

Investment Services

Key data

Price (EUR)*	9.95
Country	Finland
Bloomberg	TAALA FH
Reuters	TAALA.HE
Free float	45.0%
Market cap (EURm)	282
No. of shares (m)	28.4
Next event	Q2: 19-Aug

* Price as at close on 5 May 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 (30 April 2022)

Estimate changes

	22E	23E	24E
Tot inc	18.6%	-4.4%	-13.5%
Op prof	56.3%	-6.3%	-26.2%
EPS (adj.)	63.5%	-6.2%	-27.5%

Source: Danske Bank Equity Research estimates

Analyst(s)

Daniel Lepistö

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Taaleri plc

Steady progression

Taaleri reported an operationally solid Q1, with headline figures greatly overshadowed by changes in the fair value of investments, especially due to Garantia's bond exposure. The operating profit margin excluding investment operations would have been some 20%. Potential key events for 2022 include succesful Bioindustry I fund closing and announcing a SolarWind III fund. We reiterate our 12M fair value range of EUR11-12.5.

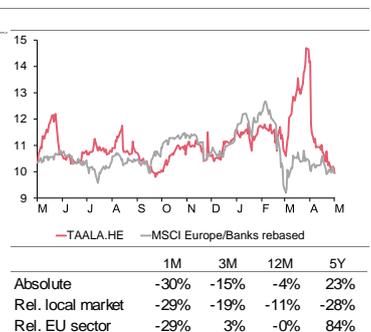
- Impact on the investment case.** Our investment case, that Taaleri provides high ESG exposure with its Renewable Energy and new Bioindustry fund operations, is on track, with operations ramping up in the latter. Demand for private equity funds seems to remain strong, as investors are looking to diversify risks and even out returns. The successful exit of Ficolo Ltd (Taaleri Datacenter fund) earlier this year means Taaleri will record a EUR14m profit from this holding in Q3 22, while the 2016 exit of its Finsilva holding will yield a EUR6.7m earn-out for Q2 22. These unexpectedly high performance fees help smooth the FY22 earnings profile, which otherwise would have been a clear 'gap-and-rebuilding' year. Further upside potential to our estimates lies in other successful fund or non-strategic investment exits, and the potential final exit from the Texas Escalade Wind project, which should provide performance fees of several millions, we estimate.
- Estimate changes.** We make various adjustments to our estimates, relating to the structure of expected performance fees in 2022-24, and add the recently announced performance fees to our Q2-Q3 numbers, boosting considerably our FY22 estimates.
- Valuation.** Our valuation methodology points towards a 12M fair value range of EUR11.0-12.5 (unchanged). Looking at our 2022-23 estimates, the midpoint of the range implies P/E of 15.4x and 14.2x, 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 (some 14x past 5Y NTM P/E).

Key financials

Year-end Dec (EUR)	2020	2021	2022E	2023E	2024E
Total income (m)	69.5	72.6	61.9	67.4	71.0
Total income growth	3.5%	4.4%	-14.8%	9.0%	5.3%
Total expenses (m)	-51.9	-43.8	-33.7	-35.3	-40.9
Operating profit (m)	17.6	28.8	28.2	32.1	30.0
Operating profit growth	10.5%	63.5%	-2.2%	13.9%	-6.4%
Operating profit margin	25.3%	39.7%	45.5%	47.6%	42.3%
EPS (adj.)	0.45	0.75	0.76	0.83	0.76
DPS	1.32	1.20	0.75	0.60	0.40
Dividend yield	16.3%	10.7%	7.5%	6.0%	4.0%
ROE	9.0%	74.0%	9.7%	10.8%	9.7%
P/E (adj.) (x)	17.9	15.0	13.0	12.0	13.1
P/BV	1.59	1.38	1.30	1.28	1.26

Source: Company data, Danske Bank Equity Research estimates

Price performance



Source: FactSet

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Q1 22 – key conclusions

Taaleri reported operationally solid figures, despite clear headwinds from the difficult environment for equity investments (Aktia, Fellow Bank and Betolar) and rising interest rates (headwind for Garantia's bond portfolio through fair value changes of investments). Continuing earnings grew 4% y/y, but the operating loss was EUR0.7m due to the abovementioned fair value changes. Excluding these, Taaleri would have recorded some EUR2m operating profit and 20% operating margin.

Other private asset management. Continuing earnings grew 33% y/y, and EUR0.5m in performance fees from the Daycare Properties exit was recognised. The next key step for Taaleri is to successfully close the Bioindustry I fund, which we expect to happen between Q2 and Q3 2022.

Renewable Energy. Taaleri focused on advancing the projects of the SolarWind II fund that were in the construction phase and built the project development portfolio, which has some 12 projects at this time. Later in H2 22, we expect first launch of the successor fund SolarWind III, of which first close would be early FY23.

Garantia. Retained its excellent combined ratio of 31.3%, despite ongoing uncertainties in mortgage volumes and 30% corporate (pooled) exposure portfolio. Net income from the guaranty insurance operations grew 7% y/y.

Table 1: Estimate deviation table

EURm	Actual Q1 22	Cons. Q1 22E	Diff
Total income	7.2	8.0	-10.0%
Operating profit	-0.7	-1.1	-36.4%
Operating profit margin	-9.7%	-13.8%	
adj. EPS	-0.05	-0.03	66.7%
AuM	2,300	n.a.	n.a.

Source: Company data, FactSet

Table 2 : Quarterly estimates

EURm	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22E	Q3 22E	Q4 22E
Total income	12.1	17.0	13.2	30.2	7.2	14.6	24.1	16.1
Growth y/y		19.2%		-3.5%	-41.9%	-14.1%	82.4%	-46.7%
Total expenses	-7.4	-14.3	-8.6	-15.5	-7.7	-7.9	-7.9	-8.1
Operating profit	4.7	2.7	4.6	14.7	-0.7	6.7	16.2	8.0
Operating margin	38.8%	16.1%	34.9%	48.7%	-9.7%	45.7%	67.3%	49.8%
Segment income								
Other Private Equity	1.2	1.0	0.7	6.1	1.5	7.8	15.9	2.3
Insurance	7.0	7.2	6.6	9.4	0.1	2.5	4.1	4.7
Renewables	4.0	4.3	3.6	10.2	3.8	3.8	3.6	8.6
Other	1.5	1.7	1.4	3.8	1.7	0.5	0.5	0.5
Total	13.7	14.3	12.3	29.4	7.2	14.6	24.1	16.1
Income growth (y/y)								
Other Private Equity		-88.1%		-72.2%	27.9%	658.2%	2059.6%	-61.5%
Insurance		300.0%		16.8%	-98.9%	-65.5%	-37.7%	-50.5%
Renewables		98.5%		171.2%	-4.5%	-11.7%	0.7%	-15.3%
Other		-279.8%		176.6%	13.3%	-69.1%	-62.7%	-85.8%
Total		14.2%		-7.5%	-48.4%	2.4%	95.7%	-45.1%
Segment operating profit								
Other Private Equity	-0.4	-1.1	-1.2	1.8	-0.6	5.8	13.8	0.3
Insurance	5.4	5.8	4.6	6.9	-1.0	1.5	2.9	3.3
Renewables	0.3	0.4	0.4	4.9	0.6	0.4	0.5	5.5
Other	-0.2	-0.7	0.8	1.1	0.3	-1.0	-1.0	-1.0
Total	5.1	4.4	4.6	14.7	-0.7	6.7	16.2	8.0
Operating profit margin								
Other Private Equity	-32.4%	-107.6%	-162.8%	29.6%	-42.6%	74.9%	87.4%	11.8%
Insurance	76.9%	80.6%	69.4%	73.4%	-1195.0%	60.2%	71.0%	70.9%
Renewables	7.4%	10.2%	11.7%	48.3%	17.0%	9.2%	12.5%	63.4%
Other	-14.2%	-43.2%	58.1%	29.6%	18.0%	-187.5%	-187.5%	-187.5%
Total	37.4%	30.8%	37.5%	50.1%	-9.7%	45.7%	67.3%	49.8%
Reported EPS (EUR)	0.24	4.02	0.11	0.41	-0.05	0.19	0.45	0.20
Adj. EPS (EUR)	0.12	0.08	0.11	0.41	-0.05	0.19	0.45	0.20
ROE	20.1%	282.9%	6.6%	20.9%	-2.2%	9.5%	23.5%	10.3%
ROE (adj.)	10.5%	5.4%	6.6%	20.9%	-2.2%	9.5%	23.5%	10.3%
AuM								
Mutual funds	0	0	0	0	0	0	0	0
Private equity funds	578	947	980	1,040	1,144	1,155	1,235	1,285
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	2,300	2,400	2,400

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: 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. 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.

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 could be part of 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

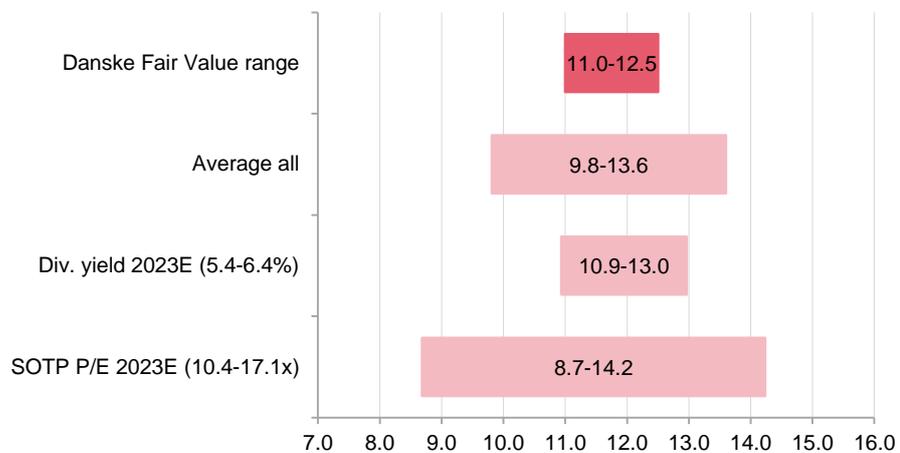
We reiterate our fair value range of EUR11.0-12.5 for Taaleri. We believe that selling the Wealth Management operations (but keeping the private equity operations) is key for Taaleri to crystallise its company value and execute a clearer strategy with higher earnings potential in the future. In addition, 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. We believe that the new Bioindustry segment will be operationally important for Taaleri in the future.

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 6-7.5% 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 13.9x, whereas looking at our new 2022-23 estimates, the midpoint of the range implies P/E of 15.4x and 14.2x, respectively.

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



Source: Danske Bank Equity Research estimates

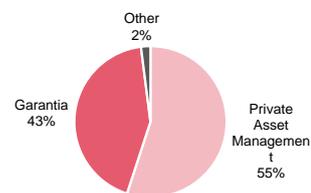
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Company summary

Income breakdown by geographical area



Income breakdown by segment



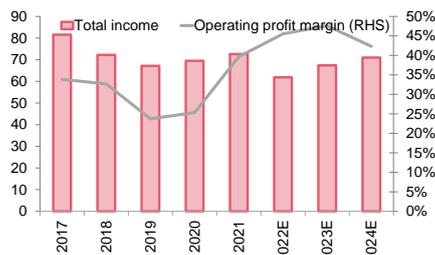
Company information

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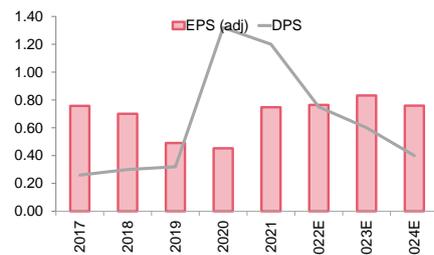
Main shareholders

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

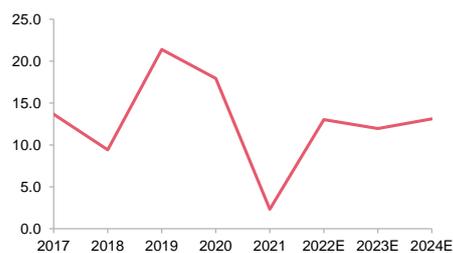
Total income and op profit margin (EURm)



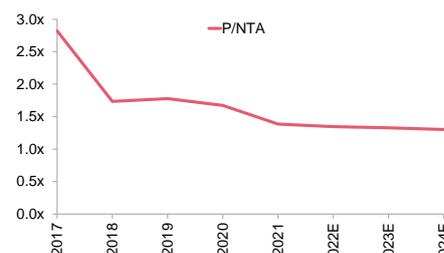
EPS (adjusted) and DPS (EURm)



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	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	35.1	43.8
Total income		58.4	60.6	81.6	72.3	67.2	69.5	72.6	61.9	67.4
Costs		-39.6	-44.5	-54.0	-48.5	-50.7	-51.9	-43.8	-33.7	-35.3
Operating profit		47.4	16.3	27.6	23.6	15.9	17.6	28.8	28.2	32.1
Taxes		-3.0	-3.6	-5.8	-2.3	-5.0	-4.4	-5.2	-5.6	-6.4
Pre-tax profit		47.4	16.3	27.6	23.6	15.9	17.6	28.8	28.2	32.1
Net profit		44.1	12.8	21.4	21.3	10.6	12.8	138	21.7	23.6
Net profit (adj.)		17.3	12.8	21.4	19.8	13.9	12.8	21.2	21.7	23.6
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	217	220
NTA		97.1	91.3	104	116	134	138	229	209	212
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	0.76	0.83
EPS (adj.) (EUR)		0.61	0.45	0.76	0.70	0.49	0.45	0.75	0.76	0.83
DPS (EUR)		0.14	0.22	0.26	0.30	0.32	1.32	1.20	0.75	0.60
Book value per share (EUR)		3.43	3.32	3.75	4.32	4.97	5.09	8.10	7.67	7.75
NTA per share (EUR)		3.43	3.23	3.67	4.09	4.73	4.85	8.08	7.39	7.49
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%	54.5%	52.4%	57.7%
Op profit marg	81.1%	27.0%	33.8%	32.7%	23.7%	25.3%	39.7%	45.5%	47.6%	42.3%
Op profit grth		-65.51%	69.0%	-14.52%	-32.49%	10.5%	63.5%	-2.18%	13.9%	-6.39%
Tot inc growth		3.7%	34.7%	-11.4%	-7.0%	3.5%	4.4%	-14.8%	9.0%	5.3%
Cost growth		-12.2%	-21.4%	10.2%	-4.5%	-2.5%	15.6%	23.1%	-4.9%	-15.9%
PPP growth		-14.2%	71.4%	-13.8%	-30.6%	6.6%	63.5%	-2.2%	13.9%	-6.4%
EPS (adj) growth		-26.1%	67.9%	-7.5%	-30.0%	-7.7%	65.1%	2.2%	8.9%	-8.8%
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%	9.7%	10.8%
RONTA, adj. profits		25.6%	13.6%	22.0%	18.1%	11.1%	9.5%	11.6%	9.9%	11.2%
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	9.95	9.95
Market cap (EURm)		237	233	293	201	238	230	318	282	282
P/E (reported) (x)		5.4	18.3	13.7	9.4	21.4	17.9	2.3	13.0	12.0
P/E (adj.) (x)		13.7	18.3	13.7	10.1	17.2	17.9	15.0	13.0	12.0
P/BV (x)		2.44	2.49	2.76	1.64	1.70	1.59	1.38	1.30	1.28
P/NTA (x)		2.44	2.55	2.82	1.74	1.78	1.67	1.39	1.35	1.33
Dividend yield		1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	10.7%	7.5%	6.0%
Total yield (incl. buybacks)		1.7%	2.7%	2.5%	4.2%	3.8%	16.3%	10.7%	7.5%	6.0%

Source: Company data, Danske Bank Equity Research estimates

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Report completed: 6 May 2022 at 16:05 CET

Report disseminated: 6 May 2022 at 16:20 CET

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