Vaccine slowdown delays recovery

The Q2 report was above on Sales and below on earnings. The slowdown the Estonian vaccination rate delays the recovery and leads us to lower our estimates. The Cash flow was better than expected allowing banks to ask for an equity refill without causing liquidity worries.

Outlook weaker on slower vaccination rate

Q2 Sales were EUR 10m or 13% above forecast while Pre-tax Profit was EUR 5m or 25% below forecast. Due to the recent slowdown in the Estonian vaccination rate, we lower our Sales by 10-17% in the forecast period 2021-23, while our EBITDA is lowered by 26-54%. We still foresee positive EBITDA of EUR 22m this year and EUR 72m next year. We believe dividends can be resumed in 2024 (prev. 2023).

Banks asking for an equity refill

A EUR 31m share capital increase was announced (2 Aug), whereof EUR 15m is guaranteed by the main shareholder, Infortar. We believe the banks are satisfied with the guaranteed increase i.e., it is "ok" if the rest of the offer is not subscribed. However, we believe the Base offer will be fully subscribed which is reflected in our forecast.

Long-term view needed

The pandemic and the subsequent slow recovery mean Tallink investors needs to adopt a long-term view (peer multiple valuations are not feasible due to losses). Our Base caes DCF value per share is EUR 0.90 (0.94). A normalized EBITDA and EBITDA multiple indicates EUR 0.92 per share.

Key figures (MEUR)

	2019	2020	2021E	2022E	2023E
Net sales	949.1	442.9	400.0	477.1	611.0
Net sales growth	-0.1%	-53.3%	-9.7%	19.3%	28.1%
EBITDA	171.1	8.0	21.9	72.5	104.3
EBITDA margin	18.0%	1.8%	5.5%	15.2%	17.1%
EBIT	74.9	-92.6	-73.2	-23.2	5.8
EBIT margin	7.9%	-20.9%	-18.3%	-4.9%	1.0%
EV/Sales	1.3	2.6	2.8	2.7	2.1
EV/EBITDA	7.0	145.7	51.8	18.0	12.2
EV/EBIT	15.9	-12.7	-15.5	-56.3	218.3
P/E adj.	13.2	-4.6	-4.8	-10.8	-31.3
P/BV	0.8	0.7	0.7	0.7	0.7
EPS adj.	0.07	-0.16	-0.13	-0.06	-0.02
EPS growth adj.	24.14%	-318.23%	nm	nm	nm
Div. per share	0.00	0.00	0.00	0.00	0.00
Dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%

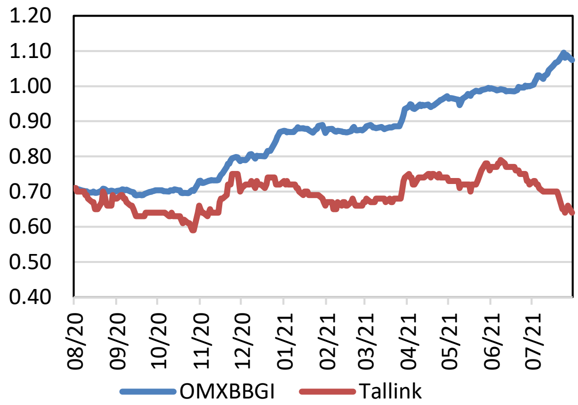
Source: Company data, Enlight Research estimates

Fair value range (EUR)

Bull (term. EBIT marg. 8%)	1.22
Base (term. EBIT marg. 7%)	0.90
Bear (term. EBIT marg. 6%)	0.57

Key Data

Price (EUR)	0.64
Ticker	TAL1T/TALLINK
Country	Estonia/Finland
Listed	Tallinn/Helsinki
Market Cap (EURm)	443
Net debt (EURm)	689
Shares (m)	692
Free float	60%



Price range

52-week high	0.79
52-week low	0.59

Analyst

ResearchTeam@enlightresearch.net

Key takeaways

Cash flow better than expected

Q2/21 was the second quarter in a row with better than expected cash flow. It is also the second quarter in a row without any drawn amount of the unused EUR 90m government loan facility (we expected EUR 15m to be drawn). The Q2/21 Operating cash flow was EUR 30m, much better than our estimate of EUR 5m. The main reason for the cash flow outperformance was a positive working capital release of EUR 26m. The Cash flow after Investments was EUR 27m vs. our forecast of zero, as investments were EUR 2m lower than expected (EUR 3m vs. est. EUR 5m). The Q2/21 Cash flow after financing was EUR 23m vs. our forecast of EUR 11m. The lower positive difference at the Cash flow after Financing level vs. Cash flow after Investment level was due to zero loans being drawn, which we regard as a positive. Cash at the end of Q2/21 was EUR 38m and unused credit facilities were EUR 79m leaving total available liquidity at the end of the period of EUR 117m. We believe this is sufficient to assume liquidity is no longer an urgent issue, especially given that the company has reached an agreement with banks to defer principal repayments until the end of Q1/22 i.e. until the high-season starts next year.

Cash flow & liquidity forecast

	Q2/21				
(EURm)	Estimate	Outcome	Diff	Diff%	Comment
Operating cash flow	**5**	**30**	**25**	**497%**	Driven by better than expected working capital
Investments	-5	-3	2	-38%	
Cash flow after investments	**0**	**27**	**27**	**nm**	Due to better than expected working capital and lower investments
EE & FI govt loans drawn*	15	0	-15	-100%	No additional govt loan drawn
Other Financing activities	-5	-4	1	-26%	
Cash flow after financing	**11**	**23**	**12**	**110%**	
Cash at beg. of period	**15**	**15**	**0**	**0%**	
Cash flow in period	11	23	12	110%	Cash flow more than double our forecast
Cash at the end of period	**25**	**38**	**13**	**51%**	
Unused credit facilities	67	79	12	18%	
Liquidity available at end of period	**92**	**117**	**25**	**27%**	

Source: Company reports (historical), Enlight Research (forecast), *Estonian government loan of EUR 100m through KredEx, Finnish state guarantee of EUR 90m for signed NIB loan of EUR 100m

Banks asking for an Equity Topup

From an overall perspective, the Baltic banks with the support/pressure from the governments, have been very amiable in this pandemic giving amortization vacations, and allowing covenant breaches. Meanwhile, the governments have supported with salary subsidies and government loans. As the pandemic starts to calm down, despite the Delta variant, we believe it becomes politically acceptable for banks to ask for an equity refill. We believe the main reason for Tallink's share capital increase announced on 2 August 2021 is the banks' desire for more equity margin as opposed to an urgent cash need. Tallink had EUR 117m (plus EUR 90m in undrawn State-backed loans) in available liquidity at the end of Q2/21 and did not have to draw any new loans. Furthermore, we believe the subscription guarantee by Tallink's largest shareholder, Infortar, of EUR 15m is the amount that the banks asked for i.e., the banks are "ok" if no more than EUR 15m is subscribed. We regard the risk that Infortar will not be able to live up to its guarantee as minimal as Infortar recently paid out a similar amount in dividends. To summarize, we believe the banks will get their requested minimum equity refill and continue to support Tallink in its recovery from the pandemic.

The share offering prospectus has yet to be released so there are some details we do not know yet e.g., how to subscribe for overallotment shares and shares not subscribed for under the pre-emptive rights. We also do not know how overallotment shares and unsubscribed base offer shares (if relevant) will be allocated. What we do know is that the Base offer consists of 66,988,204 shares (10% of outstanding shares) and the Oversubscription offer consists of 6,698,820 shares – both with a subscription price of EUR 0.47 per share. This means you need 10 shares to subscribe for 1 new share. The number of shares is rounded down i.e., 19 shares give you the right to buy 1 new share while 20 shares give you the right to buy 2 shares. Given the current share price of EUR 0.638, the implied subscription value of one current share is EUR 0.017 (0.638 – 0.470 = 0.168 divided by 10 = 0.017). Assuming the current share price holds up, it would make sense to subscribe. However, the big question is how the share will behave post record date (17 Aug 2021) when the existing shareholder right to subscribe for EUR 0.47 no longer applies. If a lot of shareholders decide to sell their existing shares thinking that they are happy owning the new shares they will buy at EUR 0.47, there could be downward pressure on the share. The second key date is when the new shares will be on the buyers' accounts. If a lot of people decide to sell the shares they bought at EUR 0.47 for a profit (assuming the market price is higher), then there could be pressure on the share. If on the other hand, most of the shareholders take a long-term view and keep their shares, the share could appreciate after the offer. It is of course impossible to say which of the aforementioned cases will happen, but we do believe there is a low risk that the share will go below the subscription price of EUR 0.47. In our forecast, we assume all Base offer shares are subscribed which means the weighted average number of shares is 692.2m in 2021 (assumes shares are issued in Sep.) and 736.9m in 2022 and beyond.

Key dates	
Last day to buy to participate in the offer	13-Aug
Record date	17-Aug
Subscription period	18 Aug - 1 Sep (including)

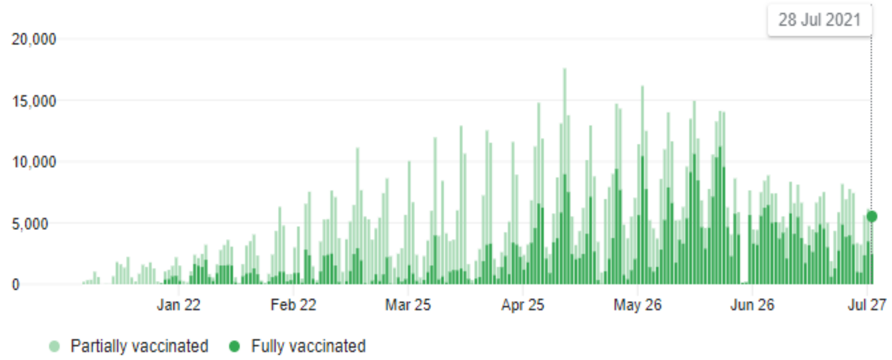
	Shares	Notional value (EUR)
Pre-offer total no of shares	669,882,040	314,844,559
Base offer	66,988,204	31,484,456
Oversubscription offer	6,698,820	3,148,445
Total shrs offered (m)	**73,687,024**	**34,632,901**
Issue price per share, accounting value (EUR)	0.47	
Infortar guarantee	31,914,894	15,000,000
Pct of Base offer	47.6%	47.6%
Pct of Total offer	43.3%	43.3%
Subscription right per share	1	
Total subscription rights	669,882,040	
Subscription rights needed to buy 1 share	10	
Base offer, new shares at full subscription	66,988,204	
Last price	0.64	
Subscription price	0.470	
In the money (+)/Out of the money (-)	0.168	
Shares needed to buy 1 share	10	
Subscription value per share	0.017	

Source: Tallink press release 2 Aug 2021, Enlight Research (In/Out the money, Subscription value per share)

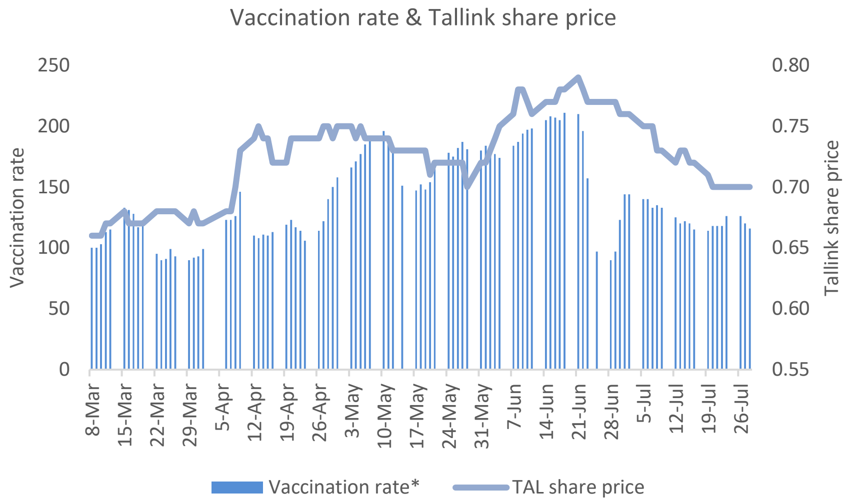
Looking for vaccination rate to increase

Following high vaccination rates in April – May with 7-day average rates of 10K for fully vaccinated and 20K for partially vaccinated, the rates have dropped significantly in June – July to roughly half. This could potentially slow down Estonia's road to normalcy (similar trend is NOT seen in Tallink's other home markets Finland and Sweden). In our opinion, there is a significant number of people in Estonia who do not believe in vaccines and hence the debate is more lively compared to e.g., Finland and Sweden. We take no strong view on whether vaccinating is right or wrong – we do however believe that the Tallink share price will be positively impacted if the vaccination rate picks up and vice versa. This is illustrated in the below chart where the Tallink share price has been following the 7-day average vaccination rate (except for the beginning of April when the share price increased in anticipation of an increased vaccination rate). Our Base case assumes that the vaccination rate will pick up.

Vaccination rate: Estonia (7-day average)



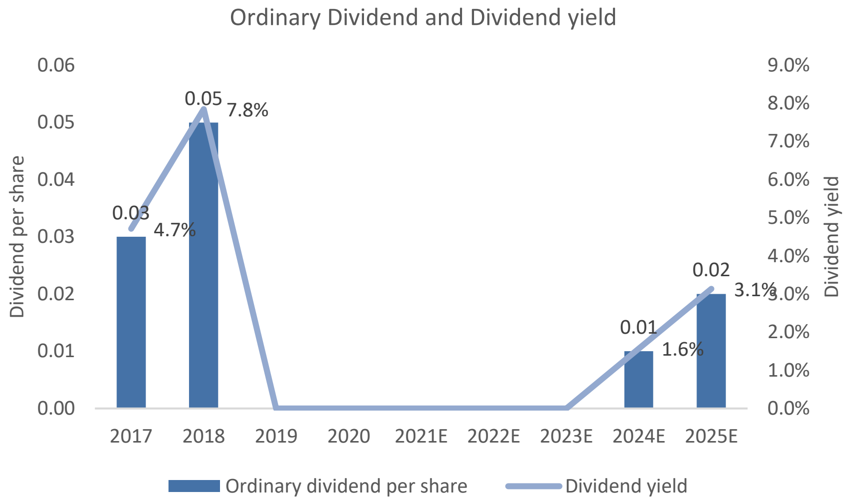
Source: Our World in Data



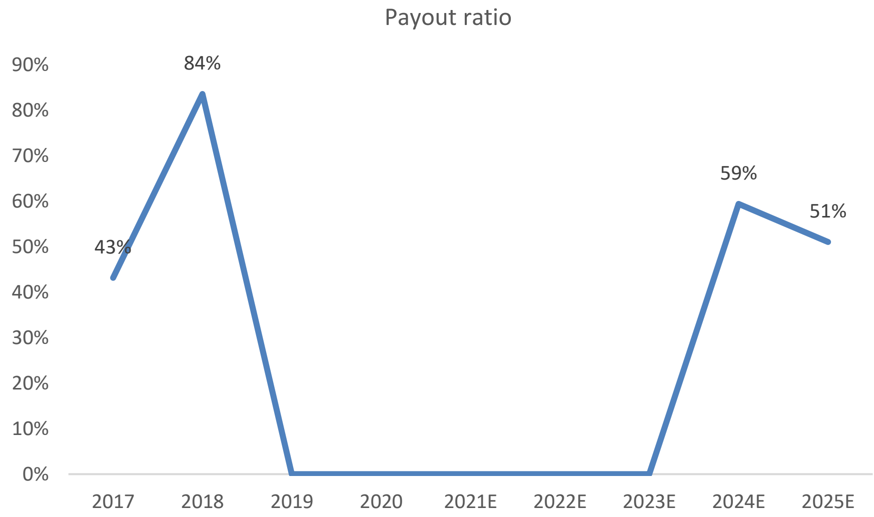
Source: Our World in Data (7-day average vaccination rate indexed from 1 Jan 2021), Nasdaq Baltic (TAL share price)

The Road back to Dividends

We do not factor in any dividends in the forecast period 2021-23E. This year, we forecast a Net loss of EUR 93m, and in 2022, and 2023, we forecast the Net loss to be reduced to EUR 44m, and EUR 15m, respectively. We estimate the total Net loss during the pandemic years (cost of the pandemic) 2020-23 to be EUR 260m. Worth noting is that we foresee a positive Free Cash Flow of EUR 64m in 2023 despite the estimated EUR 15m Net loss. We believe dividends can be resumed in 2024 when we forecast a Net profit of EUR 12m, and a dividend per share of EUR 0.01 (payout ratio 59%) to be followed by a Net profit of EUR 29m and a dividend per share of EUR 0.02 (payout ratio 51%) in 2025.



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



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

Estimate deviations

Sales deviations by segment

The Q2/21 Restaurant & shop sales were 24.9% above our forecast (EUR 40.0m vs. est. 32.0m). The Q2/21 Restaurant & shop y-on-y sales increase of 52.4% was higher than the Q2/21 y-on-y pax increase of 10.2% revealing an increase in spending per pax of 38.3% from EUR 67.61 to EUR 93.49.

The Q2/21 Ticket sales were 14.8% below our estimate (EUR 13.4m vs. est. of 15.7m). The Q2/21 Ticket sales increase of 3.9% y-on-y was lower than the corresponding pax increase of 10.2% as the average ticket price decreased by 5.7% from EUR 33.17 to EUR 31.29.

The Q2/21 Cargo sales came in 5.9% above our forecast (EUR 23.7m vs. est. 22.4m). The average revenue per cargo unit compared to Q2/20 remained at EUR 258.

Among the smaller revenue lines, lower Accommodation sales were offset by higher Other sales. The Leases of vessels of EUR 5.7m were more than double our forecast of EUR 2.5m, due to income from short-term leases of vessels (Victoria, Romantika) for the period July-September 2021.

Deviation by Segment

Segment Sales	Estimate Q2/21	Outcome Q2/21	Diff EURm	Diff % or bps
Restaurant & shop sales	32.0	40.0	8.0	24.9%
Growth	22.0%	52.4%	na	3038
Ticket sales	15.7	13.4	-2.3	-14.8%
Growth	22.0%	3.9%	na	-1807
Cargo sales	22.4	23.7	1.3	5.9%
Growth	0.0%	5.9%	na	594
Accommodation sales	0.8	0.1	-0.7	-81.7%
Growth	300.0%	-26.9%	na	-32687
Leases of vessels	2.5	5.7	3.2	126.4%
Growth	-0.1%	126.1%	na	12621
Other sales	2.5	3.2	0.6	24.4%
Growth	250.0%	335.4%	na	8536
Total revenue	**76.0**	**86.1**	**10.1**	**13.3%**
Growth (%)	17.0%	32.5%	na	1554

Source: Company reports, Enlight Research

Deviation for the Group

The Q2/21 Group sales of EUR 86.1m was 13.3% above our forecast of 76.0m, which was mainly due to higher Restaurant & shop sales. The Q2/21 EBITDA of EUR 4.4m was lower than our forecast EBITDA of EUR 9.3m. The Gross profit loss of EUR 8.7m was below our EUR 0.8m estimate. The Q2/21 Operating loss of EUR 19.4m was EUR 5.0m lower than forecast. The EUR 5m negative deviation continued down to the Net profit line (Net loss was EUR 24.3m vs. estimated Net loss of EUR 19.7m).

Deviation for Group

Income statement	Estimate Q2/21	Outcome Q2/21	Diff EURm	Diff % or bps
Revenue	**76.0**	**86.1**	**10.1**	**13.3%**
Cost of sales	-75.2	-94.8	-19.6	26.0%
Gross profit	**0.8**	**-8.7**	**-9.5**	**-1245.7%**
Marketing expenses	-6.1	-6.9	-0.8	13.9%
Administrative expenses	-10.3	-10.5	-0.2	1.9%
Other operating income	1.3	6.7	5.4	420.5%
Other operating expenses	-0.1	0.0	0.1	nm
Operating profit	**-14.4**	**-19.4**	**-5.0**	**34.9%**
Interest income	0.0	0.0	0.0	nm
Interest expense	-5.3	-5.2	0.1	-2.8%
Other financial items	0.0	0.0	0.0	na
Financial net	*-5.3*	*-5.2*	*0.1*	*-2.7%*
Pre-tax profit	**-19.7**	**-24.5**	**-4.9**	**24.8%**
Income tax	0.0	0.2	0.2	na
Net profit	**-19.7**	**-24.3**	**-4.7**	**23.7%**
EBITDA	**9.3**	**4.4**	**-4.9**	**-53.0%**

Growth	Estimate Q2/21	Outcome Q2/21	Diff EURm	Diff % or bps
Revenues	17.0%	32.5%	na	1554

Margins	Estimate Q2/21	Outcome Q2/21	Diff EURm	Diff % or bps
Gross profit margin	1.0%	-10.1%	na	-1111
EBITDA margin	12.2%	5.1%	na	-716
Operating profit margin	-18.9%	-22.5%	na	-361
Pre-tax profit margin	-25.9%	-28.5%	na	-263
Net profit margin	-25.9%	-28.3%	na	-238

Source: Company reports, Enlight Research

Forecast

Passenger (pax) forecast

We use the pre-pandemic year 2019 as a base when forecasting 2021 pax figures. For the full-year 2021, we forecast the number of pax to decline by 20% y-on-y to 3.0m, corresponding to 30% of 2019's pax level. Our expected pax recovery is tilted to the second half of the year with pax in relation to 2019's level gradually increasing from 15% in H1/21 to 43% in H2/21. For 2022E, we forecast the pax to increase by 25% followed by a 35% increase in 2023. Our pax forecast is very much dependent on the progress of the vaccine roll-out and related travel restrictions. We assume people with vaccine passports to be able to travel freely throughout H2/21.

Pax forecast

	Q1	Q2	Q3	Q4	H1	H2	Full-year
PAX 2019	1,855,772	2,651,843	2,974,790	2,280,805	4,507,615	5,255,595	9,763,210
PAX 2020	1,566,730	388,212	1,314,301	462,859	1,954,942	1,777,160	3,732,102
PAX 2020 chg y-on-y	-16%	-85%	-56%	-80%	-57%	-66%	-62%
PAX 2021E	267,224	427,767	1,202,349	1,072,414	694,991	2,274,764	2,969,755
PAX 2021E chg y-on-y	-83%	10%	-9%	132%	-64%	28%	-20%
PAX 2022E							3,702,923
PAX 2022E chg y-on-y							25%
PAX 2023E							4,999,481
PAX 2023E chg y-on-y							35%
PAX 2020 pct of 2019	84%	15%	44%	20%	43%	34%	38%
PAX 2021 pct of 2019	14%	16%	40%	47%	15%	43%	30%
PAX 2022 pct of 2019	na	na	na	na			38%
PAX 2023 pct of 2019	na	na	na	na			51%

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

Sales forecast by Segment

In Q3/21, we forecast a 5% y-on-y decline in the main revenue lines Restaurant & shop sales and Ticket sales, as the slowdown in the Estonian vaccine rate is affecting passenger numbers on the Estonian routes. In Q4/21, we forecast a pickup in both Restaurant & shop sales (+60% y-on-y) and Ticket sales (+71% y-on-y) driven by a pick-up in the Estonian vaccine rate. For the full-year 2021, we forecast a 15% decline in Restaurant & shops and Ticket sales, which can be compared to our estimated 2021 passenger decline of 20%.

Sales forecast by segment

(EURm)	Q1/21	Q2/21	Q3/21E	Q4/21E	2020	2021E
Restaurant & shop sales	20	40.0	74	60	228	194
Growth	*-76.8%*	*52.4%*	*-5.0%*	*60.1%*	*-57.4%*	*-15.0%*
Ticket sales	8	13	34	26	96	81
Growth	*-76.0%*	*3.9%*	*-5.0%*	*71.0%*	*-60.3%*	*-15.0%*
Cargo sales	22	24	24	24	94	93
Growth	*-21.6%*	*5.9%*	*5.0%*	*12.8%*	*-21.1%*	*-1.0%*
Accommodation sales	0.1	0.1	3.0	2.7	4	6
Growth	*-95.3%*	*-26.9%*	*100.0%*	*1020.8%*	*-75.0%*	*50.0%*
Leases of vessels	2.3	5.7	2.5	2.5	10	13
Growth	*-8.1%*	*126.1%*	*0.0%*	*1.5%*	*20.3%*	*30.0%*
Other sales	2	3	4	4	11	12
Growth	*-59.1%*	*335.4%*	*0.0%*	*52.7%*	*-61.8%*	*15.0%*
Total revenue	**54**	**86**	**141**	**119**	**443**	**400**
Growth (%)	*-65.3%*	*32.5%*	*-2.1%*	*50.7%*	-53.3%	-9.7%

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

Group forecast

For the upcoming Q3/21, we forecast a Group sales decline by 2.1% y-on-y with an EBITDA of EUR 12m and Net loss of EUR 17m. For Q4/21, we forecast Sales to increase by 51% y-on-y with an EBITDA of EUR 11m, which could feel counterintuitive given that Q4 is a low-season quarter. However, it is a result of vaccine passports restoring travel to a bit more normal levels (our Q4 pax estimate is still only 57% of 2019's level). On a full-year basis, we estimate 2021 Group sales to decline by 10% followed by a 19%, and 28% increase in 2022, and 2023, respectively. Our forecast 2023 Group sales of EUR 611m is still 36% below the 2019 sales of EUR 949m. We forecast a positive EBITDA each year in 2021-23. With regards to Net profits, we forecast a loss of EUR 93m this year, EUR 44m next year, and EUR 15m in 2023.

Interim forecast

Income statement (EURm)	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21	Q2/21	Q3/21E	Q4/21E	2020	2021E	2022E	2023E
Revenue	154.9	65.0	143.7	79.3	53.7	86.1	140.7	119.5	442.9	400.0	477.1	611.0
Cost of sales	-155.1	-86.9	-146.8	-97.7	-73.7	-94.8	-133.7	-117.8	-486.4	-420.0	-429.4	-519.3
Gross profit	**-0.2**	**-21.9**	**-3.0**	**-18.4**	**-20.0**	**-8.7**	**7.0**	**1.6**	**-43.5**	**-20.0**	**47.7**	**91.6**
Marketing expenses	-13.9	-7.3	-9.3	-7.3	-5.1	-6.9	-9.1	-7.3	-37.8	-28.4	-33.4	-42.8
Administrative expenses	-13.4	-9.6	-12.1	-13.3	-10.0	-10.5	-11.3	-9.1	-48.4	-40.8	-42.0	-48.9
Other operating income	1.5	16.1	4.7	15.0	5.0	6.7	2.0	2.3	37.3	16.0	4.8	6.1
Other operating expenses	0.0	-0.1	0.0	-0.2	0.0	0.0	0.0	0.0	-0.3	0.0	-0.3	-0.3
Operating profit	**-26.0**	**-22.7**	**-19.7**	**-24.2**	**-30.0**	**-19.4**	**-11.4**	**-12.5**	**-92.6**	**-73.2**	**-23.2**	**5.8**
Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expense	-4.1	-4.6	-4.2	-5.0	-4.7	-5.2	-5.2	-5.2	-17.8	-20.1	-20.5	-20.9
Other financial items	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	0.0
Financial net	*-4.1*	*-4.6*	*-4.2*	*-5.1*	*-4.7*	*-5.2*	*-5.2*	*-5.2*	*-18.0*	*-20.1*	*-20.5*	*-20.9*
Pre-tax profit	**-30.1**	**-27.3**	**-23.8**	**-29.3**	**-34.7**	**-24.5**	**-16.5**	**-17.6**	**-110.6**	**-93.3**	**-43.7**	**-15.1**
Income tax	-0.1	0.0	-0.1	*2.5*	0.2	0.2	0.0	*-0.4*	2.3	0.0	0.0	0.0
Net profit	**-30.2**	**-27.4**	**-23.9**	**-26.9**	**-34.4**	**-24.3**	**-16.5**	**-18.1**	**-108.3**	**-93.3**	**-43.7**	**-15.1**
Depreciation & Amortisation	24.8	25.2	25.4	25.4	23.7	23.8	23.8	23.9	100.7	95.1	95.7	98.5
EBITDA	**-1.3**	**2.4**	**5.7**	**1.2**	**-6.3**	**4.4**	**12.4**	**11.4**	**8.0**	**21.9**	**72.5**	**104.3**

Sales growth	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21	Q2/21	Q3/21E	Q4/21E	2020	2021E	2022E	2023E
Sales growth seq.	-31.6%	-58.1%	121.3%	-44.8%	-32.2%	60.2%	63.5%	-15.1%	na	na	na	na
Sales growth Y-on-Y	-13.4%	-74.6%	-50.0%	-65.0%	-65.3%	32.5%	-2.1%	50.7%	-53.3%	-9.7%	19.3%	28.1%
EBITDA growth	-133.2%	-95.2%	-93.2%	-96.4%	400.6%	80.4%	117.6%	862.2%	-95.3%	171.9%	231.5%	43.9%
Net profit growth	17.3%	-284.0%	-143.7%	-605.2%	15.7%	-12.5%	-30.7%	-33.1%	-317.5%	-14.0%	-53.2%	-65.4%

Margins	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21	Q2/21	Q3/21E	Q4/21E	2020	2021E	2022E	2023E
EBITDA	-0.8%	3.7%	4.0%	1.5%	-11.7%	5.1%	8.8%	9.6%	1.8%	5.5%	15.2%	17.1%
Gross margin	-0.1%	-33.7%	-2.1%	-23.2%	-37.2%	-10.1%	5.0%	1.4%	-9.8%	-5.0%	10.0%	15.0%
Operating margin	-16.8%	-35.0%	-13.7%	-30.5%	-55.8%	-22.5%	-8.1%	-10.4%	-20.9%	-18.3%	-4.9%	1.0%
PTP margin	-19.5%	-42.1%	-16.6%	-37.0%	-64.5%	-28.5%	-11.7%	-14.8%	-25.0%	-23.3%	-9.1%	-2.5%
Net profit margin	-19.5%	-42.1%	-16.6%	-33.9%	-64.1%	-28.3%	-11.7%	-15.1%	-24.5%	-23.3%	-9.1%	-2.5%

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

Estimate changes

We lower our sales estimate by 10-17% in the forecast period 2021-23, which is an effect of the pandemic dragging out longer than we originally expected due to the Delta variant and the slowdown in the Estonian vaccination rate. For 2021, our EBITDA is lowered by 54% or EUR 26m to EUR 22m while it is lowered by 44%, and 26% in 2022, and 2023, respectively. Our estimated Pre-tax loss is adjusted downward by EUR 26m this year, EUR 47m in 2022, and EUR 30m in 2023. Our EPS loss is lowered by EUR 0.03 this year, EUR 0.06 next year, and EUR 0.04 in 2023. We reiterate our forecast of zero dividends in 2021-22 and change our 2023 dividend forecast from EUR 0.02 to zero. We expect dividends to be resumed in 2024.

Estimate changes

Sales (EURm)	2021E	2022E	2023E
Old estimate	445	572	699
New estimate	400	477	611
Change (EURm)	-45	-95	-88
Change	-10.2%	-16.7%	-12.6%

EBITDA (EURm)	2021E	2022E	2023E
Old estimate	48	129	141
New estimate	22	72	104
Change (EURm)	-26	-57	-37
Change	-54.1%	-44.0%	-26.3%

Pre-tax profit (EURm)	2021E	2022E	2023E
Old estimate	-67.6	3.4	14.4
New estimate	-93.3	-43.7	-15.1
Change (EURm)	-26	-47	-30
Change	nm	nm	nm

EPS (EUR)	2021E	2022E	2023E
Old estimate	-0.10	0.01	0.02
New estimate	-0.13	-0.06	-0.02
Change (EUR)	-0.03	-0.06	-0.04
Change	nm	nm	nm

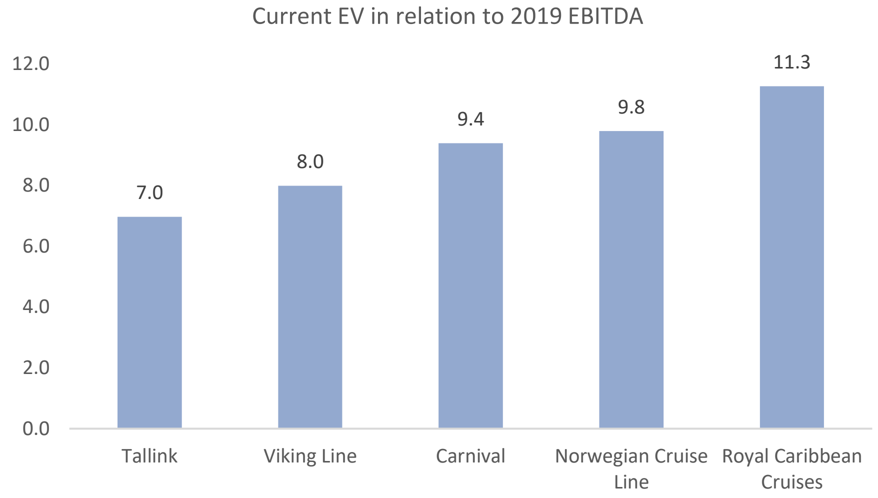
Dividend (EUR)	2021E	2022E	2023E
Old estimate	0.00	0.00	0.02
New estimate	0.00	0.00	0.00
Change (EUR)	0.00	0.00	-0.02
Change	na	na	-100.0%

Source: Company reports, Enlight Research

Valuation

Peer valuation

The pandemic has resulted in multiples for 2020 and 2021 becoming irrelevant or not possible to calculate due to losses – one of the reasons our Fair value is based on DCF. However, we can make some observations by looking at 2019 actual multiples and 2022 estimated multiples. Based on EV/EBITDA 2019 multiples, both Tallink and Viking Line are lower valued than the global cruise operators. Tallink's EV/EBITDA 2019 multiple of 7.0x indicates a 27% discount to the peer multiple of 9.6x. However, based on the 2022 EV/EBITDA multiple, Tallink is trading at a premium of 19% to the peer group. This is most likely a reflection of the slower vaccination rate in Estonia leading to a slower recovery. Worth noting is that the peers are not fully comparable as they are much bigger in terms of market cap and are long-haul cruise operators without cargo operations (except for Viking Line).



Source: Company reports, Based on price 3 May 2021

Cruise operators peer table

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	EV/Sales 2019	EV/Sales 2020	EV/Sales 2021E	EV/Sales 2022E	EV/Sales 2023E	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBITDA 2021E	EV/EBITDA 2022E	EV/EBITDA 2023E
Carnival	CCL	USD	22.80	25,780	51,064	2.5	9.1	19.1	2.9	2.4	9.4	neg	neg	12.3	8.3
Norwegian Cruise Line	NCLH	USD	25.45	9,415	18,954	2.9	14.8	17.5	3.1	2.5	9.8	neg	neg	13.1	8.2
Royal Caribbean Cruises	RCL	USD	80.56	20,508	38,186	3.5	17.3	16.0	3.7	3.1	11.3	neg	neg	13.6	9.7
Viking Line	VIK1V	EUR	17.00	184	320	0.6	1.7	1.4	0.7	na	8.0	neg	neg	21.3	16.0
Average						**2.4**	**10.7**	**13.5**	**2.6**	**2.6**	**9.6**	**neg**	**neg**	**15.1**	**10.6**
Tallink	TAL1T	EUR	0.64	441	1,131	1.3	2.6	2.8	2.7	2.1	7.0	nm	51.7	18.0	12.1

Source: MarketScreener, Enlight Research (Tallink, Viking Line), Based on price 10 August 2021

DCF valuation

Our Base case DCF model indicates a Fair value per share of EUR 0.90 (0.94). The corresponding value for our Bear and Bull case is EUR 0.57, and EUR 1.22, respectively. The only difference between our scenarios is our terminal EBIT margin which is 7.0% in our Base case and one percentage point lower/higher in our Bear/Bull cases. See tables below for DCF Fair value sensitivity.

DCF Valuation Scenarios	Bear	Base	Bull
WACC	5.3%	5.3%	5.3%
Terminal sales growth	3.0%	3.0%	3.0%
Terminal EBIT margin	6.0%	7.0%	8.0%
Fair Value per share	0.57	0.90	1.22

Source: Enlight Research

DCF Valuation sensitivity table

Sensitivity parameters	Current	Step	DCF Fair value sensitivity										
Equity beta	1.15	0.10	0.65	0.75	0.85	0.95	1.05	**1.15**	1.25	1.35	1.45	1.55	1.65
Fair value (DCF)	*0.90*		*1.87*	*1.59*	*1.37*	*1.18*	*1.03*	***0.90***	*0.79*	*0.69*	*0.60*	*0.53*	*0.46*
Target debt ratio (D/D+E)	62.8 %	2.0 %	53%	55%	57%	59%	61%	**63%**	65%	67%	69%	71%	73%
Fair value (DCF)	*0.90*		*0.48*	*0.55*	*0.62*	*0.70*	*0.79*	***0.90***	*1.02*	*1.16*	*1.33*	*1.52*	*1.76*
Riskfree interest rate	2.5 %	0.5 %	0.0 %	0.5 %	1.0 %	1.5 %	2.0 %	**2.5 %**	3.0 %	3.5 %	4.0 %	4.5 %	5.0 %
Fair value (DCF)	*0.90*		*1.95*	*1.64*	*1.40*	*1.20*	*1.04*	***0.90***	*0.78*	*0.68*	*0.59*	*0.51*	*0.44*

Source: Enlight Research

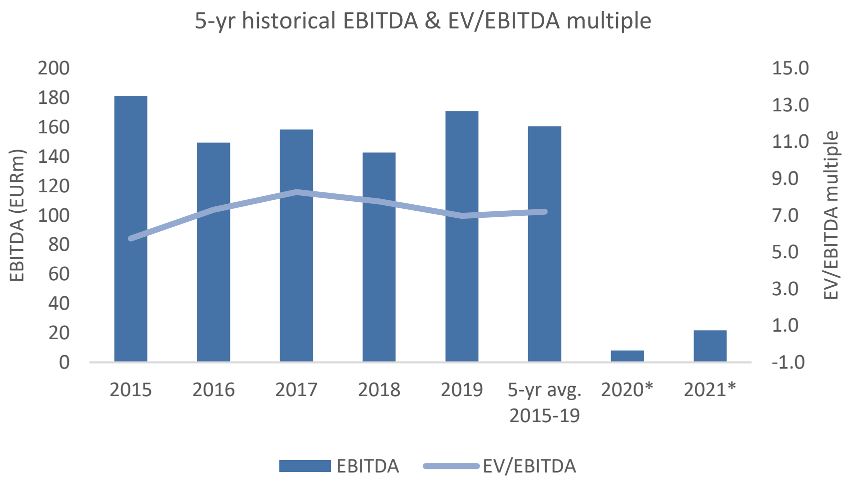
Valuation on normalized EBITDA

We need to look at pre-pandemic historical 5-year averages (2015-19) in order to get a normalized value of the company. During the pre-pandemic 2015-19 years, the average EBITDA was EUR 161m, which can be compared to the 2020 EBITDA of EUR 8m and our estimated 2021 EBITDA of EUR 22m. Applying the average 2015-19 EV/EBITDA multiple of 7.2x to the average EBITDA (EUR 161m) during the same years, indicates a normalized EV of EUR 1,158m. Deducting the average 2015-19 Net debt of EUR 477m, indicates an equity value of EUR 681m, or EUR 0.92 per share (including the base offer shares from ongoing share capital increase). Given that the coming quarters will continue to be burdened by the pandemic we do not expect this upside to be realized in the short-term but should rather be regarded as a potential value when things get back to normal.

Normalized values

Parameter	2015-19 5-yr avg.	2020	2021E	2020 Pct. below 5-yr avg.	2020 Pct. upside 5-yr avg.	2021E Pct. below 5-yr avg.	2021E Pct. upside 5-yr avg.
Passengers (m)	9.5	3.7	3.0	-61%	156%	-69%	221%
Group sales (EURm)	950	443	400	-53%	114%	-58%	137%
Group EBITDA (EURm)	161	8	22	-95%	1898%	-86%	635%
EPS (EUR)	0.07	-0.16	-0.13	nm	nm	nm	nm

Source: Company reports, Enlight Research (estimates)



Source: Company reports, *EV/EBITDA multiple for 2020 of 145x, and for 2021E of 18x are not on the chart as they are not meaningful due to depressed EBITDA because of the pandemic

Valuation on normalized values

Parameter	Value
Normalized EBITDA (EURm)	161
Normalized EV/EBITDA multiple	7.2
Implied normalized EV (EURm)	1,158
Less normalized debt (EURm)	477
Implied normalized equity value (EURm)	681
Implied normalized equity value per share (EUR)	0.92
Current share price (EUR)	0.64
Implied long-term upside/downside	45%

Source: Company reports, Enlight Research (implied normalized values)

Risk factors

Below risks is not a complete list of 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

All our scenarios are based on a gradual improvement of the vaccination rollout in Estonia as well as no further escalation of travel restrictions due to the COVID-19 Delta variant.

Liquidity

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

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.

High unemployment

If COVID-19 leads to prolonged high unemployment, it could affect people's ability to travel, although Tallink 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	2019	2020	2021E	2022E	2023E
Net sales	949	443	400	477	611
Total operating costs	-778	-435	-378	-405	-507
EBITDA	171	8	22	72	104
Depr. & Amort.	-96	-101	-95	-96	-98
One-off EBIT items	0	0	0	0	0
EBIT	75	-93	-73	-23	6
Financial net	-18	-18	-20	-20	-21
Pre-tax profit	57	-111	-93	-44	-15
Taxes	-7	2	0	0	0
Minority interest	0	0	0	0	0
Other items	0	0	0	0	0
Net profit	50	-109	-93	-44	-15

Balance Sheet	2019	2020	2021E	2022E	2023E
Cash and cash equivalent	39	28	60	24	31
Receivables	38	25	32	36	46
Inventories	37	29	35	42	49
Other current assets	7	6	6	6	6
Total current assets	**121**	**88**	**134**	**108**	**132**
Tangible assets	1249	1269	1196	1313	1245
Goodwill & Intangible assets	63	62	58	56	58
Lease & Investment properties	98	95	103	110	116
Long-term Investments	1	1	1	1	1
Associated companies	0	0	0	0	0
Other long-term assets	2	2	2	2	2
Total fixed assets	**1412**	**1428**	**1359**	**1482**	**1421**
Total assets	**1533**	**1516**	**1493**	**1590**	**1553**
Accounts payable	99	73	66	72	79
Short-term IB debt	89	112	120	144	137
Other current liabilities	33	23	23	23	23
Total current liabilities	**221**	**208**	**210**	**239**	**240**
Long-term IB debt	387	491	528	632	603
Convertibles & Lease liab.	102	103	103	110	116
Deferred tax liab.	0	0	0	0	0
Provisions	0	0	0	0	0
Other long-term liab.	0	0	0	0	0
Total long-term liab	**489**	**594**	**630**	**742**	**718**
Total liabilities	**710**	**802**	**840**	**981**	**958**
Minority interest	0	0	0	0	0
Shareholders' equity	823	714	653	609	594
Total liabilities and Equity	**1533**	**1516**	**1493**	**1590**	**1553**

DCF valuation		Cash flow, mEUR	
WACC (%)	5.31 %	NPV FCF (2020-2022)	-94
Assumptions 2020-2026 (%)		NPV FCF (2023-2029)	540
Average sales growth	11.19 %	NPV FCF (2030-)	854
EBIT margin	0.54 %	Non-operating assets	28
Fair value per share (EUR)	0.90	Interest-bearing debt	-705
Share price (EUR)	0.64	Fair value estimate	623

Free Cash Flow	2019	2020	2021E	2022E	2023E
Operating profit	75	-93	-73	-23	6
Depreciation	96	101	95	96	98
Working capital chg	2	-14	-20	-6	-9
Other operating CF items	2	-1	0	0	0
Operating Cash Flow	**175**	**-7**	**2**	**67**	**96**
Net investments	-61	-100	-18	-211	-32
Other items	0	0	0	0	0
Free Cash Flow	**114**	**-107**	**-16**	**-145**	**64**

Capital structure	2019	2020	2021	2022	2023
Equity ratio	53.7%	47.1%	43.7%	38.3%	38.3%
Debt/Equity ratio	70.2%	98.7%	114.9%	145.4%	144.0%
Net debt/Equity ratio	65.5%	94.8%	105.7%	141.5%	138.8%
Net debt/EBITDA ratio	0.0	0.0	0.0	0.0	0.0

Profitability	2019	2020	2021E	2022E	2023E
ROE	5.9%	-14.1%	-13.6%	-6.9%	-2.5%
FCF yield	0.2	-0.2	0.0	-0.3	0.1
EBITDA margin	18.0%	1.8%	5.5%	15.2%	17.1%
EBIT margin	7.9%	-20.9%	-18.3%	-4.9%	1.0%
PTP margin	0.1	-0.3	-0.2	-0.1	0.0
Net margin	5.2%	-24.5%	-23.2%	-9.2%	-2.5%

Valuation	2019	2020	2021E	2022E	2023E
P/E	13.2	neg	neg	neg	neg
P/E adjusted	13.2	neg	neg	neg	Neg
P/Sales	0.7	1.1	1.1	1.0	0.8
EV/Sales	1.3	2.6	2.8	2.7	2.1
EV/EBITDA	7.0	145.7	51.8	18.0	12.2
EV/EBIT	15.9	neg	neg	neg	218.3
P/BV	0.8	0.7	0.7	0.7	0.7
P/BV tangible	0.9	0.8	0.7	0.8	0.8

Per share ratios	2019	2020	2021E	2022E	2023E
EPS	0.07	-0.16	-0.13	-0.06	-0.02
EPS, adjusted	0.07	-0.16	-0.13	-0.06	-0.02
Operating CF/share	0.24	-0.01	0.00	0.09	0.13
Free Cash Flow/share	0.15	-0.16	-0.02	-0.20	0.09
BV/share	1.23	1.07	0.94	0.83	0.81
Tangible BV/share	1.21	1.05	0.93	0.81	0.79
Div. per share	0.00	0.00	0.00	0.00	0.00
Div. payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%

Shareholders	Capital	Votes
Infortar AS	172.776	39.00 %
Baltic Cruises Hld, L.P.	71.320	16.10 %
ING LUX S.A. AIF Acct.	29.149	6.58 %
Baltic Cruises Inv. L.P.	24.424	5.51 %
Citi VC Int. G.P	9.159	2.07 %
Nordea Bank ABP / Finnish Clients	8.895	2.01 %
State Street Bank Omnibus Acct.	7.974	1.80 %
Nordea Bank ABP / Non-treaty clients	6.992	1.58 %
Clearstream Banking AG	6.461	1.46 %
Nordea Bank ABP / FDR	4.873	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** $\frac{\text{Profit before extraordinary items and taxes – income taxes + minority interest}}{\text{Number of shares}}$
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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