

Investment Services

**Key data**

Price (EUR)*	7.34
Country	Finland
Bloomberg	TAALA.FH
Reuters	TAALA.HE
Free float	45.0%
Market cap (EURm)	208
No. of shares (m)	28.4
Next event	FY: 12-Feb

\* Price as at close on 13 August 2020

CEO	Robin Lindahl
CFO	Minna Smedsten

Company description

Taaleri is a Finnish financial services company. It offers wealth management services and guaranty insurance through its subsidiary Garantia. Taaleri group consists of three divisions: Wealth Management, Financing and Energia.

Ownership structure

Veikko Laine Oy	10.2%
Hermitage Oy	10.0%
Juhani Elomaa excl. related parties	6.1%

Source: Company data

Estimate changes

	20E	21E	22E
Tot inc	-0.6%	-2.6%	-3.2%
Op prof	17.0%	-0.1%	-9.0%
EPS (adj.)	7.7%	-0.2%	-9.7%

Source: Danske Bank Equity Research estimates

Analyst(s)

Olli Eloranta  
Antti Koskivuori

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Important disclosures and certifications are contained from page 15 of this report

# Taaleri plc

## Strong operating performance and positive outlook for H2

**Taaleri's H1 operating development exceeded expectations with recurring revenues 4% above our estimate, increasing 18% y/y despite the challenging market. We are positive on the earnings outlook for H2 and 2021, which is supported by AuM recovering to the end-2019 level and normalising investment operations, provided financial markets are stable. We find the shares attractively valued and set our fair value range at EUR8.0-9.5.**

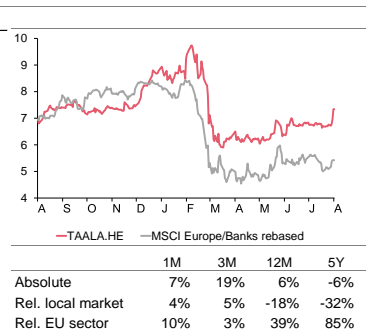
- Impact on the investment case.** Positive. We were expecting a difficult half-year period in terms of both investment and operations due to COVID-19. However, operating development turned out better than expected as continuing earnings were 4% above our estimate. Operating profit of EUR2.8m also beat our estimate of EUR1m, which was driven by good cost control and higher than expected performance fees. However, the key positive in H1 was Garantia's insurance operations, which reported a combined ratio of 28%, one of the lowest figures ever for the insurance arm, driven by low staff costs and claims. The earnings outlook for H2 20 and 2021 is positive given the stronger than expected AuM recovery, although the mix was slightly soft as it was driven by lower margin consultative and discretionary wealth management AuM.
- Estimate changes.** We increase our 2020 operating profit estimate from EUR12.4m to EUR14.5m, driven by the H1 20 earnings beat. Our 2021 operating profit estimate is essentially unchanged. We estimate operating profit to increase 71% in 2021 on the back of normalising investment income and increasing continuing earnings. We expect Taaleri to reach its somewhat conservative >20% operating profit margin target in 2020-22.
- Valuation.** Taaleri's stock is down 13% YTD. We find the shares attractively valued at a 2021E P/E of 10.6x on our estimates, which is 17% below the five-year average and 22% below the Finnish asset management peer median. We set our fair value range at EUR8.0-9.50 (previously EUR7.5-9.5). The lower end of the range implies a P/E of 11.6x, 10% below the five-year historical average forward P/E of 12.9x. The upper end of the range implies a P/E of 13.8x, 7% above the historical average. However, upside in the shares could be much higher depending on the possible divestment of Garantia, which we believe would unlock significant value and release capital for extra dividends and acquisitions, as the insurance arm consumes 80% of group equity but generates only some 40% of profits.

### Key financials

Year-end Dec (EUR)	2018	2019	2020E	2021E	2022E
Total income (m)	72.5	66.6	63.8	76.8	94.4
Total income growth	-10.5%	-8.1%	-4.2%	20.3%	23.0%
Total expenses (m)	-48.5	-50.1	-49.3	-52.0	-57.5
Operating profit (m)	23.9	16.5	14.5	24.8	37.0
Operating profit growth	-13.6%	-30.9%	-12.1%	71.2%	48.9%
Operating profit margin	32.9%	24.8%	22.7%	32.3%	39.2%
EPS (adj.)	0.83	0.50	0.36	0.69	0.99
DPS	0.30	0.32	0.34	0.40	0.45
Dividend yield	4.2%	3.8%	4.6%	5.4%	6.1%
ROE	18.9%	8.5%	7.3%	13.3%	17.6%
P/E (adj.) (x)	8.5	16.8	20.2	10.6	7.4
P/BV	1.64	1.70	1.47	1.37	1.23

Source: Company data, Danske Bank Equity Research estimates

### Price performance



Source: FactSet

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## H1 review

Taaleri's H1 20 came in better than our and consensus expectations. Total income of EUR26.3m was 4% above our estimate of EUR25.9m, and 6% above FactSet consensus (two estimates) of EUR24.7m. Income still decreased 15% y/y, but this was attributable to the investment operations, which decreased from EUR6.8m to EUR-5.1m y/y vs our estimate of EUR-4.9m. This was due to the negative fair value changes in Garantia's investment operations and Fellow Finance's mark-to-market loss. Both Taaleri's performance fees and continuing earnings, which best reflect the underlying operating business, increased y/y, with both items also surpassing our expectations: continuing earnings were 4% above our estimate (EUR29m vs EUR27.8m), driven by the stronger than expected Financing and Energia segments, while performance fees beat our estimate by 47% (EUR2.2m vs EUR1.5m).

Table 1: H1 20 deviation by income type versus estimates

EURm	Actual H1	Cons. H1 20E	Diff	Danske H1 20E	Diff.	H1 19A	Growth y/y
Total income	26.3	24.7	6%	25.9	2%	30.9	-15%
<b>Continuing earnings</b>	<b>29.0</b>			<b>27.8</b>	<b>4%</b>	<b>24.5</b>	<b>18%</b>
Wealth management	17.2			17.8	-3%	17.1	0%
Financing	6.9			5.8	20%	5.5	27%
Energia	4.2			3.7	12%	1.4	197%
Other	0.7			0.5	50%	0.5	39%
<b>Performance fees</b>	<b>2.2</b>			<b>1.5</b>	<b>47%</b>	<b>-0.5</b>	<b>-540%</b>
Wealth management	2.2			1.5	47%	-0.5	-540%
Financing	0			0.0	n.m.	0.0	n.m.
Energia	0			0.0	n.m.	0.0	n.m.
Other	0			0.0	n.m.	0.0	n.m.
<b>Investment operations</b>	<b>-5.1</b>			<b>-4.9</b>	<b>4%</b>	<b>6.8</b>	<b>-175%</b>
Wealth management	0.8			0.0	n.m.	0.6	33%
Financing	-3.4			-2.0	69%	5.0	-168%
Energia	0.0			0.0	n.m.	0.0	n.m.
Other	-2.5			-2.9	-13%	1.3	-300%

Note: Wealth management AuM consists of discretionary and consultative wealth management AuM, while Other AuM includes Energia's and Garantia's AuM

Source: Company data, FactSet consensus, Danske Bank Equity Research estimates

Taaleri's operating profit of EUR2.8m was also better than our estimate of EUR1m and consensus of EUR0.1m. The beat versus our estimate was driven by Wealth Management segment, while the operating profit of Financing, Energia and Other operations was essentially in line with our estimates. Better than expected operating profit in the Wealth Management segment came from higher than expected performance fees and investment operations, as well as lower staff costs, mainly due to lower variable salaries, i.e. bonuses, compared with the comparison period.

Taaleri's assets under management (AuM) also developed better than we had expected. Total AuM was EUR7.1bn and 4% above our estimate of EUR6.8bn, and was flat h/h despite the challenging market environment. AuM in the Wealth Management segment decreased 1% y/y to EUR6.6bn but was above our estimate of EUR6.4bn. Better than expected AuM development was because of the stronger than expected discretionary and consultative AuM growth, which are bundled under "Wealth management" in the table below. We note that the aforementioned AuM is the least profitable, with management fees ranging from 0.1-0.4% according to our estimates. The higher-margin AuM of mutual funds, private equity funds and other AuM, consisting of Energia's and Garantia's AuM, was in line with our estimates. Nevertheless, the stronger than expected AuM at the end of H1 should drive management fees for the rest of the year, provided financial markets are stable.

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Table 2: H1 20 deviation versus estimates

EURm	Actual H1	Cons. H1 20E	Diff	Danske H1 20E	Diff.	H1 19A	Growth y/y
Total income	26.3	24.7	6.5%	25.9	1.6%	30.9	-14.8%
Operating profit	2.8	0.1	2700.0%	1.0	170.2%	6.4	-56.0%
Operating profit-%	10.6%	0.4%	n.m.	4.0%	n.m.	20.6%	n.m.
Net income	1.4	-1.2	-216.7%	0.8	76.5%	5.0	-72.0%
EPS (EUR)	0.04	-0.01	-500.0%	0.03	42.7%	0.22	-81.6%
<b>Income by segment</b>	<b>26.3</b>	<b>24.7</b>	<b>6.5%</b>	<b>25.9</b>	<b>1.6%</b>	<b>30.9</b>	<b>-14.8%</b>
Wealth Management	20.2			19.3	4.7%	17.2	17.2%
Financing	3.6			5.3	-31.4%	10.5	-65.7%
Energia	4.2			3.7	12.7%	1.4	198.7%
Other operations	-1.8			-2.4	-25.0%	1.8	-200.1%
<b>Operating profit by segment</b>	<b>2.8</b>	<b>0.1</b>	<b>n.m.</b>	<b>1.0</b>	<b>170.2%</b>	<b>6.4</b>	<b>-56.0%</b>
Wealth Management	6.3			4.1	53.7%	2.1	206.7%
Financing	0.8			1.0	-19.2%	6.1	-86.9%
Energia	0.1			0.2	-56.1%	-1.6	-106.1%
Other operations	-4.4			-4.3	2.8%	-0.1	4300.0%
<b>Operating profit-% by segment</b>	<b>10.6%</b>	<b>0.4%</b>	<b>n.m.</b>	<b>4.0%</b>	<b>n.m.</b>	<b>20.6%</b>	<b>n.m.</b>
Wealth Management	31%			21%	n.m.	11.9%	n.m.
Financing	22%			19%	n.m.	58.1%	n.m.
Energia	2%			6%	n.m.	-116.5%	n.m.
Other operations	244%			178%	n.m.	-5.6%	n.m.
<b>AuM</b>	<b>7,100</b>			<b>6,837</b>	<b>3.8%</b>	<b>6,600</b>	<b>7.6%</b>
Mutual funds	972			950	2.3%	945	2.9%
Private equity funds	1,232			1,220	1.0%	1,238	-0.5%
Wealth management	4,423			4,200	5.3%	4,138	6.9%
Other	473			467	1.2%	279	69.5%

Note: Wealth management AuM consists of discretionary and consultative wealth management AuM, while Other AuM includes Energia's and Garantia's AuM

Source: Company data, FactSet consensus, Danske Bank Equity Research estimates

We summarise Taaleri's H1 20 results per segment as follows.

- Wealth Management.** The income of the Wealth Management segment in H1 grew 17% y/y and was 5% above our estimate (EUR20.2m vs EUR19.3). This was due to higher than expected performance fees and income from investment operations, while continuing earnings fell 3% short of our estimate. Moreover, as cost control in the segment was better than expected with decreasing staff expenses because of staff reductions and lower variable salaries, operating profit of EUR6.3m beat our estimate of EUR4.1m. Overall, we were pleased with the segment's development, although continuing earnings were slightly weaker than we estimated. This was because of the stronger than expected AuM development, which should drive continuing earnings growth in the segment in H2.
- Financing.** Garantia's H1 was two-sided as the COVID-19-driven market turmoil burdened investment operations more than we expected (EUR-3.4m vs EUR-2m), but investment operations were surprisingly good in the given business environment. Net earned premiums grew 13% y/y to EUR7.1m (Danske: EUR7.3m), while claims incurred decreased significantly to EUR-0.2m from EUR-1.3m. Moreover, as Garantia was also able to decrease its operating expenses from EUR-3.2m to EUR-1.9 on the back of lower staff costs, the combined ratio was as low as 27.7%. This was one of Garantia's lowest figures ever. Combining the weaker than expected investment income and better than estimates insurance operations, Garantia's operating profit of EUR0.8m was slightly below our estimate of EUR1m. Further, Garantia's insurance portfolio was flat h/h at EUR1.8bn. By our

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understanding, this was supported especially by the high demand for pension loan guarantees.

- **Energia.** Although Energia's income was above our estimate (EUR4.2m vs EUR3.7m), operating profit was slightly below at EUR0.1m vs the EUR0.2m expected. This was because of higher than expected personnel costs and other expenses. During the period, investment commitments in Taaleri's largest wind and solar power fund, SolarWind II, increased from EUR220m to EUR291m. The pandemic has slowed the fund raising of the fund due to travel restrictions. Therefore, in our view, the likelihood of the fund falling short of its target size EUR400m has increased, as the fund's final close is at the end of 2020. In H1, Taaleri also sold 93% of the Texas wind farm project, which it had acquired in 2018 and developed in-house. However, the transaction did not have an impact on the H1 results, as the "profit impacts from the project will be gradually booked later". By our understanding, this means that Taaleri will book some of the income when the project is ready and most of it when the company sells the remaining 7% stake.

### Estimates

We make the following estimate changes after the H1 report.

- **2020E.** We decrease our total income estimate by 1% and increase our operating profit estimate by 17%. Our operating profit change comes mainly from the earnings beat in H1.
- **2021E.** Our total income estimate is decreased by 3%, driven by our lower Financing segment estimate on the back of lower net earned premium estimates. Our group level operating profit estimate is essentially unchanged.
- **2022E.** We decrease our total income and operating profit by 3% and 9%, respectively, mainly because of our more conservative stance on the carried interest estimates for Taaleri's maturing private equity funds.

Figure 1: Estimate changes

EURm	New estimates			Old estimates			Changes		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
<b>Total income</b>	<b>63.8</b>	<b>76.8</b>	<b>94.4</b>	<b>64.2</b>	<b>78.9</b>	<b>97.5</b>	<b>-1%</b>	<b>-3%</b>	<b>-3%</b>
WM	43.2	48.0	53.0	41.8	48.0	57.3	3%	0%	-8%
Financing	11.0	16.0	20.4	14.1	19.2	20.6	-22%	-17%	-1%
Energia	10.4	10.4	18.4	9.7	9.5	17.2	7%	9%	7%
Other operations	-0.8	2.4	2.6	-1.4	2.2	2.4	-45%	12%	8%
<b>Operating profit</b>	<b>14.5</b>	<b>24.8</b>	<b>37.0</b>	<b>12.4</b>	<b>24.9</b>	<b>40.6</b>	<b>17%</b>	<b>0%</b>	<b>-9%</b>
WM	13.2	15.6	19.3	10.1	13.8	21.8	30%	12%	-12%
Financing	5.1	9.7	10.9	5.7	11.7	12.8	-10%	-17%	-15%
Energia	2.2	2.0	9.4	2.4	1.9	8.8	-9%	5%	7%
Other operations	-5.9	-2.4	-2.6	-5.8	-2.6	-2.7	3%	-5%	-6%
<b>Operating income margin</b>	<b>22.7%</b>	<b>32.3%</b>	<b>39.2%</b>	<b>19.3%</b>	<b>31.5%</b>	<b>41.7%</b>			
WM	30.4%	32.4%	36.3%	24.2%	28.8%	38.0%			
Financing	46.2%	60.9%	53.2%	40.2%	61.1%	62.0%			
Energia	21.3%	19.3%	51.1%	25.0%	20.0%	51.2%			
Other operations	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.			

Source: Danske Bank Equity Research estimates

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Table 1: Summary tables

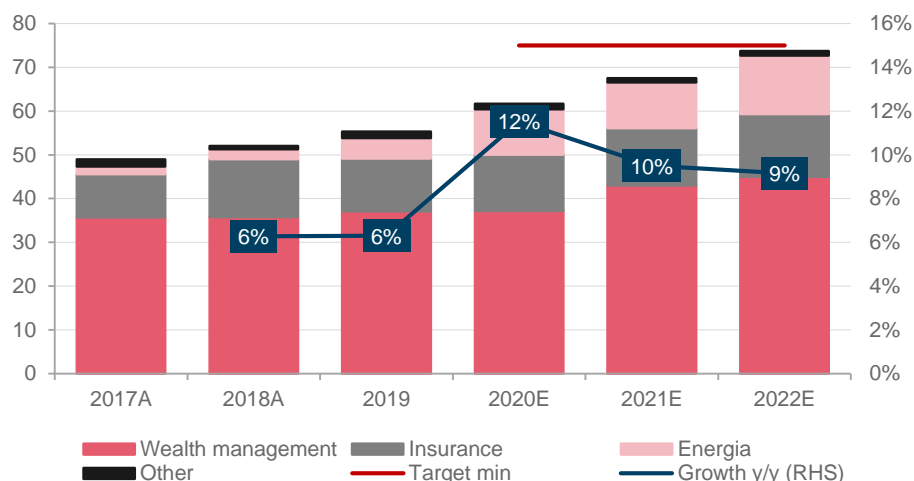
EURm	H1 17A	H2 17A	H1 18A	H2 18A	H1 19A	H2 19A	H1 20E	H2 20E	H1 21E	H2 21E
Total income	36.2	44.8	35.2	37.3	30.9	36.2	26.2	37.6	37.7	39.1
Growth h/h	24.6%	23.8%	-21.4%	5.9%	-17.2%	17.4%	-27.8%	43.8%	0.2%	3.7%
Total expenses	-20.8	-33.2	-23.1	-25.4	-24.5	-25.6	-23.5	-26.0	-25.1	-26.9
Operating profit	15.6	12.0	12.4	11.5	6.4	10.0	2.6	11.7	12.6	12.2
Operating margin	43.1%	26.8%	35.1%	30.8%	20.6%	27.6%	10.1%	31.0%	33.4%	31.3%
<b>Segment revenues</b>										
Wealth Management	23.9	30.7	29.7	19.0	17.2	25.7	20.2	23.0	23.5	24.5
Financing	11.5	10.7	6.8	7.4	10.5	10.8	3.6	7.4	8.0	8.0
Energia	0.8	1.0	1.1	1.2	1.4	3.2	4.2	6.2	5.1	5.4
Other	2.6	0.9	-1.5	10.3	1.8	-3.4	-1.8	1.0	1.2	1.2
<b>Total</b>	<b>38.7</b>	<b>43.3</b>	<b>36.1</b>	<b>37.9</b>	<b>30.9</b>	<b>36.2</b>	<b>26.2</b>	<b>37.6</b>	<b>37.7</b>	<b>39.1</b>
<b>Segment operating profit</b>										
Wealth Management	7.9	8.8	14.1	2.7	2.1	9.7	6.4	6.8	7.8	7.8
Financing	7.9	6.0	2.4	2.5	6.1	6.6	0.8	4.3	5.0	4.8
Energia	-0.7	-0.9	-0.9	-1.4	-1.6	-1.0	0.1	2.1	0.9	1.2
Other	0.5	-1.9	-3.3	7.7	-0.1	-5.3	-4.4	-1.6	-1.0	-1.4
<b>Total</b>	<b>15.6</b>	<b>12.0</b>	<b>12.4</b>	<b>11.5</b>	<b>6.4</b>	<b>10.1</b>	<b>2.8</b>	<b>11.7</b>	<b>12.6</b>	<b>12.2</b>
<b>Operating profit margin</b>										
Wealth Management	32.9%	28.6%	47.6%	14.0%	11.9%	37.9%	31.4%	29.6%	33.2%	31.6%
Financing	68.7%	56.0%	35.4%	34.5%	58.1%	61.7%	21.1%	58.2%	62.3%	59.5%
Energia	-87.1%	-86.0%	-84.3%	-118.6%	-116.5%	-30.3%	2.4%	34.1%	16.9%	21.5%
Other	19.6%	-222.0%	220.1%	75.0%	-5.6%	155.7%	245.4%	-158.4%	-84.3%	-116.2%
<b>Total</b>	<b>40.3%</b>	<b>27.8%</b>	<b>34.3%</b>	<b>30.4%</b>	<b>20.7%</b>	<b>27.8%</b>	<b>10.9%</b>	<b>31.0%</b>	<b>33.4%</b>	<b>31.3%</b>
Reported EPS (EUR)	0.44	0.32	0.32	0.44	0.18	0.21	0.04	0.32	0.35	0.34
Adjusted EPS (EUR)	0.44	0.32	0.32	0.38	0.22	0.27	0.04	0.32	0.35	0.34
<b>AuM</b>										
Mutual funds	1,012	1,083	1,048	911	945	1,023	972	1,021	1,072	1,104
Private equity funds	957	1,052	1,067	1,024	1,238	1,223	1,232	1,294	1,358	1,426
Wealth management*	3,205	3,316	3,755	3,676	4,138	4,469	4,423	4,500	4,600	4,700
Energia	0	44	44	49	49	272	343	452	452	452
<b>Total AuM</b>	<b>5,300</b>	<b>5,600</b>	<b>6,000</b>	<b>5,700</b>	<b>6,600</b>	<b>7,100</b>	<b>7,100</b>	<b>7,416</b>	<b>7,642</b>	<b>7,842</b>

\*Consists of discretionary and consultative wealth management AuM

Source: Company data, Danske Bank Equity Research estimates

We estimate Taaleri's continuing earnings to increase 12%, 10% and 9% in 2020-22, respectively, below the company's ambitious long-term target of over 15% growth.

Chart 1: Continuing earnings 2017-22E (EURm)



Source: Company data, Danske Bank Equity Research estimates

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### Investment case

Taaleri is a Finnish wealth management and insurance group founded in 2007. Taaleri (name derived from the Finnish spelling of 'thaler', an old European silver coin) has 230 employees and was listed on Nasdaq Helsinki First North in 2013 and on the main list in 2016. The company has three divisions: Wealth Management, Financing and Energia. It also makes investments from its own balance sheet, which it reports under Other Operations.

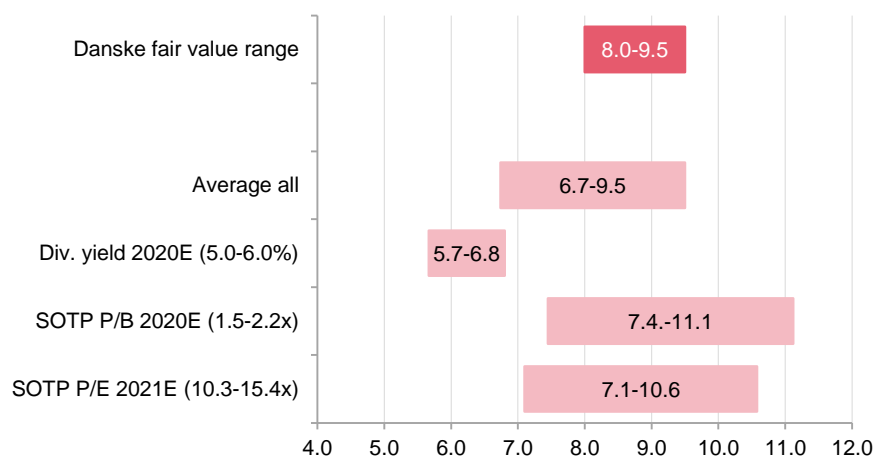
The core of the franchise and key value drivers of the Taaleri Group are wealth management and alternative investments, in particular. The group's key growth and value driver focuses on different property, forest and wind power funds, among others, with AuM of more than EUR1.3bn in Finland.

Throughout its fairly short history, Taaleri has been opportunistic in its business rather than following a clear strategy. The acquisition of guarantee insurance company Garantia in 2016, in particular, demonstrates this. This acquisition had virtually no synergies with the rest of the group. In addition, Taaleri has several minority holdings in different kinds of unlisted companies.

For further details see our report of 27 January 2020: *Taaleri: Alternative investment growth case with a large M&A option*.

Taaleri's shares have underperformed those of key peers, especially since 2018. We set our fair value range at EUR8.0-9.5 (previously EUR7.5-9.5). The range is wide given the very different value of insurance arm Garantia in different scenarios. We believe that a potential larger buyer could leverage the business significantly. The uncertainty is whether it can and will be sold. In this respect, we see Taaleri as an M&A-driven event case.

Chart 2: Taaleri fair value range



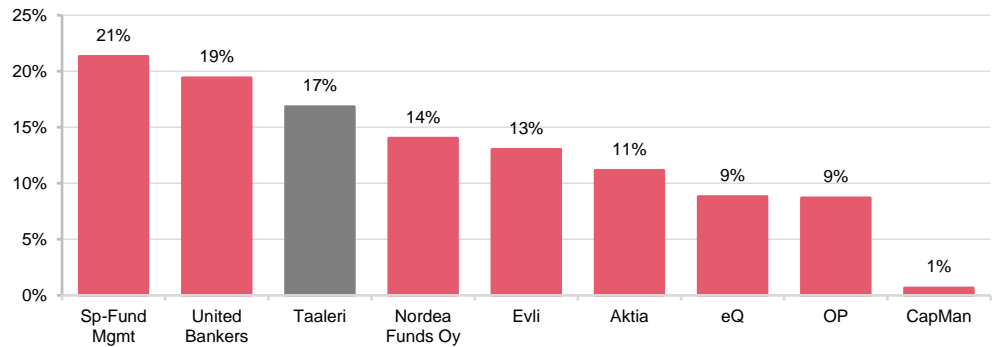
Source: Danske Bank Equity Research estimates

In our opinion, the key positives in the investment case are as follows.

- **Strong record of organic growth in high net worth individual (HNWI) asset management and alternative investment funds, in particular.** Taaleri has a proven record and had the third highest AuM growth (17% CAGR) among Finnish asset managers over 2012-H1 19. Finnish business magazine *Arvopaperi* chose Taaleri as the best wealth manager in Finland in 2019.

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Chart 3: Finnish medium-sized asset managers – assets under management CAGR 2012-H1 19

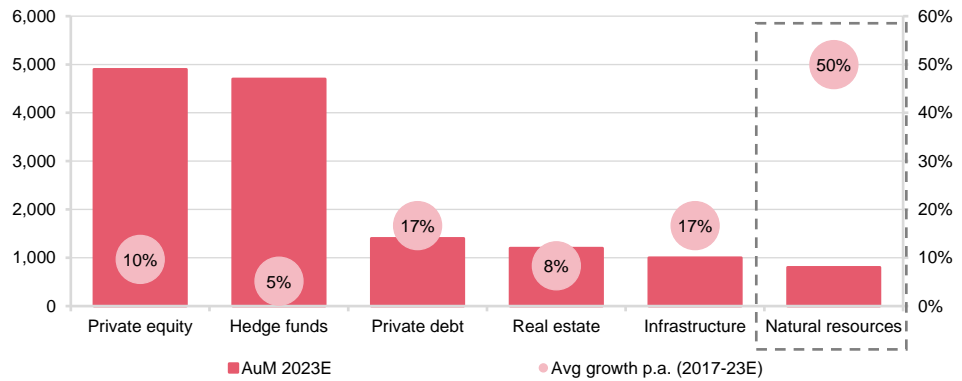


Source: Company data, Danske Bank Equity Research

Taaleri's competitive advantage is in wind and solar alternative investments; Bloomberg expects these assets to have the highest growth globally until 2023E

- Wind and solar funds creating new, sustainable business opportunities.** Taaleri's Energy division has one of the largest dedicated wind and solar investment teams in Europe and is the largest private equity owner-operator in the Finnish wind market, with 110 turbines producing approximately 1% of all the country's electricity. Infrastructure investments in wind and solar power are the main drivers of Taaleri's asset and revenue growth. This is a fairly new asset sub-class, where we see strong growth as Taaleri is now able to attract institutional money but is still small enough not to be competing with the larger global payers and is able to invest in smaller assets. In addition, as many of these are relatively new, we believe funds will start to generate carry in coming years, which will drive earnings.

Chart 4: Global AuM in 2023E (EURbn) and average growth rate p.a. of different alternative investment classes over 2017-23E



Source: Bloomberg Intelligence

Bloomberg expects natural resource investments, such as wind and solar, to be the fastest growing asset class, with 50% CAGR over 2017-23

- Environmental, social and governance (ESG) focus and impact investing should expand valuation multiples.** We believe the increasing focus on ESG among all investors will benefit companies such as Taaleri, which promote sustainability in their strategy and operations. As an example, Taaleri's renewable energy funds have reduced 1.2m tonnes of CO<sub>2</sub> emissions. In our view, the current valuation of Taaleri's shares does not reflect this.
- Large value creation opportunity in the divestment of Garantia.** In the current group set-up, Taaleri's credit guarantee insurance arm Garantia has virtually no synergies with the rest of the group and requires far too much solvency capital to generate a high return on capital. We estimate that Garantia's ROE for IFRS capital is around 10% versus the group target of >15% but an industrial buyer could leverage the operations and optimise capital better than Garantia can currently. We estimate that the value range for Garantia could be EUR150-180m (4.4-6.5 per share) compared with our base-case range of EUR70-100m

Divesting guarantee insurance arm Garantia is a key trigger for the revaluation of Taaleri, as it would significantly improve asset returns and extra dividend potential

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*We expect Taaleri's first alternative investment funds to mature and start generating significantly more carry, or performance fees, in FY 2022-24E*

*Complex reporting and accounting and non-transparent assets*

*Taaleri's subsidiary Garantia is a problem from a regulatory solvency perspective and it generates too little return on the capital it requires in the current set-up, so, in our opinion, divesting it would create value*

(EUR2.4–3.6 per share). We also believe that the divestment of Garantia would increase the probability of M&A for the rest of Taaleri Group.

- **Earnings boost from carried interest from existing alternative investments in 2021-24E.** Taaleri has in total over 20 alternative investment funds, consisting of real estate, energy infrastructure and private equity funds. The AuM of these funds were some EUR1.6bn at the end of H1 20. As the funds mature, Taaleri could earn significant performance fees, or carried interest, in fund exits. In successful funds, carry could be larger than the total fund management fees. We estimate that carries are set to increase after 2019-21E, to EUR9-12m in 2022-24E, driven by exits of larger funds.
- **M&A opportunities in the Finnish wealth management business.** There are several medium-sized asset managers in Finland, with both complementary and overlapping operations. These players include companies such as CapMan, eQ and Evli. We believe that we will see mergers and acquisitions in Finland and see Taaleri taking part in this activity, especially if, and when, it divests Garantia.

In our view, the key negatives/risks in the investment case are as follows.

- **Complicated structure and non-transparent assets.** While the different operations provide diversification, we believe investors could diversify themselves and the different operations complicate the case as well. In particular, the insurance company and the group's financial investments are difficult to value from the outside and, in our opinion, add to the risk premium in the shares. In addition, Taaleri reports only half-year earnings, so disclosure is not at the same level as that of most other listed peers.
- **High earnings volatility.** While Taaleri's operations are not very cyclical by nature, the group's reported earnings have been volatile. This is due largely to performance fees in the Wealth Management division and the group's own investments, as well as the insurance company profit volatility in IFRS reporting.
- **Suboptimal capital structure and capital uncertainty.** Taaleri is regulated both as a financial conglomerate (FiCo) and as a bank and insurance company. This means Taaleri has to comply with both the bank (Basel III) and insurance (Solvency II) rules. We note that a structure with both a bank and insurance company is seldom optimal, especially if a credit institution owns an insurance company. Currently, Taaleri has permission from the Finnish FSA not to deduct the Garantia insurance investment from its own funds but rather to use a risk weighting until 26 June 2021. If the FSA does not extend this, we believe Taaleri's CET1 ratio would fall from 28.3% in H2 20 to around 10% and total capital ratio from 34.2% to some 17%, excluding the impact from profit from upcoming review periods and dividend payments.
- **Small size and illiquid shares.** Taaleri has very limited institutional ownership currently, as either current or previous employees or related close-party institutions hold most of the shares. One could view this as negative from a governance point of view. At the same time, we note that several insiders have been buying the shares in recent months.

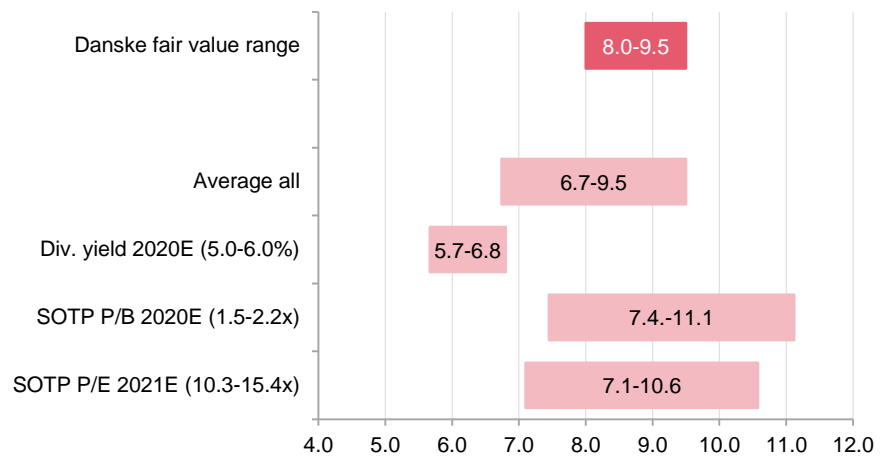
*Not for US distribution*



## Valuation

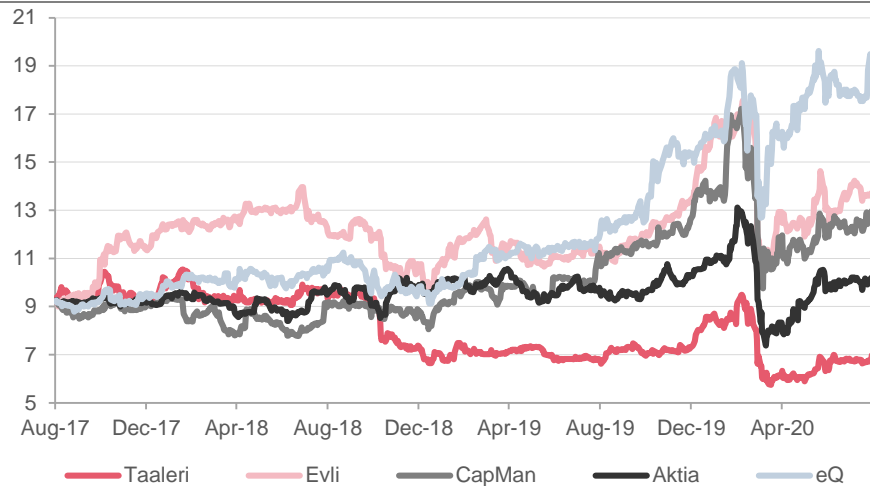
We set our fair value range for Taaleri's shares at EUR8.0-9.5 (previously EUR7.5-9.5). The lower end of the range implies a 2021E P/E of 11.6x, which is 10% below Taaleri's five-year average P/E of 12.9x. The upper end of the range, on the other hand, implies a 2021E P/E of 13.8x, 7% above the historical average. The range is very wide given the very different value of insurance arm Garantia in different scenarios. We believe that a potential larger buyer could leverage the business significantly. The uncertainty is whether Taaleri can, and will, sell Garantia.

Chart 5: Taaleri fair value range (EUR per share)



Source: Danske Bank Equity Research estimates

Chart 6: Total return of Finnish asset management companies - rebased to Taaleri

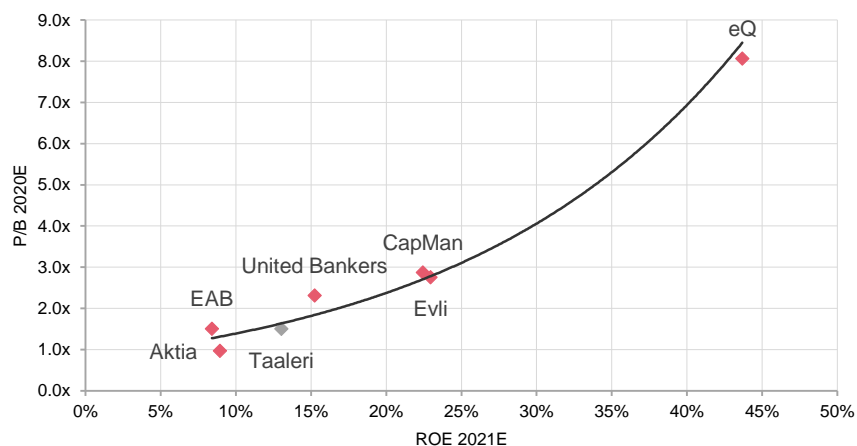


Source: FactSet, Danske Bank Equity Research

Taaleri's shares performed largely in line with the Finnish asset management peer group until August 2018 and have not recovered since.

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Chart 7: Value map – Nordic asset management companies



Source: FactSet consensus

Taaleri’s FY 2021E ROE of 13% is below the 2021E Finnish peer median of 18.8%. Thus, Taaleri is trading at a 37% discount to its peers at P/BV 2020E of 1.5x. The Finnish asset management company with the highest ROE and P/BV is eQ, trading at 2021E ROE of 44%, with 2020E P/BV of 7.8x.

Table 2: Key ratios for international and Finnish asset management companies

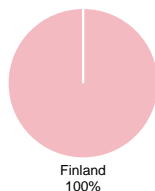
Company	Ticker	Price Market cap		P/B (x)		P/E (x)		Div. yield		ROE	
		lcl ccy	lcl ccy m	2020E	2021E	2020E	2021E	2020E	2021E	2020E	2021E
Affiliated Managers Group	AMG US	73.08	3,402	1.2	1.3	6.1	5.7	0.5%	0.1%	20.0%	22.2%
AGF Management	AGF/B CN	5.39	428	0.5	0.5	13.0	14.0	5.9%	5.9%	3.5%	3.3%
Azimut Holding Spa	AZM IM	17.03	2,483	3.0	2.7	11.1	11.0	5.9%	6.5%	27.0%	24.6%
BlackRock	BLK US	590.24	90,002	2.7	2.5	19.6	18.1	2.5%	2.5%	13.5%	13.9%
Blackstone	BX US	52.86	62,161	6.0	5.9	26.4	17.8	3.2%	4.9%	22.8%	33.1%
CI Financial	CIX CN	19.53	4,152	2.5	2.0	8.3	8.2	3.7%	3.7%	29.4%	24.7%
DWS Group	DWS GR	33.33	6,665	0.9	0.9	12.9	11.4	5.1%	5.8%	7.3%	8.0%
Eaton Vance	EV US	38.96	4,457	3.4	3.4	12.3	12.1	3.9%	4.1%	28.1%	28.0%
EQT	EQT SS	216.40	206,226	18.0	14.7	89.5	39.9	1.1%	1.6%	20.1%	36.8%
Federated Investors	FII US	27.04	2,709	2.5	2.5	9.8	10.2	4.0%	4.3%	25.7%	24.5%
GAM Holding	GAM SW	2.22	354	0.5	0.5	31.7	0.0	0.0%	2.3%	-1.2%	1.6%
IGM Financial	IGM CN	34.11	8,129	1.7	1.6	10.9	9.7	6.6%	6.6%	15.6%	16.4%
Invesco	IVZ US	11.39	5,230	0.4	0.4	7.3	6.8	6.8%	5.4%	5.2%	5.4%
Janus Henderson	JHG US	21.11	3,881	0.9	0.8	8.6	8.7	6.8%	6.8%	10.2%	9.7%
Legg Mason	LM US	49.99				16.2	14.0	3.2%	3.4%		
Man Group	EMG LN	1.35	1,993	1.7	1.6	13.9	10.2	5.2%	5.2%	12.1%	15.6%
Manning & Napier	MN US	3.51	57	0.9	0.4	29.3	8.4	2.3%	2.3%	3.0%	4.9%
Rathbone Brothers	RAT LN	16.94	972	2.0	2.1	16.5	15.1	4.1%	4.2%	12.3%	13.8%
Schroders	SDR LN	30.94	8,166	2.2	2.1	17.8	16.4	3.7%	3.7%	12.1%	12.5%
T. Rowe Price	TROW US	138.45	31,426	4.4	4.0	16.1	14.6	2.6%	2.7%	27.0%	27.6%
Waddell & Reed Financial	WDR US	15.65	1,020	1.3	1.2	11.3	12.2	6.4%	6.4%	11.6%	10.2%
WisdomTree Investments	WETF US	4.10	614	1.5	1.4	19.5	18.6	2.9%	2.9%	7.7%	7.8%
CapMan	CAPMAN FH	2.05	320.5	2.9	2.8	102.5	12.4	6.8%	7.3%	2.8%	22.4%
EAB	EABGB FH	2.06	28.5	1.5	1.3	76.8	16.1	1.2%	4.1%	2.0%	8.4%
eQ	EQV1V FH	13.50	517.1	8.1	7.8	23.1	17.9	4.4%	5.8%	34.9%	43.7%
Evli	EVLI FH	9.08	214.8	2.8	2.5	14.6	10.9	5.5%	7.2%	18.8%	23.0%
United Bankers	UNIAV FH	8.80	91.9	2.3	2.3	12.7	14.9	5.7%	5.1%	18.3%	15.2%
Titanium	TITAN FH	8.84	90.4								
Aktia	AKTIA-FI	9.00	632.0	1.0	1.0	14.8	10.7	5.0%	6.7%	6.5%	8.9%
<b>Average</b>				<b>2.8</b>	<b>2.6</b>	<b>23.0</b>	<b>14.2</b>	<b>4.1%</b>	<b>4.5%</b>	<b>14.7%</b>	<b>17.3%</b>
<b>Median</b>				<b>2.0</b>	<b>2.0</b>	<b>14.6</b>	<b>12.3</b>	<b>4.1%</b>	<b>4.6%</b>	<b>12.3%</b>	<b>15.2%</b>
<b>Finnish average</b>				<b>3.1</b>	<b>2.9</b>	<b>40.7</b>	<b>13.8</b>	<b>4.8%</b>	<b>6.0%</b>	<b>13.9%</b>	<b>20.3%</b>
<b>Finnish median</b>				<b>2.5</b>	<b>2.4</b>	<b>18.9</b>	<b>13.6</b>	<b>5.3%</b>	<b>6.2%</b>	<b>12.4%</b>	<b>18.8%</b>
<b>Taaleri</b>	<b>TAALA FH</b>	<b>6.98</b>	<b>198</b>	<b>1.5</b>	<b>1.5</b>	<b>25.8</b>	<b>11.5</b>	<b>4.6%</b>	<b>5.2%</b>	<b>5.8%</b>	<b>13.0%</b>
<b>Taaleri vs. median</b>				<b>-26%</b>	<b>-26%</b>	<b>76%</b>	<b>-7%</b>				
<b>Taaleri vs. Finnish median</b>				<b>-41%</b>	<b>-37%</b>	<b>36%</b>	<b>-16%</b>				

Note: Prices as at close on 12 August 2020

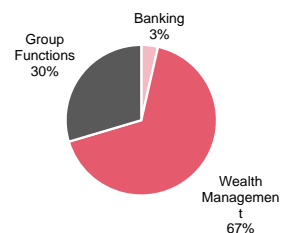
Source: FactSet prices and consensus

## Company summary

### Income breakdown by geographical area



### Income breakdown by segment



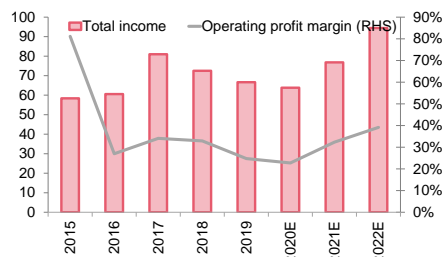
### Company information

Taaleri plc  
 Kasarmikatu 21, 00130 Helsinki  
 Finland  
 www.taaleri.com

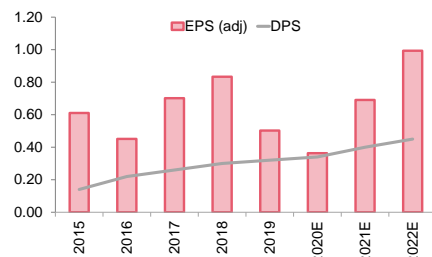
### Main shareholders

Name	Votes (%)	Capital (%)
Veikko Laine Oy	10.2%	10.2%
Hermitage Oy	10.0%	10.0%
Juhani Elomaa excl. related parties	6.1%	6.1%

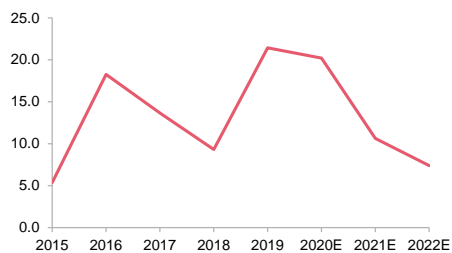
### Total income and operating profit margin (EURm)



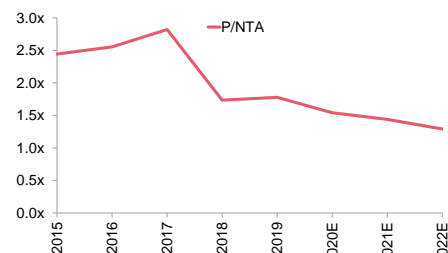
### EPS (adjusted) and DPS (EURm)



### P/E NTM (x)



### P/NTA NTM (x)



Source: FactSet, Company data, Danske Bank Equity Research estimates

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### Summary tables

**INCOME STATEMENT**

Year end Dec, EURm	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Commissions			27.7	31.8	33.2	53.0	45.6	46.1	52.2	58.4
<b>Total income</b>			<b>46.6</b>	<b>58.4</b>	<b>60.6</b>	<b>81.0</b>	<b>72.5</b>	<b>66.6</b>	<b>63.8</b>	<b>76.8</b>
Costs			-25.8	-39.6	-44.5	-54.0	-48.5	-50.1	-49.3	-52.0
<b>Operating profit</b>			<b>20.8</b>	<b>47.4</b>	<b>16.3</b>	<b>27.6</b>	<b>23.9</b>	<b>16.5</b>	<b>14.5</b>	<b>24.8</b>
Taxes			-4.0	-3.0	-3.6	-5.8	-2.3	-5.0	-3.7	-5.0
<b>Pre-tax profit</b>			<b>20.8</b>	<b>47.4</b>	<b>16.3</b>	<b>27.6</b>	<b>23.9</b>	<b>16.5</b>	<b>14.5</b>	<b>24.8</b>
<b>Net profit</b>			<b>16.8</b>	<b>44.1</b>	<b>12.8</b>	<b>21.4</b>	<b>21.6</b>	<b>11.1</b>	<b>10.3</b>	<b>19.6</b>
<b>Net profit (adj.)</b>			<b>16.8</b>	<b>17.3</b>	<b>12.8</b>	<b>19.9</b>	<b>23.6</b>	<b>14.2</b>	<b>10.3</b>	<b>19.6</b>

**BALANCE SHEET**

EURm	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Insurance assets			0.0	0.0	126	136	134	153	151	156
Other interest bearing assets			0.0	0.0	55.1	34.6	26.1	29.1	34.0	35.4
Goodwill			0.0	0.0	2.5	2.2	6.6	6.5	7.0	7.3
<b>Total assets</b>			<b>0.0</b>	<b>0.0</b>	<b>213</b>	<b>229</b>	<b>238</b>	<b>270</b>	<b>269</b>	<b>274</b>
Insurance liabilities			0.0	13.1	15.0	20.3	23.3	32.3	32.3	33.6
Wholesale funding			29.8	29.9	64.7	54.8	54.8	34.9	34.9	34.9
Equity			37.9	97.1	93.9	106	122	141	142	152
<b>NTA</b>			<b>37.9</b>	<b>97.1</b>	<b>91.3</b>	<b>104</b>	<b>116</b>	<b>134</b>	<b>135</b>	<b>144</b>

**PER SHARE DATA**

	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
No. of shares, fully diluted YE (m)			25.2	28.3	28.3	28.3	28.3	28.3	28.3	28.3
No. of shares, fully diluted avg. (m)			25.2	28.3	28.3	28.3	28.3	28.3	28.3	28.3
EPS (reported) (EUR)			0.67	1.56	0.45	0.76	0.76	0.39	0.36	0.69
EPS (adj.) (EUR)			0.67	0.61	0.45	0.70	0.83	0.50	0.36	0.69
DPS (EUR)			0.09	0.14	0.22	0.26	0.30	0.32	0.34	0.40
Book value per share (EUR)			1.51	3.43	3.32	3.75	4.32	4.97	5.01	5.36
NTA per share (EUR)			1.51	3.43	3.23	3.67	4.09	4.73	4.76	5.10

**MARGINS AND GROWTH**

	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
C/I, adjusted	55.3%	67.8%	73.4%	66.6%	66.8%	74.6%	77.3%	67.7%	60.8%	
Op profit marg	44.7%	81.1%	27.0%	34.1%	32.9%	24.8%	22.7%	32.3%	39.2%	
Op profit grth		n.m.	-65.51%	69.0%	-13.59%	-30.86%	-12.09%	71.2%	48.9%	
Tot inc growth		25.2%	3.7%	33.7%	-10.5%	-8.1%	-4.2%	20.3%	23.0%	
Cost growth		-53.5%	-12.2%	-21.4%	10.2%	-3.5%	1.6%	-5.4%	-10.6%	
PPP growth		-9.8%	-14.2%	67.8%	-11.0%	-31.4%	-12.1%	71.2%	48.9%	
EPS (adj) growth		-8.4%	-26.1%	55.5%	18.8%	-39.7%	-27.7%	90.2%	43.8%	

**PROFITABILITY**

	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
ROE, reported profits			44.3%	65.3%	13.4%	21.5%	18.9%	8.5%	7.3%	13.3%
RONTA, adj. profits			44.3%	25.6%	13.6%	20.3%	21.5%	11.4%	7.6%	14.0%

**VALUATION**

	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E
Share price (EUR)			6.36	8.38	8.24	10.4	7.10	8.42	7.34	7.34
Market cap (EURm)			160	237	233	293	201	238	208	208
P/E (reported) (x)			9.5	5.4	18.3	13.7	9.3	21.4	20.2	10.6
P/E (adj.) (x)			9.5	13.7	18.3	14.8	8.5	16.8	20.2	10.6
P/BV (x)			4.23	2.44	2.49	2.76	1.64	1.70	1.47	1.37
P/NTA (x)			4.23	2.44	2.55	2.82	1.74	1.78	1.54	1.44
Dividend yield			1.4%	1.7%	2.7%	2.5%	4.2%	3.8%	4.6%	5.4%
Total yield (incl. buybacks)			1.4%	1.7%	2.7%	2.5%	4.2%	3.8%	4.6%	5.4%

Source: Company data, Danske Bank Equity Research estimates

*Summary tables*

<b>EURm</b>	<b>2015A</b>	<b>2016A</b>	<b>2017A</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>
Total income	58.4	60.6	81.0	72.5	67.2	63.8	76.8
<i>Growth y/y</i>	25.2%	3.7%	33.7%	-10.5%	-7.3%	-5.0%	20.3%
Total expenses	-39.6	-44.5	-54.0	-48.5	-50.1	-49.3	-52.0
Operating profit	47.4	16.3	27.6	23.9	16.5	14.5	24.8
Operating margin	81.1%	27.0%	34.1%	32.9%	24.6%	22.7%	32.3%
<b>Segment revenues</b>							
Wealth Management	39.4	37.1	54.6	48.7	42.9	43.2	48.0
Financing	13.2	12.3	22.1	14.2	21.3	11.0	16.0
Energia	0.0	0.3	1.8	2.3	4.6	10.4	10.4
Other	6.1	11.0	3.4	8.8	-1.6	-0.8	2.4
<b>Total</b>	<b>58.4</b>	<b>60.7</b>	<b>81.9</b>	<b>73.9</b>	<b>67.2</b>	<b>63.8</b>	<b>76.8</b>
<b>Segment operating profit</b>							
Wealth Management	9.8	6.2	16.6	16.8	11.8	13.2	15.6
Financing	6.7	4.6	13.9	4.9	12.7	5.1	9.7
Energia	0.0	-0.9	-1.5	-2.3	-2.6	2.2	2.0
Other	2.3	6.4	-1.4	4.4	-5.4	-5.9	-2.4
<b>Total</b>	<b>18.8</b>	<b>16.4</b>	<b>27.6</b>	<b>23.9</b>	<b>16.5</b>	<b>14.5</b>	<b>24.8</b>
<b>Operating profit margin</b>							
Wealth Management	24.8%	16.6%	30.4%	34.5%	27.5%	30.4%	32.4%
Financing	51.1%	37.5%	62.9%	34.6%	59.9%	46.2%	60.9%
Energia		-258%	-84.0%	-100.9%	-56.5%	21.3%	19.3%
Other	37.8%	58.4%	-40.8%	50.1%	334.7%	766.3%	-100.5%
<b>Total</b>	<b>32.2%</b>	<b>26.9%</b>	<b>33.7%</b>	<b>32.3%</b>	<b>24.6%</b>	<b>22.7%</b>	<b>32.3%</b>
Reported EPS (EUR)	1.56	0.45	0.76	0.76	0.39	0.36	0.69
Adj. EPS (EUR)	0.61	0.45	0.70	0.83	0.50	0.36	0.69
<i>Growth y/y</i>	-8%	-26%	55%	19%	-40%	-28%	90%
DPS (EUR)	0.14	0.22	0.26	0.30	0.32	0.34	0.40
<i>Growth y/y</i>	56%	57%	18%	15%	7%	6%	18%
Dividend payout ratio	23%	49%	37%	36%	64%	94%	58%
ROE	63.1%	7.8%	21.5%	18.9%	8.5%	7.3%	13.3%
ROE (adj.)	24.7%	13.4%	19.9%	20.7%	10.8%	7.3%	13.3%
<b>AuM</b>							
Mutual funds	850	857	1,083	911	1,023	1,021	1,104
Private equity funds	623	880	1,052	1,024	1,223	1,294	1,426
Wealth management	0	2,942	3,316	3,676	4,469	4,500	4,700
Energia	0	0	44	49	272	452	452
<b>Total AuM</b>	<b>3,900</b>	<b>4,800</b>	<b>5,600</b>	<b>5,700</b>	<b>7,100</b>	<b>7,416</b>	<b>7,842</b>

*Source: Company data, Danske Bank Equity Research estimates*

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