Wärtsilä

Company report

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This report is a summary translation of the report "Vauhdikasta menoa siellä ja täällä" published on 4/28/2024 at 4:22 pm EEST

Rapid activity across the board

Wärtsilä's Q1 revenue was negatively impacted by the timing of Energy's deliveries. Order intake and relative profitability were nevertheless in good shape. Wärtsilä reiterated its market outlook, and the outlook for Marine in particular is promising. Our margin forecasts for 2024-2026 are slightly higher due to an increase in the share of services and improved margins on ICE power plants. Given the demanding valuation, we now lower our recommendation to Reduce (previously Accumulate). However, we raise our target price to EUR 16.50 (was 15.00) to reflect our revised forecasts and the stock's DCF value.

Good progress continued in Q1

Wärtsilä's Q1 order intake (+11% y/y) was clearly stronger than both our own expectations (+3% y/y) and the consensus (+5% y/y). Growth was concentrated in Marine (+23% y/y) and equipment at group level (+15% y/y). Storage orders grew satisfactorily in MWh terms, but as battery prices dropped, storage orders in euros fell by 8% y/y. At group level, service orders improved by a healthy 7% year-on-year. Q1 revenue was a surprise as Energy revenue was down 30% year-on-year. This was driven by a 75% year-on-year decline in storage revenue, but Energy's other equipment sales also decreased by 27% year-on-year. According to Wärtsilä, this was only a timing issue, i.e. the timing of the delivery and invoicing of power plant and storage orders received in H2'23 to H2'24. Wärtsilä's comparable EBIT margin (10.0%) was well above expectations. The reason for the strong performance was the revenue mix: services accounted for 63% of revenue (Q1'23: 50%) and storage, with still very low margins, accounted for only 5%.

Market outlook remains bright

As expected, Wärtsilä reiterated its previous view that the demand environment for the next 12 months (Q2'24-Q1'25) will be better than the comparison period in both Marine and Energy. Comments on the market outlook were positive. Forecasts for ship orders in 2024 have increased and the cruise market, which is important for Wärtsilä, has also picked up. In addition, the EU emissions trading system has been extended to shipping as of January 1, 2024, and the obligation for shipping companies to acquire emission allowances has become an incentive for them to modernize their fleet, either through renewals or retrofits. In Energy's outlook, Wärtsilä focused more on the long-term drivers, i.e. the demand for engine-driven balancing power and storage created by the use of renewable energy sources. Our revenue forecasts for 2024-2026 show a slight decline. This is mainly due to longer delivery times in Marine, which have increased from 12-18 months to 18-24 months. Our comparable EBIT margin forecast has increased by 0.3...0.8 percentage points, as the share of service revenue has increased and margins on ICE power plant deliveries have improved. For 2024-2026, our EBIT margin estimate is now 9.7... 10.8% (prev. 9.4... 10.1%).

Valuation nearing ceiling

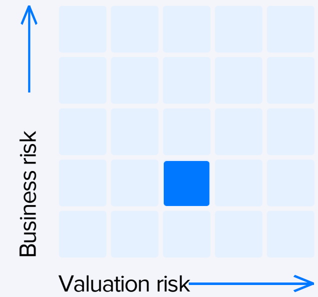
Based on the P/E and EV/EBIT based calculations for 2024–2025, the total expected return on the stock is 7...8%. The return comprises a 4... 6 % share price potential and a dividend yield of some 2...3%. However, the total expected return is slightly below the required return of about 9%. Thus, the share's risk-adjusted expected return is not attractive. The share's 2024-2025 P/E and EV/EBIT ratios (19x... 22x and 13x...15x) are 4...17% below the median of the peers. This still implies a small discount, but the valuation multiples of the peer group are high. Our cash flow model no longer indicates upside potential, but instead the price level is about 5% above the DCF value.

Recommendation

Reduce
(previous Accumulate)

EUR 16.50
(previous EUR 15.00)

Share price:
17.40



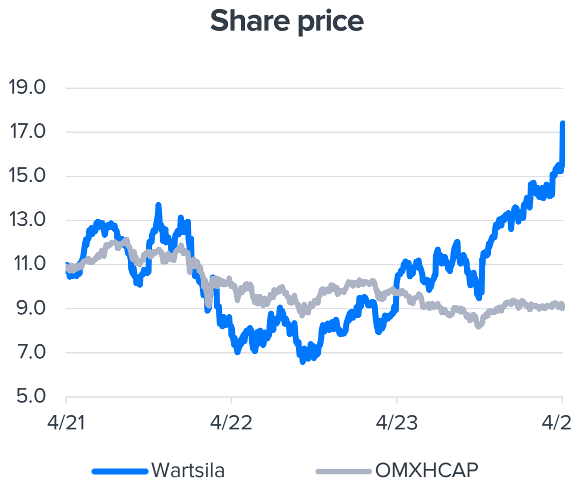
Key figures

	2023	2024e	2025e	2026e
Revenue	5784	7091	7391	7844
growth-%	-1%	23%	4%	6%
EBIT adj.	546	691	779	850
EBIT-% adj.	9.4 %	9.7 %	10.5 %	10.8 %
Net Income	307	462	540	595
EPS (adj.)	0.65	0.79	0.92	1.01
P/E (adj.)	20.3	22.0	19.0	17.2
P/B	3.5	4.1	3.7	3.3
Dividend yield-%	2.4 %	2.3 %	2.9 %	3.4 %
EV/EBIT (adj.)	14.3	15.1	13.0	11.7
EV/EBITDA	12.1	12.5	10.8	9.8
EV/S	1.3	1.5	1.4	1.3

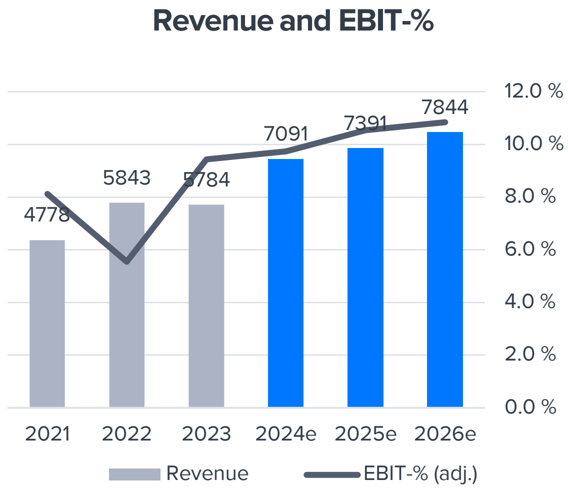
Source: Inderes

Guidance (Unchanged)

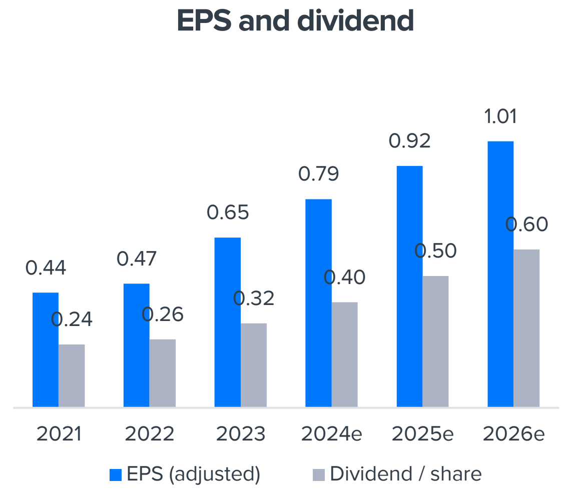
Wärtsilä expects the demand environment for both its marine (Wärtsilä Marine) and energy (Wärtsilä Energy) businesses to be better in the next 12 months (Q2/2024–Q1/2025) than in the comparison period.



Source: Millistream Market Data AB



Source: Inderes



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

- Cyclicality 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	17.4	17.4	17.4
Number of shares, millions	589.0	589.0	589.0
Market cap	10249	10249	10249
EV	10438	10157	9914
P/E (adj.)	22.0	19.0	17.2
P/E	22.2	19.0	17.2
P/B	4.1	3.7	3.3
P/S	1.4	1.4	1.3
EV/Sales	1.5	1.4	1.3
EV/EBITDA	12.5	10.8	9.8
EV/EBIT (adj.)	15.1	13.0	11.7
Payout ratio (%)	51.0 %	54.5 %	59.4 %
Dividend yield-%	2.3 %	2.9 %	3.4 %

Source: Inderes

Good progress continued in Q1

Orders and margins good, surprise in revenue

Wärtsilä's Q1 revenue was negatively impacted by the timing of Energy's deliveries. Order intake and relative profitability were nevertheless in good shape.

Strong pull in orders

Wärtsilä's Q1 order intake was 1,924 MEUR (+11% y/y) and clearly stronger than both our own expectations (+3% y/y) and the consensus (+5% y/y). At comparable exchange rates, order intake growth was even better at +17% year-on-year. Growth was concentrated in Marine (+23% y/y) and equipment at group level (+15% y/y). Storage orders grew satisfactorily in Mwh terms by 12% year-on-year, but because of a decrease in the battery prices, storage orders in euros declined by 8% year-on-year. At group level, service orders improved by a healthy 7% year-on-year The order book (7294 MEUR; +19% y/y) was last this high before the financial crisis in 2008.

Postponed income recognitions in Energy

Q1 revenue delivered a surprise as Energy revenue was down 30% year-on-year. This was driven by a 75% year-on-year decline in storage revenue to a record-low 62 MEUR, but Energy's other equipment sales also decreased by 27% year-on-year. According to Wärtsilä, this was only a timing issue, i.e. the timing of the delivery and invoicing of power plant and storage orders received in H2'23 to H2'24. Wärtsilä talked about the random timing of milestone payments from one quarter to the next, and for example in percentage-of-completion storage projects, the batteries, which make up a large part of the cost, are not purchased until very close to delivery.

Otherwise, Q1 revenue was more normal, with Marine's revenue up 6% year-on-year and the group's total service sales up 13% year-on-year.

Sales mix favorable for margins

Wärtsilä's comparable EBIT margin (10.0%) was well above expectations. The reason for the strong performance was the revenue mix: services accounted for 63% of revenue (Q1'23: 50%) and storage business, with still very low margins, accounted for only 5%. By business, Marine's EBIT margin was strong at 11.4% (Q1'23: 9.7%), supported by the increased share of services (70% vs. 65% in Q1'23). In Energy, services' share of revenue was 64% (Q1'23 40%), which drove the EBIT margin up to 11.1% (Q1'23: 5.1%). Energy's profitability was also supported by improved margins on power plant deliveries, but no further details were provided. The group's net financial expenses exceeded expectations, apparently due to exchange rate losses, as net interest expenses were zero.

Estimates	Q1'23	Q1'24	Q1'24e	Q1'24e	Consensus		Difference (%)	2024e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	1465	1321	1612	1596	1473 -	1670	-18%	7114
EBIT (adj.)	89	132	127	124	111 -	135	4%	670
EBIT	93	127	127	121	107 -	135	0%	670
PTP	85	118	123	116	100 -	131	-4%	652
EPS (adj.)	0.09	0.15	0.15	0.15	0.13 -	0.21	1%	0.78
EPS (reported)	0.10	0.14	0.15	0.15	0.12 -	0.21	-6%	0.78
Revenue growth-%	19.0 %	-9.8 %	10.0 %	8.9 %	0.5 % -	14.0 %	-19.9 pp	22.6 %
EBIT-% (adj.)	6.1 %	10.0 %	7.9 %	7.8 %	7.5 % -	8.1 %	2.1 pp	9.4 %

Source: Inderes & Vara Research (consensus)

Market outlook remains bright

Demand outlook remains good

Wärtsilä reiterated its market outlook, and the outlook for Marine in particular is promising. Our margin forecasts for 2024-2026 have increased slightly.

2024 revenue H2-intensive

As expected, Wärtsilä reiterated its previous view that the demand environment for the next 12 months (Q2'24-Q1'25) will be better than the comparison period in both Marine and Energy. Wärtsilä also pointed out that in 2024, Energy's equipment deliveries and revenue recognition will be concentrated in H2, both in ICE power plants and in energy storage.

Plenty of orders for shipyards

Comments on the market outlook were positive. On Marine, it was reported that Clarkson's forecast for global ship orders has increased by 7% since last fall, and that shipyard orders in Q1 were up 60% year-on-year in terms of units. The cruise market, which is important for Wärtsilä, has also picked up, with the first new vessel orders already placed and, according to Wärtsilä, major cruise ship owners have indicated that more are on the way. Wärtsilä also noted that the EU emissions trading system has been extended to shipping as of January 1, 2024. EU ship owners will be required to purchase emission allowances, which should incentivize them to modernize their fleets, either through renewals or retrofits. In Energy's outlook, Wärtsilä focused more on the long-term drivers, i.e. the demand for engine-driven balancing power and storage created by the increasing use of renewable energy sources.

Our margin expectations for 2024-2026 slightly up

Our revenue forecasts for 2024-2026 have decreased a little, although our order intake forecasts for the same years have increased by 1...3%. This is mainly due to longer delivery times in Marine, where the time from order to delivery (and billing) has increased from 12-18 months to 18-24 months. We have also revised our storage revenue forecasts slightly downward as battery prices have fallen. The storage price per MWh for Wärtsilä orders has decreased by 18% year-on-year. Our comparable EBIT margin forecast has increased by 0.3...0.8 percentage points, as the share of service revenue has increased by around 1...3 percentage points and margins on ICE power plant deliveries have improved. For 2024-2026, our EBIT margin estimate is now 9.7... 10.8% (prev. 9.4... 10.1%).

Estimate revisions	2024e	2024e	Change	2025e	2025e	Change	2026e	2026e	Change
MEUR / EUR	Inderes	Actualized	%	Old	New	%	Old	New	%
Revenue	7114	7091	0%	7619	7391	-3%	7974	7844	-2%
EBIT (exc. NRIs)	670	691	3%	744	779	5%	805	850	6%
EBIT	670	686	2%	744	779	5%	805	850	6%
PTP	652	663	2%	729	775	6%	798	853	7%
EPS (excl. NRIs)	0.78	0.79	1%	0.88	0.92	5%	0.96	1.01	5%
DPS	0.40	0.40	0%	0.50	0.50	0%	0.60	0.60	0%

Source: Inderes

Valuation nearing ceiling

Outlook good, but valuation high; recommendation to Reduce

Wärtsilä's share price rose sharply (+11%) following the Q1 report and has reached a level that we believe corresponds to full price. Our view is supported by the valuation models we use. As a result, there is little room for slipping from the projected growth and earnings trajectory. Our view of the company's strengths remains unchanged: Wärtsilä is very well equipped to leverage its deep and diverse energy expertise on a large scale in the green transition. The outlook for growth and also for profitability is favorable.

However, at the current valuation level and after six months of price rise (+84%), we believe it is justified to step aside, at least temporarily, to monitor Wärtsilä's fulfillment of its promise. In addition, we consider the company's EBIT margin target of 12% to be challenging, given the importance of storage, which remains low-margin and already typically contributes 15% of group revenue. In our forecasts, storage cuts 1.0...1.3 percentage points from the group's EBIT margin. When assessing the high valuation multiples of the stock, the challenge posed by our forecasts must also be taken into account: the additional revenue of 1,973 MEUR between the last 12 months (5,871 MEUR) and our projected 2026 revenue (7,844 MEUR) should be realized with an EBIT margin of 15.5%.

Due to the rather demanding valuation and other factors mentioned above, we lower our recommendation to Reduce (previously Accumulate). However, we raise our target price to EUR 16.50 (was 15.00) to reflect our revised forecasts and the stock's DCF value. At our new target price, the stock remains in the fair value range we estimate (2025e EV/EBIT = 12x).

Risk-adjusted return currently not attractive

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 7...8% based on the P/E and EV/EBIT based calculations for 2024–2025. The return comprises a 4... 6 % share price potential and a dividend yield of some 2...3%. However, the total expected return is slightly below the required return of about 9%. Thus, the share's risk-adjusted expected return is not attractive.

Multiple-based valuation slightly below peers

The share's 2024–2025 P/E and EV/EBIT ratios (19x...22x and 13x...15x) are 4...17% below the median of the peers. This still implies a small discount, but the valuation multiples of the peer group are high. Wärtsilä's multiples are in line with the company's own historical multiples.

No DCF potential now

Our cash flow model no longer indicates upside potential for the share, but instead the price level is about 5% above the DCF value. In addition, Wärtsilä's cash flow profile in the model is backloaded (terminal period = 62% of value). This is offset by our rather conservative expectations for the terminal EBIT margin (9.0%).

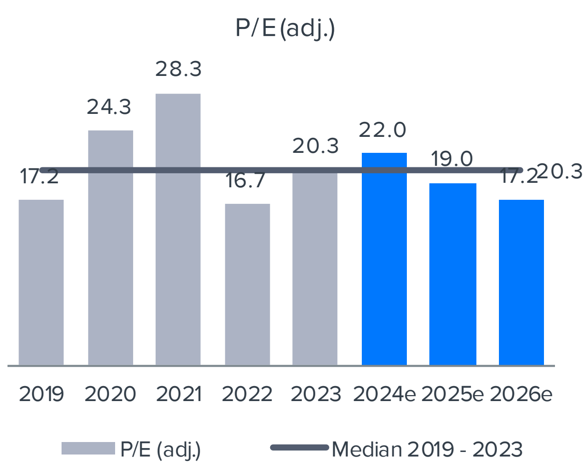
Valuation	2024e	2025e	2026e
Share price	17.4	17.4	17.4
Number of shares, millions	589.0	589.0	589.0
Market cap	10249	10249	10249
EV	10438	10157	9914
P/E (adj.)	22.0	19.0	17.2
P/E	22.2	19.0	17.2
P/B	4.1	3.7	3.3
P/S	1.4	1.4	1.3
EV/Sales	1.5	1.4	1.3
EV/EBITDA	12.5	10.8	9.8
EV/EBIT (adj.)	15.1	13.0	11.7
Payout ratio (%)	51.0 %	54.5 %	59.4 %
Dividend yield-%	2.3 %	2.9 %	3.4 %

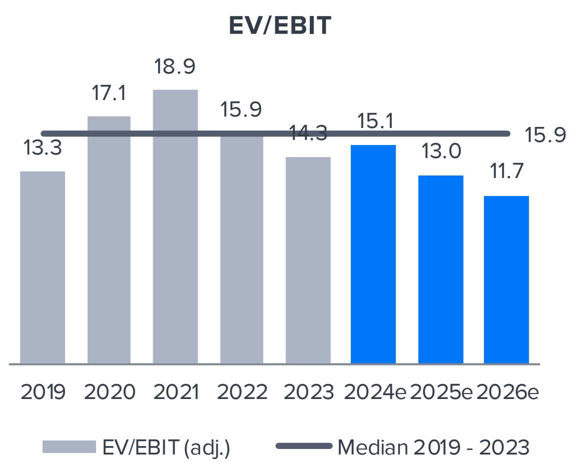
Source: Inderes

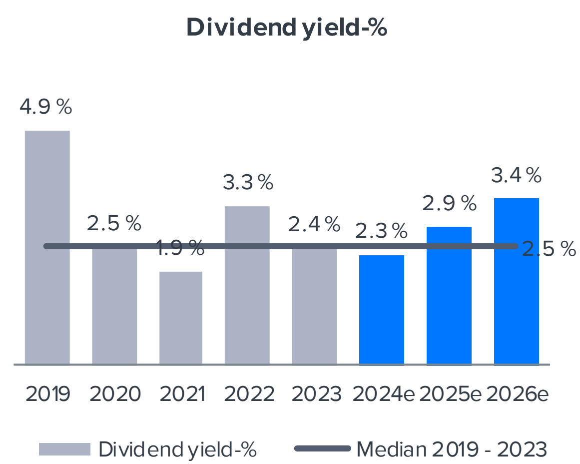
Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	9.85	8.15	12.4	7.87	13.1	**17.4**	**17.4**	**17.4**	**17.4**
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	**10249**	**10249**	**10249**	**10249**
EV	6601	5255	7326	5158	7804	**10438**	**10157**	**9914**	**9673**
P/E (adj.)	17.2	24.3	28.3	16.7	20.3	**22.0**	**19.0**	**17.2**	**16.0**
P/E	27.0	36.0	37.8	neg.	25.2	**22.2**	**19.0**	**17.2**	**16.0**
P/B	2.4	2.2	3.2	2.2	3.5	**4.1**	**3.7**	**3.3**	**3.0**
P/S	1.1	1.0	1.5	0.8	1.3	**1.4**	**1.4**	**1.3**	**1.2**
EV/Sales	1.3	1.1	1.5	0.9	1.3	**1.5**	**1.4**	**1.3**	**1.2**
EV/EBITDA	11.0	12.1	14.4	15.5	12.1	**12.5**	**10.8**	**9.8**	**9.1**
EV/EBIT (adj.)	13.3	17.1	18.9	15.9	14.3	**15.1**	**13.0**	**11.7**	**10.7**
Payout ratio (%)	131.5 %	88.3 %	73.4 %	neg.	61.4 %	**51.0 %**	**54.5 %**	**59.4 %**	**59.9 %**
Dividend yield-%	4.9 %	2.5 %	1.9 %	3.3 %	2.4 %	**2.3 %**	**2.9 %**	**3.4 %**	**3.7 %**

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	8766	9582	12.1	10.8	9.8	9.2	1.8	1.7	15.3	13.9	3.6	3.8	3.0
Kone Oyj	23299	22779	16.9	15.6	14.1	13.1	2.0	2.0	21.9	20.2	4.2	4.4	8.0
Konecranes Abp	3684	4029	9.0	8.5	7.3	6.9	1.0	1.0	12.1	11.4	3.2	3.5	2.1
Siemens Energy AG	14192	12245	23.0	12.8	7.9	5.0	0.4	0.4	3560.0	22.7	0.0		1.6
Abb Ltd	85587	87966	17.3	15.9	14.9	13.7	2.8	2.7	23.0	20.9	2.0	2.1	6.0
Alfa Laval AB	16549	17438	19.6	17.6	15.4	14.6	3.0	2.9	24.7	22.9	1.7	1.8	4.7
Alstom SA	5728	8259	11.7	8.4	6.4	5.4	0.5	0.5	12.0	8.3	2.1	2.4	0.6
Caterpillar Inc	157563	186416	14.5	14.1	12.8	12.5	3.0	2.9	15.8	15.0	1.6	1.7	7.8
General Electric Co	164575	164114	26.4	22.9	21.4	19.2	4.1	4.3	41.3	32.0	0.6	0.8	8.6
Rolls-Royce Holdings PLC	39814	42149	18.4	16.0	12.5	11.3	2.1	2.0	26.9	22.1	0.7	1.2	
Woodward Inc	8429	8965	21.1	19.7	16.6	15.4	3.0	2.8	27.9	25.0	0.6	0.7	4.0
Wartsila (Inderes)	**10249**	**10438**	**15.1**	**13.0**	**12.5**	**10.8**	**1.5**	**1.4**	**22.0**	**19.0**	**2.3**	**2.9**	**4.1**
Average			**17.3**	**14.8**	**12.6**	**11.5**	**2.1**	**2.1**	**343.7**	**19.5**	**1.9**	**2.3**	**4.6**
Median			**17.3**	**15.6**	**12.8**	**12.5**	**2.1**	**2.0**	**23.0**	**20.9**	**1.7**	**2.0**	**4.3**
Diff-% to median			***-12%***	***-17%***	***-3%***	***-13%***	***-31%***	***-30%***	***-4%***	***-9%***	***32%***	***44%***	***-5%***

Source: Refinitiv / Inderes

Income statement

Income statement	2022	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	**5843**	**5784**	**1322**	**1591**	**1859**	**2318**	**7091**	**7391**	**7844**	**8212**
Marine	2758	2800	708	781	745	893	3127	3428	3651	3880
Energy	2721	2610	452	640	924	1189	3205	3227	3437	3582
Portfolio Business	364	374	162	170	190	236	758	737	756	750
EBITDA	**236**	**644**	**162**	**189**	**201**	**286**	**838**	**940**	**1014**	**1068**
Depreciation	-263	-193	-35	-38	-39	-40	-152	-161	-163	-161
EBIT (excl. NRI)	**324**	**546**	**132**	**151**	**162**	**246**	**691**	**779**	**850**	**907**
EBIT	**-27**	**451**	**127**	**151**	**162**	**246**	**686**	**779**	**850**	**907**
Marine	-56	277	77	87	86	124	375	428	462	489
Energy	82	209	50	62	73	117	302	339	372	400
Portfolio Business	-52	-35	0	2	3	5	9	13	17	19
Net financial items	-7	-37	-9	-5	-5	-5	-23	-5	3	9
PTP	**-34**	**414**	**118**	**146**	**157**	**241**	**663**	**775**	**853**	**917**
Taxes	-27	-95	-32	-40	-43	-65	-180	-210	-231	-249
Minority interest	-6	-12	-1	-5	-5	-10	-21	-25	-27	-29
Net earnings	**-67**	**307**	**85**	**102**	**110**	**166**	**462**	**540**	**595**	**639**
EPS (adj.)	**0.47**	**0.65**	**0.15**	**0.17**	**0.19**	**0.28**	**0.79**	**0.92**	**1.01**	**1.09**
EPS (rep.)	**-0.11**	**0.52**	**0.14**	**0.17**	**0.19**	**0.28**	**0.78**	**0.92**	**1.01**	**1.09**

Key figures	2022	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	22.3 %	-1.0 %	-9.8 %	18.8 %	35.1 %	44.6 %	22.6 %	4.2 %	6.1 %	4.7 %
Adjusted EBIT growth-%	-16.5 %	68.5 %	48.3 %	13.5 %	31.7 %	22.3 %	26.5 %	12.8 %	9.1 %	6.7 %
EBITDA-%	4.0 %	11.1 %	12.3 %	11.9 %	10.8 %	12.3 %	11.8 %	12.7 %	12.9 %	13.0 %
Adjusted EBIT-%	5.5 %	9.4 %	10.0 %	9.5 %	8.7 %	10.6 %	9.7 %	10.5 %	10.8 %	11.0 %
Net earnings-%	-1.1 %	5.3 %	6.4 %	6.4 %	5.9 %	7.2 %	6.5 %	7.3 %	7.6 %	7.8 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**2559**	**2553**	**2612**	**2609**	**2625**
Goodwill	1288	1273	1273	1273	1273
Intangible assets	392	402	445	429	420
Tangible assets	562	562	575	588	613
Associated companies	29	33	35	35	35
Other investments	19	19	18	18	18
Other non-current assets	72	52	50	50	50
Deferred tax assets	197	212	216	216	216
Current assets	**4049**	**4250**	**4715**	**4915**	**5216**
Inventories	1361	1485	1702	1774	1883
Other current assets	54	5	0	0	0
Receivables	2173	1943	2482	2587	2745
Cash and equivalents	461	817	532	554	588
Balance sheet total	**6608**	**6803**	**7327**	**7524**	**7841**

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**2148**	**2233**	**2508**	**2812**	**3112**
Share capital	336	336	336	336	336
Retained earnings	1891	1989	2263	2567	2867
Hybrid bonds	0	0	0	0	0
Revaluation reserve	61	61	61	61	61
Other equity	-152	-161	-161	-161	-161
Minorities	12	8	9	9	9
Non-current liabilities	**1355**	**1405**	**1208**	**1005**	**841**
Deferred tax liabilities	65.0	69.0	64.0	64.0	64.0
Provisions	396	372	372	372	372
Interest bearing debt	740	739	547	344	180
Convertibles	0	0	0	0	0
Other long term liabilities	154	225	225	225	225
Current liabilities	**3105**	**3165**	**3611**	**3707**	**3888**
Interest bearing debt	209	120	137	85	44
Payables	2874	3045	3474	3622	3844
Other current liabilities	22	0	0	0	0
Balance sheet total	**6608**	**6803**	**7327**	**7524**	**7841**

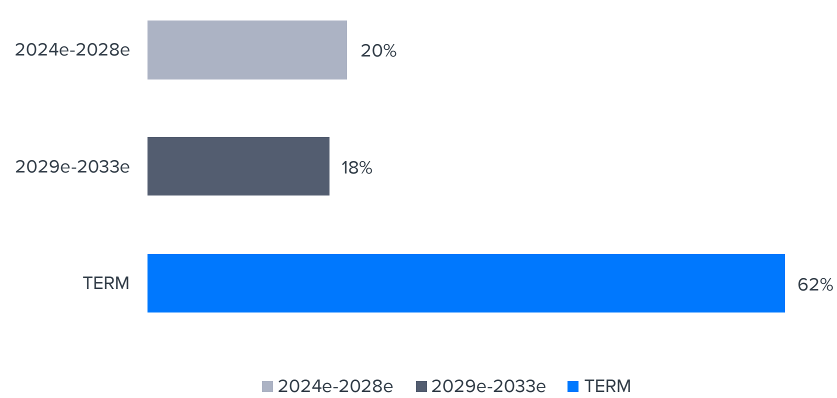
DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-1.0 %	22.6 %	4.2 %	6.1 %	4.7 %	4.3 %	4.0 %	3.6 %	3.2 %	2.9 %	2.5 %	2.5 %
EBIT-%	7.8 %	9.7 %	10.5 %	10.8 %	11.0 %	10.7 %	10.4 %	10.0 %	9.7 %	9.3 %	9.0 %	9.0 %
EBIT (operating profit)	**451**	**686**	**779**	**850**	**907**	**917**	**923**	**925**	**922**	**915**	**904**	
+ Depreciation	193	152	161	163	161	152	155	157	161	163	167	
- Paid taxes	-106	-189	-210	-231	-249	-253	-255	-255	-254	-251	-248	
- Tax, financial expenses	-11	-10	-5	-3	-1	0	0	0	0	-1	-1	
+ Tax, financial income	2	4	3	3	4	4	5	4	4	4	4	
- Change in working capital	304	-321	-30	-45	-37	-36	-34	-32	-30	-27	-24	
Operating cash flow	**834**	**322**	**699**	**738**	**785**	**785**	**794**	**800**	**803**	**803**	**801**	
+ Change in other long-term liabilities	47	0	0	0	0	0	0	0	0	0	0	
- Gross CAPEX	-168	-205	-158	-179	-171	-170	-169	-182	-181	-190	-196	
Free operating cash flow	**713**	**117**	**540**	**559**	**615**	**615**	**625**	**617**	**622**	**613**	**606**	
+/- Other	0	0	0	0	0	0	0	0	0	0	0	
FCFF	713	117	540	559	615	615	625	617	622	613	606	12519
Discounted FCFF		**111**	**479**	**461**	**472**	**439**	**416**	**382**	**358**	**328**	**302**	**6241**
Sum of FCFF present value		9989	9877	9398	8937	8465	8026	7611	7229	6871	6543	6241
Enterprise value DCF		**9989**										
- Interest bearing debt		-859										
+ Cash and cash equivalents		817										
-Minorities		-37										
-Dividend/capital return		-188										
Equity value DCF		**9721**										
Equity value DCF per share		**16.5**										

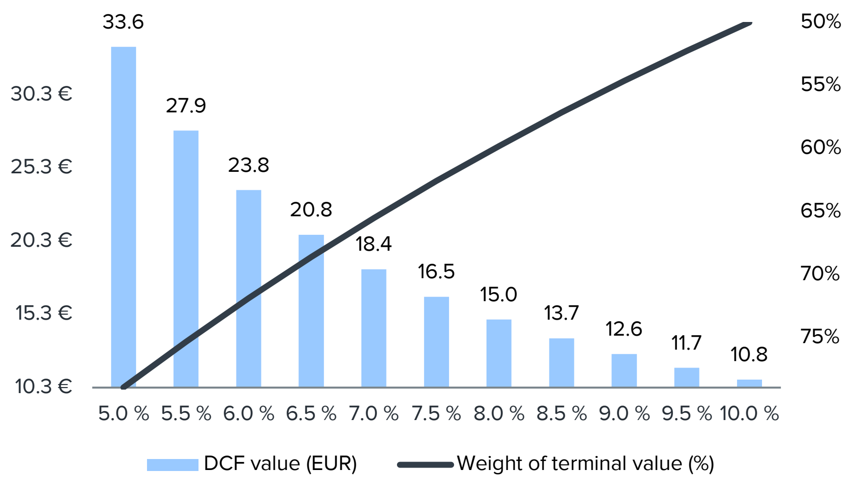
WACC	
Tax-% (WACC)	26.0 %
Target debt ratio (D/(D+E)	20.0 %
Cost of debt	3.5 %
Equity Beta	1.30
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	**8.7 %**
Weighted average cost of capital (WACC)	**7.5 %**

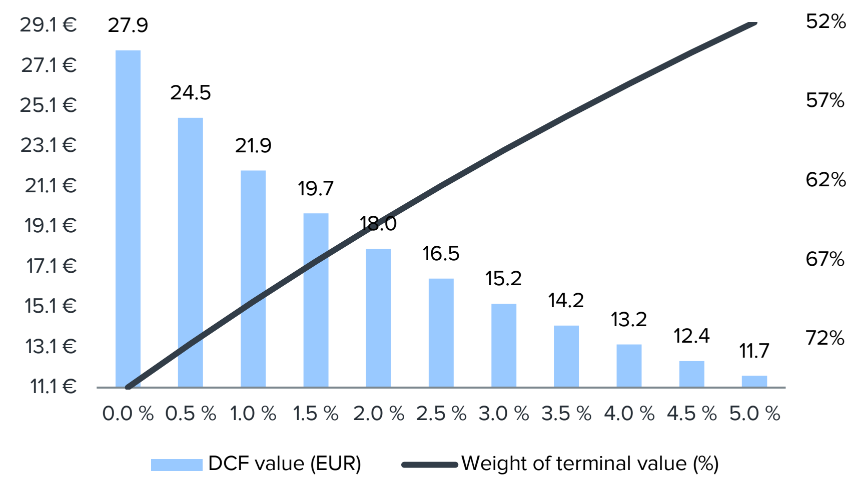
Source: Inderes

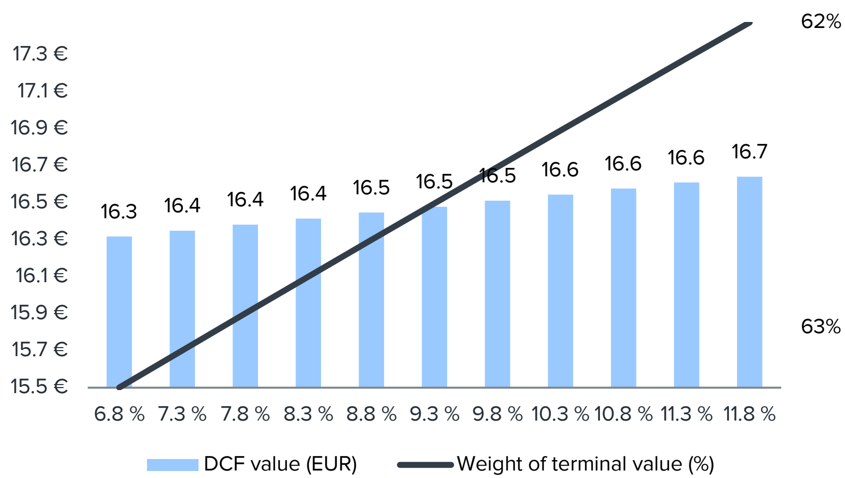
Cash flow distribution

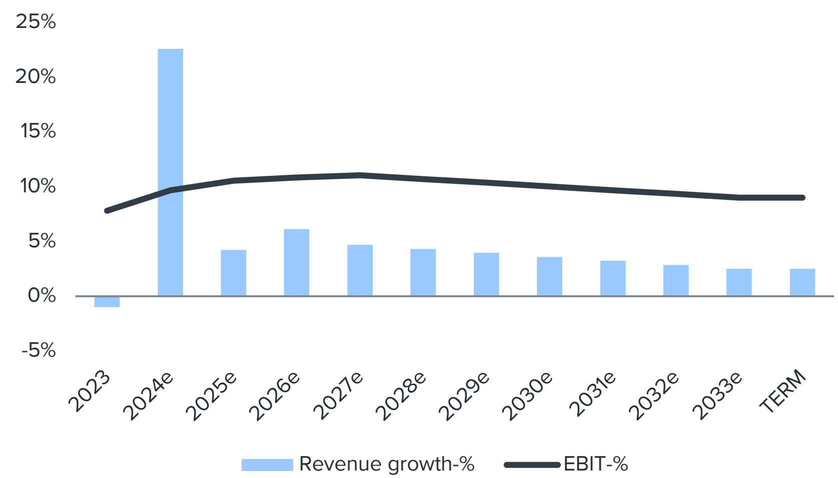


DCF sensitivity calculations and key assumptions in graphs









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
Revenue	4778.0	5843.0	5784.0	**7090.6**	**7391.0**
EBITDA	476.0	236.0	644.0	**837.7**	**940.0**
EBIT	314.0	-27.0	451.0	**685.7**	**779.3**
PTP	296.0	-34.0	414.0	**663.2**	**774.5**
Net Income	193.0	-67.0	307.0	**462.4**	**540.0**
Extraordinary items	-74.0	-351.0	-95.0	**-5.0**	**0.0**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	6523.0	6608.0	6803.0	**7326.9**	**7524.2**
Equity capital	2323.0	2148.0	2233.0	**2507.9**	**2812.2**
Goodwill	1374.0	1288.0	1273.0	**1273.0**	**1273.0**
Net debt	8.0	488.0	42.0	**151.9**	**-124.9**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	476.0	236.0	644.0	**837.7**	**940.0**
Change in working capital	424.0	-357.0	304.0	**-321.1**	**-30.0**
Operating cash flow	795.7	-179.8	833.5	**321.7**	**698.6**
CAPEX	-286.0	-251.0	-168.0	**-204.7**	**-158.3**
Free cash flow	472.7	-358.8	712.5	**117.0**	**540.4**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	1.5	0.9	1.3	**1.5**	**1.4**
EV/EBITDA (adj.)	14.4	15.5	12.1	**12.5**	**10.8**
EV/EBIT (adj.)	18.9	15.9	14.3	**15.1**	**13.0**
P/E (adj.)	28.3	16.7	20.3	**22.0**	**19.0**
P/B	3.2	2.2	3.5	**4.1**	**3.7**
Dividend-%	1.9 %	3.3 %	2.4 %	**2.3 %**	**2.9 %**

Source: Inderes

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	0.33	-0.11	0.52	**0.78**	**0.92**
EPS (adj.)	0.44	0.47	0.65	**0.79**	**0.92**
OCF / share	1.35	-0.30	1.42	**0.55**	**1.19**
FCF / share	0.80	-0.61	1.21	**0.20**	**0.92**
Book value / share	3.92	3.62	3.78	**4.24**	**4.76**
Dividend / share	0.24	0.26	0.32	**0.40**	**0.50**

Growth and profitability	2021	2022	2023	2024e	2025e
Revenue growth-%	4%	22%	-1%	**23%**	**4%**
EBITDA growth-%	17%	-50%	173%	**30%**	**12%**
EBIT (adj.) growth-%	26%	-16%	69%	**27%**	**13%**
EPS (adj.) growth-%	30%	8%	37%	**23%**	**16%**
EBITDA-%	10.0 %	4.0 %	11.1 %	**11.8 %**	**12.7 %**
EBIT (adj.)-%	8.1 %	5.5 %	9.4 %	**9.7 %**	**10.5 %**
EBIT-%	6.6 %	-0.5 %	7.8 %	**9.7 %**	**10.5 %**
ROE-%	8.6 %	-3.0 %	14.1 %	**19.6 %**	**20.4 %**
ROI-%	9.5 %	0.1 %	14.8 %	**22.3 %**	**24.6 %**
Equity ratio	38.6 %	35.8 %	36.2 %	**38.3 %**	**41.8 %**
Gearing	0.3 %	22.7 %	1.9 %	**6.1 %**	**-4.4 %**

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 %	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

*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

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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 €
4/24/2024	Accumulate	50.00 €	45.05 €

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