

Investment Services

Key data

Price (EUR)	10.4
Country	Finland
Bloomberg	TAALA.FH
Reuters	TAALA.HE
Free float	45.0%
Market cap (EURm)	295
No. of shares (m)	28.4
Next event	Q2: 16-Aug

* Price as at close on 2 May 2023

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

	23E	24E	25E
Tot inc	-4.0%	2.2%	4.7%
Op prof	-3.8%	9.1%	16.4%
EPS (adj.)	-1.9%	10.5%	18.8%

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

Focus on the key milestones ahead

Taaleri's Q1 23 was uneventful, as expected, and numbers came in below FactSet consensus. Continuing earnings grew strongly, with operating profit slightly pressured by growth investments. Focus remains on the first closing and subsequent demand outlook of the new flagship fund SolarWind III, which is expected during Q2, with the target size reiterated at EUR700m. We keep our 12M fair value range of EUR10.5-12.0.

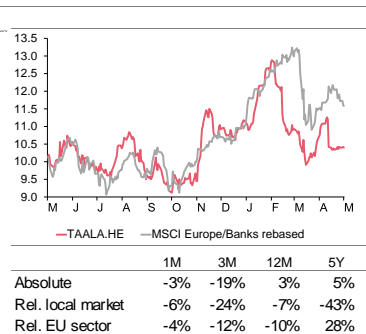
- Impact on the investment case.** Neutral. Despite Q1 earnings coming in below FactSet consensus estimates, the first quarter was uneventful with no key fund exits, divestments or closings of new funds. Looking at the segment performance, the biggest deviation to our cautious Q1 expectations came from the Insurance side, with Renewables and Other Private Equity well in line with our expectations. First-close of the flagship fund SolarWind III was reiterated to be during Q2 23, with our current estimates pencilling in some EUR400m first-close for the SolarWind III during Q2. The amount raised and subsequent commentary regarding the fund demand outlook will be a key event this year, we believe.
- Encouraging announcement from the Bioindustry division.** While we expect the final close of the Bioindustry I fund (EUR120m hard cap, with >EUR100m second-close commitments) to come near term, Taaleri announced that it is also preparing for a next fund for the division, targeting start-up companies with bioindustry focus. If launched, the fund would likely be relatively small, <EUR50m, but we find the announcement encouraging, nonetheless. With the new fund, Taaleri would be further strengthening its foundation for the division that we believe should fare better in the otherwise difficult fundraising environment.
- Estimate changes.** We raise our Insurance-leg Garantia estimates for FY23 and beyond, but move our SolarWind III second-close expectation to FY24.
- Valuation.** We reiterate our 12M fair value range of EUR10.5-12.0. Based on our 2024 estimates, the midpoint of the range implies a P/E of 15.8x, which is some 9% above the company's five-year NTM average valuation. We have argued that Taaleri should be trading at a premium to its historical multiples due to growing exposure to ESG-driven products.

Key financials

Year-end Dec (EUR)	2021	2022	2023E	2024E	2025E
Total income (m)	72.6	58.9	59.5	60.5	60.4
Total income growth	4.4%	-18.8%	0.9%	1.7%	-0.2%
Total expenses (m)	-43.8	-31.6	-30.9	-32.1	-33.1
Operating profit (m)	28.8	27.3	28.6	28.4	27.3
Operating profit growth	63.5%	-5.2%	4.8%	-0.7%	-3.8%
Operating profit margin	39.7%	46.3%	48.1%	47.0%	45.2%
EPS (adj.)	0.75	0.75	0.67	0.71	0.69
DPS	1.20	0.70	0.70	0.60	0.50
Dividend yield	10.7%	6.3%	6.7%	5.8%	4.8%
ROE	74.0%	10.3%	10.0%	10.5%	9.9%
P/E (adj.) (x)	15.0	15.0	15.6	14.6	15.1
P/BV	1.38	1.58	1.48	1.48	1.46

Source: Company data, Danske Bank Equity Research estimates

Price performance



Source: FactSet

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Q1 23 - key conclusions

Taaleri reported Q1 23 figures below FactSet consensus expectations. Total income (EUR9.3m) was 7% below and operating profit 24% below. It was an uneventful quarter, but the approaching SolarWind III first close and encouraging new fund proposition for Bioindustry were highlights. As guided by the company, we continue to expect SolarWind III first close during Q2, with subsequent continuing earnings support for rest of the year, leading to well above double-digit continuing earnings growth for Taaleri in FY23.

Other material assumptions in FY23E include divesting the rest of the Texas wind project during Q3/H2 (some 7% stake left after 93% sold in 2020, no profits yet booked), and various smaller fund exits in Other Private Equity, leading to cEUR3m carried interest expected for the rest of the year. We do not expect any other material new fund announcements for FY23, at this point.

Table 1. Estimate deviation

EURm	Actual	Cons. Q1 23E	Diff	DBER Q1 23E	Diff.
Total income	9.3	10.0	-7%	8.3	12%
Operating profit	1.6	2.1	-24%	0.6	149%
Operating profit-%	17.2%	21.0%		7.7%	
adj. EPS	0.02	0.06	-67%	0.01	217%
AuM	2,500	n.a.	n.a.	2,500	0%

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

Table 2. Quarterly estimates

EURm	Q1 22A	Q2 22A	Q3 22A	Q4 22A	Q1 23	Q2 23E	Q3 23E	Q4 23E
Total income	5.7	11.1	25.7	16.2	9.3	9.9	17.4	22.8
Growth y/y	-52.9%	-34.5%	94.8%	-46.4%	63.1%	-11.1%	-32.2%	40.7%
Total expenses	-6.8	-8.3	-7.4	-9.0	-7.8	-7.5	-7.6	-8.2
Operating profit	-1.0	2.8	18.3	7.2	1.6	2.4	9.9	14.7
Operating margin	-18.3%	25.3%	71.2%	44.6%	16.7%	24.6%	56.5%	64.2%
Segment income								
Other Private Equity	1.5	1.5	8.1	5.8	1.6	1.8	3.2	3.3
Insurance	-1.3	-1.8	4.9	1.8	4.2	3.1	3.5	3.8
Renewables	3.8	4.3	4.5	13.1	3.6	4.6	10.2	15.3
Other	1.7	7.1	8.3	-4.5	-0.1	0.4	0.4	0.4
Total	5.7	11.1	25.7	16.2	9.3	9.9	17.4	22.8
Income growth (y/y)								
Other Private Equity	27.9%	41.4%	998.4%	-4.7%	5.2%	24.0%	-59.7%	-43.4%
Insurance	-117.8%	-124.7%	-26.0%	-80.6%	-435.4%	-273.3%	-27.4%	110.3%
Renewables	-4.5%	0.9%	26.2%	28.9%	-4.9%	5.9%	127.0%	16.9%
Other	13.3%	312.6%	477.9%	-218.8%	-105.3%	-94.2%	-95.0%	-109.3%
Total	-58.1%	-21.9%	109.0%	-44.8%	63.1%	-11.1%	-32.2%	40.7%
Segment operating profit								
Other Private Equity	-0.6	-1.1	5.5	3.3	-0.5	-0.7	0.8	0.7
Insurance	-1.3	-1.9	4.7	1.7	3.7	2.9	3.3	3.7
Renewables	0.6	0.4	1.5	9.0	-0.3	1.1	6.7	11.7
Other	0.3	5.5	6.6	-6.8	-1.4	-0.8	-0.8	-1.4
Total	-1.0	2.8	18.3	7.2	1.6	2.4	9.9	14.7
Operating profit margin								
Other Private Equity	-42.6%	-74.3%	68.2%	57.9%	-31.3%	-36.9%	24.0%	21.7%
Insurance	107.5%	108.6%	96.7%	95.0%	88.6%	92.3%	92.2%	95.3%
Renewables	17.0%	8.7%	33.4%	68.7%	-8.3%	23.9%	65.1%	76.1%
Other	18.0%	76.5%	79.8%	152.9%	1575.9%	-202.7%	-202.0%	-326.0%
Total	-18.3%	25.3%	71.2%	44.6%	16.7%	24.6%	56.5%	64.2%
Reported EPS (EUR)	-0.06	0.02	0.53	0.25	0.02	0.05	0.23	0.34
Adj. EPS (EUR)	-0.06	0.02	0.53	0.25	0.02	0.05	0.23	0.34
ROE	-2.9%	0.9%	29.4%	14.4%	1.3%	3.1%	13.2%	19.4%
ROE (adj.)	-2.9%	0.9%	29.4%	14.4%	1.3%	3.1%	13.2%	19.4%
AuM								
Private equity funds	1,144	1,096	1,114	1,114	1,134	1,134	1,134	1,234
Energia / Renewables	1,357	1,357	1,357	1,357	1,357	1,757	1,757	1,757
Total AuM	2,500	2,500	2,500	2,500	2,500	2,900	2,900	3,000

Source: Company data, Note: FY22 figures are adjusted for segment reporting in combination with IFRS17 released by the company

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Executive summary

We believe that Taaleri with its Bioindustry operations together with the Renewable Energy division create a strong foundation for a sustainability-focused asset manager, as we expect it to have a more resilient AUM growth outlook even in uncertain times. Overall, we view Taaleri as a sustainability-driven asset-management growth case with high carried interest potential due to upcoming fund exits and divestments of non-core assets, thereby streamlining the investment case. Our key highlights for the investment case are as follows:

Renewable and Bioindustry funds form 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 162 turbines producing almost 2% of all the country's electricity. Moreover, Taaleri's new Bioindustry I fund is a first-of-its-kind product in Europe, aiming to enable investments towards new sustainable technologies seeking to find industrial scale. We see these divisions as the main future drivers of Taaleri's AUM and continuing earnings growth. The company is now able to attract institutional money but remains small enough not to be competing with the larger global players and it is able to invest in smaller assets.

Sustainability focus and impact investing should expand valuation multiples. We believe the increasing focus on ESG among investors will benefit companies such as Taaleri, which promotes sustainability in its strategy and operations. Institutional investors are increasingly interested in alternative sustainable funds that have long time horizons and return potential. In our view, now that Taaleri has streamlined its business and better underlined its exposure to ESG, its valuation should benefit in the end. Moreover, 75% of Taaleri's current AUM is categorised either under the SFDR article 9 (funds have sustainable investments as their objective, i.e. 'dark green funds') or Article 8 (the fund promotes environmental and social characteristics), with 55% of the total AUM being taxonomy aligned.

Carried interest to continue to give support to earnings. Taaleri still has several private equity funds well past their investing period, steadily approaching the end of the fund lifecycle. We believe, that Taaleri would be seeking to exit at least some 5-10 currently invested private equity funds during 2023-25, naturally depending on the general economy and financial conditions, resulting potentially in EUR15-30m of carried interest from various fund exits for the same period. We believe that each successful fund exit gives further backing on Taaleri's ability to create value-creating investment products for its customers in the future, as well.

Long-term divestment potential in strategic investment Garantia. Taaleri's strategic investment Garantia remains a clearly separate entity from the private equity operations, not only due to limited synergies with Taaleri's historical core competence, but also its long-term divestment potential. As we expect Garantia to represent some 40-60% of Taaleri's total operating income in the coming years, the divestment of such an earnings driver during the ramp-up of private equity operations seems unlikely to us. However, in the medium term, once Taaleri has successfully bulked up its private equity operations and has a stable earnings profile, we expect Garantia to be divested for further streamlining of the investment case.

Taaleri's long-term financial targets. As the company does not give implicit short-term guidance, the long-term financial targets are used to find the growth and margin profile for the company for the coming years. Taaleri at this point aims for >15% earnings growth, operating profit at least 25% of income and ROE of at least 15%. The company has somewhat achieved these figures in recent years, mainly on the operating profitability front. For coming years we expect continuing earnings improvement through new fund launches but at the current pace >15% still seems quite an ambitious target without any inorganic measures, we believe.

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Valuation

We reiterate our fair value range of EUR10.5-12.0. 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.

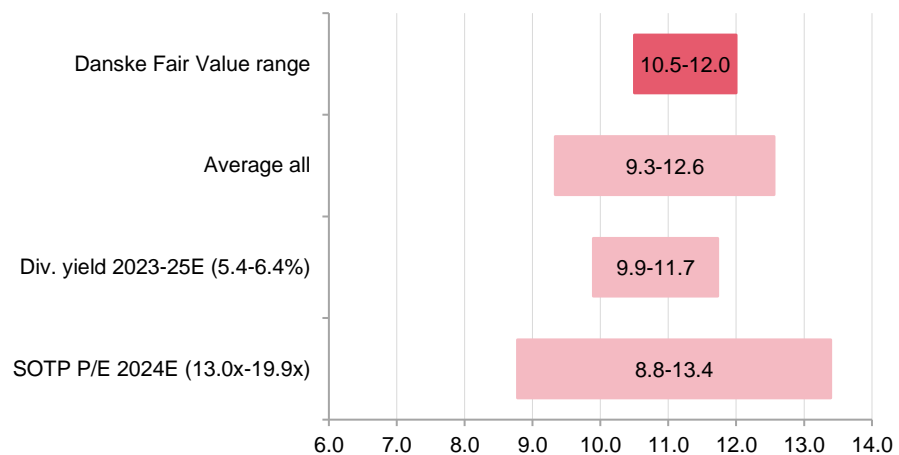
We believe that if Taaleri is able to continue to demonstrate good progress with its Bioindustry and Renewable Energy fund operations, the company's increased exposure to ESG should warrant a clear premium to the historical valuation.

Taaleri's 5Y historical NTM P/E is 14.5x, and on our 2024E the valuation midpoint suggests 15.8x, some 9% premium. We have argued that Taaleri should be trading at a premium to its historical multiples, due to its growing exposure to ESG-driven products.

Our multiples-based valuation for the Insurance-leg Garantia suggests some EUR110m-150m SOTP value, which is further backed by our Dividend Discount Model suggesting some EUR150m fair value for the strategic investment. As Taaleri's current market cap is some EUR295m, divesting such a core asset would be difficult to see from both a valuation and earnings-generation perspective in the short to medium term, in our view.

Overall, we would expect Taaleri to consider AUM-accretive acquisitions during the private equity ramp-up, to better reach the company's current >15% continuous earnings growth target.

Chart 1. 12M fair value range



Source: Danske Bank Equity Research estimates

Key risks

Disposal of Wealth Management decreased Taaleri's AUM and continuing earnings. Even though we believe that Taaleri gained significant focus benefits from the transaction, the absolute size of the company's AUM and continuing earnings decreased notably. The smaller size and excess cash in hand might turn risky in the long term, if the company fails to capitalise on its growth initiatives and new fund ramp-ups. 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. Taaleri'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, and lately the impact of rising interest rates to fair values of investments. Taaleri divested non-strategic

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investments during 2021-22, but several small positions remain on the balance sheet. Taaleri made some EUR3.4m worth of impairments in various smaller assets in Q4 22.

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 has been 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.

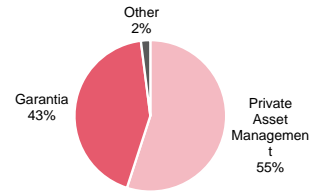
Rising interest rates and tighter economic conditions can complicate fundraising. The steep rise in interest rates we have seen during the past year has straight adverse effects on the fair values of most investment assets. From an asset allocation perspective, especially Real estate has been an alternative investment segment that has benefitted notably from the lack of yield in the fixed-income market. This has drastically changed in a short period, and can cause headwinds for new fundraising in the future, accompanied with house prices decreasing. Moreover, there is also a risk that decreasing fair values of traditional asset classes (equities, fixed-income) can lead to redemptions from alternative funds or hesitancy towards investing in new funds.

Company summary

Income breakdown by geographical area



Income breakdown by segment



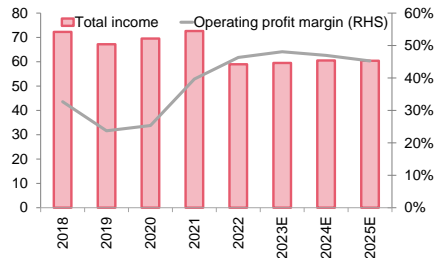
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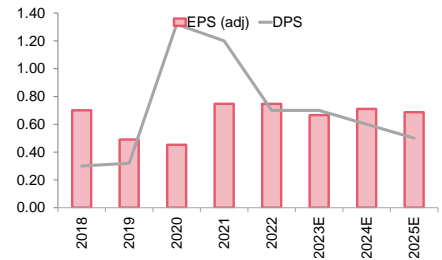
Main shareholders

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

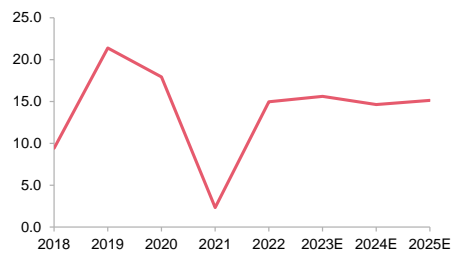
Total income and operating profit margin (EURm)



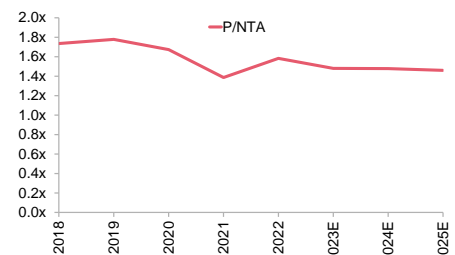
EPS (adjusted) and DPS (EURm)



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	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Commissions	31.8	33.2	53.0	45.6	46.1	51.5	21.9	20.9	24.5	27.0
Total income	58.4	60.6	81.6	72.3	67.2	69.5	72.6	58.9	59.5	60.5
Costs	-39.6	-44.5	-54.0	-48.5	-50.7	-51.9	-43.8	-31.6	-30.9	-32.1
Operating profit	47.4	16.3	27.6	23.6	15.9	17.6	28.8	27.3	28.6	28.4
Taxes	-3.0	-3.6	-5.8	-2.3	-5.0	-4.4	-5.2	-5.1	-5.7	-5.7
Pre-tax profit	47.4	16.3	27.6	23.6	15.9	17.6	28.8	27.3	28.6	28.4
Net profit	44.1	12.8	21.4	21.3	10.6	12.8	138	22.2	19.9	20.9
Net profit (adj.)	17.3	12.8	21.4	19.8	13.9	12.8	21.2	21.2	18.9	20.1
BALANCE SHEET										
EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Insurance assets	0.0	126	136	134	153	160	169	153	161	164
Other interest bearing assets	0.0	55.1	34.6	26.1	29.1	37.0	53.3	46.8	46.8	46.8
Goodwill	0.0	2.5	2.2	6.6	6.5	6.8	0.7	0.4	0.4	0.4
Total assets	0.0	213	229	238	270	268	319	300	311	316
Insurance liabilities	13.1	15.0	20.3	23.3	32.3	34.7	39.4	44.0	46.1	48.5
Wholesale funding	29.9	64.7	54.8	54.8	34.9	34.9	0.0	0.0	0.0	0.0
Equity	97.1	93.9	106	122	141	144	230	201	200	200
NTA	97.1	91.3	104	116	134	138	229	200	199	200
PER SHARE DATA										
	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
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	28.4
No. of shares, fully diluted av. (r)	28.3	28.3	28.3	28.3	28.3	28.4	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	0.75	0.67	0.71
EPS (adj.) (EUR)	0.61	0.45	0.76	0.70	0.49	0.45	0.75	0.75	0.67	0.71
DPS (EUR)	0.14	0.22	0.26	0.30	0.32	1.32	1.20	0.70	0.70	0.60
Book value per share (EUR)	3.43	3.32	3.75	4.32	4.97	5.09	8.10	7.07	7.04	7.05
NTA per share (EUR)	3.43	3.23	3.67	4.09	4.73	4.85	8.08	7.06	7.03	7.04
MARGINS AND GROWTH										
	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
C/I, adjusted	73.4%	66.2%	67.1%	75.4%	74.7%	60.3%	53.7%	51.9%	53.0%	54.8%
Op profit marg	27.0%	33.8%	32.7%	23.7%	25.3%	39.7%	46.3%	48.1%	47.0%	45.2%
Op profit grth	-65.51%	69.0%	-14.52%	-32.49%	10.5%	63.5%	-5.19%	4.75%	-0.65%	-3.83%
Tot inc growth	3.7%	34.7%	-11.4%	-7.0%	3.5%	4.4%	-18.8%	0.9%	1.7%	-0.2%
Cost growth	-12.2%	-21.4%	10.2%	-4.5%	-2.5%	15.6%	27.8%	2.4%	-3.9%	-3.0%
PPP growth	-14.2%	71.4%	-13.8%	-30.6%	6.6%	63.5%	-5.2%	4.8%	-0.7%	-3.8%
EPS (adj) growth	-26.1%	67.9%	-7.5%	-30.0%	-7.7%	65.1%	-0.0%	-10.9%	6.7%	-3.3%
PROFITABILITY										
	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
ROE, reported profits	65.3%	13.4%	21.5%	18.7%	8.0%	9.0%	74.0%	10.3%	10.0%	10.5%
RONTA, adj. profits	25.6%	13.6%	22.0%	18.1%	11.1%	9.5%	11.6%	9.9%	9.5%	10.1%
VALUATION										
	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E
Share price (EUR)	8.38	8.24	10.4	7.10	8.42	8.12	11.2	11.2	10.4	10.4
Market cap (EURm)	237	233	293	201	238	230	318	317	295	295
P/E (reported) (x)	5.4	18.3	13.7	9.4	21.4	17.9	2.3	15.0	15.6	14.6
P/E (adj.) (x)	13.7	18.3	13.7	10.1	17.2	17.9	15.0	15.0	15.6	14.6
P/BV (x)	2.44	2.49	2.76	1.64	1.70	1.59	1.38	1.58	1.48	1.48
P/NTA (x)	2.44	2.55	2.82	1.74	1.78	1.67	1.39	1.58	1.48	1.48
Dividend yield	1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	10.7%	6.3%	6.7%	5.8%
Total yield (incl. buybacks)	1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	10.7%	6.3%	6.7%	5.8%

Source: Company data, Danske Bank Equity Research estimates

Disclosures

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