

Game of Politics

In the near-term, Tallink's fortune depends on the development and political responses to covid, as this will determine passenger demand. If the number of covid cases* per 100K inhabitants (cases) converge around twenty in the Baltic Sea region, travel restrictions become more a question of politics than covid prevention.

Finland is key

Estonia's number of cases is now on par with Sweden's (~20), yet travel restrictions to Sweden remain. We believe Estonia could lift restrictions to Sweden. This could lead to Finland re-instating restrictions on Estonia, but we see it as unlikely as this could jeopardize the future of Viking Line, and Eckerö Line. Ideal would be if Finland lifted restrictions on Sweden before Estonia (bit odd to have restrictions on Sweden but not Estonia when number of cases are the same). If this does not happen, we believe Estonia could open up to Sweden, which could trigger Finland to follow.

Tallink scenarios

Our Base and Bull case assume that both Estonia and Finland will open for travel to Sweden this year. Our Bull case also assumes an effective vaccine is ready before summer next year. Our Bear case assumes travel restrictions to Sweden remain leading to further capacity cuts. All scenarios assume a substantial loss this year, while next year contain significant differences at the profit line.

Key figures (MEUR)

	2018	2019	2020E	2021E	2022E
Net sales	949.7	949.1	484.0	581.4	696.0
Net sales growth	-1.8%	-0.1%	-49.0%	20.1%	19.7%
EBITDA	142.8	172.7	37.1	117.4	138.4
EBITDA margin	15.0%	18.2%	7.7%	20.2%	19.9%
EBIT	63.5	74.9	-63.1	18.9	40.4
EBIT margin	6.7%	7.9%	-13.0%	3.3%	5.8%
EV/Sales	1.2	1.2	2.3	1.8	1.7
EV/EBITDA	7.8	6.4	29.5	9.0	8.3
EV/EBIT	17.4	14.7	Nm	56.0	28.4
P/E	17.0	11.3	Nm	Nm	21.1
P/BV	0.8	0.7	0.6	0.6	0.6
EPS	0.06	0.07	-0.12	0.00	0.03
EPS growth	-13.87%	24.14%	nm	nm	nm
Div. per share	0.12	0.00	0.00	0.00	0.00
Dividend yield	11.82%	0.00%	0.00%	0.00%	0.00%

Source: Company data, Enlight Research estimates

Fair value range (EUR)

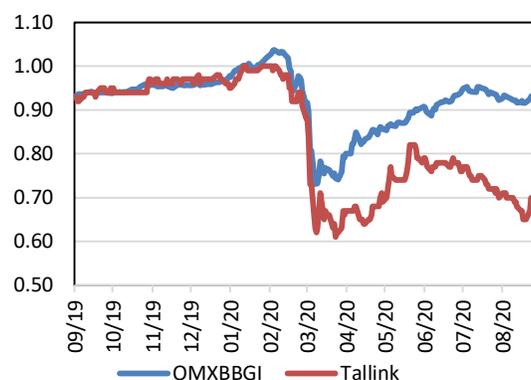
Bull term. EBIT margin 7.5%	1.25
Base term. EBIT marg. 7.0%	0.98
Bear term. EBIT marg. 6.5%	0.61

Key Data

Price (EUR)	0.68
Ticker	TAL1T
Country	Estonia
Listed	Tallinn

Market Cap (EURm)	456
Net debt (EURm)	642

Shares (m)	670
Free float	60.00 %



Price range

52-week high	1.00
52-week low	0.61

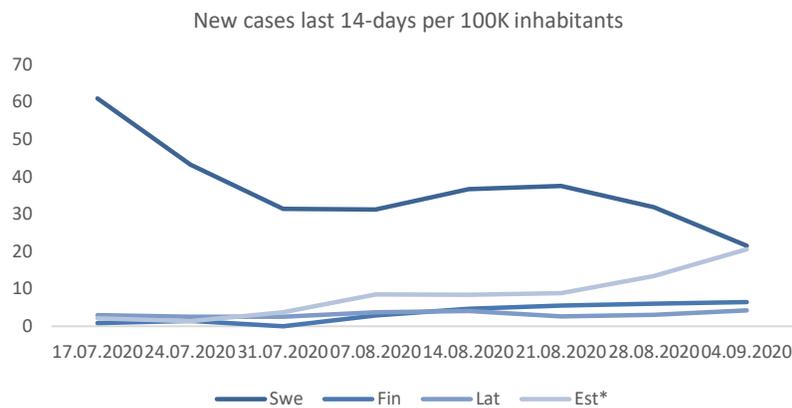
Analyst

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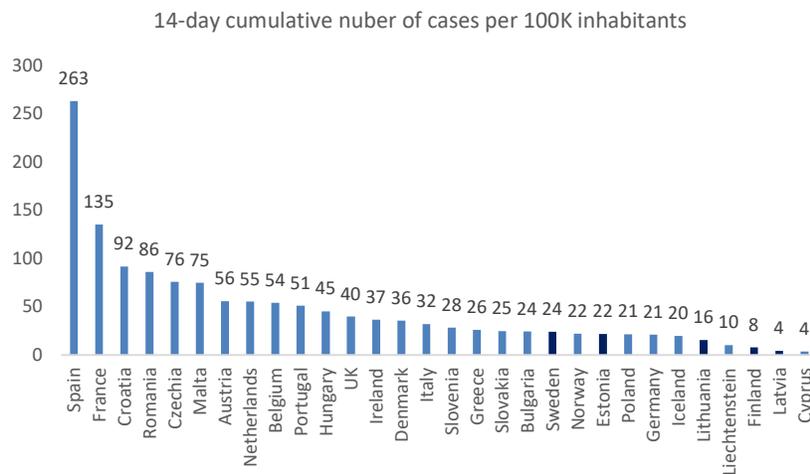
Covid statistics

Swedish and Estonian Covid cases converge around twenty

Since the last week of August, the Swedish and the Estonian new Covid cases per 100K inhabitants have converged around 20 with Swedish cases decreasing while Estonian cases are increasing. Meanwhile, the Finnish and the Latvian cases have only increased slightly. Given this situation, we believe Estonia is more inclined to lift travel restrictions to Sweden, which puts Finland and Latvia in front of the decision to reinstate travel restrictions to Estonia or lift restrictions to Sweden. We believe both Finland and Latvia will choose to lift restrictions to Sweden as the suffering due to isolation could be bigger than the suffering from Covid. From a European perspective, the Baltic Sea countries are all below the European average of 46.9 (median 30.2) in terms of number of cases (see chart below).



Source: Swedish Health Board, Estonian Health Board *Latest available figure for Estonia (8 Sep 2020)



Source: ECDC (10 Sep 2020), Average 46.9, Median 30.2

Forecast scenarios and Valuation

Main assumptions and DCF Fair value per share

We have three forecast scenarios, Bull (positive), Base (neutral), and Bear (negative). Our forecast sales, profit, pax, cargo, and DCF Fair value per share are based on the following two main assumptions: (1) status of travel restrictions among the Baltic countries, Finland and Sweden, and (2) status of a covid vaccine. Note that the uncertainty in all scenarios must be considered abnormally high, which is the reason for the rather wide range in the DCF Fair value per share. The easy way out would be to put estimates "Under review", but as the share is traded daily, we feel there is value in providing investors with different scenarios, despite the high forecast uncertainty. See table below for assumptions and DCF Fair value per share.

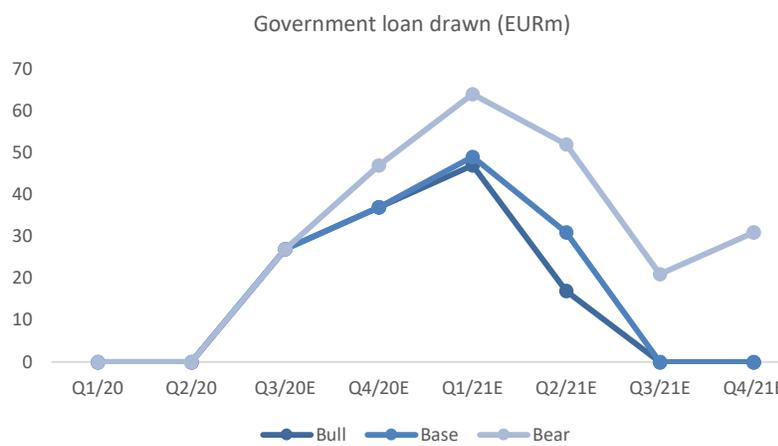
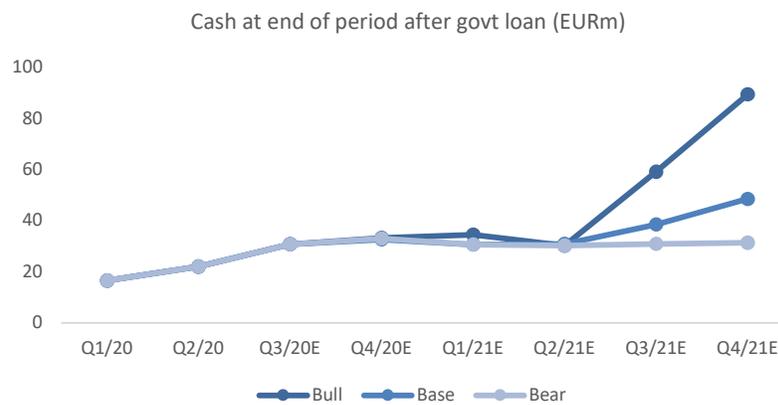
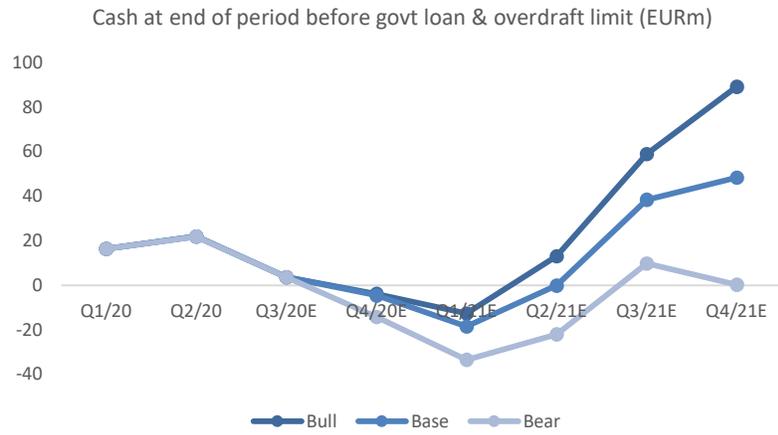
Scenario	Travel restrictions	Vaccine	PAX & Cargo	Sales & Profit	DCF value per share
Bull case	No restrictions among Baltic countries, Finland, and Sweden.	Effective vaccine before summer next year. People's fear of travel significantly reduced.	PAX 2020: -54% 4.5m 2021: +55% 7.0m 2022: +24% 8.7m Cargo 2020: -2.4% 370K units 2021: +2.3% 379K units 2022: +2.5% 388K units	Sales (EURm) 2020: -47% 487m 2021: +45% 703m 2022: +21% 847m Net profit (EURm) 2020: -80m 2021: 11m 2022: 31m	EUR 1.28
Base case	No restrictions among Baltic countries, Finland, and Sweden.	Somewhat effective vaccine before summer next year. People's fear of travel still present, but less compared to current situation.	PAX 2020: -54% 4.5m 2021: +24% 5.5m 2022: +24% 6.9m Cargo 2020: -2.4% 370K units 2021: +2.3% 379K units 2022: +2.5% 388K units	Sales (EURm) 2020: -49% 484m 2021: +20% 581m 2022: +20% 696m Net profit (EURm) 2020: -81m 2021: break-even 2022: 22m	EUR 0.98
Bear case	Baltic countries and Finland continue with restrictions on Sweden. Finland and Estonia continue to be open.	No effective vaccine before Covid dissipate according to its natural course, which is assumed to be 2 years i.e. Q1/22.	PAX 2020: -55% 4.4m 2021: +5% 4.6m 2022: +20% 5.5m Cargo 2020: -2.4% 370K units 2021: +2.3% 379K units 2022: +2.5% 388K units	Sales (EURm) 2020: -50% 475m 2021: +6% 502m 2022: +16% 582m Net profit (EURm) 2020: -91m 2021: -11m 2022: break-even	EUR 0.60

Source: Enlight Research

Liquidity forecast

Excluding the approved EUR 100m government loan that can be drawn in EUR 10-40m tranches in coming three years (3-maturity), our forecast Base case maximum cash deficit will be EUR 18m in Q1/21. The forecast Q1/21 cash deficit for our Bull, and Bear case are EUR 13m, and 33m, respectively. To keep the cash position around EUR 30m, which we believe is prudent, the estimated maximum government loan drawn is EUR 49m under our Base case. The corresponding figure for our Bull and Bear case is EUR 47m, and EUR 64m, respectively. Both our Base and Bull case assume

the government loan to be fully paid back in Q3 2021, while our Bear case assume it is fully paid back during the summer 2022. See charts below for an illustration of the cash balance and government loan drawn.



Source: Enlight Research

Risk factors

Below risks is not a complete list of all risks related to Tallink, but rather a list of risks that we view as the most important to highlight given the current environment.

Travel restrictions

If our assumption that travel restrictions will be lifted between the Baltic countries, Finland, and Latvia is wrong, then our Bull and Bear scenarios are too optimistic. Our Bear case scenario also assumes that the Estonia-Finland route will remain open, if this is not the case e.g. Finland re-impose restrictions on Estonia, then our Bear case forecast is too optimistic.

COVID-19 development

The uncertainty regarding Covid-19 is still very high. If the pandemic gets significantly worse and countries decide to shut down economies again, all our scenarios are most likely too optimistic. Furthermore, in our Bear case, we assume that Covid will dissipate in the beginning of 2022. If this is not the case, then our Bear case is too optimistic.

Liquidity

All our scenarios assume that an acute liquidity situation does not occur, partly due to the government loan. However, if our scenarios turn out to be too optimistic, then an acute liquidity situation cannot be excluded.

High unemployment

If COVID-19 leads to a prolonged high unemployment, it could affect people's ability to travel, although Tallink's might be a relative winner in this case as its leisure trips are cheaper compared to traditional farther away destinations.

Loan covenants

If for some reason, the banks would be less forgiving when it comes to loan covenants or amortization vacation, then the cash flow could be negatively affected.

Income Statement	2018	2019	2020E	2021E	2022E
Net sales	950	949	484	581	696
Total operating costs	-807	-776	-447	-464	-558
EBITDA	143	173	37	117	138
Depreciation	-73	-96	-93	-93	-92
Amortizations (total)	-6	-2	-7	-5	-6
Impairment charges	0	0	0	0	0
EBIT	64	75	-63	19	40
Associated companies' profit/loss	0	0	0	0	0
Net financial items	-19	-18	-18	-19	-19
Exchange rate differences	0	0	0	0	0
Pre-tax profit (PTP)	45	57	-81	0	22
Net earnings	40	50	-81	0	22

Balance Sheet	2018	2019	2020E	2021E	2022E
Assets					
Cash and cash equivalent	82	39	88	23	28
Receivables	44	38	10	23	28
Inventories	36	37	10	23	28
Other current assets	6	7	6	6	6
Current assets	168	121	113	76	90
Tangible assets	1268	1249	1242	1186	1298
Associated companies	0	0	0	0	0
Investments	33	78	85	37	205
Goodwill	11	11	11	11	11
O intangible rights	35	33	29	26	28
O non-current assets	0	2	3	3	3
Total non-current assets	1315	1394	1392	1336	1452
Deferred tax assets	18	19	19	19	19
Total (assets)	1501	1533	1524	1431	1560
Liabilities					
Short-term debt	79	89	70	97	114
Non-ib current liabilities	101	99	53	63	76
O current liabilities	33	33	0	0	0
Current liabilities	212	221	123	160	190
Long-term debt	432	387	552	419	495
O long-term liabilities	0	0	0	0	0
Convertibles	0	0	0	0	0
Total Liabilities	644	609	675	579	685
Deferred tax liabilities	0	0	0	0	0
Provisions	0	0	0	0	0
Shareholders' equity	857	823	742	742	763
Minority interest (BS)	0	0	0	0	0
Minority and equity	857	823	742	742	763
Total (liabilities)	1501	1533	1524	1431	1560

DCF valuation		Cash flow, mEUR	
WACC (%)	5.84 %	NPV FCF (2020-2022)	-68.94
		NPV FCF (2023-2029)	426.03
		NPV FCF (2030-)	841.03
		Non-operating assets	38.88
		Interest-bearing debt	-577.88
		Fair value estimate	659.12
Assumptions 2020-2026 (%)			
Average sales growth	10.22 %	Fair value e. per share (EUR)	0.98
EBIT margin	3.40 %	Share price (EUR)	0.68

Free Cash Flow	2018	2019	2020E	2021E	2022E
Net sales	950	949	484	581	696
Total operating costs	-807	-776	-447	-464	-558
Depreciations total	-79	-98	-100	-99	-98
EBIT	64	75	-63	19	40
Taxes on EBIT	-6	-10	0	0	0
NOPLAT	57	65	-63	19	40
Depreciation (neg.)	79	98	100	99	98
Gross cash flow	136	163	37	117	138
Change in wc	-16	2	-23	-17	3
Gross capex (neg.)	-36	-79	-89	-34	-207
Free cash flow	80	86	-75	66	-65

Capital structure	2018	2019	2020E	2021E	2022E
Equity ratio	57.1%	53.7%	48.7%	51.8%	48.9%
Debt / Equity ratio	59.5%	70.2%	98.4%	84.3%	94.5%
Capital invested	1284.9	1260.3	1275.9	1233.8	1344.7
Capital turnover rate	0.6	0.6	0.3	0.4	0.4

Profitability	2018	2019	2020E	2021E	2022E
ROE %	4.7%	5.9%	-10.4%	0.0%	2.9%
ROCE%	4.6%	5.4%	-4.4%	1.3%	2.8%
ROC%	4.4%	5.1%	-5.0%	1.5%	3.3%
EBITDA %	15.0%	18.2%	7.7%	20.2%	19.9%
EBIT %	6.7%	7.9%	-13.0%	3.3%	5.8%
Net Margin	4.2%	5.2%	-16.7%	0.0%	3.1%

Valuation	2018	2019	2020E	2021E	2022E
EV	1107.9	1101.7	1097.3	1057.9	1148.7
P/E	17.0	11.3	nm	nm	21.1
P/E diluted	17.0	11.3	nm	nm	21.1
P/Sales	0.7	0.6	0.9	0.8	0.7
EV/Sales	1.2	1.2	2.3	1.8	1.7
EV/EBITDA	7.8	6.4	29.5	9.0	8.3
EV/EBIT	17.4	14.7	nm	56.0	28.4
P/BV	0.8	0.7	0.6	0.6	0.6

Per share measures	2018	2019	2020E	2021E	2022E
EPS, unadjusted	0.06	0.07	-0.12	0.00	0.03
EPS	0.06	0.07	-0.12	0.00	0.03
CEPS	0.18	0.22	0.03	0.15	0.18
Operating CF/share	0.18	0.25	0.02	0.15	0.21
Capital empl./share	1.92	1.88	1.90	1.84	2.01
BV/share	1.28	1.23	1.11	1.11	1.14
Tangible BV/share	1.26	1.21	1.09	1.09	1.12
Div. per share	0.12	0.00	0.00	0.00	0.00
Payout	200.7%	0.0%	0.0%	0.0%	0.0%
Dividend yield	11.8%	0.0%	0.0%	0.0%	0.0%

Shareholders	Capital	Votes
Infortar AS	177.652	39.00 %
Baltic Cruises Hld, L.P.	73.333	16.10 %
ING LUX S.A. AIF Acct.	29.972	6.58 %
Baltic Cruises Inv. L.P.	25.114	5.51 %
Citi VC Int. G.P	9.418	2.07 %
Nordea Bank ABP / Finnish Clients	9.146	2.01 %
State Street Bank Omnibus Acct.	8.199	1.80 %
Nordea Bank ABP / Non-treaty clients	7.189	1.58 %
Clearstream Banking AG	6.643	1.46 %
Nordea Bank ABP / FDR	5.011	1.10 %

Key people

CEO	Paavo Nõgene
CFO	Joonas Joost
IR	Joonas Joost
Chairman	Enn Pant

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

Disclaimer

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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