Ignitis Group

Energy
September 10, 2024

Enlight Research

Baltics - Lithuania
Commissioned Research - Q2 2024 Update

Towards another solid year

Q2/24 adj. EBITDA beat our forecast and grew compared to last year, proving the resilience to higher interest rates and lower energy prices. The Company raised adj. EBITDA guidance and received reaffirmed BBB+ (stable outlook) credit rating. We reiterate our dividend forecast and Fair value with increased confidence.

Guidance raised

The Q2/24 adj. EBITDA grew 4.2% y-on-y to EUR 108m, which was 13.6% above our estimate. The 2024 adj. EBITDA guidance was raised to EUR 450-480m from EUR 440-470m (2.1-2.3% increase). We keep our already above guidance 2024 adj. EBITDA of EUR 490m implying EUR 200m adj. EBITDA in H2/24 vs. reported EUR 290m in H1/24.

Networks underpins EBITDA

The recently submitted investment plan indicate a 40% increase in investments vs. old investment plan, which in turn implies that RAB could double from EUR 1.6bn to EUR 3.2bn between 2024 to 2033. Assuming today's WACC (5.08%), we estimate Networks' adj. EBITDA to increase 74% from EUR 217 to EUR 378m between 2024 to 2033.

We reiterate fair value and dividends forecast

We leave our in-line with policy (+3%) dividend forecast of EUR 1.32/shr. indicating a yield of 7.1% (net 6.0%), which appears compelling given the risk profile (BBB+ reaffirmed credit rating) which is on par with European large cap utilities and superior to Baltic peers.

Key figures (MEUR)

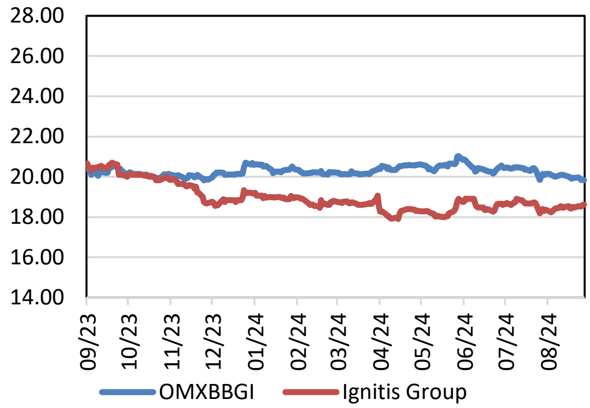
	2022	2023	2024E	2025E	2026E
Revenue	4,387	2,549	2,293	2,278	2,480
Revenue growth	131.1%	-41.9%	-10.1%	-0.7%	8.9%
Adj. EBITDA	469	485	490	500	566
Adj. EBITDA margin	10.9%	19.2%	21.4%	21.9%	22.8%
EBIT	388	352	387	354	414
EBIT margin	8.8%	13.8%	16.9%	15.5%	16.7%
EV/Sales	0.5	1.1	1.4	1.4	1.3
EV/adj. EBITDA	5.0	5.7	6.3	6.4	5.7
EV/EBIT	6.1	7.9	8.0	9.1	7.7
P/E adj.	4.4	4.2	4.5	5.2	4.4
P/BV	0.6	0.5	0.5	0.5	0.4
EPS	4.04	4.42	4.14	3.56	4.26
EPS growth	87.3%	9.4%	-6.4%	-13.9%	19.5%
Div. per share	1.24	1.29	1.32	1.36	1.40
Dividend yield*	6.6%	6.9%	7.1%	7.3%	7.5%

Source: Company data, Enlight Research estimates
*Pre-tax yield on EUR 18.62 share price for estimated years

Fair value range (EUR)	
Bull	32.83
Base	27.36
Bear	23.45

Key Data	
Price (EUR)	18.62
Ticker	IGN1L
Country	Lithuania
Listed	Vilnius (Lithuania)
Market Cap (EURm)	1,348
Net debt (EURm)	1,757
Shares (m)	72.4
Free float	25%

*End of 2024 estimate



Price range	
52-week high	20.70
52-week low	17.90

Analyst

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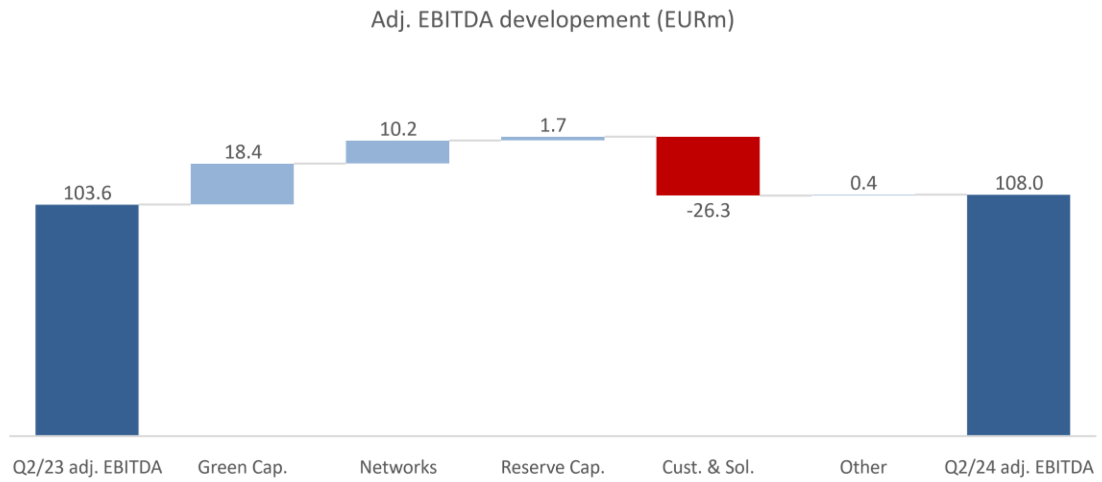
Coverage frequency

4x per year

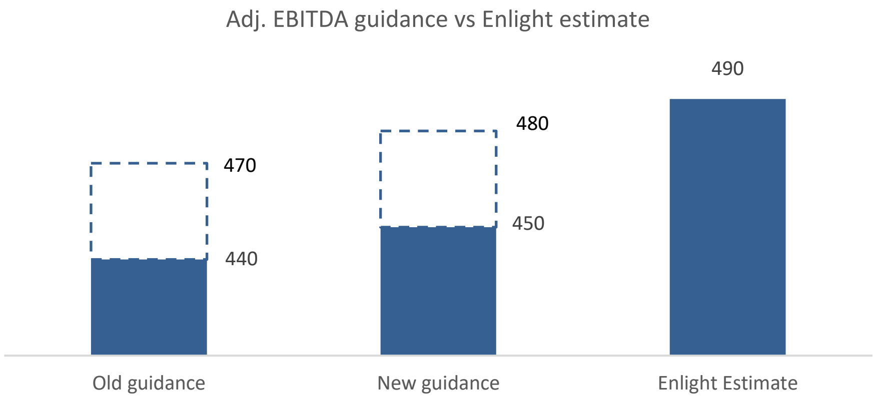
Key takeaways

Raised guidance proves business resilience

Ignitis Group Q2/24 adj. EBITDA of EUR 108.0m was 4.2% or EUR 4.4m higher than the Q1/23 adj. EBITDA of EUR 103.6m. The growth was mainly driven by the core segments Green Capacities (53% of Q2/24 adj. EBITDA) and Networks (46% of Q2/24 adj. EBITDA), while the Customer & Solutions segment partly offset the growth. The Green Capacities outperformed last year's adj. EBITDA by EUR 18.4m or 47.1% mainly because of additional installed capacity (Mažeikiai wind farm – 63 MW, Silesia wind farm I – 50 MW, and Vilnius CHP biomass unit – 73 MW) and higher captured prices. The Networks adj. EBITDA increase of EUR 10.2m or 25.5% was underpinned by a notable RAB (EUR 1,584m from EUR 1,429m) and WACC (5.08% from 4.14%) increase. The Customers & Solutions Q2/24 adj. EBITDA was negative EUR 5.5m i.e., EUR 26.3m below Q1/23, mainly due to lower results from the B2B natural gas supply business on normalized Cost of Goods Sold levels. The solid quarter prompted Ignitis Group to raise the 2024 adj. EBITDA guidance to EUR 450-480m from EUR 440-470m (2.1-2.3% increase). The Group’s H1/24 adj. EBITDA of EUR 289.7m makes up for 60% of the high-end guidance (EUR 480m) and 59% of reiterated Enlight Research's 2024 estimate (EUR 490m). We believe that Ignitis Group’s business will continue to show resilience to interest rate and electricity price movements in H2/24 allowing it to surpass its guidance.



Source: Company reports



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

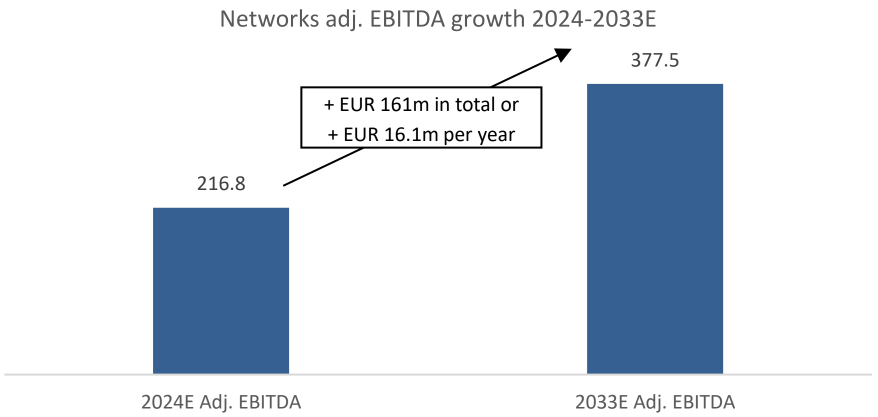
Networks will continue to drive adj. EBITDA

In July 2024 Ignitis Group submitted the 2024-2033 Networks investment plan to the regulator, NERC (National Energy Regulatory Council). The new plan foresees a 40% increase in investments to EUR 3.5bn from the previously submitted draft of EUR 2.5bn over the period of 2022-2031. The investments are set to increase the Networks segment's RAB (Regulatory Asset Base), which, together with the WACC (Weighted Average Cost of Capital), are the main factors affecting the Networks segment adj. EBITDA. In 2023, the Networks segment invested EUR 347m and for every EUR 1m invested, the RAB grew by EUR 0.45m. Using the same proportion for the planned EUR 3.5bn in investments, we estimate Ignitis Group's RAB to double from EUR 1.6bn to EUR 3.2bn between 2024 to 2033. Furthermore, we forecast the Depreciation increase from EUR 79m to EUR 158m between the same years. Assuming today's WACC of 5.08% on our estimated 2033 RAB, and roughly unchanged "additional component" and "fees from connections" the adj. EBITDA is estimated to increase from EUR 217m in 2024 to EUR 378m in 2033 (EUR 161m growth). To summarize, we believe the investments into the Networks segment will allow Ignitis to generate long-term shareholder value through steady adj. EBITDA growth.

Networks segment metrics	2024	2024-2033E	2033E
Investments (EURm)	347	3500	
RAB growth (EURm)	155	1564	
RAB/Investments	0.45	0.45	
RAB	1584		3148
D&A (regulatory)	79.3		158
D&A (regulatory)/RAB	0.05		0.05
WACC	5.08%		5.08%
RAB related adj. EBITDA	80.5		160
Additional component	40		40
Fees from connections	17		20
Total adj. EBITDA	**216.8**		**377.5**

(yellow)	Assumed values
(grey)	Calculated values

Source: Company reports, Enlight Research (estimations)



Source: Enlight Research

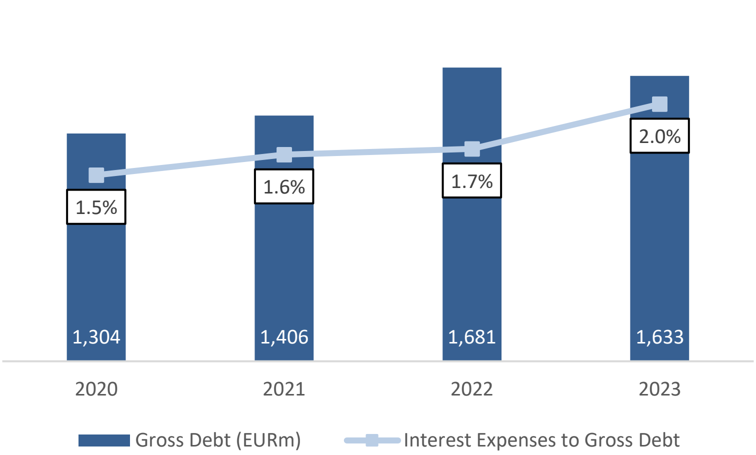
Industry-leading credit rating

In August 2024, S&P Global Ratings reaffirmed its BBB+ (stable outlook) credit rating on Ignitis Group. This puts Ignitis Group in the group of peers with the highest credit ratings. Among the Integrated Utilities peers, 5 out of 7 have a BBB+ rating while there is no BBB+ in the Renewable peer group, and only two in the Regulated Utility peer group (see the table below). The closest Baltic peer, Eesti Energia, has a BBB- i.e., two notches below Ignitis Group. The strong credit rating gives real advantages in the form of lower cost of financing, which is key given the substantial planned investments in the Green Generation and Networks segment (2024-2027 investment program of EUR 3-4b). A good credit rating and skillful interest rate hedging means Ignitis Group's interest expenses to gross debt increased to only 2.0% in 2023 from 1.7% in 2022 while the Eurozone base interest rate increased from 2.7% to 4.75% during the same period.

Company	Headquarters	BBB-	BBB	BBB+
ignitis group	Lithuania			
Integrated Utilities				
Endesa	Spain			
Enel	Italy			
Engie	France			
E.ON	Germany			
Iberdrola	Spain			
SSE	UK			
RWE	Germany			
Renewables				
EDP Renewables	Spain			
Orsted	Denmark			
Regulated Utilities				
Eesti Energia	Estonia			
National Grid	UK			
REN	Portugal			
Terna	Italy			
Italgas	Italy			

Source: Company websites

Interest expenses to gross debt 2020-2023



Source: Company reports

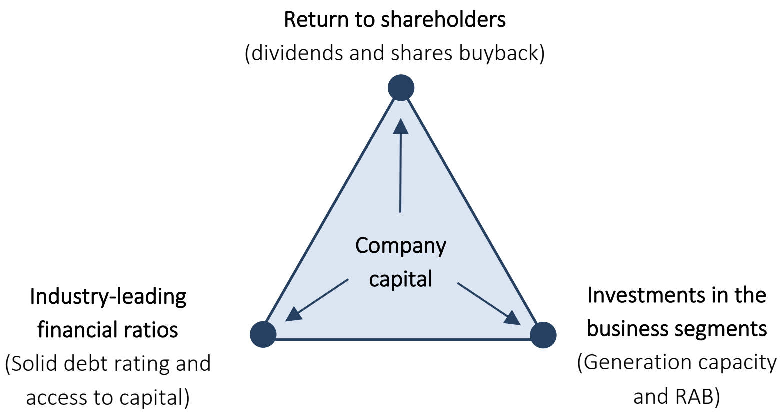
Dividends according to the policy

Ignitis Group continues to follow its dividend policy (3% annual dividend growth) and proposed to distribute a dividend of EUR 0.663 per share for H1/24. The proposed dividend implies a full-year 2024 dividend of EUR 1.32 per share (in line with our forecast), which is equal to a 7.1% pre-tax dividend yield (6.0% post-tax) based on the share price of EUR 18.62. We believe the company will continue to live up to its dividend policy in the forecast period 2025-2026, indicating dividend yields of 7.3% (6.2% net) in 2025E, and 7.5% (6.4% net) in 2026E (based on a share price of EUR 18.54). In our opinion, there could be room for more than 3% dividend growth, but the company must strategically balance shareholder returns, substantial investments, and solid credit ratings. At 3% dividend growth, Ignitis Group should be able to comfortably execute its long-term investment plan (securing increasing long-term returns) without jeopardizing its credit rating (see the illustration below). With this said, we believe there is room for more than 3% dividend growth once the Green Capacities assets portfolio reaches the company's targeted capacity size.

Dividend & yield	2022	2023	2024E	2025E	2026E
H1 dividend (EURm)	45.2	46.5	47.9	49.4	50.8
Growth y-on-y	3.2%	3.0%	2.9%	3.1%	3.0%
H2 dividend (EURm)	45.2	46.5	47.9	49.4	50.8
Growth y-on-y	3.1%	3.0%	2.9%	3.1%	3.0%
Total dividend paid (EURm)	**90.3**	**93.1**	**95.8**	**98.7**	**101.7**
Growth y-on-y	**3.2%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**
H1 dividend per share (EUR)	0.62	0.64	0.66	0.68	0.70
H2 dividend per share (EURm)	0.62	0.64	0.66	0.68	0.70
Total dividend per share (EUR)	**1.24**	**1.29**	**1.32**	**1.36**	**1.40**
Dividend growth	5.0%	3.0%	3.0%	3.0%	3.0%
Pre-tax dividend yield	6.6%	6.9%	7.1%	7.3%	7.5%
Post-tax dividend yield	5.6%	5.9%	6.0%	6.2%	6.4%
Share price (EUR)	19.02	18.84	18.62	18.62	18.62

Source: Company (historic), Enlight Research (estimates)

Integrated utility companies' capital allocation options



Source: Enlight Research

Valuation

Base case Fair value reiterated at EUR 27.36

Our Base case Fair value per share of EUR 27.36 is reiterated, implying an upside of around 47% based on the share price of EUR 18.62. Applying a motivated dividend yield of 6.00% on the long-term estimated Dividend per share of EUR 2.20 results in an undiscounted share price of EUR 36.67, which discounted by 5% for 6 years gives our Base case Fair value of EUR 27.36 per share. Our Bear case assumes a motivated yield of 7.00% and indicates a share price of EUR 23.45, while our Bull case assumes a yield of 5.00% which indicates a share price of EUR 32.83 (see next page for peer valuation).

Fair value/shr at different motivated div. yield based on 2030 dividend of EUR 2.20 per share

Motivated dividend Yield	Discount rate	Discounted Fair value per share (EUR)
4.00%	5.0%	41.04
4.50%	5.0%	36.48
5.00%	5.0%	32.83
5.50%	5.0%	29.85
6.00%	5.0%	27.36
6.50%	5.0%	25.26
7.00%	5.0%	23.45
7.50%	5.0%	21.89
8.00%	5.0%	20.52

Source: Enlight Research

Peer valuation

We believe Integrated Utilities is the best peer sub-group for Ignitis Group as it consists of companies with generation, distribution, and supply business segments. Based on the estimated 2024 EV/EBITDA multiple, the Ignitis Group share is trading at a discount of around 22% to the Integrated utilities peer group (5.5x vs. 6.7x for peers), despite having an estimated dividend yield that is better than the peer average (7.1% vs. 5.0% for peers). Given Ignitis Group's strong focus on renewable energy (Green Capacities typically make up 40-50% of the Group's total adjusted EBITDA), one could argue that Ignitis Group should trade more towards the Renewables peer group average, which has the highest EV/EBITDA multiple among our peer subgroups (11.2x vs 9.8x for Regulated utilities, and 6.7x for Integrated utilities). Compared to the regulated and renewable peer groups, Ignitis Group is trading at a discount of around 45%, and 56%, respectively, based on estimated EV/EBITDA 2024 (see peer table on next page).

Peer valuation	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2023	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBITDA 2026E	Div. yield 2023	Div. yield 2024E	Div. yield 2025E	Div. yield 2026E
Ignitis Group	IGN1L	EUR	18.62	1,357	2,784	5.5	5.5	5.6	5.0	6.9%	7.1%	7.3%	7.5%

Integrated

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2023	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBITDA 2026E	Div. yield 2023	Div. yield 2024E	Div. yield 2025E	Div. yield 2026E
EDP	EDP	EUR	4.08	17,083	32,402	6.5	6.5	6.5	6.3	4.8%	4.9%	5.0%	5.0%
Endesa	ELE	EUR	19.53	20,677	31,465	8.3	6.3	6.2	6.0	5.1%	5.6%	6.2%	6.6%
Enel	ENEL	EUR	7.05	71,718	131,881	6.0	5.9	5.8	5.7	6.1%	6.4%	6.6%	6.8%
Engie	ENGI	EUR	15.98	38,916	68,409	4.6	4.8	4.9	5.0	8.9%	7.9%	7.1%	6.8%
E.ON	EOAN	EUR	13.43	35,481	73,172	7.8	8.2	8.1	7.7	3.9%	4.1%	4.3%	4.5%
Iberdrola	IBE	EUR	13.41	86,117	134,031	9.3	8.8	8.5	8.1	3.7%	4.3%	4.4%	4.7%
RWE	RWE	EUR	33.17	24,673	27,060	3.2	5.0	5.3	4.9	3.0%	3.3%	3.5%	3.8%
SSE	SSE	GBP	19.92	21,782	30,676	9.3	8.4	8.0	7.7	3.0%	3.2%	3.5%	3.5%
Average						**6.9**	**6.7**	**6.7**	**6.4**	**4.8%**	**5.0%**	**5.1%**	**5.2%**

Renewables

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2023	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBITDA 2026E	Div. yield 2023	Div. yield 2024E	Div. yield 2025E	Div. yield 2026E
EDP Renewables	EDPR	EUR	15.66	16,290	22,095	12.0	11.4	9.8	9.0	1.7%	1.2%	1.4%	1.6%
Neoen	NEOEN	EUR	38.84	5,908	9,712	20.5	17.9	13.6	11.5	0.4%	0.4%	0.5%	0.6%
Orsted	ORSTED	DKK	415	174,248	221,627	11.8	8.5	6.8	6.6	0.0%	3.8%	4.0%	3.3%
Enefit Green	EGR1T	EUR	2.95	779	1,195	11.3	9.2	7.3	5.9	3.6%	4.1%	5.3%	5.5%
Hidroelectrica	H2O	RON	120.60	54,246	58,580	7.1	8.7	9.0	9.0	10.4%	8.8%	8.5%	8.6%
Average						**12.5**	**11.2**	**9.3**	**8.4**	**3.2%**	**3.7%**	**4.0%**	**3.9%**

Regulated

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/EBITDA 2023	EV/EBITDA 2024E	EV/EBITDA 2025E	EV/EBITDA 2025E	Div. yield 2023	Div. yield 2024E	Div. yield 2025E	Div. yield 2026E
National grid	NG	GBP	10.35	41,072	84,679	11.3	11.3	10.4	9.3	5.7%	4.9%	5.2%	5.3%
Redeia Corp.	RED	EUR	17.45	9,442	14,417	9.6	10.8	10.3	9.3	5.7%	4.7%	4.7%	4.9%
REN	RENE	EUR	2.43	1,621	4,370	8.5	8.7	8.6	8.6	6.3%	6.2%	6.3%	6.3%
Italgas	IG	EUR	5.08	4,121	10,755	9.1	8.0	7.8	7.4	6.9%	7.4%	7.7%	8.3%
Terna	TRN	EUR	8.12	16,321	24,767	11.4	10.1	9.9	8.9	4.2%	4.5%	4.6%	4.8%
Average						**10.0**	**9.8**	**9.4**	**8.7**	**5.8%**	**5.6%**	**5.7%**	**5.9%**

Source: MarketScreener (consensus), Enlight Research (Ignitis Group)
Based on share prices on 9 September 2024

Estimate deviations

The most important reported line is the adjusted EBITDA as this is the main indicator for the dividends in our model. This is also the line where guidance is given. The Q2/24 Group adj. EBITDA of EUR 180m was 14% or EUR 13m above our forecast mainly due to the Green Capacities and Reserve Capacities segments. The Green Capacities segment Q2/24 adj. EBITDA was EUR 14.3m above our EUR 43.2m forecast while the Reserve Capacities segment Q1/24 adj. EBITDA was EUR 2.7m above forecast (profit of EUR 5.3m vs. estimated profit of EUR 2.6m). The Networks segment adj. EBITDA was EUR 1.4m above estimate while the Customers and Solutions segment was EUR 5.3m below estimate.

Forecast deviation table by Segment

Revenue by Segment (EURm)	Q2/24 Estimate	Q2/24 Outcome	Deviation EURm	%
Networks	123.8	155.8	32.0	25.9%
Green Capacities	70.8	86.8	16.0	22.7%
Reserve Capacities	26.1	19.2	-6.9	-26.5%
Customers and Solutions	212.0	218.8	6.8	3.2%
Revenue bef. Other segm./eliminations	**432.7**	**480.6**	**47.9**	**11.1%**
Other segments/eliminations	-32.2	-41.8	-9.6	29.8%
Revenue after Other segm./eliminations	**400.5**	**438.8**	**38.3**	**9.6%**

Revenue growth	Q2/24 Estimate	Q2/24 Outcome	Deviation EURm	%-pts
Networks	-4.7%	19.9%	nm	24.7
Green Capacities	10.9%	36.1%	nm	25.1
Reserve Capacities	-43.9%	-58.8%	nm	-14.9
Customers and Solutions	-15.9%	-13.2%	nm	2.7
Revenue bef. Other segm./eliminations	-12.1%	-2.4%	nm	9.7
Revenue after Other segm./eliminations	**-9.4%**	**-0.8%**	**nm**	**8.7**

Adjusted EBITDA by Segment	Q2/24 Estimate	Q2/24 Outcome	Deviation EURm	%
Networks	48.8	50.2	1.4	2.9%
Green Capacities	43.2	57.5	14.3	33.0%
Reserve Capacities	2.6	5.3	2.7	101.6%
Customers and Solutions	-0.2	-5.5	-5.3	2154.1%
Total adj. EBITDA bef. Other/eliminations	**94.4**	**107.5**	**13.1**	**13.9%**
Other segments/eliminations	0.6	0.5	-0.1	-22.3%
Total adjusted EBITDA after Other/eliminations	**95.0**	**108.0**	**13.0**	**13.6%**

Adjusted EBITDA margin by Segment*	Q2/24 Estimate	Q2/24 Outcome	Deviation EURm	%-pts
Networks	39.4%	31.2%	nm	-8.2
Green Generation	61.1%	66.2%	nm	na
Reserve Capacities	10.1%	27.7%	nm	17.5
Customers and Solutions	-0.1%	-2.5%	nm	-2.4
Total adjusted EBITDA	**21.8%**	**22.2%**	**nm**	**0.4**
Total adjusted EBITDA after Other/eliminations	**23.7%**	**24.5%**	**nm**	**0.7**

Source: Company reports (historical), Enlight Research (estimates)
*Adjusted EBITDA divided by Adjusted Revenues (might differ from company reported Adjusted EBITDA margin calculated due to different calculation method used)

Estimate changes

Our 2024 Group adj. EBITDA estimate remains unchanged at EUR 490m, which is 2.1% above the high end of EUR 450-480m guidance provided by the company. We adjusted our forecast by slightly increasing the Reserve Capacities' expected result (EUR 2m) and slightly decreasing the Customers & Solutions segment's expected result (EUR 2m) for 2024. Our 2025 Group adj. EBITDA increased by EUR 1m to EUR 500m, while our 2026 adj. EBITDA increased by EUR 1m to EUR 566m. The higher expected long-term adj. EBITDA is mainly related to Green Capacities generation portfolio growth and the planned investments into the Networks segment that will grow the RAB (allowed returns).

EBITDA estimate changes

Networks	2024E	2025E	2026E
Old estimate	217	222	231
New estimate	217	222	231
Change	0	0	0
Change (pct)	0.0%	0.0%	0.0%

Green Capacities	2024E	2025E	2026E
Old estimate	227	231	280
New estimate	227	231	280
Change	0	0	0
Change (pct)	0.0%	0.0%	0.0%

Reserve Capacities	2024E	2025E	2026E
Old estimate	31	28	30
New estimate	34	28	30
Change	2	1	1
Change (pct)	7.5%	2.2%	2.0%

Customers & Solutions	2024E	2025E	2026E
Old estimate	13	17	23
New estimate	11	17	23
Change	-2	0	0
Change (pct)	-15.5%	0.0%	0.0%

Group Adjusted EBITDA	2024E	2025E	2026E
Old estimate	490	499	565
New estimate	490	500	566
Change	0	1	1
Change (pct)	0.1%	0.1%	0.1%

Adj. EBITDA Guidance	2024E
Adj. EBITDA high	480
Adj. EBITDA mid	455
Adj. EBITDA low	450
Forecast	490
Diff to high	2.1%
Diff to mid	7.8%
Diff to low	9.0%

Source: Company (Guidance), Enlight Research (Forecast)

Forecast

Revenue per segment (IFRS reported)	Q1/24	Q2/24	Q3/24E	Q4/24E	2023	2024E	2025E	2026E
Networks	199	156	126	187	592	668	639	659
Green Capacities	114	87	77	73	343	351	372	462
Reserve Capacities	45	19	27	48	129	139	134	136
Customers and Solutions	353	219	227	434	1,647	1,232	1,230	1,320
Total Revenues bef. Other/elimin.	**710**	**481**	**457**	**742**	**2,710**	**2,389**	**2,374**	**2,577**
Other segments/eliminations	-57	-42	-10	12	-161	-96	-96	-96
Revenue after Other segm./eliminations	**654**	**439**	**446**	**754**	**2,549**	**2,293**	**2,278**	**2,480**

Segment revenue growth (IFRS reported)	Q1/24	Q2/24	Q3/24E	Q4/24E	2023	2024E	2025E	2026E
Networks	19.9%	20.0%	-2.9%	12.4%	-13.1%	12.8%	-4.4%	3.2%
Green Capacities	14.6%	36.1%	4.0%	-30.5%	-25.3%	2.4%	6.0%	24.2%
Reserve Capacities	207.6%	-58.8%	9.9%	11.6%	-46.6%	7.9%	-3.7%	1.6%
Customers and Solutions	-48.2%	-13.2%	-16.3%	-1.9%	-46.6%	-25.2%	-0.2%	7.3%
Total Revenues bef. Other/elimin.	**-26.1%**	**-2.4%**	**-8.5%**	**-2.0%**	**-39.3%**	**-11.8%**	**-0.6%**	**8.5%**
Revenue after Other segm./eliminations	**-29.6%**	**-0.8%**	**-5.2%**	**6.6%**	**-41.9%**	**-10.1%**	**-0.7%**	**8.9%**

Adjusted EBITDA by Segment	Q1/24	Q2/24	Q3/24E	Q4/24E	2023	2024E	2025E	2026E
Networks	66	50	47	62	180	217	222	231
Green Capacities	77	58	47	45	223	227	231	280
Reserve Capacities	20	5	3	5	50	34	28	30
Customers and Solutions	17	-6	-2	1	30	11	17	23
Total adjusted EBITDA bef. Other/eliminations	**180**	**108**	**95**	**113**	**483**	**488**	**497**	**564**
Other segments/eliminations	2	0	1	-1	2	2	2	2
Total adjusted EBITDA after Other/eliminations	**182**	**108**	**96**	**112**	**485**	**490**	**500**	**566**

Adjusted EBITDA margin by Segment	Q1/24	Q2/24	Q3/24E	Q4/24E	2023	2024E	2025E	2026E
Networks	31.7%	31.2%	36.9%	35.8%	37.5%	32.5%	34.7%	35.1%
Green Capacities	67.6%	66.2%	61.6%	61.1%	65.1%	64.6%	62.1%	60.6%
Reserve Capacities	44.8%	27.6%	12.3%	10.6%	38.9%	24.3%	21.1%	22.3%
Customers and Solutions	5.1%	-2.5%	-0.9%	0.2%	1.8%	0.9%	1.3%	1.7%
Total adjusted EBITDA	**25.6%**	**22.2%**	**20.8%**	**15.2%**	**18.0%**	**20.4%**	**20.9%**	**21.9%**
Total adjusted EBITDA after Other/eliminations	**28.1%**	**24.5%**	**21.6%**	**14.8%**	**19.2%**	**21.4%**	**21.9%**	**22.8%**

Income statement (EURm)	Q1/24	Q2/24	Q3/24E	Q4/24E	2023	2024E	2025E	2026E
Total Revenue & Other income	654	439	446	754	2,549	2,293	2,278	2,480
Purchase of electricity, gas for trade	-393	-253	-268	-508	-1,758	-1,422	-1,389	-1,488
Salaries and related expenses	-38	-42	-27	-42	-137	-149	-159	-174
Repair and maintenance expenses	-14	-17	-17	-17	-61	-64	-68	-74
Other expenses	-19	-22	-17	-31	-86	-89	-91	-99
Total expenses	*-465*	*-334*	*-328*	*-598*	*-2,042*	*-1,724*	*-1,708*	*-1,835*
EBITDA	**189**	**105**	**118**	**156**	**507**	**569**	**569**	**645**
Adj. EBITDA	**182**	**108**	**96**	**112**	**485**	**490**	**500**	**566**
Depreciation and amortization	-41	-45	-47	-48	-153	-180	-214	-228
Write-offs, revaluations PP&E, Intang.	-1	0	-1	-1	-2	-2	-2	-2
EBIT	**148**	**60**	**71**	**108**	**352**	**387**	**354**	**414**
Financial net	*-8*	*-9*	*-12*	*-12*	*2*	*-41*	*-50*	*-51*
Pre-tax profit	**139**	**52**	**59**	**96**	**354**	**345**	**304**	**363**
Current year income tax (expenses)/benefit	-21	-2	-9	-14	-34	-46	-46	-55
Net profit (loss)	**119**	**50**	**50**	**81**	**320**	**300**	**258**	**308**

Segment revenue growth (IFRS reported)	Q1/24	Q2/24	Q3/24E	Q4/24E	2023	2024E	2025E	2026E
y-on-y	-29.6%	-0.8%	-5.2%	6.6%	-41.9%	-10.1%	-0.7%	8.9%

Margins	Q1/24	Q2/24	Q3/24E	Q4/24E	2023	2024E	2025E	2026E
EBITDA	28.9%	24.0%	26.5%	20.7%	19.9%	24.8%	25.0%	26.0%
EBIT	22.6%	13.8%	15.9%	14.3%	13.8%	16.9%	15.5%	16.7%
Pre-tax profit	21.3%	11.8%	13.2%	12.7%	13.9%	15.1%	13.3%	14.6%
Net profit	18.2%	11.3%	11.2%	10.8%	12.6%	13.1%	11.3%	12.4%

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

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 one of Ignitis Group's core business areas are set by the Lithuanian regulator, NERC, based on regulated assets and reasonable rate of return (WACC). The regulated assets base (RAB) depends on approved investments while the allowed rate of return (WACC) depends on the approved calculation method. Both values are reconsidered on an annual basis.

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.

Financing risk

To execute expansion plans the Company is using external financing sources such as bonds and bank loans. Changes in the financing environment (base interest rate or finance rating) could negatively impact the Company's financial performance.

Operational risk

Ignitis Group is operating complex energy generation and transmission assets that can be affected by various external forces (e.g. weather conditions). Disturbed assets could result in unplanned downtime or additional expenses.

Electricity price risk

The Green Capacities segment partially sells its electricity production on the unregulated market, and hence, the electricity market price has a significant impact on financial performance.

Commodities price risk

The Reserve Capacities segment's profitability is dependent on natural gas market price, moreover, commodity prices can influence power plants development costs. Higher commodity prices could result in lower Group's earnings and increased capital expenditures.

Dividend risk

If for whatever reason (large investments, weak financial performance, regulatory changes), the dividend growth is below our forecast, the forecast dividend yield will most likely be below our forecast.

Income Statement (EURm)	2022	2023	2024e	2025e	2026e
Total revenues	4,387	2,549	2,293	2,278	2,480
Total operating costs	-3,847	-2,042	-1,724	-1,708	-1,835
EBITDA	**540**	**507**	**569**	**569**	**645**
Depreciation	-138	-153	-180	-214	-228
Amortizations	0	0	1	2	3
Impairment charges	-14	-2	-2	-2	-2
EBIT	**388**	**352**	**387**	**354**	**414**
Associated companies'	0	0	0	0	0
Net financial items	-51	2	-41	-50	-51
Exchange rate differences	0	0	0	0	0
Pre-tax profit (PTP)	**337**	**354**	**345**	**304**	**363**
Net earnings	**293**	**320**	**300**	**258**	**308**

Balance Sheet	2022	2023	2024e	2025e	2026e
Assets (EURm)					
Cash and cash equivalent	694	205	185	183	200
Receivables	424	266	229	228	248
Inventories	570	275	284	282	308
Other current assets	333	282	282	282	282
Total current assets	**2,022**	**1,028**	**980**	**975**	**1,037**
Tangible assets	2,811	3,363	3,883	4,149	4,341
Goodwill & Other Intangibles	148	315	313	311	309
Long-term investments	6	6	6	6	6
Associated Companies	0	0	0	0	0
Other non-current assets	254	477	482	488	496
Total fixed assets	**3,218**	**4,160**	**4,684**	**4,954**	**5,152**
Deferred tax assets	31	57	57	57	57
Total assets	**5,272**	**5,244**	**5,720**	**5,986**	**6,245**
Liabilities					
Non-ib current liabilities	177	177	138	137	174
Short-term debt	213	70	83	88	88
Other current liabilities	692	414	414	414	414
Total current liabilities	**1,082**	**661**	**635**	**639**	**676**
Long-term IB debt	1,423	1,521	1,816	1,917	1,929
Convertibles & Lease liabilities	45	42	42	42	42
Other long-term liabilities	523	608	608	608	608
Total long-term liabilities	**1,991**	**2,172**	**2,467**	**2,567**	**2,580**
Total (liabilities)	**3,146**	**2,981**	**3,250**	**3,354**	**3,404**
Deferred tax liabilities	55	87	87	87	87
Provisions	18	61	61	61	61
Shareholders' equity	2,126	2,263	2,470	2,632	2,841
Minority interest (BS)	0	0	0	0	0
Total shareholders equity	2,126	2,263	2,470	2,632	2,841
Total equity & liabilities	**5,272**	**5,244**	**5,720**	**5,986**	**6,245**

DCF valuation		Cash flow (EURm)	
WACC (%)	8.08%	NPV FCF (2023-2025)	-156
		NPV FCF (2026-2032)	1,429
Assumptions 2022-2028 (%)		NPV FCF (2032-)	142
CAGR Sales growth	-6.0%	Non-operating assets	2,199
Average EBIT margin	13.9%	Interest-bearing debt	-1,633
		Fair value estimate	1,981
		Fair value per share (EUR)	27.36
		Share price (EUR)	18.62

Free Cash Flow (EURm)	2022	2023	2024e	2025e	2026e
Operating profit	293	320	387	354	414
Depreciation	138	153	182	216	231
Change in wc	-25	420	-13	3	-8
Other oper. CF items	158	-93	-51	-53	-62
Operating CF	**564**	**801**	**505**	**519**	**574**
CF from Investments	-456	-1081	-700	-480	-420
Other CF items	137	-209	0	0	0
Free Cash Flow	**17**	**-212**	**-195**	**39**	**154**

Capital structure	2022	2023	2024e	2025e	2026e
Equity ratio	40%	43%	43%	44%	45%
Debt/Equity	79%	72%	79%	78%	72%
Capital invested (EURm)	3,807	3,897	4,412	4,679	4,901

Profitability	2022	2023	2024e	2025e	2026e
ROE %	14.6%	12.7%	10.1%	11.3%	11.7%
EBITDA %	12.3%	19.9%	24.8%	25.0%	26.0%
EBIT %	8.8%	13.8%	16.9%	15.5%	16.7%
Net Margin	6.7%	12.6%	13.1%	11.3%	12.4%

Valuation (x)	2022	2023	2024e	2025e	2026e
P/E	4.4	4.2	4.5	5.2	4.4
P/E adjusted	4.8	4.2	4.5	5.2	4.4
P/Sales	0.5	0.6	0.6	0.5	0.5
EV/Sales*	0.5	1.1	1.4	1.4	1.3
EV/EBITDA*	5.5	5.5	5.6	5.0	4.1
EV/EBIT*	6.1	7.9	8.0	9.1	7.7
P/BV	0.6	0.5	0.5	0.5	0.4

*Estimated end of year Net debt used in EV calculation

Per share measures	2022	2023	2024e	2025e	2026e
EPS	4.04	4.42	4.14	3.56	4.26
EPS adjusted	4.04	4.42	4.14	3.56	4.26
CEPS	7.79	11.06	6.97	7.16	7.93
EBITDA/share	7.46	7.01	7.86	7.87	8.91
Capital empl./share	52.6	53.8	60.9	64.6	67.7
Div. per share	1.24	1.29	1.32	1.36	1.40
Payout ratio	31%	29%	32%	38%	33%
Dividend yield (%)	6.6%	6.9%	7.1%	7.3%	7.5%

Shareholders	
Ministry of Finance	74.99%
Institutional investors - other	15.09%
Retail invetors	9.92%

Key people	
CEO	Darius Maikštėnas
CFO	Jonas Rimavičius
Chief Organisational Development Officer	Dr. Živilė Skibarkienė
Chief Commercial Officer	Vidmantas Salietis
Head of Group Regulated Activities	Mantas Mikalajūnas

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 $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	**EAFI/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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