

Investment Services

Key data

Price (EUR)*	11.8
Country	Finland
Bloomberg	TAALA FH
Reuters	TAALA.HE
Free float	45.0%
Market cap (EURm)	335
No. of shares (m)	28.4
Next event	Q1: 5-May

* Price as at 15:40 CET on 16 February 2022

CEO	Peter Ramsay
CFO	Mnna 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 ("d Mmmm YYYY")

Estimate changes

	22E	23E	24E
Tot inc	-5.6%	0.7%	4.8%
Op prof	-13.7%	8.6%	17.6%
EPS (adj.)	-15.6%	6.2%	13.1%

Source: Danske Bank Equity Research estimates

Analyst(s)

Daniel Lepistö

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Important disclosures and certifications are contained from page 8 of this report

Taaleri plc

Progressing according to its strategy

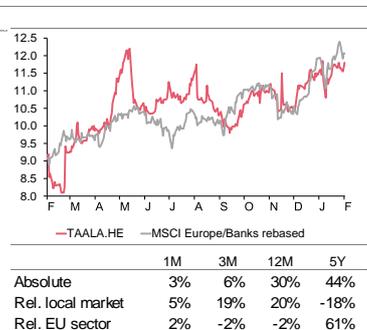
Taaleri reported Q4 21 total income clearly above Factset consensus, while somewhat missing the operating profit estimates. Strong headline figures were driven by performance fees and fair-value changes. Overall, Taaleri showed record numbers from generated performance fees and Garantia operations, setting the stage for further strategy execution in 2022. Our fair value range remains unchanged at EUR11-12.5.

- Impact on the investment case.** Taaleri ended 2021 on a solid note, in line with its updated outlook from December 2021, pointing to EUR65-70m total income with EUR25-30m operating profit for its continuing operations. Total income was 21% above consensus, whereas operating profit missed by 6%, mainly due to some one-off costs related to performance fees and the change of CEO. Last year, Taaleri also invested in growth and recruitment in its Bioindustry segment to enable the first fund launch for the new segment. In 2022, we expect Taaleri to continue its strategy execution with a focus on growing AUM, launching new funds and making further divestments of non-strategic balance sheet investments. The company's strong cash position also enables inorganic measures if available, we believe.
- Carried interest visibility remains low.** We currently assume two mid-sized fund exits for 2022, suggesting some EUR2m in performance fees from the exits. Management has not further elaborated a more specific schedule for any planned exits, or the carried interest potential with Taaleri's current funds, which makes the short-term estimate volatility potentially high. However, our overall message remains the same: Taaleri should have high carried interest potential with its current funds, and more exits should happen in 2023-25.
- Estimate changes.** We lower our 2022 estimates due to more cautious investment income and performance fee expectations, but raise our estimates for 2023-24.
- Valuation.** Our sum-of-the-parts valuation points towards a fair value range of EUR11.0-12.5 (unchanged). Looking at our 2022-23 estimates, the midpoint of the range implies P/E of 25.1x and 13.2x, respectively. In our view, if Taaleri is able to demonstrate good progress with its Bioindustry and Renewable Energy fund operations, the consequential higher exposure to ESG should warrant a clear premium to the company's historical valuation.

Key financials

Year-end Dec (EUR)	2020	2021	2022E	2023E	2024E
Total income (m)	69.5	72.6	52.1	70.5	82.1
Total income growth	3.5%	4.4%	-28.2%	35.3%	16.3%
Total expenses (m)	-51.9	-43.8	-34.1	-36.3	-41.4
Operating profit (m)	17.6	28.8	18.0	34.3	40.7
Operating profit growth	10.5%	63.5%	-37.4%	90.1%	18.7%
Operating profit margin	25.3%	39.7%	34.6%	48.6%	49.6%
EPS (adj.)	0.45	0.75	0.47	0.89	1.05
DPS	1.32	1.20	0.75	0.70	0.50
Dividend yield	16.3%	10.7%	6.4%	5.9%	4.2%
ROE	9.0%	74.0%	6.0%	11.9%	13.6%
P/E (adj.) (x)	17.9	15.0	25.2	13.3	11.3
P/BV	1.59	1.38	1.60	1.57	1.50

Price performance



Source: Company data, Danske Bank Equity Research estimates

Source: FactSet

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Q4 21 – key conclusions

Taaleri ended its transformative year in solid fashion delivering 88% y/y growth in total income in Q4 21, driven by performance fees and fair value changes on investments. In total, growth in continuing earnings was 16% in 2021, in line with the company’s long-term ambitions. Taaleri was active in launching new funds in 2021, and launched its first fund in a new renewable resources focused Bioindustry segment. Taaleri is a first-mover in this emerging segment on a European scale, offering its customers a fund compliant with the EU’s Sustainable Finance Disclosure Regulation (SFDR). In 2022, we expect an acceleration in new fund launches and AUM growth, as Taaleri is entering the middle year of its 2021 revised strategic roadmap, and envisions EUR3bn in AUM by the end of 2023.

Other private asset management received significant performance fees of some EUR5.2m from the exit of Housing Fund VI, and launched its pioneer Bioindustry I fund, the first Finnish private equity fund classified “dark green” by European disclosure standards. Growth investments were made to enable the Bioindustry I fund launch and also the first collaboration fund with Aktia, Housing VIII, raised EUR58m in its first funding round.

Renewable Energy. SolarWind II, finally closed in Q2 21, continued its investing activities with projects in the construction phase as well. Once the fund is deployed above a 75% threshold, the marketing and raising of SolarWind III can be started, we believe. Our current assumption points towards first close of SolarWind III in Q1 23, and the fund should be considerably larger than its predecessor.

Garantia. Showed the best full-year results in its history, with an operating profit of EUR22m and a 34.8% combined ratio. The outlook for FY22 remains good, but we acknowledge that rising interest rates can be a negative factor for the company’s mostly-bond investment portfolio, and that more modest mortgage volumes could also present a headwind for the company’s FY 2022 performance.

Table 1 : Deviation from estimates

EURm	Actual Q4	Cons. Q4 21E	Diff	Danske Q4 21E	Diff.
Total income	29.4	24.3	21.0%	24.4	20.6%
Operating profit	14.7	15.7	-6.4%	15.4	-4.3%
Operating profit-%	50.0%	64.6%	n.m.	63.0%	n.m.
adj. EPS	0.42	0.45	-6.7%	0.41	3.5%
AuM	2,200	n.a.	n.a.	2,200	0.0%

Source: Factset, Danske Bank Equity Research estimates

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Table 2 : Quarterly estimates

EURm	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22E	Q2 22E	Q3 22E	Q4 22E
Total income	12.1	17.0	13.2	30.2	11.1	12.0	11.0	18.1
Growth y/y		19.2%		-3.5%	240.3%	35.5%	74.4%	-3.9%
Total expenses	-7.4	-14.3	-8.6	-15.5	-8.5	-8.5	-8.7	-8.8
Operating profit	4.7	2.7	4.6	14.7	2.6	3.5	2.3	9.2
Operating margin	38.8%	16.1%	34.9%	48.7%	23.1%	29.0%	21.2%	51.2%
Segment income								
Other Private Equity	1.2	1.0	0.7	6.1	1.3	2.2	1.6	2.9
Insurance	7.0	7.2	6.6	9.4	5.5	5.4	5.1	5.7
Renewables	4.0	4.3	3.6	10.2	3.8	3.9	3.8	9.0
Other	1.5	1.7	1.4	3.8	0.5	0.5	0.5	0.5
Total	13.7	14.3	12.3	29.4	11.1	12.0	11.0	18.1
Income growth (y/y)								
Other Private Equity					10.2%	116.6%	122.9%	-52.1%
Insurance					-22.3%	-25.6%	-22.5%	-39.8%
Renewables					-4.8%	-9.4%	6.3%	-11.4%
Other					-65.8%	-71.1%	-65.1%	-86.7%
Total					-19.0%	-16.0%	-10.4%	-38.5%
Segment operating profit								
Other Private Equity	-0.4	-1.1	-1.2	1.8	-1.1	-0.2	-0.8	0.4
Insurance	5.4	5.8	4.6	6.9	3.8	3.7	3.3	3.8
Renewables	0.3	0.4	0.4	4.9	0.6	0.7	0.6	5.8
Other	-0.2	-0.7	0.8	1.1	-0.7	-0.7	-0.7	-0.7
Total	5.1	4.4	4.6	14.7	2.6	3.5	2.3	9.2
Operating profit margin								
Other Private Equity	-32.4%	-107.6%	-162.8%	29.6%	-83.7%	-7.7%	-49.8%	13.8%
Insurance	76.9%	80.6%	69.4%	73.4%	69.5%	68.9%	64.9%	67.2%
Renewables	7.4%	10.2%	11.7%	48.3%	14.5%	16.7%	14.5%	63.9%
Other	-14.2%	-43.2%	58.1%	29.6%	-140.0%	-140.0%	-140.0%	-140.0%
Total	37.4%	30.8%	37.5%	50.1%	23.1%	29.0%	21.2%	51.2%
Reported EPS (EUR)	0.24	4.02	0.11	0.41	0.07	0.09	0.06	0.23
Adj. EPS (EUR)	0.12	0.08	0.11	0.41	0.07	0.09	0.06	0.23
ROE	20.1%	282.9%	6.6%	20.9%	3.5%	4.9%	3.4%	12.5%
ROE (adj.)	10.5%	5.4%	6.6%	20.9%	3.5%	4.9%	3.4%	12.5%
AuM								
Mutual funds	0	0	0	0	0	0	0	0
Private equity funds	578	947	980	1,040	1,144	1,258	1,296	1,491
Wealth management	0	0	0	0	0	0	0	0
Energia / Renewables	1,130	1,164	1,164	1,164	1,164	1,164	1,164	1,164
Total AuM	1,700	2,100	2,100	2,200	2,300	2,400	2,500	2,700

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. In 2020 Taaleri reported on a half-year basis. Source: Danske Bank Equity Research estimates

Executive summary

Renewable funds are 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-operators 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 the renewables business for Taaleri as the company is now able to attract institutional money, but remains small enough not to compete with the larger global payers, and is able to invest in smaller assets.

Earnings boost from carried interest from existing alternative investments in 2022-24E. 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 cooperation with Aktia and is set to provide the private equity funds for its 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 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. Although Taaleri's operations are not 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 that it could 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 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 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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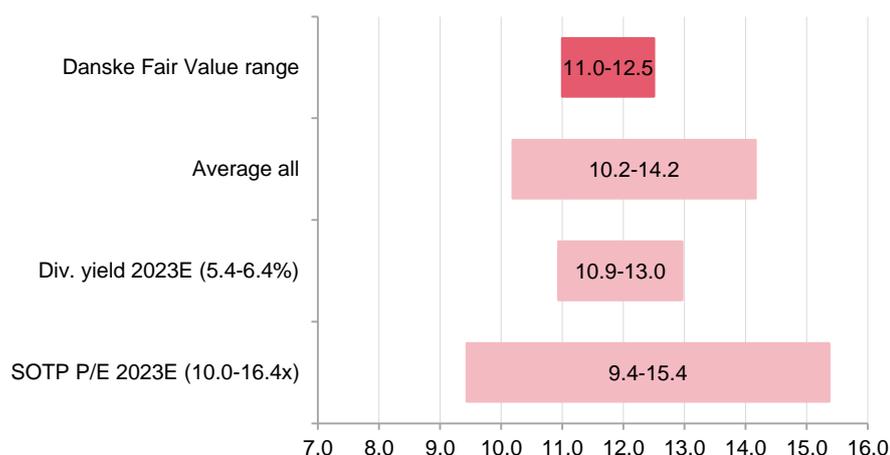
Valuation

We reiterate our fair value range of EUR11.0-12.5 for Taaleri. 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. In addition, 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 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.

However, Taaleri is also able to pay attractive dividends and return of capital during the build-up phase of the other private asset management operations, if the company's current capabilities are on-point and the company is able to show steeper AUM growth momentum in the near future. On our estimates, the total dividend yield without any major M&A could be some 6% in 2022-23.

Moreover, if Taaleri is able to demonstrate good progress with its Bioindustry and Renewable Energy fund operations, the company's increased exposure to ESG should warrant a clear premium to the historical valuation, we believe. Taaleri's current past 5Y NTM P/E is 14.5x, whereas our 2023E valuation mid-point suggests 13.2x.

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

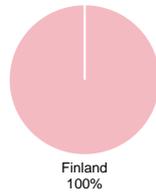


Source: Danske Bank Equity Research estimates

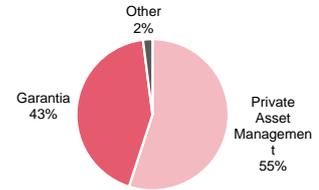
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Company summary

Income breakdown by geographical area



Income breakdown by segment



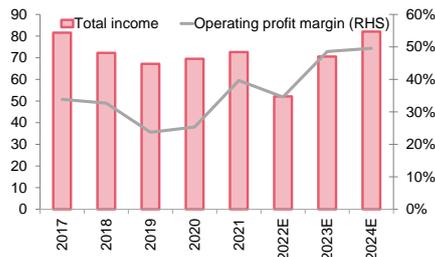
Company information

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 Kasarmikatu 21, 00130 Helsinki
 Finland
 www.taaleri.com

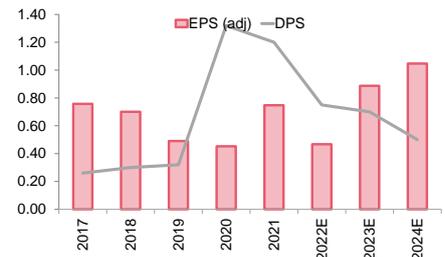
Main shareholders

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

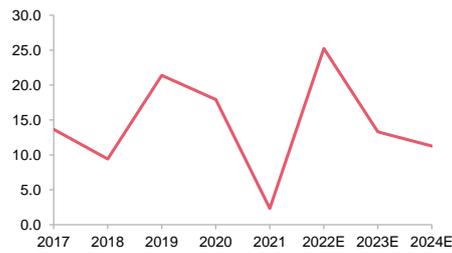
Total income and operating profit margin (FI TRm)



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	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Commissions		31.8	33.2	53.0	45.6	46.1	51.5	21.9	23.6	46.3
Total income		58.4	60.6	81.6	72.3	67.2	69.5	72.6	52.1	70.5
Costs		-39.6	-44.5	-54.0	-48.5	-50.7	-51.9	-43.8	-34.1	-36.3
Operating profit		47.4	16.3	27.6	23.6	15.9	17.6	28.8	18.0	34.3
Taxes		-3.0	-3.6	-5.8	-2.3	-5.0	-4.4	-5.2	-3.6	-6.9
Pre-tax profit		47.4	16.3	27.6	23.6	15.9	17.6	28.8	18.0	34.3
Net profit		44.1	12.8	21.4	21.3	10.6	12.8	138	13.3	25.2
Net profit (adj.)		17.3	12.8	21.4	19.8	13.9	12.8	21.2	13.3	25.2
BALANCE SHEET										
EURm	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Insurance assets		0.0	126	136	134	153	160	169	166	161
Other interest bearing assets		0.0	55.1	34.6	26.1	29.1	37.0	53.3	82.1	77.4
Goodwill		0.0	2.5	2.2	6.6	6.5	6.8	0.7	7.9	7.5
Total assets		0.0	213	229	238	270	268	319	308	295
Insurance liabilities		13.1	15.0	20.3	23.3	32.3	34.7	39.4	42.4	40.0
Wholesale funding		29.9	64.7	54.8	54.8	34.9	34.9	0.0	0.0	0.0
Equity		97.1	93.9	106	122	141	144	230	209	213
NTA		97.1	91.3	104	116	134	138	229	201	205
PER SHARE DATA										
	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
No. of shares, fully diluted YE (m)		28.3	28.3	28.3	28.3	28.3	28.4	28.4	28.4	28.4
No. of shares, fully diluted av. (m)		28.3	28.3	28.3	28.3	28.3	28.4	28.4	28.4	28.4
EPS (reported) (EUR)		1.56	0.45	0.76	0.75	0.39	0.45	4.80	0.47	0.89
EPS (adj.) (EUR)		0.61	0.45	0.76	0.70	0.49	0.45	0.75	0.47	0.89
DPS (EUR)		0.14	0.22	0.26	0.30	0.32	1.32	1.20	0.75	0.70
Book value per share (EUR)		3.43	3.32	3.75	4.32	4.97	5.09	8.10	7.37	7.51
NTA per share (EUR)		3.43	3.23	3.67	4.09	4.73	4.85	8.08	7.09	7.24
MARGINS AND GROWTH										
	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E
C/I, adjusted	67.8%	73.4%	66.2%	67.1%	75.4%	74.7%	60.3%	65.4%	51.4%	50.4%
Op profit marg	81.1%	27.0%	33.8%	32.7%	23.7%	25.3%	39.7%	34.6%	48.6%	49.6%
Op profit grth		-65.51%	69.0%	-14.52%	-32.49%	10.5%	63.5%	-37.42%	90.1%	18.7%
Tot inc growth		3.7%	34.7%	-11.4%	-7.0%	3.5%	4.4%	-28.2%	35.3%	16.3%
Cost growth		-12.2%	-21.4%	10.2%	-4.5%	-2.5%	15.6%	22.1%	-6.3%	-14.1%
PPP growth		-14.2%	71.4%	-13.8%	-30.6%	6.6%	63.5%	-37.4%	90.1%	18.7%
EPS (adj) growth		-26.1%	67.9%	-7.5%	-30.0%	-7.7%	65.1%	-37.5%	89.8%	18.0%
PROFITABILITY										
	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
ROE, reported profits		65.3%	13.4%	21.5%	18.7%	8.0%	9.0%	74.0%	6.0%	11.9%
RONTA, adj. profits		25.6%	13.6%	22.0%	18.1%	11.1%	9.5%	11.6%	6.2%	12.4%
VALUATION										
	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Share price (EUR)	6.36	8.38	8.24	10.4	7.10	8.42	8.12	11.2	11.8	11.8
Market cap (EURm)		237	233	293	201	238	230	318	335	335
P/E (reported) (x)		5.4	18.3	13.7	9.4	21.4	17.9	2.3	25.2	13.3
P/E (adj.) (x)		13.7	18.3	13.7	10.1	17.2	17.9	15.0	25.2	13.3
P/BV (x)		2.44	2.49	2.76	1.64	1.70	1.59	1.38	1.60	1.57
P/NTA (x)		2.44	2.55	2.82	1.74	1.78	1.67	1.39	1.66	1.63
Dividend yield		1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	10.7%	6.4%	5.9%
Total yield (incl. buybacks)		1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	10.7%	6.4%	5.9%

Source: Company data, Danske Bank Equity Research estimates

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