EVLI

ELTEL

Construction & Engineering/Sweden, February 26, 2021
Company report

Initiating coverage with BUY

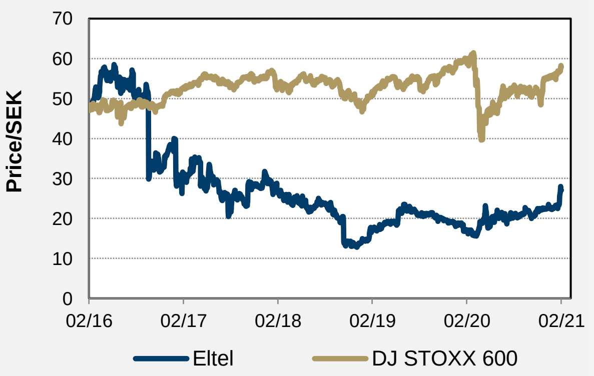
We initiate coverage of Eltel with BUY rating and a TP of SEK 30. We see that Eltel has the potential to succeed in its turnaround and, as such, we expect Eltel's profitability to improve in the coming years and net sales to turn to growth in H2/2021. In our view, the margin improvement potential is not fully reflected in the current share price.

Eltel is in the midst of its turnaround journey
Eltel is the leading Nordic field service provider for critical power and communication networks. Eltel's development since the IPO in 2015 did not meet expectations, and following a strategic review in 2017, Eltel has focused on its core businesses, Power and Communication in the Nordics, and the company is currently in the midst of a turnaround journey. The focus is on improving profitability, restructuring non-performing businesses, and strengthening its financial position, with first signs of operational improvement already visible.

We expect the recovery in margins to continue
In 2021E, we expect that net sales will decrease by 2.3% to EUR 916.8 million due to the focus on improving profitability and restructuring non-performing businesses. We expect net sales to turn to growth in H2/2021 and we see the targeted growth rate of 2-4% in the Nordics achievable from 2022 onwards. In 2022-23E, we forecast net sales to grow by 1.6% and 1.9% driven by growing 5G demand in the Nordics, as well as new frame agreements and contract expansions. Eltel has continued to take measures to improve operational efficiency and its exposure to risky and unprofitable projects has reduced over the past couple of years. In line with the guidance, we forecast operative EBITA margin to grow from 1.2% in 2020 to 2.6% in 2021E. Despite the right actions, we are more cautious in our profitability estimates compared to Eltel's 5% EBITA margin target by 2023 and expect operative EBITA margins to be 3.3% and 3.8% in 2022-23E.

BUY with a target price of SEK 30
Eltel is currently moving in the right direction thanks to a healthier balance sheet, better quality of the order book with a focus on stable Nordic countries and a reduced risk-level of projects. On our estimates for 2022-23E, Eltel is trading at EV/EBITDA of 7.7x and 7.0x, which translate into discount of 11-14% to our peer group median. In our view, Eltel has potential to improve its profitability and the margin improvement potential is not fully reflected in the current share price. We initiate coverage of Eltel with a BUY-rating and a TP of SEK 30. Our TP values Eltel at EV/EBITDA of 8.3x and 7.6x for 2022-23E, which are still slightly (~7%) discount compared to our peer group, reflecting Eltel's lower profitability profile and as we look for more signs of further transformation progress.

Rating BUY



Share price, SEK (Last trading day's closing price)	27.05
Target price, SEK	30.0
Latest change in recommendation	26-Feb-21
Latest report on company	26-Feb-21
Research paid by issuer:	YES
No. of shares outstanding, '000's	156,649
No. of shares fully diluted, '000's	156,649
Market cap, EURm	421
Free float, %	62.0
Exchange rate EUR/SEK	10.067
Reuters code	ELTEL.ST
Bloomberg code	ELTEL SS
Average daily volume, EURm	-
Next interim report	28-Apr-21
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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2019	1,087.6	-11.2	-1.0%	-52.5	-0.17	-11.0	0.5	-44.1	-18.4	0.00
2020	938.0	24.8	2.6%	74.4	0.03	74.7	0.5	19.7	21.2	0.00
2021E	916.8	23.5	2.6%	15.8	0.08	33.5	0.6	23.2	3.8	0.00
2022E	931.4	29.5	3.2%	22.8	0.12	23.2	0.6	17.6	5.4	0.06
2023E	949.4	34.9	3.7%	21.1	0.15	18.2	0.5	14.5	5.0	0.07

Market cap, EURm	421	Gearing 2021E, %	46.9	CAGR EPS 2020-23, %	70.1
Net debt 2021E, EURm	109	Price/book 2021E	1.9	CAGR sales 2020-23, %	0.4
Enterprise value, EURm	544	Dividend yield 2021E, %	0.0	ROE 2021E, %	5.8
Total assets 2021E, EURm	668	Tax rate 2021E, %	20.6	ROCE 2021E, %	6.4
Goodwill 2021E, EURm	264	Equity ratio 2021E, %	36.4	PEG, P/E 21/CAGR	1.3

Investment summary

Leading Nordic field service provider for critical power and communication networks

Eltel is the leading Nordic field service provider for critical power and communication networks. The company offers a wide range of solutions from maintenance and upgrade solutions to project deliveries and their solutions include designing, planning, building, installing, and securing the operation of power and communication networks. Eltel was listed on the Nasdaq Stockholm in 2015.

Focuses on core businesses in the Nordics

The development after IPO did not meet the expectations and expansion in other markets had proved to be costly and unprofitable. After a strategic review, Eltel presented a new strategy in 2017 to focus on its stable and profitable core businesses, Power and Communication, and to reduce the risk level by divesting and ramping down risky and unprofitable businesses. Over the past couple of years Eltel has changed from a combination of project and service company to more of a service company, and Eltel has continued to focus on the Nordic markets in which it has a market-leading position and the business model is more stable and repetitive.

Estimated annual market growth ~3%

Eltel's target markets are expected to grow by ~3% annually by 2022. The markets are regulated and typically have predictable and repetitive demand in line with each country's GDP. Eltel aims to grow in line with the market. Infrastructure networks sector has several ongoing trends supporting growth such as increasing customer demands & technological development (e.g. 5G and smart networks), aging infrastructure, regulatory requirements, and growing use of renewable energy and energy-saving solutions.

Guidance for 2021

Eltel expects the full-year 2021 operative EBITA margin to increase compared to 2020. Eltel's financial targets by the end of 2023 are annual growth of 2-4% in the Nordics from 2022 onwards, EBITA-margin of 5%, and net debt/EBITDA ratio of 1.5-2.5x.

We expect net sales to turn to growth in H2/2021

Eltel is currently in the midst of its turnaround journey and the main focus is on improving profitability and restructuring non-performing businesses. Thus, we expect the group net sales to decrease further by 2.3% to EUR 916.8 million in 2021. We expect Eltel's net sales to turn to growth in H2/2021 and we see the targeted growth rate of 2-4% in the Nordics achievable from 2022 onwards. In 2022-23E, we forecast the group revenue to grow by 1.6% and 1.9%. We expect sales growth to be driven by growing 5G demand in the Nordics, as well as new frame agreements and contract expansions.

We expect the margin improvement to continue

Eltel has continued to take measures to improve operational efficiency and its exposure to risky and unprofitable projects has reduced over the past couple of years. In line with the guidance, we forecast operative EBITA to increase to EUR 24.3 million (2020: 11.4) with a margin of 2.6% (1.2%) in 2021. We believe that Eltel is well-positioned to continue delivering operational improvements and further improving its margins. Despite the right actions, we are more cautious in our profitability estimates compared to Eltel's 5% EBITA margin target by 2023. To achieve the target, the profitability of Power should improve significantly and closer to the margins of Communication, which we believe will take longer given the intensive competition in the Power market. In 2022-2023E, we expect operative EBITA to grow by 25% to EUR 30.3 million (3.3% margin) and by 18% to EUR 35.7 million (3.8% margin), respectively.

BUY with a target price of SEK 30

Eltel is currently moving in the right direction thanks to a healthier balance sheet, better quality of the order book with a focus on the stable Nordic market and a reduced risk-level of projects. On our estimates for 2022-23E, Eltel is trading at EV/EBITDA of 7.7x and 7.0x, which translate into discount of 11-14% to our peer group median. In our view, Eltel has potential to improve its profitability and the margin improvement potential is not fully reflected in the current share price. We initiate coverage with a BUY-rating and a target price of SEK 30. Our TP values Eltel at EV/EBITDA of 8.3x and 7.6x for 2022-23E, which are still at ~7% discount to peer group, reflecting Eltel's lower profitability and as we look for more signs of further transformation progress. If Eltel manages to improve its margins faster than our expectations, there is further upside potential in valuation.

Company overview

Eltel is the leading Nordic field service provider for critical power and communication networks. Eltel offers a wide range of solutions from maintenance and upgrade solutions to project deliveries and their solutions include designing, planning, building, installing, and securing the operation of power and communication networks.

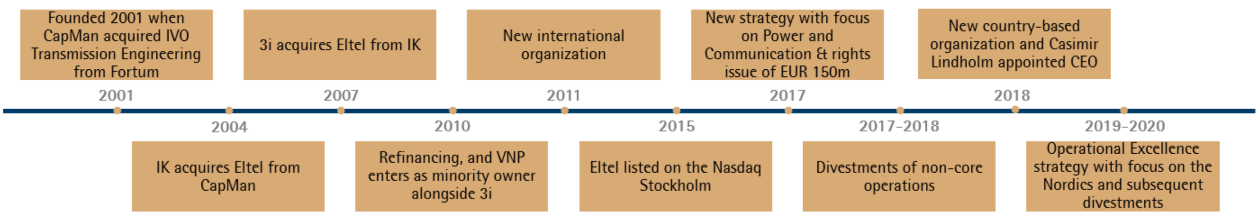
Eltel was founded in 2001, when the Finnish private equity company CapMan acquired IVO Transmission Engineering from utility company Fortum. The acquisition was based on the forthcoming deregulation of the energy production and transmission markets, which led operators to prioritize their core businesses and outsource their field service organizations. The new owners began transforming the acquired company from a state actor to a private, customer-focused business. The demand for networks was also fueled by the emerging technologies for mobile technology such as 3G.

In 2001-2007, Eltel grew considerably through bolt-on acquisitions. The company executed 33 acquisitions and outsourcing transactions across many product segments and countries including Sweden, Denmark, Norway, Finland, Poland, Estonia and Lithuania. IK Investment Partners acquired Eltel from CapMan in 2004. IK merged Eltel with Swedia Networks in 2004, which significantly strengthened Eltel's offering in the telecom business and more than doubled net sales from EUR 284 million in 2003 to EUR 623 million in 2004. In 2007, the company was acquired by 3i.

By 2008 Eltel had grown its net sales from EUR 192 million in 2001 to EUR 845 million and the number of employees had increased from 1 500 to 9 300. Between 2008 and 2010, Eltel continued to consolidate its recent acquisitions and streamlined operations to maintain profitability during the financial crisis. Recapitalization was carried out in 2010 and BNP Paribas became a minority shareholder, while 3i remained as the majority owner of Eltel. In 2011-2014, Eltel continued to expand into new markets and changed from a geographically oriented business to a global organization. For example, the company entered the UK market in 2012, the rail service markets in Denmark, Norway, and Finland in 2013-2014 and signed a project delivery contract worth EUR 100 million in Zambia in 2014.

Eltel was listed on the Nasdaq Stockholm in February 2015. The development, however, did not meet the expectations and expansion in other markets had proved to be costly and unprofitable. Group's operative EBITA margin decreased from 5% in 2015 to 0% in 2016. After a strategic review, Eltel decided to reduce the risk level by divesting or ramping down risky and unprofitable businesses. Based on the strategic analysis, Eltel presented a new strategy in 2017 to focus its business on the stable and profitable core businesses in which the company holds a leading position and where the business model is repetitive; Power and Communication in the Nordics, Poland and German markets. In 2017, Eltel also completed a share issue of approximately EUR 150 million, which secured long-term financing to implement the transformation strategy and strengthened the balance sheet.

Figure 1: Timeline of Eltel's history



Source: Eltel

In 2019, Eltel continued to focus on its core businesses and markets and entered the second phase of its strategy. According to the strategy, the company will prioritize operational improvement, restructure non-performing business, and strengthen its financial situation. Eltel's net sales amounted to EUR 938 million and the company had around 5 400 employees at the end of 2020. The company currently operates in the Nordics, Lithuania, Poland, and Germany, but intends to focus on the Nordic market.

Figure 2: Eltel's market areas (in dark grey)

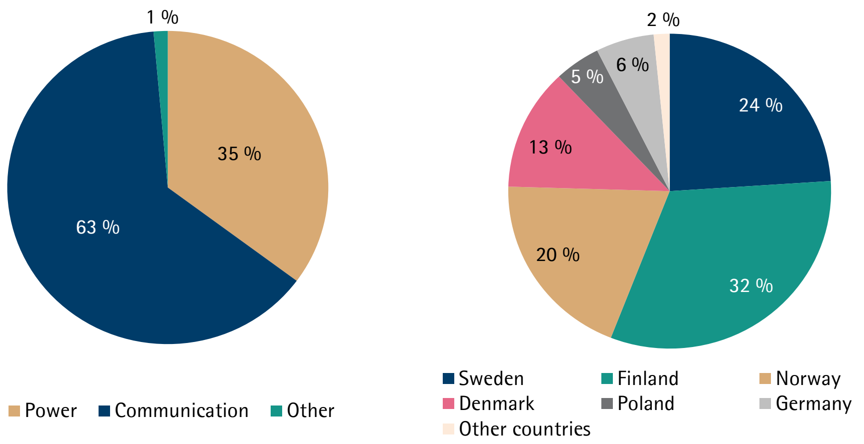
Source: Eltel

Business areas

Two core business areas; Power and Communication

Eltel's two core business areas are Power and Communication. Communication is the largest segment and it accounted for 63% of net sales in 2020, while Power accounted for 35%. Eltel also has Other segment, which consists of operations that are planned to be divested or ramped down in order to reduce risk levels and focus on the core business. Other's share of net sales was ~1% in 2020.

Figure 3: Net sales by business area and region in 2020



Source: Eltel

Power segment provides maintenance of power grids, upgrades and project work to national transmission system operators and distribution network owners

The Power segment provides maintenance of power grids, upgrades and project work to national transmission system operators and distribution network owners. Customers include network operators, local industrial customers, and public sector. Eltel operates in the Nordics, Germany, and Poland, but the company will continue, in line with the strategy, to focus on the Nordics in which it has a market-leading position. However, Eltel will retain its Polish and German businesses for the time being and continue to work on improving profitability. The Power business in Poland consists of High Voltage projects. Most of the business in Germany is related to High Voltage as well, and Smart Grids account for a smaller portion of net sales. Operative EBITA margins in the Power business have been negative in recent years and Eltel is focusing on project planning, cost control, resource planning and project management to improve the segment's profitability.

Communication segment provides services from designing and planning to building, installing, upgrading and service of mobile and fixed networks

Eltel's Communication segment provides services from designing and planning to building, installing, upgrading and service of mobile and fixed networks. Main customers are large telecom operators and communication network owners such as utility companies, other private owners and municipalities. In 2019, Eltel operated in the Nordics, Lithuania, Poland and Germany. Following the strategic review, Eltel has divested its Polish and German communication businesses and focuses now on the Nordic markets in which it is a market leader. Eltel also retains a service unit in Lithuania that supplies workforce and resources to the Nordic units. The Communication market offers slightly higher margins than the Power market.

Other segment includes non-core business activities that are being divested or ramped down. The segment currently relates to the remaining projects in Power Transmission International.

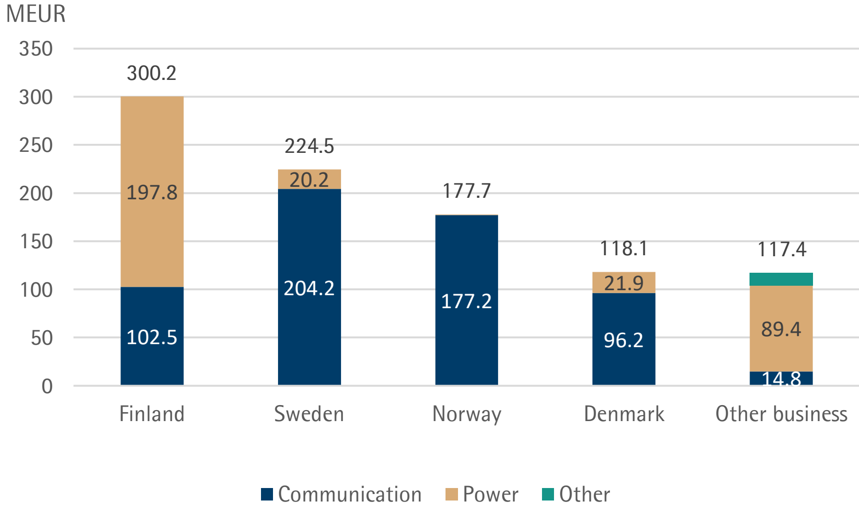
~90% of net sales from the Nordic markets from 2021 onwards

The Nordics accounted for approximately 87% of Eltel's net sales in 2020. Finland, Sweden, and Norway are currently Eltel's largest markets with net sales of EUR 300.2 million, 224.5 million and 177.7 million, respectively. Communication is a stronger segment in other Nordic markets except Finland, where Power is the dominant segment in terms of net sales. Sales in Poland and Germany are currently related to the Power business as Eltel divested the Polish Communication business in Q4/2019 and the German Communication business in Q2/2020. According to Eltel, close to 90% of total net sales will come from the Nordic markets 2021 from onwards.

Country-based segment structure starting with the Q1/2021 interim report

Eltel is going to change the segment structure starting with the Q1/2021 interim report. The current Power and Communication segments will be replaced by four country-based segments: Finland, Sweden, Norway, and Denmark. Other business will be presented as outside segments, including the non-core business, which represents less than 15% of the operations, and Group management and support functions. Other business includes operations in High Voltage, Smart Grid Germany, and Lithuania as well as Power Transmission International and Rail businesses that are under ramp down. Divested Polish and German Communication businesses are included in Other business until the divestment.

Figure 4: Net sales by country-based segments in 2020

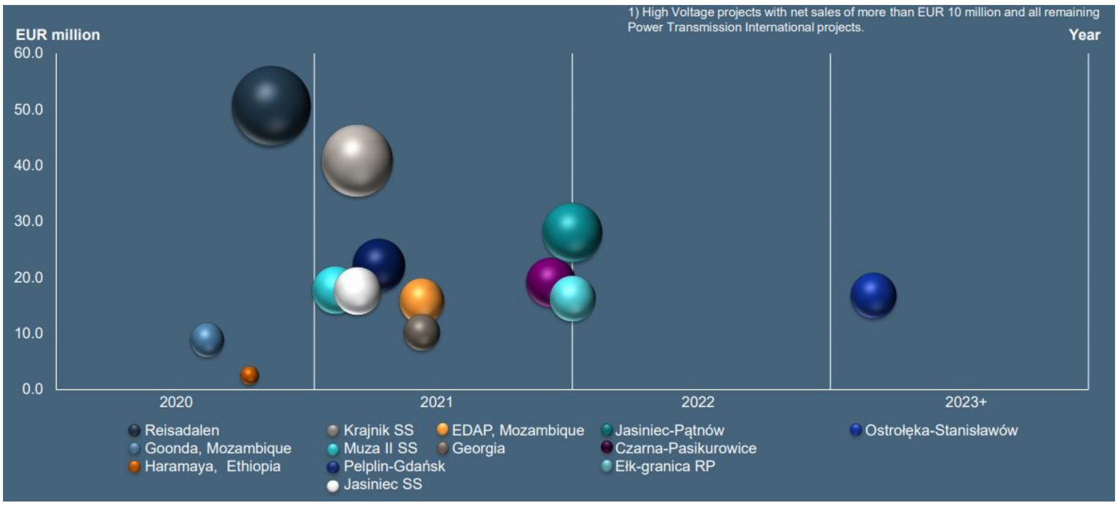


Source: Eltel

The estimated remaining net sales of the large project portfolio is EUR 24 million

Eltel is transforming from a diversified project and service company to more of a service company. To reduce risk-level and focus on its core businesses, the company has been ramping down large capital-intensive projects in High Voltage and Power Transmission International. The number of these projects has decreased from 120 large projects two years ago to about 10 projects in 2021. Eltel estimates that this project portfolio has EUR 24 million remaining in net sales. In the new segment structure, these projects are included in the Other business segment. According to Eltel, most of these projects are targeted to be finalized by the end of the first half of 2021 and the company will not enter similar projects in the future.

Figure 5: Remaining large High Voltage and Power Transmission International projects



Source: Eltel

Business model

Eltel provides services to owners of power and telecom networks

Eltel operates in the infrastructure networks industry, which comprises of the building and maintenance of critical infrastructures in Europe. Through its Power and Communication businesses, Eltel provides services to industry's two primary end-markets; power and telecom networks. While network owners and operators focus on developing and selling services, technical infranet service providers are responsible for ensuring the reliability and quality of services to end-customers. Technical infranet service providers play an important role, as regulatory frameworks for networks can impose significant sanctions on network operators for service interruptions.

Most of the work is conducted through long-term frame agreements

Over the last two years Eltel has changed from a combination of project and service company to more of a service company. Today, Eltel's business model mainly consists of long-term frame agreements that generate a steady inflow of orders. Framework agreements include, for example, design, service deliveries, smaller projects, maintenance, installations, and rollouts. These frame agreements typically range from two to five years, after which they are renegotiated. Contracts often include the option of extending the contract for additional year(s). Long-term frame agreements enable Eltel to work in close co-operation with its customers and build long-term relationships with network owners. Long-term relationships are important as there are relatively few large customers in the sector. The business model is repetitive and predictable, as ~70-80% of the business is known when preparing the budget. Framework agreements also generally require less net working capital compared to individual projects.

Business is subject to seasonality

Eltel's business is subject to seasonal fluctuations and cyclicality across quarters. Demand for new projects and maintenance services are typically lower in the winter months (especially during the first quarter) due to reduced construction activity during cold weather. For example, frozen ground limits the ability to conduct work that involves digging. On the other hand, demand for electrical service and repairs may be higher due to damage caused by winter storms. The market can also be highly seasonal within a year, as customers' annual capital expenditure budgets are often approved at the beginning of the financial year. Tenders are often conducted early in the year and customers aim to complete their budgeted capex spending by the end of the year. Some orders may focus on the last quarter as some customers spend the rest of their annual budgets if they have invested less than estimated during the first nine months. Cash flow has historically displayed a strong seasonal pattern, with weaker cash flow recorded until the end of the third quarter due to an active construction period which ties up resources.

Customers are national transmission system operators and distribution network owners

The Power segment provides maintenance of power grids, upgrades and project work to national transmission system operators and distribution network owners. The business can be roughly divided into three areas: maintenance, projects, and turnkey projects, which include design, planning and construction of the project. Ongoing projects and frame agreements cover e.g. construction, maintenance, and repair of distribution networks, building of transmission lines and installation of smart meters. Year to date in 2020, Eltel's Power segment has announced major contracts worth EUR 126 million.

Large telecom operators are the main customers in Communication

The Communication segment provides a broad range of installation and maintenance services to large telecom operators and other communication network owners. Ongoing framework agreements include e.g. construction, installation, and maintenance of fibre and mobile networks and upgrading of infrastructure through fibre and 5G rollouts. In 2020, Eltel has announced Communication frame agreements worth EUR 483-583 million.

Figure 6: Announced major frame agreements in 2020

Date	Value (EURm)	Length	Customer	Segment	Market
22.12.2020	14	2023-2024	Kamstrup	Power	Sweden
17.12.2020	55	2021-2023	Telia	Communication	Sweden
16.12.2020	110	2021-2024	Telia	Communication	Finland
26.11.2020	11	2020-2023	Telia	Communication	Norway
18.11.2020	180 - 280	2021-2023	Telenor	Communication	Norway
14.04.2020	38	2020-2023	Valokuitunen	Communication	Finland
02.04.2020	90	2020-2025	Helen	Power	Finland
01.04.2020	23	2020-2023	Swedish Transport Administration	Communication	Sweden
16.03.2020	66	2020-2023	Finnish Telecom operator	Communication	Finland
28.02.2020	22	2020-2022	Vattenfall	Power	Sweden
Total	609 - 709				

Source: Eltel

Market overview

The infranet sector was formed in 2000's following the deregulation

Eltel operates in the Nordic infrastructure networks ("infranet") sector. The sector was formed in 2000's as a result of deregulation of power and telecom markets across Europe. Deregulation and privatization of the industry brought more competition and led many network operators to focus on their core business and outsource services previously provided in-house. This in turn created a demand for specialized infranet service providers.

Infranets are increasingly essential lifelines in modern society

Regulatory requirements, aging infrastructure, increasing end-customer demands, technological development and the growing use of energy-saving solutions are the key drivers for infrastructure network investments. In the long-term, the demand to install, upgrade, maintain and secure power and communication networks are driven by megatrends such as digitalization, electrification, and urbanization. Infranets are also increasingly essential lifelines in modern society as securing and maintaining power and communication networks play an important role in running many of society's functions.

Infrastructure networks sector in Europe is continuously changing and there are several key trends ongoing:

- **Increasing customer demands and technological developments** Increasing data usage and digitalization are driving a shift towards new technology and smarter networks. Technological development has driven the need for the ongoing upgrade of infrastructure, including higher capacity, smart networks, 3G/4G and Wi-Fi/LAN/radio buildout/upgrades. 5G and IoT will be drivers of growth in the coming years.

- **Increasing regulatory requirements**
  The European Union drives harmonization and sets minimum targets for broadband capacity and availability. Network operators are therefore focusing on improving their operations are services to meet more stringent requirements. In addition, European governments demand reliable power networks, renewable energy and automated meter management.

- **Aging power and communication infrastructure**
  Old power and communication networks are approaching the end of their technical life cycle and major investments are being made in order to upgrade power and communication networks with the next generation infrastructure, load management capabilities and smart grids.

- **Growing use of renewable energy and energy-saving solutions**
  The drive towards energy efficient solutions and climate goals increases investments in systems, network capabilities, energy storage and infrastructure. Renewable energy sources require load management capabilities and power networks must be able to manage the demand and supply of an increasing number of producers and consumers.

- **Outsourcing**
  Network owners and operators are outsourcing the technical services previously provided in-house to focus on their core businesses.

A competitive market with low profit margins for service providers

The infranet sector is highly consolidated with a small number of large network owners, but suppliers are highly fragmented. For example, Eltel's Communication segment has two large customers, which accounted for 35% of net sales in 2019. Eltel's markets are characterized by a high concentration of customers and competitors' similar product and service offering. Thus, the market is competitive with low profit margins for service providers and Eltel competes on price and quality. Service providers' frame agreements also locks markets for several years at a time. Eltel's addressable market for infranet services could be broadly defined as the total spend of network operators for externally procured services. According to Eltel, the core market size was approximately EUR 11.6 billion in 2019 and it is estimated to grow to EUR 12.5 billion by 2022, with an annual growth rate of ~3%. Eltel aims to grow in line with the market growth. The markets are regulated and typically have predictable and repetitive demand in line with each country's GDP.

Estimated Power market size EUR 7.9 billion in 2022, with an annual growth rate of 3%

The Power market in general is quite stable and demand is mainly driven by the need for increased capacity and availability as well as regulatory requirements. The addressable market is largely based on investment plans of national transmission system operators and outsourced spend on maintenance and upgrades of distribution networks, owned by distribution system operators. Market size was approximately EUR 7.2 billion in 2019 and it is estimated to grow to EUR 7.9 billion by 2022, with an annual growth rate ~3%.

Network modernization and transition to smart electricity meters currently important market drivers

Network modernization and reliability together with the transition to smart electricity meters are currently important market drivers. Growth of renewable energy production drives significant investments into grid network and investments in wind power and weatherproofing distribution systems have also increased. The electrification of society is another factor that creates demand. For example, major companies such as Google and Tesla are investing in transmission and charging stations.

Of Eltel's market areas, infrastructure investments have increased in Finland over the past couple of years due to the improved economy, making the sub-contractor market more competitive. The situation in Sweden, Norway, Germany, and Poland has been more stable. On the other hand, the competition in the Power market is tough and the price pressure is considerable. Some projects have also been postponed due to COVID-19. Therefore, successful project management & execution, cost efficiency and quality are in a key position to success.

Estimated Communication market size EUR 4.6 billion in 2022, with an annual growth rate of 2%

The addressable Communication market consists mainly of network operators' investments in the installation, maintenance, and services of mobile and fixed networks. The addressable market size was approximately EUR 4.4 billion in 2019 and it is estimated to grow to EUR 4.6 billion in 2022, with an annual growth rate of ~2%. The replacement of old copper networks with new fibre has driven the Nordic market in recent years, and Eltel expects this to continue for three to five years. In Sweden fibre network penetration is already at the high level and the growth in fibre is expected to come mainly from Denmark, Norway, and Finland, in which major investment plans have been announced. Another important growth source is the installation of 5G mobile networks, and all the Nordic countries will see major investments in 5G over the next two to three years.

Fibre and 5G upgrades are important sources of growth

The Communication market is driven by the ongoing transformation of society towards digitalization and electrification. Increasing data traffic, digitalization, IoT, and cloud services are fueling demand for upgrading communication networks (e.g. 5G), installing fibre optics, and maintaining existing networks. COVID-19 has also affected demand in 2020 and for example, mobile networks have been working at full capacity due to restrictions and increased remote working. On the other hand, a few notable customers have reduced their investment levels recently. Tough competition between telecom operators is also likely to put some price pressure also on technical infranet services.

Competitive field

Eltel competes with several players, from local suppliers to multinational companies

Overall, the infranet market is very fragmented. While there are a few other companies that focus on infranet technical services as their core business, Eltel competes with a number of players, ranging from smaller local suppliers to larger multinational companies. As the markets are characterized by a high concentration of customers and competitors offering similar products and services, companies compete mainly on price and quality. Thus, the competition is tough, and the price pressure is considerable.

Eltel is the only player operating in all the Nordic countries

Eltel is among the largest regional players in Power markets, and the only player that operates in all the Nordic countries. Eltel is one of the leading players in Finland, Sweden, and Poland, while its market share in Norway, Denmark and Germany is relatively smaller. Competitors include e.g. Enersense, Omexom, ONE Nordic, Nettpartner and a number of local players. In addition, Eltel competes with companies from other industry segments such as Bravida and Caverion, which provide technical infranet services alongside their other services.

Market leader in the Nordics

The Communication end-market is also characterized by intense competition. Eltel operates in the Nordic market and is well-positioned in Communication as it is the market leader in the Nordic region. Eltel competes with infranet players such as Enersense, Voimatel, OneCo, Transtema and TLT Group. Smaller players often provide services to communication networks in connection with their power services. According to Eltel, it is also possible that smaller locally based companies will enter the market in the coming years.

Consolidation is expected to continue

There has been consolidation in the industry in recent years. In 2019, Omexom (owned by French Vinci Energies) acquired Infratek, Teracom acquired Relacom Denmark and Relacom's Swedish and Norwegian operations were sold to OneCo. Enersense acquired Empower, Eleda acquired ONE Nordic and Vattenfall sold its Finnish maintenance service business to TMV Line in 2020. Recently, Voimatel announced that it acquired 70% share of Finnish OptiWatti. Bankruptcies have also occurred and Relacom Finland, for example, ceased operations due to bankruptcy in 2019. According to Eltel's management, the consolidation has partly helped Eltel to gain market share in Finland, Norway and Denmark, and the consolidation of the industry is expected to continue in the coming years.

Strategy and financial targets

Eltel launched a strategy to focus on its core businesses in 2017

The development after the IPO did not meet the expectations and expansion in other markets had proved to be costly and unprofitable. After the investigations, the company presented a new strategy in 2017. With the new strategy, Eltel decided to restructure its business in order to focus on the stable and profitable core businesses in Power and Communication markets in which it has a leading market position and a high level of expertise. The risk-level in these core businesses is also lower and business model is more predictive and repetitive, and primarily targeted towards build, service, and maintenance. The first phase of the strategy was carried out in 2017-2018 and it involved divesting the majority of non-core businesses such as Rail operations, Power Transmission outside Europe, and Power Distribution in the Baltic countries.

Focus on the Nordic markets and improving profitability

Eltel started the second phase of the strategy, Operational excellence, in 2019, which focuses on operating profitability. Eltel's strategy is to focus on the Nordic markets in which it has a market-leading position. According to Eltel, the focus on less risky and fewer capital-intensive projects will enable them to continue to develop, grow and invest in the company to ensure long-term sustainable value creation. In 2019-2021, the company aims to improve its profitability by generating customer focus, improving efficiency, measuring, and tracking relevant key performance indicators, and simplifying daily operations of technicians. Eltel has also strengthened its financial position by reducing net debt (from 200 MEUR in 2016 to 67.4 MEUR in 2020) and net working capital. In line with the strategy, Eltel has continued restructuring of non-performing businesses and divested Polish Communication operations to Vinci Energies in 2019 and German Communication business to Circet Group and Swedish business area Aviation & Security to LFV in April 2020. Eltel expects that work to discontinue remaining non-strategic operations will be completed during 2021.

Eltel aims to invest in sustainable profitable growth from 2022 onwards

The third phase of the strategy is going to be implemented from 2022 onwards with the aim of investing in sustainable profitable growth. The purpose is to continue Eltel's long-term focus on operational excellence as well as innovation and new market development. Eltel is going to strengthen its market position and increase its market share in the Nordics. The company is also open for selective M&A in the Nordics when the financial situation improves.

Figure 7: Eltel's transformation journey

Source: Eltel

Eltel updated its financial targets in connection with the Q4/2020 report and aims to achieve the following targets by the end of 2023:

- Growth: Annual growth of 2-4% in the Nordics from 2022 onwards
- Profitability: Group EBITA-margin of 5%
- Leverage: 1.5-2.5x net debt/EBITDA
- Dividend payout: Subject to leverage target

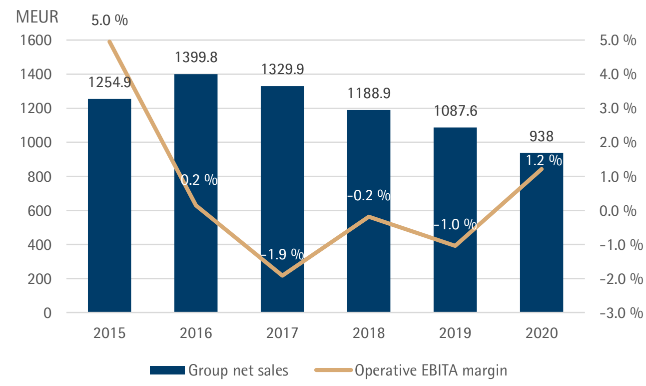
Financial performance

Net sales

Net sales have decreased in line with the transformation strategy

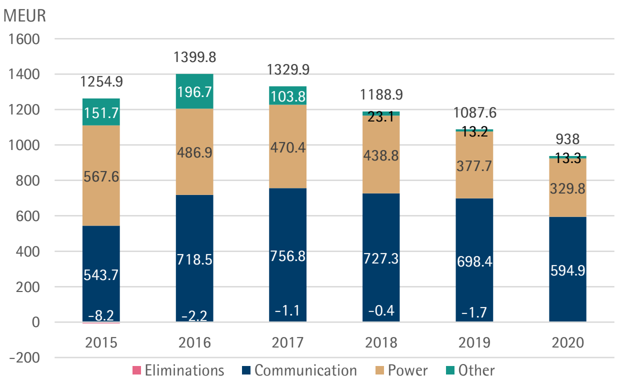
In 2015-2020, Eltel's net sales decreased from EUR 1 254.9 million to EUR 1 087.6 million at a CAGR of -5.7%. In 2015-2016, net sales grew by 1% and 11.6% supported by acquisitions in Germany and Norway and organic growth. Net sales began to decline from 2017 onwards, mainly as a result of divestments and discontinuation of non-core operations and unprofitable projects, in line with the transformation strategy. In 2019, net sales decreased 13.9% due to lower volumes, ramp down of projects, divestment of the Polish Communication business and discontinuation of the businesses within Rail and Power Transmission International. Restructuring of operations continued in 2020, with net sales declining by 13.8% mainly due to lower volumes, divestments of the Polish and German Communication and Swedish Aviation & Security business areas (~40% of the drop), and project postponements caused by the COVID-19 pandemic. Eltel's long-term target is to grow 2-4% annually.

Figure 8: Annual sales and operative EBITA margin



Source: Eltel

Figure 9: Net sales by segment



Source: Eltel

Power sales have decreased mainly due to divestments, lower volumes, and ramp down of projects

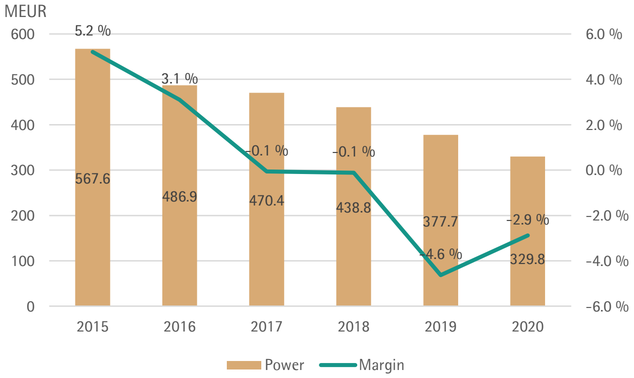
The Power segment sales have decreased from EUR 567.6 million in 2015 to EUR 329.8 million in 2020 at a CAGR of -10.3%, while the Communication sales have increased from EUR 543.7 million to EUR 594.9 million at a CAGR of 1.8%. Power sales have decreased over the past years mainly due to divestment of the Baltic operations, lower volumes, and ramp down of projects. Net sales continued to decline in 2020 and Eltel reported a decline of 12.7% in 2020. The decline was mainly explained by lower activity in High Voltage as large Polish and Norwegian projects are being ramped down and completed. COVID-19 has also had a negative impact and some projects have been postponed. In Sweden, ramp down of projects and service operations, reduced order backlog and COVID-19 had a negative impact on net sales. Smart Grids' volumes in Norway and Denmark decreased in line with expectations. The decline was partly offset by increased net sales in Finland due to further growth in Build projects and expansions of frame agreements.

Communication sales declined in 2020 mainly due to the divestments of the Polish and German operations

The increase in Communication net sales between 2015 and 2016 is explained by the acquisition of the Norwegian joint venture Eltel Sønnico AS, after which sales remained at around EUR 700-750 million. Following the divestments of the Polish and German Communication businesses and the Swedish Aviation & Security business area in 2019-2020, 2020 net sales in the Communication segment declined to EUR 549.9 million. Communication net sales decreased by 14.8% in 2020 mainly due to the negative effect of the divestments (EUR -59.6 million), currency effects in Norway (EUR -17 million) and reduced customer investments in Norway and Sweden. The decline was partly offset by a strong market share in Finland and high fibre and 5G volumes as well as increased volumes in Denmark.

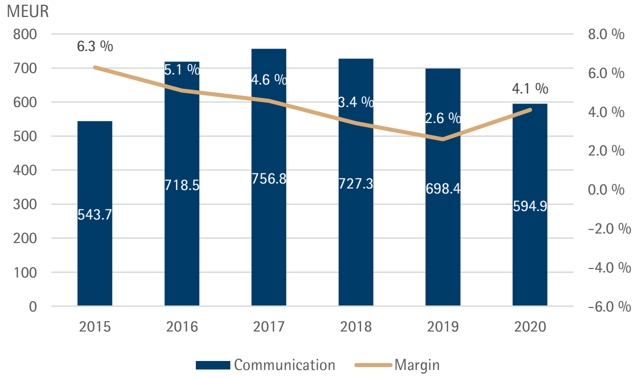
Other's share of net sales has decreased significantly in recent years as Eltel has ramped down and discontinued non-core businesses in line with its strategy. Other's net sales amounted to EUR 13.3 million in 2020. The discontinuation of the remaining Power Transmission International projects is targeted to be finalized in 2021.

Figure 10: Power sales and operative EBITA margin



Source: Eltel

Figure 11: Communication sales and operative EBITA margin



Source: Eltel

Profitability

Profitability has gradually started to improve

Eltel's operative EBITA margin has clearly decreased from 5% in 2015 and has been negative for the last three years. Group's profitability was clearly impacted by challenges and underperformance of the project business of the Power and Transport & Security business segments in 2016. The weak profitability development in 2017-2019 has largely been associated with write-offs and cost provisions of unprofitable projects, restructuring costs and costs related to the discontinuation of non-core businesses. Eltel's profitability has gradually improved during 2020 and operative EBITA increased to EUR 11.4 million (-11.3) and the margin was 1.2% in 2020. Eltel's current strategy focuses on profitable Nordic markets, and the company will continue to take measures to improve productivity, gross margin, and profitability. The long-term target is to achieve an EBITA margin of 5%.

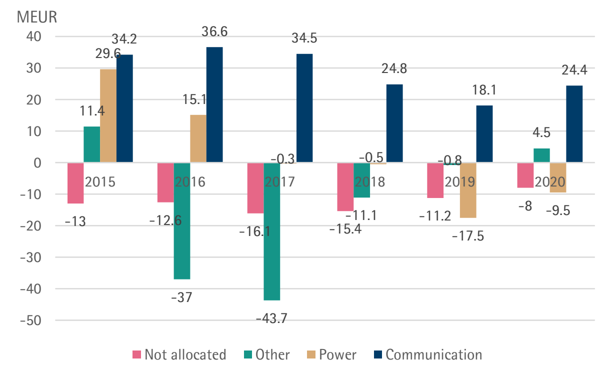
Power's profitability is currently weaker than Communication's

The restructuring has had a more negative impact on the Power segment's result and Power's profitability has been weaker than Communication's. The weak margin development is mainly attributable to write-offs and increased costs related to certain unprofitable projects, restructuring costs and lower volumes. In 2020, Eltel continued the work to reduce risks and improve control in the Power segment. Operative EBITA improved from EUR -17.5 million in 2019 to EUR -9.5 million in 2020 with a margin of -2.9% (-4.6%). Profitability in Sweden and High Voltage was gradually improving but remained negative. In High Voltage, the increased costs associated with the completion of old projects, lower volumes, and delays caused by COVID-19 had a negative impact on the result. In Finland, productivity development was positive throughout the operations and the risk level has been reduced due to the completion of Build projects that caused write-downs during the year. Despite the improvement, Power's operative EBITA margin is still far from the target level of 5%.

Communication's operative EBITA margin of 4.1% is close to the target level

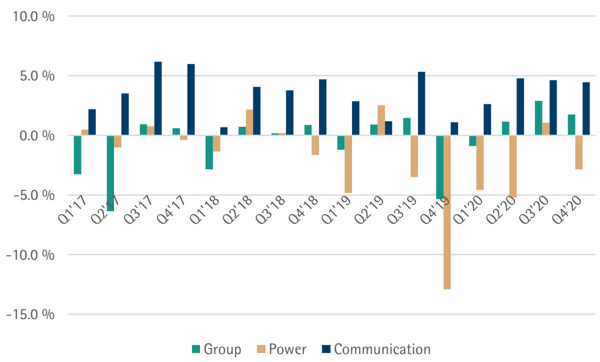
Communication has been a more profitable segment for the past five years. Although the profitability has decreased during in 2015-2019, the segment has remained profitable. The profitability has been affected by lower volumes and restructuring costs. In 2020, the Communication segment continued to produce healthy 8% margin in Norway as a result of successful efficiency actions, rightsizing and improved project profitability. On the other hand, lower net sales and a negative currency effect had a negative impact on operative EBITA. Improved operational efficiency and volume growth in Finland also contributed to the improved profitability. Denmark performed quite in line with the 2019 level, although falling slightly behind during the second half of the year. Most of the operative EBITA improvement in 2020 came from Sweden, where the work to improve project execution and control started to impact in a positive way. However, it should be noted that Sweden is in the beginning of the journey to reach the targeted margin level. Divestments of the Polish and German Communication businesses as well as the Swedish Aviation & Security businesses had a negative impact of EUR 4.7 million. Full-year operative EBITA margin was 4.1% (2.6%), which is close to the target level.

Figure 12: Operative EBITA by segment



Source: Eltel

Figure 13: Quarterly Operative EBITA margin



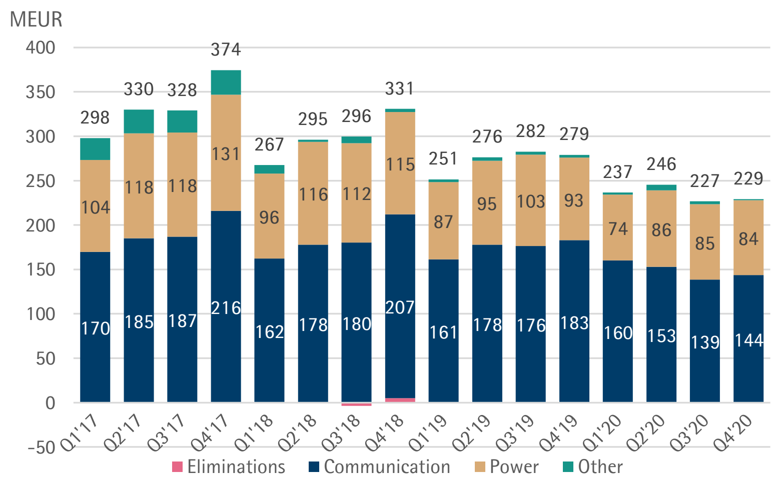
Source: Eltel

Seasonality

Higher revenues and profitability have typically been reported in H2

As mentioned earlier, Eltel's business is subject to seasonality. Seasonality is driven by several factors, including weather conditions, the timing of customer order replacements and completion of work phases towards the end of the month. Seasonal patterns and cyclicality add volatility to net sales, EBITA and cash flow. Eltel has historically reported higher revenues and profitability in the second half of the year. Cash flow has also displayed a strong seasonal pattern, with weaker cash flow recorded during the period until the end of Q3 due to higher construction activity. Cash flow has generally been stronger at the end of the year as production volumes decline.

Figure 14: Quarterly net sales 2017-2020



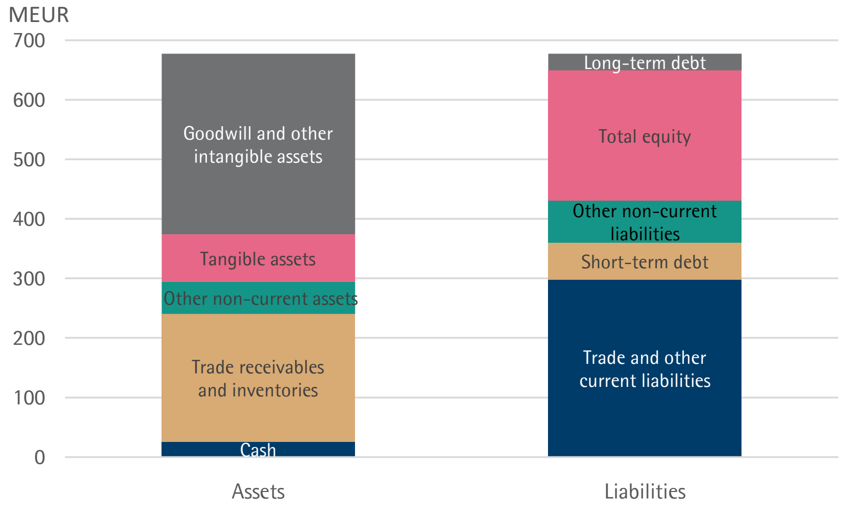
Source: Eltel

Balance sheet

Strengthening the balance sheet is one of the strategic focus areas

Strengthening the financial situation and the balance sheet of the company is one of Eltel's strategic focus areas. Eltel's long-term goal is to return to a 5% EBITA margin with a stable cash flow and a healthy balance sheet. In 2020, the company has continued to take measures on improving its financial position. Eltel divested German Communication business and Swedish Aviation & Security business and the company is going to finalize large capital-intensive projects in High Voltage and Power Transmission International in 2020-2021. In 2020, Eltel managed to improve net working capital, which was at a historical low level (EUR -25.4 million) and reduce net debt by more than EUR 56 million compared to 2019.

Figure 15: Balance sheet composition

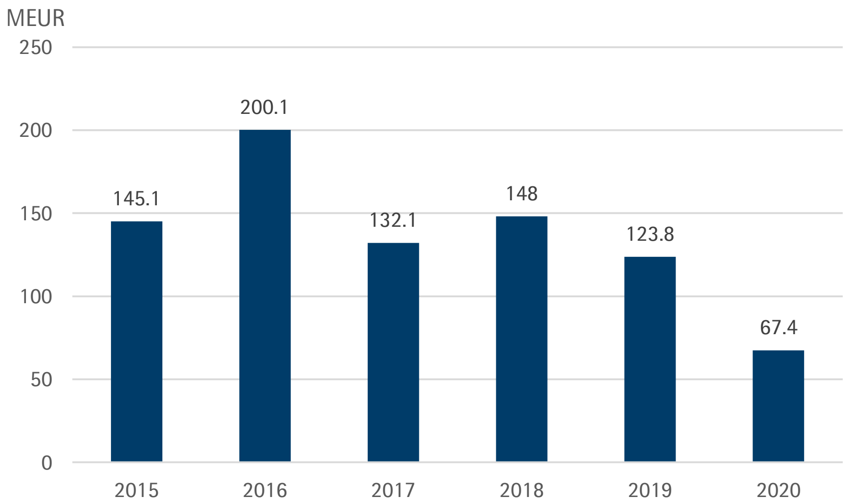


Source: Eltel

Eltel nearly halved its net debt in 2020

Eltel's focus has been on reducing the company's net debt. Eltel has managed to reduce the net debt from EUR 200.1 million in 2016 to EUR 67.4 million in 2020. The efforts continued to be very successful in 2020 and the company nearly halved its net debt compared to 2019. Eltel's bank loan agreements also include financial covenants related to the maximum level of net debt.

Figure 16: Net debt development excluding IFRS 16 leasing liabilities



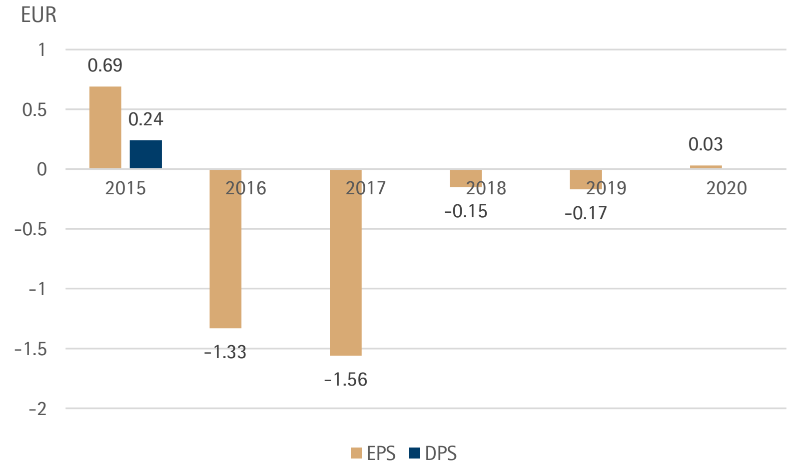
Source: Eltel

Dividend policy

Dividend has not been paid since 2015

According to Eltel's dividend policy, 50% of Eltel's consolidated net profit shall be paid in dividends over time (with flexibility in relation to the pay-out ratio), taking into account an initial capital structure defined as net debt in relation to recurring EBITDA of less than 3 (disregarding any temporary working capital movements). Net earnings have been negative in 2016-2019 and slightly positive in 2020. Thus, Eltel has not paid a dividend since 2015, when the company paid a dividend of EUR 0.24 per share.

Figure 17: Dividend and earnings per share



Source: Eltel

Guidance

2021 operative EBITA margin to increase compared to 2020

Eltel issued financial guidance for 2021 in connection with the Q4/2020 report and expects the full-year 2021 operative EBITA margin to increase compared to 2020.

Estimates

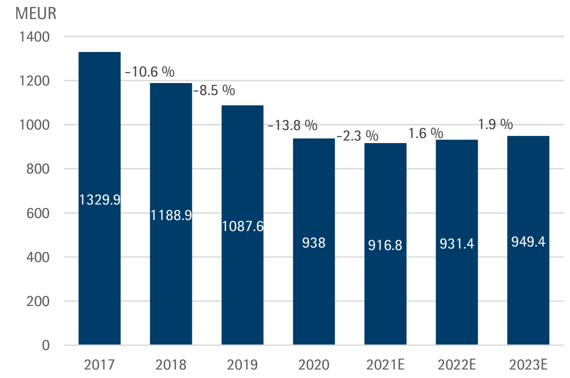
The main focus is on improving profitability in 2021

Eltel is currently in the midst of its turnaround journey and the main focus is on improving profitability and restructuring non-performing businesses. Thus, we expect that group net sales will continue to decrease by 2.3% to EUR 916.8 million in 2021. A cyclical nature of the business is likely to add volatility in net sales between quarters and a harsh winter in the Nordics is likely to reduce sales in Q1 and we expect to see higher revenues in the second half of the year. In 2021, we forecast Eltel to grow in Finland (+3.9% y/y), Denmark (+3% y/y), and Norway (+5.8% y/y) driven by 5G and fibre rollouts as well as important frame agreement orders announced in 2020. We estimate that the decline in 2021 sales will mainly be driven by Sweden and the Other business segment. In Sweden, we expect sales to decrease by 8.8% due to the continued work to ramp down operations, completion of several loss-making Power projects and lower investment levels by certain customers. The ramp-down of non-core businesses is going to continue in 2021 and we forecast the share of other business to be ~10% of group net sales.

We see the targeted growth rate of 2-4% in the Nordics achievable in 2022-23

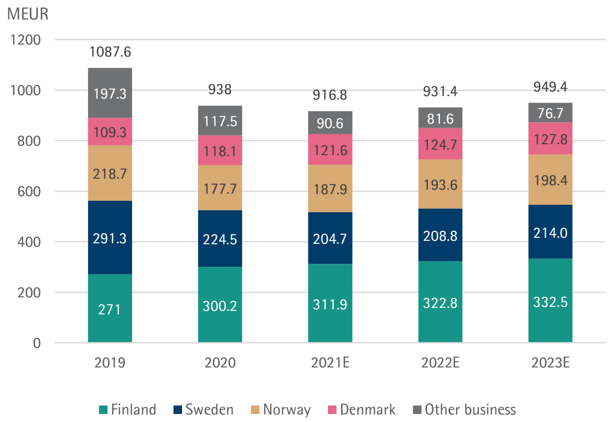
We expect Eltel's net sales to turn to growth in the second half of 2021 and we see the targeted growth rate of 2-4% in the Nordics achievable from 2022 onwards. In 2022-2023, we expect group revenue of EUR 931.4 million and EUR 949.4 million, respectively. Our estimated growth rates for 2022-2023 are 1.6% and 1.9%, reflecting steady 2-3.5% annual growth rates in the Nordic countries. We expect that the sales growth will be driven by the growing 5G demand in the Nordics as well as new frame agreements and contract expansions. In Finland, we also expect Power service and transmission market to support the positive development of net sales. The company is also open for selective M&As in the Nordics and we could see M&A activity in 2022-2023. We expect the share of other business to continue to decline as Eltel intends to focus on the Nordic markets.

Figure 18: Net sales and sales growth (%) 2017-2023E



Source: Evli Research, Eltel

Figure 19: Net sales estimates by segment 2019-2023E



Source: Evli Research, Eltel

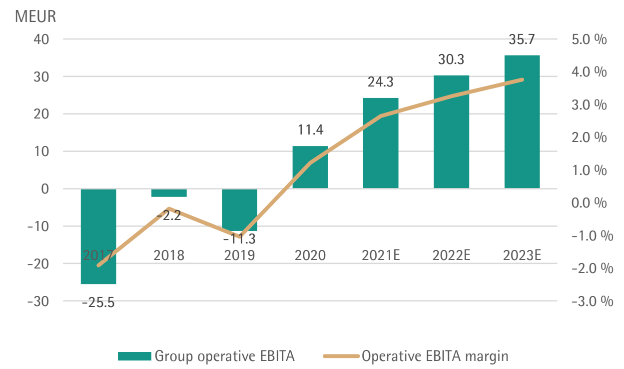
We expect profitability improve in 2021

Eltel has focused on improving operating profitability in line with the strategy and expects the full-year 2021 operative EBITA margin to improve compared to 2020. Eltel has continued to take measures to improve operational efficiency and its exposure to risky and unprofitable projects has reduced over the past couple of years. In line with the guidance, we forecast operative EBITA to increase to EUR 24.3 million (2.6% margin) in 2021. The Communication business is currently clearly more profitable than Power. We forecast profitability in Communication to improve further, but we also expect margin levels in Power gradually recovering as a result of improved productivity and ramp-down of loss-making projects.

Our operative EBITA estimate for 2023 is below Eltel's target level of 5%

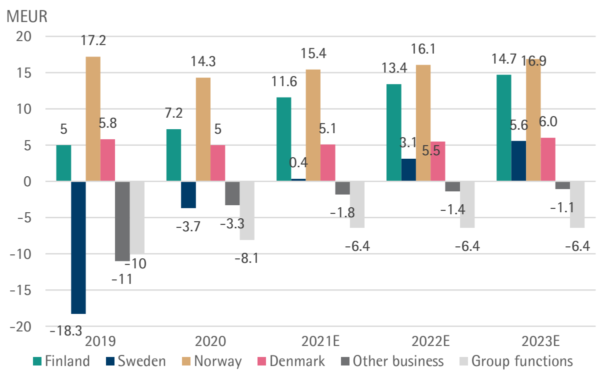
We believe that Eltel is well-positioned to continue delivering operational improvements and further improving its margins. Despite the right actions, we are more cautious in our profitability estimates compared to Eltel's 5% operative EBITA margin target by 2023. Our operative EBITA estimates for 2022-2023 are EUR 30.3 million (3.3% margin) and EUR 35.7 million (3.8% margin). In order to achieve an EBITA margin of 5%, the profitability of the Power business should improve significantly and closer to the margins of Communication, which we believe will take longer to achieve given the intensive competition in the Power market.

Figure 20: Operative EBITA and margin 2017-2023E



Source: Evli Research, Eltel

Figure 21: Operative EBITA by segment 2019-2023E



Source: Evli Research, Eltel

Interim figures	2016	2017	2018	2019	Q1'20	Q2'20	Q3'20	Q4'20	2020	Q1'21E	Q2'21E	Q3'21E	Q4'21E	2021E	2022E	2022E
Net sales	**1399.8**	**1329.9**	**1188.9**	**1087.6**	**236.6**	**245.5**	**226.7**	**229.2**	**938.0**	**209.9**	**232.7**	**237.8**	**236.3**	**916.8**	**931.4**	**949.4**
Finland				271	58.9	78.3	80.3	82.7	300.2	60.1	80.6	84.7	86.4	311.9	322.8	332.5
Sweden				291.3	63.1	59.7	50.9	50.8	224.5	50.5	50.7	51.7	51.8	204.7	208.8	214.0
Norway				218.7	47	46.9	42.1	41.7	177.7	45.6	48.1	48.4	45.9	187.9	193.6	198.4
Denmark				109.3	33.7	28.7	25.8	29.8	118.1	30.0	30.1	31.0	30.5	121.6	124.7	127.8
Other business				197.3	33.9	31.9	27.6	24.1	117.5	23.7	23.1	22.1	21.7	90.6	81.6	76.7
EBITDA	15.1	-13.4	5.1	29.7	7.3	32.7	15.6	7.3	63.0	10.2	15.4	18.8	16.9	61.4	67.2	72.4
Operative EBITA	**2.1**	**-25.5**	**-2.2**	**-11.3**	**-2.1**	**2.8**	**6.7**	**4**	**11.4**	**1.0**	**6.1**	**9.6**	**7.6**	**24.3**	**30.3**	**35.7**
Finland				5	-0.8	0.2	4.3	3.5	7.2	0.6	2.4	5.1	3.5	11.6	13.4	14.7
Sweden				-18.3	0.5	-1	-0.8	-2.4	-3.7	-0.5	0.2	0.3	0.4	0.4	3.1	5.6
Norway				17.2	2.1	4.1	4.1	4	14.3	2.1	4.2	4.7	4.4	15.4	16.1	16.9
Denmark				5.8	1.8	1.4	1	0.9	5	0.9	1.4	1.5	1.3	5.1	5.5	6.0
Other business				-11	-2.2	-0.1	-0.9	-0.1	-3.3	-0.5	-0.5	-0.4	-0.4	-1.8	-1.4	-1.1
Group functions				-10	-3.4	-1.7	-1.1	-1.9	-8.1	-1.6	-1.6	-1.6	-1.6	-1.8	-1.4	-1.1
D&A	-82.5	-171.2	-14.3	-40.9	-9.6	-9.6	-9.8	-9.2	-38.2	-9.5	-9.5	-9.5	-9.5	-37.9	-37.7	-37.5
EBIT	**-67.4**	**-184.6**	**-9.2**	**-11.2**	**-2.2**	**23.1**	**5.8**	**-1.9**	**24.8**	**0.8**	**5.9**	**9.4**	**7.4**	**23.5**	**29.5**	**34.9**
Sales growth %	*11.5 %*	*-5.0 %*	*-10.6 %*	*-8.5 %*	*-5.7 %*	*-11.1 %*	*-19.6 %*	*-17.8 %*	*-13.8 %*	*-11.3 %*	*-5.2 %*	*4.9 %*	*3.1 %*	*-2.3 %*	*1.6 %*	*1.9 %*
Finland									*10.8 %*	*2.0 %*	*3.0 %*	*5.5 %*	*4.5 %*	*3.9 %*	*3.5 %*	*3.0 %*
Sweden									*-22.9 %*	*-20.0 %*	*-15.0 %*	*1.5 %*	*2.0 %*	*-8.8 %*	*2.0 %*	*2.5 %*
Norway									*-18.7 %*	*-3.0 %*	*2.5 %*	*15.0 %*	*10.0 %*	*5.8 %*	*3.0 %*	*2.5 %*
Denmark									*8.1 %*	*-11.0 %*	*5.0 %*	*20.0 %*	*2.5 %*	*3.0 %*	*2.5 %*	*2.5 %*
Other business									*-40.4 %*	*-30.0 %*	*-27.5 %*	*-20.0 %*	*-10.0 %*	*-22.9 %*	*-10.0 %*	*-6.0 %*
EBITDA margin %	*1.1 %*	*-1.0 %*	*0.4 %*	*2.7 %*	*3.1 %*	*13.3 %*	*6.9 %*	*3.2 %*	*6.7 %*	*4.9 %*	*6.6 %*	*7.9 %*	*7.2 %*	*6.7 %*	*7.2 %*	*7.6 %*
Operative EBITA margin %	*0.2 %*	*-1.9 %*	*-0.2 %*	*-1.0 %*	*-0.9 %*	*1.1 %*	*3.0 %*	*1.7 %*	*1.2 %*	*0.5 %*	*2.6 %*	*4.0 %*	*3.2 %*	*2.6 %*	*3.3 %*	*3.8 %*
Finland				*1.8 %*	*-1.4 %*	*-5.2 %*	*1.1 %*	*-2.8 %*	*2.4 %*	*1.0 %*	*3.0 %*	*6.0 %*	*4.0 %*	*3.7 %*	*4.2 %*	*4.4 %*
Sweden				*-6.3 %*	*0.8 %*	*-1.7 %*	*-1.6 %*	*-4.7 %*	*-1.6 %*	*-1.0 %*	*0.3 %*	*0.5 %*	*0.9 %*	*0.2 %*	*1.5 %*	*2.6 %*
Norway				*7.9 %*	*4.5 %*	*8.7 %*	*9.7 %*	*9.6 %*	*8.0 %*	*4.5 %*	*8.8 %*	*9.7 %*	*9.7 %*	*8.2 %*	*8.3 %*	*8.5 %*
Denmark				*5.3 %*	*5.3 %*	*4.9 %*	*3.9 %*	*3.0 %*	*4.2 %*	*3.0 %*	*4.5 %*	*5.0 %*	*4.2 %*	*4.2 %*	*4.4 %*	*4.7 %*
Other business				*-5.6 %*	*-6.5 %*	*-0.3 %*	*-3.3 %*	*-0.4 %*	*-2.8 %*	*-2.0 %*	*-2.0 %*	*-2.0 %*	*-2.0 %*	*-2.0 %*	*-1.7 %*	*-1.4 %*
EBIT margin %	*-4.8 %*	*-13.9 %*	*-0.8 %*	*-1.0 %*	*-0.9 %*	*9.4 %*	*2.6 %*	*-0.8 %*	*2.6 %*	*0.4 %*	*2.5 %*	*3.9 %*	*3.1 %*	*2.6 %*	*3.2 %*	*3.7 %*

Valuation

BUY with a target price of SEK 30

For our valuation purposes, we consider peer group multiples and DCF valuation. Eltel is currently moving in the right direction thanks to a healthier balance sheet, better quality of the order book with a focus on stable Nordic countries and reduced risk-level of projects. In our view, Eltel has potential to improve its profitability and the margin improvement potential is not fully reflected in the current share price. We initiate coverage of Eltel with a BUY-rating and a target price of SEK 30.

There is further valuation upside if Eltel reaches its operative EBITA target of 5% by 2023

Our peer group for Eltel consists of seven publicly listed companies that provide installation and field services and have at least some presence in the Nordic countries: Transtema, Caverion, Bravida, Enersense International, Spie, Vinci, and Instalco. On our estimates for 2022-2023E, Eltel is currently trading at EV/EBITDA of 7.7x and 7x, which translate into discount of 11-14% to our peer group median. Our target price values Eltel at EV/EBITDA of 8.3x and 7.6x for 2022-2023E, which are still at ~7% discount to peer group, reflecting Eltel's lower profitability profile and as we look for more signs of further transformation progress. As our estimates for 2022-23E are below Eltel's targeted operative EBITA margin of 5% by 2023, this implies if Eltel manages to improve its margins faster than our expectations, there is further upside potential in valuation. With an operative EBITA margin of 5% and EV/EBITDA of 7.6x for 2023E, we estimate that the valuation could rise to approximately SEK 36-37, resulting in +33-37% upside to current share price.

DCF model implies a fair value of SEK 33

Our DCF model implies a fair value of SEK 33 per share with the assumption of long-term and terminal growth in line with the expected GDP development and a terminal EBIT-margin of 3.5%. If Eltel is able to reach and maintain the targeted operative EBITA level of 5%, there is further upside potential in our DCF model as well. However, we note that there are several risks factors that can have a negative impact on Eltel's performance. In our view, the most important risk factors include the pricing risk of the contracts, concentrated customer base, and unsuccessful project management.

Figure 22: Selected peer group table

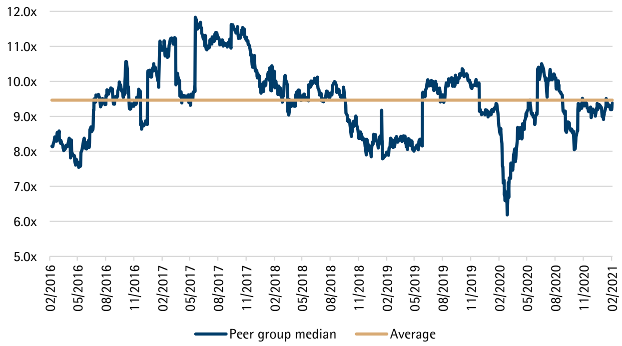
ELTEL PEER GROUP	MCAP MEUR	EV/EBITDA 21	EV/EBITDA 22	EV/EBITDA 23	EV/EBIT 21	EV/EBIT 22	EV/EBIT 23	P/E 21	P/E 22	P/E 23
Bravida Holding	2166	12.4x	11.6x	11.0x	16.1x	14.9x	14.2x	20.2x	18.6x	17.8x
Enersense International	75							10.5x	8.0x	9.0x
Caverion	723	6.9x	6.3x	5.7x	15.1x	11.8x	9.8x	18.1x	13.3x	10.7x
Instalco	1601	20.1x	18.8x	17.8x	23.7x	21.9x	20.6x	29.5x	27.0x	25.3x
Transtema Group	53	3.9x	3.5x	3.3x	12.3x	9.7x	8.3x	20.0x	14.4x	11.9x
VINCI	49677	10.3x	8.9x	8.5x	17.2x	13.8x	13.1x	19.8x	15.2x	13.9x
SPIE	2966	8.8x	8.5x	7.8x	12.2x	11.3x	11.0x	13.1x	11.9x	10.5x
Peer Group Average	8180	**10.4x**	**9.6x**	**9.0x**	**16.1x**	**13.9x**	**12.8x**	**18.7x**	**15.5x**	**14.2x**
Peer Group Median	1601	**9.5x**	**8.7x**	**8.1x**	**15.6x**	**12.8x**	**12.0x**	**19.8x**	**14.4x**	**11.9x**
Eltel (Evli est.)	**421**	**8.9x**	**7.7x**	**7.0x**	**23.2x**	**17.6x**	**14.5x**	**33.5x**	**23.2x**	**18.2x**
Eltel prem./disc. to peer median		*-7 %*	*-11 %*	*-14 %*	*48 %*	*37 %*	*21 %*	*69 %*	*60 %*	*53 %*

Source FactSet, Evli Research

ELTEL PEER GROUP	Sales 20	Sales gr. 21	Sales gr. 22	Sales gr. 23	EBITDA-% 21	EBITDA-% 22	EBITDA-% 23	Div. yield 21	Div. yield 22	Div. yield 23
Bravida Holding	2099	4.1%	4.2%	2.9%	8.5 %	8.6 %	8.9 %	2.6 %	2.8 %	2.8 %
Enersense International	139	61.7%	3.2%	3.0%	6.0 %	6.9 %	6.8 %	0.6 %	1.3 %	1.6 %
Caverion	2155	1.6%	3.7%	3.9%	6.2 %	6.6 %	7.1 %	3.0 %	3.8 %	4.5 %
Instalco	707	16.6%	6.9%	6.7%	10.5 %	10.5 %	10.4 %	1.0 %	1.1 %	1.2 %
Transtema Group	139	15.3%	3.0%	3.0%	10.0 %	10.7 %	11.2 %	0.0 %	0.0 %	0.0 %
VINCI	43234	8.4%	6.4%	1.9%	15.8 %	17.1 %	17.6 %	2.7 %	3.6 %	4.1 %
SPIE	6598	5.7%	3.5%	4.9%	7.7 %	7.7 %	8.0 %	3.0 %	3.3 %	2.7 %
Peer Group Average	**7867**	**16.2%**	**4.4%**	**3.8%**	**9.2 %**	**9.7 %**	**10.0 %**	**1.9 %**	**2.3 %**	**2.4 %**
Peer Group Median	**2099**	**8.4%**	**3.7%**	**3.0%**	**8.5 %**	**8.6 %**	**8.9 %**	**2.6 %**	**2.8 %**	**2.7 %**
Eltel (Evli est.)	**938**	**-2.3%**	**1.6%**	**1.9%**	**6.7 %**	**7.2 %**	**7.6 %**	**0.0 %**	**2.2 %**	**2.7 %**

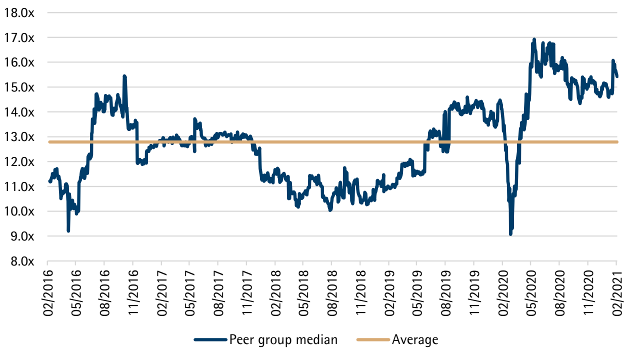
Source FactSet, Evli Research

Figure 23: Peer group historical 12m forward EV/EBITDA



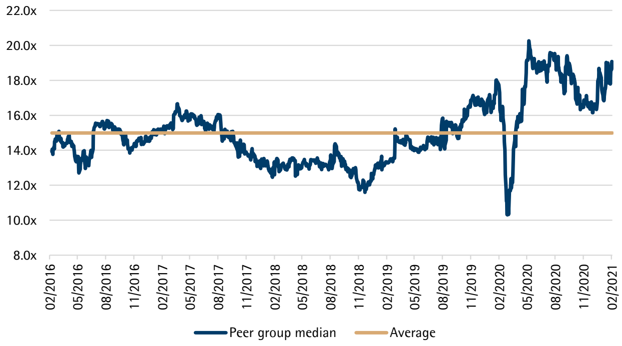
Source: Factset, Evli Research

Figure 24: Peer group historical 12m forward EV/EBIT



Source: Factset, Evli Research

Figure 25: Peer group historical 12m forward P/E



Source: Factset, Evli Research

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price SEK	27.05	PV of Free Cash Flow	354	Long-term growth, %	1.0	Risk-free interest rate, %	2.25
DCF share value	3.34	PV of Horizon value	307	WACC, %	9.1	Market risk premium, %	5.8
Share price potential, %	24.1	Unconsolidated equity	-14	Spread, %	0.5	Debt risk premium, %	2.8
Maximum value	3.6	Marketable securities	26	Minimum WACC, %	8.6	Equity beta coefficient	1.20
Minimum value	3.1	Debt - dividend	-151	Maximum WACC, %	9.6	Target debt ratio, %	20
Horizon value, %	46.5	Value of stock	523	Nr of shares, Mn	156.6	Effective tax rate, %	21

DCF valuation, EURm	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Horizon
Net sales	938	917	931	949	968	988	1,003	1,018	1,028	1,038	1,048	1,059
Sales growth, %	*-13.8*	*-2.3*	*1.6*	*1.9*	*2.0*	*2.0*	*1.5*	*1.5*	*1.0*	*1.0*	*1.0*	*1.0*
Operating income (EBIT)	25	23	29	35	37	39	40	41	36	36	37	37
Operating income margin, %	*2.6*	*2.6*	*3.2*	*3.7*	*3.8*	*3.9*	*4.0*	*4.0*	*3.5*	*3.5*	*3.5*	*3.5*
+ Depreciation+amort.	38	38	37	37	38	39	40	40	41	41	42	
EBITDA	63	61	67	72	75	77	80	81	77	78	78	
- Paid taxes	-6	-5	-6	-7	-8	-8	-8	-9	-8	-8	-8	
- Change in NWC	17	0	0	0	0	0	0	0	0	0	0	
NWC / Sales, %	*-2.0*	*-2.1*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	*-2.0*	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-4	-9	-10	-13	-12	-12	-12	-12	-12	-12	-13	
opCAPEX / Sales, %	*0.5*	*1.0*	*1.1*	*1.3*	*1.2*	*1.2*	*1.2*	*1.2*	*1.2*	*1.2*	*1.2*	
- Acquisitions	0	0	0	0	0	0	0	0	0	0	0	
+ Divestments	38	0	0	0	0	0	0	0	0	0	0	
- Other items	-17	0	0	0	0	0	0	0	0	0	0	
= FCFF	91	47	51	53	55	57	59	60	57	58	58	725
= Discounted FCFF		43	43	41	40	38	36	33	29	27	25	307
= DFCF min WACC		44	44	42	40	38	37	34	30	28	26	343
= DFCF max WACC		43	43	40	39	37	35	32	28	26	24	277

INTERIM FIGURES

EVLI ESTIMATES, EURm	2020Q1	2020Q2	2020Q3	2020Q4	2020	2021Q1E	2021Q2E	2021Q3E	2021Q4E	2021E	2022E	2023E
Net sales	236.6	245.5	226.7	229.2	938.0	209.9	232.7	237.8	236.3	916.8	931.4	949.4
EBITDA	7.4	32.7	15.6	7.3	63.0	10.2	15.4	18.8	16.9	61.4	67.2	72.4
EBITDA margin (%)	*3.1*	*13.3*	*6.9*	*3.2*	*6.7*	*4.9*	*6.6*	*7.9*	*7.2*	*6.7*	*7.2*	*7.6*
EBIT	-2.2	23.1	5.8	-1.9	24.8	0.8	5.9	9.4	7.4	23.5	29.5	34.9
EBIT margin (%)	*-0.9*	*9.4*	*2.6*	*-0.8*	*2.6*	*0.4*	*2.5*	*3.9*	*3.1*	*2.6*	*3.2*	*3.7*
Net financial items	-1.9	-3.1	-2.4	-2.4	-9.8	-1.8	-1.8	-1.8	-1.8	-7.4	-6.4	-5.5
Pre-tax profit	-4.1	20.0	3.4	-4.3	15.0	-1.1	4.0	7.5	5.6	16.1	23.1	29.4
Tax	-0.6	-6.0	-0.4	-2.7	-9.7	0.2	-0.9	-1.6	-1.2	-3.5	-4.9	-6.2
Tax rate (%)	*-15.4*	*29.7*	*11.1*	*-65.9*	*61.4*	*20.6*	*20.6*	*20.6*	*20.6*	*20.6*	*20.6*	*20.6*
Net profit	-4.6	14.0	2.6	-7.3	4.7	-0.9	3.2	5.9	4.4	12.6	18.2	23.1
EPS	-0.03	0.09	0.02	-0.05	0.03	-0.01	0.02	0.04	0.03	0.08	0.12	0.15
EPS adjusted (diluted no. of shares)	-0.03	0.09	0.02	-0.05	0.03	-0.01	0.02	0.04	0.03	0.08	0.12	0.15
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	0.07
SALES, EURm												
Finland	58.9	78.3	80.3	82.7	300.2	60.1	80.6	84.7	86.4	311.9	322.8	332.5
Sweden	63.1	59.7	50.9	50.8	224.5	50.5	50.7	51.7	51.8	204.7	208.8	214.0
Norway	47.0	46.9	42.1	41.7	177.7	45.6	48.1	48.4	45.9	187.9	193.6	198.4
Denmark	33.7	28.7	25.8	29.9	118.1	30.0	30.1	31.0	30.5	121.6	124.7	127.8
Other business	33.9	31.9	27.6	24.1	117.5	23.7	23.1	22.1	21.7	90.6	81.6	76.7
Total	236.6	245.5	226.7	229.2	938.0	209.9	232.7	237.8	236.3	916.8	931.4	949.4
SALES GROWTH, Y/Y %												
Finland	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*2.0*	*3.0*	*5.5*	*4.5*	*3.9*	*3.5*	*3.0*
Sweden	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-20.0*	*-15.0*	*1.5*	*2.0*	*-8.8*	*2.0*	*2.5*
Norway	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-3.0*	*2.5*	*15.0*	*10.0*	*5.8*	*3.0*	*2.5*
Denmark	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-11.0*	*5.0*	*20.0*	*2.2*	*3.0*	*2.5*	*2.5*
Other business	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-30.0*	*-27.5*	*-20.0*	*-10.0*	*-22.9*	*-10.0*	*-6.0*
Group	*-100.0*	*-100.0*	*-100.0*	*-100.0*	*-100.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Total	*-5.7*	*-11.1*	*-19.6*	*-17.8*	*-13.8*	*-11.3*	*-5.2*	*4.9*	*3.1*	*-2.3*	*1.6*	*1.9*
EBIT, EURm												
Group	-2.2	23.1	5.8	-1.9	24.8	0.8	5.9	9.4	7.4	23.5	29.5	34.9
Total	-2.2	23.1	5.8	-1.9	24.8	0.8	5.9	9.4	7.4	23.5	29.5	34.9
EBIT margin, %												
Total	*-0.9*	*9.4*	*2.6*	*-0.8*	*2.6*	*0.4*	*2.5*	*3.9*	*3.1*	*2.6*	*3.2*	*3.7*

INCOME STATEMENT, EURm	2016	2017	2018	2019	2020	2021E	2022E	2023E
Sales	1,399.8	1,329.9	1,188.9	1,087.6	938.0	916.8	931.4	949.4
Sales growth (%)	*11.5*	*-5.0*	*-10.6*	*-8.5*	*-13.8*	*-2.3*	*1.6*	*1.9*
EBITDA	15.1	-13.4	5.1	29.7	63.0	61.4	67.2	72.4
EBITDA margin (%)	*1.1*	*-1.0*	*0.4*	*2.7*	*6.7*	*6.7*	*7.2*	*7.6*
Depreciation	-13.1	-13.3	-12.2	-39.4	-37.4	-37.1	-36.5	-36.7
EBITA	2.0	-26.7	-7.1	-9.7	25.6	24.3	30.3	35.7
Goodwill amortization / writedown	-69.4	-157.9	-2.1	-1.5	-0.8	-0.8	-0.8	-0.8
EBIT	-67.4	-184.6	-9.2	-11.2	24.8	23.5	29.5	34.9
EBIT margin (%)	*-4.8*	*-13.9*	*-0.8*	*-1.0*	*2.6*	*2.6*	*3.2*	*3.7*
Reported EBIT	-67.4	-184.6	-9.2	-11.2	24.8	23.5	29.5	34.9
EBIT margin (reported) (%)	*-4.8*	*-13.9*	*-0.8*	*-1.0*	*2.6*	*2.6*	*3.2*	*3.7*
Net financials	-12.6	-12.3	-8.8	-11.5	-9.8	-7.4	-6.4	-5.5
Pre-tax profit	-80.0	-196.9	-18.0	-22.7	15.0	16.1	23.1	29.4
Taxes	-2.2	-7.7	-4.1	-2.4	-9.7	-3.5	-4.9	-6.2
Minority shares	-1.3	-0.7	-1.1	-0.8	-0.6	0.0	0.0	0.0
Net profit	-83.5	-205.3	-23.2	-25.9	4.7	12.6	18.2	23.1
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	144	75	75	105	59	57	57	59
Goodwill	420	287	282	264	265	264	263	263
Right of use assets	0	0	4	77	59	58	55	56
Inventory	8	10	13	15	12	12	12	12
Receivables	394	402	373	255	237	233	236	240
Liquid funds	85	33	53	65	26	25	26	26
Total assets	1,080	828	830	807	677	668	668	674
Liabilities								
Shareholder's equity	340	277	244	213	212	224	242	257
Minority interest	7	7	8	8	8	8	8	8
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	4	79	61	58	55	56
Deferred taxes	16	8	18	12	11	11	11	11
Interest bearing debt	284	164	197	185	90	76	57	44
Non-interest bearing current liabilities	358	293	293	233	230	224	228	232
Other interest-free debt	49	54	48	60	57	57	57	57
Total liabilities	1,080	828	830	807	677	668	668	674
CASH FLOW, EURm								
+ EBITDA	15	-13	5	30	63	61	67	72
- Net financial items	-13	-12	-9	-11	-10	-7	-6	-6
- Taxes	-2	-4	-3	1	-3	-3	-5	-6
- Increase in Net Working Capital	-10	-33	7	38	17	0	0	0
+/- Other	2	-3	3	-5	-17	0	0	0
= Cash flow from operations	-8	-65	3	51	49	50	56	61
- Capex	-13	-13	-19	-113	-13	-34	-33	-40
- Acquisitions	-20	-7	0	-4	0	0	0	0
+ Divestments	0	1	-3	14	38	0	0	0
= Free cash flow	-41	-84	-18	-52	74	16	23	21
+/- New issues/buybacks	-3	143	-9	-5	-6	0	0	0
- Paid dividend	-15	0	0	0	0	0	0	-9
+/- Other	56	-111	48	70	-107	-16	-22	-12
Change in cash	-3	-52	21	12	-39	-1	0	0

KEY FIGURES	2017	2018	2019	2020	2021E	2022E	2023E
M-cap	461	196	286	351	421	421	421
Net debt (excl. convertibles)	131	148	199	125	109	86	74
Enterprise value	604	349	494	488	544	520	507
Sales	1,330	1,189	1,088	938	917	931	949
EBITDA	-13	5	30	63	61	67	72
EBIT	-185	-9	-11	25	23	29	35
Pre-tax	-197	-18	-23	15	16	23	29
Earnings	-205	-23	-26	5	13	18	23
Equity book value (excl. minorities)	277	244	213	212	224	242	257
Valuation multiples							
EV/sales	0.5	0.3	0.5	0.5	0.6	0.6	0.5
EV/EBITDA	-45.1	68.5	16.6	7.8	8.9	7.7	7.0
EV/EBITA	-22.6	-49.2	-50.9	19.1	22.4	17.2	14.2
EV/EBIT	-3.3	-37.9	-44.1	19.7	23.2	17.6	14.5
EV/OCF	-9.3	109.1	9.6	9.9	10.8	9.3	8.3
EV/FCFF	-8.6	-49.7	8.0	5.4	11.6	10.2	9.7
P/FCFE	-5.5	-10.9	-5.4	4.7	267.8	185.7	200.7
P/E	-2.2	-8.4	-11.0	74.7	33.5	23.2	18.2
P/B	1.7	0.8	1.3	1.7	1.9	1.7	1.6

Per share measures							
Number of shares	156,561	156,649	156,649	156,649	156,649	156,649	156,649
Number of shares (diluted)	156,561	156,649	156,649	156,649	156,649	156,649	156,649
EPS	-1.31	-0.15	-0.17	0.03	0.08	0.12	0.15
Operating cash flow per share	-0.42	0.02	0.33	0.32	0.32	0.36	0.39
Free cash flow per share	-0.54	-0.11	-0.34	0.47	0.10	0.15	0.13
Book value per share	1.77	1.56	1.36	1.35	1.43	1.55	1.64
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.06	0.07
Dividend payout ratio, %	0.0	0.0	0.0	0.0	0.0	50.0	50.0
Dividend yield, %	0.0	0.0	0.0	0.0	0.0	2.2	2.7
FCF yield, %	-18.3	-9.2	-18.4	21.2	3.8	5.4	5.0
Efficiency measures							
ROE	-66.6	-8.9	-11.3	2.2	5.8	7.8	9.3
ROCE	-34.2	-2.0	-2.4	5.8	6.4	8.1	9.6
Financial ratios							
Inventories as % of sales	0.7	1.1	1.3	1.3	1.3	1.3	1.3
Receivables as % of sales	30.2	31.4	23.4	25.3	25.4	25.3	25.2
Non-interest bearing liabilities as % of sales	22.1	24.7	21.5	24.5	24.5	24.5	24.5
NWC/sales, %	5.7	4.9	2.4	-2.0	-2.1	-2.0	-2.0
Operative CAPEX/sales, %	1.0	1.6	10.4	1.4	3.7	3.5	4.2
CAPEX/sales (incl. acquisitions), %	0.5	1.6	10.0	1.4	3.7	3.5	4.2
FCFF/EBITDA	5.2	-1.4	2.1	1.4	0.8	0.8	0.7
Net debt/EBITDA, book-weighted	-9.8	28.9	6.7	2.0	1.8	1.3	1.0
Debt/equity, market-weighted	0.4	1.0	0.6	0.3	0.2	0.1	0.1
Equity ratio, book-weighted	36.4	32.4	28.5	34.0	36.4	39.3	41.1
Gearing, %	46.2	58.6	89.9	56.8	46.9	34.3	28.0

COMPANY DESCRIPTION: Eltel is the leading Nordic field service provider for critical infrastructure networks. The company offers a wide range of solutions from maintenance and upgrade solutions to project deliveries. Eltel's solutions include designing, planning, building, installing, and securing the operation of power and communication networks.

INVESTMENT CASE: Eltel is currently in the midst of its turnaround journey and the company has divested and ramped down non-core businesses to focus on its core markets, Power and Communication in the Nordics, where the business model is more stable and repetitive. Currently, the main focus is on improving profitability and restructuring non-performing businesses. From 2022 onwards, the company aims to invest in sustainable profitable growth.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Triton	25,683,845	69.014	16.4%
Wipunen varainhallinta Oy	19,900,000	53.472	12.7%
Fourth Swedish National Pension Fund	15,027,060	40.378	9.6%
Heikintorppa Oy	9,846,181	26.457	6.3%
Mariatorp Oy	9,300,000	24.990	5.9%
First Swedish National Pension Fund	9,177,250	24.660	5.9%
Fidelity International (FIL)	7,053,972	18.954	4.5%
Swedbank Robur Funds	6,366,148	17.106	4.1%
Mandatum Life Funds	2,789,819	7.496	1.8%
SEB Funds	2,485,180	6.678	1.6%
Ten largest	107,629,455	289.206	69%
Residual	49,019,626	131.718	31%
Total	156,649,081	420.924	100%

EARNINGS CALENDAR	
April 28, 2021	Q1 report
July 27, 2021	Q2 report
November 03, 2021	Q3 report
OTHER EVENTS	
May 05, 2021	AGM

COMPANY MISCELLANEOUS	
CEO: Casimir Lindholm	Adolfsbergsvägen 13, Bromma, Stockholm
CFO: Saila Miettinen-Lähde	Tel: +46 8 585 376 00
IR: Elin Otter	

DEFINITIONS

P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	**EPS** $\frac{\text{Profit before extraord. items and taxes– income taxes + minority interest}}{\text{Number of shares}}$
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity + taxed provisions per share}}$	**DPS** Dividend for the financial period per share
Market cap Price per share * Number of shares	**OCF (Operating cash flow)** EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value) Market cap + net debt + minority interest at market value – share of associated companies at market value	**FCF (Free cash flow)** Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales $\frac{\text{Enterprise value}}{\text{Sales}}$	**FCF yield, %** $\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	**Operative CAPEX/sales** $\frac{\text{Capital expenditure – divestments – acquisitions}}{\text{Sales}}$
EV/EBIT $\frac{\text{Enterprise value}}{\text{Operating profit}}$	**Net working capital** Current assets – current liabilities
Net debt Interest bearing debt – financial assets	**Capital employed/Share** $\frac{\text{Total assets – non-interest bearing debt}}{\text{Number of shares}}$
Total assets Balance sheet total	**Gearing** $\frac{\text{Net debt}}{\text{Equity}}$
Div yield, % $\frac{\text{Dividend per share}}{\text{Price per share}}$	**Debt/Equity, %** $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity + minority interest + taxed provisions}}$
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes – income taxes + minority interest}}$	**Equity ratio, %** $\frac{\text{Shareholders' equity + minority interest + taxed provisions}}{\text{Total assets – interest-free loans}}$
ROCE, % $\frac{\text{Profit before extraordinary items + interest expenses+ other financial costs}}{\text{Balance sheet total – non-interest bearing debt (average)}}$	**CAGR, %** Cumulative annual growth rate = Average growth per year
ROE, % $\frac{\text{Profit before extraordinary items and taxes – income taxes}}{\text{Shareholder's equity + minority interest + taxed provisions (average)}}$	

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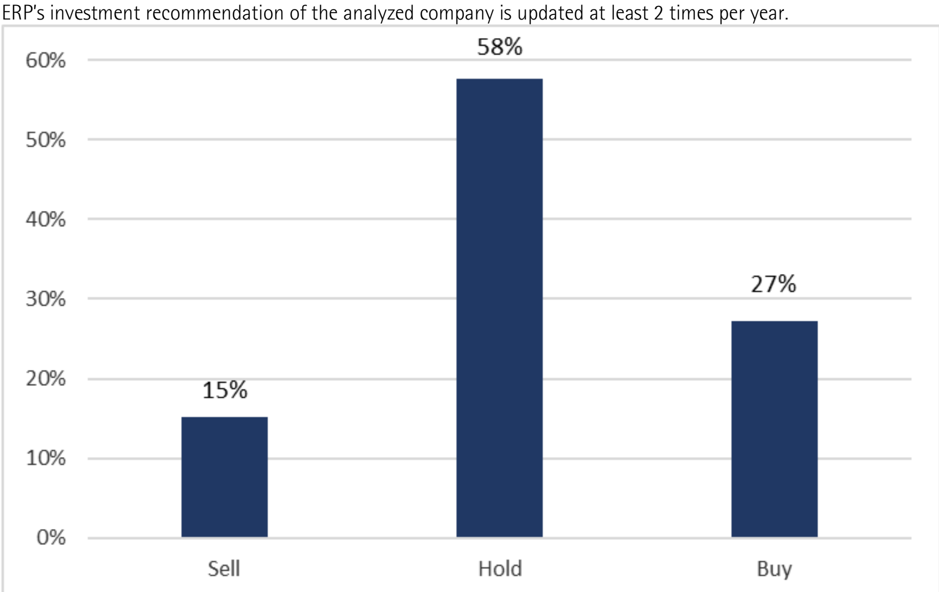
Evli Research Partners Plc ("ERP") uses 12-month target prices. Target prices are defined by utilizing analytical techniques based on financial theory including (but not limited to) discounted cash flow analysis and comparative valuation. The selection of valuation methods depends on different circumstances. Target prices may be altered on the basis of new information coming to light in the underlying company or changes in interest rates, changes in foreign exchange rates, other securities prices or market indices or outlook for the aforementioned factors or other factors that may change the conditions of financial markets. Recommendations and changes by analysts are available at Analysts' recommendations and ratings revisions.

Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

ERP's investment recommendation of the analyzed company is updated at least 2 times per year.



The graph above shows the distribution of ERP's recommendations of companies under coverage in 11th of May 2020. If recommendation is not given, it is not mentioned here.

Name(s) of the analyst(s): Reiman

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