

Machinery, Finland

Wartsila

Massive upside doesn't outweigh short-term worries

- Orders down, deliveries postponed, costs elevated
- Services lend stability and more than justify the current EV
- Reiterate HOLD

Order intake is the main short-term headache

High cruise exposure, once an opportunity, is now the biggest headache at Marine, affecting both services and new orders. Shipyards have been closed or running at low capacity, delaying deliveries in all shipping segments. Together with restrictions and general uncertainty, this has postponed decision-making and reduced the order intake. Energy orders are at historic lows, but we expect further decline. Complex orders are not easy to win if people cannot travel. We assume Wärtsilä's equipment orders will decline by 36% in Q1 and 67% in Q2.

Services will be relatively stable

We model a 10% decline in Marine services in 2020, mainly because we assume cruises will be down 50%. Energy generation is critical and Wärtsilä's remote and digital services now have an opportunity to proof their value. Thanks to a larger installed base and success in contracts, we expect Energy services to be up 5% and thus group services to be down only 5% in 2020.

Huge upside once uncertainty dissipates

2020e adjusted EBIT is down 28% because of lower orders, delays in deliveries and lower margin due to cost-absorption issues. With depressed 2020e, Wärtsilä is trading at a 30% discount to normalised EV/EBIT at 13x. If we value services with over-the-cycle multiple, the implicit value for equipment is EUR -2bn. However, this upside will not materialise until there is more clarity as to when equipment orders will hit bottom and thus we reiterate HOLD.

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Company page on Handelsbanken's REON

EURm	2017	2018	2019	2020e	2021e
Sales	4,912	5,174	5,170	4,329	5,083
Sales growth (%)	2.3	5.3	-0.08	-16.3	17.4
EBITDA adj	696	694	646	524	609
margin (%)	14.2	13.4	12.5	12.1	12.0
EBIT adj	575	577	457	384	504
margin (%)	11.7	11.2	8.8	8.9	9.9
EBT	491	528	315	329	474
EPS rep (EUR)	0.64	0.64	0.36	0.43	0.61
EPS adj (EUR)	0.70	0.61	0.52	0.45	0.61
Y-o-y growth (%)	4	-13	-14	-13	34
EPS adj revisions (%)	n.m	n.m	n.m	-30	-16
P/E adj (x)	25.0	22.7	18.8	13.8	10.3
P/BV (x)	4.4	3.4	2.5	1.6	1.5
ROE adj (%)	18.0	15.3	13.0	11.4	15.2
EV/EBIT (x)	18.5	14.9	13.1	9.8	8.0
EV/EBITDA (x)	14.9	12.1	9.5	7.3	6.4
EV/sales (x)	2.1	1.6	1.2	0.89	0.77
FCF adj yield (%)	3.7	5.3	4.3	11.8	5.6
Tot DPS (EUR)	0.46	0.48	0.48	0.50	0.52
Tot div yield (%)	2.6	3.5	4.9	8.0	8.3
Net debt/equity (%)	4.1	10.4	29.3	23.1	26.1

Source: Handelsbanken Capital Markets

Estimate changes



Sell



HOLD



Buy

Company Update Q1 2020

April 03, 2020, 17:12 CET

Share price (EUR) Apr 01, 00:00 CET	6.27
Market cap (EURm)	3,749
No of shares (m)	598
Free float (%)	71.6
Avg daily volume ('000)	1,774
Avg daily value (EURm)	11
Bloomberg	WRT1V.FH
Reuters	WRT1V.HE
Next event	21/04/2020: Q1 report
Web address:	Link to company website
IR web address:	Link to IR website

12m target return	
Target price, inc. div. (EUR)	6.5
Expected total return (%)	3.6
Expected total dividend yield (%)	8.0
DCF value (EUR)	15

Balance sheet 2019	
Net debt (EURm)	705
Net debt/equity (%)	29.3
ROE (%)	9.1
ROIC (%)	14.2

2020-04-03	Votes (%)	Capital (%)
Investor	17.68	17.68
Fiskars	5.52	5.52
Varma Pension Insurance	5.2	5.2
Ilmarinen Pension Insurance	1.3	1.3
The Social Insurance Institution of FIN	0.98	0.98
Total number of shares(m)		591.7
Free float (%)		100

Absolute and relative performance



Share performance (%)	-1m	-3m	-12m
Absolute:	-34.7	-38.9	-58.4
Absolute EUR:	-34.7	-38.9	-58.4
Relative DJStoxx:	-17.9	-15.4	-46.6
52w range (EUR):		15.52 / 5.24	

Source: FactSet

What has changed

EURm	HCM Q1 20e	chg (%)	HCM 2020e	chg (%)	HCM 2021e	chg (%)
Sales	0.0	n.m	4,329	-14	5,083	-1
EBITDA adj	0.0	n.m	523.8	-19	608.7	-12
margin (%)	n.m	n.m	12.1	-6	12.0	-12
EBIT adj	0.0	n.m	383.8	-28	503.7	-15
margin (%)	n.m	n.m	8.9	-16	9.9	-14
EBT	0.0	n.m	328.8	-32	473.7	-15
Net income	0.0	n.m	256.5	-32	364.5	-16
EPS (EUR)	0.00	n.m	0.43	-32	0.61	-16
EPS adj (EUR)	0.00	n.m	0.45	-30	0.61	-16

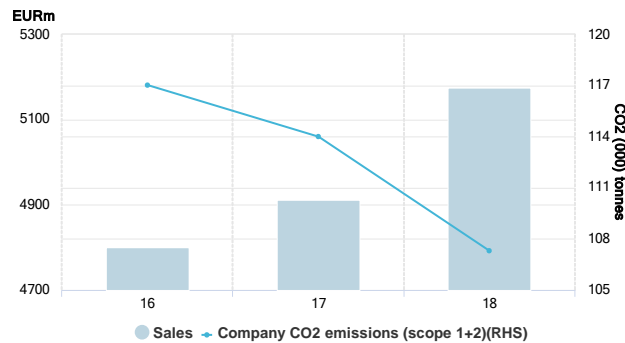
Source: Handelsbanken Capital Markets

HCM vs. consensus

EURm	Cons Q1 20	diff (%)	Cons 2020	diff (%)	Cons 2021e	diff (%)
Sales	-	n.m	5,150	-16	-	n.m
EBITDA adj	-	n.m	677.7	-23	-	n.m
margin (%)	n.m	n.m	13.2	-1	n.m	12
EBIT adj	-	n.m	545.5	-30	-	n.m
margin (%)	n.m	n.m	10.6	-2	n.m	10
EBT	-	n.m	516.8	-36	-	n.m
Net income	-	n.m	365.8	-30	-	n.m
EPS (EUR)	-	n.m	0.62	-31	-	n.m
EPS adj (EUR)	-	n.m	0.66	-31	-	n.m

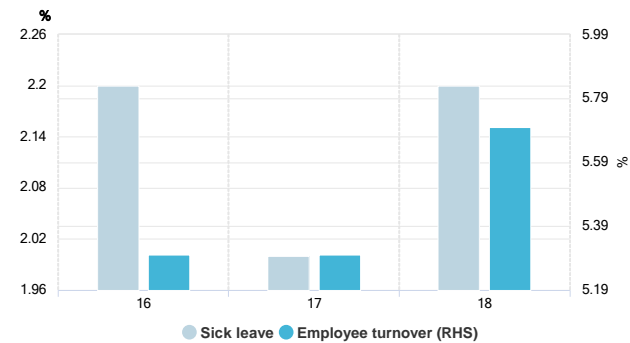
Source: Handelsbanken Capital Markets and

ESG analysis, environmental



Source: Company data, Handelsbanken Capital Markets

ESG analysis, social



Source: Company data, Handelsbanken Capital Markets

ESG analysis, governance

	2018
Anonymous hotline	yes
Designated ESG manager	no
Board gender diversity (women) (%)	25.0

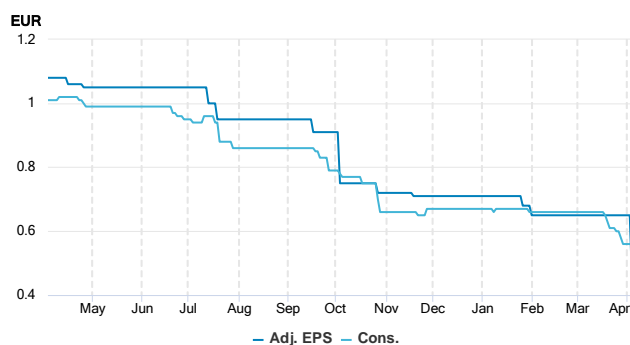
Source: Company data, Handelsbanken Capital Markets

Risks

- High volatility in orders
- Shipping companies suffer from weak profitability
- Emerging markets key for Energy Solution

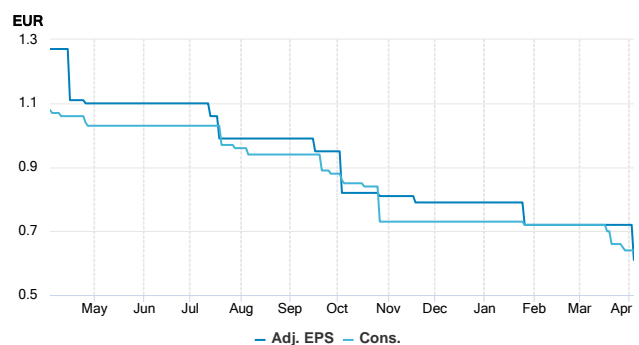
Source: Handelsbanken Capital Markets

EPS 2020 estimate revisions



Source: Handelsbanken Capital Markets and FactSet

EPS 2021 estimate revisions



Source: Handelsbanken Capital Markets and FactSet

Investment case

In an effort to balance massive upside and short-term concerns over orders and earnings, we reiterate HOLD and cut our target price to EUR 6.5 (11.5). We cut adjusted EBIT by 28% for 2020e and by 15% for 2021e because of lower orders and expected delays in deliveries. Even if the company adjusts its cost base with temporary lay-offs, fixed cost absorption is a problem and thus margin will decline. We see pressure on Marine cruise-relates services, but in general expect services to be relatively stable, as in previous crises. If we value services at Wärtsilä's over-the-cycle multiple, which obviously is low, the implicit value for equipment is roughly EUR -2bn. Thus, the current share price does not assume any recovery in the equipment business. However, we don't see that changing in the near future, as equipment orders have decreased massively. We model a 20% decline in orders in Q1 (equipment down 36%) and a severe 41% drop in Q2 (equipment down 67%). History has shown that Wärtsilä's share price correlates well with orders and thus we don't have the courage to upgrade yet.

Table 1: SOTP

	2018	2019	2020e	2021e	2022e
The implicit value of equipment is roughly EUR -2bn	Service				
	Revenue	2419	2502	2405	2686
	of which Marine	1577	1639	1475	1696
	of which Energy	842	863	930	990
	EBIT margin (est)	18.5%	18.0%	18.0%	18.0%
	EBIT (est)	448	450	433	484
	of group EBIT	78%	99%	113%	96%
That leaves us with a services EV/EBIT of 7-9x, unbecoming of a leader in services	Equipment & projects				
	Revenue	2755	2668	1924	2396
	EBIT margin (est)	8.2%	0.3%	-2.0%	0.8%
	EBIT (est)	199	7	-49	20
	Service				
	EV/EBIT (x)	13.0	13.0	13.0	12.0
	EV	5818	5855	5628	5803
	Group EV (market)	9045	6585	3840	3905
	Service of market EV	64%	89%	147%	149%
	Implicit EV for equipment & projects	3227	731	-1788	-1897
	if Service 100% of group EV and EBIT				
	Service EV/EBIT	20.2	14.6	8.9	8.1

Source: Handelsbanken Capital Markets

Group services orders likely to decline by 5% in 2020

Cruise-related services will be hardest hit

We expect group services orders to decline by 5% in 2020. The biggest risk obviously relates to cruises, which account for close to 30% of Marine services. The cruise industry is at a complete standstill and faces serious financial issues. Thus, we assume cruise-related services will be down 50%. In China and Korea, shipyards are opening, which is likely to support scrubber installations and other services. However, given that capacity has been around 30-80% of normal, the impact for H1 is evident. Energy is critical for economies and everything possible will be done to ensure normal operations there. Wärtsilä has invested significantly in remote and digitalised services and those investments are now paying off. Its installed base has increased and the share of its installed base covered by contracts has developed well, and we expect this trend to continue.

Table 2: Services orders 2019-22e

		Orders EURm				Change y-o-y		
		2019	2020e	2021e	2022e	2020e	2021e	2022e
Services will be stable, other than for cruises	Marine service orders	1713	1536	1695	1833	-10%	10%	8%
	Cruise and ferry	465	233	291	320	-50%	25%	10%
	Offshore	161	145	153	160	-10%	5%	5%
	Navy	253	266	292	321	5%	10%	10%
	Special vessel	159	167	176	184	5%	5%	5%
Energy is critical and should benefit from growth of installed base	Merchant	373	448	492	542	20%	10%	10%
	Gas carriers	238	214	225	236	-10%	5%	5%
	Other	63	63	67	70	0%	5%	5%
	Energy service orders	964	1012	1063	1095	5%	5%	3%
	Group service	2677	2548	2758	2928	-5%	8%	6%

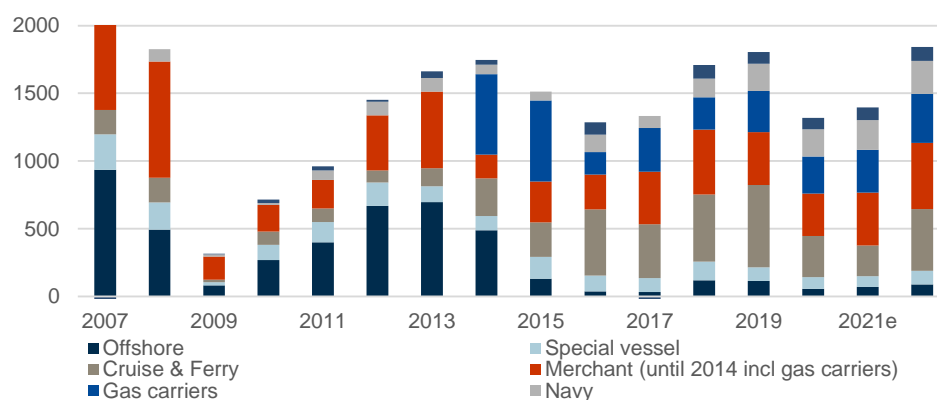
Source: Handelsbanken Capital Markets

H1 orders to be down massively

We assume a 36% decline in equipment orders in Q1, followed by a severe 67% drop in Q2. Lower comparisons and a potential easing of the COVID-19 pandemic will hopefully help in H2, and we model low-single-digit growth.

Marine equipment orders likely to be down 27% in 2020

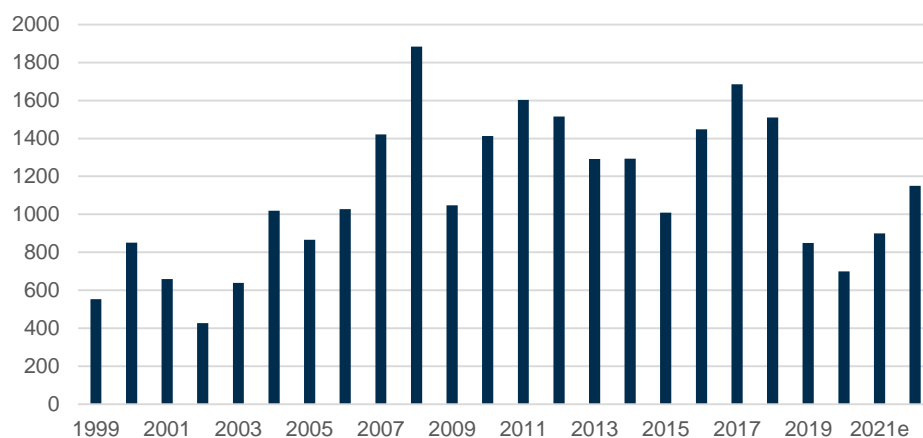
In general, we see big risks at Marine. Deliveries will be delayed as the majority of cruise ships are made in Europe and yards are closed. When they reopen, it will take time to catch up. Lead times are long and getting longer, which will obviously delay orders. Even worse, orders for shipyards could be cancelled because of cruise companies' financial constraints. Thus, we expect orders will decline further in 2021e. In China and Korea, shipyards are back in business, but not yet at full capacity. In 2009, Wärtsilä's Marine equipment orders dropped to the level of EUR 350m. At that time, the biggest headache was offshore, after several boom years. At this point, we don't expect Marine orders to be hit as hard as they were in 2009. We model a 27% decline for Marine orders (with cruise and offshore down 50%).

Figure 1: Marine equipment orders

Source: Handelsbanken Capital Markets

Although Energy equipment orders dropped to historically low levels in 2019, we expect further decline in 2020.

Figure 2: Energy equipment orders

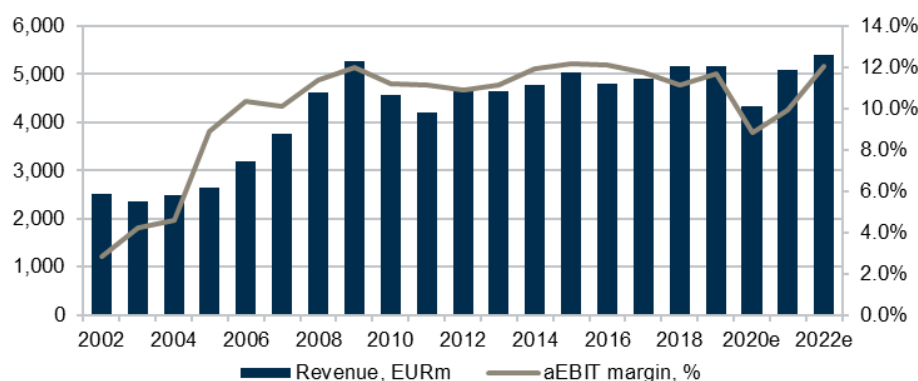


Source: Handelsbanken Capital Markets

We cut our 2020e revenue estimate by 14% (revenue down 16% y-o-y) because of lower orders and delayed deliveries. Wärtsilä aims to achieve EUR 100m in savings via temporary lay-offs, which are included in our cost model. However, given a lower top line, this will not be enough to maintain profitability.

Figure 3: Group revenue and margin

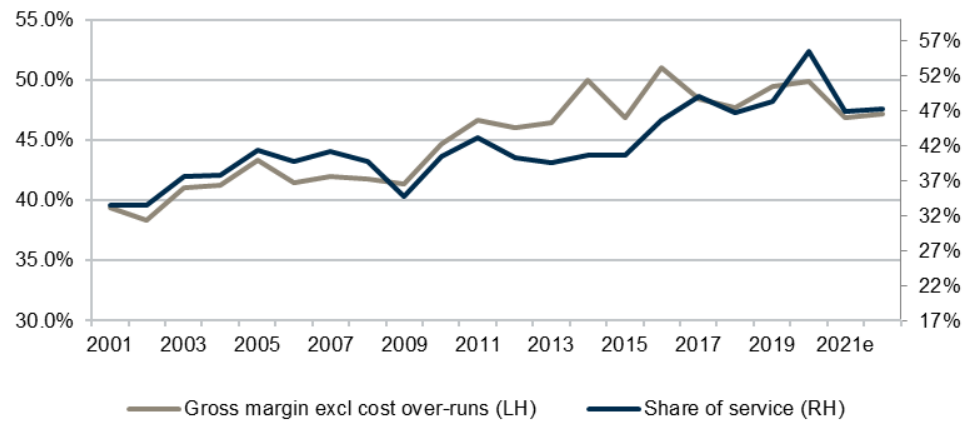
We model an 8.9% adjusted EBIT margin for 2020e vs 11.7% in 2019



Source: Handelsbanken Capital Markets

Figure 4: Gross margin and sales mix

We assume margin after material and external services to be flat in 2020



Source: Handelsbanken Capital Market

Figure 5: Fixed costs and costs of sales

We assume fixed costs will be down by more than EUR 100m in 2020



Source: Handelsbanken Capital Markets

Estimates

Table 3: Estimate changes

	2019 act	old	2020e new	change	old	2021e new	change	old	2022e new	change
Revenue	5170	5060	4329	-14%	5119	5083	-1%	5629	5401	-4%
Equipment	2668	2393	1924	-20%	2287	2396	5%	2646	2485	-6%
Service	2502	2667	2405	-10%	2832	2686	-5%	2984	2916	-2%
Marine	3330	3397	2709	-20%	3400	3321	-2%	3701	3436	-7%
Equipment	1691	1659	1234	-26%	1558	1624	4%	1768	1570	-11%
Service	1639	1737	1475	-15%	1842	1696	-8%	1934	1866	-3%
Energy	1840	1664	1620	-3%	1719	1762	3%	1928	1965	2%
Equipment	977	734	690	-6%	729	772	6%	878	915	4%
Service	863	930	930	0%	990	990	0%	1050	1050	0%
adj. EBIT	458	536	384	-28%	590	504	-15%	672	652	-3%
Marine	305	391	244	-38%	425	339	-20%	470	447	-5%
Energy	153	145	140	-3%	165	165	0%	202	205	1%
EBIT margin	8.9%	10.6%	8.9%		11.5%	9.9%		11.9%	12.1%	
Marine	9.2%	11.5%	9.0%		12.5%	10.2%		12.7%	13.0%	
Energy	8.3%	8.7%	8.6%		9.6%	9.4%		10.5%	10.4%	
Orders	5330	5316	4567	-14%	5607	5054	-10%	6300	5920	-6%
Equipment	2653	2480	2019	-19%	2650	2296	-13%	3200	2992	-7%
Service	2677	2836	2548	-10%	2957	2758	-7%	3100	2928	-6%
Marine	3517	3496	2855	-18%	3657	3091	-15%	4070	3675	-10%
Equipment	1804	1680	1319	-21%	1750	1396	-20%	2050	1842	-10%
Service	1713	1816	1536	-15%	1907	1695	-11%	2020	1833	-9%
Energy	1813	1820	1712	-6%	1950	1963	1%	2230	2245	1%
Equipment	849	800	700	-13%	900	900	0%	1150	1150	0%
Service	964	1020	1012	-1%	1050	1063	1%	1080	1095	1%
EBIT	362	521	369	-29%	590	504	-15%	672	652	-3%
PTP	315	481	329	-32%	550	464	-16%	632	612	-3%
EPS	0.36	0.63	0.43	-32%	0.72	0.61	-16%	0.83	0.80	-3%
adj. EPS	0.52	0.65	0.45	-30%	0.72	0.61	-16%	0.83	0.80	-3%

Source: Handelsbanken Capital Markets

Table 4: Group orders

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
Group order intake	5,633	5,573	3,291	4,005	4,516	4,929	4,839	5,084	4,922	4,927	5,643	5,819	5,330	4,567	5,054	5,920
Growth (%)	22%	-1%	-41%	22%	13%	9%	-2%	5%	-3%	0%	15%	3%	-8%	-14%	11%	17%
book-to-bill	1.50	1.21	0.63	0.87	1.08	1.04	1.04	1.06	0.98	1.03	1.15	1.12	1.03	1.05	0.99	1.10
Order backlog	6,305	6,880	4,491	3,795	4,006	4,588	4,407	4,530	4,882	4,696	5,064	6,166	5,878	6,116	6,087	6,606
Growth (%)	42%	9%	-35%	-15%	6%	15%	-4%	3%	8%	-4%	8%	22%	-5%	4%	0%	9%
Marine equipment	2,600	1,826	317	657	1,000	1,453	1,662	1,746	1,599	1,285	1,288	1,710	1,804	1,319	1,396	1,842
Offshore	936	493	82	269	400	668	698	489	132	39	32	120	114	57	71	89
Special vessel	260	201	22	112	150	174	116	105	161	116	103	137	101	86	78	101
Cruise & Ferry	182	183	19	99	100	87	133	279	255	488	399	496	608	304	228	456
Merchant (until 2014 incl gas carriers)	1118	858	171	197	210	407	565	175	300	257	387	479	390	312	390	488
Gas carriers								594	600	167	322	239	304	274	315	362
Navy	130	91	16	13	70	102	100	70	65	129	90	137	201	201	221	243
Other	-26	0	6	26	30	15	50	35	0	90	-46	103	85	85	94	103
Change y-o-y		-30%	-83%	107%	52%	45%	14%	5%	-8%	-20%	0%	33%	5%	-27%	6%	32%
Offshore		-47%	-83%	227%	48%	67%	4%	-30%	-73%	-71%	-16%	272%	-5%	-50%	25%	25%
Special vessel		-23%	-89%	403%	34%	16%	-33%	-10%	54%	-28%	-11%	33%	-26%	-15%	-10%	30%
Cruise & Ferry		0%	-90%	418%	1%	-13%	53%	110%	-9%	91%	-18%	24%	23%	-50%	-25%	100%
Merchant (until 2014 incl gas carriers)		-23%	-80%	15%	7%	94%	39%	-69%	72%	-14%	51%	24%	-19%	-20%	25%	25%
Gas carriers									1%	-72%	93%	-26%	27%	-10%	15%	15%
Navy		-30%	-83%	-17%	433%	45%	-2%	-30%	-7%	98%	-30%	52%	47%	0%	10%	10%
Energy equipment	1,421	1,883	1,048	1,413	1,602	1,515	1,292	1,293	1,009	1,448	1,685	1,511	849	700	900	1,150
Growth (%)	38%	33%	-44%	35%	13%	-5%	-15%	0%	-22%	44%	16%	-10%	-44%	-18%	29%	28%
book-to-bill	1.61	1.49	0.64	0.93	1.17	1.01	0.89	1.14	0.90	1.54	1.20	1.00	0.87	1.01	1.17	1.26
Service orders	1,607	1,858	1,917	1,931	1,909	1,961	1,885	2,045	2,324	2,194	2,670	2,598	2,677	2,548	2,758	2,928
Growth (%)	21%	16%	3%	1%	-1%	3%	-4%	8%	14%	-6%	22%	-3%	3%	-5%	8%	6%
book-to-bill	1.04	1.02	1.05	1.04	1.05	1.03	1.02	1.05	1.06	1.00	1.11	1.07	1.07	1.06	1.03	1.00
										532	574	591	512	369	504	652

Source: Handelsbanken Capital Markets

Table 5: Sales and estimated EBIT margin by business line

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
Sales																
Marine equipment	1,320	1,531	1,767	1,201	1,022	1,301	1,325	1,702	1,702	1,667	1,104	1,238	1,691	1,234	1,624	1,570
Growth (%)	34%	16%	15%	-32%	-15%	27%	2%	28%	0%	-2%	-34%	12%	37%	-27%	32%	-3%
Energy equipment	882	1,261	1,645	1,525	1,365	1,498	1,459	1,138	1,139	943	1,401	1,517	977	690	772	915
Growth (%)	-6%	43%	30%	-7%	-10%	10%	-3%	-22%	0%	-17%	49%	8%	-36%	-29%	12%	19%
Services	1,550	1,830	1,830	1,850	1,816	1,908	1,842	1,939	1,940	2,190	2,407	2,419	2,502	2,405	2,686	2,916
of which Spare parts	822	988	988	981	962	1,011	958	989	989	1,073	1,179	1,046	1,061	1,093	1,126	1,160
Other Services	729	842	842	870	854	897	884	950	951	1,117	1,228	1,373	1,441	1,312	1,561	1,756
Growth (%)	22%	18%	0%	1%	-2%	5%	-3%	5%	0%	13%	10%	0%	3%	-4%	12%	9%
Other	11	-10	18	4	-3	18	28	0	1	1	0	0	0	0	0	0
Total sales	3,763	4,612	5,260	4,580	4,200	4,725	4,654	4,779	4,782	4,801	4,912	5,174	5,170	4,329	5,083	5,401
of which Service sales	41%	40%	35%	40%	43%	40%	40%	41%	41%	46%	49%	47%	48%	56%	53%	54%
Energy equipment	23%	27%	31%	33%	33%	32%	31%	24%	24%	20%	29%	29%	19%	16%	15%	17%
Marine equipment	35%	33%	34%	26%	24%	28%	28%	36%	36%	35%	22%	24%	33%	28%	32%	29%
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e	2022e
Services EBIT estimated	209	275	275	278	272	286	286	330	404	416	445	448	450	433	484	525
Services margin estimated	13.5%	15.0%	15.0%	15.0%	15.0%	15.0%	15.5%	17.0%	18.5%	19.0%	18.5%	18.5%	18.0%	18.0%	18.0%	18.0%
Spare parts est.	205	247	247	245	241	253	239	257	301	300	342	314	318	328	338	348
Spare parts margin	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	26.0%	27.0%	28.0%	29.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Other est.	4	27	27	32	32	33	46	73	103	116	103	134	132	105	146	177
Other margin	0.5%	3.3%	3.3%	3.7%	3.7%	3.7%	5.2%	7.6%	9.7%	10.4%	8.4%	9.7%	9.2%	8.0%	9.3%	10.1%
New eqpt. EBIT estimated	171	250	357	236	196	229	234	239	208	167	131	199	7	-49	20	127
New eqpt. Margin estimated	7.8%	9.0%	10.5%	8.7%	8.2%	8.2%	8.4%	8.4%	7.3%	6.4%	5.2%	7.2%	0.2%	-2.6%	0.8%	5.1%
Marine Solutions EBIT estimated	146	185	247	115	74	97	101	159	148	122	81	139	57	-39	-5	82
Marine Solutions margin estimated	11.0%	12.1%	14.0%	9.6%	7.2%	7.4%	7.7%	9.4%	8.6%	7.3%	7.3%	11.3%	3.3%	-3.2%	-0.3%	5.2%
Energy Solutions EBIT estimated	25	65	110	121	122	132	133	80	60	45	50	60	-50	-10	25	45
Energy Solutions margin estimated	2.8%	5.2%	6.7%	7.9%	8.9%	8.8%	9.1%	7.0%	5.3%	4.8%	3.6%	4.0%	-5.1%	-1.4%	3.2%	4.9%
Total aEBIT	380	525	632	514	468	515	520	569	612	583	576	577	457	384	504	652
aEBIT margin	10.1%	11.4%	12.0%	11.2%	11.1%	10.9%	11.2%	11.9%	12.2%	12.1%	11.7%	11.2%	8.8%	8.9%	9.9%	12.1%

Source: Handelsbanken Capital Markets

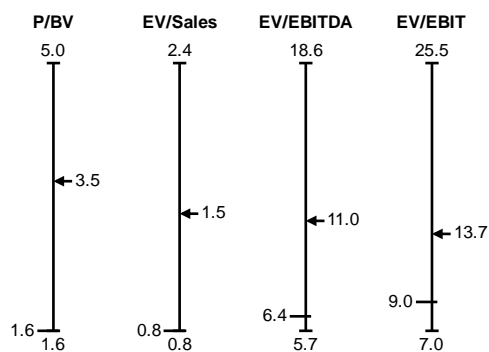
Table 6: Wärtsilä model

Marine																	
	Q1/18	Q2/18	Q3/18	Q4/18	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20e	Q2/20e	Q3/20e	Q4/20e	2018	2019	2020e	2021e	2022e
Orders	877	1027	1009	1031	922	939	705	951	730	490	620	1015	3945	3517	2855	3091	3675
Equipment	428	601	584	584	510	526	260	508	340	150	220	609	2198	1804	1319	1396	1842
Service	449	426	425	447	412	413	445	443	390	340	400	406	1747	1713	1536	1695	1833
Change y-o-y					5%	-9%	-30%	-8%	-21%	-48%	-12%	7%		-11%	-19%	8%	19%
Equipment					19%	-12%	-55%	-13%	-33%	-71%	-15%	20%		-18%	-27%	6%	32%
Service					-8%	-3%	5%	-1%	-5%	-18%	-10%	-8%		-2%	-10%	10%	8%
Backlog	2818	3244	3536	3651	3861	3974	3895	3799	3799	3679	3639	3945	3651	3799	3945	3715	3954
Change y-o-y					37%	23%	10%	4%	0%	-3%	-4%	4%		4%	4%	-6%	6%
Sales	619	685	680	831	733	801	776	1020	730	610	660	709	2815	3330	2709	3321	3436
Equipment	264	299	308	370	363	392	400	536	380	290	320	244	1238	1691	1234	1624	1570
Service	355	386	372	461	370	409	376	484	350	320	340	465	1577	1639	1475	1696	1866
of total	57%	56%	55%	55%	50%	51%	48%	47%	48%	52%	52%	66%	56%	49%	54%	51%	54%
Change y-o-y					18%	17%	14%	23%	0%	-24%	-15%	-31%		18%	-19%	23%	3%
Equipment					38%	31%	30%	45%	5%	-26%	-20%	-55%		37%	-27%	32%	-3%
Service					4%	6%	1%	5%	-5%	-22%	-10%	-4%		4%	-10%	15%	10%
adj. EBIT	57	64	68	190	61	76	49	119	65	40	50	89	380	305	244	339	447
adj. EBIT margin	9.2%	9.3%	10.0%	22.9%	8.3%	9.5%	6.3%	11.7%	8.9%	6.6%	7.6%	12.5%	13.5%	9.2%	9.0%	10.2%	13.0%
NRIs	-2	-10	1	-19	-6	-15	-28	-20	0	0	0	0	-31	-69	0	0	0
EBIT	55	54	69	171	55	61	21	99	65	40	50	89	349	236	244	339	447
Energy Solutions																	
	Q1/18	Q2/18	Q3/18	Q4/18	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20e	Q2/20e	Q3/20e	Q4/20e	2018	2019	2020e	2021e	2022e
Orders	630	526	363	843	494	441	274	604	400	320	400	592	2362	1813	1712	1963	2245
Equipment	414	360	148	589	252	232	40	325	150	100	150	300	1511	849	700	900	1150
Service	216	166	215	254	242	209	234	279	250	220	250	292	851	964	1012	1063	1095
Change y-o-y					-22%	-16%	-25%	-28%	-19%	-27%	46%	-2%		-23%	-6%	15%	14%
Equipment					-39%	-36%	-73%	-45%	-40%	-57%	275%	-8%		-44%	-18%	29%	28%
Service					12%	26%	9%	10%	3%	5%	7%	5%		13%	5%	5%	3%
Backlog	2672	2660	2382	2515	2469	2496	2399	2079	2061	1996	2026	2171	2515	2079	2171	2372	2651
Change y-o-y					-8%	-6%	1%	-17%	-17%	-20%	-16%	4%		-17%	4%	9%	12%
Sales	447	561	650	701	418	416	342	664	418	385	370	447	2359	1840	1620	1762	1965
Equipment	266	368	451	431	215	213	141	408	200	170	160	160	1517	977	690	772	915
Service	181	193	199	270	203	203	201	256	218	215	210	287	842	863	930	990	1050
of total	40%	34%	31%	39%	49%	49%	59%	39%	52%	56%	57%	64%	36%	47%	57%	56%	53%
Change y-o-y					-6%	-26%	-47%	-5%	0%	-7%	8%	-33%		-22%	-12%	9%	12%
Equipment					-19%	-42%	-69%	-5%	-7%	-20%	13%	-61%		-36%	-29%	12%	19%
Service					12%	5%	1%	-5%	7%	6%	4%	12%		2%	8%	6%	6%
adj. EBIT	31	58	73	35	42	37	-9	83	35	25	25	55	197	153	140	165	205
adj. EBIT margin	6.9%	10.3%	11.2%	5.0%	10.0%	8.9%	-2.6%	12.5%	8.4%	6.5%	6.8%	12.3%	8.4%	8.3%	8.6%	9.4%	10.4%
NRIs	-1	-1	0	0	-4	0	-1	-19	0	0	0	0	-3	-24	0	0	0
EBIT	30	57	73	35	38	37	-10	64	35	25	25	55	194	129	140	165	205
Group																	
	Q1/18	Q2/18	Q3/18	Q4/18	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20e	Q2/20e	Q3/20e	Q4/20e	2018	2019	2020e	2021e	2022e
Orders	1507	1553	1372	1874	1416	1380	979	1555	1130	810	1020	1607	6307	5330	4567	5054	5920
Equipment	842	961	732	1173	762	758	300	833	490	250	370	909	3709	2653	2019	2296	2992
Service	665	592	640	701	654	622	679	722	640	560	650	698	2598	2677	2548	2758	2928
Backlog	5490	5904	5918	6166	6330	6470	6294	5878	5860	5675	5665	6116	6166	5878	6116	6087	6606
Sales	1066	1246	1330	1532	1151	1217	1118	1684	1148	995	1030	1156	5174	5170	4329	5083	5401
Change					8%	-2%	-16%	10%	0%	-18%	-8%	-31%		0%	-16%	17%	6%
Equipment	530	667	759	801	578	605	541	944	580	460	480	404	2755	2668	1924	2396	2485
Service	536	579	571	731	573	612	577	740	568	535	550	752	2419	2502	2405	2686	2916
adj. EBIT	88	122	141	225	102	113	40	202	100	65	75	144	577	458	384	504	652
adj. EBIT margin	8.3%	9.8%	10.6%	14.7%	8.9%	9.3%	3.6%	12.0%	8.7%	6.5%	7.3%	12.4%	11.2%	8.9%	8.9%	9.9%	12.1%

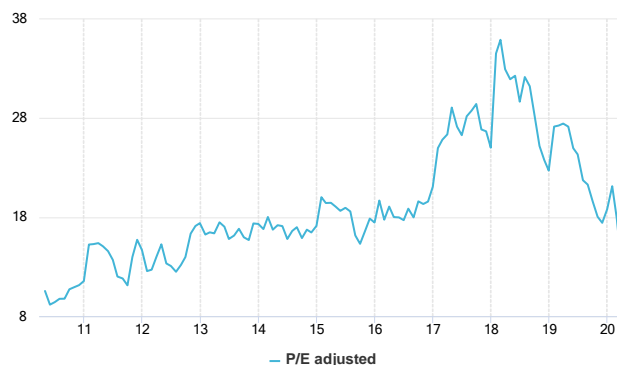
Source: Handelsbanken Capital Markets

Valuation charts

Current vs. high/low/median, 10 years *



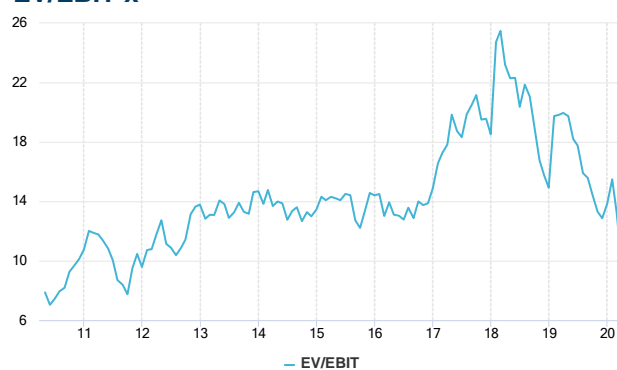
P/E x



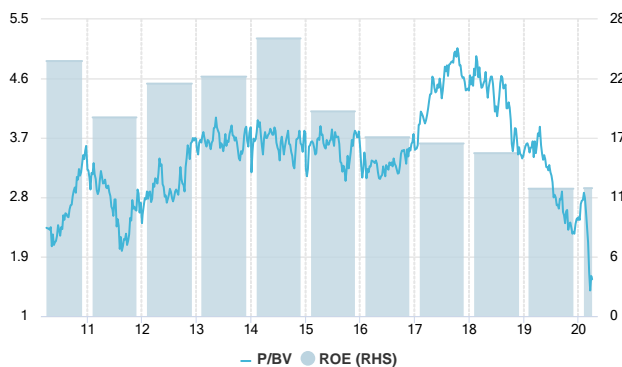
EV/EBITDA x



EV/EBIT x



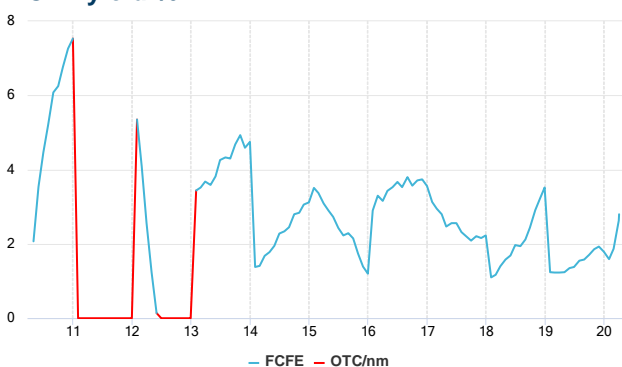
P/BV x and ROE %



EV/sales x and EBIT margin %



FCFE yield %



Dividend (ordinary) and 10-year bond yield %



Source: Handelsbanken Capital Markets and company fundamentals

Note: The median value is the figure on left-hand side and the current value is shown by the arrow on the right-hand side.

Momentum

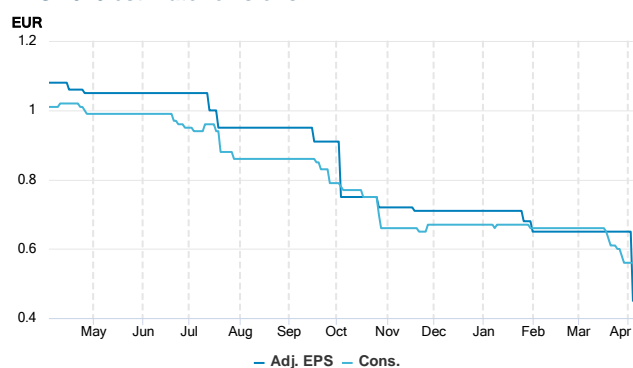
Share price and recommendation



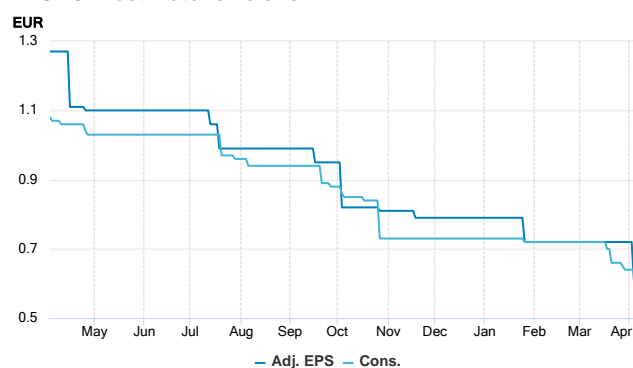
Target and share price



EPS 2020 estimate revisions



EPS 2021 estimate revisions



Source: Handelsbanken Capital Markets and FactSet

Opportunities

- Great margin opportunity in Services
- Great fundamentals for long-term growth in both business areas
- Gas is gaining share as fuel in marine and energy production
- Installed base tilting towards 4st engines strengthens pricing power in services

Source: Handelsbanken Capital Markets

Risks

- High volatility in orders
- Shipping companies suffer from weak profitability
- Emerging markets key for Energy Solutions

Source: Handelsbanken Capital Markets

Valuation data

EUR	2014	2015	2016	2017	2018	2019	2020e	2021e
Share price year-end/current	12.4	14.0	14.2	17.5	13.9	9.9	6.3	6.3
Share price high	14.6	15.0	14.5	20.8	19.9	15.6	12.0	-
Share price low	10.6	11.1	11.3	14.0	12.8	8.8	5.0	-
Market cap (m)	7,388	8,396	8,502	10,477	8,303	5,886	3,749	3,749
Net debt (m)	60.0	316.0	103.0	97.0	252.0	705.0	549.1	638.9
MV associates (m)	180.0	178.0	168.0	194.0	170.0	492.0	472.0	502.0
MV minorities (m)	45.0	41.0	34.0	24.0	14.0	14.0	14.0	19.0
EV (m)	7,313	8,575	8,471	10,404	8,399	6,113	3,840	3,905
P/E reported (x)	21.3	17.6	24.2	27.4	21.6	27.0	14.6	10.3
P/E adj (x)	17.1	17.5	21.1	25.0	22.7	18.8	13.8	10.3
P/BV (x)	3.77	3.81	3.72	4.42	3.43	2.46	1.58	1.54
ROE adj (%)	26.2	19.3	17.8	17.2	16.3	12.9	11.3	15.3
Pre-tax ROIC (%)	25.0	26.0	22.6	22.8	23.1	14.2	13.9	17.4
EV/sales (x)	1.5	1.7	1.8	2.1	1.6	1.2	0.9	0.8
EV/EBITDA (x)	11.1	11.9	12.0	14.9	12.1	9.5	7.3	6.4
EV/EBIT (x)	13.5	14.4	14.9	18.5	14.9	13.1	9.8	8.0
EBIT adj margin (%)	11.9	12.2	12.1	11.7	11.2	8.8	8.9	9.9
EBITDA adj margin (%)	13.8	14.3	14.7	14.2	13.4	12.5	12.1	12.0
FCF adj yield (%)	4.8	5.5	6.3	3.7	5.3	4.3	11.8	5.6
Tot div yield (%)	3.1	2.8	3.0	2.6	3.5	4.9	8.0	8.3
Payout ratio (%)	65.4	49.5	72.8	71.2	74.5	132	117	85.3

Source: Handelsbanken Capital Markets

Peer group valuation

	CCY	Price (Sh. curr.)	Mcap (EURbn)	EV/S (x)	EV/EBIT (x)	P/E adj. (x)	Sales growth (%)
				2020e	2020e	2020e	2020e
Wartsila	EUR	6.3	3.7	0.9	9.8	13.8	-16.3
Rolls-Royce Holdings	GBP	2.8	6.7	0.4	7.2	15.2	-5.4
Siemens*	EUR	76.4	62.9	1.0	13.0	11.8	1.7
ABB	USD	16.9	30.5	1.4	12.5	16.3	-0.6
General Electric	USD	7.0	56.6	0.8	9.0	14.1	-8.0
Alfa Laval	SEK	173	6.6	1.7	11.6	15.0	3.8
Average				1.0	10.5	14.4	-4.1
Median				1.0	10.7	14.6	-3.0
Average excl. Wartsila				1.1	10.7	14.5	-1.7
Median excl. Wartsila				1.0	11.6	15.0	-0.6

Source: Handelsbanken Capital Markets and FactSet

DCF model assumptions

EURm	2019	2020e	2021e	2022e	2023e	2024e	2029e	2034e	2039e
Sales	5,170	4,329	5,083	5,235	5,392	5,554	7,089	8,218	9,073
EBITDA - Reported	551.0	508.8	608.7	757.4	777.0	797.3	1,019	1,182	1,125
EBITA2 - Reported (=EBITA bef gw amort) (use: IS)	371.0	378.8	488.7	639.4	659.0	679.3	850.6	986.1	952.7
Sales CAGR (%)	-0.1	-16.3	17.4	3.0	3.0	3.0	5.0	3.0	2.0
EBITDA growth (%)	-6.9	-18.9	16.2	24.4	2.6	2.6	5.0	3.0	-1.0
EBITA growth (%)	-17.4	-15.5	24.1	30.8	3.1	3.1	4.6	3.0	-0.7
EBITDA margin (%)	12.5	12.1	12.0	14.5	14.4	14.4	14.4	14.4	12.4
EBITA margin (%)	9.0	9.1	9.6	12.2	12.2	12.2	12.0	12.0	10.5
Capex/sales (%)	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.0
Capex/depreciation (x)	0.72	0.83	1.1	1.1	1.1	1.2	1.1	1.1	1.1
Networking cap/sales (%)	18.4	18.4	18.4	18.4	18.4	18.4	15.0	15.0	15.0

WACC assumptions (%)		Calculation of DCF (EURm)		DCF checkpoints (%)	
Risk-free interest rate	2.0	NPV FCFF	9,016	5y hist sales growth	1.6
Equity market risk premium	4.5	ND inc off-BS & Hybrids	705	5y exp sales growth	1.4
Equity beta (x)	1.3	Market value Preferred stock	0.0	Sustainable growth	2.0
Implicit asset beta (x)	1.2	Market value Associates	472	Sust EBITDA margin	12.4
Cost of equity	7.9	Market value Minorities	14	Sust EBITA margin	10.5
Pre-tax cost of debt	2.0	Surplus values	0.0	Sust after-tax ROIC	18.8
Equity weight	90.0	Other adjustments	0.0	Terminal value/DCF	37.7
WACC	7.2	DCF value	8,769	Implicit equity weight	92.7
		DCF value/share (EUR)	14.7	Share price potential to DCF value	134

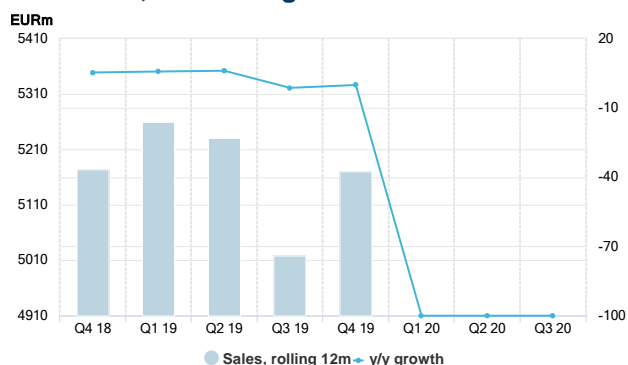
Source: Handelsbanken Capital Markets

P&L accounts – quarterly data

EURm	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20e	Q2 20e	Q3 20e
P&L								
Sales	1,532	1,151	1,217	1,118	1,684	0.0	0.0	0.0
Total op expenses	-1,266	-1,031	-1,088	-1,078	-1,422	n.m	n.m	n.m
EBITDA	266.0	120.0	129.0	40.0	262.0	0.0	0.0	0.0
Depreciation & impairment	-25.0	-22.0	-22.0	-23.0	-72.0	0.0	0.0	0.0
Amortisation intangibles	-11.0	-10.0	-10.0	-10.0	-11.0	0.0	0.0	0.0
Associated income & other	2.0	3.0	-1.0	4.0	-15.0	n.m	n.m	n.m
EBIT	232.0	91.0	96.0	11.0	164.0	0.0	0.0	0.0
Net financials	-13.0	-13.0	-13.0	-11.0	-10.0	0.0	0.0	0.0
EBT	219.0	78.0	83.0	0.0	154.0	0.0	0.0	0.0
Reported tax	-40.0	-19.0	-21.0	-5.0	-52.0	0.0	0.0	0.0
tax rate (%)	18.3	24.4	25.3	0	33.8	0	0	0
Net income	153.0	59.0	62.0	-5.0	102.0	0.0	0.0	0.0
Growth (%)								
Sales	6.2	8.0	-2.3	-15.9	9.9	n.m	n.m	n.m
Total expenses	6.6	8.1	-1.6	-7.2	12.3	-100.0	-100.0	-100.0
EBITDA	4.3	7.1	-7.9	-76.2	-1.5	n.m	n.m	n.m
EBIT	5.9	7.1	-13.5	-92.2	-29.3	n.m	n.m	n.m
EBT	5.8	2.6	-19.4	n.m	-29.7	n.m	n.m	n.m
Net income	-10.5	5.4	-17.3	n.m	-33.3	n.m	n.m	n.m
of sales (%)								
EBITDA margin	17.4	10.4	10.6	3.6	15.6	n.m	n.m	n.m
EBIT margin	15.1	7.9	7.9	0.98	9.7	n.m	n.m	n.m
EBT margin	14.3	6.8	6.8	n.m	9.1	n.m	n.m	n.m
Net margin	11.7	5.1	5.1	-0.45	6.1	n.m	n.m	n.m
Adjusted values								
Total adjustments to net inc	34.0	-11.0	-17.0	-29.0	-38.0	0.0	0.0	0.0
EBITDA	259.0	131.0	146.0	69.0	300.0	0.0	0.0	0.0
margin (%)	16.9	11.4	12.0	6.2	17.8	n.m	n.m	n.m
EBIT	225.0	102.0	113.0	40.0	202.0	0.0	0.0	0.0
margin (%)	14.7	8.9	9.3	3.6	12.0	n.m	n.m	n.m
EBT	185.0	89.0	100.0	0.0	221.0	0.0	0.0	0.0
Net income	119.0	70.0	79.0	24.0	140.0	0.0	0.0	0.0

Source: Handelsbanken Capital Markets

Revenues, 12m rolling



Source: Handelsbanken Capital Markets

EBIT, 12m rolling



Source: Handelsbanken Capital Markets

Business areas – quarterly data

EURm	2020	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20e	Q2 20e	Q3 20e
Sales								
Marine Solutions	371.0	310.0	345.0	380.0	656.0	0.0	0.0	0.0
Energy Solutions	431.0	265.0	360.0	440.0	-88.0	0.0	0.0	0.0
Services	730.0	575.0	640.0	650.0	637.0	0.0	0.0	0.0
Total	1,532	1,150	1,345	1,470	1,205	0	0	0
Y-o-y sales growth (%)								
Marine Solutions	21.6	17.4	16.6	23.8	76.8	n.m	n.m	n.m
Energy Solutions	1.2	-0.75	-2.2	-2.4	-120	n.m	n.m	n.m
Services	2.7	7.5	10.0	13.6	-12.7	n.m	n.m	n.m
Total	6.2	7.9	7.9	10.5	-21.3	n.m	n.m	n.m

Source: Handelsbanken Capital Markets

P&L accounts – annual data

EURm	2014	2015	2016	2017	2018	2019	2020e	2021e
Income statement								
Sales	4,779	5,029	4,801	4,912	5,174	5,170	4,329	5,083
Total op expenses	-4,168	-4,335	-4,145	-4,253	-4,488	-4,619	-3,820	-4,474
EBITDA	611.0	694.0	656.0	659.0	686.0	551.0	508.8	608.7
Depreciation & impairment	-82.0	-93.0	-93.0	-98.0	-87.0	-139.0	-90.0	-85.0
Amortisation intangibles	-33.0	-31.0	-45.0	-36.0	-43.0	-41.0	-40.0	-35.0
Associated income & other	26.0	17.0	14.0	13.0	13.0	-9.0	-10.0	15.0
EBIT	522	587	532	538	569	362	369	504
Net interest expenses	-28.0	-34.0	-53.0	-47.0	-41.0	-47.0	-40.0	-30.0
Net financials	-28.0	-34.0	-53.0	-47.0	-41.0	-47.0	-40.0	-30.0
EBT	494	553	479	491	528	315	329	474
Paid tax	-106.0	-124.0	-123.0	-122.0	-116.0	-97.0	-72.3	-104.2
Deferred tax	-	-	16.5	-	-	-	-	-
Reported tax	-106.0	-124.0	-123.0	-122.0	-116.0	-97.0	-72.3	-104.2
tax rate (%)	21.5	22.4	25.7	24.8	22.0	30.8	22.0	22.0
Discontinued ops	-37.0	22.0	-	-	-	-	-	-
Minorities	-5.0	7.0	-4.0	-1.0	-1.0	-	-	-5.0
Net income	347.0	478.1	352.0	382.0	385.0	218.0	256.5	364.5
Growth (%)								
Sales	2.7	5.2	-4.5	2.3	5.3	-0.1	-16.3	17.4
Total expenses	2.8	4.0	-4.4	2.6	5.5	2.9	-17.3	17.1
EBITDA	1.7	13.6	-5.5	0.5	4.1	-19.7	-7.7	19.6
EBIT	4.4	12.5	-9.4	1.1	5.8	-36.4	1.9	36.6
EBT	-2.6	11.9	-13.4	2.5	7.5	-40.3	4.4	44.1
Net income	-11.3	37.8	-26.4	8.5	0.8	-43.4	17.6	42.1
of sales (%)								
EBITDA margin	12.8	13.8	13.7	13.4	13.3	10.7	11.8	12.0
EBIT margin	10.9	11.7	11.1	11.0	11.0	7.0	8.5	9.9
EBT margin	10.3	11.0	10.0	10.0	10.2	6.1	7.6	9.3
Net margin	7.3	9.0	7.4	7.5	8.0	4.2	5.9	7.3
Profitability (%)								
ROE reported	20.2	21.9	15.7	16.4	16.1	9.1	10.8	15.2
ROE adj	24.6	22.1	18.0	18.0	15.3	13.0	11.4	15.2
ROCE	21.8	21.7	19.7	19.3	18.4	13.5	11.0	14.3
Pre-tax ROIC	25.0	26.0	22.6	22.8	23.1	14.2	13.9	17.4
After tax ROIC	19.7	20.2	16.8	17.2	18.1	9.8	10.8	13.6
Sales/employee (EURm)	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3
Sales/capital invested (x)	2.3	2.2	1.9	2.0	2.0	1.8	1.4	1.7
Sales/total assets (x)	0.91	0.93	0.87	0.89	0.89	0.83	0.70	0.82
Adjusted values								
Total adjustments to net inc	-84.0	-3.0	-51.0	-37.0	19.0	-95.0	-15.0	-
EBITDA	658.0	719.0	707.0	696.0	694.0	646.0	523.8	608.7
margin (%)	13.8	14.3	14.7	14.2	13.4	12.5	12.1	12.0
EBIT	569.0	612.0	583.0	575.0	577.0	457.0	383.8	503.7
margin (%)	11.9	12.2	12.1	11.7	11.2	8.8	8.9	9.9
EBT	541.0	578.0	530.0	528.0	509.0	410.0	343.8	473.7
Net income	431.0	481.1	403.0	419.0	366.0	313.0	271.5	364.5

Source: Handelsbanken Capital Markets

Business areas – annual data

EURm	2020	2015	2016	2017	2018	2019	2020e	2021e
Sales								
Marine Solutions	1,702	1,702	1,667	1,104	1,238	1,691	1,234	1,624
Energy Solutions	1,138	1,139	943	1,401	1,517	977	690	772
Services	1,939	1,940	2,190	2,407	2,419	2,502	2,405	2,686
Total	4,779	5,029	4,801	4,912	5,174	5,170	4,329	5,083
Sales growth (%)								
Marine Solutions	28	0	-2	-34	12	37	-27	32
Energy Solutions	-22	0	-17	49	8	-36	-29	12
Services	5	0	13	10	0	3	-4	12
Total	2.7	5.2	-4.5	2.3	5.3	-0.08	-16.3	17.4

Source: Handelsbanken Capital Markets

Forecast balance sheet – annual data

EURm	2015	2016	2017	2018	2019	2020e	2021e
Accounts receivable	1,394	1,220	1,307	1,222	1,237	1,036	1,216
Inventory	1,200	1,042	1,051	1,165	1,365	1,143	1,342
Other current assets	446	539	592	816	920	770	904
Cash & other interest-bearing	334	474	380	487	358	514	424
Current assets	3,374	3,275	3,330	3,690	3,880	3,463	3,887
Goodwill	1,103	1,112	1,237	1,355	1,380	1,380	1,380
Other intangible	361	322	340	392	397	357	322
Tangible assets	431	406	338	325	307	325	367
Shares associates	89	84	97	85	246	236	251
Oth non-IB fixed assets	157	141	123	129	155	155	155
Other financial assets	74	51	142	83	33	33	33
Total assets	5,589	5,391	5,607	6,059	6,398	5,949	6,395
Equity	2,201	2,287	2,371	2,418	2,396	2,366	2,431
Minorities	41	34	24	14	14	14	19
Shareholder equity	2,242	2,321	2,395	2,432	2,410	2,380	2,450
Pension provisions	161	168	154	149	155	155	155
Deferred tax liabilities	102	93	102	99	83	83	83
LT interest-bearing debt	492	520	517	748	997	997	997
ST interest-bearing debt	232	108	102	74	99	99	99
Provisions	48	103	116	96	82	82	82
Trade payables	510	502	539	596	624	523	613
Other current liabilities	1,802	1,576	1,682	1,865	1,948	1,631	1,915
Current liabilities	2,544	2,186	2,323	2,535	2,671	2,253	2,628
Total equity & liabilities	5,589	5,391	5,607	6,059	6,398	5,949	6,395
Net interest bearing debt	316	103	97	252	705	549	639

Source: Handelsbanken Capital Markets

Forecast cash flow

EURm	2014	2015	2016	2017	2018	2019	2020e	2021e
EBIT before associates	496.0	570.0	518.0	525.0	556.0	371.0	378.8	488.7
+ Net financials	-6.0	-33.0	-53.0	-47.0	-41.0	-47.0	-40.0	-30.0
- Paid tax	-99.0	-124.0	-123.0	-122.0	-116.0	-97.0	-72.3	-104.2
- Change in NWC	32.0	-19.6	115.5	1.9	70.1	0.7	154.5	-138.5
+ Depreciation/impairment	115.0	124.0	138.0	134.0	130.0	180.0	130.0	120.0
+ Other adjustment	-86.0	20.1	-16.5	14.0	-26.0	-24.0	n.m	n.m
Cash flow from operations (CFFO)	452.0	537.4	579.0	505.9	573.1	383.7	551.0	336.0
- Net recurring capex	-99.0	-79.0	-45.0	-123.0	-129.3	-129.2	-108.2	-127.0
FCF bef Acq. & Div. (FCF)	353.0	458.4	534.0	382.8	443.7	254.5	442.8	209.0
- Acquisitions	-1.0	-267.0	-81.0	-	-	-	-	-
+ Divestments	30.0	58.0	-	-	-	-	-	-
FCF to equity (FCFE)	382.0	249.4	453.0	382.8	443.7	254.5	442.8	209.0
- Paid dividends to shareholders	-211.0	-226.8	-236.6	-256.3	-272.1	-286.8	-286.8	-298.8
+ Other adjustments	45.0	-278.6	-3.4	-120.5	-326.6	-420.7	-	-
NET cash flow/change in NIBD	216.0	-256.0	213.0	6.0	-155.0	-453.0	155.9	-89.8
Funds from operations (FFO)	420.0	557.1	463.5	504.0	503.0	383.0	396.5	474.5
Cash flow from operations (CFFO)	452.0	537.4	579.0	505.9	573.1	383.7	551.0	336.0
FCF bef Acquisitions & Divestments (FCF)	353.0	458.4	534.0	382.8	443.7	254.5	442.8	209.0
FCF to equity (FCFE)	382.0	249.4	453.0	382.8	443.7	254.5	442.8	209.0

Source: Handelsbanken Capital Markets

Financial ratios – annual data

%	2014	2015	2016	2017	2018	2019	2020e	2021e
Equity/total assets	38.0	40.1	43.1	42.7	40.1	37.7	40.0	38.3
Net debt/equity	3.0	14.1	4.4	4.1	10.4	29.3	23.1	26.1
Net debt/EBITDA (x)	0	0.5	0.2	0.1	0.4	1.3	1.1	1.0
Net cash flow/capex	218	<200	473	4.9	-120	<200	144	-70.7
EBITDA net interest cover (x)	21.8	20.4	12.4	14.0	16.7	11.7	12.7	20.3
EBIT net interest cover (x)	18.6	17.3	10.0	11.4	13.9	7.7	9.2	16.8
FCFF/total debt	42.3	52.7	69.5	52.2	46.0	19.0	34.4	17.0
Total debt/capital	24.9	24.4	21.3	20.5	25.3	31.3	31.5	30.9
Short-term debt/capital	4.8	7.8	3.7	3.4	2.3	2.8	2.8	2.8
Long-term debt/capital	20.1	16.6	17.6	17.2	23.0	28.4	28.7	28.1
Inventory/sales	24.2	23.9	21.7	21.4	22.5	26.4	26.4	26.4
Receivables/sales	34.9	36.6	36.6	38.7	39.4	41.7	41.7	41.7
Accounts payable/sales	32.0	31.3	31.6	34.0	32.5	33.5	33.8	33.5
Working capital/sales	9.1	14.5	15.1	14.8	14.3	18.4	18.4	18.4
Current ratio	135	133	150	143	146	145	154	148
Quick ratio	88.9	85.5	102	98.1	99.6	94.2	103	96.8

Source: Handelsbanken Capital Markets

Per share data

m	2014	2015	2016	2017	2018	2019	2020e	2021e
Nr of shares, year-end	597.6	597.6	597.6	597.6	597.6	597.6	597.6	597.6
Nr of shares, average	597.6	597.6	597.6	597.6	597.6	597.6	597.6	597.6
EPS reported (EUR)	0.58	0.80	0.59	0.64	0.64	0.36	0.43	0.61
Y-o-y growth (%)	-11.3	37.8	-26.4	8.5	0.8	-43.4	17.6	42.1
EPS adj (EUR)	0.72	0.81	0.67	0.70	0.61	0.52	0.45	0.61
Y-o-y growth (%)	4.9	11.6	-16.2	4.0	-12.6	-14.5	-13.3	34.3
Cash earnings (EUR)	0.79	0.94	0.80	0.84	0.84	0.68	0.66	0.79
DPS - ordinary (EUR)	0.38	0.40	0.43	0.46	0.48	0.48	0.50	0.52
Payout ratio (%)	65.4	49.5	72.8	71.2	74.5	131.6	116.5	85.3
Tot cash payout ratio (%)	19.7	15.7	22.2	22.1	70.7	131.6	111.8	82.0
Book value (EUR)	3.28	3.68	3.83	3.97	4.05	4.01	3.96	4.07
Y-o-y growth (%)	6.3	12.3	3.9	3.7	2.0	-0.9	-1.3	2.8
Net debt (EUR)	0.10	0.53	0.17	0.16	0.42	1.18	0.92	1.07
NAV (EUR)	1.46	1.38	1.57	1.49	1.27	1.45	1.45	1.64

Source: Handelsbanken Capital Markets

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HCM rating	R _{TP} is expected to be ¹	HCM Universe ²	IB services ³
Buy	above 10%	49%	11%
Hold	between 0% and +10%	36%	21%
Sell	below 0%	16%	16%

¹ R_{TP} is defined as the expected share price appreciation or depreciation including dividends over the next 12 months

² Percentage of companies under coverage within each recommendation

³ Percentage of companies within each recommendation for which investment banking services have been provided in the past 12 months

Source: Handelsbanken Capital Markets, as per 3/4 2020

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Wartsila

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Apr 03. 2020:

Wartsila

- Handelsbanken's analyst Timo Heinonen has no position in Wartsila or a related instrument.

On 2019-10-03 the recommendation Buy, which was set on 2017-08-14 at the share price of EUR 55.70, was changed to the current recommendation Hold at a share price of EUR 9.82.

Share prices mentioned in this report refer to the intraday price on 2020-04-01 at 00:00 CET.

For more company-specific disclosure texts, please consult the Handelsbanken Capital Markets website: <https://www.researchonline.se/desc/disclosure>.

Company overview

%	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020e	2021e
P&L																			
Sales (EURm)	2,358	2,478	2,639	3,190	3,763	4,612	5,260	4,580	4,209	4,725	4,654	4,779	5,029	4,801	4,912	5,174	5,170	4,329	5,083
growth	-6	5	6	21	18	23	14	-13	-8	12	-2	3	5	-5	2	5	-0.1	-16	17
SG&A to sales	3.0	2.4	2.7	2.7	2.7	2.7	2.7	2.7	2.8	2.8	3.0	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.9
EBITDA (EURm)	83	175	296	332	457	624	751	550	549	606	601	611	694	656	659	686	551	509	606
margin	3.5	7.1	11.2	10.4	12.1	13.5	14.3	12.0	13.0	12.8	12.9	12.8	13.8	13.7	13.4	13.3	10.7	11.8	12.0
EBITA (EURm)	9	117	247	289	409	567	644	476	479	507	511	529	601	563	561	599	412	419	524
margin	0.37	4.7	9.4	9.1	10.9	12.3	12.2	10.4	11.4	10.7	11.0	11.1	12.0	11.7	11.4	11.6	8.0	9.7	10.3
EBIT (EURm)	-18	113	235	330	380	525	592	439	444	481	500	522	587	532	538	569	362	369	504
margin	-0.77	4.6	8.9	10.3	10.1	11.4	11.3	9.6	10.5	10.2	10.7	10.9	11.7	11.1	11.0	11.0	7.0	8.5	9.9
Net income (EURm)	-39	160	167	351	262	380	389	386	283	339	391	347	478	352	382	385	218	256	365
growth	n.m	n.m	4.2	110	-25.4	45.0	2.4	-0.77	-26.7	19.8	15.3	-11.3	37.8	-26.4	8.5	0.79	-43.4	17.6	42.1
Adj net income (EURm)	58	180	167	358	262	380	420	493	302	374	411	431	481	403	419	366	313	271	365
growth	45.1	211	-7.3	114	-26.8	45.0	10.4	17.5	-38.7	23.8	9.9	4.9	11.6	-16.2	4.0	-12.6	-14.5	-13.3	34.3
Balance sheet (EURm)																			
Tangible assets	389	356	256	300	378	446	458	466	472	470	449	435	431	406	338	325	307	325	367
Goodwill	354	328	366	417	445	549	558	574	616	942	914	909	1,103	1,112	1,237	1,355	1,380	1,380	1,380
Current assets	1,496	1,510	1,553	1,955	2,464	3,247	3,107	3,213	3,023	3,035	3,274	3,396	3,374	3,275	3,330	3,690	3,880	3,463	3,887
Cash	150	168	120	179	294	199	244	777	591	225	388	571	334	474	380	487	358	514	424
Total assets	2,383	2,327	2,869	3,188	3,749	4,744	4,656	4,696	4,600	5,037	5,209	5,280	5,589	5,391	5,607	6,059	6,398	5,949	6,395
Equity	805	853	1,153	1,217	1,315	1,184	1,496	1,638	1,636	1,766	1,844	1,960	2,201	2,287	2,371	2,418	2,396	2,366	2,431
Minority	-	-	10	13	10	15	16	26	30	26	40	45	41	34	24	14	14	14	15
LT int bearing debt	205	195	229	205	245	448	591	572	485	545	571	537	492	520	517	748	997	997	997
ST int bearing debt	205	44	174	66	38	216	73	56	167	249	94	129	232	108	102	74	99	99	96
Current liab	1,010	972	1,328	1,606	2,025	2,946	2,389	2,305	2,289	2,465	2,520	2,521	2,544	2,186	2,323	2,535	2,671	2,253	2,626
Total liabilities	2,383	2,327	2,869	3,188	3,749	4,744	4,656	4,696	4,600	5,037	5,209	5,280	5,589	5,391	5,607	6,059	6,398	5,949	6,395
Net int bearing debt	292	109	235	34	-30	439	404	-165	60	568	276	60	316	103	97	252	705	549	636
Cash flow (EURm)																			
CCFO	192	207	83	311	438	285	357	671	232	153	578	452	537	579	506	573	384	551	336
Capex	-107	-79	-79	-99	-166	-168	-136	-92	-90	-111	-129	-99	-79	-45	-123	-129	-129	-108	-127
Free cash flow	85	129	4	212	272	117	221	579	142	42	449	353	458	534	383	444	254	443	206
Acquisitions	-	-	-161	-86	-65	-198	-16	-6	-91	-402	-	-1	-267	-81	-	-	-	-	-
Divestments	-	-	51	323	9	30	3	9	38	41	30	58	-	-	-	-	-	-	-
FCF to equity	85	129	-105	448	216	-51	208	582	60	-322	490	382	249	453	383	444	254	443	206
Ratios																			
Pre-tax ROIC	0.73	11.2	20.9	21.7	32.0	38.6	36.2	27.8	29.7	24.8	22.6	25.0	26.0	22.6	22.8	23.1	14.2	13.9	17.4
ROE reported	-4.5	19.3	16.6	29.6	20.7	30.4	29.0	24.6	17.3	20.0	21.7	20.2	21.9	15.7	16.4	16.1	9.1	10.8	15.2
ROCE	8.1	9.4	17.4	21.5	24.4	30.2	31.3	23.0	20.3	21.0	20.3	21.8	21.7	19.7	19.3	18.4	13.5	11.0	14.3
Capex to sales	4.5	3.2	3.0	3.1	4.4	3.6	2.6	2.0	2.1	2.3	2.8	2.1	1.6	0.94	2.5	2.5	2.5	2.5	2.5
NWC to sales	22.9	16.7	10.6	7.4	4.9	6.9	10.4	4.1	7.4	12.6	9.9	9.1	14.5	15.1	14.8	14.3	18.4	18.4	18.4
Sales/assets (EURx)	0.92	1.05	1.02	1.05	1.08	1.09	1.12	0.98	0.91	0.98	0.91	0.91	0.93	0.87	0.89	0.89	0.83	0.70	0.82
Sales/IC (x)	1.95	2.39	2.23	2.40	2.94	3.14	2.96	2.68	2.61	2.31	2.06	2.26	2.18	1.93	2.00	2.00	1.78	1.43	1.66
Net debt/equity	36.0	12.6	20.2	2.8	-2.3	36.6	26.7	9.9	3.6	31.7	14.6	3.0	14.1	4.4	4.1	10.4	29.3	23.1	26.1
Equity/total assets	34.0	37.0	40.5	38.6	35.3	25.3	32.5	35.4	36.2	35.6	36.2	38.0	40.1	43.1	42.7	40.1	37.7	40.0	38.3
Share data (EUR)																			
Avg no shares (m)	197	197	197	197	197	197	197	197	197	197	197	197	197	197	197	598	598	598	596
change (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.3	0.0	0.0	0.0
Avg diluted shares (m)	598	598	598	598	598	598	598	598	598	598	598	598	598	598	598	598	598	598	596
Share price YE	1.7	2.6	4.2	6.8	8.7	3.5	4.7	9.5	7.4	10.9	11.9	12.4	14.0	14.2	17.5	13.9	9.9	6.3	6.3
Market cap (m)	1,009	1,562	2,490	4,065	5,188	2,093	2,796	5,687	4,446	6,518	7,125	7,388	8,396	8,502	10,477	8,303	5,886	3,749	3,746
EV (m)	1,208	1,606	2,342	3,926	4,997	2,400	3,009	5,465	4,410	6,978	7,323	7,313	8,575	8,471	10,404	8,399	6,113	3,840	3,905
Net debt/share	0.5	0.2	0.4	0	0	0.7	0.7	-0.3	0.1	1.0	0.5	0.1	0.5	0.2	0.2	0.4	1.2	0.9	1.1
EPS reported	-0.07	0.27	0.28	0.59	0.44	0.64	0.65	0.65	0.47	0.57	0.65	0.58	0.80	0.59	0.64	0.64	0.36	0.43	0.61
growth (%)	n.m	n.m	4	110	-25	45	2	-0.8	-27	20	15	-11	38	-26	9	0.8	-43	18	42
EPS adj	0.10	0.30	0.28	0.60	0.44	0.64	0.70	0.83	0.51	0.63	0.69	0.72	0.81	0.67	0.70	0.61	0.52	0.45	0.61
growth (%)	45	211	-7	114	-27	45	10	18	-39	24	10	5	12	-16	4	-13	-14	-13	34
BVPS	1.35	1.43	1.93	2.04	2.20	1.98	2.50	2.74	2.74	2.96	3.09	3.28	3.68	3.83	3.97	4.05	4.01	3.96	4.07
DPS - Ordinary	0.08	0.15	0.15	0.29	0.37	0.25	0.29	0.29	0.30	0.33	0.35	0.38	0.40	0.43	0.46	0.48	0.48	0.50	0.52
DPS - Extraordinary	-	0.11	0.10	0.25	0.33	-	-	0.17	-	-	-	-	-	-	-	-	-	-	-
Total cash distr./share	0.19	0.08	0.26	0.25	0.54	0.70	0.25	0.29	0.45	0.30	0.11	0.11	0.13	0.13	0.14	0.46	0.48	0.48	0.50
Valuation (x)																			
P/E reported	n.m	9.7	14.9	11.6	19.8	5.5	7.2	14.7	15.7	19.2	18.2	21.3	17.6	24.2	27.4	21.6	27.0	14.6	10.3
P/E adjusted	17.4	8.7	14.9	11.4	19.8	5.5	6.7	11.5	14.7	17.4	17.3	17.1	17.5	21.1	25.0	22.7	18.8	13.8	10.3
P/CEPS	16.4	7.0	11.5	14.2	15.3	4.4	5.1	11.5	11.5	14.0	14.5	15.6	14.9	17.9	20.8	16.5	14.5	9.5	8.0
EV/EBITDA	5.6	9.2	7.9	11.8	10.9	3.8	3.8	8.8	7.7	10.9	11.8	11.1	11.9	12.0	14.9	12.1	9.5	7.3	6.4
EV/sales	0.51	0.65	0.89	1.2	1.3	0.52	0.57	1.2	1.0	1.5	1.6	1.5	1.7	1.8	2.1	1.6	1.2	0.89	0.77
EBIT margin (%)	0.37	4.7	9.4	9.1	10.9	12.3	12.2	10.4	11.4	10.7	11.0	11.1	12.0	11.7	11.4	11.6	8.0	9.7	10.3
P/sales	0.43	0.63	0.94	1.3	1.4	0.45	0.53	1.2	1.1	1.4	1.5	1.5	1.7	1.8	2.1	1.6	1.1	0.87	0.74
P/BV	1.3	1.8	2.2	3.3	3.9	1.8	1.9	3.5	2.7	3.7	3.9	3.8	3.8	3.7	4.4	3.4	2.5	1.6	1.5
ROE reported (%)	-4.5	19.3	16.6	29.6	20.7	30.4	29.0	24.6	17.3	20.0	21.7	20.2	21.9	15.7	16.4				