

Investment Services

Key data

Price (EUR)*	10.9
Country	Finland
Bloomberg	TAALA.FH
Reuters	TAALA.HE
Free float	45.0%
Market cap (EURm)	309
No. of shares (m)	28.4
Next event	Q4: 18-Feb

* Price as at 12:22 CET on 5 November 2021

CEO	Karri Haaparinne
CFO	Minna Smedsten

Company description

Taaleri is a Finnish financial services company. Taaleri focuses on Private Equity funds, mainly on renewables and other alternative investments. The company also has a strategic guaranty insurance subsidiary Garantia. Taaleri group consists of two key divisions: Private Asset Management & Strategic investment Garantia.

Ownership structure

Veikko Laine Oy	11.5%
Hermitage Oy	10.3%
Juhani Elomaa	6.3%

Source: Company data (4 November 2021)

Estimate changes

	21E	22E	23E
Tot inc	4.4%	5.0%	4.1%
Op prof	22.3%	15.0%	2.1%
EPS (adj.)	22.0%	12.3%	2.7%

Source: Danske Bank Equity Research estimates

Analyst(s)

Daniel Lepistö

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Taaleri plc

Heading in the right direction

Taaleri's Q3 numbers were below FactSet consensus estimates with EUR12.3m total income and EUR4.6m operating profit. However, the company successfully refinanced its Wind II and III funds, increasing the performance fee potential to EUR20m, which will be partly amortized over the next few years. We lift our estimates due to higher carried interest estimates and lift our fair value range to EUR11-12.5.

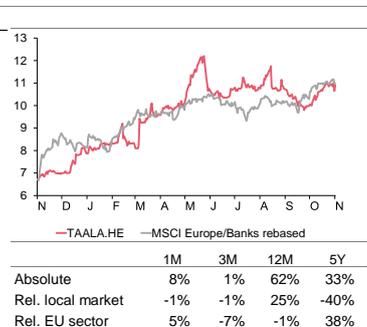
- Investment case.** Taaleri reported Q3 results above our estimates but below FactSet consensus expectations (one estimate). The Q3 result was thus overall mixed, as Taaleri's Housing VI exit performance fees were pushed to Q4 and several fair-value adjustments of its investments affected the reported figures. However, at the same time, cost reductions in the group operations have started to emerge. Even though the Q3 numbers were mixed, the spotlight was on the announced refinancing of the Wind II and III funds, which increased the performance fee potential to EUR20m, set to be partly amortized to Taaleri's results in the next few years. This, combined with continuing strong performance of Garantia and positive comments on the SolarWind II fund's project development schedule, increases our confidence in the medium-term outlook for the company, as the ramp-up of the Other Private Equity segment is still ongoing.
- More non-strategic divestments in pipeline.** At its CMD, Taaleri divided its balance sheet investments in strategic and non-strategic, stating a clear exit plan for any non-strategic investments. Company management clearly implied that more of these divestments should be expected during Q4.
- Estimate changes.** We lift our total income and profitability estimates due to the higher and more stable estimated performance fees for the upcoming years.
- Valuation.** We lift our fair value range to EUR11.0-12.5 due to higher 2022 estimates, which implies an adjusted P/E of 19.5x at the valuation midpoint for 2022E. Taaleri's future valuation still depends on how much of the profit received from the WM sale the company is able to channel into its ongoing operations.

Key financials

Year-end Dec (EUR)	2019	2020	2021E	2022E	2023E
Total income (m)	67.2	69.5	57.3	55.1	70.0
Total income growth	-7.0%	3.5%	-17.6%	-3.8%	27.0%
Total expenses (m)	-50.7	-51.9	-36.1	-33.7	-41.5
Operating profit (m)	15.9	17.6	21.2	21.4	28.6
Operating profit growth	-32.5%	10.5%	20.2%	1.1%	33.5%
Operating profit margin	23.7%	25.3%	36.9%	38.8%	40.8%
EPS (adj.)	0.49	0.45	0.58	0.58	0.78
DPS	0.32	1.32	1.00	0.80	0.70
Dividend yield	3.8%	16.3%	9.2%	7.3%	6.4%
ROE	8.0%	9.0%	68.6%	7.0%	9.8%
P/E (adj.) (x)	17.2	17.9	18.9	18.9	14.0
P/BV	1.70	1.59	1.30	1.37	1.37

Source: Company data, Danske Bank Equity Research estimates

Price performance



Source: FactSet

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Q3 key conclusions

Even though the numbers missed (FactSet) consensus expectations, the clear positive in the report was the announcement that Taaleri was able to refinance its Wind II and III fund, lifting the fund's performance fee potential to EUR20m, which will be partly amortized to Taaleri's result starting from Q4. Our estimates were once again too bearish on Garantia's investment income, which has continued on a very high level after the dip in early 2020. The segment performance can be summarised as follows.

Other Private Equity. Ramp-up of the operations continued as planned. Exited Housing VI carried interest will be booked in Q4 (our estimate EUR3.5m) and new Housing VIII fund's local sales were started in Aktia. Bioindustry segment also started the sale of Biocoal co-investment and the segment prepares for its first fund in early 2022.

Renewables. Focused on Solar Wind II fund's existing investments, as the fund was closed during Q2. Several projects are in construction phase and the fund is expected to be close to fully deployed during 2022, pointing towards early 2023 first close for the upcoming (yet unannounced) Solar Wind III fund, in our view.

Garantia. Income remained at solid level and the activity was excellent due to positive momentum in the mortgage and real estate activity. Combined ratio was once again excellent at 36.8%.

Table 1. Estimate summary

EURm	Actual Q3	Cons. Q3 21E	Diff	Danske Q3 21E	Diff.
Total income	12.3	13.5	-8.9%	10.5	17.1%
Operating profit	4.6	6.3	-27.0%	3.7	24.8%
Operating profit-%	37.4%	46.7%	n.m.	35.1%	n.m.
Adj. EPS	0.11	0.13	-15.4%	0.10	8.5%
AUM	2,100	n.a.	n.a.	2,200	-4.5%

Source: Company data, FactSet consensus (one estimate), Danske Bank Equity Research estimate

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Table 2. Quarterly estimates

EURm	H1 19	H2 19	H1 20	H2 20	Q1 21	Q2 21	Q3 21	Q4 21E
Total income	30.9	36.2	24.5	45.0	12.1	17.0	12.3	15.8
Growth y/y	-12.4%	-2.2%	-20.7%	24.3%		19.2%		-37.5%
Total expenses	-24.5	-25.6	-25.6	-30.3	-7.4	-14.3	-7.7	-8.8
Operating profit	6.3	10.6	0.9	14.8	4.7	2.7	4.6	7.0
Operating margin	20.6%	29.2%	3.8%	32.8%	38.8%	16.1%	37.5%	44.4%
Segment income								
Other Private Equity	17.2	25.7	18.5	24.4	1.2	1.0	0.7	4.9
Insurance	10.5	10.8	3.6	13.7	7.0	7.2	6.6	6.0
Renewables	1.4	3.2	4.2	5.1	4.0	4.3	3.6	4.4
Other	1.8	-3.4	-1.8	1.9	1.5	1.7	1.4	0.6
Total	30.9	36.2	24.5	45.0	13.7	14.3	12.3	15.8
Income growth (y/y)								
Other Private Equity	-42%	135.0%	7.4%	-4.7%		-88.1%		-77.2%
Insurance	55%	145.6%	-66.1%	26.8%		300.0%		-8.2%
Renewables	29%	270.9%	197.2%	56.9%		98.5%		58.3%
Other	-222%	-33.3%	-198.7%	-154.9%		-279.8%		6.0%
Total	-14%	95.7%	-20.9%	24.3%		14.2%		-37.5%
Segment operating profit								
Other Private Equity	2.1	9.7	6.4	5.9	-0.4	-1.1	-1.2	2.7
Insurance	6.1	6.6	0.8	9.2	5.4	5.8	4.6	4.1
Renewables	-1.6	-1.0	0.1	0.1	0.3	0.4	0.4	1.3
Other	-0.1	-5.3	-4.4	-0.3	-0.2	-0.7	0.8	-1.0
Total	6.4	10.1	2.8	14.8	5.1	4.4	4.6	7.0
Operating profit margin								
Other Private Equity	11.9%	37.9%	34.3%	24.0%	-32.4%	-107.6%	-162.8%	55.2%
Insurance	58.1%	61.7%	21.1%	67.0%	76.9%	80.6%	69.4%	68.5%
Renewables	-116.5%	-30.3%	2%	1.7%	7.4%	10.2%	11.7%	29.1%
Other	-5.6%	155.7%	245.4%	-17.9%	-14.2%	-43.2%	58.1%	-187.8%
Total	20.7%	27.8%	11.6%	32.8%	37.4%	30.8%	37.5%	44.4%
Reported EPS (EUR)	0.18	0.21	-0.02	0.41	0.24	4.02	0.11	0.19
Adj. EPS (EUR)	0.22	0.27	-0.02	0.41	0.12	0.08	0.11	0.19
ROE	16.6%	18.5%	-1.8%	34.6%	20.1%	282.9%	6.5%	9.5%
ROE (adj.)	20.4%	23.4%	-1.8%	34.6%	10.5%	5.4%	6.5%	9.5%
AUM								
Mutual funds	945	1,023	972	1,209	0	0	0	0
Private equity funds	1,238	1,223	1,232	1,282	578	947	947	1,047
Wealth management	4,138	4,469	4,423	4,629	0	0	0	0
Energia / Renewables	82	307	378	407	1,130	1,164	1,164	1,164
Total AUM	6,600	7,100	7,100	7,657	1,700	2,100	2,100	2,200

Note: Total income estimates and segment income estimates are different due to Wealth management divestment to Aktia, with IFRS-5 discontinued operations reporting. Segment figures give better indication of Taaleri's future continuing performance.

Source: Company data Danske Bank Equity Research estimates.

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Executive summary

Renewable 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 one of the largest private equity owner-operator in the Finnish wind market, with 116 turbines producing almost 1% of all the country's electricity. These infrastructure investments in wind and solar power are the main drivers of Taaleri's asset and revenue growth. We see strong growth in renewables business for Taaleri as the company is now able to attract institutional money but is still small enough not to be competing with the larger global players and is able to invest in smaller assets.

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. 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 EUR4-12m in 2022-24E, driven by exits of larger funds.

M&A opportunities remain even after the Aktia transaction. There are several medium-sized asset managers in Finland, with both complementary and overlapping operations. These players include companies such as CapMan, eQ and New Evli Bank. Even though Taaleri has now entered into co-operation with Aktia and is set to provide the private equity funds for their needs until further notice, the simplified structure of Taaleri and streamlined future ambitions increase the chances that Taaleri would be part of the asset management M&A activity in Finland in the future, in our view.

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 promotes sustainability in its strategy and operations.

Key risks with the case

Disposal of Wealth Management significantly decreases Taaleri's AUM and size. Even though, in our view, Taaleri gains significant focus benefits from the transaction, the absolute size of the company's AUM and continuing earnings will decrease. The smaller size and lots of excess cash in hand might turn risky in the long term, if the company fails to capitalise on attracting new talent and growing its AUM organically and through M&A. In the worst-case scenario, investors are paid most of the excess capital, but are left with a smaller scale business with low growth.

High earnings volatility. While Taaleri's operations are not very cyclical by nature, the group's reported earnings have historically been volatile. This has partly been due 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. Some of these, mainly in terms of visibility, will be resolved over time after the transaction, as Taaleri has communicated it will be opening up its private equity fund lifecycles, management fees and estimated carried interest in more detail in the future.

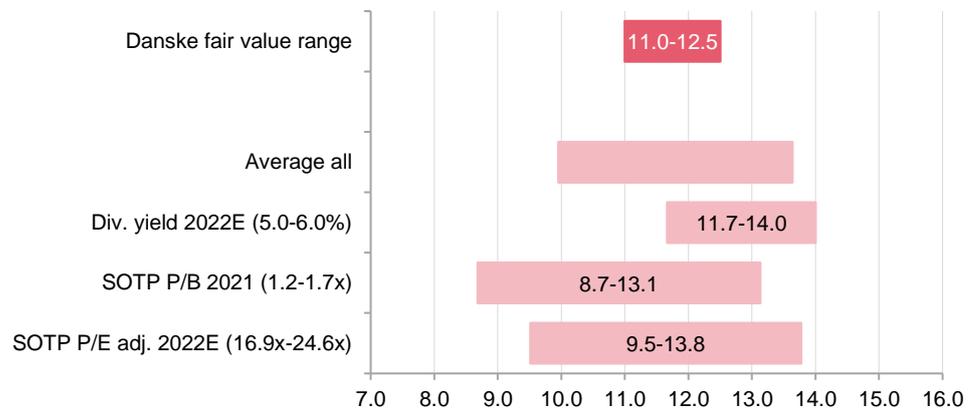
Small size and illiquid shares. Taaleri has very limited institutional ownership at the moment, as either current or previous employees or related close-party institutions hold most of the shares. One could view this as negative from a governance point of view. Additional risk emerges from the fact that most of the Taaleri's personnel will be transferred to Aktia, and as most of them simultaneously own Taaleri's shares, their incentives to keep their ownership in the long term are uncertain.

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Valuation

We lift our fair value range to EUR11.0-12.5 (EUR10.0-11.5 previously) for Taaleri, due to higher estimates. We believe that selling the Wealth Management operations (but keeping the private equity operations) is key for Taaleri to crystallise its company value and execute a clearer strategy with higher earnings potential in the future. Additionally, cleaning up the balance sheet of the non-strategic investments is set to streamline the investment case overall. For its continuing activities, Taaleri should focus on channelling the profit from the Wealth Management sale back into its operating business, both by boosting organic growth and looking into inorganic measures by attracting private equity teams from competitors to Taaleri's projects.

Chart 1. Taaleri fair value range (EUR per share)

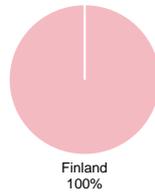


Source: Danske Bank Equity Research estimates

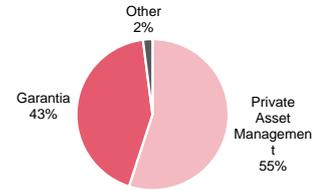
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Company summary

Income breakdown by geographical area



Income breakdown by segment



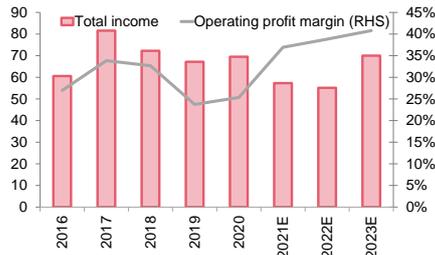
Company information

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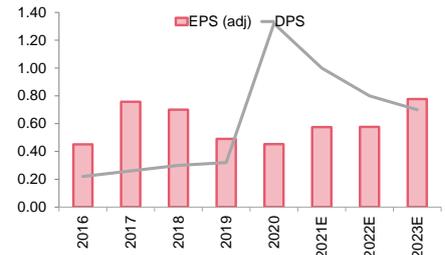
Main shareholders

Name	Votes (%)	Capital (%)
Veikko Laine Oy	11.5%	11.5%
Hermitage Oy	10.3%	10.3%
Juhani Elomaa	6.3%	6.3%

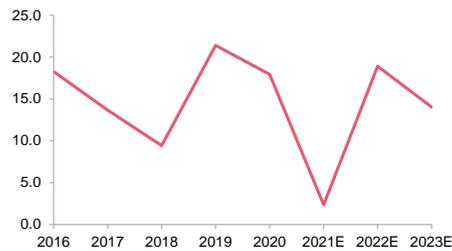
Total income and operating profit margin (FI TRm)



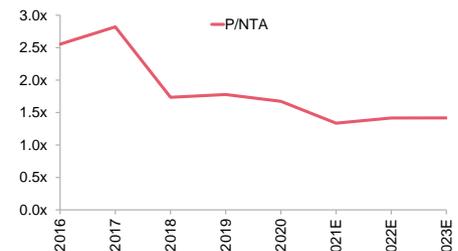
EPS (adjusted) and DPS (EURm)



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	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Commissions			31.8	33.2	53.0	45.6	46.1	51.5	21.9	32.3
Total income			58.4	60.6	81.6	72.3	67.2	69.5	57.3	55.1
Costs			-39.6	-44.5	-54.0	-48.5	-50.7	-51.9	-36.1	-33.7
Operating profit			47.4	16.3	27.6	23.6	15.9	17.6	21.2	21.4
Taxes			-3.0	-3.6	-5.8	-2.3	-5.0	-4.4	-4.3	-4.3
Pre-tax profit			47.4	16.3	27.6	23.6	15.9	17.6	21.2	21.4
Net profit			44.1	12.8	21.4	21.3	10.6	12.8	131	16.3
Net profit (adj.)			17.3	12.8	21.4	19.8	13.9	12.8	16.3	16.3
BALANCE SHEET										
EURm	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Insurance assets			0.0	126	136	134	153	160	158	166
Other interest bearing assets			0.0	55.1	34.6	26.1	29.1	37.0	38.5	43.4
Goodwill			0.0	2.5	2.2	6.6	6.5	6.8	7.0	7.9
Total assets			0.0	213	229	238	270	268	308	286
Insurance liabilities			13.1	15.0	20.3	23.3	32.3	34.7	37.6	40.7
Wholesale funding			29.9	64.7	54.8	54.8	34.9	34.9	0.0	0.0
Equity			97.1	93.9	106	122	141	144	238	226
NTA			97.1	91.3	104	116	134	138	231	218
PER SHARE DATA										
	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
No. of shares, fully diluted YE (m)			28.3	28.3	28.3	28.3	28.3	28.4	28.4	28.4
No. of shares, fully diluted avg. (m)			28.3	28.3	28.3	28.3	28.3	28.4	28.4	28.4
EPS (reported) (EUR)			1.56	0.45	0.76	0.75	0.39	0.45	4.63	0.58
EPS (adj.) (EUR)			0.61	0.45	0.76	0.70	0.49	0.45	0.58	0.58
DPS (EUR)			0.14	0.22	0.26	0.30	0.32	1.32	1.00	0.80
Book value per share (EUR)			3.43	3.32	3.75	4.32	4.97	5.09	8.40	7.98
NTA per share (EUR)			3.43	3.23	3.67	4.09	4.73	4.85	8.15	7.70
MARGINS AND GROWTH										
	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
C/I, adjusted	67.8%	73.4%	66.2%	67.1%	75.4%	74.7%	63.1%	61.2%	59.2%	
Op profit marg	81.1%	27.0%	33.8%	32.7%	23.7%	25.3%	36.9%	38.8%	40.8%	
Op profit grth			-65.51%	69.0%	-14.52%	-32.49%	10.5%	20.2%	1.13%	33.5%
Tot inc grth			3.7%	34.7%	-11.4%	-7.0%	3.5%	-17.6%	-3.8%	27.0%
Cost growth			-12.2%	-21.4%	10.2%	-4.5%	-2.5%	30.4%	6.6%	-22.9%
PPP growth			-14.2%	71.4%	-13.8%	-30.6%	6.6%	20.2%	1.1%	33.5%
EPS (adj) growth			-26.1%	67.9%	-7.5%	-30.0%	-7.7%	27.1%	0.2%	34.7%
PROFITABILITY										
	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
ROE, reported profits			65.3%	13.4%	21.5%	18.7%	8.0%	9.0%	68.6%	7.0%
RONTA, adj. profits			25.6%	13.6%	22.0%	18.1%	11.1%	9.5%	8.8%	7.3%
VALUATION										
	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E
Share price (EUR)		6.36	8.38	8.24	10.4	7.10	8.42	8.12	10.9	10.9
Market cap (EURm)			237	233	293	201	238	230	309	309
P/E (reported) (x)			5.4	18.3	13.7	9.4	21.4	17.9	2.4	18.9
P/E (adj.) (x)			13.7	18.3	13.7	10.1	17.2	17.9	18.9	18.9
P/BV (x)			2.44	2.49	2.76	1.64	1.70	1.59	1.30	1.37
P/NTA (x)			2.44	2.55	2.82	1.74	1.78	1.67	1.34	1.42
Dividend yield			1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	9.2%	7.3%
Total yield (incl. buybacks)			1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	9.2%	7.3%

Source: Company data, Danske Bank Equity Research estimates

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More information about the valuation and/or methodology and the underlying assumptions is accessible via www.danskebank.com/equityresearch.

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This research product will be updated on a semi-annual basis as a minimum.

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