

Investment Services

Key data

Price (EUR)	9.91
Country	Finland
Bloomberg	TAALA.FH
Reuters	TAALA.HE
Free float	45.0%
No. of shares (m)	28.4
Next event	Q4: 16-Feb

* Price as at close on 4 November 2022

CEO	Peter Ramsay
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

Estimate changes

	22E	23E	24E
Tot inc	17.8%	4.7%	1.6%
Op prof	41.9%	5.2%	-2.4%
EPS (adj.)	31.9%	4.1%	-2.9%

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

Strong Q3 with continuing earnings showing good growth

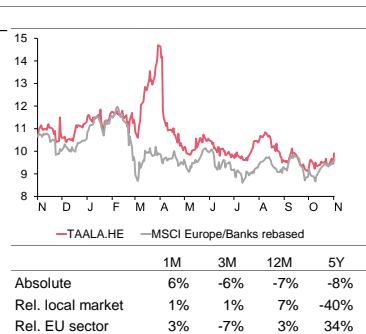
Taaleri reported strong Q3 numbers, with total income 17% above FactSet consensus and operating profit 20% above. The result was driven by the Ficolo exit (some EUR14m profit) as expected, but also by Garantia's investment operations and group continuing earnings (+14% y/y), which were above our expectations. We raise our estimates and lift our 12M fair value range to EUR10.0-11.5 (EUR9.5-11.0 previously).

- Impact on the investment case.** Positive. Taaleri also reported stronger than expected Q3 figures from operations, even if the EUR14m performance fee from the Ficolo exit boosted total income and profits. Continuing earnings were EUR10.5m (+14% y/y) driven by both Other Private Equity (Bioindustry I and its second close) and Strategic Investments (Garantia). Especially with Garantia, the negative investment operations impact from the rising interest rates was notably less severe than we had expected after a very difficult H1 22, mainly due to steeply lower duration of the bond investments in Q3 (2.7) than at the beginning of the year (3.5). In terms of operations, Garantia's guarantee offering could actually benefit somewhat from the tightening lending conditions, as even though mortgage volumes are moderating, a higher proportion of potential first-time buyers could need some sort of mortgage guarantee. SolarWind III was also announced prior to the results, and the company is envisioning a fund target size of around EUR700m, with first close H1 23.
- Estimate changes.** We have raised our estimates according to the earnings beat, and adjusted our negative fair value change expectations for Garantia's investment portfolio.
- Valuation.** Our valuation methodology derives a 12M fair value range of EUR10.0-11.5 (previously EUR9.5-11.0). Based on our 2023 estimates, the midpoint of the range implies P/E of 15.3x (previously 15.2x). In our view, if Taaleri is able to demonstrate good progress with its Bioindustry and Renewable Energy fund operations, the consequent higher exposure to ESG should warrant a premium to the company's historical valuation (14.5x over the previous 5Y NTM P/E).

Key financials

Year-end Dec (EUR)	2020	2021	2022E	2023E	2024E
Total income (m)	69.5	72.6	64.8	65.9	64.6
Total income growth	3.5%	4.4%	-10.8%	1.8%	-2.1%
Total expenses (m)	-51.9	-43.8	-34.6	-37.3	-40.2
Operating profit (m)	17.6	28.8	30.2	28.6	24.4
Operating profit growth	10.5%	63.5%	4.8%	-5.3%	-14.7%
Operating profit margin	25.3%	39.7%	46.6%	43.4%	37.8%
EPS (adj.)	0.45	0.75	0.73	0.70	0.62
DPS	1.32	1.20	0.70	0.70	0.30
Dividend yield	16.3%	10.7%	7.1%	7.1%	3.0%
ROE	9.0%	74.0%	9.8%	9.2%	8.1%
P/E (adj.) (x)	17.9	15.0	13.6	14.1	16.1
P/BV	1.59	1.38	1.30	1.30	1.31

Price performance



Source: Company data, Danske Bank Equity Research estimates

Source: FactSet

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Q3 22 – key conclusions

Taaleri reported strong Q3 numbers with total income of EUR26.9m (+17% above FactSet consensus), EUR18.5m operating profit (20% above consensus, 68% margin), continuing earnings EUR10.5m (+14% y/y, 9% above our expectation). A previously announced EUR14m profit from the exit of Ficolo (Taaleri Datacenters Ky) boosted the income and earnings notably as expected, but a strong operating result in Garantia, despite interest rate headwinds, was the key differentiating factor against our expectations.

Table 1 : Estimate deviation

EURm	Actual	Cons. Q3 22E	Diff	DBER Q3 22E	Diff.
Total income	26.9	23.0	17%	17.8	51%
Operating profit	18.5	15.4	20%	9.6	94%
Operating profit-%	68.8%	67.0%		53.6%	
adj. EPS	0.53	0.42	26%	0.26	101%
AuM	2,500	n.a.	n.a.	2,400	4%

Source: Company data, Danske Bank Equity Research (DBER) estimates

As the negative impact from the rising interest rates on Garantia's investment operations was notably less (EUR1.1m in Q3 versus EUR-3.9m q/q) than we had envisioned, our estimates fell way short in terms of operating profit and top line. Moreover, as the SolarWind III fund was announced prior to the report, Taaleri has new fundraising to kick-off its biggest fund yet, and we are expecting first close during H1 23. Continuing earnings growing more than expected, with Garantia's continuing strong operations (net income +14% y/y, 29% combined ratio) despite weakness in the new mortgage volumes, were key positives.

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Table 2 : Quarterly estimates

EURm	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22E
Total income	12.1	17.0	13.2	30.2	7.1	11.9	26.9	19.0
Growth y/y		19.2%		-3.5%	-41.9%	-30.4%	103.5%	-37.2%
Total expenses	-7.4	-14.3	-8.6	-15.5	-7.7	-9.4	-8.4	-9.1
Operating profit	4.7	2.7	4.6	14.7	-0.7	2.4	18.5	9.9
Operating margin	38.8%	16.1%	34.9%	48.7%	-9.3%	20.5%	68.8%	52.3%
Segment income								
Other Private Equity	1.2	1.0	0.7	6.1	1.5	1.5	8.1	2.6
Insurance	7.0	7.2	6.6	9.4	0.1	-1.1	6.0	4.5
Renewables	4.0	4.3	3.6	10.2	3.8	4.3	4.5	10.2
Other	1.5	1.7	1.4	3.8	1.7	7.1	8.3	1.7
Total	13.7	14.3	12.3	29.4	7.1	11.9	26.9	19.0
Income growth (y/y)								
Other Private Equity		-88.1%		-72.2%	27.9%	41.4%	998.4%	-57.0%
Insurance		300.0%		16.8%	-98.9%	-114.9%	-8.5%	-52.0%
Renewables		98.5%		171.2%	-4.5%	0.9%	26.2%	-0.1%
Other		-279.8%		176.6%	13.3%	312.6%	477.9%	-53.7%
Total		14.2%		-7.5%	-48.4%	-17.0%	118.4%	-35.3%
Segment operating profit								
Other Private Equity	-0.4	-1.1	-1.2	1.8	-0.6	-1.1	5.5	-0.3
Insurance	5.4	5.8	4.6	6.9	-1.0	-2.3	4.9	3.4
Renewables	0.3	0.4	0.4	4.9	0.6	0.4	1.5	6.8
Other	-0.2	-0.7	0.8	1.1	0.3	5.5	6.6	0.1
Total	5.1	4.4	4.6	14.7	-0.7	2.4	18.5	9.9
Operating profit margin								
Other Private Equity	-32.4%	-107.6%	-162.8%	29.6%	-42.6%	-74.3%	68.2%	-12.1%
Insurance	76.9%	80.6%	69.4%	73.4%	-1195.0%	215.8%	80.8%	75.4%
Renewables	7.4%	10.2%	11.7%	48.3%	17.0%	8.7%	33.4%	67.0%
Other	-14.2%	-43.2%	58.1%	29.6%	18.0%	76.5%	79.8%	3.5%
Total	37.4%	30.8%	37.5%	50.1%	-9.3%	20.5%	68.8%	52.3%
Reported EPS (EUR)	0.24	4.02	0.11	0.41	-0.04	0.00	0.54	0.23
Adj. EPS (EUR)	0.12	0.08	0.11	0.41	-0.04	0.00	0.54	0.23
ROE	20.1%	282.9%	6.6%	20.9%	-2.2%	0.1%	28.0%	12.2%
ROE (adj.)	10.5%	5.4%	6.6%	20.9%	-2.2%	0.1%	28.0%	12.2%
AuM								
Mutual funds	0	0	0	0	0	0	0	0
Private equity funds	578	947	980	1,040	1,144	1,096	1,114	1,114
Wealth management	0	0	0	0	0	0	0	0
Energia / Renewables	1,323	1,357	1,357	1,357	1,357	1,357	1,357	1,357
Total AuM	1,900	2,300	2,300	2,400	2,500	2,500	2,500	2,500

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 a better indication of Taaleri's future continuing performance. In 2020 Taaleri reported on a half-year basis.

Source: Company data, 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. In total, Taaleri has 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.

M&A opportunities remain, even after the Aktia transaction. There are several medium-sized asset managers in Finland, with both complementary and overlapping operations. 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 could 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 issues, 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.

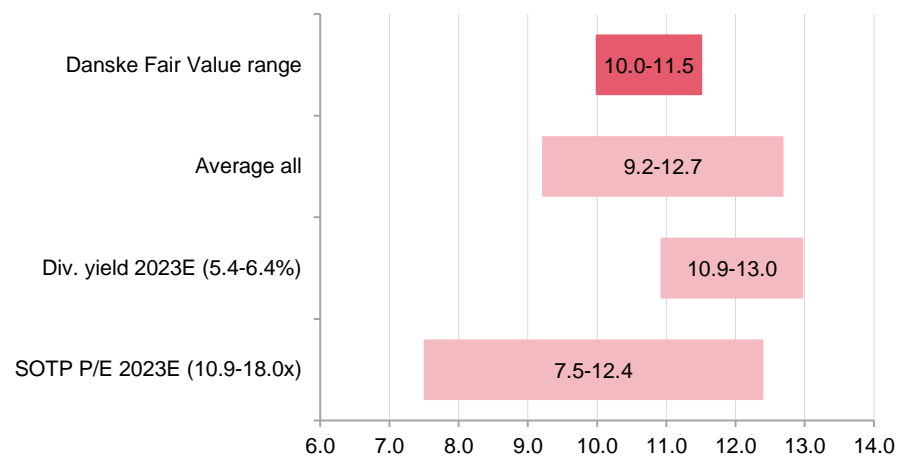
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Valuation

We raise our fair value range to EUR10.0-11.5 (previously EUR9.5-11.0) on the back of 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. In addition, cleaning up the balance sheet of the non-strategic investments is set to streamline the investment case overall.

We believe that 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. Taaleri's current past 5Y NTM P/E is 14.5x and our 2023E valuation midpoint suggests 15.3x.

Chart 1 : 12M Fair value range



Source: Danske Bank Equity Research estimates

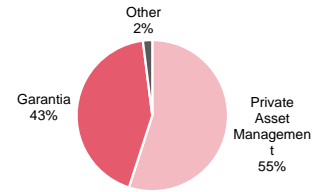
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Company summary

Income breakdown by geographical area



Income breakdown by segment



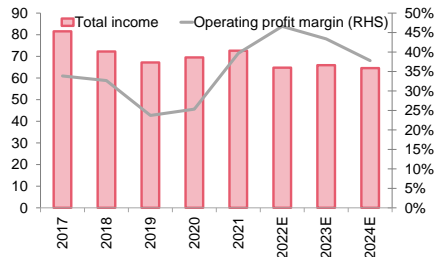
Company information

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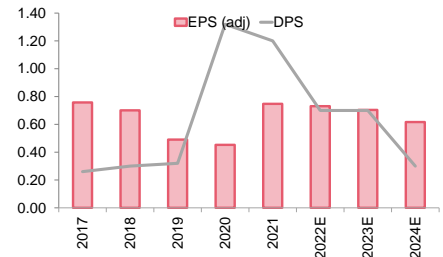
Main shareholders

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

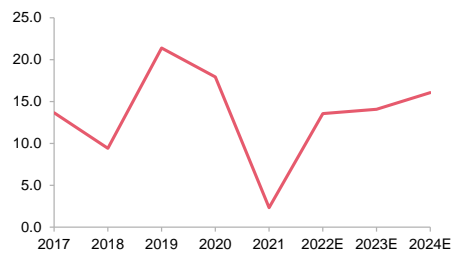
Total income and operating profit margin (FII_{FM})



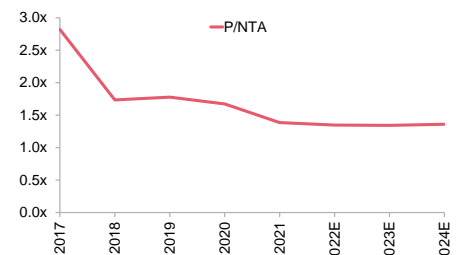
EPS (adjusted) and DPS (EURm)



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	20.9	33.1
Total income		58.4	60.6	81.6	72.3	67.2	69.5	72.6	64.8	65.9
Costs		-39.6	-44.5	-54.0	-48.5	-50.7	-51.9	-43.8	-34.6	-37.3
Operating profit		47.4	16.3	27.6	23.6	15.9	17.6	28.8	30.2	28.6
Taxes		-3.0	-3.6	-5.8	-2.3	-5.0	-4.4	-5.2	-7.3	-5.7
Pre-tax profit		47.4	16.3	27.6	23.6	15.9	17.6	28.8	30.2	28.6
Net profit		44.1	12.8	21.4	21.3	10.6	12.8	138	21.8	20.0
Net profit (adj.)		17.3	12.8	21.4	19.8	13.9	12.8	21.2	20.7	20.0

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	216	217
NTA		97.1	91.3	104	116	134	138	229	209	209

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 avg. (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	0.73	0.70
EPS (adj.) (EUR)		0.61	0.45	0.76	0.70	0.49	0.45	0.75	0.73	0.70
DPS (EUR)		0.14	0.22	0.26	0.30	0.32	1.32	1.20	0.70	0.70
Book value per share (EUR)		3.43	3.32	3.75	4.32	4.97	5.09	8.10	7.63	7.64
NTA per share (EUR)		3.43	3.23	3.67	4.09	4.73	4.85	8.08	7.35	7.37

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%	53.4%	56.6%	62.2%
Op profit marg	81.1%	27.0%	33.8%	32.7%	23.7%	25.3%	39.7%	46.6%	43.4%	37.8%
Op profit grth		-65.51%	69.0%	-14.52%	-32.49%	10.5%	63.5%	4.82%	-5.26%	-14.68%
Tot inc growth		3.7%	34.7%	-11.4%	-7.0%	3.5%	4.4%	-10.8%	1.8%	-2.1%
Cost growth		-12.2%	-21.4%	10.2%	-4.5%	-2.5%	15.6%	21.1%	-7.9%	-7.6%
PPP growth		-14.2%	71.4%	-13.8%	-30.6%	6.6%	63.5%	4.8%	-5.3%	-14.7%
EPS (adj) growth		-26.1%	67.9%	-7.5%	-30.0%	-7.7%	65.1%	-2.2%	-3.7%	-12.4%

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%	9.8%	9.2%
RONTA, adj. profits		25.6%	13.6%	22.0%	18.1%	11.1%	9.5%	11.6%	9.5%	9.6%

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	9.91	9.91
Market cap (EURm)		237	233	293	201	238	230	318	281	281
P/E (reported) (x)		5.4	18.3	13.7	9.4	21.4	17.9	2.3	13.6	14.1
P/E (adj.) (x)		13.7	18.3	13.7	10.1	17.2	17.9	15.0	13.6	14.1
P/BV (x)		2.44	2.49	2.76	1.64	1.70	1.59	1.38	1.30	1.30
P/NTA (x)		2.44	2.55	2.82	1.74	1.78	1.67	1.39	1.35	1.34
Dividend yield		1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	10.7%	7.1%	7.1%
Total yield (incl. buybacks)		1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	10.7%	7.1%	7.1%

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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Major risks connected with investment views or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

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

Completion and first dissemination

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