

Investment Services

Key data

Price (EUR)*	10.8
Country	Finland
Bloomberg	TAALA.FH
Reuters	TAALA.HE
Free float	45.0%
Market cap (EURm)	306
No. of shares (m)	28.4
Next event	Q3: 5-Nov

* Price as at 17:00 CET on 19 August 2021

CEO	Robin Lindahl
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 (16 August 2021)

Estimate changes

	21E	22E	23E
Tot inc	6.1%	2.3%	1.4%
Op prof	-28.2%	-3.7%	-1.7%
EPS (adj.)	-16.7%	-3.1%	-1.3%

Source: Danske Bank Equity Research estimates

Analyst(s)

Daniel Lepistö

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Important disclosures and certifications are contained from page 9 of this report

Taaleri plc

Executing the transformation

Taaleri's total income of EUR14.3m in Q2 21 was close to FactSet consensus of EUR14.7m, although operating profit was a clear miss at EUR4.4m vs consensus of EUR6.8m. In our view, the top line growth in Q2 and the positive news on the ramp-up of operations outweigh the temporary weakness in profitability. Upcoming performance fees from the large Housing VI fund should boost earnings already in Q3 21.

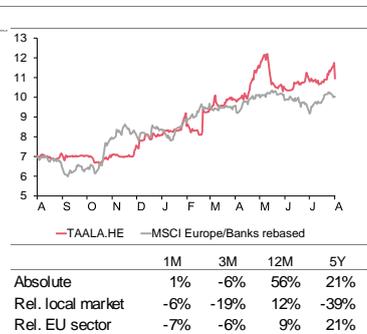
- Impact on the investment case.** Reported total income was EUR14.3m (+10% y/y). Continuing earnings grew 27% y/y to EUR11.2m, boosted especially by Renewable Energy (+36% y/y due to the SolarWind II close) and Other Private Asset Management (+40.6% due to operations ramp-up). Unadjusted EPS was EUR4.03 including discontinued operations (Wealth management divestment). No significant performance fees were obtained during Q2 21, thus leaving the operating result almost solely down to Garantia's performance. Growth investments, the ramp up of new operations, and write-downs totalling EUR1.1m depressed the profitability, resulting in a clear miss against consensus estimates. However, overall the positive momentum in continuing earnings, upbeat comments about the operations ramp-up, and the expected significant carries in Q3 21 from the exited Housing VI fund leave our cautiously optimistic view on the case intact.
- Estimate changes.** We change our official reported figures in the table below to include discontinued Wealth Management operations for Q1-Q2 21, due to IFRS5 reporting. However, Taaleri's continuing segment-reported figures give a more accurate view on the company's financials in the future. Our quarterly estimates table includes segment-reported figures, and on the segment level, we make only minor changes to our estimates.
- Valuation.** We reiterate our fair value range of EUR10-11.5 for Taaleri. This implies an adjusted P/E of 21.5x at the valuation midpoint for 2022E. Taaleri's future valuation remains dependent on how much the company is able to channel from the profit received from the WM sale to its ongoing operations. In our view, Taaleri is poised to look for PE fund management teams from competitors, and has all the necessary tools to attract new talent to the project.

Key financials

Year-end Dec (EUR)	2019	2020	2021E	2022E	2023E
Total income (m)	67.2	69.5	55.5	52.5	67.3
Total income growth	-7.0%	3.5%	-20.2%	-5.3%	28.1%
Total expenses (m)	-50.7	-51.9	-39.6	-34.5	-39.5
Operating profit (m)	15.9	17.6	13.8	18.1	27.8
Operating profit growth	-32.5%	10.5%	-21.5%	30.6%	53.9%
Operating profit margin	23.7%	25.3%	24.9%	34.4%	41.3%
EPS (adj.)	0.49	0.45	0.43	0.50	0.75
DPS	0.32	1.32	1.00	0.75	0.50
Dividend yield	3.8%	16.3%	9.3%	6.9%	4.6%
ROE	8.0%	9.0%	66.2%	6.2%	9.7%
P/E (adj.) (x)	17.2	17.9	24.9	21.6	14.4
P/BV	1.70	1.59	1.31	1.39	1.39

Source: Company data, Danske Bank Equity Research estimates

Price performance



Source: FactSet

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Q2 key conclusions

Taaleri's segment-reported (not official IFRS 5 figures) total income was EUR14.3m, an increase of 10% y/y. FactSet consensus (only one estimate) was EUR14.7m and our estimate was EUR14.4m. On the same basis, operating profit was EUR4.4m (consensus EUR6.8m, our estimate EUR5.7m), and AUM grew to EUR2.1bn from EUR1.7bn (our estimate EUR2bn). The unadjusted result was EUR114.1m due to the divestment of the Wealth Management business to Aktia. Continuing earnings grew 27% y/y and the top line was as expected, although profitability clearly missed consensus (and our) estimates. However, adjusting the Q2 21 result for the write-down of a EUR0.5m advance payment in Renewables and a EUR0.6m loss from the Mobify divestment, would have led to an operating profit close to our initial estimates. Moreover, according to company statements, the decrease in profitability was mainly due to growth investments and the ramp-up of new operations, which we see essential for the case going forward.

Taaleri continues cleaning its balance sheet of non-strategic investments with the small Mobify divestment, with no changes to the intended three-year schedule. In July, Fellow Finance (a Taaleri associated company) announced a proposed merger with Evli Bank's banking operations to create a new listed entity "Fellow Bank". Taaleri decided to remain a significant owner in the proposed new entity with 17.6% ownership in "Fellow Bank". Thus, the expected Fellow Finance divestment took a new spin, with Taaleri remaining as a shareholder in the business. Other near-term notable divestments would be the 11% stake in Inderes, as the company announced in June 2021 that it is investigating the possibility of a potential IPO.

We summarise the Q2 21 segment related performances as follows:

- **Other Private Asset Management.** Overall expected development in which the key has been ramping up the Bioindustry business segment and exiting some Real Estate funds. Headcount in asset management grew to 28 from 12 y/y due to operations ramp-up. The large Housing Fund VI was divested to the German investment management company PATRIZIA AG with a EUR145m purchase price. The performance fees obtained from the exit will be recorded in Q3 21, with our estimate being EUR2.5-3.5m. Operating profit was EUR-0.9m as salary expenses increased due both to new personnel hires and bonuses. Other Private Asset Management segment's operating profit will be heavily dependent on the timing of the fund exits and performance fees during the Private Equity ramp-up in 2021-23E, in our view.
- **Renewables.** Taaleri's Renewable Energy fund projects progressed as planned during Q2 21, with the final close of the SolarWind II fund, which resulted in EUR354m of total commitments. The fund's hard cap was EUR400m, which was missed slightly. In terms of profitability, Renewables a recorded operating profit of EUR0.8m, including a write-down of EUR0.5m advance payment.
- **Insurance.** Garantia continued its good development and its earned premiums grew during Q2 21 to EUR4.4m (+18% y/y). Garantia's basic own funds increased and solvency further improved to EUR124m (EUR114.1m y/y), with a solvency ratio of 242%. This has a slight positive effect on our P/B valuation of Garantia's operations.

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Quarterly estimates

EURm	H1 19	H2 19	H1 20	H2 20	Q1 21A	Q2 21A	Q3 21E	Q4 21E
Total income	30.9	36.2	24.5	45.0	12.1	17.0	14.1	12.2
Growth y/y	-12.4%	-2.2%	-20.7%	24.3%		19.2%		-41.6%
Total expenses	-24.5	-25.6	-25.6	-30.3	-7.4	-14.3	-9.0	-9.0
Operating profit	6.3	10.6	0.9	14.8	4.7	2.7	5.1	3.2
Operating margin	20.6%	29.2%	3.8%	32.8%	38.8%	16.1%	35.8%	26.6%
Segment income								
Other Private Equity	17.2	25.7	18.5	24.4	1.2	1.0	4.7	2.2
Insurance	10.5	10.8	3.6	13.7	7.0	7.2	5.1	5.4
Renewables	1.4	3.2	4.2	5.1	4.0	4.3	3.6	3.6
Other	1.8	-3.4	-1.8	1.9	1.5	1.7	0.7	1.1
Total	30.9	36.2	24.5	45.0	13.7	14.3	14.1	12.2
Income growth (y/y)								
Other Private Equity	-42%	135.0%	7.4%	-4.7%		-88.1%		-71.9%
Insurance	55%	145.6%	-66.1%	26.8%		300.0%		-23.5%
Renewables	29%	270.9%	197.2%	56.9%		98.5%		43.9%
Other	-222%	-33.3%	-198.7%	-154.9%		-279.8%		-8.8%
Total	-14%	95.7%	-20.9%	24.3%		14.2%		-41.6%
Segment operating profit								
Other Private Equity	2.1	9.7	6.4	5.9	-0.4	-1.1	2.8	0.2
Insurance	6.1	6.6	0.8	9.2	5.4	5.8	3.1	3.4
Renewables	-1.6	-1.0	0.1	0.1	0.3	0.4	0.4	0.4
Other	-0.1	-5.3	-4.4	-0.3	-0.2	-0.7	-1.2	-0.7
Total	6.4	10.1	2.8	14.8	5.1	4.4	5.1	3.2
Operating profit margin								
Other Private Equity	11.9%	37.9%	34.3%	24.0%	-32.4%	-107.6%	59.5%	9.3%
Insurance	58.1%	61.7%	21.1%	67.0%	76.9%	80.6%	61.0%	63.3%
Renewables	-116.5%	-30.3%	2%	1.7%	7.4%	10.2%	10.8%	10.8%
Other	-5.6%	155.7%	245.4%	-17.9%	-14.2%	-43.2%	-189.6%	-70.5%
Total	20.7%	27.8%	11.6%	32.8%	37.4%	30.8%	35.8%	26.6%
Reported EPS (EUR)	0.18	0.21	-0.02	0.41	0.24	4.02	0.14	0.09
Adj. EPS (EUR)	0.22	0.27	-0.02	0.41	0.12	0.08	0.14	0.09
ROE	16.6%	18.5%	-1.8%	34.6%	20.1%	282.9%	8.3%	4.5%
ROE (adj.)	20.4%	23.4%	-1.8%	34.6%	10.5%	5.4%	8.3%	4.5%
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	997	1,097
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	2,200	2,300

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 payers 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 the 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 promote sustainability in their 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.

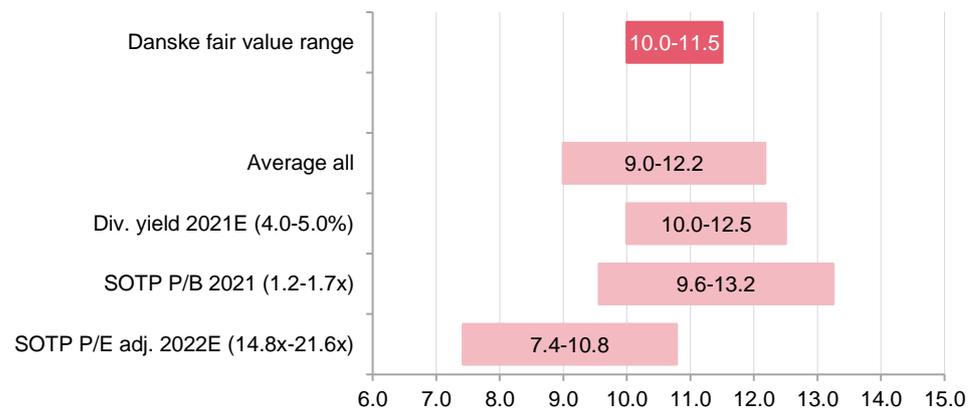
Small size and illiquid shares. Taaleri has very limited institutional ownership at the moment, as either current or previous employees or related close-party institutions hold most of the shares. One could view this as negative from a governance point of view. Additional risk emerges from the fact that 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 reiterate our fair value of EUR10.0-11.5 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. 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 project.

Taaleri fair value range EUR per share



Source: Danske Bank Equity Research estimates

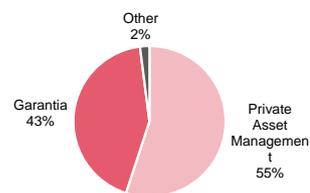
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Company summary

Income breakdown by geographical area



Income breakdown by segment



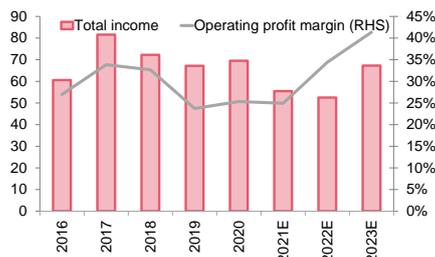
Company information

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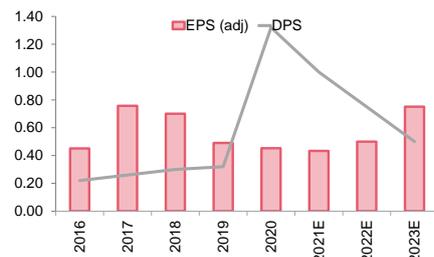
Main shareholders

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

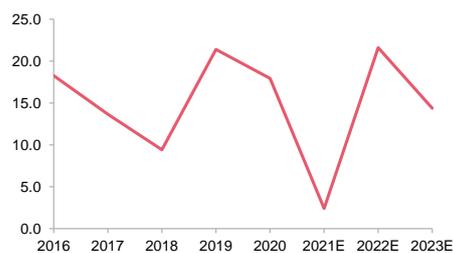
Total income and operating profit margin (FIIRm)



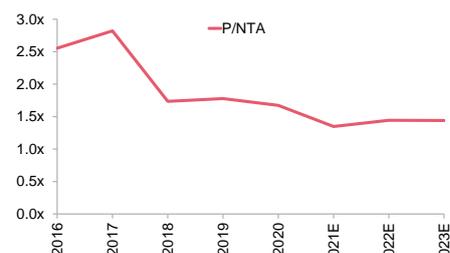
EPS (adjusted) and DPS (EURm)



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	28.2
Total income	58.4	60.6	81.6	72.3	81.6	72.3	67.2	69.5	55.5	52.5
Costs			-39.6	-44.5	-54.0	-48.5	-50.7	-51.9	-39.6	-34.5
Operating profit	47.4	16.3	27.6	23.6	15.9	17.6	15.9	17.6	13.8	18.1
Taxes			-3.0	-3.6	-5.8	-2.3	-5.0	-4.4	-3.1	-3.6
Pre-tax profit	47.4	16.3	27.6	23.6	15.9	17.6	15.9	17.6	13.8	18.1
Net profit	44.1	12.8	21.4	21.3	10.6	12.8	12.8	12.8	12.3	14.2
Net profit (adj.)	17.3	12.8	21.4	19.8	13.9	12.8	12.8	12.3	12.3	14.2
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	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	234	220
NTA	97.1	91.3	104	116	134	134	138	138	227	212
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	4.49	0.50
EPS (adj.) (EUR)			0.61	0.45	0.76	0.70	0.49	0.45	0.43	0.50
DPS (EUR)			0.14	0.22	0.26	0.30	0.32	1.32	1.00	0.75
Book value per share (EUR)			3.43	3.32	3.75	4.32	4.97	5.09	8.26	7.76
NTA per share (EUR)			3.43	3.23	3.67	4.09	4.73	4.85	8.01	7.48
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%	71.5%	65.6%	58.7%	
Op profit marg	81.1%	27.0%	33.8%	32.7%	23.7%	25.3%	24.9%	34.4%	41.3%	
Op profit grth			-65.51%	69.0%	-14.52%	-32.49%	10.5%	-21.47%	30.6%	53.9%
Tot inc growth			3.7%	34.7%	-11.4%	-7.0%	3.5%	-20.2%	-5.3%	28.1%
Cost growth			-12.2%	-21.4%	10.2%	-4.5%	-2.5%	23.6%	13.1%	-14.5%
PPP growth			-14.2%	71.4%	-13.8%	-30.6%	6.6%	-10.1%	14.1%	53.9%
EPS (adj) growth			-26.1%	67.9%	-7.5%	-30.0%	-7.7%	-4.3%	15.4%	50.2%
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%	66.2%	6.2%
RONTA, adj. profits			25.6%	13.6%	22.0%	18.1%	11.1%	9.5%	6.7%	6.5%
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	10.8	10.8
Market cap (EURm)			237	233	293	201	238	230	306	306
P/E (reported) (x)			5.4	18.3	13.7	9.4	21.4	17.9	2.4	21.6
P/E (adj.) (x)			13.7	18.3	13.7	10.1	17.2	17.9	24.9	21.6
P/BV (x)			2.44	2.49	2.76	1.64	1.70	1.59	1.31	1.39
P/NTA (x)			2.44	2.55	2.82	1.74	1.78	1.67	1.35	1.44
Dividend yield			1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	9.3%	6.9%
Total yield (incl. buybacks)			1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	9.3%	6.9%

Source: Company data, Danske Bank Equity Research estimates

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Summary tables

EURm	2017A	2018A	2019A	2020A	2021E	2022E	2023E
Total income	81.6	72.3	67.2	69.5	55.5	52.5	67.3
<i>Growth y/y</i>	34.7%	-11.4%	-7.0%	3.5%	-20.2%	-5.3%	28.1%
Total expenses	-54.0	-48.5	-50.7	-51.9	-39.6	-34.5	-39.5
Operating profit	27.6	23.6	16.5	17.6	15.8	18.1	27.8
Operating margin	33.8%	32.7%	24.6%	25.3%	28.5%	34.4%	41.3%
Segment income							
Other Private Equity*	54.6	48.7	42.9	43.0	9.1	14.3	22.3
Insurance	21.8	12.5	21.3	17.2	24.7	20.8	22.2
Renewables	1.8	2.3	4.6	9.2	15.6	15.0	21.5
Other	3.4	8.8	-1.6	0.1	4.9	2.4	1.3
Total	81.6	72.3	67.2	69.5	54.3	52.5	67.3
Income growth							
Other Private Equity*		-10.8%	-11.9%	0.1%	-78.9%	58.1%	55.7%
Insurance		-42.6%	70.3%	-19.0%	43.5%	-15.9%	6.6%
Renewables		27.7%	103.2%	99.5%	68.6%	-3.9%	43.4%
Other		156.0%	-118.4%	-106.3%	4706.9%	-50.4%	-45.5%
Total		-11.4%	-7.0%	3.5%	-21.9%	-3.2%	28.1%
Segment operating profit							
Other Private Equity*	16.6	16.8	11.8	12.2	1.5	5.8	11.7
Insurance	13.9	4.9	12.7	9.9	17.7	12.8	13.7
Renewables	-1.5	-2.3	-2.6	0.2	1.5	1.8	6.1
Other	-1.4	4.4	-5.4	-4.7	-2.9	-2.3	-3.7
Total	27.6	23.8	16.5	17.6	17.8	18.1	27.8
Operating profit margin							
Other Private Equity*	30.4%	34.5%	27.6%	28.4%	16.8%	40.2%	52.3%
Insurance	63.9%	39.2%	59.9%	57.5%	71.7%	61.6%	61.8%
Renewables	-84.0%	-100.9%	-56%	2.0%	9.7%	11.9%	28.5%
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	33.8%	32.9%	24.6%	25.3%	32.9%	34.4%	41.3%
Reported EPS (EUR)	0.76	0.75	0.39	0.45	4.49	0.50	0.75
Adj. EPS (EUR)	0.76	0.70	0.49	0.45	0.43	0.50	0.75
<i>Growth y/y</i>		-8%	-30%	-8%	-4%	15%	50%
DPS (EUR)	0.26	0.30	0.32	1.32	1.00	0.75	0.50
<i>Growth y/y</i>		15%	7%	313%	-24%	-25%	-33%
Dividend payout ratio	34%	43%	65%	292%	231%	150%	67%
ROE	21.5%	18.7%	8.5%	9.0%	67.2%	6.2%	9.7%
ROE (adj.)	21.5%	17.4%	10.6%	9.0%	6.5%	6.2%	9.7%
AuM							
Mutual funds	1,083	911	1,023	1,209	0	0	0
Other private equity funds	1,052	1,024	1,223	1,282	1,097	1,572	2,097
Wealth management	3,316	3,676	4,469	4,629	0	0	0
Renewables	74	82	307	407	1,164	1,164	1,764
Total AuM	5,600	5,700	7,100	7,657	2,300	2,700	3,900

Source: Company data, Danske Bank Equity Research estimates

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