%	-50%	148%	42%	20%
Goodwill	1374.0	1288.0	1273.0	1273.0	1273.0	EBIT (adj.) growth-%	26%	-15%	52%	39%	24%
Net debt	8.0	488.0	42.0	57.4	-173.2	EPS (adj.) growth-%	30%	9%	17%	45%	27%
Cash flow	2021	2022	2023	2024e	2025e	EBITDA-%	10.0 %	4.1 %	9.9 %	12.9 %	13.5 %
EBITDA	476.0	240.0	595.0	842.7	1014.4	EBIT (adj.)-%	8.1 %	5.6 %	8.3 %	10.6 %	11.4 %
Change in working capital	424.0	-357.0	304.0	-269.1	-91.8	EBIT-%	6.6 %	-0.4 %	6.7 %	10.6 %	11.4 %
Operating cash flow	795.7	-175.8	783.4	386.7	703.4	ROE-%	8.6 %	-2.8 %	11.8 %	20.2 %	22.7 %
CAPEX	-286.0	-251.0	-168.0	-158.7	-195.2	ROI-%	9.5 %	0.2 %	13.2 %	22.9 %	27.7 %
Free cash flow	472.7	-354.8	662.4	227.9	508.1	Equity ratio	38.6 %	35.8 %	36.2 %	40.5 %	42.4 %
						Gearing	0.3 %	22.7 %	1.9 %	2.3 %	-6.0 %
Valuation multiples	2021	2022	2023	2024e	2025e						
EV/S	1.5	0.9	1.3	1.6	1.4						
EV/EBITDA	14.4	15.3	13.1	12.6	10.2						
EV/EBIT (adj.)	18.9	15.7	15.7	15.4	12.1						
P/E (adj.)	28.3	16.5	23.6	22.0	17.3						
P/B	3.2	2.2	3.5	4.2	3.7						
Dividend-%	1.9 %	3.3 %	2.4 %	2.4 %	3.1 %						

Source: Inderes

Climate target and taxonomic analysis

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 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%	17%
OPEX	13%	12%
CAPEX	34%	23%

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

Climate

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

*Figures are not comparable due to changes in taxonomy.

We will begin to increase the visibility of sustainability metrics by looking at the company's climate target and taxonomy impacts, as we believe these are currently the clearest contributors on average to the company's value creation. We aim to gradually increase the visibility of other factors. The analyst will consider the impact of all sustainability issues on the company's growth and profitability potential and risk (i.e. required return) as part of forming an investment view.

Note: Taxonomy eligibility-% is shown in the table without taxonomy-aligned activities

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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
10/28/2019	Reduce	9.00 €	9.27 €
11/27/2019	Accumulate	10.00 €	9.08 €
1/20/2020	Accumulate	12.00 €	10.83 €
1/31/2020	Accumulate	12.50 €	11.45 €
3/26/2020	Accumulate	7.50 €	6.78 €
4/22/2020	Accumulate	7.00 €	6.36 €
7/20/2020	Accumulate	8.00 €	7.51 €
10/26/2020	Accumulate	8.00 €	7.44 €
1/21/2021	Reduce	9.40 €	9.01 €
1/29/2021	Reduce	8.70 €	8.11 €
4/23/2021	Reduce	10.00 €	10.31 €
7/21/2021	Reduce	12.00 €	12.35 €
10/27/2021	Accumulate	12.60 €	11.88 €
11/19/2021	Accumulate	14.00 €	13.16 €
1/31/2022	Accumulate	13.00 €	10.84 €
3/30/2022	Accumulate	11.50 €	9.11 €
4/21/2022	Accumulate	10.60 €	8.41 €
4/29/2022	Accumulate	9.50 €	7.75 €
7/22/2022	Accumulate	9.50 €	8.58 €
10/3/2022	Buy	8.00 €	6.58 €
10/26/2022	Buy	8.00 €	6.76 €
11/15/2022	Accumulate	9.00 €	8.25 €
1/4/2023	Accumulate	9.00 €	8.01 €
2/1/2023	Accumulate	9.50 €	8.71 €
4/26/2023	Accumulate	11.00 €	10.10 €
7/24/2023	Accumulate	12.50 €	11.38 €
11/1/2023	Accumulate	12.50 €	11.24 €
1/5/2024	Accumulate	13.50 €	12.96 €
1/31/2024	Accumulate	15.00 €	13.70 €
4/29/2024	Reduce	16.50 €	17.40 €
7/22/2024	Reduce	17.00 €	18.49 €
10/11/2024	Reduce	18.00 €	19.98 €
10/30/2024	Accumulate	19.50 €	17.82 €



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