

Share “overhang” stops appreciation

Since the IPO, Ignitis Group’s reported profits have exceeded guidance and expectations, but the share performance has been lackluster, which we believe is mainly due to a share “overhang”. A resolution of the share overhang could be a share price trigger, but patience is needed.

Great operational performance...

Since listing, Ignitis Group has reported 2020 adj. EBITDA of EUR 292m (8% above guidance) and Q1/21 adj. EBITDA of EUR 92m (18% above estimate). Furthermore, the company has lived up its IPO dividend plan to pay EUR 0.579 per share for H2/20. In our view, the company is on track to exceed its full-year 2021 adj. EBITDA guidance of EUR 300-310m (we raise our estimate from EUR 310m to EUR 323m).

...not reflected in the share price

Despite excellent operational performance, the share price has been stuck below the IPO price (EUR 22.50). We believe this is due to a share “overhang” consisting of 2m shares (current value EUR 42m) that the stabilization manager bought following the IPO. These shares could be sold in the market or bought back through a share buy-back program.

Attractive yield

We believe the net dividend yield of +5% in the forecast period is attractive and reiterate our Dividend Discount Model Fair value per share of EUR 27.13. The share is trading at a 20% discount to peers which we believe could be closed if the share “overhang” is picked off.

Key figures (MEUR)

	2019	2020	2021E	2022E	2023E
Total revenues	1,099	1,223	1,368	1,396	1,461
Total revenue growth	2.7%	11.3%	11.8%	2.1%	4.6%
EBITDA adj.	260	292	323	335	363
EBITDA margin adj.	22.6%	24.8%	23.6%	24.0%	24.9%
EBIT adj.	135	169	184	190	210
EBIT margin adj.	12.3%	13.8%	13.5%	13.6%	14.3%
EV/Sales	2.0	1.5	1.8	1.8	1.8
EV/EBITDA adj.	8.3	7.4	6.6	6.4	5.9
EV/EBIT adj.	15.9	12.7	11.7	11.3	10.3
PE adj.	14.6	12.3	12.6	11.6	10.8
P/BV	1.2	0.8	0.8	0.8	0.8
EPS adj.	1.43	1.71	1.66	1.81	1.93
EPS growth	nm	19.5%	-2.8%	9.1%	6.9%
Div. per share	0.52	1.14*	1.20	1.26	1.31
Dividend yield	2.5%	5.6%*	5.7%	6.0%	6.3%

Source: Company, Enlight Research, *0.58 to minority shareholders (2.8% yield)

Fair value range (EUR)

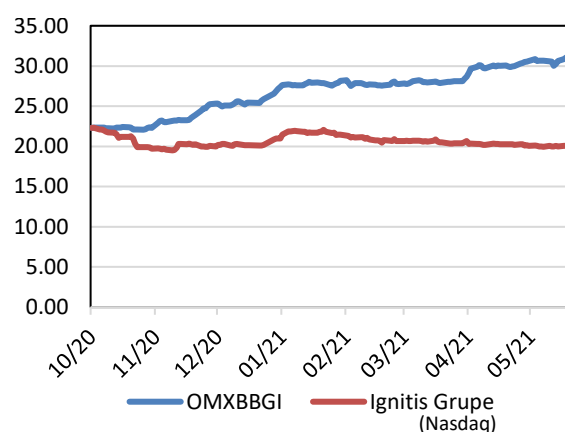
Bull (3.0% div. growth)	30.59
Base (2.5% div. growth)	27.13
Bear (1.0% div. growth)	20.27

Key Data

Price (EUR)	20.35
Ticker	IGN1L
Country	Lithuania
Listed	Vilnius (Lithuania)

Market Cap (EURm)	1511
Net debt (EURm)	579

Shares (m)	74
Free float	26.92 %



Price range

52-week high	22.32
52-week low	19.50

Analyst

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Q1 Report Key takeaways

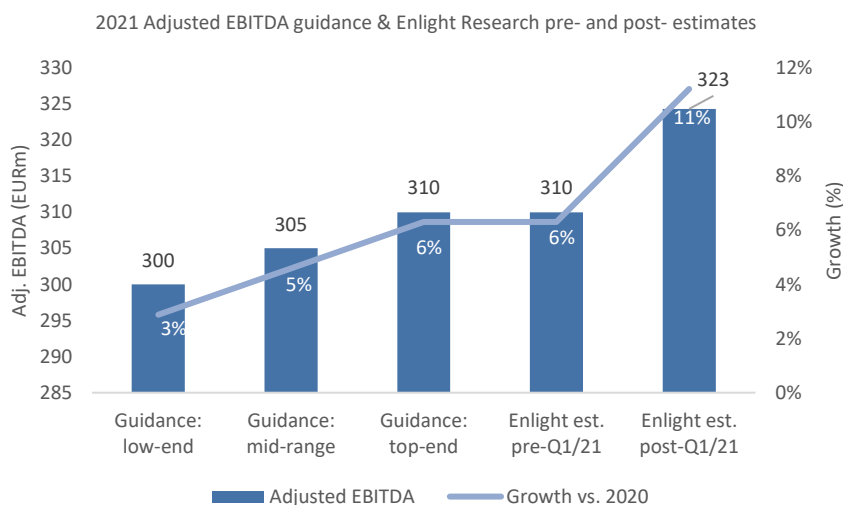
Key figure grew 19%

We believe the adjusted EBITDA is the most important key metric for Ignitis Group as it best reflects the underlying operational performance and to a large extent, the dividend payment capability. Consequently, we regard the Q1/21 y-on-y adjusted EBITDA growth of 18.6% as encouraging given that the full-year 2021 guidance is for 3-6% growth equal to EUR 300-310m, and our forecast before the report was 6% growth i.e., at the top of the guided range. Following the strong 19% Q1/21 adjusted EBITDA growth, we increase our 2021 adjusted EBITDA by 4.2% to EUR 323m equal to a y-on-y growth of 11%, which is above the guided top range of EUR 310m (6% growth). We also regard it as encouraging that all segments except the Customer & Solutions segment contributed to the Q1/21 adjusted EBITDA growth.

Q1/21 y-on-y adj. EBITDA growth

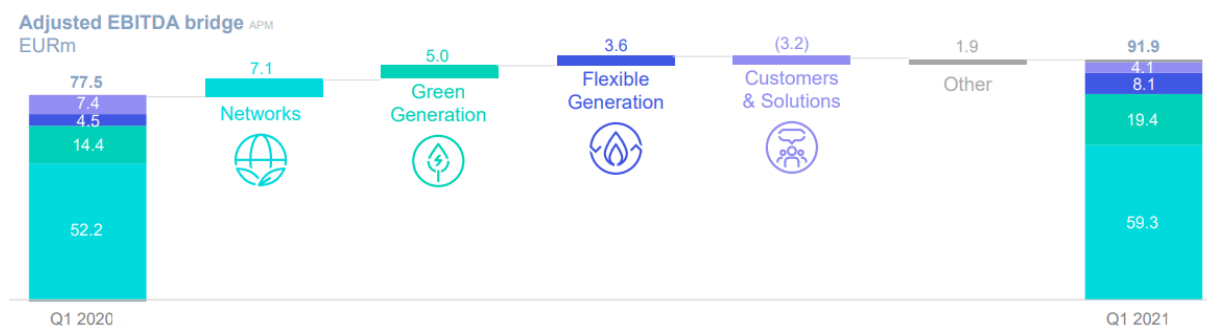
Networks	14%
Green Generation	35%
Flexible Generation	80%
Customers & Solutions	-44%
Group	19.0%

Source: Company reports



Source: Company reports (guidance), Enlight Research (estimates)

Q1/20 to Q1/21 Adjusted EBITDA contribution



Source: Company report

2021 capacity target reached and progressing to 2024 target

Following the commissioning of the 19 MW Vilnius CHP waste-to-energy unit in Q1/21 and the first electricity generated by 94 MW Pomerania wind farm in Q2/21, the company has reached our expected 2021 installed electricity capacity of 1,214 MW. In our view, Ignitis Group is progressing to reach its mid-range electricity capacity target of 1.9 GW by 2024, which is in-line with our forecast. The total estimated capacity addition between 2022 and 2024 is 673 MW whereof half are announced development projects and half are yet to be announced. At the Q1 webinar, the company mentioned that they are in the final negotiation stage in several development projects that will be announced when binding. We believe investors will be more willing to price in the Green Generation expansion as new projects are announced.

Green Generation assets						
(MW)	2019	2020	2021	2022E	2023E	2024E
Kruonis PSHP*	900	900	900	900	900	900
Kaunas HPP	101	101	101	101	101	101
Total Hydro	1,001	1,001	1,001	1,001	1,001	1,001
chg %	0%	0%	0%	0%	0%	0%
Eurakras	24	24	24	24	24	24
Vejo gusis	19	19	19	19	19	19
Tuuleenergia	18	18	18	18	18	18
Vejo vatas	15	15	15	15	15	15
Pomerania WP	0	0	94	94	94	94
Mazeikiai WP	0	0	0	0	63	63
TBA	0	0	0	0	80	190
Total Wind	76	76	170	170	313	423
chg %	0%	0%	124%	0%	84%	35%
Polish solar portfolio I	0	0	0	0	70	170
TBA	0	0	0	0	80	190
Total Solar	0	0	0	0	150	360
chg %	n.a.	n.a.	n.a.	n.a.	n.a.	140%
Kaunas CHP	0	24	24	24	24	24
Vilnius CHP	0	0	19	79	79	79
Total CHP & Biomass	0	24	43	103	103	103
chg %	n.a.	n.a.	79%	140%	0%	0%
Total electricity capacity	1,077	1,101	1,214	1,274	1,567	1,887
chg %	0%	2%	10%	5%	23%	20%

Source: Company reports (actual), Enlight Research (estimates)

Share overhang weighing on the share

It is common that one of the IPO advisors has the right to stabilize the share price following the listing to prevent the share from falling drastically below the IPO price (EUR 22.50). In the Ignitis Group IPO, Swedbank in cooperation with Kepler Cheuvreux, was the stabilisation manager. Between 7 October 2020 to 5 November 2020, Swedbank bought 2m shares to stabilize the price, which was the maximum amount allowed to be bought under the stabilization program. The average price of the shares bought was EUR 21.46 per share for a total amount of around EUR 42m. We regard it a bit unfortunate that (a) so many investors were short-term minded and sold before even seeing a quarterly report published, and (b) that the average stabilization price was just ~5% below the IPO price. The potential loss or profit on the stabilization shares will be taken by Ignitis Group. The shares can (a) be sold in the market which Ignitis Group can decide solely, or (b) be bought through a share buy-back program and then cancelled thus benefitting the existing shareholders (increasing DPS), which would be decided by a decision at a shareholder general meeting. Worth noting is that a share buy-back program must include all shareholders according to the Lithuanian regulation thus it will be public and the market will be informed. Worth noting is that the buy-back regulation in Lithuania differs from other developed capital markets where the company can buy back stabilization shares directly from the stabilization manager. We believe the stabilization shares have created a so called "overhang" which means new potential retail investors might be hesitant to buy as they are worried that the stabilization shares will be sold in the market and pressure the share price. We believe this is one of the main reasons for the Ignitis Group share price being stuck around current levels despite performing above expectations since the IPO. For long-term investors, the "overhang" could be seen as a potential buying opportunity.

Stabilization program

Number of ordinary registered shares bought, Nasdaq Baltic (m)	0.632
Number of GDRs bought, London Stock Exchange (m)	1.368
Total shares/GDRs bought	2.000
Average price of shares/GDRs bought (EUR)	21.46
Total purchase price (EURm)	42.92
Current price, Nasdaq Baltic (EUR)	20.70
Current price, London Stock Exchange (EUR)	20.40
Total value of position (EURm)	40.99

Overhang key metrics

Share "overhang" pct of Free float	10.0%
Share "overhang" pct of Total shares	2.7%
Daily avg. no. of shares traded since IPO, Nasdaq Baltic	28,874
Daily avg. no. of shares traded since IPO, London Stock Exchange	36,711

Source: Company press release, Enlight Research, Nasdaq Baltic

Q1 Forecast vs. Outcome

Q1 Forecast vs. Outcome by segment

All segments reported higher revenues than we estimated. In absolute numbers, the Networks segment and the Customer & Solutions segment exceeded our forecast the most with a positive deviation of around EUR 20m each (the cold weather resulted in higher than expected volumes). Percentage wise, the Flexible Generation segment surpassed our estimate the most with a 48% positive deviation. This was mainly driven by favourable gas (input) and electricity (output) prices resulting in higher commercial CCGT (combined cycle gas turbine) generation. Higher than expected revenues led to significantly higher than estimated EBITDA for the Networks, Flexible Generation, and Customer & Solutions segment (26-44% above estimates). The Green Generation EBITDA was EUR 14% below our forecast (EUR 19.4m vs. est. EUR 22.6m), which was mainly due to the Polish Pomerania generating the first electricity in Q2/21 rather than in Q1/21 as we forecast. We regard the couple of months delay compared to our forecast as minor given that the subsidy period runs until the end of 2035.

Forecast deviation table by Segment

Revenue by Segment (EURm)	Q1/21 Estimate	Q1/21 Outcome	Deviation EURm	%
Networks	123.5	146.3	22.8	18.4%
Green Generation	32.0	33.1	1.1	3.3%
Flexible Generation	20.1	29.7	9.6	47.8%
Customers and Solutions	163.8	184.3	20.5	12.5%
Total Revenues	339.5	393.4	53.9	15.9%

Sales growth	Q1/21 Estimate	Q1/21 Outcome	Deviation EURm	Bps
Networks	1.0%	14.2%	nm	1321
Green Generation	41.1%	45.8%	nm	470
Flexible Generation	50.0%	83.3%	nm	3333
Customers and Solutions	1.1%	14.4%	nm	1326
Total Revenues	6.0%	19.9%	nm	1394

Adjusted EBITDA by Segment	Q1/21 Estimate	Q1/21 Outcome	Deviation EURm	%
Networks	47.0	59.3	12.3	26.2%
Green Generation	22.6	19.4	-3.2	-14.1%
Flexible Generation	5.6	8.1	2.5	44.3%
Customers and Solutions	3.2	4.1	0.9	28.9%
Total adjusted EBITDA bef. Other/eliminations	78.4	90.9	12.5	16.0%
Other segments/eliminations	-0.4	1.0	1.4	-385.7%
Total adjusted EBITDA after Other/eliminations	78.0	91.9	13.9	17.8%

Adjusted EBITDA margin by Segment	Q1/21 Estimate	Q1/21 Outcome	Deviation EURm	Bps
Networks	38.0%	40.5%	nm	248
Green Generation	70.5%	58.6%	nm	-1191
Flexible Generation	27.9%	27.3%	nm	-65
Customers and Solutions	1.9%	2.2%	nm	28
Total adjusted EBITDA	23.1%	23.1%	nm	2
Total adjusted EBITDA after Other/eliminations	23.1%	23.4%	nm	23

Source: Company reports, Enlight Research

Group Forecast vs. Outcome

The Q1/21 Total Revenues were EUR 56m higher than forecast, and the Total expenses were EUR 42m higher than forecast, leaving a positive deviation of EUR 14m at the EBITDA level. Following write-offs and revaluations of EUR 7.2m which we had not foreseen, the positive deviation at the EBIT level was EUR 5m. The Net profit was in line with our estimate following deferred income tax expenses of EUR 4.7m that was not in our forecast.

Forecast deviation table by Group

P&L (EURm)	Q1/21	Q1/21	Deviation	
	Estimate	Outcome	EURm	%
Total Revenue & Other income	337.4	393.4	56.0	16.6%
Purchase of electricity, gas for trade	-196.9	-264.7	-67.8	34.5%
Salaries and related expenses	-28.9	-25.4	3.4	-11.8%
Repair and maintenance expenses	-10.2	-5.5	4.7	-46.0%
Purchase of gas and heavy fuel oil	-10.5	0.0	10.5	-100.0%
Other expenses	-17.0	-9.8	7.2	-42.3%
<i>Total expenses</i>	<i>-263.5</i>	<i>-305.5</i>	<i>-42.0</i>	<i>16.0%</i>
EBITDA	73.9	87.9	14.0	18.9%
Adjusted EBITDA	78.0	91.9	13.9	17.8%
Depreciation and amortization	-30.3	-29.4	0.9	-2.9%
Write-offs, revaluations PP&E, Intang.		-1.0	-1.0	nm
Revaluation of emission allowances		-6.2	-6.2	nm
EBIT	46.2	51.3	5.1	11.0%
Financial net	-6.3	-5.9	0.4	-5.6%
Pre-tax profit	40.0	45.4	5.4	13.6%
Current year income tax (expenses)/benefit	-3.6	-3.6	0.0	0.0%
Deferred income tax (expenses)/benefit		-4.7	-4.7	nm
Minority	0.3	0.0	-0.3	-100.0%
Net profit (loss)	36.6	37.1	0.5	1.3%

Growth	Q1/21	Q1/21	Deviation	
	Estimate	Outcome	EURm	Bps
Sales	3.6%	20.8%	nm	1719

Margins	Q1/21	Q1/21	Deviation	
	Estimate	Outcome	EURm	Bps
EBITDA margin	21.8%	22.3%	nm	57
Adj. EBITDA margin	23.0%	23.4%	nm	39
EBIT margin	13.6%	13.0%	nm	-58
Pre-tax margin	11.8%	11.5%	nm	-24
Net margin	10.8%	9.4%	nm	-136

Source: Company reports, Enlight Research

Estimate changes

On the back of the better than expected Q1//21, we raise our Sales and Adjusted EBITDA estimates for all segments, except the Green Generation segment that reported Q1/21 adjusted EBITDA below our forecast due to delayed commissioning of the Pomerania wind farm (although it contributes to the estimate increase in 2022-23E). Our Group level EBIT and Pre-tax forecast are roughly unchanged while our EPS estimates are lowered by 3-4% due to a higher tax rate. Our dividend forecast is unchanged.

Estimate changes per Segment

Sales per segment (EURm)			
Networks	2021E	2022E	2023E
Old estimate	487.0	506.5	519.2
New estimate	518.4	544.3	563.3
Change	31.4	37.8	44.1
Change (pct)	6.4%	7.5%	8.5%

Green Generation			
	2021E	2022E	2023E
Old estimate	128.2	143.7	183.7
New estimate	129.4	146.9	188.4
Change	1.2	3.2	4.7
Change (pct)	1.0%	2.2%	2.6%

Flexible Generation			
	2021E	2022E	2023E
Old estimate	107.2	108.3	109.4
New estimate	139.0	119.6	118.4
Change	31.8	11.3	9.0
Change (pct)	29.7%	10.4%	8.3%

Customers & Solutions			
	2021E	2022E	2023E
Old estimate	555.6	559.3	566.7
New estimate	579.9	585.5	591.0
Change	24.3	26.2	24.3
Change (pct)	4.4%	4.7%	4.3%

Group estimate changes (EURm)			
Total Revenue	2021E	2022E	2023E
Old estimate	1,270	1,309	1,370
New estimate	1,367	1,396	1,461
Change	96.7	87.2	91.2
Change (pct)	7.6%	6.7%	6.7%

EBIT			
	2021E	2022E	2023E
Old estimate	160	172	186
New estimate	160	172	185
Change	0	0	-1
Change (pct)	-0.1%	-0.1%	-0.5%

Adjusted EPS (EUR)			
	2021E	2022E	2023E
Old estimate	1.73	1.85	1.99
New estimate	1.66	1.81	1.93
Change	-0.07	-0.04	-0.06
Change (pct)	-4.3%	-2.2%	-2.8%

Adjusted EBITDA per segment (EURm)			
Networks	2021E	2022E	2023E
Old estimate	200.1	202.5	207.3
New estimate	203.8	209.4	212.8
Change	3.7	6.9	5.5
Change (pct)	1.8%	3.4%	2.7%

Green Generation			
	2021E	2022E	2023E
Old estimate	76.9	86.2	110.2
New estimate	75.8	87.5	112.5
Change	-1.1	1.3	2.3
Change (pct)	-1.4%	1.5%	2.0%

Flexible Generation			
	2021E	2022E	2023E
Old estimate	22.9	23.1	23.2
New estimate	30.6	26.4	26.1
Change	7.7	3.3	2.9
Change (pct)	33.8%	14.1%	12.5%

Customers & Solutions			
	2021E	2022E	2023E
Old estimate	11.4	11.5	11.6
New estimate	11.7	11.8	11.9
Change	0.3	0.3	0.3
Change (pct)	3.0%	2.7%	2.4%

Adjusted EBITDA			
	2021E	2022E	2023E
Old estimate	310.0	321.0	346.0
New estimate	323.0	335.1	363.2
Change	13.0	14.1	17.2
Change (pct)	4.2%	4.4%	5.0%

Pre-tax profit			
	2021E	2022E	2023E
Old estimate	140	150	161
New estimate	138	149	159
Change	-2	-1	-2
Change (pct)	-1.6%	-0.7%	-1.2%

Dividend (EUR)			
	2021E	2022E	2023E
Old estimate	1.20	1.26	1.31
New estimate	1.20	1.26	1.31
Change	0.00	0.00	0.00
Change (pct)	0.0%	0.0%	0.0%

Source: Enlight Research

Detailed forecast

Revenue per segment (IFRS reported)	Q1/21	Q2/21E	Q3/21E	Q4/21E	2020	2021E	2022E	2023E
Networks	146.3	113.4	118.5	140.1	482.2	518.4	544.3	563.3
Green Generation	33.1	26.5	34.2	35.6	89.0	129.4	146.9	188.4
Flexible Generation	29.7	32.6	42.8	33.9	111.7	139.0	119.6	118.4
Customers and Solutions	184.3	114.6	110.9	170.1	548.5	579.9	585.5	591.0
Total Revenues	393.4	287.1	306.5	379.8	1,231.4	1,366.7	1,396.2	1,461.2
Segment revenue growth (IFRS reported)	Q1/21	Q2/21E	Q3/21E	Q4/21E	2020	2021E	2022E	2023E
Networks	14.2%	5.0%	5.0%	5.2%	16.2%	7.5%	5.0%	3.5%
Revenue per segment (IFRS reported)	45.8%	57.8%	66.8%	22.9%	7.2%	45.4%	13.5%	28.3%
Networks	83.3%	30.0%	15.0%	2.2%	38.2%	24.5%	-14.0%	-1.0%
Green Generation	14.4%	2.7%	2.0%	1.9%	5.0%	5.7%	1.0%	0.9%
Total Revenues	19.9%	9.8%	9.7%	4.8%	11.8%	11.0%	2.2%	4.6%
Adjusted EBITDA by Segment	Q1/21	Q2/21E	Q3/21E	Q4/21E	2020	2021E	2022E	2023E
Networks	59.3	45.9	47.9	50.6	199.0	203.8	209.4	212.8
Green Generation	19.4	15.0	20.5	20.9	50.7	75.8	87.5	112.5
Flexible Generation	8.1	7.5	9.4	5.6	31.8	30.6	26.4	26.1
Customers and Solutions	4.1	2.0	1.9	3.7	11.0	11.7	11.8	11.9
Total adjusted EBITDA bef. Other/eliminations	90.9	70.5	79.8	80.8	292.5	322.0	335.1	363.2
Other segments/eliminations	1.0	0.0	0.0	0.0	-0.9	1.0	0.0	0.0
Total adjusted EBITDA after Other/eliminations	91.9	70.5	79.8	80.8	291.6	323.0	335.1	363.2
Adjusted EBITDA margin by Segment	Q1/21	Q2/21E	Q3/21E	Q4/21E	2020	2021E	2022E	2023E
Networks	40.1%	40.0%	42.0%	37.6%	39.8%	38.2%	37.8%	37.1%
Green Generation	58.6%	56.8%	60.0%	58.5%	57.0%	58.6%	59.6%	59.7%
Flexible Generation	27.3%	23.0%	22.0%	16.6%	28.5%	22.0%	22.0%	22.0%
Customers and Solutions	2.2%	1.7%	1.8%	2.2%	2.0%	2.0%	2.0%	2.0%
Total adjusted EBITDA	23.1%	24.5%	26.0%	21.3%	23.8%	23.6%	24.0%	24.9%
Total adjusted EBITDA after Other/eliminations	23.4%	24.5%	26.0%	21.3%	23.8%	23.6%	24.0%	24.9%
Income statement (EURm)	Q1/21	Q2/21E	Q3/21E	Q4/21E	2020	2021E	2022E	2023E
Revenues from contracts with customers	393	287	306	380	1,215	1,367	1,396	1,461
Other income & Eliminations	0	0	0	0	8	0	0	0
Total Revenue & Other income	393	287	306	380	1,223	1,367	1,396	1,461
Purchase of electricity, gas for trade	-265	-173	-182	-222	-703	-842	-852	-891
Salaries and related expenses	-25	-24	-26	-40	-93	-116	-119	-124
Repair and maintenance expenses	-6	-9	-9	-20	-34	-44	-42	-44
Purchase of gas and heavy fuel oil	0	0	0	0	0	0	0	0
Other expenses	-10	-14	-15	-29	-56	-68	-70	-73
Total expenses	-305	-220	-233	-311	-886	-1,070	-1,082	-1,132
EBITDA	88	67	74	68	338	297	314	329
Depreciation and amortization	-29	-31	-33	-33	-113	-126	-131	-135
Write-offs, revaluations PP&E, Intang.	-1	-1	-1	-1	-6	-4	-8	-6
Revaluation of emission allowances	-6	0	0	-1	-3	-7	-3	-3
EBIT	51	35	40	34	215	160	172	185
<i>Financial net</i>	-6	-6	-5	-5	-20	-22	-23	-26
Pre-tax profit	45	29	35	28	195	138	149	159
Current year income tax (expenses)/benefit	-4	-2	-3	-2	-11	-11	-10	-11
Deferred income tax (expenses)/benefit	-5	-3	-4	-3	-14	-14	-14	-14
Minority	0	0	0	0	1	0	0	0
Net profit (loss)	37	24	28	24	170	113	124	134

Source: Company reports, Enlight Research

Valuation

Peer valuation

We believe the Integrated utilities is the best peer sub-group for Ignitis Group as it consists of companies with both distribution and generation assets. Based on the estimated 2021 EV/EBITDA multiple, the Ignitis Group share is trading at 20% discount to the Integrated utilities peer group, despite having a dividend yield that is slightly higher than the peer average (5.8% vs. 4.9%). Given Ignitis Group's strong focus on renewable energy, one could argue the Ignitis Group share should trade more towards the Renewable peer group average, which has the highest EV/EBITDA multiple among our peer subgroups (15.9x vs. 10.7x for Regulated utilities, and 8.3x for Integrated utilities).

Regulated										Div.	Div.	Div.
Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2020	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E	yield 2020	yield 2021E	yield 2022E
Nationalgrid	NG	GBP	9.22	32,723	61,269	12.4	13.3	10.8	10.0	5.3%	5.3%	5.4%
Red Electrica	REE	EUR	17.16	9,246	15,371	9.8	9.7	9.7	9.6	5.8%	5.8%	5.9%
REN	RENE	EUR	2.32	1,539	4,301	9.2	9.3	9.2	9.2	7.3%	6.9%	7.3%
Italgas	IG	EUR	5.63	4,557	9,294	9.6	9.1	9.1	8.6	5.0%	5.2%	5.3%
Terna	TRN	EUR	6.53	13,121	22,294	12.2	12.0	12.1	11.5	4.1%	4.4%	4.7%
Average						10.6	10.7	10.2	9.8	5.5%	5.5%	5.7%
Renewables										Div.	Div.	Div.
Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2020	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E	yield 2020	yield 2021E	yield 2022E
EDP Renewables	EDPR	EUR	19.26	18,500	21,943	13.3	14.1	12.9	11.4	0.4%	0.5%	0.5%
Neoen	NEOEN	EUR	35.48	3,024	5,399	20.0	17.2	14.0	11.0	0.0%	0.1%	0.2%
Orsted Energy	ORSTED	DKK	883	370,918	383,261	21.1	16.4	17.4	14.9	1.3%	1.4%	1.5%
Average						18.1	15.9	14.8	12.4	0.6%	0.7%	0.8%
Integrated										Div.	Div.	Div.
Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2020	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E	yield 2020	yield 2021E	yield 2022E
EDP	EDP	EUR	4.66	18,800	31,043	8.5	8.5	8.0	7.6	4.1%	4.1%	4.3%
Endesa	ELE	EUR	22.49	23,809	30,708	7.6	7.8	7.5	6.8	8.9%	5.8%	5.2%
Enel	ENEL	EUR	8.05	81,846	127,261	7.1	6.8	6.5	6.2	4.5%	4.7%	5.0%
Engie	ENGI	EUR	12.08	29,195	51,653	5.6	5.1	5.0	4.8	4.4%	5.8%	6.5%
E.ON	EOAN	EUR	10.02	26,115	56,816	8.2	7.6	7.4	7.4	0.0%	4.9%	5.1%
Iberdrola	IBE	EUR	10.75	68,083	104,008	10.4	9.4	8.6	8.1	3.9%	4.1%	4.3%
SSE	SSE	GBP	15.30	15,843	26,309	11.5	12.6	11.9	11.5	5.2%	5.3%	5.4%
Average						8.4	8.3	7.8	7.5	4.4%	4.9%	5.1%
Ignitis	IGN1L	EUR	20.65	1,534	2,474	7.3	6.6	6.4	5.9	5.6%*	5.8%	6.1%

Source: MarketScreener, Based on share prices on 17 June 2021, *EUR 0.58 to minority investors, yield 2.8%

DDM valuation

In our view, the Ignitis Group share is a dividend case and hence, the Dividend Discount Model (DDM) is the most relevant valuation method. Given the company's dividend policy of minimum 3% dividend growth starting from 2020 dividends, our most important assumptions are the assumed dividend growth in the forecast period 2021-23 and the perpetual period. In all our scenarios, we assume the 2021 dividend to be EUR 1.20 corresponding to a dividend growth of 5% i.e., higher than the 3% minimum dividend policy growth. For our Base case, we assume the perpetual dividend growth to be 2.5%, which indicates a Fair value per share of EUR 27.13. In our Bull case, we assume a perpetual dividend growth of 3.0% which indicates a Fair value per share of EUR 30.59, while our Bear case assumes a perpetual dividend growth of 1.00% indicating a Fair value per share of EUR 20.27. See below table for the Fair value at different scenarios. Interesting to note is that the market seems to price in a dividend growth of around 1.00-1.25%, which is quite conservative in our view.

	Dividend growth																	
	1.00%	1.25%	1.50%	1.75%	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%	4.25%	4.50%	4.75%	5.00%	
1.52	25.67	26.80	28.03	29.38	30.87	32.52	34.36	36.42	38.73	41.37	44.38	47.88	51.96	56.81	62.66	69.86	78.91	
1.50	25.33	26.44	27.66	29.00	30.47	32.10	33.91	35.94	38.22	40.82	43.80	47.25	51.28	56.07	61.84	68.94	77.88	
1.48	24.99	26.09	27.29	28.61	30.06	31.67	33.46	35.46	37.72	40.28	43.22	46.62	50.60	55.32	61.02	68.02	76.84	
1.46	24.65	25.74	26.92	28.22	29.66	31.24	33.01	34.98	37.21	39.74	42.63	45.99	49.91	54.57	60.19	67.10	75.80	
1.44	24.32	25.39	26.56	27.84	29.25	30.81	32.55	34.50	36.70	39.19	42.05	45.36	49.23	53.83	59.37	66.18	74.77	
1.42	23.98	25.03	26.19	27.45	28.84	30.39	32.10	34.02	36.19	38.65	41.47	44.73	48.55	53.08	58.55	65.27	73.73	
1.40	23.64	24.68	25.82	27.07	28.44	29.96	31.65	33.54	35.68	38.10	40.88	44.10	47.86	52.33	57.72	64.35	72.69	
1.38	23.30	24.33	25.45	26.68	28.03	29.53	31.20	33.07	35.17	37.56	40.30	43.47	47.18	51.59	56.90	63.43	71.65	
1.36	22.97	23.98	25.08	26.29	27.63	29.10	30.75	32.59	34.66	37.02	39.72	42.84	46.50	50.84	56.07	62.51	70.62	
1.34	22.63	23.63	24.71	25.91	27.22	28.68	30.30	32.11	34.15	36.47	39.13	42.21	45.82	50.09	55.25	61.59	69.58	
1.32	22.29	23.27	24.35	25.52	26.82	28.25	29.84	31.63	33.64	35.93	38.55	41.58	45.13	49.35	54.43	60.67	68.54	
1.30	21.95	22.92	23.98	25.13	26.41	27.82	29.39	31.15	33.13	35.39	37.97	40.95	44.45	48.60	53.60	59.76	67.50	
1.28	21.62	22.57	23.61	24.75	26.00	27.39	28.94	30.67	32.62	34.84	37.38	40.32	43.77	47.85	52.78	58.84	66.47	
1.26	21.28	22.22	23.24	24.36	25.60	26.97	28.49	30.19	32.11	34.30	36.80	39.69	43.08	47.11	51.96	57.92	65.43	
1.24	20.94	21.86	22.87	23.98	25.19	26.54	28.04	29.71	31.61	33.75	36.22	39.06	42.40	46.36	51.13	57.00	64.39	
1.22	20.61	21.51	22.50	23.59	24.79	26.11	27.59	29.24	31.10	33.21	35.63	38.44	41.72	45.61	50.31	56.08	63.35	
Div. 2021E	1.20	20.27	21.16	22.13	23.20	24.38	25.68	27.13	28.76	30.59	32.67	35.05	37.81	41.03	44.86	49.48	55.16	62.32
1.18	19.93	20.81	21.77	22.82	23.97	25.26	26.68	28.28	30.08	32.12	34.47	37.18	40.35	44.12	48.66	54.25	61.28	
1.16	19.59	20.46	21.40	22.43	23.57	24.83	26.23	27.80	29.57	31.58	33.88	36.55	39.67	43.37	47.84	53.33	60.24	
1.14	19.26	20.10	21.03	22.04	23.16	24.40	25.78	27.32	29.06	31.04	33.30	35.92	38.98	42.62	47.01	52.41	59.21	
1.12	18.92	19.75	20.66	21.66	22.76	23.97	25.33	26.84	28.55	30.49	32.72	35.29	38.30	41.88	46.19	51.49	58.17	
1.10	18.58	19.40	20.29	21.27	22.35	23.55	24.88	26.36	28.04	29.95	32.13	34.66	37.62	41.13	45.37	50.57	57.13	
1.08	18.24	19.05	19.92	20.89	21.95	23.12	24.42	25.88	27.53	29.40	31.55	34.03	36.94	40.38	44.54	49.65	56.09	
1.06	17.91	18.69	19.56	20.50	21.54	22.69	23.97	25.41	27.02	28.86	30.96	33.40	36.25	39.64	43.72	48.74	55.06	
1.04	17.57	18.34	19.19	20.11	21.13	22.26	23.52	24.93	26.51	28.32	30.38	32.77	35.57	38.89	42.89	47.82	54.02	
1.02	17.23	17.99	18.82	19.73	20.73	21.84	23.07	24.45	26.00	27.77	29.80	32.14	34.89	38.14	42.07	46.90	52.98	
1.00	16.89	17.64	18.45	19.34	20.32	21.41	22.62	23.97	25.50	27.23	29.21	31.51	34.20	37.40	41.25	45.98	51.94	
0.98	16.56	17.29	18.08	18.95	19.92	20.98	22.17	23.49	24.99	26.68	28.63	30.88	33.52	36.65	40.42	45.06	50.91	
0.96	16.22	16.93	17.71	18.57	19.51	20.55	21.71	23.01	24.48	26.14	28.05	30.25	32.84	35.90	39.60	44.14	49.87	
0.94	15.88	16.58	17.34	18.18	19.10	20.13	21.26	22.53	23.97	25.60	27.46	29.62	32.15	35.16	38.78	43.23	48.83	
0.92	15.54	16.23	16.98	17.80	18.70	19.70	20.81	22.06	23.46	25.05	26.88	29.00	31.47	34.41	37.95	42.31	47.79	
0.90	15.21	15.88	16.61	17.41	18.29	19.27	20.36	21.58	22.95	24.51	26.30	28.37	30.79	33.66	37.13	41.39	46.76	
0.88	14.87	15.52	16.24	17.02	17.89	18.84	19.91	21.10	22.44	23.97	25.71	27.74	30.10	32.92	36.30	40.47	45.72	

Risk factors

Below is a list of risk factors that we have chosen to highlight. It should not be regarded as an extensive list of all risk factors. For more risk factors, we recommend reading the Ignitis Group IPO prospectus, and annual/interim reports.

Regulatory risk

Tariffs for electricity and gas distribution that form Ignitis Group's largest business area are set by the Lithuanian regulator, NERC, based on regulated assets and reasonable rate of return (WACC). Significantly lower allowed return (WACC) could mean that our forecast is too optimistic under all scenarios. Also, lower approved investments could result in lower RAB, which could also affect our forecast negatively.

The new 5-year regulatory period for electricity and gas distribution starts in 2022, and 2024, respectively. There is a risk that the company could be affected by any changes implemented by the regulator in the new regulatory periods.

Expansion risk

The group plans to expand its renewable generation capacity substantially in the coming years. The expansion projects are large in terms of capital expenditure which means delays or lower than planned generation could affect our forecast negatively.

Weather risk

The Green Generation segment is exposed to weather conditions. For example, the water level affects the hydro plants, and the wind level affects the wind farms.

Price risk

The Green Generation segment sells its electricity production on the unregulated market, and hence, the electricity market price has a significant impact on the financial performance. We have assumed unchanged prices compared to our estimated 2020 level.

Deregulation risk

The electricity supply market will be fully deregulated in the years to come, which will most likely result in a decrease in the number of electricity customers. We forecast a decline of 10% over 3 years. If the decline is larger than this, our Customer & Supply segment forecast is most likely too optimistic.

Dividend risk

Our Base case scenario assumes 4-6% dividend growth in the forecast period. If for whatever reason (large investments, weak financial performance), the dividend growth is below our forecast, the dividend yield will most likely be below our forecast.

COVID-19 risk

The Company's direct exposure to COVID-19 is rather limited. However, there is an indirect risk that a COVID-19 induced recession could affect people's ability to pay their electricity and heating bills. Furthermore, the business client demand could fall significantly in the event of a prolonged recession.

Income Statement	2019	2020	2021e	2022e	2023e
Total revenues	1,099	1,223	1,367	1,396	1,461
Total operating costs	-892	-886	-1,070	-1,082	-1,132
EBITDA	207	337	297	314	329
Depreciation	-110	-113	-126	-142	-144
Amortizations	0	0	0	0	0
Impairment charges	-14	-9	-11	0	0
EBIT	83	215	160	172	185
Associated companies'	0	0	0	0	0
Net financial items	-17	-20	-22	-23	-26
Exchange rate differences	0	0	0	0	0
Pre-tax profit (PTP)	66	195	138	149	159
Net earnings	57	170	113	124	134
Balance Sheet	2019	2020	2021e	2022e	2023e
Assets					
Cash and cash equivalent	132	659	342	168	175
Receivables	118	128	164	175	190
Inventories	47	33	41	42	44
Other current assets	131	166	166	166	166
Total current assets	427	987	713	550	575
Tangible assets	2,348	2,560	2,878	3,197	3,468
Goodwill & Other Intangibles	143	176	165	165	165
Long-term investments	9	12	12	12	12
Associated Companies	0	0	0	0	0
Other non-current assets	259	228	246	248	252
Total fixed assets	2,759	2,976	3,302	3,623	3,898
Deferred tax assets	12	6	6	6	6
Total assets	3,198	3,969	4,021	4,180	4,480
Liabilities					
Non-ib current liabilities	79	52	82	84	88
Short-term debt	243	29	28	31	37
Other current liabilities	158	229	229	229	229
Total current liabilities	479	309	339	344	353
Long-term IB debt	856	1,275	1,252	1,371	1,622
Convertibles & Lease liabilities	0	0	0	0	0
Other long-term liabilities	421	448	448	448	448
Total long-term liabilities	1,276	1,723	1,700	1,819	2,070
Total (liabilities)	1,849	2,125	2,132	2,255	2,516
Deferred tax liabilities	38	52	52	52	52
Provisions	55	41	41	41	41
Shareholders' equity	1,300	1,842	1,888	1,923	1,963
Minority interest (BS)	49	1	1	1	1
Total shareholders equity	1,349	1,844	1,889	1,924	1,964
Total equity & liabilities	3,198	3,969	4,021	4,180	4,480
DCF valuation					
WACC (%)	5.35%	Cash flow (EURm)		NPV FCF (2021-2023)	-468
				NPV FCF (2024-2030)	619
Assumptions 2020-2025 (%)				NPV FCF (2031-)	2,598
CAGR Sales growth	6.26%			Non-operating assets	590
Average EBIT margin	13.32%			Interest-bearing debt	-1,304
				Fair value estimate	2,034
				Fair value per share (EUR)	27.39
				Share price (EUR)	20.65

Free Cash Flow	2019	2020	2021e	2022e	2023e
Operating profit	83	215	160	172	185
Depreciation	124	122	137	142	144
Change in wc	-6	12	-13	-10	-13
Other oper. CF items	-23	-67	-28	-28	-30
Operating CF	177	283	255	276	286
CF from Investments	-347	-260	-444	-462	-415
Other CF items	0	0	0	0	0
Free Cash Flow	-170	22	-189	-186	-129

Capital structure	2019	2020	2021e	2022e	2023e
Equity ratio	42%	46%	47%	46%	44%
Debt/Equity	81%	71%	68%	73%	84%
Capital invested	2,398	3,146	3,168	3,325	3,621

Profitability	2019	2020	2021e	2022e	2023e
ROE %	4.4%	10.6%	6.1%	6.5%	6.9%
EBITDA %	18.8%	27.6%	21.7%	22.5%	22.5%
EBIT %	7.6%	17.6%	11.7%	12.3%	12.7%
Net Margin	5.4%	13.8%	8.3%	8.9%	9.1%

Valuation	2019	2020	2021e	2022e	2023e
P/E	19.8	7.3	13.6	12.3	11.5
P/E adjusted	14.5	12.1	12.5	11.4	10.7
P/Sales	1.0	1.0	1.1	1.1	1.0
EV/Sales	1.9	1.5	1.8	2.0	2.1
EV/EBITDA	10.3	5.6	8.3	8.8	9.2
EV/EBIT	25.6	8.7	15.5	16.1	16.3
P/BV	0.9	0.7	0.8	0.8	0.8

Per share	2019	2020	2021e	2022e	2023e
EPS	1.04	2.88	1.52	1.67	1.80
EPS adjusted	1.43	1.71	1.66	1.81	1.93
CEPS	2.39	3.80	3.43	3.72	3.85
EBITDA/share	2.79	4.54	3.99	4.23	4.43
Capital empl./share	32.94	42.38	42.67	44.78	48.77
Div. per share	0.52	1.14	1.20	1.26	1.31
Payout	50%	40%	79%	75%	73%
Dividend yield	2.5%	5.5%	5.8%	6.1%	6.4%

Shareholders	Capital	Votes
Ministry of Finance	1,105	73.10%
EBRD	17	1.10%

Key people

CEO	Darius Maikstenas
CFO	Darius Kasauskas
Infra. Develop. Director	Dominykas Tuckus
Org. Develop. Director	Dr. Zivile Skibarkiene
Commerce & Serv.	Vidmantas Saliotis
Chairman	Darius Daubaras

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraordinary items and taxes – income taxes + minority interest}}{\text{Number of shares}}$
P/Sales	$\frac{\text{Market cap}}{\text{Sales}}$	DPS	Dividend for financial period per share
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity + taxed provisions per share}}$	CEPS	$\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF	$\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share	$\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value)	Market cap + Net debt + Minority interest at market value – share of associated companies at market value	Sales/Share	$\frac{\text{Sales}}{\text{Number of shares}}$
Net debt	Interest-bearing debt – financial assets	EBITDA/Share	$\frac{\text{Earnings before interest, tax, depreciation and amortization}}{\text{Number of shares}}$
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share	$\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	EAFF/Share	$\frac{\text{Pre-tax profit}}{\text{Number of shares}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share	$\frac{\text{Total assets – non-interest-bearing debt}}{\text{Number of shares}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets	Balance sheet total
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes – income taxes + minority interest}}$	Interest coverage (x)	$\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share	$\frac{\text{Financial assets – interest-bearing debt}}{\text{Number of shares}}$	Asset turnover (x)	$\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, %	$\frac{\text{Operating profit + financial income + extraordinary items}}{\text{Balance sheet total – interest-free short-term debt – long-term advances received and accounts payable (average)}}$	Debt/Equity, %	$\frac{\text{Interest-bearing debt}}{\text{Shareholders' equity + minority interest + taxed provisions}}$
ROCE, %	$\frac{\text{Profit before extraordinary items + interest expenses + other financial costs}}{\text{Balance sheet total – non-interest-bearing debt (average)}}$	Equity ratio, %	$\frac{\text{Shareholders' equity + minority interest + taxed provisions}}{\text{Total assets – interest-free loans}}$
ROE, %	$\frac{\text{Profit before extraordinary items – income taxes}}{\text{Shareholders' equity + minority interest + taxed provisions (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth rate per year

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Enlight Research OÜ's main valuation methods are discounted cash flow valuation and peer valuation with common multiples such as Price to Earnings, Enterprise Value to EBITDA, dividend yield etc. Aforementioned methods are used to estimate a company's fair value according to the following three scenarios: Bull (positive), Base (main scenario), and Bear (negative).

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