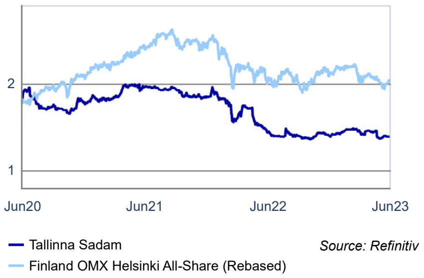
Tallinna Sadam

Business Services
Estonia

KEY DATA

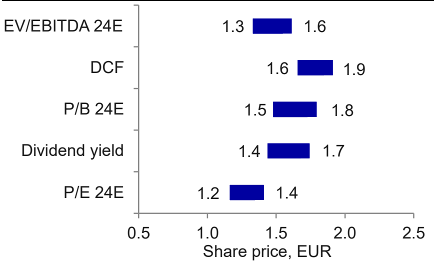
Stock country	Estonia
Bloomberg	TSM1T EE
Reuters	TSM1T.TL
Share price (close)	EUR 1.40
Free float	33%
Market cap. (bn)	EUR 0.37/EUR 0.37
Website	www.ts.ee
Next report date	10 Aug 2023

PERFORMANCE



Source: Refinitiv

VALUATION APPROACH (EUR/SHARE)



Source: Nordea estimates

ESTIMATE CHANGES

Year	2023E	2024E	2025E
Sales	n.a.	n.a.	n.a.
EBIT (adj)	n.a.	n.a.	n.a.

Source: Nordea estimates

Nordea IB & Equity - Analysts
Pasi Väisänen
Director

An essential port that is weathering the storm

The past three years have not been easy for Estonia's biggest port utility, Tallinna Sadam, but recovery of passenger flows and future investments in Paldiski offshore wind terminals and the Muuga rail terminal create positive expectations for the medium term. The main short-term risk is increasing geopolitical tensions in the Baltic Rim. A long-term value-creation option comes from the property development projects. The valuation approach in our initiation of commissioned coverage of Tallinna Sadam is based on a combination of DCF, dividend yield and peer group comparison, which gives a fair value range of EUR 1.5-1.8 per share.

Well-balanced earnings model

The four segments of Tallinna Sadam are Passenger Harbours (33% of 2022 EBITDA), Cargo Harbours (30%), domestic ferry operations (26%) and Other (11%). The company is a pure landlord and not a cargo operator. Overall, vessel dues constitute 31% of the company's annual revenues, ferries 28% and lease income 11%. In addition, the company has a long-term property development plan in Tallinn city centre.

Dividend is a key element in the equity story

Cash conversion is high due to tax treatment and low working capital requirements. The peer group's median dividend yield is 4.7% for 2023E. Tallinna Sadam's share price would need to be EUR 1.6 for its dividend yield to be in line with the peer group's on our 2023E DPS of EUR 0.074.

Recovery scenario with better wind in its sails

The recovery of international ferry passenger traffic started in 2022 and we expect it to continue improving in 2023. Net sales growth was 11% in 2022. The domestic ferry operations have been very stable, but growth in the cargo operations could remain muted in the short term. Income from cargo from/to Russia and Belarus only amounted to EUR 3.7m in 2022.

Valuation harbours upside and downside

The company's current EV/EBITDA multiple for 2023E is close to the median for the peer group consisting of 23 international port utilities, but a combination of DCF, dividend yield and peer group valuations gives a fair value range of EUR 1.5-1.8 per share. Risks in the medium term are related to rising interest rates, overall economic activity and geopolitical tensions. Short-term upside potential is related to the continuing recovery of passenger traffic and replacement of lost Russian cargo volumes.

SUMMARY TABLE - KEY FIGURES

EURm	2019	2020	2021	2022	2023E	2024E	2025E
Total revenue	131	107	110	122	124	129	135
EBITDA (adj)	75	60	55	56	59	64	69
EBIT (adj)	52	36	30	31	31	34	37
EBIT (adj) margin	39.6%	33.1%	27.0%	25.3%	24.9%	26.7%	27.5%
EPS (adj, EUR)	0.17	0.11	0.10	0.09	0.08	0.09	0.10
EPS (adj) growth	58.2%	-35.8%	-10.2%	-3.2%	-12.0%	10.7%	11.8%
DPS (ord, EUR)	0.12	0.08	0.10	0.07	0.07	0.08	0.08
EV/Sales	5.3	6.1	6.0	4.3	4.2	4.1	3.8
EV/EBIT (adj)	13.4	18.5	22.1	16.8	17.0	15.5	13.9
P/E (adj)	11.7	16.6	19.1	15.1	16.9	15.2	13.6
P/BV	1.4	1.3	1.3	1.0	1.0	0.9	0.9
Dividend yield (ord)	5.8%	4.3%	5.2%	5.1%	5.3%	5.4%	5.5%
FCF Yield bef A&D, lease	6.7%	4.1%	7.8%	13.9%	0.9%	3.6%	10.2%
Net debt	173	185	168	143	159	165	148
Net debt/EBITDA	2.3	3.1	3.1	2.5	2.7	2.6	2.1
ROIC after tax	7.8%	5.2%	4.4%	4.6%	4.7%	5.1%	5.5%

Source: Company data and Nordea estimates

Contents

Factors to consider when investing in Tallinna Sadam

Opportunities:
- A recovery in international passenger flows is the main driver for improving revenues and operating profit in the short term.
- Paldiski harbour could become a construction and maintenance harbour for offshore wind farm developers in the Baltic Rim.
- The company has good revenue diversification. Income from the domestic ferry operations has been very stable in all market environments.
- Goods flows and the harbour are needed under all circumstances, which makes the business operation resilient.
- Tallinna Sadam could become the new regional logistics hub for cargo owing to the isolation of Russian harbours.
- Construction of the Rail Baltic connection to Muuga Harbour should increase transit volumes in Muuga Harbour.
- A property development portfolio of 300,000 m^2 close to Tallinn city centre is in the pipeline.
- Estonian state as a 67% shareholder expects the company to pay stable dividends.

Risks:
- The war in Ukraine is having a negative effect on the Baltic Sea cruise business.
- Tightening sanctions continue to reduce Russia-related cargo flows, although most of the impact has already materialised.
- The company could potentially lose a domestic ferry contract in the next auction.
- The higher interest rate environment could delay property development projects.

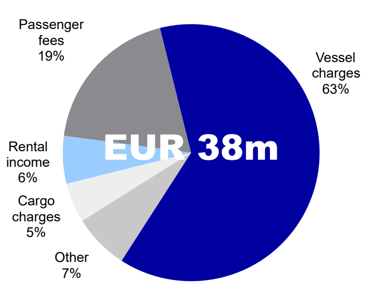
A port will always be needed in the Baltic Sea

In terms of vessel traffic, the Baltic Sea is one of the busiest inland seas in the world. Furthermore, the company's business model is well balanced between passenger, cargo and domestic ferry traffic, each of which contribute EUR 35-39m to annual revenue. The Ferry operations have been the most stable segment in terms of earnings volatility.

The Cargo Harbours segment had average EBITDA of EUR 23m in 2017-21, but this declined to EUR 17m in 2022 due to the Russian sanctions. However, a recovery in passenger traffic has already started. EBITDA in the Passenger Harbours segment was 57% of the 2019 level in 2022, leaving room for further improvement.

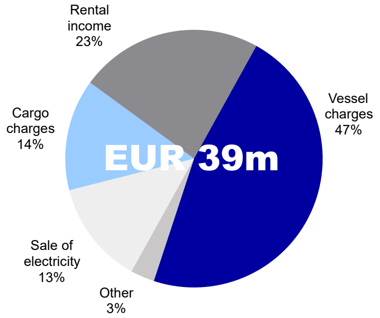
Our conclusion is that passengers and cargo will need to be moved in the Baltic Sea region continuously and that there will always be a need for a port utility, making the business model resilient from a long-term perspective. Net sales grew in 2021-22 despite the massive external market shocks, and we forecast 2-4% revenue growth for 2023-24.

PASSENGER HARBOURS: INCOME BREAKDOWN



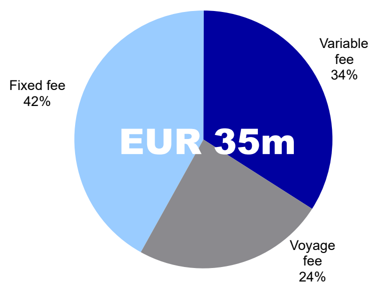
Source: Company data and Nordea estimates

CARGO HARBOURS: INCOME BREAKDOWN



Source: Company data and Nordea estimates

FERRY: INCOME BREAKDOWN



Source: Company data and Nordea estimates

Tallinna Sadam's core strengths

Tallinna Sadam is young, open-minded and agile

We believe that one of Tallinna Sadam's main strengths compared to other port operators is its ability to develop new business ideas and implement them. Tallinna Sadam is young, open-minded, agile and able to find growth opportunities, which is harder for its main competitors in the area, in our view. New innovations include solutions to improve sustainability (LNG, electricity, hydrogen) and to integrate urban city development with business activity and port operations (property development), as well as constructing an offshore wind harbour in Paldiski.

We also consider reliability another of its core strengths. Tallinna Sadam has a track record of keeping its promises and delivering according to contracts. The counterparty risk is therefore low for all stakeholders, which creates a sustainable long-term business environment and enables growth investments for the port, shipping companies and cargo operators, we argue. The company's lease contracts in Cargo Harbours can be as long as 30-50 years.

Impacts of the Russia-Ukraine war

The negative impact of the war in Ukraine on 2022 net sales and operating profit turned out to be smaller than the company anticipated. The company's revenues and EBIT improved in 2022 y/y, but Russian sanctions have reduced cargo volumes and altered supply chains in the Baltic Sea region. In particular, Russian fuel oil shipments and fertiliser volumes via Muuga Harbour have declined. The long-term implications of the geopolitical issues are practically impossible to predict, but Russia could remain under sanctions as long as the current regime is in place.

Tallinna Sadam is a pure landlord port without cargo handling, and it continues to receive rental fees for its land and quays at Muuga Harbour. The main earnings effect from the Russian sanctions has been a declining number of vessel calls and cargo fees originating in Russia and Belarus. Tallinna Sadam only has one customer that has direct Russian ownership.

Russian and Belarusian cargo accounted for EUR 3.7m (15%) of net profit in 2022

We expect the Russian sanctions to have full effect in 2023. Russian and Belarusian cargo accounted for EUR 3.7m (15%) of net profit in 2022. Operators of liquid bulk cargo are now working on replacing sanctioned cargoes with alternative ones, and the volume of non-Russian and non-Belarusian goods in liquid bulk cargo increased in 2022 y/y. Net sales in the Cargo Harbours segment declined by 5% in 2022, and we forecast a further 24% decline in revenues for 2023.

Growth opportunities

The company guides for moderate revenue growth in 2023, which could mean some 0-5%, we believe. Our forecast for 2023 revenue growth is 2%. As global supply chains and commodity markets are usually very elastic, the flow of goods has always found a new supply/demand balance after market disturbances.

Building offshore wind farm service vessels, in combination with a EUR 53m offshore wind harbour investment in Paldiski, represents a notable growth opportunity in the medium and long term. The offshore quay and hinterland area in Paldiski should be completed in the summer of 2025.

New opportunities could also arise from increasing ro-ro and container volumes in Northern Europe. A new steel factory in Inkoo, Finland, could offer scrap metal deliveries from Eastern Europe to Tallinn. Another long-term growth option is a hydrogen import-export terminal in Paldiski. Overall economic growth should also gradually increase cargo and passenger flows irrespective of what happens in Russia.

Property development projects

Tallinna Sadam's real estate operations are largely in the preparation phase. The goal for the 2023-27 strategy period is to begin real estate development and create high-quality public urban space in the area north of Tallinn in conjunction with Old City Harbour.

As uncertainty related to the property development business is high, especially given the demand weakness in the real estate sector and higher interest rates, we do not include it in our base-case valuation but estimate a discounted fair value of EUR 33-132m, or EUR 0.13-0.50 per share, for the development projects.

Investors are waiting for more concrete evidence of value creation in the property operations

The value of the property development portfolio could be even higher in a positive scenario, but investors need some concrete proof of the strength of the business model before it can be included in our base-case valuation. Our view is that these projects are so far out that they will not drive the company's share price in the near future. The probability ratio for value creation will improve when the company is able to show evidence of end demand, construction costs or yield expectations for its property development projects.

Valuation

The company's current EV/EBITDA multiples for 2023E-24E are close to the median of the peer group of 23 international port utilities. However, passenger traffic in the Port of Tallinn has not yet fully recovered from the COVID-19 pandemic, implying growth potential above the overall market growth, we believe.

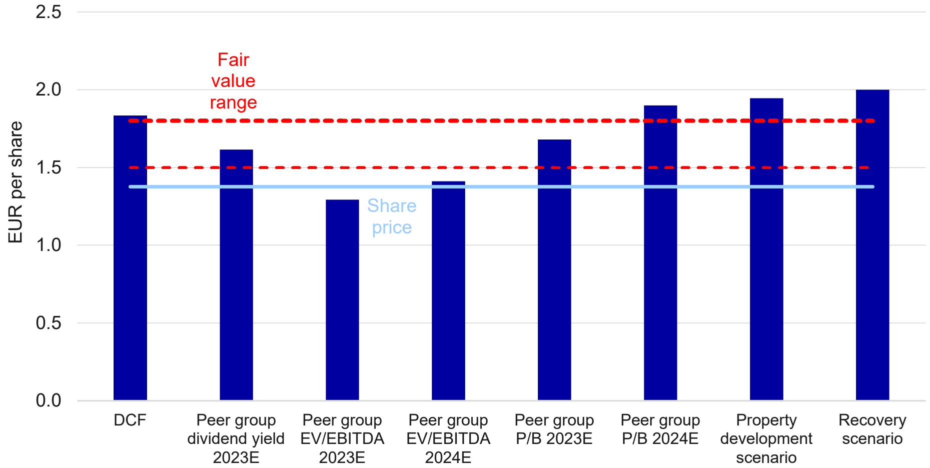
Dividend yield is one of the strongest value drivers for the port utility

The company's 2023E dividend yield of 5.4% is above the peer group median (4.7%). We argue that dividend yield is one of the strongest value drivers for the port utility.

Our valuation approach, based on a combination of DCF and peer group comparison, gives a fair value range of EUR 1.5-1.8 per share. The chart below highlights the EUR per share valuation using different valuation methods.

A fair value range of EUR 1.5-1.8 per share

VALUATION SUMMARY (EUR PER SHARE)



Source: Nordea estimates

Company overview

The Port of Tallinn is the biggest port authority in Estonia. The company was founded in 1992 and listed in 2018. The group's main operating segments are passenger harbours, cargo harbours and domestic ferry services. In addition, the company has a real estate development portfolio. Some 58% of total revenues stem from vessel dues and from ferry services. Total net sales were EUR 122m in 2022 with an EBITDA margin of 46%. The number of employees is 463. The company's strength is its proactive management and innovative strategy. For example, Tallinna Sadam is investing EUR 53m to build a dedicated harbour to support construction of offshore wind parks in the Baltic Sea. A recovery in passenger traffic after COVID-19 is ongoing, and the number of passengers last year was 66% of the 2019 level. The company's market share is 24% of passengers in the eastern ports of the Baltic Sea, while the market share in cargo traffic is 3%, according to the company. The biggest owner is the state of Estonia, with a 67% stake.

Ports are always needed

Tallinna Sadam offers port services as a landlord port

Tallinna Sadam owns the third-largest passenger port in the Baltic Sea Region and the fourth-largest passenger port in Northern Europe in terms of passenger traffic and the largest cargo port in Estonia in terms of cargo volumes.

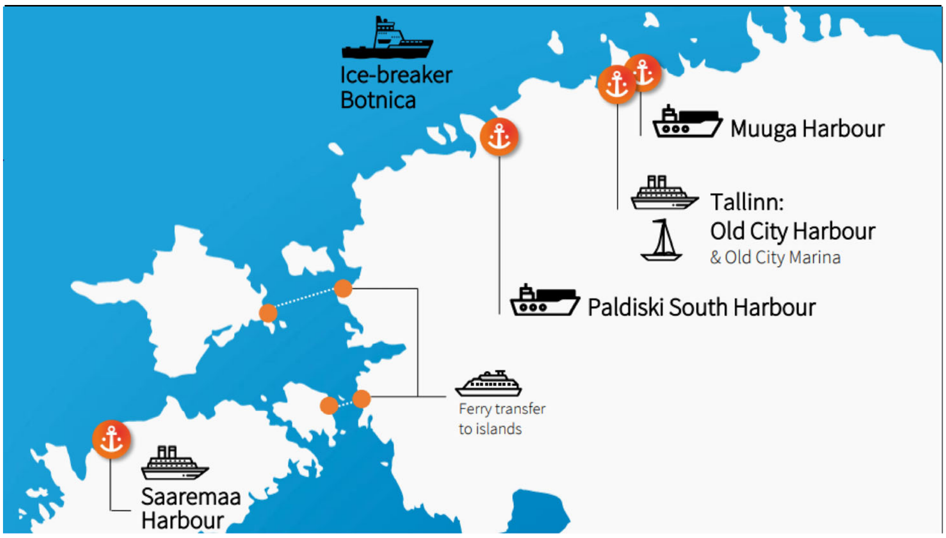
Economic activity needs infrastructure for the movement of goods and people, which is why there will always be good demand for the company's services, we argue. Tallinna Sadam offers port services as a landlord port, i.e. it owns and develops berths, port basins and the surrounding areas and leases land to cargo operators.

Tallinna Sadam also owns passenger terminals and other facilities required for passenger services, but the company does not own cargo-handling terminals. Devices (so called superstructure) in the cargo terminals are owned by customers operating at the harbour.

Export and import between Finland and Estonia is worth EUR 3.5bn a year, making Tallinna Sadam a key enabler for close relationships between the two countries. As Estonia's largest gateway to the sea, Tallinna Sadam, is also responsible for Estonia's image as a maritime nation. So, the main stakeholder in Tallinna Sadam is the state of Estonia for many reasons. The harbour creates wealth and well-being, which have a positive effect on the whole country.

The group has two passenger harbours and two cargo harbours

THE COMPANY HAS TWO PASSENGER HARBOURS AND TWO CARGO HARBOURS



Source: Company image

The company's purpose is to combine services to people and cargo traffic, shipping, and waterfront real estate development into an integrated logistics business. This comprises reception of cruise ships, serving domestic and international ferry routes, transport of 18 million tonnes of cargo, real estate development projects and operating own ferries.

Company history

Ports are at the origin of many cities

Archaeologists have found evidence of human habitation at the Port of Tallinn dating back some five thousand years. Ports are at the origin of many cities, and this is also the case for Tallinn.

Tallinna Sadam was founded in 1992 and reorganised into a joint-stock company in 1996. A subsidiary of TS Shipping was established in 2005. Saaremaa harbour was constructed in 2006, and the Old City Marina was opened for yachts in 2010. The ice-breaking vessel Botnica was acquired in 2012.

The company won a public tender for operating the domestic ferry service between Estonia mainland and the islands of Saaremaa and Hiiumaa in 2014. Tallinna Sadam's subsidiary, TS Laevad, constructed four new passenger ferries necessary for providing this connection service. In more detail, ferry services are provided by subsidiary TS Laevad. Domestic ferry service operations started in 2016. The company was listed on the Nasdaq Tallinn SE Baltic Main list in 2018.

Reconstruction and expansion work (EUR 17m) of passenger terminal D was completed in 2019. Today, the group has two passenger harbours, two cargo harbours, ferry operations and 463 employees. The republic of Estonia is the main owner with a 67% stake of shares and votes.

Passenger traffic

Passenger harbours constitute 33% of annual EBITDA

The company operates in two passenger harbours - the Old City Harbour and Saaremaa Harbour. The biggest traffic flow in the old city harbour comes from ropax vessels serving traffic between Estonia and Finland. The ferry crossing time between Helsinki and Tallinn is about two hours, but the passenger harbours are sufficiently deep to receive all vessels passing through the Danish Straits.

The services offered at its harbours include quay and adjacent infrastructure provision, marine traffic management, mooring, waste management, provision of other services (including electricity, heat and water supply).

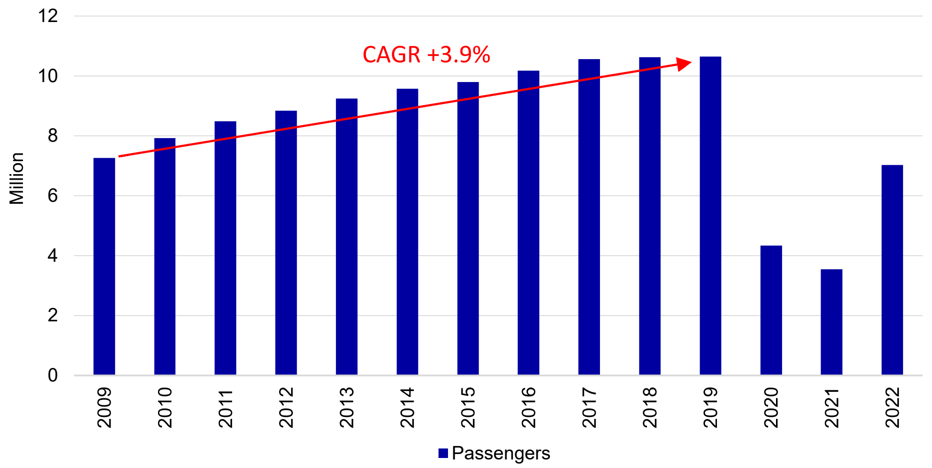
The passenger harbours also offer further services such as embarkation and disembarkation of passengers and cars through passenger terminals and traffic areas in the harbour. Passenger harbours derive revenue from vessel dues, which are based on vessel gross tonnage (63% of the segment revenues) and passenger fees, which are based on the volume of passengers (19% of revenues).

Even though the Old City Harbour is a passenger harbour, some cargo services are provided at the site, including ro-ro cargo that is shipped on board ROPAX vessels, mostly on the Tallinn-Helsinki route. Waste management at the harbours is provided by AS Green Marine (Green Marine), an associate of Tallinna Sadam.

Passenger harbours are the biggest (33%) single contributor to annual EBITDA, but passenger traffic has remained depresses after COVID-19 and has not yet fully recovered. The company had 10.6 million passengers in 2019 but only seven million in 2022. Tallinna Sadam had 12 consecutive years of growth in passenger number before COVID struck. Average annual growth in passengers was 4% prior to COVID-19.

Average annual growth in passengers was 4% prior to COVID-19

TALLINNA SADAM: NUMBER OF PASSENGERS (MILLION)



Source: Company data

The main season for traditional cruise vessels and passengers is between May and September

International cruise travelling has been an important part of the total passenger traffic. The city of Tallinn and especially the old town have been the main drivers of the growing number of cruise passenger until 2020. Prior to the COVID-19 pandemic, the company's marketing was mostly focused on increasing the number of cruise passengers.

The main season for traditional cruise vessels and passengers is between May and September. The company had some 0.65 million cruise passengers on average in 2018-19. The average number of cruise ships visiting Port of Tallinn was more than 300 a year in 2011-19. In 2020, the number of cruise dockings was zero, but it recovered to 179 visits in 2022.

Domestic ferry operations

Domestic ferry operations were more stable that international passenger traffic during the pandemic. In 2014, Tallinna Sadam won the tender for arranging ferry traffic to Saaremaa and Hiiumaa for 2016-26. After winning the tender, the company built four new ferries and operates these two routes with a total of five ferries. The total contract bid was EUR 317.5m over ten years. There were two participants in the tender - the other was Väinamere Liinid , which had provided the service for the past two decades.

The Republic of Estonia sets the domestic ferry ticket prices and orders the trips

The Republic of Estonia sets the domestic ferry ticket prices and orders the trips. Revenues collected by Tallinna Sadam consist of a fixed fee, a variable fee and a voyage fee. In practice, some two-thirds of revenues are subsidies paid by the state of Estonia. The total cost for Tallinna Sadam of an individual journey on the Saaremaa route was EUR 208 in the tender offer, and was EUR 634 for the Hiiumaa route, according to media sources.

THE COMPANY BUILT FOUR NEW FERRIES FOR THE SAAREMAA AND HIIUMAA ROUTES

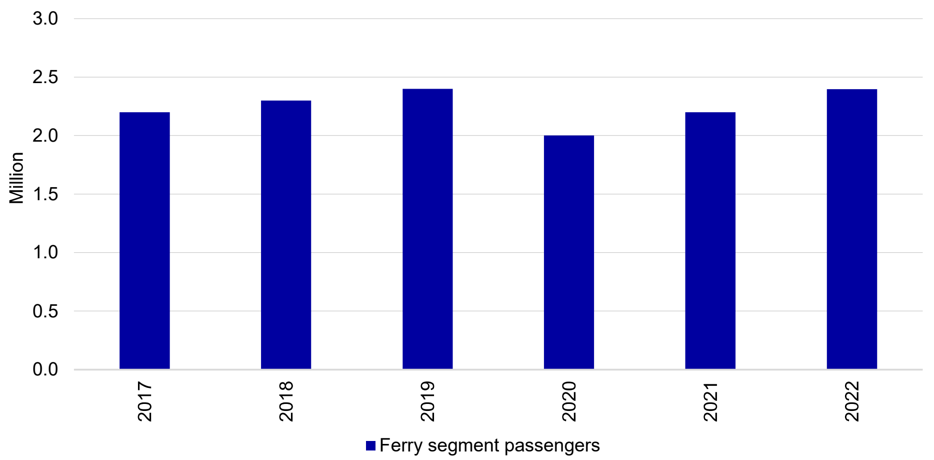
Source: Company image

The Estonian government had an option to buy four ferries from Tallinn Sadam for EUR 106m but it did not use this possibility in 2022, and the option has since expired. The state of Estonia is now expected to arrange a new tender offer for the ferry connection for the period 2027-37. The tender will be held combined for ships and operation, which gives a competitive edge to Tallinna Sadam because the vessels requirements are very specific (shallow waters plus ice class) and therefore difficult to charter on the market. The long-term target for the state of Estonia could be electrification of ferry traffic, but we do not expect this will be a requirement in the next contract period.

The number of passengers on the domestic ferry routes to Hiiumaa and Saaremaa was 2.2 million per year on average in 2017-22. The number of passenger cars was around one million per year. The decline in passenger volumes in 2020 was 17%, but a full recovery to normal volumes after the pandemic was already seen in 2022.

The average number of passengers on the domestic ferry routes to Hiiumaa and Saaremaa is 2.2 million per year

ANNUAL NUMBER OF PASSENGERS IN THE FERRY SEGMENT (MILLION)



Source: Company data

On top of five ferries, Tallinna Sadam also owns the multifunctional icebreaker Botnica, which provides icebreaking services along the northern Estonian coast during the winter season, and icebreaking, ice management and escort services in the Arctic waters during the summer season. Botnica has several times assisted offshore wind farms, iron ore shipments and underwater surveys. For example, Equinor has rented Botnica for 40 days, starting 5 June 2023. The utilisation rate for Botnica was 68-73% in 2019-22 (2022: 68%), according to the company.

Port of Tallinn acquired Botnica from the state of Finland for EUR 50m in 2012. The most recent agreement with the state of Estonia for icebreaking in winter periods stretches to April 2032.

TALLINNA SADAM ACQUIRED BOTNICA FROM FINLAND FOR EUR 50m IN 2012

Source: Company image

Cargo traffic

The average remaining term of these lease contracts is more than 20 years

The operation of cargo terminal is a pure landlord business without own cargo handling. The company maintains and develops quays and sea approaches, as well as leases land to private cargo operators. The average remaining term of these lease contracts is more than 20 years.

Tallinna Sadam provides the infrastructure, but cargo-handling terminals (superstructure) are constructed by cargo operators operating on long-term contracts in the ports of Tallinna Sadam. The current cargo volume-handling capacity is as high as 40-60 million tonnes a year.

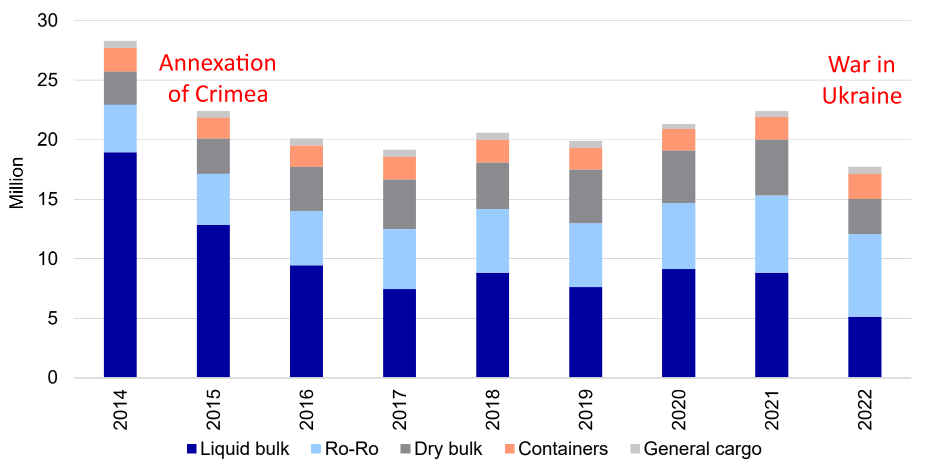
Transit volumes have primarily been derived from liquid bulk and ro-ro cargo, followed by dry bulk, containers and general cargo. Tallinna Sadam also offers land area close to the harbours for leasing as industrial parks to cargo operators and other stakeholders. The industrial parks in Muuga and in Paldiski are mainly used for warehousing and distribution service providers and commodities producers.

Cargo harbours derive revenues from vessel dues, cargo charges and from building title fees

Cargo harbours mainly derive revenues from vessel dues that are based on vessel gross tonnage, cargo charges (based on the volume/units of cargo handled), and building title fees as well as rental income based on the size of the territory. The group may also receive volume/unit based contractual penalties if cargo operators fail to handle minimum volumes or units of cargo set out in their respective agreements.

The cargo volumes at Tallinna Sadam declined in 2007-17, mainly due to lower Russian crude oil transport. Cargo from and to Russia accounted for ~70% of total cargo in 2009, and this decreased to ~35% in 2017. The share of Russian and Belarusian cargo accounted for 21% of the total cargo throughput in 2022. The company has reduced dependency on Russian transit and brought down political risk to close to zero.

TALLINNA SADAM: CARGO TONNES (MILLION)



Source: Company data

The European Council has prohibited the purchase, import or transfer of seaborne crude oil and certain petroleum products from Russia to the EU. Furthermore, the EU has prohibited the maritime transport of Russian crude oil and petroleum products to third countries.

Russian cargo mainly comprises liquid bulk and fertilisers

The direct impact of the sanctions on Russian on Tallinna Sadam's cargo business was in particular related to decreases in liquid bulk and fertiliser volumes. However, ordinary cargo that is not under sanctions is still transported between Russia and Europe. Furthermore, the volume of non-Russian and non-Belarusian goods in liquid bulk cargo increased in 2022.

Cargo volume growth in the long term could come from the Rail Baltica project, which is an international railway connection that is expected to be operational by 2030 and will connect Estonia and the other Baltic countries with Central Europe. However, it could make sense to transport some goods directly from Finland to Poland or to Germany rather than via Estonia. But one additional growth opportunity could be regional distribution centres for big multinational companies that do not operate in Russia anymore.

It is also worth noting that the Baltic countries need petroleum products, and Port of Tallinn will be required when Urals crude oil grade is switched to Brent grade.

Real estate development

High interest rates could postpone the property development projects

The real estate business line is largely in the preparatory phase. The strategy is to transform the harbour area, which used to inaccessible, into a vibrant and inviting urban space. Tallinna Sadam has already transferred heavy ro-ro cargo services from Old City Harbour to Muuga Harbour, which has released land area for property development. In more detail, the company has a long-term plan to construct 300,000 m^2 of office, business and living space close to Old City Harbour. The overall land area under the development is roughly 170,000 m^2.

Rising interest rates might postpone the property development projects, we believe. If the company does not want to take on the risk of a property developer, land area could also be rented or sold to external property developers. But we expect that the development of 300.000 m^2 could take up to 20 years. Furthermore, some development projects close to harbours are on hold, with one reason being weak demand for new premises.

Real estate development activities in Old City Harbour are currently reported under the Passenger Harbours segment. The industrial parks located in Muuga and Paldiski are reported under the Cargo Harbours segment.

OLD CITY HARBOUR MASTERPLAN 2030+ BY ZAHA HADID

Source: Company image

Strategy

Strategy to become the most innovative port in the Baltic Sea

The company's strategy is to become the most innovative port in the Baltic Sea. We believe the Port of Tallinn is already one of the most innovative harbours in the area. Future related challenges are more about the execution and implementation of the development plans. One of the latest examples of the innovative strategy is the decision to construct a harbour to support offshore wind farm construction projects.

Another main priority for the company is to keep its dividend promise. The COVID-19 pandemic, war in Ukraine and rising interest rates will surely put pressure on the dividend-payment capability. The short-term focus of the strategy is therefore on restoring the traffic on regular routes and improving the services provided to cruise ships.

The long-term strategy is to increase the passenger and cargo volumes and to improve the utilisation of the current asset base. One solution is to create public space for both visitors and locals and not only to ferry travellers.

Previously, the company also expected improving railway connections to China and an increase in Russian oil deliveries, but the recent geopolitical developments have shifted the medium-term focus on Western Europe.

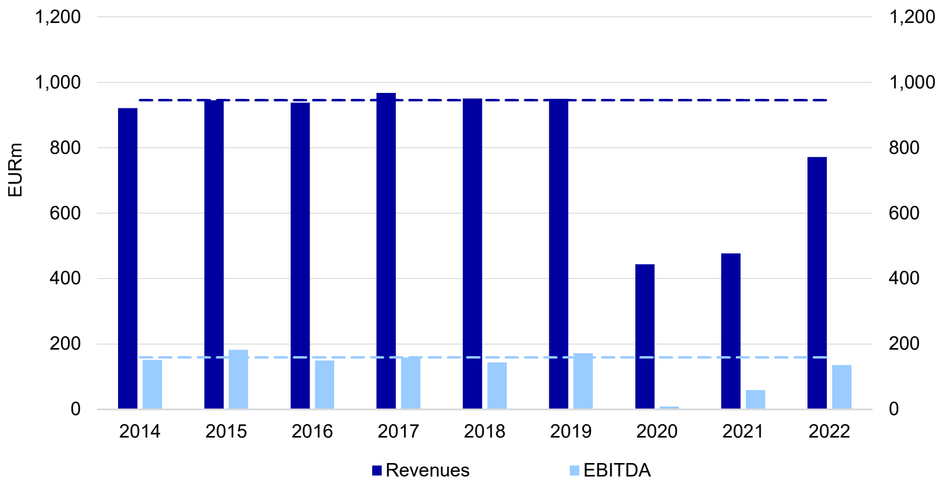
Customers

The main customer is Tallink

The largest customers are international ferry operators, cargo terminal operators, and the Republic of Estonia under the contracts for the provision of ferry services. The customer base also includes end consumers, i.e. travelling passengers that use local harbour services.

We expect Tallink to be the biggest single customer for Tallinna Sadam (excluding the state of Estonia) with a 15% share of total revenues. The other major customers in passenger traffic are Eckerö Line, Viking Line, Royal Caribbean Cruises, Carnival and Norwegian Cruise Line. The main customers in the cargo operations are HHLA, MSC, Liwathon and Nord Terminals.

TALLINK: NET SALES AND EBITDA (EURm), 2014-22



Source: Company data

Tallink has suffered from the low number of Asian tourists

Several Asian countries lifted their COVID-19 travel restrictions as late as at the end of 2022, which is why Tallink has suffered from the low number of Asian tourists. Passengers in Finnair's Asian connections were 54% of the Q1 2019 level in Q1 2023. But Tallink's net sales rebounded to 82% of the pre-pandemic average as early as in 2022, although the company's EBITDA was EUR 23m (15%) below its historical average.

Tallink had three vessels operating between Tallinn and Helsinki at the beginning of 2023. The newest ship MyStar started operating in December 2022. MyStar uses LNG and can carry 2,800 passengers and 750 passenger cars. The two other vessels on the Tallinn-Helsinki route are Star and Megastar, with Star exiting the route in May 2023. Tallink's Stockholm-Mariehamn-Tallinn route is operated using one ship (Baltic Queen).

TALLINK MYSTAR (COST: EUR 250m) STARTED OPERATING IN DECEMBER 2022

Tallink used EUR 250m for the newest ship on the Tallinn-Helsinki route

Source: Company image

Old City Harbour

Tallinn Old City Harbour is the third-largest harbour in the northern region of the Baltic Sea (after Stockholm and Helsinki) and the biggest tourist gateway in Estonia. Old City Harbour serves regular lines, cruise ships and pleasure crafts. The harbour is located in the heart of Tallinn, within walking distance from the old town. In an ordinary year, it services more than ten million passengers, of which over half a million are cruise passengers. However, during 2020-22, passenger volumes were pressured by COVID-19 and the war in Ukraine.

The land area of the harbour is relatively large (56 hectares), considering how close the port is to centre of the city. The water area is 94 hectares, with maximum depth of 11 metres. The number of quays is as high as 24, with a combined length of 4,986 metres. The maximum length of a single ship is 340 metres. From mid-January through March, the port is kept open using icebreakers, if needed. In Old City harbour there is onshore power supply to five quays for ropax vessels.

TERMINAL D AT OLD CITY HARBOUR

Source: Company image

In addition to passenger traffic, the harbour also handles ro-ro traffic. Regular connections from Helsinki to Tallinn are provided by Eckerö Line (Finlandia), Viking Line (Viking XPRS) and Tallink (Megastar, MyStar). Connections from Stockholm to Tallinn are operated by Tallink (Baltic Queen). Terminal A hosts Eckerö Line and Viking Line ships, while the newer D terminal is dedicated to Tallink. Cruise ships are mainly served at the Cruise Terminal.

OLD CITY HARBOUR IS DEDICATED TO PASSENGER TRAFFIC

Source: Company image

Muuga Harbour

Muuga is the largest cargo harbour in Estonia. It is located 17 km east of Tallinn and is one of the deepest (up to 18 metres) and most modern ports in the Baltic Sea region. All vessels that can pass through the Danish Straits can utilise Muuga Harbour. However, there is a risk of northern winds creating dangerous surges at the berths.

The total land area is 567 hectares, and the water area is 682 hectares. The combined length of the 29 separate quays is as high as 6,379 metres. Vessels of up to 300 metres in length can utilise Muuga Harbour.

Muuga specialises on handling transit-origin goods

The site specialises on handling transit-origin goods. One example of transit goods services is a large free zone that allows for more flexible customs procedures for companies rendering transit and distribution services. Simplified customs procedures and easy transfer of ownership rights allowed in the zone are designed to foster the development of regional distribution centres.

The cargo volume handled in Muuga Harbour amounts to 50% of the total cargo volume of Port of Tallinn and ~40% of the transit cargo volume passing through Estonia. The company also has ro-ro passengers in Muuga on Muuga-Vuosaari line, served by Eckerö (Finbo Cargo) and Tallink.

MUUGA HARBOUR

Source: Company image

The harbour handles various types of cargo, including liquid bulk, containers, dry bulk (fertilizers, grain, gravel, etc), general cargo (break bulk) and ro-ro. Oil-tank capacity in Muuga is 1.55 million tonnes, and it has a silo for 300,000 tonnes of grain. Muuga also has a fertilizer terminal with capacity of 192,000 tonnes.

The industrial and logistics park is a part of the harbour complex, and it is available to companies that need offices or sites for production units. Currently the industrial park has relatively low utilisation ratios, we believe. The short-term focus of Tallinna Sadam is to rent out idle premises.

However, there is plenty of room for future growth. Muuga Harbour possesses the greatest development potential for the company in terms of land availability for extension. The construction of additional cargo-handling terminals will be handled by cargo operators. Tallinna Sadam does not own the superstructures in its cargo terminals.

THREE MAIN CARGO ITEMS ARE LIQUID BULK, DRY BULK AND CONTAINERS

Source: Company image

Paldiski South Harbour

Paldiski is a town and Baltic Sea port situated on the Pakri Peninsula of north-western Estonia. It is located around 50 kilometres to the west of Tallinn. Paldiski South Harbour is the Port of Tallinn's second-largest cargo harbour by cargo volumes.

The harbour has a passenger terminal, but it is mainly a cargo hub. It handles Estonian export and import cargo, as well as transit cargo, scrap metal, timber, peat and oil, with the main focus on ro-ro cargo. The site has become an important stop for the Baltic Sea ro-ro shipping lines.

The territory comprises 119 hectares of land area and 147 hectares of water area. The total length of its ten quays is 1,850 metres. The maximum depth for vessel calls is 15.5 metres, which is usually enough for ro-ro ships.

PALDISKI SOUTH HARBOUR

Source: Company image

Tallinna Sadam can rent out land on a long-term basis for companies that need processing or logistic operations. We believe the need in the associated industrial park has so far been relatively modest. Currently, the size of the warehouse area is 15,000 m^2 and the open storage area is 540,000 m^2, which has been enough for many companies.

The liquid bulk terminal has oil tank capacity of 397,900 m^3. The timber and scrap metal terminals do not have fixed weight or area limitations, but these are not the main volumes on the site. Paldiski can also process peat and wood pellets.

MAIN CARGO VOLUMES STEM FROM RORO, LIQUID BULK AND DRY BULK

Source: Company image

Tallinna Sadam has set an objective to become the leading offshore wind farm port operator in the Baltic and Northern European region, which is why the company has decided to invest EUR 53m in a new wind-farm quay in Paldiski that should be ready by the summer of 2025. Tallinna Sadam could even invest in wind power construction and maintenance vessels, but it will not build or operate wind farms, according to its strategy. Eesti Energia and Latvian Utilitas are planning several offshore wind power projects for the Gulf of Riga. The new quay in Paldiski will ensure the capacity of the port to receive offshore construction and supply vessels for the construction of offshore wind farms and the transport of wind turbine components. The large rear area beyond the quay allows for various preparations for the manufacture and storage of generators and wind turbine blades before being loaded on a ship.

Saaremaa Harbour is purely for passenger traffic

Saaremaa Harbour

Saaremaa is the largest island in Estonia and the second-biggest island in the Baltic Sea. Some 31,000 inhabitants currently live on the island. Saaremaa, about 180 kilometres southwest of Tallinn. Construction of the harbour started in the summer of 2005, and the harbour was opened for use about a year later, in 2006.

Saaremaa Harbour is located on the north-western coast of the island, and it is not very close to the main city of Kuressaare. The site is therefore not entirely optimal for cruise passenger that would like to walk to the centre of the city. This also means that the site's passenger traffic is based on busses and private cars.

The water area of the site is 41 hectares, and the land area is 20 hectares. The harbour has two floating quays with a combined length of 445 metres. The maximum depth is ten metres. The harbour also has a quay for auxiliary vessels and a floating berth for small crafts. Tallinna Sadam has tried to rent land for development of logistic and production units near the harbour, but not many companies have used this opportunity.

SAAREMAA HARBOUR IS PURELY FOR PASSENGER TRAFFIC

Source: Company image

Saaremaa Harbour is purely for passenger traffic, but for some reason, Tallinna Sadam has used it for storage of wood-based biomaterials to receive extra income. One reason could be the wood-based combined heat and power plant on the island that was built in 2012. A power plant in Saaremaa is able to produce 13 GWh of electricity and 58 GWh of heat per year, and therefore there is need for 96 GWh of woodchips a year.

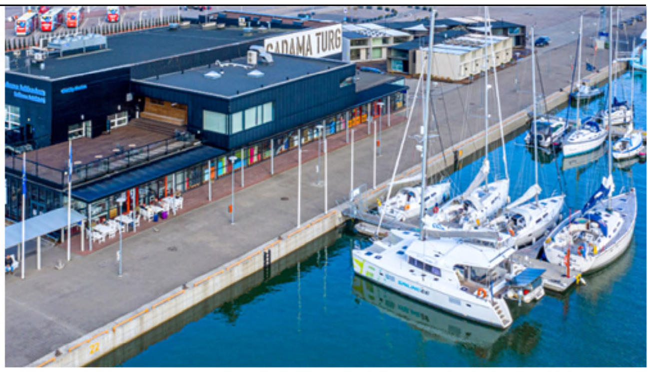
The marina serves recreational vessels

Old City Marina

Tallinn Old City Marina is physically a part of the bigger passenger harbour of Tallinn and located in the heart of the city.

The marina serves recreational vessels. Floating berths offer 110 spaces with ordinary size of 18 x 4 metres. The Old City Marina also has modern yacht club facilities with all necessary amenities. The navigational season commences on 1 May and goes on to 31 October.

OLD CITY MARINA IS A PART OF TALLINN'S OLD CITY HARBOUR



Source: Company image

Financials and market capitalisation

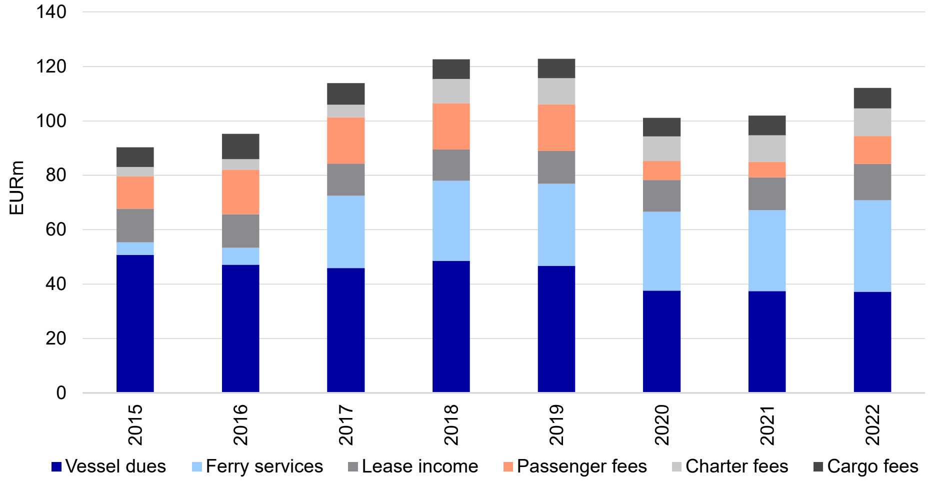
Some 58% of total revenues come from vessel dues (31%) and from ferry services (28%). Vessel dues declined by 4% (CAGR) in 2015-22, the main problem being COVID-19 in 2020-21 and sanctions against Russia and Belarus in 2022.

A vessel due is a charge paid by the vessel operator to a port for the use of the port. Ferry service revenue comes from scheduled boats between Estonia's mainland and its two biggest islands. Revenues from domestic ferry service grew (CAGR) by 3% in 2017-22. Tallinna Sadam started ferry service operations in 2016.

Lease income was 11% of total revenues in 2022. Other revenue sources are passenger fees (8% of total) and charter fees (8%). The sales of electricity and cargo fees were both 6% of net sales in 2022.

Vessel dues and ferry services make up the majority of revenues

BREAKDOWN OF REVENUE STREAMS BY MAIN OPERATIONS (EURm), 2015-22



Source: Company data and Nordea estimates

Passenger harbours and cargo harbours are the biggest segments of Tallinna Sadam, accounting for 34% and 30%, respectively, of the company's total EBITDA in 2022. The Ferry segment represented 26% of net sales.

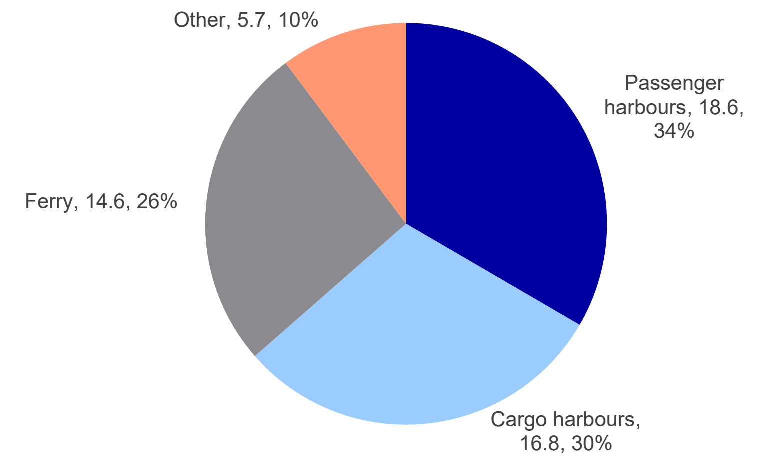
The fourth and smallest segment includes all the business functions outside of passenger and cargo harbours, and ferry operations. This "Other" segment consists of icebreaking in Northern Estonian ports and harbours, waste management as a joint venture with Green Marine, along with offshore work and international projects during the summer season.

The Ferry segment as such is relatively unaffected by economic cycles

The company has a well-balanced business portfolio that provides for a diversified and effective risk profile. Furthermore, the well-proportioned portfolio helps to smooth out economic cyclicality, while the Ferry segment as such is relatively unaffected by economic cycles.

Around 45% (EUR 254m) of tangible assets are related to the Passenger Harbour segment. Property development projects are included in the EUR 254m assets value in the Passenger harbour segment. The Ferry segment, including the icebreaker Botnica and ferries, is 15% of assets, while cargo harbours account for 40% (EUR 226m).

ADJUSTED EBITDA BREAKDOWN BY SEGMENT (EURm; PERCENT OF TOTAL), 2022



Source: Company data

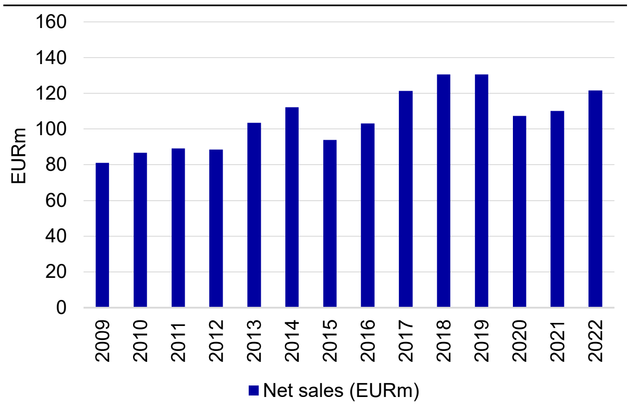
The company's operating profit margin was around 30-40% during the past five years. Over the past two years, the margin declined to below 30%, with one reason being weak cargo volumes. The sanctions on Russia have hampered transit from the country, resulting in liquid bulk and fertilizer volumes dying out. The overall cargo volume dropped 20% y/y in 2022. Similarly, the company's cargo revenue came down 5% y/y in 2022.

Tallinna Sadam's Passenger harbours segment has recovered somewhat after the pandemic, as travel restrictions have been lifted. But the Russian sanctions will likely hinder the overall rebound in Cargo Harbour segment to 2019 levels, and the company might have to seek replacing cargo volume somewhere else during 2023.

Fixed costs have not come down in line with traffic volume variations

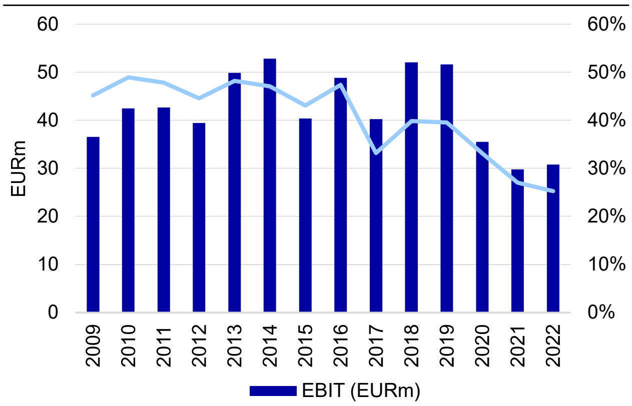
Fixed costs have not come down in line with traffic volume drops. Operating expenses have even been on a rising trend due to higher energy and personnel costs, leading to more modest EBIT margins in 2020-22 than 2018-19. Lately, revenue has been growing in all segments except Cargo Harbours. The company has also been able to improve the cargo mix, i.e. replacing cargo carrying lower charge rates with higher charge-rate cargo, thus mitigating some of the effects of the sanctions. Cargo fees for Russian fuel oil were lower than the average for the Cargo segment.

REVENUE (EURm), 2009-22



Source: Company data

OPERATING PROFIT (EURm) AND MARGIN, 2009-22

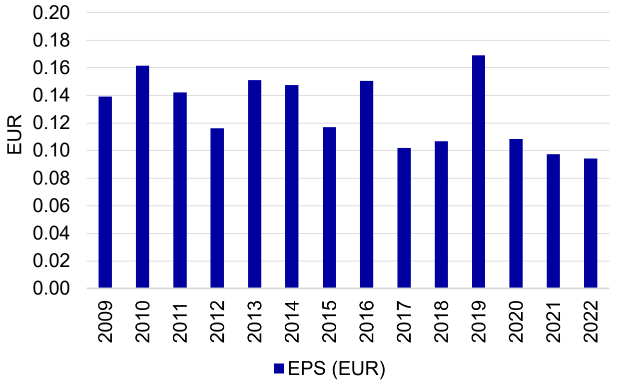


Source: Company data and Nordea estimates

The external shocks in 2020 and especially in 2022 were visible in the company's market capitalisation. Currently, the share price is 30% lower than in June 2018. We forecast the company's 2023 EPS could be 22% below 2018's level, suggesting that valuation multiples have also declined.

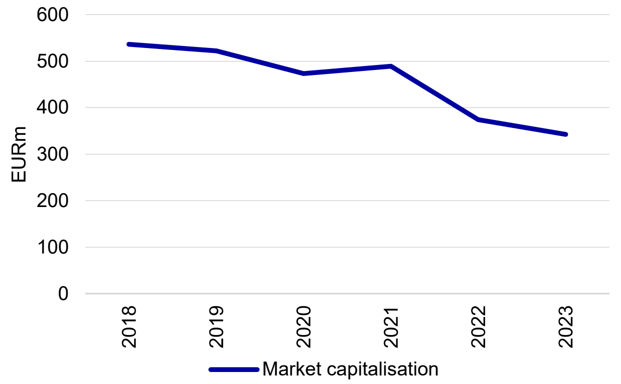
The key question regarding passenger and cargo volumes is how long the current geopolitical tension will last and if it will have a permanent effect on Tallinna Sadam's operations. Our conclusion is that the share price could be reflecting bigger financial problems for the company than warranted.

EARNINGS PER SHARE (EUR), 2014-22



Source: Company data and Nordea estimates

MARKET CAPITALISATION (EURm), 2018-23



Source: Company data and Nordea estimates

Executive management

Valdo Kalm has been CEO since March 2016

The management team has three members - the CEO, CFO and Chief Commercial Officer. Valdo Kalm has been CEO since March 2016. Before his current position, Kalm acted as CEO of Telia Eesti (formerly known as EMT). He garnered vast experience from different leading positions prior to joining Tallinna Sadam and we believe he brings invaluable knowledge. He holds a master's degree in automation and tele-mechanics from Tallinn University of Technology.

Andrus Ait has served as Chief Financial Officer and member of the management board since February 2022. Prior to the current position, he became the CFO of Riigi Kinnisvara in 2016, and he has experience from various financial positions in the company. Ait has been a member of the management board of Riigi Kinnisvara since 2019, and he used to be a member of the supervisory board of SA Kärdla Sadam (Port of Kärdla). He holds a degree in economics from Tallinn University of Technology. The former CFO, Marko Raid, left for the biotechnology company Fibenol in October 2021 and Ait has served as the company's Chief Financial Officer since then.

MANAGEMENT

Valdo Kalm
CEO

Professional experience:
- Has served as the chairman of the Port of Tallinn board since March 2016
- Previously CEO of EMT and led the company for over 20 years

Education:
- M.Sc. Automation and Telemechanics from Tallinn University of Technology

Shares: 2,828

Andrus Ait
CFO

Professional experience:
- CFO since 2022
- Previously various financial positions at Riigi Kinnisvara AS

Education:
- M.Sc. Econ. from Tallinn University of Technology

Shares: 1,513

Margus Vihman
CCO

Professional experience:
- Member of the Port of Tallinn board since 2016
- In charge of commercial activity at Port of Tallinn
- Previously worked as a sales director for Krimelte OÜ, regional sales director at Ruukki and regional director at Henkel Makroflex

Education:
- M.Sc. International Business Administration from Estonian Business School

Shares: 22,486

Source: Company data and Nordea estimates

Margus Vihman has acted as Chief Commercial Officer since 2016. Vihman manages the company's commercial activities, including sales and customer relations. Prior to Tallinna Sadam, he was sales director at Krimelte and Ruukki, and he provides valuable strategic and tactical sales planning expertise. Vihman holds a degree in international business administration from the Estonian Business School.

The board of directors

The supervisory board is led by Riho Unt and comprises six to eight members, each appointed for a term of up to five years. The members are selected by the general meeting of shareholders.

Riho Unt became a member of the supervisory board in July 2020. Prior to his current position, he served as Head of SEB Baltic and SEB Estonia, along with being a senior advisor at SEB. Unt holds a master's degree in both administrative management from Tallinn University of Technology and business administration from University of Tartu. He has extensive experience from the banking sector and international management.

Marek Helm has been a member of the supervisory board since July 2022. He possesses extensive experience in leadership and digital engineering, acting as the current CEO of GScan. Previously, Helm served as general manager for the Middle East and Africa at Nortal, as CEO of the Estonian Tax and Customs Board, and as the Deputy Secretary General on Public Governance Policy of the Ministry of Finance. He holds a master's degree in public administration from Tallinn University of Technology and a bachelor's degree in customs from The Estonian Academy of Security Sciences.

Veiko Sepp has been a member of the supervisory board since July 2020. Previously, he served as chairman of the management board of Ericsson Eesti, and he is currently member of the management board of AS Levira. Veiko Sepp holds a master's degree from the Faculty of Automation of Tallinn University of Technology.

BOARD MEMBERS

Riho Unt
Chairman

Professional experience:
- Member of the supervisory board since 2020
- Previously head of Baltic at SEB and chairman of the management board of SEB Estonia
- 20 years of experience in the banking sector

Education:
- Masters in Business Management from University of Tartu

Shares: 0

Marek Helm
Member

Professional experience:
- Member of the supervisory board since July 2022
- Currently the CEO of Gscan
- Background from various management positions e.g. Nortal AS, Estonian Tax and Customs Board and many more governmental roles

Education:
- Masters in Public Administration from Tallinn University of Technology

Shares: 0

Veiko Sepp
Member

Professional experience:
- Member of the supervisory board since July 2020
- Member of the management board at AS Levira
- Previously chairman of the management board at Ericsson Eesti AS

Education:
- Masters, Automation from Tallinn University of Technology

Shares: 7,258

Source: Company data and Nordea estimates

Maarika Honkonen has served as a member of the Supervisory Board since April 2018. Currently, she is partner at New Seven OÜ and Baltic Hospitality Forum. Honkonen has acted as manager of the Estonian Hotel and Restaurant Association and has been a member of the management board of ERGO Insurance. She holds a degree in business administration from Tallinn University of Technology.

Kaur Kajak has acted as member of the supervisory board since April 2022. He is currently a member of the supervisory board of AS Eesti Raudtee and Undersecretary of State for Administrative policy. Kaur Kajak has prior experience as director of the Consumer Protection and Technical Regulatory Authority. He holds a master’s degree from the Institute of Political Science of Tallinn University and a rescue engineering degree from Estonian Academy of National Defence.

Risto Mäeots has been member of the supervisory board since July 2022. He is acting as CEO of Magnetic MRO and is founder and chairman of the supervisory board of Estonian Aviation Cluster. Mäeots holds a master’s degree in production engineering from Tallinn University of Technology and a bachelor’s degree in aircraft maintenance from Tartu Aviation College.

Ain Tatter has served as member of the supervisory board since July 2022. Currently, he acts as Director of Road and Railways Department in the Ministry of Economic Affairs and Communications. Tatter is also a supervisory board member of AS Eesti Loots and has experience as board member of AS Saarte Liinid, AS Eesti Raudtee and AS Eesti Teed. He holds an automotive engineering diploma from the department of mechanics of Tallinn University of Technology.

BOARD MEMBERS

			
Maarika Honkonen Member	**Kaur Kajak** Member	**Risto Mäeots** Member	**Ain Tatter** Member
Professional experience: • Member of the supervisory board since April 2018 • Partner at Baltic Hospitality Forum and New Seven OÜ • Previously manager of the Estonian Hotel and Restaurant Association	**Professional experience:** • Member of the supervisory board since April 2022 • Undersecretary of State for Administrative Policy and supervisory board at AS Eesti Raudtee • Previously Director of the Consumer Protection and Technical Regulatory Authority	**Professional experience:** • Member of the supervisory board since July 2022 • CEO of Magnetic MRO AS and founder and chairman of the supervisory board of Estonian Aviation Cluster	**Professional experience:** • Member of the supervisory board since July 2022 • Director of Road and Railways Department in the ministry of economic affairs and communications • 20 yearst of experience in strategic management of state-owned infrastructure companies
Education: • Masters in Business Administration from Tallinn University of Technology	**Education:** • Masters in Political Science from Tallinn University	**Education:** • M. Sc. Engineering from Tallinn University of Technology	**Education:** • Automotive Engineering Diploma, Tallinn University of Technology
Shares: 0	**Shares: 0**	**Shares: 0**	**Shares: 0**

Source: Company data and Nordea estimates

Shareholders

The main owner is the state of Estonia

The company has more than 24,000 shareholders. The main shareholder, the state of Estonia, holds 67% of the shares and votes in Tallinna Sadam.

The main objective of the state as the majority shareholder is to drive the country's strategic initiatives in the maritime and logistics sectors. The secondary objective of the state is to secure stable and growing dividend payments. Our conclusion is that the main owner follows a long-term vision.

Foreign ownership is relatively low, at 8% in 2022 (2021: 10%). The largest foreign shareholder was EBRD (European Bank of Reconstruction and Development) with a 3.6% ownership. EBRD is a financial institution owned by 71 countries, along with the European Union and the European Investment Bank.

Other big shareholders include Nordic financial services group SEB Varahaldus, with a main focus on pension fund management. The fourth-largest shareholder is LHV Asset Management, which is an Estonian pension fund enterprise. The four largest shareholders collectively own 75% of the company, while the remaining 25% is widely dispersed between all the remaining shareholders. It is also notable that 41% of shareholders own only 200 shares or fewer.

The company does not hold any of its own shares. Similarly, the management team does not have significant ownership in Tallinna Sadam.

MAIN SHAREHOLDERS (June 10, 2023)

	Name	Shares	%		Name	Shares	%
1	Majandus- ja Kommunikatsiooniministeerium	176,295,032	67.0%	11	LHV Pensionifond XL	1,010,302	0.4%
2	EBRD	9,350,000	3.5%	12	Nordea Bank	934,925	0.4%
3	SEB Progressiivne	6,484,365	2.5%	13	Citibank OP Custody	934,621	0.4%
4	LHV Pensionifond L	5,536,570	2.1%	14	BNP Paribas	885,463	0.3%
5	AB SEB Bankas	1,773,658	0.7%	15	Swedbanki Pensionifond 1980-89	717,236	0.3%
6	Interactive Brokers	1,629,856	0.6%	16	Barrington	704,479	0.3%
7	SEB Banka	1,621,168	0.6%	17	LHV Pensionifond M	704,332	0.3%
8	SEB Energiline Pensionifond	1,411,812	0.5%	18	Swedbank AB Clients	639,584	0.2%
9	Swedbanki Pensionifond 1970-79	1,132,544	0.4%	19	Hans Palla	600,000	0.2%
10	Citibank DNB	1,050,000	0.4%	20	AS Estonia Klaverivabrik	515,421	0.2%

Source: Nasdaq

Historical financials

The company has invested significantly in its properties in the past 20-year period. Its operating profit margin and yield on invested capital were usually close to international port utility peers. However, recent years (2020-22) have not been easy for the Port of Tallinn. Nevertheless, its balance sheet is strong, debt is not a problem and passenger traffic is on a recovering trend. Tallinna Sadam is also investing in new growth in the form of an offshore wind harbour. The company's business is highly seasonal, with Q3 usually the highest in terms of revenues and Q4 the weakest when looking at operating profit margin.

The sector is capital-intensive

Marine port operations require plenty of investment

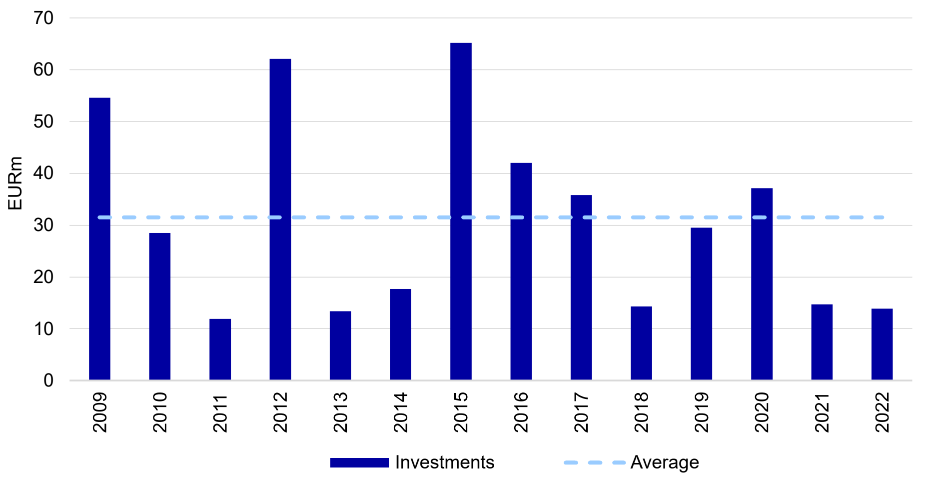
The sector is capital-intensive. A marine port is like a large factory that works at relatively low frequency. Growth investments require an especially large amount of capital. Cumulative investments have totalled EUR 441m in the past 14 years, which is more than its current market capitalisation. Annual average investments have been EUR 31m in the same period.

Investments were halted in 2021 due to the pandemic, although annual investments could once again exceed average levels as early as next year due to investments in Paldiski. The company has neither a fixed hurdle rate over WACC for new investments nor a long-term ROI target. Each investment decision is considered separately.

Average return on invested capital was 9.1% in 2018-19, but it declined to 5.3% in 2021-22 due to the pandemic and Russian sanctions. The current ROI percentage run-rate looks very modest compared with the prevailing higher interest rate environment, but a recovery in passenger traffic should improve the yield for invested capital.

Average annual investments have been EUR 31m

ANNUAL INVESTMENTS (EURm)



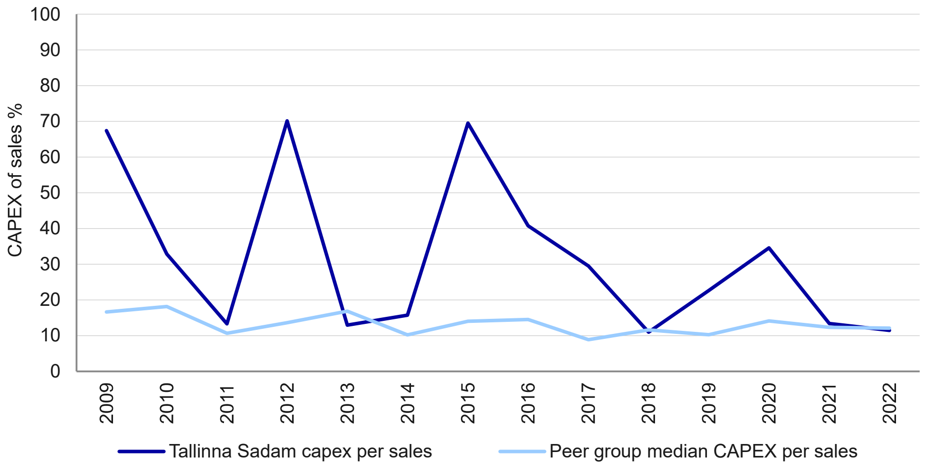
Source: Company data and Nordea estimates

Tallinna Sadam's capex per sales averaged 32% in 2009-22, whereas the peer group's median during the same period was 13% of sales. This difference is explained by major investments on different occasions. In 2012, the company invested in the construction of liquefied natural gas (LNG) bunker facilities. In 2015, a major investment concerning passenger ferries construction was started, while in 2016 the company invested in new infrastructure, information and passage access systems, along with additional construction of passenger ferries.

Investments in 2020 included the reconstruction of passenger terminal D in Tallinn, the building of a multi-storey carpark along with an onshore power supply system and auto-mooring equipment. During years with fewer investments, its capex to sales ratio was relatively similar to its peer group median, as illustrated below.

Tallinna Sadam's capex per sales averaged 32% in 2009-22

INVESTMENTS OF REVENUES (%)



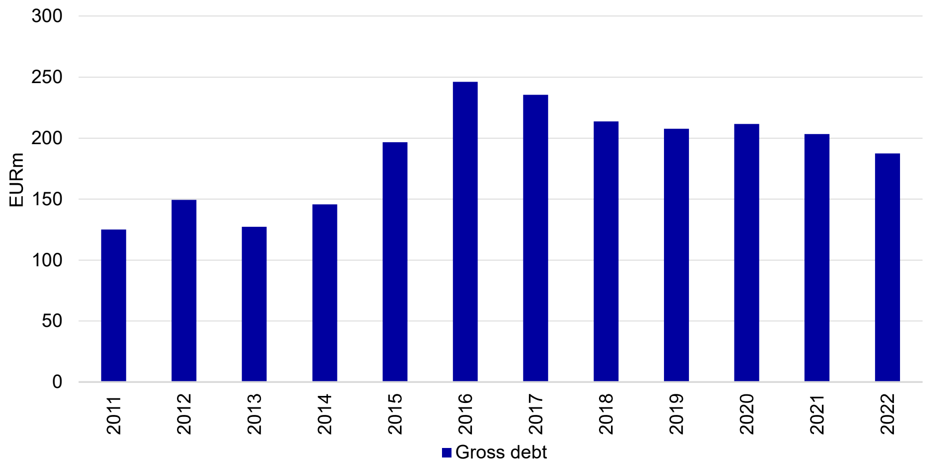
Source: Company data, Refinitiv and Nordea estimates

Gross debt has gradually declined since 2016

Gross interest-bearing debt averaged EUR 137m in 2011-14. An increase in interest-bearing debt in 2014-16 was related to long-term investments, including the construction of four ferries during the period. Since 2016, gross debt has gradually declined to EUR 187m. However, gross debt could once again increase in the near future due to investment in the offshore wind power harbour infrastructure at Paldiski.

An increase to debt in 2014-16 was related to the construction of four ferries

GROSS INTEREST-BEARING DEBT (EURm)



Source: Refinitiv and Nordea estimates

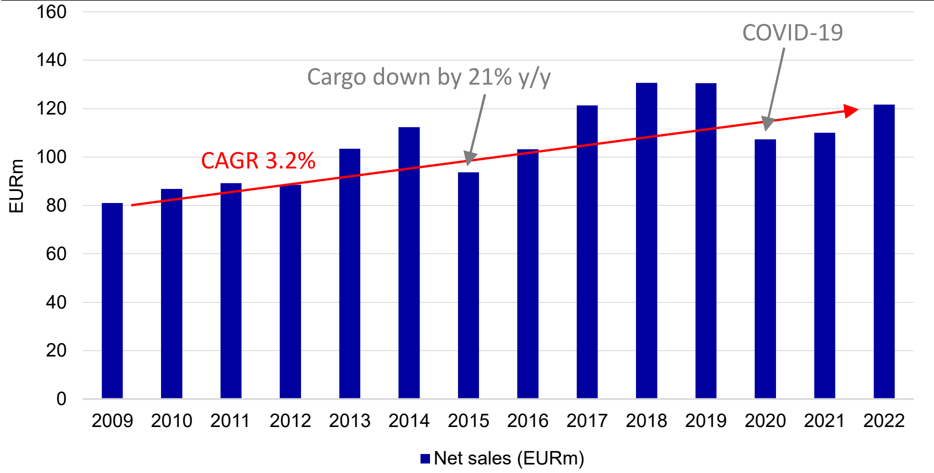
Recovery has always followed external shocks

In 2009-22, Tallinna Sadam's revenue CAGR was 3.2%, including several external shocks and subsequent recoveries. In 2015, the company was affected by sanctions imposed on Russia, as well as the unstable macroeconomic environment and weak global growth. The sanctions in 2015 hindered Russian imports and exports, leading to a 40% decline in the latter and reducing Tallinna Sadam's cargo volume significantly. In the following years of 2016-18, it was able to grow cargo volumes thanks to positive developments in the global economy and a rise in domestic consumption.

In 2020-21, the pandemic hurt the passenger harbours segment, with restrictions and quarantine requirements diminishing passenger traffic drastically. The company has recovered from this shock to some degree, although the war in Ukraine hot on the heels of COVID-19 might hinder its overall near-term recovery.

Long-term average revenue growth rate has been 3.2%

ANNUAL NET SALES (EURm)



Source: Company data and Nordea estimates

The EBIT margin average was 44% in 2009-19, but it declined to 26% in 2021-22. Annual average EBIT growth was 3.5% before external market shocks, but -1.3% in 2009-22. We conclude that Tallinna Sadam has done a stellar job, but has been hampered by COVID-19 and Russian sanctions.

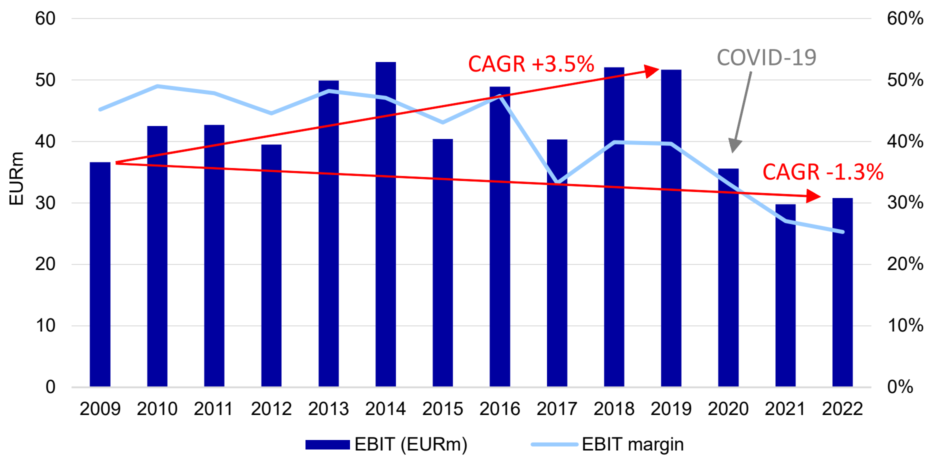
Passenger harbours segment results have been improving since autumn 2021, but the sanctions affecting cargo volumes progressively expanded in 2022. The Government of Estonia decided in October 2022 to ban the import and transit of Russian oil products, effective from 5 December 2022.

Russian and Belarusian cargo was EUR 3.7m of total cargo in 2022

The negative impact of the sanctions against Russia and Belarus on financial results was around EUR 3.5m last year. Russian and Belarusian cargo accounted for EUR 3.7m of the company's total cargo throughput in 2022, which could vanish in 2023. Thus, an additional decline to its net result in 2023 could be around EUR 3.5m.

EBIT CAGR was 3.5% before COVID-19

REPORTED OPERATING PROFIT (EURm) AND EBIT MARGIN (%)



Source: Company data and Nordea estimates

Q3 tends to generate the most revenue

Seasonality is relatively strong

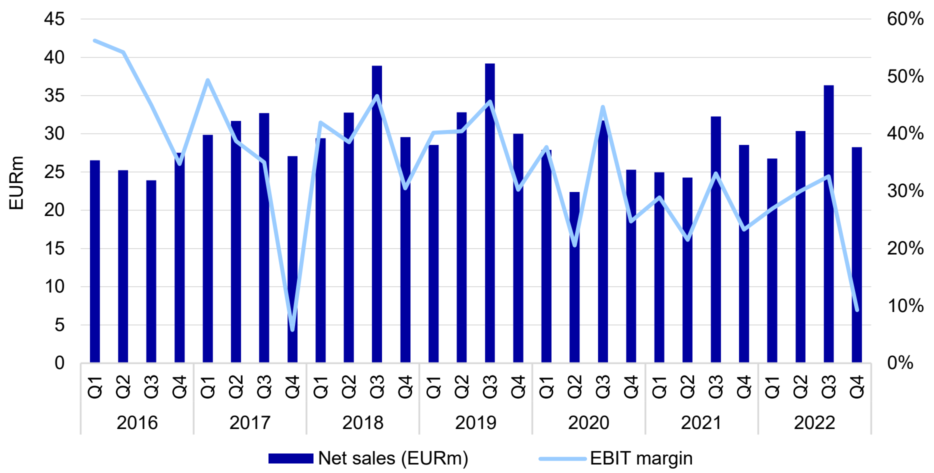
Looking at quarterly developments since 2016, we see that Q3 tends to generate the most revenue. While the ferry and cargo segments remain relatively stable throughout the year, passenger traffic is generally busiest during Q3. Similarly, the company's EBIT margin is the highest during Q3, with the exceptions being 2016 and 2017.

Tallinna Sadam's weakest periods in terms of revenue are Q1 and Q4, due to low passenger traffic during the winter season. Moreover, the company's EBIT margin is usually at its lowest during Q4. Operating and personnel expenses are typically proportionally greater in Q4 than in the following Q1, thus making Q4 the seasonally weakest quarter in terms of EBIT margin.

In Q4 2017, Tallinna Sadam had a one-off impairment loss related to the icebreaker Botnica, which explains the very low EBIT margin. In Q4 2022, the company's cargo business was negatively affected by the sanctions that the Western world imposed on Russia and those that Estonia imposed on Belarus. These countries account for some 40% of Tallinna Sadam's cargo throughput, explaining the drop in both revenue and EBIT margin during the quarter.

The company's EBIT margin is usually at its lowest during Q4

NET SALES (EURm) AND EBIT MARGIN (%) BY QUARTER



Source: Company data

Market development

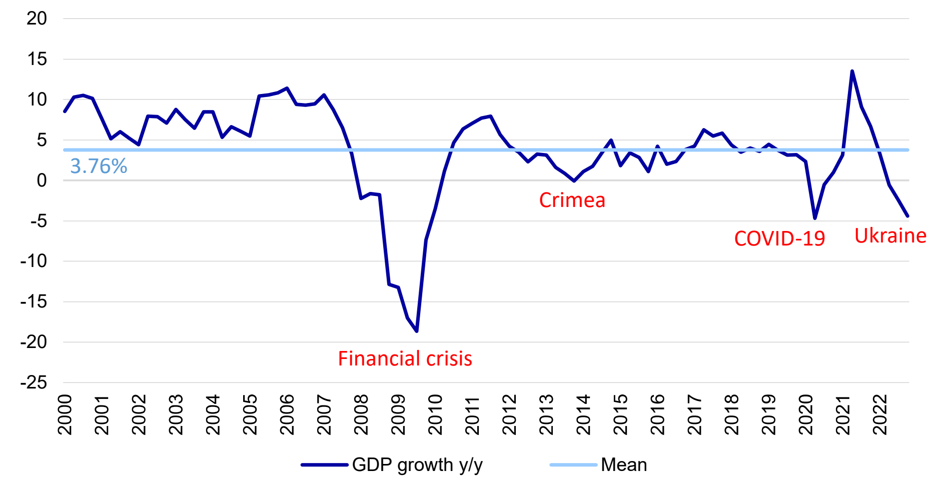
In terms of vessel traffic, the Baltic Sea is one of the busiest inland seas in the world. Almost 85 million people live in the catchment area and vessels are one of the main means of transport for passengers and cargo in the region. The lion's share of traffic is between the countries' capitals, which are all located on the coast. Moreover, the ropax concept is a very economically viable solution on the Helsinki-Tallinn route, because cargo and passenger traffic support each other. From a global perspective, Tallinna Sadam is still a small marine port, but there is no need for it to compete against Rotterdam or Singapore. International passenger ferry traffic is recovering after COVID-19, but there is short-term market turbulence caused by Russian sanctions and cargo traffic, as the EU has banned imports of crude oil and refined petroleum products from Russia, including diesel fuel. Long-term drivers in the market are changes in global supply chains, digitalisation and automation, and the emergence of environmentally friendly and sustainable solutions for seaborne transportation.

Macroeconomic environment

The Estonian economy recovered swiftly from the pandemic

The Estonian economy has demonstrated strong growth momentum over the last two decades, with almost 4% GDP growth per year on average. Estonian GDP per capita was just 35% of the euro area average in 2000, but rose to 80% of the average in 2021, outperforming some of the old countries like Greece and Portugal. The Estonian economy recovered swiftly from the COVID pandemic, and Estonia was one of the fastest-growing countries in Europe in 2021 with 8% GDP growth. 2022 was a challenging year for the Estonian economy, as high energy prices resulted in skyrocketing inflation and subdued domestic demand. However, the medium-term outlook for the Estonian economy is strong in spite of the short-term weakness.

MONTHLY ESTONIAN GDP GROWTH, Y/Y



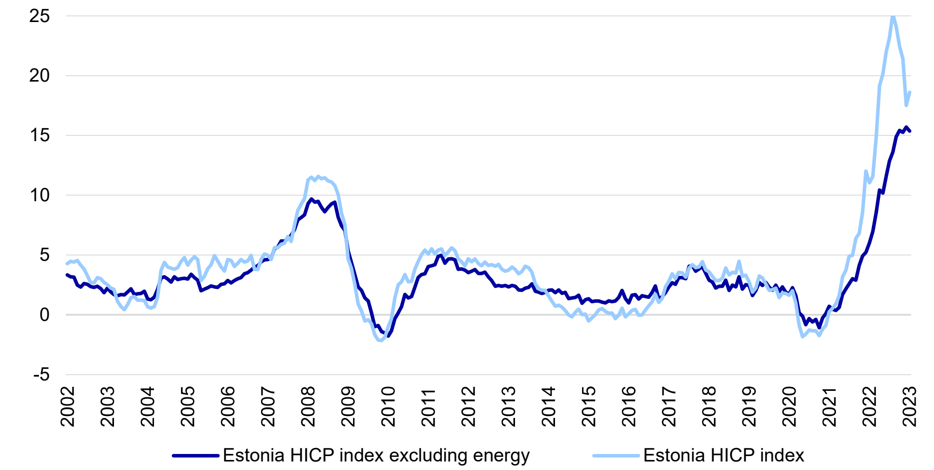
Source: Nordea estimates

The Russian invasion of Ukraine and the ensuing energy crisis have had a particularly strong negative impact on the Estonian economy during the past year. The rise in energy prices has been particularly pronounced in the country due to its high dependence on fossil energy sources such as crude oil and natural gas. Consumers' total energy bills doubled in August 2022 y/y, pushing overall inflation up to 25%.

Private consumption declined y/y in Q4 2022

In recent months, energy prices have moderated, bringing inflation down from its peak. However, inflation was still high at 13% in April, but a strong pass-through of energy prices to other inflation components has taken core inflation (inflation excluding energy and unprocessed foods) down to 15%. Wages are increasing at an annual rate of 9%, which means that households' purchasing power is deteriorating significantly. People are using their savings accumulated during the pandemic to cover increasing costs, but private consumption still declined in the last quarter of 2022.

INFLATION IN ESTONIA (%)



Source: Nordea estimates

The labour market remains strong despite slowing economic growth

The labour market remains strong despite slowing economic growth. The unemployment rate was 5.2% in January 2023 and is still declining. Public finances also remain strong despite higher deficits in recent years driven by COVID-19 and the energy crisis. Public debt is still below 20% of GDP and is not creating problems for the country, even though interest rates are on the rise. Higher interest rates are set to affect consumption and construction activity, given the prevalence of flexible interest rates in Estonian loan contracts.

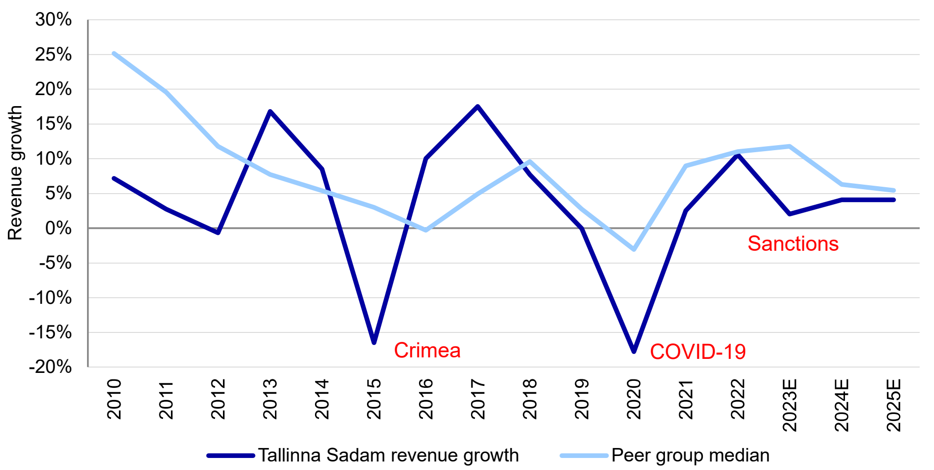
Estonian GDP contracted by 1.6% (q/q) in the last quarter of 2022, pushing annual growth to -1.1% in 2022. Despite comprehensive sanctions imposed on Russia by the EU, Estonian exports grew last year, as only 3.6% of Estonian exports go to Russia. Imports from Russia declined significantly and new sanctions on petroleum will widen the gap further. The biggest export countries for Estonia are Finland (14.6%), Latvia (14.1%) and Sweden (9.2%). Estonia is a small and open economy, so the economic situation is highly dependent on the global development.

The European Commission forecasts 2.8% y/y GDP growth in Estonia in 2024

The European Commission forecasts the Estonian economy to see modest growth in 2023, as the current headwinds, notably inflation, weak external demand and low confidence, are expected to gradually subside and fiscal policy to turn expansionary. Next year is set for a more robust increase, projected at 2.8%, driven by a revitalisation of export demand and private consumption, and a resilient labour market.

Tallinna Sadam's revenue growth in 2022 was influenced by the recovery from COVID-19 and the war in Ukraine, which had opposing effects on the harbour operations. Our current forecast for revenue growth in 2023 is 2%. Revenue growth for 23 selected port utilities showed a slightly better growth pattern than for Tallinna Sadam in 2018-22.

PEER GROUP MEDIAN REVENUE GROWTH, 2010-23E



Source: Refinitiv and Nordea estimates

The competitiveness of Tallinna Sadam

The company is exposed to competition in the cargo business and for its icebreaker Botnica's summer work. The passenger business is a natural monopoly, and for ferries the competition comes in ten-year intervals due to the tender processes.

Big global ports such as Rotterdam, Los Angeles and Singapore are not direct competitors, but the business logic of ports is usually the same in all countries. Tallinna Sadam's competition is more concentrated to the narrow geographical area of the Baltic Rim, in some cases even to the east of the Baltic Rim. But economic cycles are broadly the same for all ports in Europe. The macroeconomic situation usually affects cargo volumes and is also visible in cruise passenger volumes, though not in domestic ferry operations.

Goods that are not on the sanction lists do still travel in and out of Russia

For cargo traffic, competitiveness is usually determined by geographical position. Tallinna Sadam needs to be conveniently located between a sender and an end customer to attract cargo flows. Cargo volumes between Russia and Europe have declined, which creates a headwind for the Port of Tallinn. But Russian ports have also lost their competitive edge due to the war in Ukraine, which could favour the Port of Tallinn for remaining cargo traffic.

The company has actively reduced east-west cargo traffic since 2007 and has been working to increase north-south flows instead. It should be noted that ordinary goods that are not on the sanction lists do still travel in and out of Russia.

Russian ports have large volumes, but as they serve Russian imports and exports and Russia directs its own cargo through its own ports, Tallinna Sadam no longer considers Russian ports to be real competitors.

In total volume terms, the bulk shipping of commodities dominates global trade. European bulk terminals tend to be dependent on volumes from between two and five bigger companies operating in the vicinity. For example, a steel, forest, energy or chemical company usually generates logistics streams for raw materials or end products for a port close to its production or processing units. We consider Tallinna Sadam's competitive edge to be its relationships with the material companies and shipping companies required to bring the flow of materials and vessels to the terminals.

COMPETITORS IN THE BALTIC SEA

Biggest cargo ports			Biggest passenger ports		
#	Port	Country	#	Port	Country
1	Ust-Luga	Russia	1	Helsinki	Finland
2	Primorsk	Russia	2	Stockholm	Sweden
3	Gdansk	Poland	3	Tallinn	Estonia
4	Klaipeda	Lithuania	4	Turku	Finland
5	St. Petersburg	Russia	5	Mariehamn	Finland
6	Gdynia	Poland	6	Gdynia	Poland
7	Kilpilahti	Finland	7	Ventspils	Latvia
8	Riia	Latvia	8	Klaipeda	Lithuania
9	Tallinn	Estonia	9	Naantali	Finland
10	Vossotsk	Russia	10	Gdansk	Poland
11	Helsinki	Finland	11	Liepaja	Latvia

Source: BalticCruise, Company data and Nordea estimates

New industrial investments could bring new customers and create a significant growth option for Tallinna Sadam. For instance, the Norwegian company Blastr is considering making a EUR 4bn investment in a steel factory in Inkoo in Finland, which could increase scrap metal and iron ore shipments to and from the Port of Tallinn notably.

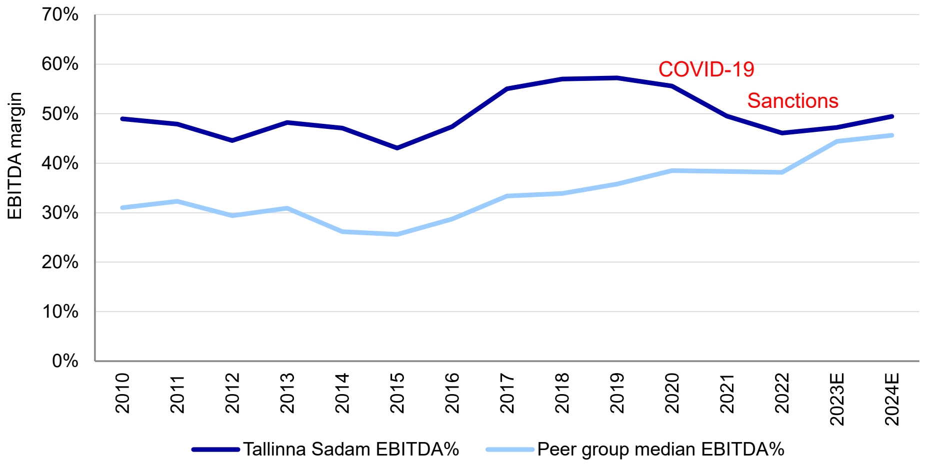
The competitiveness of terminals depends on a number of issues including the speed of turnaround for loading and discharge, as well as throughput capacity. A high degree of automation and electronic monitoring or tagging also gives a competitive edge. Competition for passenger ports, at each end of the line, is mainly associated with the attractiveness of the regions/cities where they are located.

The Port of Tallinn charges slightly higher tonnage prices than the sector average

Rates are another competitive factor with which to attract traffic flows to the port. Tallinna Sadam uses tonnage pricing but takes into account overall market conditions. Furthermore, big customers usually get discounts on list fees. Our analysis shows that the Port of Tallinn charges slightly higher tonnage prices than the sector average. However, the Port of Helsinki has even higher vessel dues than Tallinn, according to our analysis. The Port of Stockholm has lower fees than Tallinn, we believe.

A relatively good run in the global economy in 2015-23 has supported the average EBITDA margin in the overall port utility sector. Tallinna Sadam also improved its profitability in 2015-19, but COVID-19 and the war in Ukraine had a stronger impact on the company's operations than for the sector on average. A port operator usually has high EBITDA margins due to relatively high depreciation. Return on invested capital is usually below 10%, which highlights the capital-intensive nature of the business model.

PEER GROUP EBITDA MARGINS, 2010-24E



Source: Refinitiv and Nordea estimates

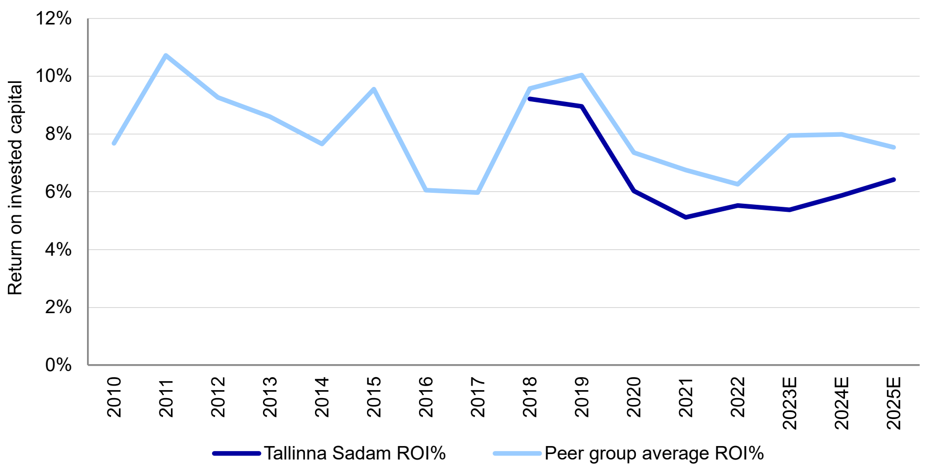
Several big international ports have run out of land area. Singapore's Maritime and Port Authority will spend USD 1.8bn on filling in the sea, while Rotterdam needs to spend EUR 2.9bn on acquiring more land area. There is no need for Tallinna Sadam to reclaim land from the sea, because the Muuga cargo terminal has enough land to grow. We conclude that growth investments are not as expensive for Tallinna Sadam as for some of the major global maritime ports.

For capital-intensive port investments, good management of capital expenditure is crucial for survival and growth. One solution for improving yields on invested capital is to make existing marine ports more efficient rather than merely larger.

Tallinna Sadam's return on invested capital was close to the industry average in 2018-19. The global port utility sector is expected (Refinitiv) to reach a 8% return on invested capital again in 2023-24, whereas Tallinna Sadam's could remain below 6%.

The global port utility sector could reach an 8% return on invested capital again in 2023-24

PEER GROUP RETURN ON INVESTED CAPITAL, 2010-23E



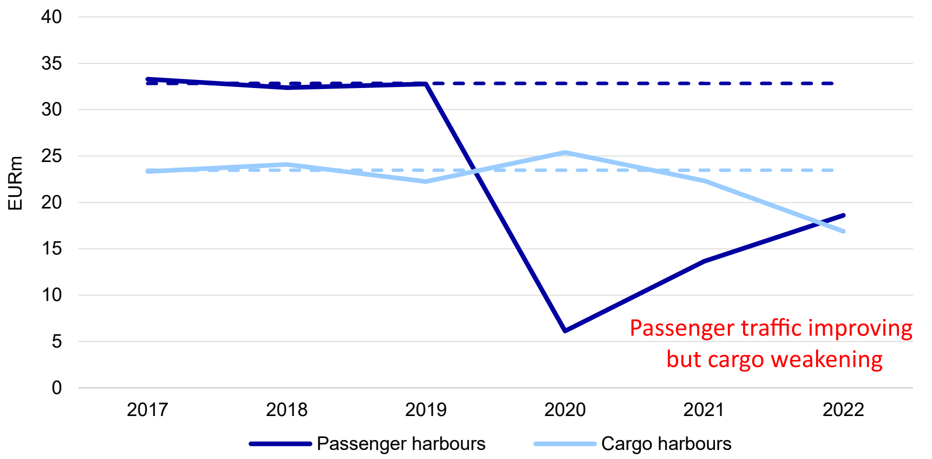
Source: Refinitiv, company data and Nordea estimates

The main reasons for Tallinna Sadam's weakening competitive edge were related to the Passenger Harbours segment in 2020 and Cargo Harbours in 2022. The chart below highlights the EBITDA delta versus the pre-COVID-19 situation in both segments.

Large global ports usually have one major competitive strength. Singapore has a big international maritime services centre, Rotterdam has a major industrial development area attached, and Shenzhen has a free trade zone. East-west cargo flows have been the Port of Tallinn's competitive strength.

Our conclusion is that a geopolitical location close to Russia was originally a strength due to high material flows, until sanctions came into effect. However, a possible change of regime in Russia could alter the situation in the long term.

TALLINNA SADAM: ANNUAL EBITDA FROM CARGO AND PASSENGER HARBOURS (EURm)



Source: Company data and Nordea estimates

Passenger traffic is on a stable growth trend

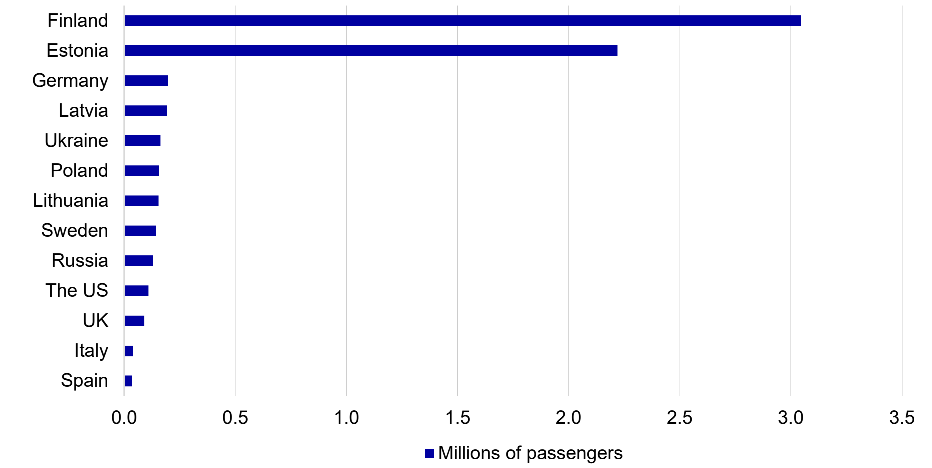
Shuttle traffic between Tallinn and Helsinki is one of the company's core strengths. Over 77% of passengers originate from Estonia or Finland.

The distance between Helsinki and Tallinn is around 80 kilometres. This is slightly too far for them to be designated twin cities but short enough to enable daily or weekly work-related travelling. The similar economic, social and cultural backgrounds of Finland and Estonia also provide a good basis for increasing economic activity between the countries. Combined, imports and exports between Finland and Estonia amount to some EUR 3.5bn a year.

The Port of Tallinn already has around a 100% market share on Tallinn-Helsinki routes, and therefore growth will not be derived from market share gains. Tallink, a shipping company, had 3.1 million passengers on Estonia-Finland routes in 2022. However, the arrival of a new ship (Tallink MyStar) creates growth expectations for this year in terms of passenger numbers between Helsinki and Tallinn.

Shuttle traffic between Tallinn and Helsinki is one of the company's core strengths

TALLINNA SADAM: ANNUAL PASSENGERS BY COUNTRY (MILLIONS), 2022

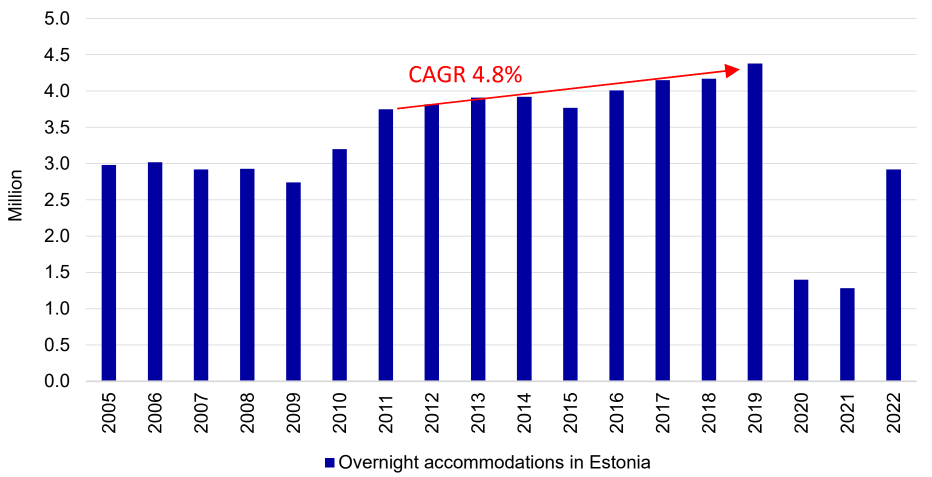


Source: Company data

Foreign overnights in Estonia were 33% of the 2019 level in 2022, which suggests that numbers have not fully recovered yet. It is notable, however, that in January 2023 there were more than 82,000 foreign tourists accommodated in Estonia, which is an increase of 54% y/y. Furthermore, roughly 80% of these tourists were accommodated within Harju County, in which Tallinn is located. Similarly, the number of accommodated Finnish and Latvian visitors grew by 310% and 130%, respectively, when comparing 2022 to 2021.

Russians accounted for 0.5 million of the total foreign overnight accommodations in Estonia in 2019. We do not expect this market to recover back to ordinary levels in the near future. On the other hand, domestic tourism, along with visitors from the neighbouring countries, is on the rise. Accommodation turnover for Estonian tourism businesses was almost back to pre-pandemic levels in late 2022 and early 2023.

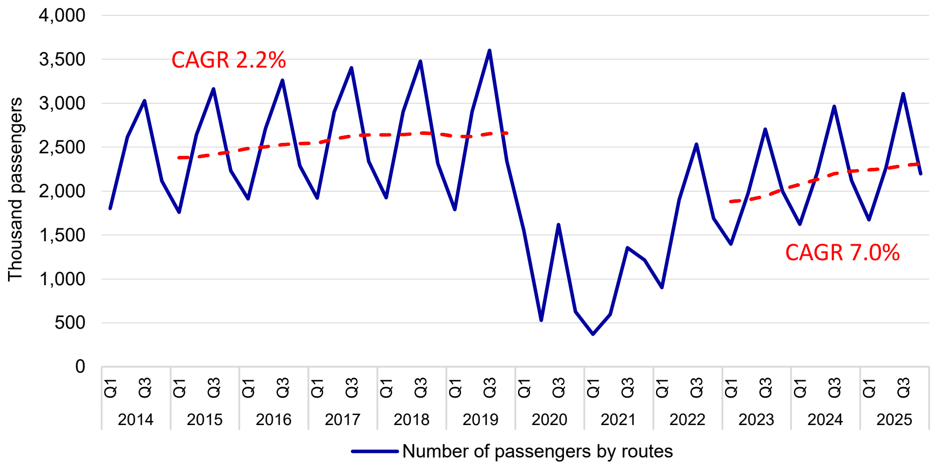
FOREIGN OVERNIGHT ACCOMMODATIONS IN ESTONIA



Source: Statistics Estonia

In 2014-19, the number of passengers on international routes grew by 2.2% per year on average (CAGR). The pandemic caused passenger traffic to drop drastically, but we have seen a decent recovery lately. The number of passengers fell from 10.6 million in 2019 to 4.3 million in 2020 and 3.5 million in 2021. Even though the war in Ukraine has affected tourism in the Baltic Sea region, the number of passengers was still clearly higher at 7.0 million in 2022 than in 2020. While the 2022 passenger numbers were around 33% shy of the pre-pandemic level, we can expect a future growth rate of 7% (CAGR) in 2023-25. The biggest non-Tallinna Sadam passenger routes are Sweden-Finland, while the Tallinn-Helsinki route had around 6.2 million passengers in 2022.

TOTAL NUMBER OF PASSENGERS ON INTERNATIONAL ROUTES



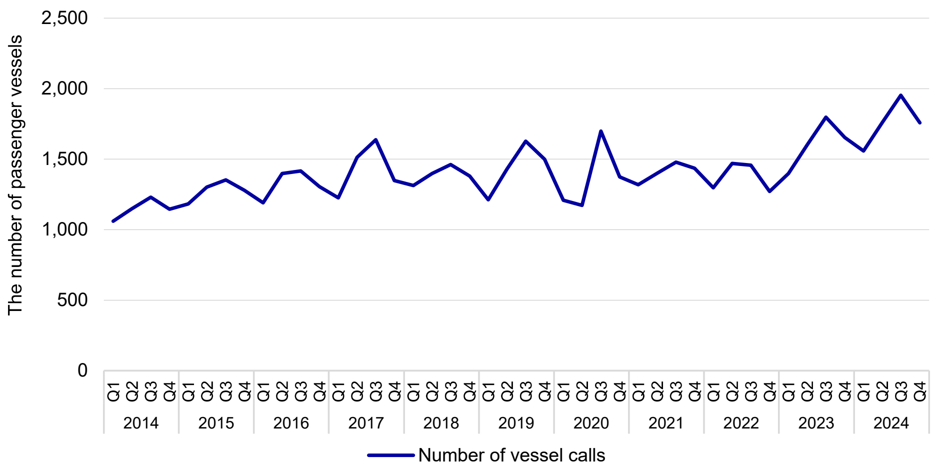
Source: Company data and Nordea estimates

The number of cruise calls could be around 100-120 in 2023

Tallinna Sadam's vessel calls (pax and ropax) were down 3% in 2022. The decline was strongest in Q4 2022, when the number of vessel calls almost reached an eight-year low due to the delay of Tallink MyStar. Before the war, St. Petersburg was also one of the main attractions boosting cruise ship calls in the Baltic Sea region. We assume the number of cruise calls will drop to around 100-120 in 2023, while the number was 172 in 2022.

We expect a recovery to pre-pandemic levels, aided by the lifting of restrictions and cruise companies redesigning their routes. The compound annual growth rate for vessel calls before the pandemic and the Russia-Ukraine war was around 1% in 2015 -21, and we could see a similar stable growth rate once the business environment normalises again. The closure of St. Petersburg could also bring more Swedes and Finns to Estonia in the medium term.

TALLINNA SADAM: VESSEL CALLS PER QUARTER (PAX AND ROPAX)

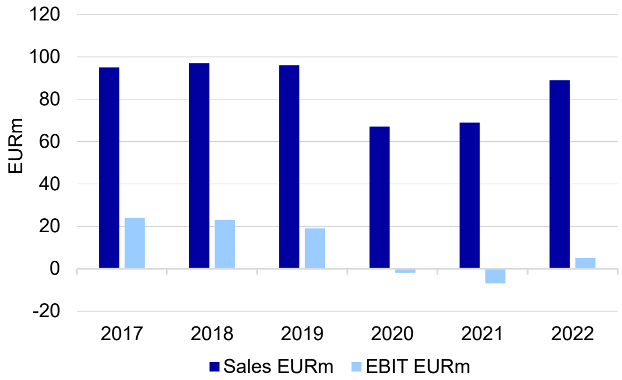


Source: Company data and Nordea estimates

In 2022, Tallinna Sadam reached an agreement with Tallink regarding the port dues charged for all passenger ferries visiting Old City Harbour. According to the new ten-year contract, Tallinna Sadam has reduced tonnage charges and passenger fees by 10% for all customers. The negative effect of the discount offered to passengers and ROPAX vessels visiting Old City Harbour and operating on regular routes could have been EUR 2m in 2022, we calculate.

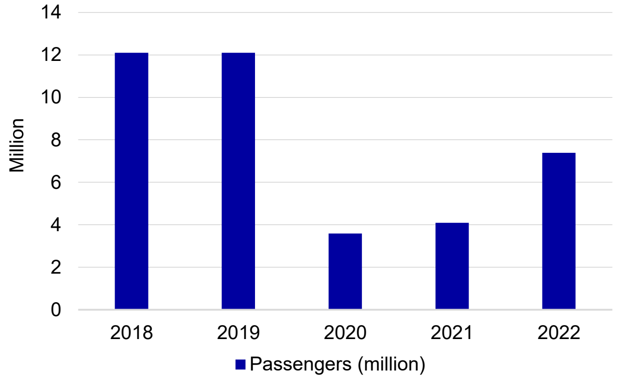
The other main passenger harbours of the eastern Baltic Sea include the Port of Helsinki and the Port of Stockholm. The former has been recovering revenue-wise from the pandemic, almost reaching the 2019 level. Overall, the Port of Helsinki's revenue in 2022 was around EUR 90m, lower than Tallinna Sadam's EUR 122m revenue. In terms of passengers, the Port of Stockholm recorded about 12 million passengers before the pandemic. In 2022, the number recovered somewhat to over seven million passengers, which is in line with Tallinna Sadam's passenger traffic performance over the same period.

PORT OF HELSINKI: SALES AND EBIT (EURm), 2017-22



Source: Company data and Nordea estimates

PORT OF STOCKHOLM: PASSENGERS (MILLION), 2018-22



Source: Company data and Nordea estimates

The number of Asian tourists is gradually increasing

Asia is a region fuelled by robust economic and population growth, and the company's passenger harbours benefit from an increasing influx of Asian passengers to the Baltic Sea region.

The annual number of Asian tourists in Estonia surged from around 17,000 to 100,000 during 2010-19. The global pandemic affected tourism drastically, but the numbers are greatly rising again.

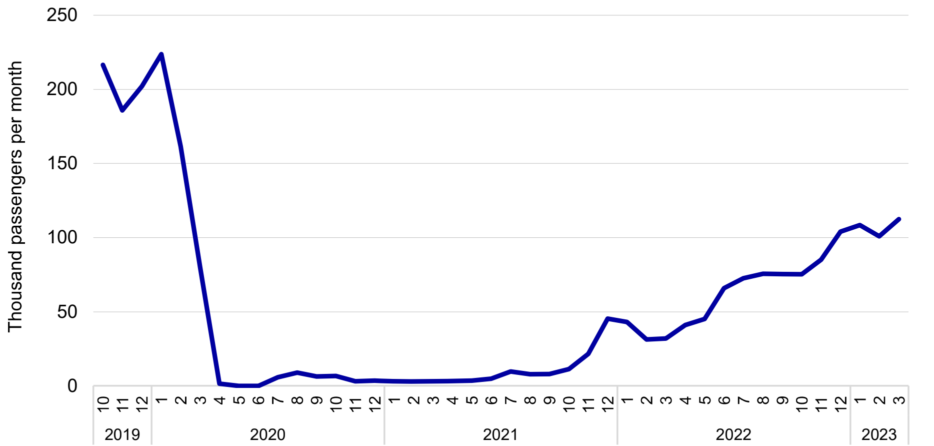
According to numerous estimates, the number of Asian tourists could return to pre-pandemic levels relatively soon. Furthermore, Estonia has invested in tourist services targeted at Chinese and other Asian-based tourists. Marketing campaigns are on the rise, and smaller countries like Estonia and Finland are increasingly seen as unique and exotic travel destinations for Asian tourists.

Among other countries, China sees the Baltic states as gateways to the Western European markets, which is sparking new investments in Estonia. Overall, we could see a significant rise in both tourism and business travel by Asians. Tallinna Sadam's services offer an easy and cost-beneficial option for people engaging in cross-border travel and cruises.

Air passenger volumes are being redirected to Chinese companies, which are still using Russian airspace

Asian travellers have been using Finnair's flights, but passenger volumes are being redirected to Chinese companies, which are still using Russian airspace and can fly shorter routes to Helsinki-Vantaa Airport. Finnair's passengers numbers in Q1 2023 on Asia routes were 54% of pre-COVID levels.

FINNAIR: NUMBER OF MONTHLY PASSENGERS ON ASIAN ROUTES (THOUSAND)



Source: Company data

Domestic ferry traffic should remain stable

Domestic ferry traffic volumes set to remain relatively stable under all circumstances

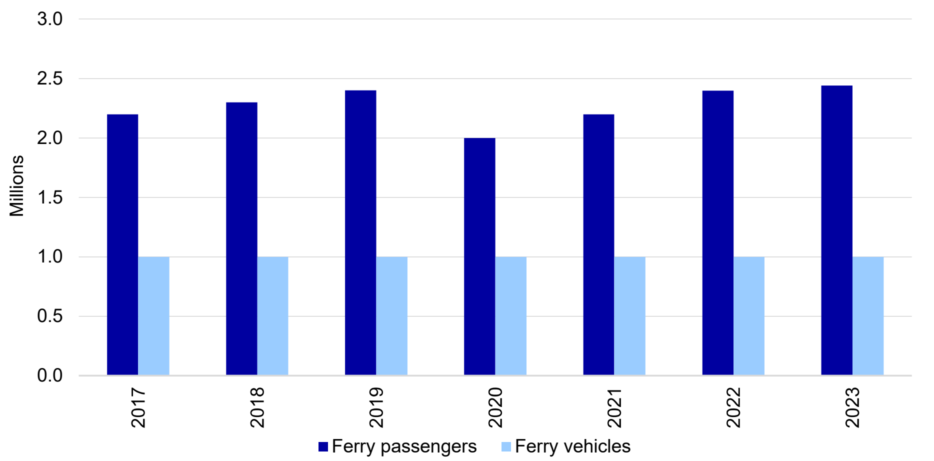
The company provides domestic ferry services between Estonia's mainland and its biggest islands (Saaremaa and Hiiumaa). The number of vehicles carried by its own ferries has typically been one million per year. This ferry traffic is not that dependent on the macroeconomic situation, competition or geopolitical tensions. Hence, we expect ferry traffic volumes to remain relatively stable under all circumstances.

According to the original ferry contract, the state of Estonia had the right to buy one to four ferries owned by Tallinna Sadam. The acquisition price would have been EUR 106m for the four newest ferries. However, the state, as the customer of the transport contract, will not use the option to buy the ferries. We believe Tallinna Sadam now has a good chance of renewing the agreement (winning the tender) with the state for the possible next ten-year period, 2027-37, because it has a suitable fleet and a cost-effective offering.

Estonia will most likely arrange the next tender offer this year

Estonia will most likely arrange the next tender offer as early as this year, so that all participants have the opportunity to build or acquire the necessary vessels before the start of the contract in 2026. Possible competitors in the tender could be Väinamere Liinid and Tallink, but the state has not yet announced a date for a tender to find a service provider for the next period. However, it could take more than two years to build a new vessel from the point of winning the tender, and so it would be very difficult, if not impossible, for competitors to have the vessels ready by the start of a new tender period. Tallinna Sadam also owns a multipurpose offshore support vessel and icebreaker MPSV Botnica, for which the company has made a ten-year agreement with the state regarding the period 2022-32. The utilisation rate for Botnica was 68-73% in 2019-22.

FERRY TRAFFIC VOLUMES (PASSENGERS AND VEHICLES) TO HIIUMAA AND SAAREMAA (MILLION)



Source: Company data and Nordea estimates

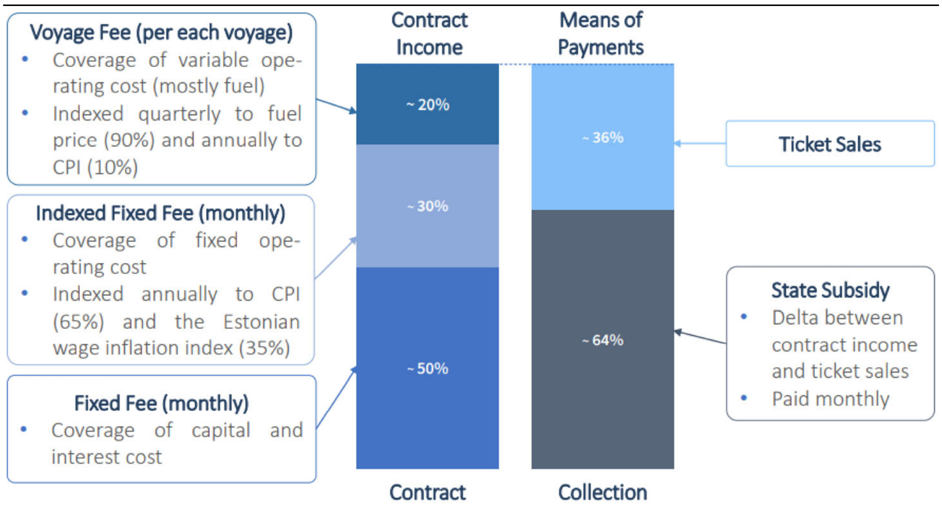
The company has five ferries, and the business model for the ferry traffic is straightforward. The Estonian state pays 100% of the contract price and ticket sales are deducted from the total subsidy amount. Ticket prices are also set by the state.

The Port of Tallinn has constructed four new ferries to handle the traffic since 2016, which is why some 50% of all expenses are attributable to the cost of invested capital. The original contract price with the state was EUR 318m over ten years.

The long-term plan could be electrification of these ships, but we do not expect Estonia to require this yet in the next tender. However, the requirement for EV ships could be one explanation as to why the state opted not to buy older vessels from Tallinna Sadam.

Ticket prices are determined by the state

REVENUE MODEL IN FERRY OPERATIONS



Source: Company data

Cruise market

The majority of cruise calls take place between May and September

The cruise market is highly seasonal. The majority of cruise calls are between May and September. The combined number of cruise passengers in the Baltic ports in 2023 could be 71% of the 2019 level, according to BalticCruise. Before the COVID-19 pandemic, global cruise tourism was in a rapid growth phase, extending to 30 million passengers per year, and the Baltic Sea region was one of the fastest-growing cruise destinations, serving nearly six million cruise passengers annually.

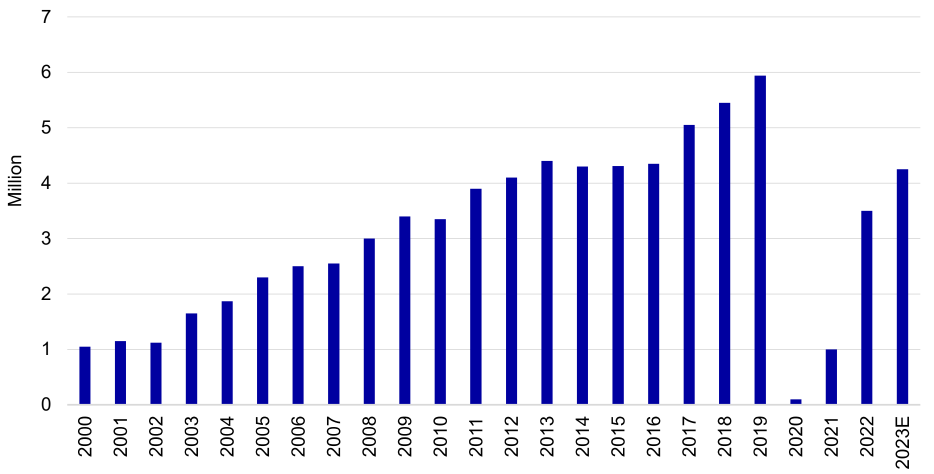
Tallinn and Helsinki have not yet been able to recover the number of cruise ship calls since 2020, when the market collapsed. The war in Ukraine has had a negative effect on the recovery of the cruise business in the Baltic Sea region.

In 2022, cruise calls in Tallinn were 50% of the 2019 level

St. Petersburg was an important destination for several cruise routes in the Gulf of Finland before the pandemic. St. Petersburg was number two in terms of cruise calls in 2019, while Tallinn was ranked third in the Baltic Sea area. Recently, however, there have been no cruise calls in St. Petersburg, which has reduced volumes in Tallinn too. Moreover, the average length of cruise calls in Tallinn has declined from two nights to one night, which is most likely related to geopolitical worries. In 2022, cruise calls in Tallinn were 50% of the 2019 level. We currently forecast ~100 cruise calls for Tallinna Sadam for 2023.

According to BalticCruise, cruise ship calls are forecast to decline by 9% in the Baltic Sea region in 2023. However, the number of cruise passengers is expected to increase y/y in 2023, because the average number of passengers per call will increase.

NUMBER OF CRUISE GUEST VISITS IN BALTIC PORTS (MILLION), 2000-23E



Source: CruiseBaltic

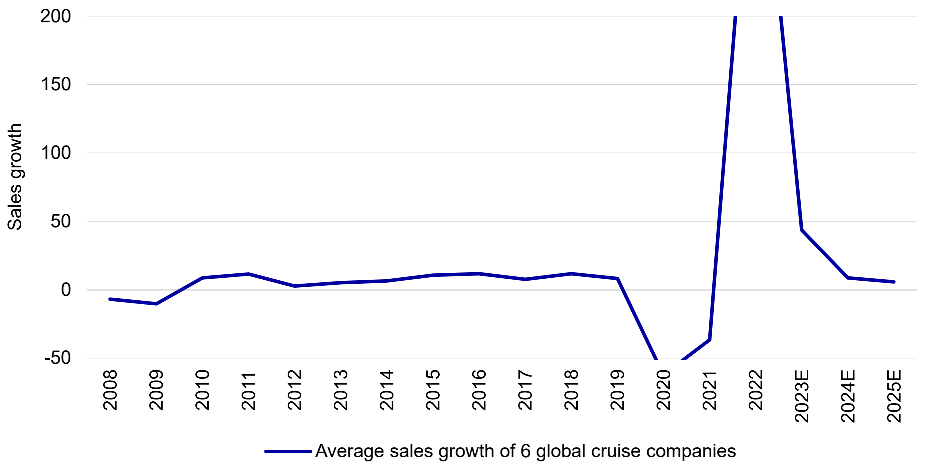
Tallinn could gain market share in cruise markets when calls in St. Petersburg are cancelled

It should be also noted that St. Petersburg is the biggest city in the area, but it will not become the driving force of passenger traffic in the Baltic Rim. Tallinn could even gain some market share in cruise markets when all calls in St. Petersburg are cancelled.

Overall, the global cruise tourism market is forecast to grow by 12% (CAGR) in 2022-26, according to Technavio. The main growth drivers for the cruise market are overall economic cycles, an increase in the number of high-net-worth individuals and more onboard facilities and offerings. Growing preferences for a luxury lifestyle and increased spending on leisure travel are also important market growth drivers. However, one of the key challenges for global cruise tourism market growth is rising environmental concerns.

The chart below shows the average revenue growth of six major international cruise companies (Carnival, Genting Hong Kong, Norwegian Cruise, Royal Caribbean, The Walt Disney and TUI). The massive changes in 2020-22 are related to COVID-19 restrictions. The market consensus (Refinitiv) median for the six major cruise companies' revenue growth in 2023 is 43%.

AVERAGE SALES GROWTH OF SIX GLOBAL CRUISE COMPANIES (%)



Source: Refinitiv and Nordea estimates

Cargo operations have suffered from Russian sanctions

The majority of transit volumes at Muuga have come from Russian fuel oil

Tallinna Sadam handles dry bulk cargo at three different harbours: Muuga Harbour, Paldiski South Harbour and Saaremaa Harbour, of which Muuga is the most important. Dry bulk cargo usually comprises imports and exports of fertilisers, grain, scrap metal, gravel, peat and wood pellets.

Tallinna Sadam has been able to provide good east-west transit services, and it has had a clear competitive advantage over other ports located on the eastern coast of the Baltic Sea. Several regional ports are commonly used sites for resource-intensive industries, such as refineries, chemicals, steel and coal, as well as aerospace and renewable energy production, including offshore wind energy and biomass production.

Cargo flows were not affected by the pandemic to the same extent as passenger traffic, but the EU has closed the region's ports for Russia's entire merchant fleet of over 2,800 vessels. However, this measure does not affect vessels carrying coal, pharmaceutical, medical, agricultural and food products, humanitarian aid, or nuclear fuel for the functioning of civil nuclear capabilities.

The majority of transit volumes at Muuga has come from Russian fuel oil. In June 2022, the European Council adopted a sixth package of sanctions that, among other things, prohibits the purchase, import and transfer of seaborne crude oil and certain petroleum products from Russia to the EU. The restrictions took effect from 5 December 2022 for crude oil and from 5 February 2023 for other refined petroleum products, such as diesel oil.

The company continues to receive rental fees for land at Muuga Harbour

Transit volumes for Russian fuel oil and Russian fertilisers have practically died out at Muuga Harbour. However, it should be noted that Tallinna Sadam is a pure landlord port without cargo handling, and the company continues to receive rent fees for land at Muuga Harbour. Land-lease contracts last for 30-50 years and cargo operators have no way of eliminating a rent liability other than declaring bankruptcy. Cargo operators tend to sell their businesses, equipment and contracts rather than terminate their businesses totally.

Contracts at Muuga Harbour usually require a minimum level of transit cargo, but Tallinna Sadam has lowered the minimum threshold levels for cargo operators due to the unexpected external market shocks. The main earnings effect for the company from declining cargo volumes has come from fewer vessel calls.

Some goods have been shipped to Africa and New Zealand from Tallinn. However, Tallinna Sadam does not have sufficient visibility into the full logistics value chain to be able to foresee whether fuel oil, fertiliser or other cargo volumes can be recouped from sources other than Russia. The Baltic countries still need traffic fuels, grain and fertilisers, but domestic demand might not be as high as transit volumes from Muuga Harbour to other continents have been.

GRAIN, FERTILISERS AND SCRAP METAL FORM THE MAJORITY OF DRY BULK CARGO VOLUMES AT MUUGA

Source: Company image

Muuga Harbour hosts one of the largest loading and storage facilities for grain in the entire Baltic region. The harbour has 48 standalone silos and total holding capacity of 300,000 tonnes. The terminal's capacity for import routes is five million tonnes, and for export routes, it is up to 2.5 million tonnes of cereal grains per year.

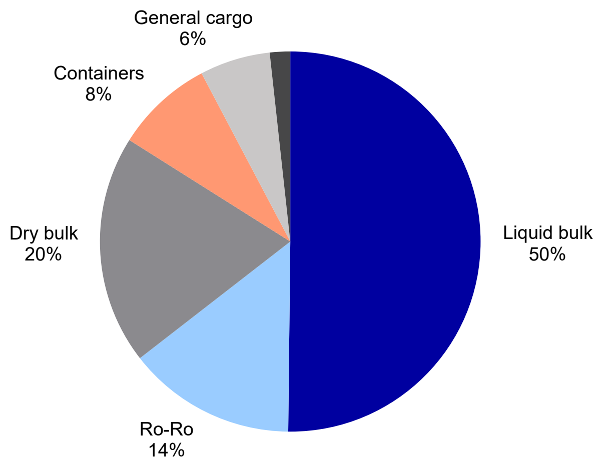
Fertilisers arriving from Russia were loaded on vessels at the Muuga terminal and then shipped to various world markets as far as North and Latin America and Asia. The capacity of the terminal is 2.5 million tonnes of fertilisers per year. The total holding capacity for fertilisers at Muuga is 195,000 tonnes.

Scrap metal is mostly handled at Paldiski South Harbour, but also at Muuga to some extent. The scrap metal is processed whether it is transported via road or rail and whether it originates from Estonia or arrives in transit. Recently, the proportion of the so-called intra-port transit has increased remarkably, with scrap metal arriving on small vessels transhipped onto large ones. Tallinna Sadam expects Rail Baltica to increase dry bulk cargo volumes significantly when the train terminal has been constructed at Muuga.

Liquid bulk and dry bulk combined comprise 70% of all cargo volumes in the Baltic Sea area

Liquid bulk (such as crude oil) and dry bulk combined form the majority (70%) of all cargo volumes in the Baltic Sea area. Liquid bulk and dry bulk also account for 70% of total volumes for Tallinna Sadam, as seen in the chart below.

TALLINNA SADAM: CARGO VOLUME BREAKDOWN BY CARGO TYPE, 2022



Source: Company data and Nordea estimates

HHLA operates a container terminal at Muuga Harbour

We believe Hamburger Hafen und Logistik (HHLA), a European port and transport logistics company, is the main source of operating profit for Muuga Harbour. HHLA operates a container terminal at Muuga Harbour, and the container business looks to be holding up well despite sanctions. The container sector dominates seaborne trade in terms of the value of shipped goods. Some higher-value commodities have moved from the dry bulk market to container markets, including coffee, speciality cement and steel. This trend is set to continue. Muuga Harbour only has one customer whose ownership is Russia-based. The Finnish refining company Neste and the Swedish company Nynas also have tanks at Muuga Harbour.

The full impact of the sanctions against Russia on the cargo business are expected to be seen in 2023. Cargo (liquid bulk and fertilisers) transported to/from Russia accounts for approximately 30% of the company's total cargo volumes.

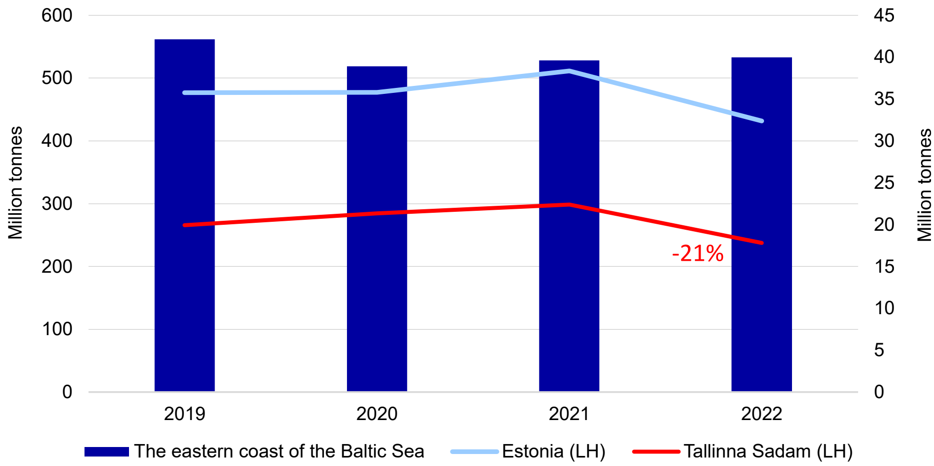
Tallinna Sadam dropped to the ninth place with a 3.3% market share of cargo traffic on the eastern coast of the Baltic Sea in 2022 (2021: seventh with a 4.2% market share). A port is always geographically bonded to its market area, for which reason it might be difficult to replace the lost Russian sales with sales from global markets.

Volumes of seaborne cargo traffic between Finland and Estonia have been increasing for decades

Fortunately for the company, the volume of seaborne cargo traffic between Finland and Estonia has been growing for decades, and routes via Estonia are increasingly common in Finnish foreign trade. Finnish cargo volumes could continue to grow despite the situation in Russia. The ropax concept is a very economically viable solution on the Helsinki-Tallinn route, because cargo and passenger traffic support each other. However, trucks (vehicle combinations) will most likely remain the main mode of transport on the Helsinki-Tallinn route, because general cargo is the main commodity on the route.

In any case, though, Tallinna Sadam could face major challenges to its growth if its passenger and cargo volumes do not increase. Excluding Russian liquid bulk, the total addressable market for Tallinna Sadam would still be around 290 million tonnes. In the long run, growth in cargo volumes will most likely depend on the economic and industrial development of the former Eastern European countries. The company is also actively looking for new traffic flows to its cargo harbours, but as long as Tallinna Sadam receives rental fees, it cannot greatly influence how the quay is operated.

CARGO VOLUMES (MILLION TONNES)



Source: Company data and Nordea estimates

The company's cargo volumes already declined drastically during the Crimea conflict in 2014-15, as seen in the chart below. In subsequent years, cargo throughput remained relatively stable, while liquid bulk cargo saw a brief surge in 2021, which resulted in overall cargo volume growth of 6% y/y. Gazprom ended short gas delivery contracts to Europe in Q3 2021, and large amounts of Russian fuel oil were transported over Russian borders in Q3 2021. Later, in 2022, the reason for these extraordinary market movements became evident when the war in Ukraine began.

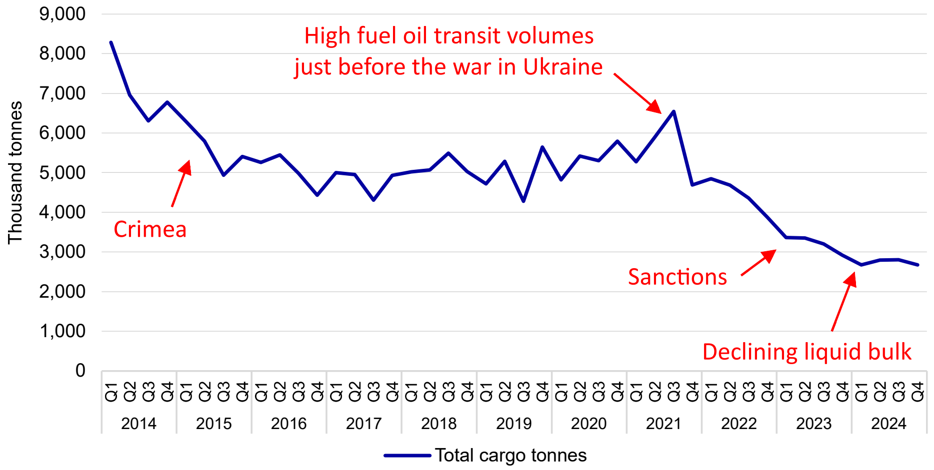
The company's total cargo tonnes dropped by 21% y/y in 2022. The war in Ukraine has reduced the company's overall cargo volumes, mainly Russian heavy fuel oil (HFO), which has been used to blend different fuel grades for African markets. We do not believe the business model can be replicated by using Brent crude oil grade, which makes it difficult for the liquid bulk transit volumes to be replaced.

We conclude that it could prove challenging to find replacment cargo volumes from elsewhere in the short term. One option could be dual use for some of the cargo quays at Muuga Harbour, while growth in domestic demand for dry bulk and liquid bulk should remain stable.

However, long-distance transportation options might need to be found to fill the liquid bulk and fertilisers vacuum left by Russia. Due to the headwinds related to the absence of Russian liquid bulk, we expect a 28% decline in cargo volumes for 2023. The impact of the disappearance of Russian fertilisers and fuel oil should be close to zero in 2024.

The company's total cargo tonnes dropped by 21% y/y in 2022

TOTAL CARGO VOLUME (THOUSAND TONNES)



Source: Company data and Nordea estimates

The main cargo competitor is the privately owned Port of Sillamäe, which is 25 km from the border between Estonia and the Russian Federation. The Port of Sillamäe increased its market share in Estonian cargo tonnes from 8% to 29% in 2010-19. Sillamäe was able to transit ten million tonnes of cargo a year, but the Russian sanctions have clearly affected its operations too. Sillamäe was constructed in 2005, and detailed numbers for the port are not available.

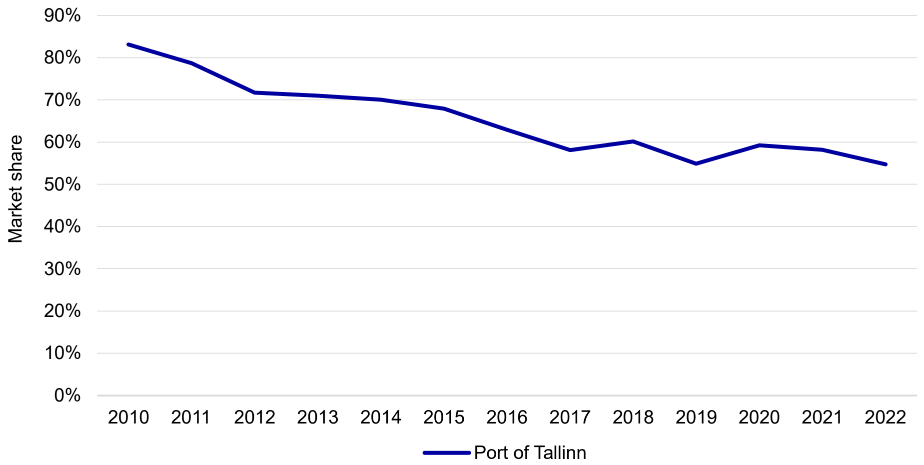
The main cargo competitor is the privately owned Port of Sillamäe

PRIVATELY OWNED SILLAMÄE IS THE CLOSEST CARGO COMPETITOR

Source: Company image

The Port of Kunda and the Port of Pärnu both had a 5% market share of total cargo volumes in Estonian harbours in 2021. The overall cargo market share of the Port of Tallinn has partly declined due to the strong focus on passenger traffic rather than on cargo tonnes.

PORT OF TALLINN: MARKET SHARE OF TOTAL CARGO IN ESTONIA (%)



Source: Estonian Statistics Center

Trans-European Transport Network (TEN-T)

Tallinna Sadam's harbours are part of the European TEN-T infrastructure network, which addresses the implementation and development of a Europe-wide network of railway lines, roads, maritime shipping routes and ports. The ultimate objective is to close gaps, remove bottlenecks and technical barriers, and to strengthen social, economic and territorial cohesion in the EU. This also means that the company has easier access to EU funding to develop the necessary infrastructure and transport links, the TWIN-PORT project being one example.

The last-mile problem restricts the flow of goods

Tallinn has had some bottlenecks related to last-mile links, such as dedicated road and rail access to Old City Harbour and Muuga Harbour. The newest dimension of the TEN-T policy is the movement of military forces (troops and equipment) within and beyond the EU. The core TEN-T network includes the most important connections, linking the most important transport modes, and is due to be completed by 2030. The comprehensive TEN-T network covers all European regions and is set to be completed by 2050.

Rail Baltica

Rail Baltica is a Trans-European rail project connecting the Baltic states with the rest of the existing European rail network. Rail Baltica will enable loading options at Muuga Harbour from maritime to road and rail transport. The Muuga freight station will be the only port directly on the Rail Baltica route. The annual increase in cargo could be 4-5 million tonnes in terms of goods per year passing through Muuga's multimodal freight terminal, but this could double to 8-10 million tonnes in 20 years. Moreover, Rail Baltica could potentially increase the number of occupational passengers travelling from the Baltic nations to Finland.

Overall, Rail Baltica's impact on Tallinna Sadam's operations could be huge, considering that the railway will enable cost-effective cargo transportation on a large scale to and from the company's maritime harbours.

Rail Baltica will serve both 1,435 mm and 1,520 mm railway widths, and the final design was completed in 2022 by Sweco Projekt. The project is being co-financed by the EU funding instrument CEF and the three Baltic nations of Estonia, Latvia and Lithuania.

The line between the three cities of Tallinn, Riga and Kaunas is planned to be operational in 2025

Part of the Rail Baltica railway line is supposed to be completed by 2024 in the Baltic countries. Furthermore, the line between the three cities of Tallinn, Riga and Kaunas is planned to be operational in 2025. The final Warsaw link is due to be completed in 2030. The entire construction of the Muuga multimodal freight station of Rail Baltica is expected to be completed by the end of 2025.

The EU Fit for 55 package

Under the EU transport policy, reducing transport's negative climate impact remains one of the main goals. Around 6-7% of maritime emissions are generated at berths in ports (EU Parliament), which is why the EU is preparing legislation relating to electricity supply in ports in its alternative infrastructure regulation.

For maritime ports, 90% of onshore power demand must be met by 1 January 2030, according to the latest proposals. The onshore power requirement applies to both container ships and passenger ships, but there are some exemptions in place.

Furthermore, an appropriate number of refuelling points for LNG should be put in place at core maritime ports to enable seagoing ships to operate throughout the LNG network by 1 January 2025. In addition to LNG, the EU Parliament suggests that requirements should also cover ammonia and hydrogen, but the final outcome is not yet known.

Onshore electricity requires Tallinna Sadam to make investments running into the millions of euros

The EU Commission estimates the total cost of investment in alternative fuels infrastructure at EU ports during the period 2025-50 at EUR 9.9bn, of which EUR 2.5bn could be related to hydrogen infrastructure. Tallinna Sadam has already installed five onshore power supply (OPS) systems for passenger ships at the most frequently used quays at Old City Harbour, but the company needs to invest a few million euros in order to offer enough capacity for vessels at Muuga and Paldiski. As Tallink's new ships run on LNG, no major LNG investments are needed at the Port of Tallinn.

Real estate operations

Tallinna Sadam's real estate operations are largely in the preparation phase. Detailed plans for the areas included in the Old City Harbour development plan have been initiated and are being processed by the Tallinn City Planning Department. The goal for the 2023-27 strategy period is to begin real estate development and create high-quality public urban space in the northern area of Tallinn in close proximity to Old City Harbour. In this section, we focus on presenting the plans for property development, which is a long-term project with uncertainty when it comes to timing, implementation, monetisation, as well as the scope of the developments. The timing is dependent on Tallinn City Planning Authority, which needs to approve the detailed plans. Up to 50% of the development could be residential units and 50% commercial spaces. Depending on market conditions, the share of commercial premises can be increased. We do not include the property development in our valuation but estimate a discounted fair value range of EUR 33-132m, or EUR 0.13-0.50 per share. This should be considered more as an option and we will add it to our valuation as more concrete steps are realised over time.

Five main categories, of which we believe the Old City Harbour has the greatest long-term potential

The real estate business line encompasses five main categories, of which developing Old City Harbour has the biggest long-term potential, in our view. The five main activities of the real estate business include:

- Developing real estate at Old City Harbour (16 hectares)
- Muuga Industrial Park (76 hectares)
- Paldiski South Harbour Industrial Park (34 hectares)
- Saaremaa Harbour Logistics Park (ten hectares)
- Vacant land and rental premises at the harbours

Masterplan 2030+ for Old City Harbour is the foundation for the area's development plans

In the section below, we present the in 2017 completed Masterplan 2030+ for Old City Harbour briefly, present updated plans and make an effort to estimate the potential long-term value as a range of the Old City Harbour property development. Masterplan 2030+ for Old City Harbour was created by Zaha Hadid Architects. The Masterplan 2030+ in its entirety can be found in this link.

We also include commentary on how detail plans have progressed.

Masterplan 2030+ for Old City Harbour

Masterplan 2030+ was completed in 2017 and includes plans for the 'closed area', 'semi-public area' and public areas

Masterplan 2030+ for the Old City Harbour area was completed in 2017. The document is a comprehensive and detailed long-term development plan integrating the port area (closed area), areas of port-city-related activities (semi-public area) and areas for urban development (public areas) into a functional system. Although Masterplan 2030 + was completed over five years ago, the main guidelines are still in place, according to the company.

VISION FOR OLD CITY HARBOUR – MASTERPLAN 2030+

Source: Company data

VISION FOR OLD CITY HARBOUR – MASTERPLAN 2030+

Source: Company data

Detailed land use plans are being progressed currently

In order to implement Masterplan 2030+, it was and still is necessary to draw up and establish detailed land use plans for the areas to obtain legal approval for the plan. Until its completion, Port of Tallinn will implement temporary solutions to the public spaces surrounding the A and D terminals, creating a friendly environment for the planned activities.

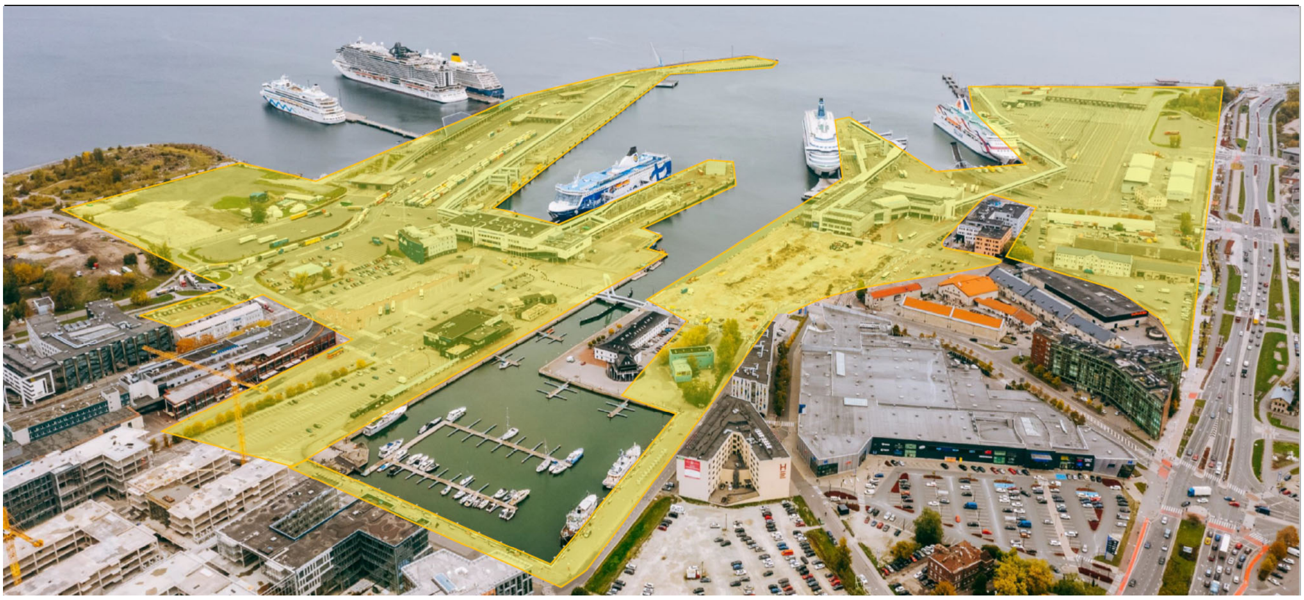
Detailed plans for the areas included in the Old City Harbour development plan have been initiated and are being processed by the Tallinn City Planning Department.

Detailed plans for the Old City Harbour area

Tallinn City Council initiated four detailed plans in Q4 2019...

In Q4 2019, the Tallinn City Council initiated four detailed plans for the Old City Harbour area. The basis for initiating the detailed plans was Old City Harbour Masterplan.

OLD CITY HARBOUR (YELLOW AREA)



Source: Company data

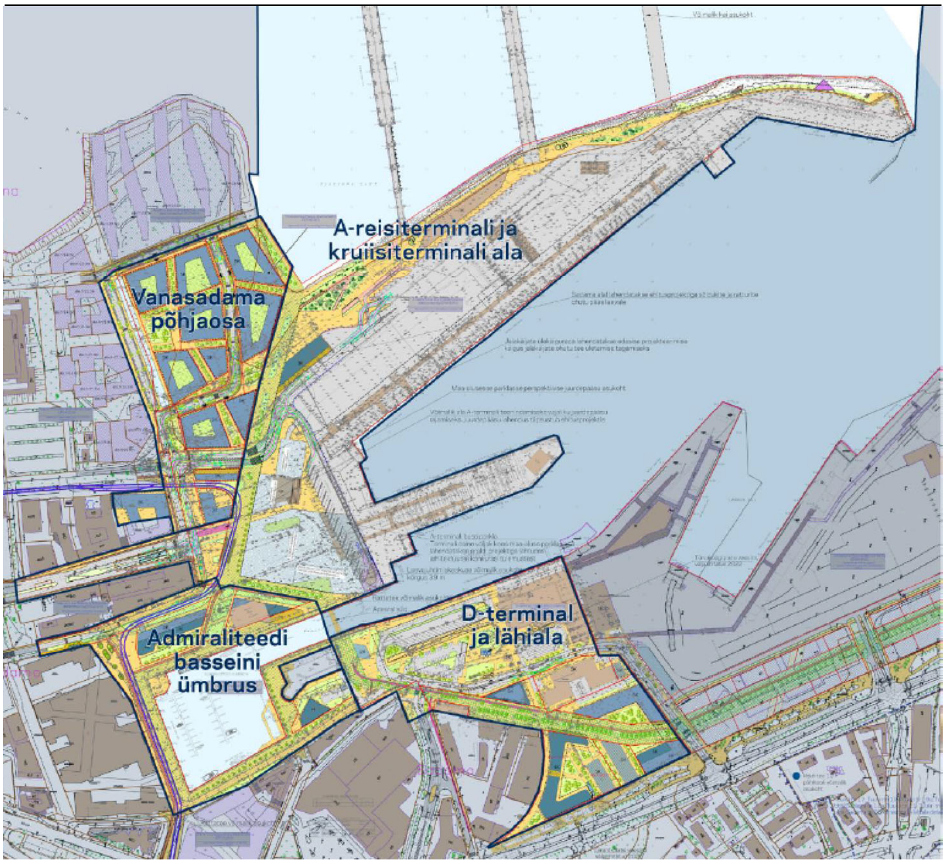
...and there are currently five detailed spatial plans in the planning stage currently

The are five detailed spatial plans in the planning stage currently:

- North part (Vanasadama pohjaosa)
- Terminal A and Cruise terminal area (A-reisiterminali ja kruiisiterminali ala)
- Adminarility Basin surroundings (Admiraliteedi basseini umbrus)
- Terminal D and its surroundings (D-terminal ja lähiala)
- Southern part.

In the sixth detail plan, a plot will be assigned and handed over to the City of Tallinn for a basic school (9-year school).

RENEWED OLD CITY HARBOUR AREA



Source: Company data

The detailed plan spatial sketches currently encompass above ground building gross area of ~300,000 m^2

The detailed plan spatial sketches currently encompass:

- Above ground building gross area ~300,000 m^2
- Indicative sellable area ~100,000 m^2 apartments (a maximum of 2,000 apartments) and 100,000 m^2 commercial premises
- Flexibility in spatial plans – up to 50% residential units and 50% commercial premises
- Depending on the market situation, it is allowed to increase the share of commercial premises
- Below ground building right: -1 floor (because under ground construction next to the sea is expensive and -1 is sufficient for parking and technical rooms)

DETAIL PLAN IN NUMBERS

Detail plan name	Land area of detail plan, ha	Above ground gross area, m2	Building density (x)
North part	6.37	107,029	1.7
A-terminal	21.94	120,000	0.6
Admirality basin	6.62	20,000	0.5
D-terminal*	7.59	74,400	1.2
South part*	23.37	179,350	3
Total	65.89	500,779	n.a.
Volume not related to real estate development	~39	191,500	n.a.

* includes plots which are not owned by Port of Tallinn, but must be included in detail plan area - includes Seaport hotel (1 plot), City of Tallinn (3 plots) and State Real Estate company (1 plot)

Source: Company data

We believe from a timing perspective, the biggest issue is the pace of approval from the City of Tallinn for the detailed plans, where the approval process has been slower in recent years and caused debate in the local press.

Value of Old City Harbour property development

Evaluating the potential value of future property development at Old City Harbour includes a high uncertainty, and we have made several assumptions and simplifications to illustrate the potential. Our ambition is to provide an in-depth analysis of the real estate potential value once the detailed plans become more concrete.

We expect the developments to span over 15-20 years

We believe Tallinna Sadam has several ways of monetising the potential of Old City Harbour, and the company has expressed willingness to develop the area under own control as much as possible. The company has commented that selling the land outright is a least-favoured option while selling the building rights with a detailed plan is a likely alternative. Obviously partners are needed, as developing 300,000 m^2 of e.g. residential, office, commercial and hotel space could require capital of more than EUR 0.5-1bn. Even though we expect the developments to span over 15-20 years, it would likely require Tallinna Sadam to tie up too much capital.

Tallinna Sadam could develop the land on its own or team up with a property developer

Tallinna Sadam could own the developed land properties and manage and rent them out. The capital need in this scenario would obviously be substantial. Another more likely option is that Tallinna Sadam teams up with a property developer who could own the majority of the project, we believe, leading to a significantly reduced capital need for Tallinna Sadam but still creates considerable upside from monetising the land owned by the company with significant value if Tallinna Sadam is in charge of the detailed plan process.

Based on company commentary, selling the land outright without detailed plan appears an unlikely option…

Another scenario is that Tallinna Sadam will sell the land with the detailed plan, which warrants a higher price than without a detailed plan, but which is also a much slower process. Tallinna Sadam could also opt to sell land without a detailed plan, but we find this highly unlikely as it cuts the upside considerably. The company has also expressed its unwillingness to sell the land outright. Also, for Tallinna Sadam, as the property development probably stretches over decades, it makes more sense to wait for the detailed plan to be approved than to sell the land without it.

…while renting out the land could be feasible

Tallinna Sadam could also choose to rent out the land to a property developer, which would reduce the upside but give steady cash flow for decades.

In our estimation of the future value of the property development at Old City Harbour, we make the following assumptions:

- total property development of 300,000 m^2 excluding parking
- 18,750 m^2 of utilised land (in monetary terms) annually, starting from 2025 and running up until 2040 (16 years)
- gain per m^2 of EUR 200 at the low end and EUR 800 at the high end
- the discount factor in calculating the present value (PV) is a WACC of 7%

PRESENT VALUE OF OLD CITY HARBOUR PROPERTY DEVELOPMENT (EURm)

Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	Total
Utilised (m2)	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	18,750	**300,000**
EUR 200/m2 (EURm)	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	**60**
EUR 300/m2 (EURm)	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	6	**90**
EUR 400/m2 (EURm)	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	8	**120**
EUR 500/m2 (EURm)	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	**150**
EUR 600/m2 (EURm)	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	11	**180**
EUR 700/m2 (EURm)	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	13	**210**
EUR 800/m2 (EURm)	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	15	**240**
PV EUR 200/m2 (EURm)	3.3	3.1	2.9	2.7	2.5	2.3	2.2	2.0	1.9	1.8	1.7	1.6	1.5	1.4	1.3	1.2	**33**
PV EUR 300/m2 (EURm)	4.9	4.6	4.3	4.0	3.7	3.5	3.3	3.1	2.9	2.7	2.5	2.3	2.2	2.0	1.9	1.8	**50**
PV EUR 400/m2 (EURm)	6.6	6.1	5.7	5.3	5.0	4.7	4.4	4.1	3.8	3.6	3.3	3.1	2.9	2.7	2.5	2.4	**66**
PV EUR 500/m2 (EURm)	8.2	7.7	7.2	6.7	6.2	5.8	5.5	5.1	4.8	4.5	4.2	3.9	3.6	3.4	3.2	3.0	**83**
PV EUR 600/m2 (EURm)	9.8	9.2	8.6	8.0	7.5	7.0	6.5	6.1	5.7	5.3	5.0	4.7	4.4	4.1	3.8	3.6	**99**
PV EUR 700/m2 (EURm)	11.5	10.7	10.0	9.4	8.7	8.2	7.6	7.1	6.7	6.2	5.8	5.4	5.1	4.8	4.4	4.2	**116**
PV EUR 800/m2 (EURm)	13.1	12.2	11.4	10.7	10.0	9.3	8.7	8.2	7.6	7.1	6.7	6.2	5.8	5.4	5.1	4.7	**132**

Source: Nordea estimates

Present value of building rights could exceed EUR 100m, but our range is a wide EUR 33-132m

Our very rough estimation results in a total value of EUR 60-240m for the 300,000 m^2 developments. This would result in annual development gains of EUR 4m at the low end and EUR 15m at the high end. Discounting this to year 2023 results in a EUR 33-132m future value for the developments, equalling EUR 0.13-0.50 per share, or 9-36% of the current share price.

Currently, we view the property development as an option but will add it to the valuation as the detailed plan process advances

In setting our fair value range for Tallinna Sadam, we do not include the future property development but rather view it as a valuable option at this stage. We will include property development in our valuation once the plans become more concrete as developments/disposals/cooperation agreements are announced. We will also make more in-depth calculations on potential property value once there is more news-flow from the company regarding the detailed plan process. Our ambition is to provide an in-depth analysis of the potential property value at a later stage.

Detailed estimates

We calculate our revenue forecasts primarily by looking at volume growth of cargo and passenger traffic, and overall growth expectations for the economy. The biggest driver for cargo volumes in 2023 will be the fading of EUR 3.7m in net revenues from Russian and Belarussian transit volumes. The cruise market will be affected by the exclusion of St. Petersburg in the Gulf of Finland, but ropax traffic between Tallinn and Helsinki should continue to grow. However, visibility is poor due to these extraordinary market shocks. The company's operating segments for financial accounting purposes differ somewhat from its business lines. The operating segments are Passenger Harbours, Cargo Harbours, Ferry and Other. The main cost items on the P&L are operational expenses (36%) and personnel (19%). Net gearing is only 22% and leverage is not an issue, we argue.

Ports will always be needed

According to various estimates, roughly 80% (UNCTAD) of global trade by volume is maritime and controlled by seaports. Despite the temporary effects caused by the pandemic, cargo volumes and passenger numbers in general are deemed to surge in the future.

The cargo volumes and cargo vessel calls are dependent on overall economic activity

Urban population growth is only one of the factors for revenue growth for a port utility. Port growth also depends on GDP per capita growth, the growth of external trade, transit volumes and the overall resource-intensity of production.

Tallinna Sadam is one of the busiest ports in the Baltic Sea region, and the key drivers for its growth are the recovery of passenger traffic along with the need to enable east-west and north-south cargo flows in the region. The elasticity of global trade flow is relatively high, and it will find new supply-demand balances after external shocks. Even with the exclusion of Russian cargo volumes, the need to move European and global cargo remains and will even increase.

The main short-term focus for the Port of Tallinn is to get more value out of its quays after the number of cargo vessel calls have declined. As profitability for Russian fuel oil transit was lower than for other transit cargo, the relative profitability could even increase in the medium term.

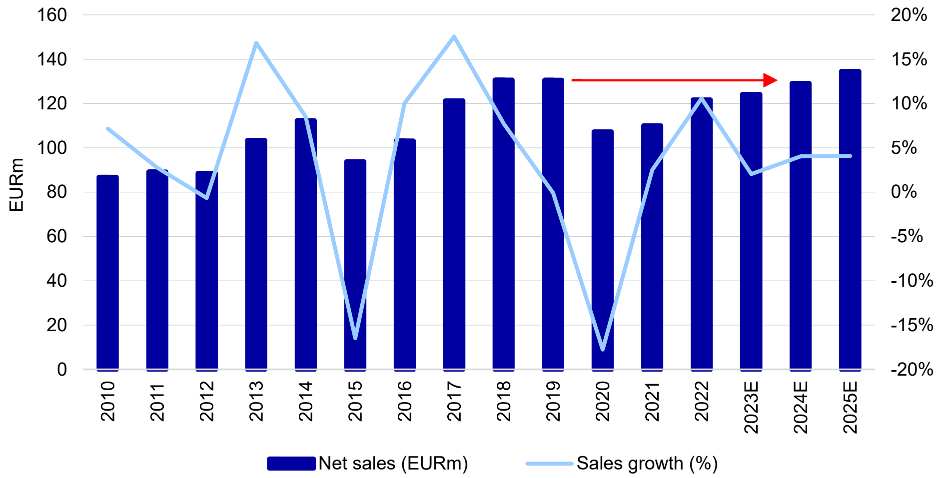
We forecast 2% revenue growth for 2023

Revenue growth was 11% in 2022, chiefly due to the recovery in passenger traffic after the pandemic. However, Russian sanctions reduced cargo traffic in 2022, which hindered a full rebound to 2019 levels.

We forecast 2% revenue growth for 2023, which would bring net sales to EUR 124m. The company might need to replace the Russian cargo volumes with other options, which we estimate will take time. Therefore, we foresee stable 4% revenue growth rate for 2024-25, as passenger traffic and overall cargo volumes will likely keep climbing. While Russian ports are increasingly more challenging to utilise, we argue that shipping companies will find Tallinna Sadam's ports a viable option in the future. Similarly, as more travel restrictions are being lifted, domestic and international passenger traffic is set to increase steadily throughout the coming years.

We estimate that the pre-pandemic revenue levels could be reached and surpassed in 2025.

NET SALES (EURm) AND SALES GROWTH (%), 2010-25E



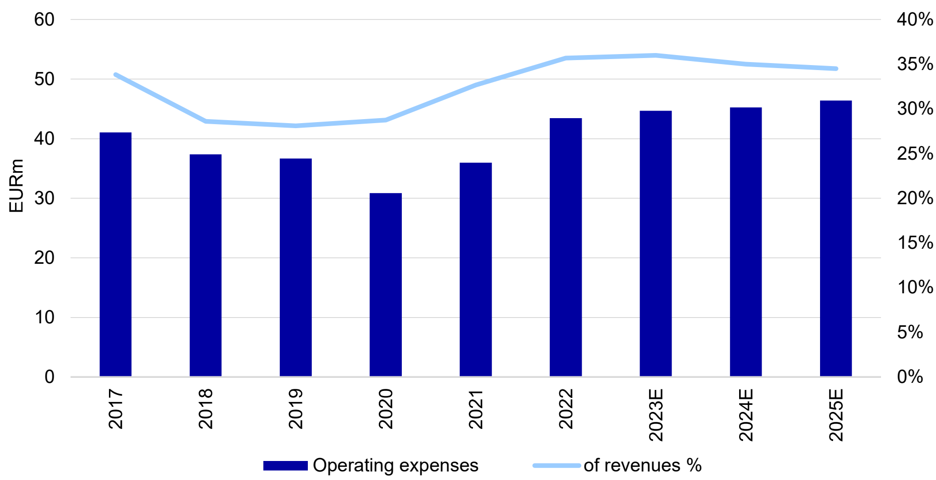
Source: Company data and Nordea estimates

Operational expenses represent 36% of revenue

The company's operating expenses were 29% of revenues throughout 2018-20 but climbed to 36% in 2022. Most of the increases in fuel expenses for domestic ferries are covered by revenue from the state, rendering the overall impact on EBITDA relatively mild. We expect the cost pressure to persist during this year, mainly due to the relatively high energy prices along with rising service charges and wage pressure.

Fuel, oil and energy costs accounted for 32% of operational expenses in 2022

OPERATIONAL EXPENSES (EURm), 2017-25E

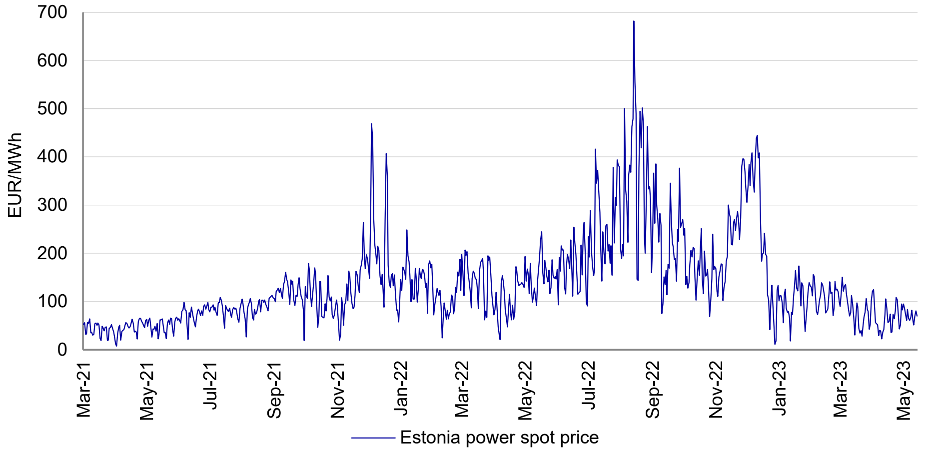


Source: Company data, Refinitiv and Nordea estimates

Fuel, oil and energy costs were as high as 32% of operational expenses in 2022, compared to 27% in 2020. The electricity price in Estonia was EUR 193/MWh on average in 2022, compared to EUR 87/MWh in 2021. The price of power has been EUR 89/MWh on average YTD in 2023.

Electricity purchased for sale is not a problem for Tallinna Sadam because the higher power price is compensated by increased revenue from end users. The company offers onshore electricity for vessels in its ports. However, electricity purchases for its own use were visible in the operating costs in 2022.

POWER PRICE IN ESTONIA (EUR/MWh)



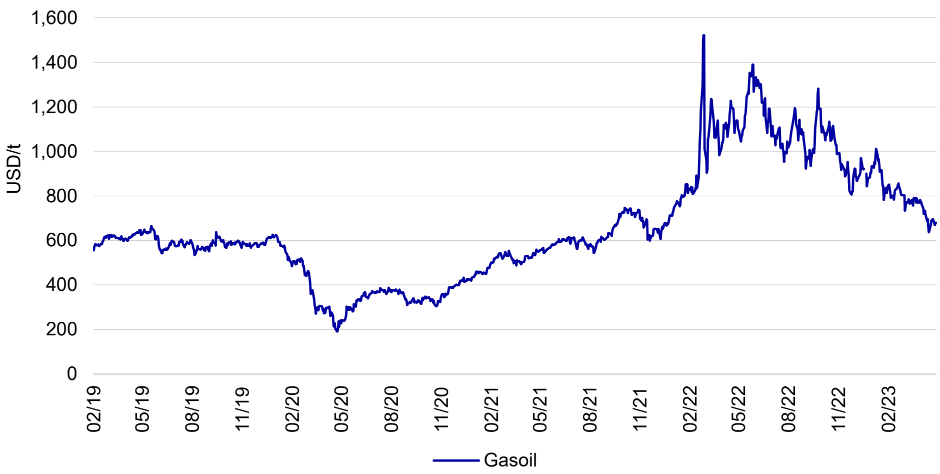
Source: Refinitiv

Purchased fuel is used in ferry traffic between Estonia's mainland and its largest islands

The average price of diesel fuel was 78% higher in 2022, but prices have recently been on a declining trend. The current spot price for gasoil is USD 680/t compared to USD 1,041/t on average in 2022 (2021: USD 586/t). The majority of the purchased fuel is used in ferry traffic between Estonia's mainland and its largest islands.

A rise in the price of ferry fuel also increased the passenger fee component of the contract revenue via the relevant price indices. The conclusion is that the majority of the diesel fuel price pressure was offset by the state of Estonia and ferry traffic contracts. However, the use of diesel fuel in other operations was not as easily transferred to end prices.

GASOIL PRICE (USD/t)

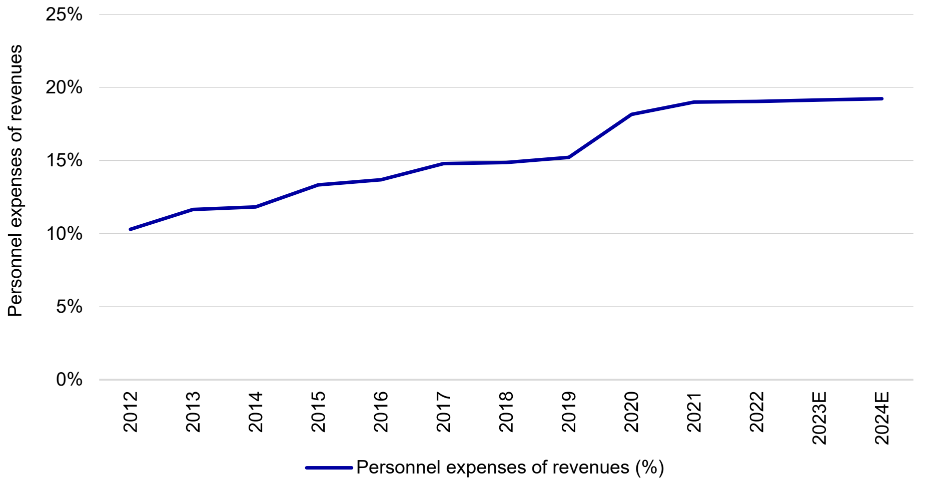


Source: Refinitiv

Personnel costs represent 19% of revenue

Tallinna Sadam employs 468 people, of which 78% are men. Personnel expenses as a share of revenue grew from 12% to 19% in the period 2014-22. The absolute increase in personnel costs has not been very high, but the relative share of revenues has increased due to lower sales (-18% in 2020). The number of employees also declined by 27 due to the COVID-19 pandemic in 2020. Employee remuneration was temporarily lowered in 2020 by cutting additional pay, but personnel expenses grew by EUR 2.2m in 2022, primarily through higher bonuses/benefits. The average annual cost per employee is currently EUR 49,498 on group level.

PERSONNEL EXPENSES/NET SALES (%)

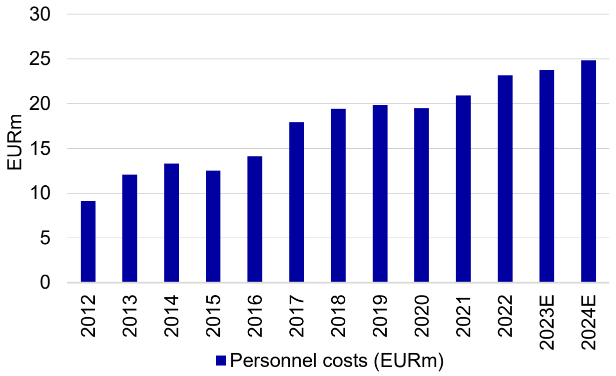


Source: Company data and Nordea estimates

All in all, personnel costs have more or less increased over time in both absolute and relative terms. A notable detail is that personnel expenses grew by 11% in in 2022, which was in line with revenue growth. Operational leverage should be better in the harbour operations than seen in 2022, and admin costs should not grow in parallel with revenue growth, we argue.

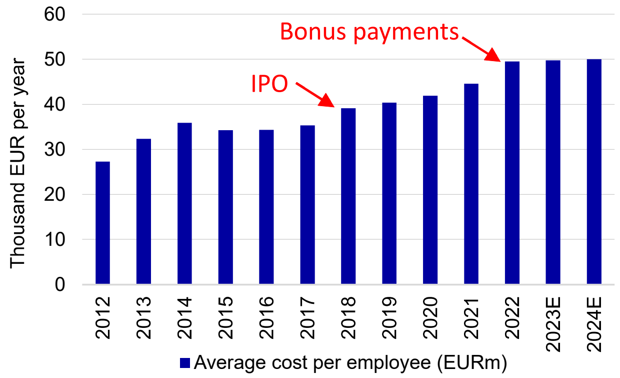
The gender pay gap, i.e. the ratio of women's average hourly wage to men's average hourly wage, was 80% in 2022 (i.e. how much less women are paid than men in average hourly wage, was ~20% in 2022), but has been decreasing over the years, which highlights long-term sustainability and compliance commitments. The biggest group of employees are in the age category of 50-59 years. Voluntary employee turnover was 6.8% in 2022, which is a relatively low figure.

PERSONNEL COSTS (EURm), 2012-24E



Source: Company data and Nordea estimates

AVERAGE COST PER EMPLOYEE (EUR THOUSAND), 2012-24E



Source: Company data and Nordea estimates

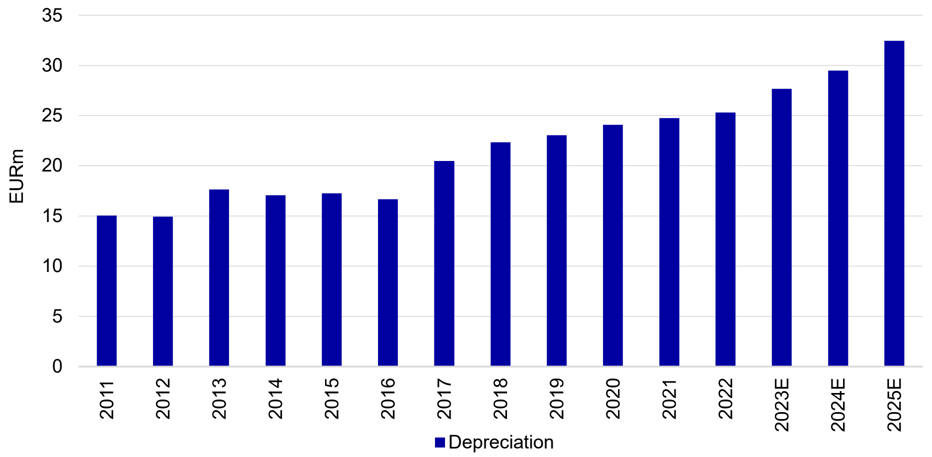
Depreciation amounts to 18% of sales

Depreciation was slightly up in 2020 when passenger terminal D was opened. Total depreciation amounted to EUR 25m in 2021 and was about the same in 2022. For comparison, average annual investments were EUR 24m in 2017-22, but maintenance investments are under depreciation level.

We do not believe that a possible writedown after an impairment test related to a severe economic recession would put the equity in the balance sheet or balance sheet ratios under pressure. Intangible assets are only EUR 2m, which is 0.5% of total equity. The estimated vessel life is currently 10–25 years, while it is 10–50 years for quays.

Depreciation is growing due to investments to Paldiski and Muuga

DEPRECIATION (EURm), 2011-25E



Source: Refinitiv, company data and Nordea estimates

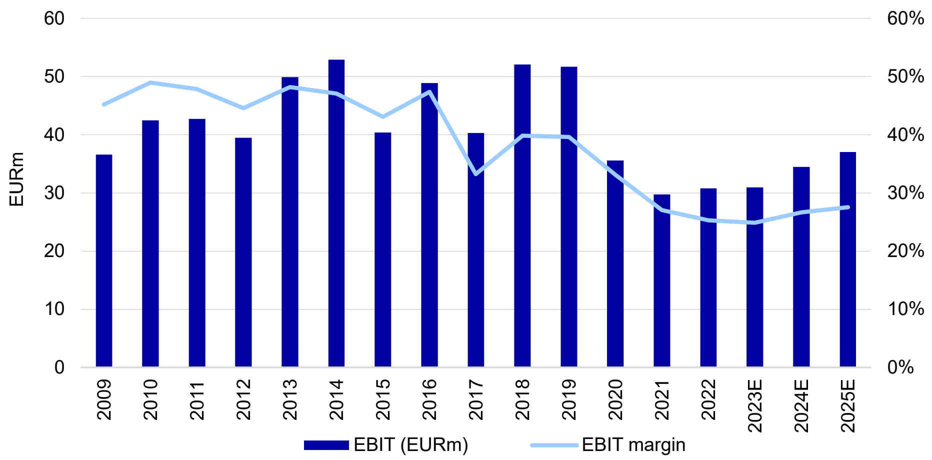
Operating profit margin

The profit margin has suffered from the pandemic and the Ukraine war since 2020. Moreover, the decrease in passenger harbour revenue along with increasing energy costs and lower Russian cargo volumes have hit margins recently. We expect a gradual recovery but not a complete rebound to pre-pandemic levels in the near future. While the company's revenue has improved in the recent couple of years, its operating expenses have risen in a similar manner, and thus the EBIT margin has remained stable.

In 2022, operating profit improved by 3.5%, and we forecast an EBIT margin of 25% for 2023. The company has no long-term financial targets, but it expects the operating profit margin to rise back to 40% once external pressure from Russian sanctions dissipates. The peer group average EBIT margin was 34% in 2008-22, according to Refinitiv data.

We forecast an EBIT margin of 25% for 2023

OPERATING PROFIT (EURm) AND OPERATING PROFIT MARGIN (%), 2009-25E



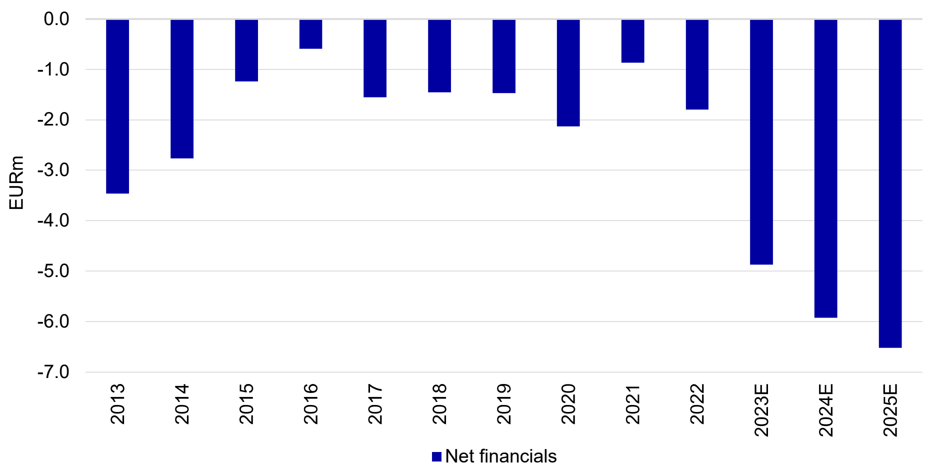
Source: Company data and Nordea estimates

Financial expenses

Net financial expenses have typically been about EUR -1.7m a year, while last year, Tallinna Sadam reported net financials of EUR -1.8m, of which EUR -2.0m was interest expenses and EUR 0.2m was interest income. We forecast clearly higher average net financials of about EUR -6m going forward (2023E-25E), mainly due to higher interest rates and up to EUR 55.9m investment in Paldiski.

However, rising interest rates should not be a major issue for the company. A 1 pp increase in the average interest rate could add EUR 1.9m to annual interest expenses, which is 8% of our forecast 2024 net result, we calculate.

NET FINANCIALS (EURm), 2013-25E



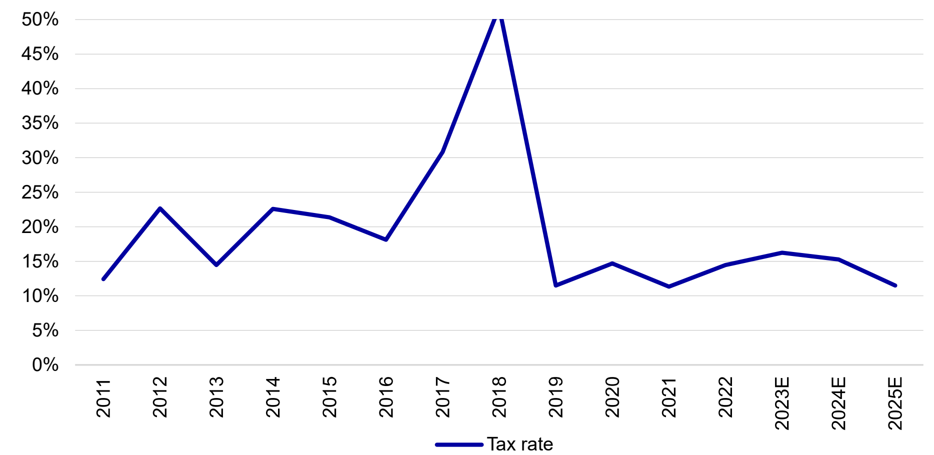
Source: Company data and Nordea estimates

Tax rate could be 16% this year

The corporate tax rate in Estonia is generally a flat 20% of taxable net profit. However, corporate income tax is not levied when the profit is earned, but rather when it is distributed. Since 2018, a reduced tax rate of 14% is applied on the corporate income tax if regular dividends are paid out.

The company's average tax rate over the past eight years has been relatively high, at 21.8%. The IPO proceeds in June 2018 were used to partly fund a dividend of EUR 105m paid to the state, leading to a corporate income tax of EUR 26.3m in 2018. With a pre-tax profit of EUR 51m in the IPO year, the overall tax rate equalled 51.8%. We forecast a tax rate of 12% in the medium term (2025-26E), meaning that the payout ratio for dividends is below 100%. The company does not have any significant previous losses to be used for deductions.

GROUP TAX RATE (%), 2011-25E



Source: Refinitiv, company data and Nordea estimates

Our EPS forecast for 2023 is EUR 0.08

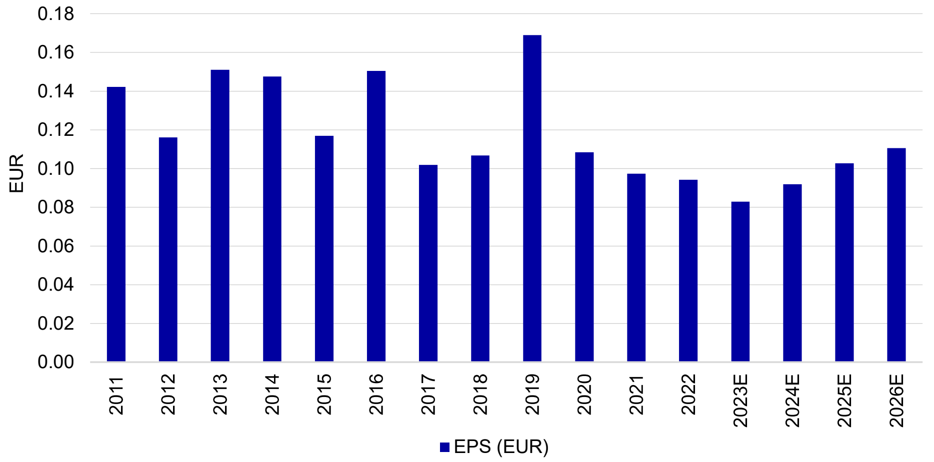
Reported earnings per share were low in 2017, but EPS would have been EUR 0.12 when assuming an ordinary EUR 6m tax expense. In 2018, EPS was also low due to a tax on the dividends issued to the main shareholder before the IPO. Assuming an ordinary EUR 6m tax in 2018, annual EPS would have been EUR 0.20, we calculate.

2019 highlighted the EPS potential of EUR 0.17 excluding taxes, COVID-19 and the Ukraine war effects. Earnings per share were EUR 0.094 in 2022 and for 2023 our forecast is EUR 0.08. The improvement for 2023E is still rather modest, while the estimates are riddled with high uncertainty.

Overall, we forecast 3% EPS growth (CAGR) for 2022-25E in our base-case scenario. EPS growth might not greatly surpass expected revenue growth because the tax rate could increase, and interest expenses will not decline much than currently. We find it unlikely that EPS will recover to pre-pandemic levels (EUR 0.17) in the near future.

EPS growth in 2011-19 was stable at 2.0%

EARNINGS PER SHARE (EUR), 2011-26E



Source: Company data and Nordea estimates

Investments account for close to 20% of revenue

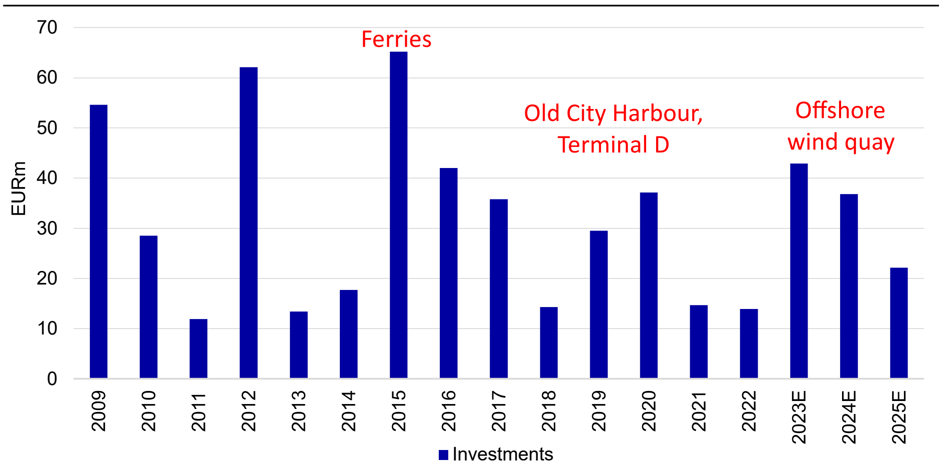
The peak in Tallinna Sadam's investments took place in 2015 and was related to the prepayment of a ferry order. Cumulative investments in 2009-22 were EUR 441m. The sector is fairly capital-intensive, and investments usually account for 20% of revenue. However, investments can be as low as 11% of net sales without any dedicated projects.

The company is committed to use at least 70% of net profits in dividend payments, which somewhat restricts investment capacity. We forecast operational cash flow to be EUR 52m on average in 2023-25, of which dividends reduce EUR 20m on average, leaving EUR 32m for investments.

We currently expect investments to be EUR 34m on average in 2023-25, indicating a decline in cash equivalents. The biggest single investment project in the near future is an offshore wind power quay in Paldiski, which is co-financed by the European Commission for EUR 20m.

We expect EUR 34m in average investments 2023-26

ANNUAL INVESTMENTS (EURm), 2009-25E



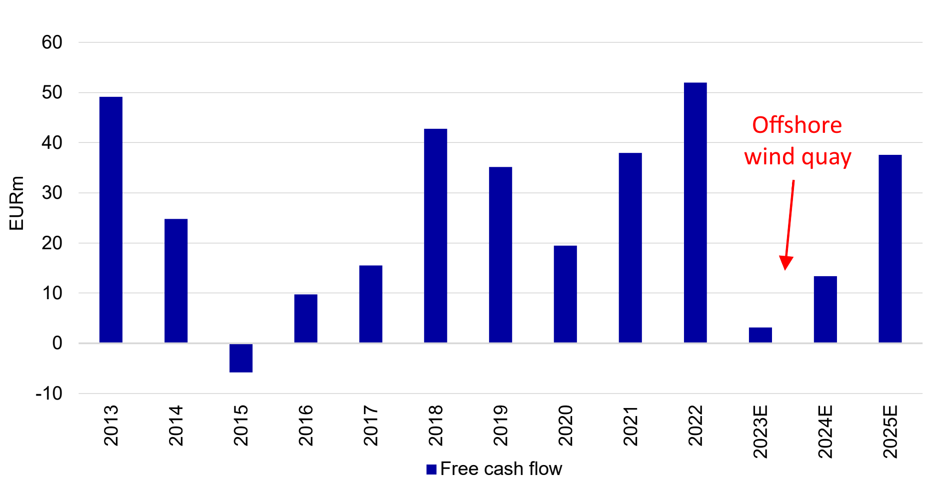
Source: Company data and Nordea estimates

We forecast EUR ~20m in average annual free cash flow in 2023-25

Annual cash flow from operations was weak in 2015 due to investments, as discussed previously. Working capital requirements have been modest and not a reason for cash flow variations.

We expect over EUR 50m in cash flow from business operations in 2024, of which investments would take up EUR 37m, leaving EUR 13m in free cash flow for 2024E. We expect cash flow to improve after the commissioning of the Paldiski offshore harbour.

FREE CASH FLOW (EURm), 2011-25E

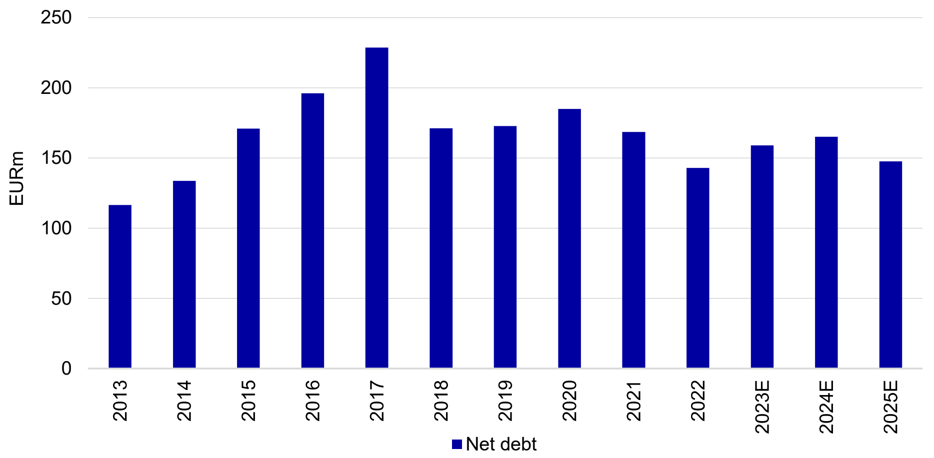


Source: Company data and Nordea estimates

Net debt has declined by EUR 42m in the past two years

The company strives to keep its debt relatively low, while using reasonable leverage to execute necessary investments. Therefore, the debt ratio tends to remain fairly stable. Tallinna Sadam has cut its net debt by EUR 42m over the past two years, and currently we do not see any significant debt repayments in the near future. According to our earnings estimates, the company's net debt will even increase from the present-day levels, whereas the next notable investments relate to the new quay and hinterland for South Paldiski Harbour.

NET DEBT (EURm), 2013-25E

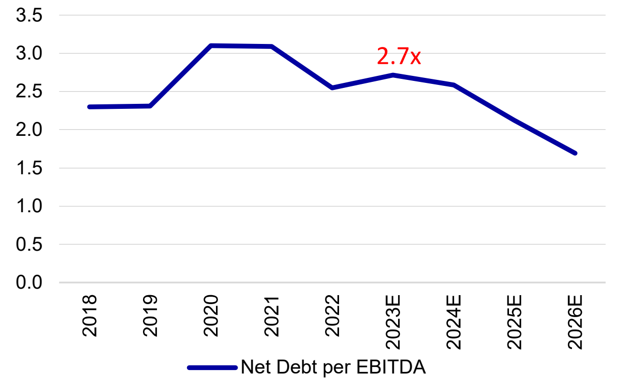


Source: Company data and Nordea estimates

The balance sheet is strong and leverage is low

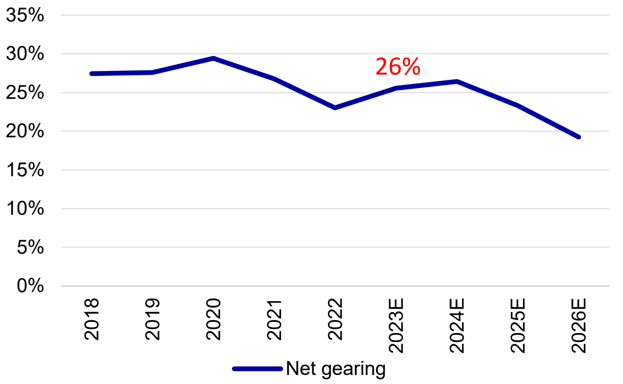
Tangible assets are more than 90% of total assets. On the liability side, the company has gross debt of EUR 187m. The equity ratio is 61% and net gearing only 23%. The net equity ratio and net gearing indicators both tell the same story – the balance sheet is strong, and leverage is low. Net debt per EBITDA rose to 3x in 2020 due to COVID-19 and declining EBITDA. In 2022, net debt/EBITDA was 2.5x, which is at a healthy level for Port of Tallinn, we argue.

NET DEBT/EBITDA (x), 2018-26E



Source: Nordea estimates

NET GEARING (%), 2018-26E



Source: Nordea estimates

Valuation

The company's current EV/EBITDA multiples for 2023E-24E are close to the median of the peer group, consisting of 23 international port utilities. But passenger traffic in the Port of Tallinn has not yet recovered from the COVID-19 pandemic, creating an opportunity for above-market growth, we argue. The company's dividend yield of 5.4% for 2023E is slightly above the peer group's median of 4.7%. The share price would need to be EUR 1.6 to yield the same dividend yield as the peer group average, we calculate. Property development projects seem so far out in time that they are unlikely to drive the company's share price in the near future. Rising interest rates could also lead to a postponement of property development projects. Our valuation approach, based on a combination of DCF and a peer group comparison, gives a fair value range of EUR 1.5-1.8 per share.

Our EBIT estimate for 2023 is EUR 3m (8%) below market consensus

In its 2023 outlook, Tallinna Sadam indicates revenue growth of 0-5%. Market consensus (Refinitiv) for revenue growth is 2%, while our forecast is the same, at 2%. We estimate 2023 operating profit of EUR 31m, which is EUR 3m below Refinitiv consensus.

Tallinna Sadam had a relatively high EBIT margin for years, and it will not be easy for the company achieve the same margin again, in our view. Our operating profit margin forecast is 2.7 pp below consensus for 2023 and well below the average of 44% seen in 2009-19.

NORDEA ESTIMATES VERSUS MARKET CONSENSUS (EURm)

	Nordea estimates				Consensus estimates				Difference %			
EURm	Q2 2023E	2023E	2024E	2025E	Q2 2023E	2023E	2024E	2025E	Q2 2023E	2023E	2024E	2025E
Sales	31	124	129	135	n.a.	122	126	n.a.	n.a.	2%	2%	n.a.
Adj. EBIT	8	31	34	37	n.a.	34	36	35	n.a.	-8%	-5%	7%
Adj. EBIT margin	25.7%	24.9%	26.7%	27.5%	n.a.	27.6%	28.6%	n.a.	n.a.	-2.7pp	-2.0pp	n.a.
Adj. EPS	0.01	0.08	0.09	0.10	n.a.	0.11	0.12	n.a.	n.a.	-25%	-23%	n.a.

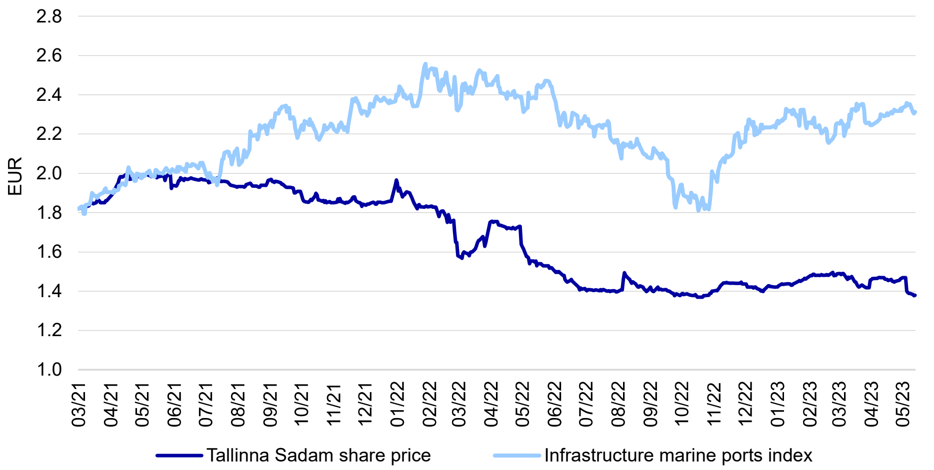
Source: Refinitiv and Nordea estimates

A recovery in passenger traffic creates decent upside potential

A market recovery after the pandemic was visible in the Infrastructure Marine Port Index in 2021, but the Tallinna Sadam share price lagged the market recovery in that year. The company's share price also reacted quicker than the Infrastructure Marine Port Index to the war in Ukraine in 2022. We believe Estonia's country risk (being a NATO member) is not remarkably higher than the EU average, but Russian trade flows affect the country more than the average for EU countries.

The very strong global equity market development since November 2022 was again not visible in its share price, with one reason being weak cargo and cruise volume expectations owing to Russian sanctions. While cargo volumes might remain muted throughout 2023, the continuing recovery in passenger traffic creates decent share price upside potential, we believe.

TALLINNA SADAM'S SHARE PRICE VERSUS INFRASTRUCTURE MARINE PORT INDEX (EUR)



Source: Refinitiv

Dividend yield is a major part of the equity story

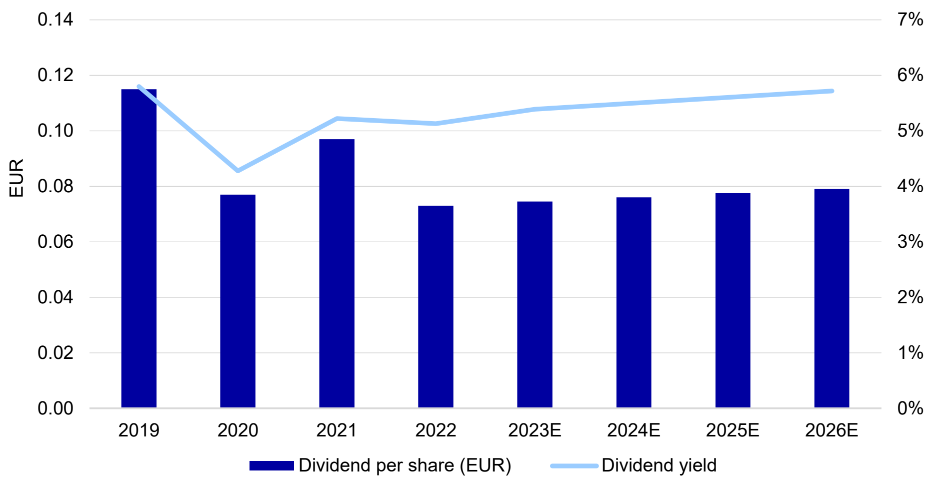
The cumulative dividend in 2011-22 was EUR 451m

Tallinna Sadam upholds high dividends, and it knows that dividend expectations and dividend yield are a major part of its equity story. The cumulative dividend in 2011-22 was EUR 451m. By comparison, its current market capitalisation is EUR 348m. But external shocks (COVID-19, war in Ukraine) led to an unfortunate cut in annual dividend distribution in 2020 and 2022.

Payout ratio indicates the company's high trust in its net result in the near future

The company has committed to pay at least 70% of its earnings in dividends. Furthermore, the main owner, the state of Estonia, also expects stable dividend payments. The dividend per share was EUR 0.073 in 2022, compared to EUR 0.097 in 2021. The payout ratio was 77% of reported net results in 2022. We believe the healthy payout ratio indicates the company's high trust in its net result in the near future.

ANNUAL DPS (EUR) AND DIVIDEND YIELD (%)



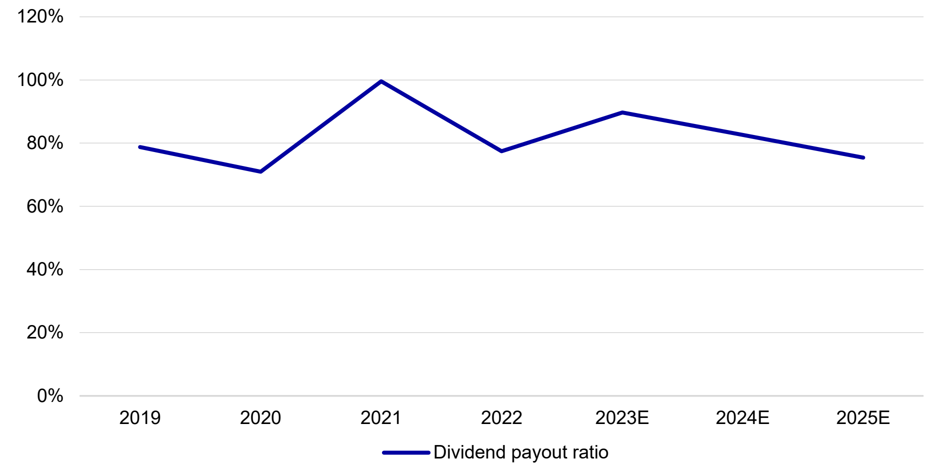
Source: Nordea estimates

Tallinna Sadam was listed on 13 June 2018 on the Tallinn exchange, after which the company distributed EUR 105m in dividends to the state of Estonia. The proceeds from issued shares was EUR 128m in 2018, making the dividend payment of EUR 105m to the former sole shareholder somewhat hefty , in our view. The dividend payout ratio was as high as 237% of 2017 net profit.

Since 2018, the dividend payout ratio has been between 71% and 100%. Our forecast for the payout ratio in 2023 is 90% of annual net profit.

We forecast a payout ratio of 90% in 2023

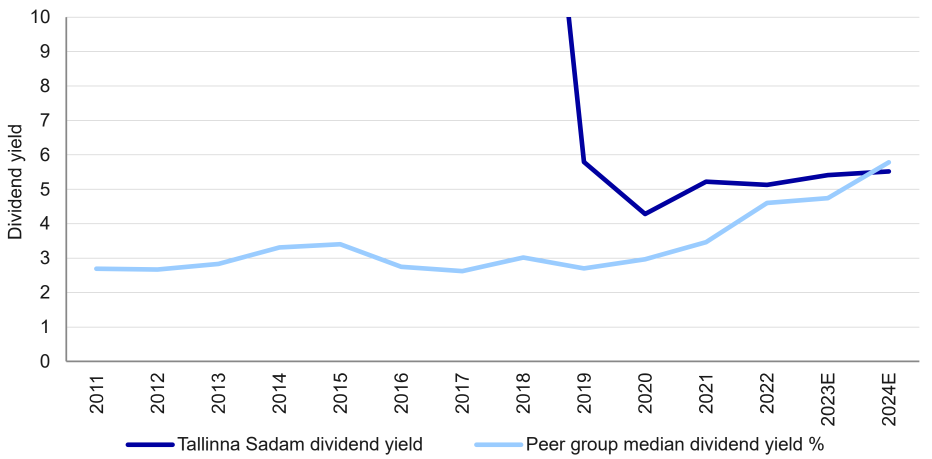
DIVIDEND PAYOUT RATIO



Source: Company data and Nordea estimates

The peer group has a median dividend yield of 4.7% for 2023E. Our dividend forecast indicates a dividend yield of 5.4%. The share price would need to be EUR 1.6 (currently EUR ~1.4) to achieve the same dividend yield as the peer group average, we calculate.

DIVIDEND YIELD COMPARED TO PEER GROUP MEDIAN



Source: Refinitiv and Nordea estimates

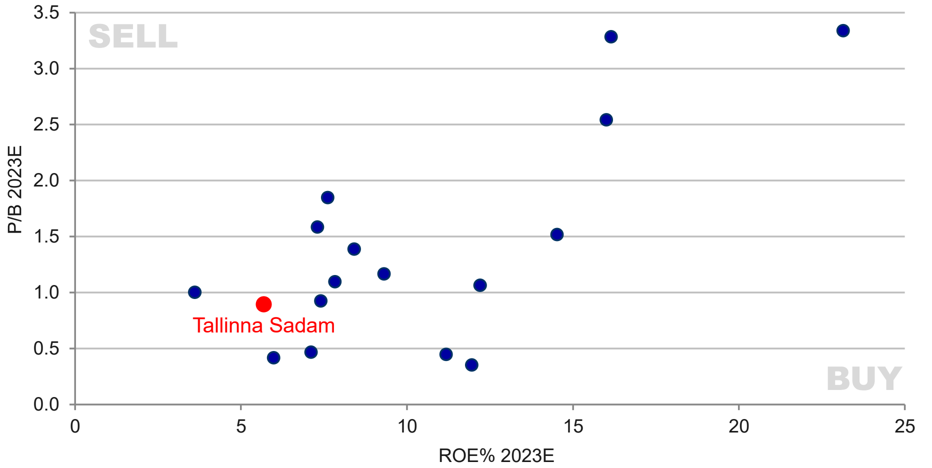
Sector median P/B of 1.0x for 2007-22

The long-term (2007-22) median P/B for the 23 selected infrastructure and port operators is 1.0x. Looking at a P/B and ROE regression analysis including selected peer companies, we note that Tallinna Sadam is priced in line on 2023E multiples. Overall, return on equity correlates well with the P/B valuation in the sector, as shown in the graph below.

In 2022, the company achieved a 7% return on equity with a P/B of 1.0x. Our forecast for Tallinna Sadam's 2023 return on equity is 5.7%, meaning that it should not trade markedly below a P/B valuation of 1.0x. We present more detailed financials and valuations for 25 listed peer companies at the end of this report.

The correlation between P/B and return on equity is clear

PEER GROUP ROE AND P/B REGRESSION ANALYSIS, 2023E



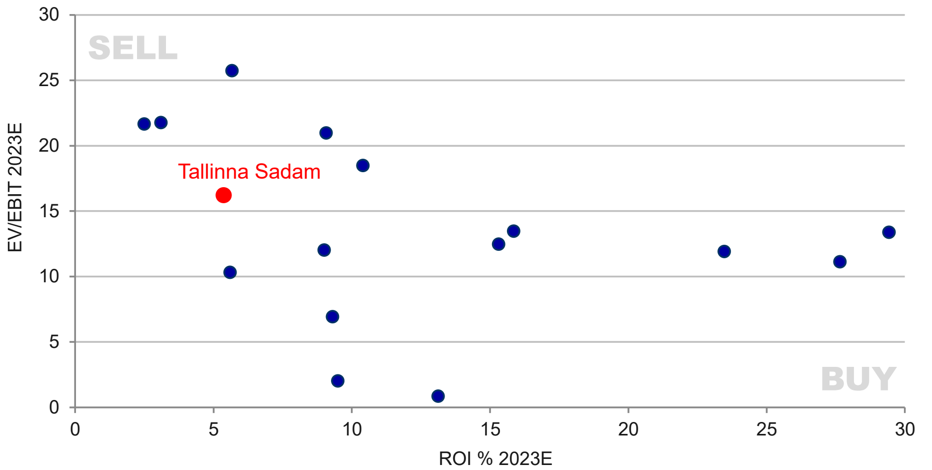
Source: Refinitiv and Nordea estimates

EV/EBIT valuation

Peer companies showed a median ROI of 4.7% in 2022, according to Refinitiv data. Tallinna Sadam had a 5.5% return on invested capital in 2022. The whole sector has a relatively low yield on invested capital, partly owing to the capital-intensive business model. Tallinna Sadam reported low ROI mainly due to the external market shocks in 2020-22.

The peer group's median consensus ROI is as high as 9.5% for 2023, compared to our forecast for Tallinna Sadam of 5.4%, as illustrated below. Our conclusion is that the company looks somewhat expensive compared to the peer group on a ROI and EV/EBIT regression analysis for 2023E. However, market consensus expectations for the peer group in 2023 could be too high, we believe, as the peer group median ROI was never above 9% in 2008-22.

PEER GROUP ROI AND EV/EBIT REGRESSION ANALYSIS, 2023E



Source: Refinitiv and Nordea estimates

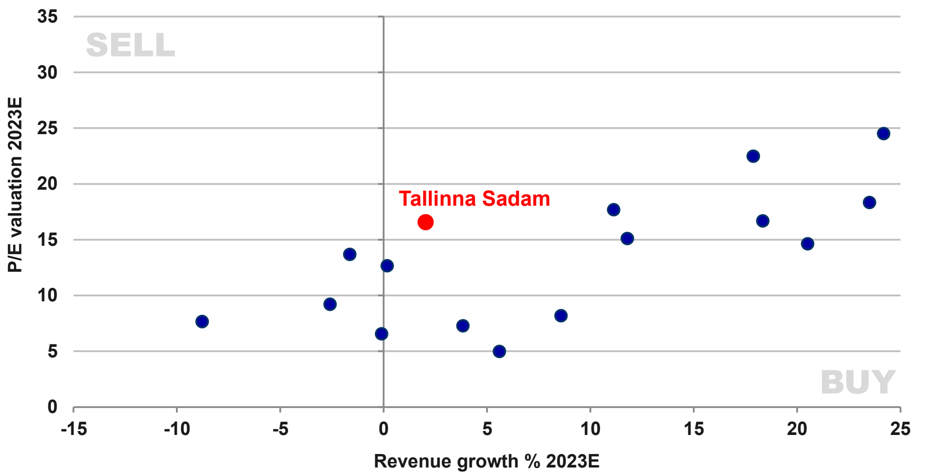
Sector median P/E of 15x for 2007-22

Looking at a P/E and revenue growth regression analysis including the selected infrastructure and port operator peers, we note that Tallinna Sadam is priced about in line on 2023E multiples. Companies with higher revenue growth expectations trade at clearly higher P/E multiples, as seen in the graph below.

In 2022, Tallinna Sadam achieved revenue growth of 11% with a P/E of 14.6x. Our forecast for Tallinna Sadam's revenue growth in 2023 is 2%, as depicted in the table below.

The recovery in passenger traffic should continue in 2024, resulting in a positive outlook for revenue growth. However, the Russian sanctions are not supporting growth expectations in cargo traffic, and are instead creating some headwind on group level.

P/E AND REVENUE GROWTH REGRESSION ANALYSIS, 2023E



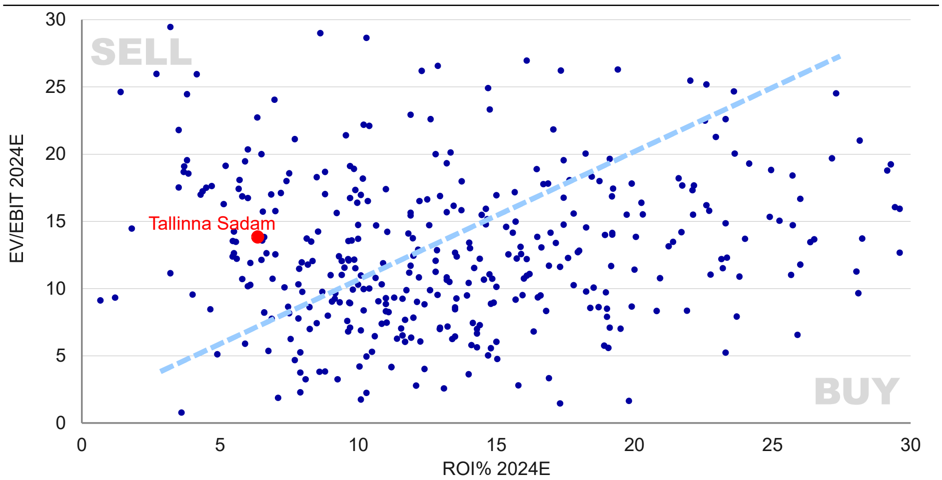
Source: Refinitiv and Nordea estimates

Comparison to the EuroStoxx600 index

We also compare Tallinna Sadam's yield on invested capital to the EuroStoxx600 index to cross-check the company's valuation. When companies are able to post decent returns on invested capital, this is usually well rewarded in the equity markets.

In the chart below, we calculated the correlation between 2024E EV/EBIT and ROI among all EuroStoxx600 companies. By comparing Tallinna Sadam's EV/EBIT valuation range with its ROI, we can see that the company is slightly overvalued at its current share price of EUR ~1.4. However, the company's return on invested capital has been pressured more by COVID-19 and Russian sanctions than EuroStoxx600 companies on average. In a full-recovery scenario, the company's valuation is not remarkably above EuroStoxx600 when running an EV/EBIT and ROI regression analysis.

EUROSTOXX600 REGRESSION ANALYSIS, 2024E



Source: Refinitiv and Nordea estimates

DCF valuation range of EUR 1.7-1.9

One of the most common ways to value the attractiveness of an investment opportunity is by using the discounted cash flow (DCF) method. A DCF model discounts all available cash flows for holders of equity, bonds and non-equity claims.

In other words, the WACC represents a weighted cost of capital for all invested capital in the company. In fundamental terms, a DCF framework is built on three parts: 1) discounting the company's free cash flow by the WACC; 2) identifying the value of debt and other non-equity claims of the enterprise value; and 3) deducting all claims to determine the value of the common equity.

The fair value per share is then simply calculated by dividing the equity value by the number of outstanding shares. A DCF valuation is commonly considered among academics and practitioners to be the best way to capture the underlying fundamental drivers of a company, such as cost of capital, growth rates, reinvestment rates, etc. If applied correctly, it represents the best way to approximate the true intrinsic value of a company.

The main appeal of a DCF framework compared with other valuation methodologies is that it also focuses on streams of cash rather than accounting earnings. Its main disadvantage is its relative sensitivity to changes in input values. In terms of Tallinna Sadam, the problem is to set a credible operating profit margin for the coming years.

Annual cash flow from operations was EUR 52m last year, but we expect this to weaken. We expect to see EUR 46m in cash flow from business operations in 2023, from which investments would take EUR 43m and dividend payments EUR 19, rendering a EUR ~16m increase for net debt.

We arrive at a fair DCF-based equity value range of EUR 1.7-1.9 per share

Based on the assumption that Tallinna Sadam can deliver broadly in line with our forecasts, including variations in sales growth, EBIT margin and WACC assumptions, we arrive at a fair DCF-based equity value range of EUR 1.7-1.9 per share. For the terminal period, we model 2.5% growth. The assumptions behind our WACC are outlined in the table below.

WACC ASSUMPTIONS

WACC components	
Risk-free interest rate	3.0%
Market risk premium	4.0%
Forward looking asset beta	nm
Beta debt	0.10
Forward looking equity beta	1.30
Cost of equity	8.20%
Cost of debt	5.0%
Tax-rate used in WACC	14.0%
Equity weight	68.0%
WACC	**7.0%**

Source: Nordea estimates

DCF VALUATION

DCF value	**Value**	**Per share**
NPV FCFF	611	2.3
(Net debt)	-143	-0.5
Market value of associates	0	0.0
(Market value of minorities)	0	0.0
Surplus values	0	0.0
(Market value preference shares)	0	0.0
Share based adjustments	0	0.0
Other adjustments	0	0.0
Time value	14	0.1
DCF Value	**482**	**1.8**

Source: Nordea estimates

To highlight the sensitivity of the DCF valuation, we also provide sensitivity matrices modelling variations in revenue growth, margin assumptions and cost of capital. The sensitivities in our WACC are outlined in the following tables.

FAIR VALUE SENSITIVITY TO WACC AND EBIT MARGIN

		WACC				
		5.0%	**6.0%**	**7.0%**	**8.0%**	**9.0%**
	+2.0pp	3.4	2.5	2.0	1.6	1.3
EBIT marg change	**+1.0pp**	3.3	2.4	1.9	1.6	1.3
		3.1	2.3	**1.8**	1.5	1.2
	-1.0pp	2.9	2.2	1.8	1.4	1.2
	-2.0pp	2.8	2.1	1.7	1.4	1.2

Source: Nordea estimates

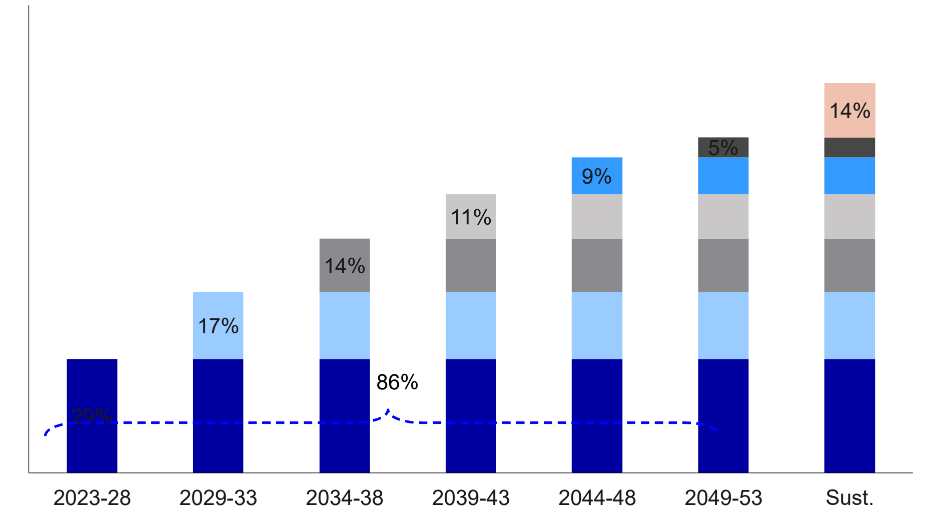
FAIR VALUE SENSITIVITY TO WACC AND SALES GROWTH

		WACC				
		5.0%	**6.0%**	**7.0%**	**8.0%**	**9.0%**
	+2.0pp	4.1	2.9	2.3	1.8	1.5
Sales gr. change	**+1.0pp**	3.6	2.6	2.0	1.6	1.4
		3.1	2.3	**1.8**	1.5	1.2
	-1.0pp	2.7	2.1	1.7	1.4	1.1
	-2.0pp	2.4	1.9	1.5	1.3	1.1

Source: Nordea estimates

We use a stringent valuation framework, setting ROIC below WACC in the terminal period, which prevents the model from extrapolating above-market returns in perpetuity. Clearly less than half of the value is derived from the coming ten years, and 86% within our 30-year estimate cycle, according to our calculations.

TALLINNA SADAM: DCF VALUE DISTRIBUTION TIMELINE



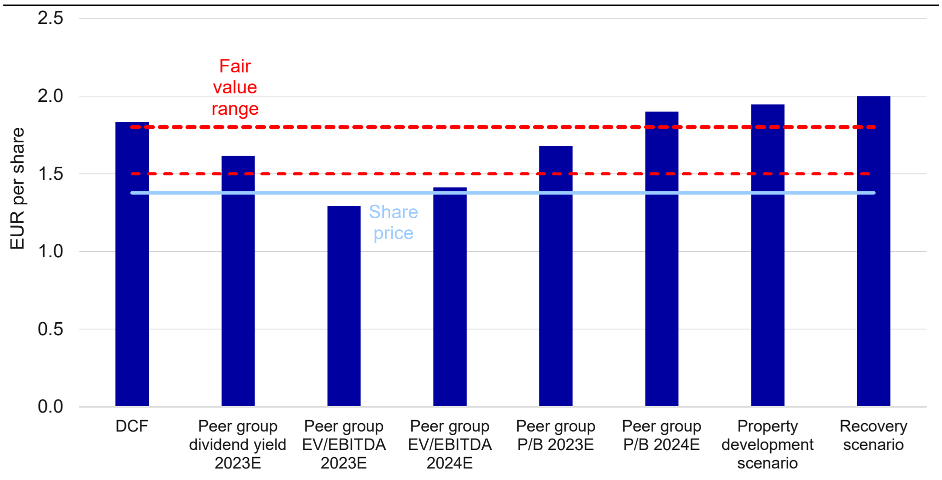
Source: Nordea estimates

Valuation summary

On 2023E-24E P/E valuation multiples alone and at the current share price, its looks to be trading above the company's peer group. However, Tallinna Sadam appears to be valued fairly in line on the peer group median EV/EBITDA multiples for 2023E-24E. As mentioned previously, the main issues with the valuation is a recovery from the pandemic and the sanctions on Russia.

The fair share value would be EUR 1.7-1.9 if Tallinna Sadam were priced in line with our DCF analysis, whereas the peer group EV/EBITDA 2024E multiples suggest a fair value of EUR 1.4-1.6 per share. In conclusion, we set our fair value range at EUR 1.5-1.8. The recovery scenario is explained in more detail in the next section of this report.

VALUATION SUMMARY (EUR/SHARE)



Source: Nordea estimates

A recovery scenario

We believe a full recovery in passenger and cargo volumes could bring annual operating profit to over EUR 50m in 2025 and the share price back to EUR 2.0. However, visibility is weak, and a full recovery scenario includes much uncertainty. In a recovery scenario, annual EBITDA could be EUR 76m, instead of EUR 69m in our base-case forecast for 2025. Tallinna Sadam is not just waiting for volumes to recover, it is actively searching dual-use options for its quays, as well as investing in new business opportunities. An offshore construction harbour should be ready in 2025, and the Muuga terminal could be in use as early as in 2025.

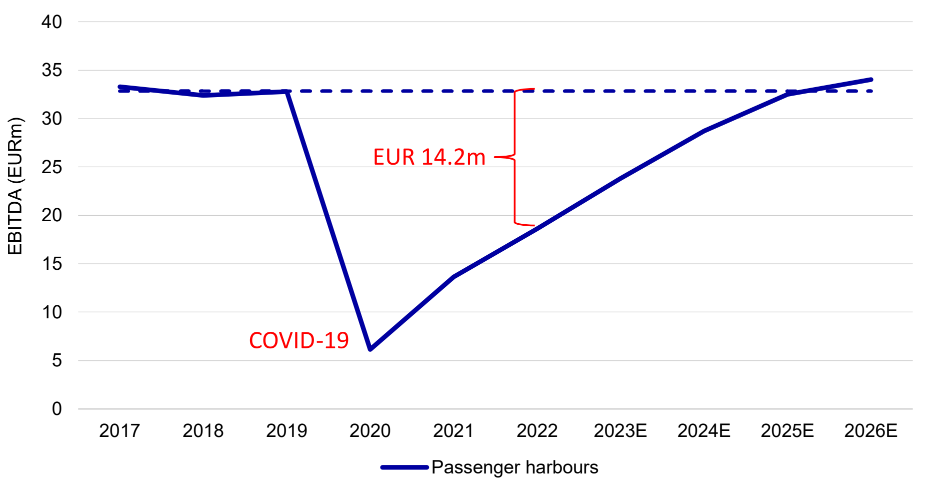
There has historically been a recovery after external shocks

A recovery in passenger traffic began as early as in 2021

A recovery in passenger traffic started already in 2021. While the Passenger harbours segment's 2022 EBITDA was as still only around 57% of the pre-pandemic level, , growth was fairly strong at 36%. We assume that the number of cruise calls could take a hit in the short term due to St. Petersburg closing down as a tourist destination. However, global tourism and traffic on international routes are on the rise again, and cruise companies are modifying their routes to replace St. Petersburg.

We also argue that Tallinna Sadam's market share could increase, as cruise passengers are seeking alternative travel destinations. Furthermore, if the situation in Russia stabilises and St. Petersburg opens again, we could also see an increase in cruise passenger volumes. Similarly, the new shuttle Tallink MyStar has the potential to increase the yearly passenger numbers on the Tallinn-Helsinki route, especially in the short and medium term. In a full recovery scenario, all the travel restrictions are lifted, and tourists still regard the Baltic Sea region as a safe and an attractive destination. At pre-pandemic passenger volumes and utilisation rates, EBITDA would bounce back to EUR 33m by 2025.

PASSENGER HARBOUR'S EBITDA RECOVERY SCENARIO (EURm)



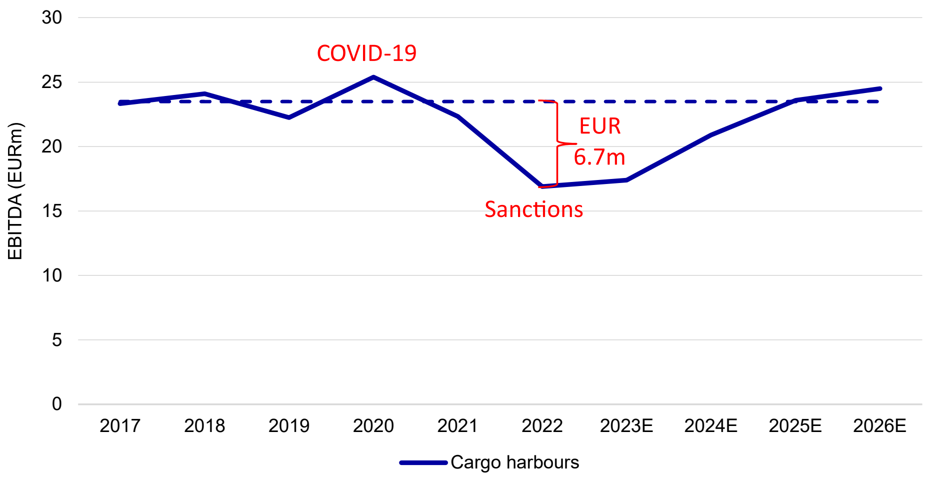
Source: Company data and Nordea estimates

The pandemic increased EBITDA in the cargo operations

The pandemic actually increased EBITDA in the cargo operations to a record-high level in 2020. While the segment's revenue still grew in 2021, the expenses spiked as well, due to higher energy prices and pandemic-related disruptions in the supply chain and manufacturing. Moreover, the Ukraine conflict and Russian sanctions brought down both revenue and especially the company's EBITDA in 2022. The sanctions have slashed liquid bulk and dry bulk volumes significantly, and finding replacing transit cargo flows will take time, we argue.

In a full-recovery scenario, Russian liquid fuel transit will normalise, or the company will find replacement transit destinations elsewhere in the near future. Furthermore, energy prices will decrease, while manufacturing and supply chain disruptions subdue, leading to lower operating expenses in the cargo operations. The planned completion of the Rail Baltica railway would also greatly increase our estimated cargo flow through Tallinna Sadam in a full-recovery scenario. However, the positive impact of the Muuga rail terminal project will likely take effect in 2025 at the earliest. The offshore quay and hinterland area in Paldiski should be completed in the summer of 2025, adding replacing income for Russian transit.

CARGO HARBOUR'S EBITDA RECOVER SCENARIO (EURm), 2017-26E



Source: Company data and Nordea estimates

Sustainability issues

No revenues are aligned to the EU Taxonomy, but the most important ESG drivers for Tallinna Sadam relate to the environmental impact of harbour operations. Around 80,000 tonnes of sewage annually are received from cruise ships and ferries at Tallinn's Old City Harbour. The company's own greenhouse gas emissions are around 23,000 tonnes annually, which do not include ships visiting the port. Overall, the company's use of energy, released emissions and use of water are not a large part of its operations. The company has been able to avoid ESG incidents in the past, and we do not foresee any major ESG-related risks at the present time. Sustainability reporting is relatively comprehensive, according to our analysis.

Safety

Health and safety is a top priority

Health and safety is one of the company's top priorities and Tallinna Sadam's harbours have a safety assurance system to meet the requirements of the Estonian Ports Act. The company assesses potential safety risks regularly and updates its safety measures when necessary. Moreover, to cope with dangerous situations, the company carries out regular drills and training exercises and works with authorities, local communities and cargo operators.

Target of zero work-related injuries

All detected incidents are recorded. In 2022, Tallinna Sadam recorded zero work-related injuries at its ports. The company's health and safety target is to have zero injuries. We do not regard injuries as a material issue for the company.

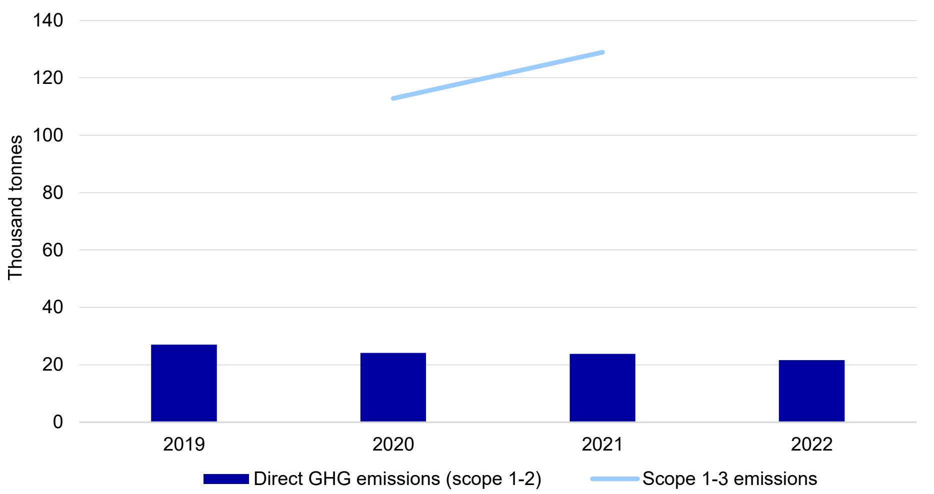
Emissions

Tallinna Sadam's own direct greenhouse gas emissions (Scope 1) totalled 21,623 tonnes of CO_2 equivalent in 2022, of which 84% was attributable to ferry traffic between Estonia's mainland and largest islands. Overall, harbour operations do not emit much carbon dioxide or other pollutants. Depending on the new ferry tender requirements, the company could rebuild its fleet to us renewable energy or hybrid technology, which would reduce CO_2 levels significantly.

CO2 is not a significant ESG issue for the company

Scope 3 emissions were 105,000 tonnes in 2021. Scope 3 emissions include indirect emissions from tenants, operators, ships, traffic and cargo passing through the harbours. However, Scope 3 emissions only make up 1% of total CO_2 emissions in Estonia, highlighting that CO_2 is not a significant ESG issue for the company.

TALLINNA SADAM: ANNUAL GREENHOUSE GAS EMISSIONS ('000 TONNES CO_2 EQUIVALENT)



Source: Company data

Sustainability concerns may affect the growth of the cruise market

Rising environmental concerns are a key challenge to the growth of the global cruise tourism market, as these ships generate a substantial amount of waste on a daily basis. An average one-week cruise with 2,000-2500 passengers along with crew members generates more than 200,000 gallons of sewage stream including oily bilge water, greywater and hazardous waste (Technavio). This is in addition to over six tonnes of solid waste. Tallinna Sadam has built a sewage system (pipeline) into the quays and an associate company Green Marine is dealing with waste handling.

Governance issues

Some earlier governance issues

There have not been any major ESG or governance disputes since the company was listed in 2018. However, two members of the management board (Ain Kaljurand and Allan Kiil) were accused of large-scale bribery and money-laundering activities during 2005-15. According to media sources, they allegedly accepted bribes totalling almost EUR 4m, the largest proportion (EUR 3m) having been offered by representatives of Turkish and Polish shipbuilding companies in return for ferry-building contracts for Saaremaa and Hiiumaa routes where operations started in 2016. The court case is still ongoing, but it will not have a material impact on the company's financials. Moreover, no criminal charge has been brought against the company.

Risk factors

There are several major and minor risks to consider when investing in Tallinna Sadam. We believe the biggest risk is the possible escalation of geopolitical tensions in the Baltic Rim, which could lead to unexpected declines in passenger and cargo traffic. Furthermore, a possible economic downturn could cause volumes of cruise traffic to soften, even without geopolitical tensions. Another risk is the potential loss of a ferry contract and the possible postponement of property development projects due to rising interest rates. However, the overall economy is healthy in Estonia, and so we do not expect to see any notable weakness in traffic volumes. Furthermore, Estonia is a member of NATO, which lowers the risk of geopolitical pressures on the country. Other risks include operational safety and environmental risks for the harbour area. We do not currently see any material risks from the balance sheet or competition.

A possible loss of a ferry contract

We see a low risk that Tallinna Sadam will not win a possible new tender to continue providing domestic ferry services

Tallinna Sadam has a contract with the state, to provide domestic ferry services between Estonia's mainland and its biggest islands (Saaremaa and Hiiumaa) for the period 2017-26. This contract represents 28% of total revenues for the company.

The Republic of Estonia will likely arrange a new tender this year for the subsequent ten-year period of 2027-36. If Tallinna Sadam were to lose this ferry traffic, it could have a significant impact on the company's operations. The Ferry segment accounted for 26% of group EBITDA in 2022.

We believe that that Tallinna Sadam could be relatively competitive in the possible auction, because the state has not used its option to buy four ferries from the company. Tallinna Sadam now has suitable vessels to offer at competitive prices in a new tender, which reduces the risks related to its ferry operations.

Escalation of geopolitical tensions in the Baltic Rim

Tallinna Sadam is successful when there is growing amount of traffic in the harbour. Increased tensions in the Baltic Sea and tightening sanctions could reduce cruise and transport passengers in Tallinn's harbour, as well as cargo volumes. Russian and Belarusian cargo accounted for 21% of the company's total cargo throughput in 2022.

We consider it unlikely that the war in Ukraine could lead to an escalation in Northern Europe, but recent political developments have shown that even unexpected events can happen in Europe. Estonia would almost certainly be able to keep Tallinn harbour open with the help of NATO and Sweden, but travellers could still avoid the area if tensions were to increase.

Tallinn-Helsinki tunnel

We consider the likelihood of the tunnel being built as very low

The Tallinn-Helsinki tunnel plan is a project that could potentially pose a risk to Tallinna Sadam's business. However, the probability of a tunnel actually being constructed is extremely low. Currently, the longest undersea tunnel in the world is 53 km, while the Tallinn-Helsinki tunnel would be 108 km long.

Moreover, the construction cost per unit for the estimated PAX volume is also abnormally high compared to other similar projects. The estimated total project cost for the tunnel currently stands at EUR 13-20bn and assumes 40% EU funding. It is also important to note that the proposed station in Tallinn is not optimally located in relation to the city centre. If built, the tunnel would not be fully operational until 2040 at the earliest. Currently, we do not consider the construction of the Tallinn-Helsinki tunnel as very likely.

If the tunnel were to be completed, it would have a material impact on Tallinna Sadam's future prospects. As of today, the tunnel project has been granted EUR 3.1m funding for feasibility studies by the EU. According to estimates, a Tallinn-Helsinki tunnel could serve 12.5 million passengers and 4 million tonnes of cargo per year by

2050. The overall number of line passengers for Tallinna Sadam is estimated to increase even with the existence of the tunnel, although volume growth would be severely hampered. The company's cargo segment could be impacted to an even greater degree. However, the similar Channel Tunnel (Le tunnel sous la Manche) project did not prevent the Dover-Calais maritime link from remaining one of the busiest links in Europe, because unit costs to use Le tunnel are higher than for maritime links.

Safety

Safety is a top priority in all of Tallinna Sadam's operations

Safety is a top priority in all of Tallinna Sadam's operations, and the company is therefore continuously investing in ensuring and promoting safety and security in all business areas.

A marine accident or a fire could have severe consequences, hence Tallinna Sadam has implemented a tight safety and security assurance system at its harbours. Its harbours have had only a few serious incidents in the past decade and there have been no safety incidents resulting in a large number of fatalities or injuries.

The company assesses potential safety risks regularly and updates safety measures when necessary to prevent dangerous situations. All detected incidents are recorded and screening provides input for the planning of additional safety measures. The company also carries out regular drills and training exercises and works with supervision authorities, local communities and operators, including handlers of hazardous materials operating at the harbours.

The harbours already have basic fire extinguishing equipment, automatic alarm systems, sprinkler, gas extinguishing, water curtain and alarm transmission systems, and external fire extinguishing water systems.

Environmental risks

The two main environmental risk categories are 1) an incident in the harbour area and 2) changes in environmental policies.

The long-term target is to achieve climate neutrality by 2050

The Baltic Sea has one of the most vulnerable marine ecosystems in the world, and its harbours can have a significant environmental effect. Possible leakages of harmful substances, such as oil, are usually the responsibility of individual ships, however. The company's medium-term strategy is to ensure environmentally friendly services for passenger traffic. Its long-term target is to achieve climate neutrality by 2050.

Tighter rules for emissions, energy efficiency, a circular economy and sustainable consumption could lead to additional costs, increased investments or reduced activity in the harbours. New EU requirements (including the Fit for 55 package) could have a long-term impact on harbour services through changes in business models and the operating environment.

Property development

In the real estate business, significant risks are possible delays in local governments' planning processes and the potential for legal disputes.

The company has a target to develop property on its own by utilising its balance sheet. Risks could arise from the price development in the real estate market and the company could in such event eventually be forced to divest assets at prices below the investment costs.

However, Tallinna Sadam has an option to select a partner for the long-term property development project, lowering the overall risks. One possibility is to sell the land area, which would minimise the risks associated with the property development portfolio.

Liquidity risk

Liquidity risk arises when a company has insufficient funds to meet its payment obligations. Tallinna Sadam's liquidity reserve consists of cash and cash equivalents, term deposits with original maturities of less than three months, and overdrafts where necessary. The liquidity buffer amounts to at least EUR 5m.

Management uses cash flow forecasts to monitor changes in the liquidity reserve on an ongoing basis. The company is generating positive net cash flow and does not therefore need additional financing for its daily operations. The total amount in loans and debt securities issued maturing during the next six months is EUR 4.9m.

Interest rate risk

No credit rating from international rating agencies

Interest rate risk refers to the negative impact of changes in interest rates on the group's income statement and cash flow. The interest rate on interest-bearing debt and interest-bearing assets is dependent on the strength of the balance sheet, earnings volatility and the earnings outlook. Tallinna Sadam does not have a credit rating from international rating agencies.

The company's interest rate risk mainly results from long-term loans (EUR 171m), which have floating rates. Term deposit contracts are concluded at fixed interest rates and do not expose the company to any cash flow interest rate risk.

At the end of 2022, the company's weighted average interest rate was 1.9%. If the market interest rate as at 31 December 2022 had been higher/lower by 1 pp, the company's profit for the financial year would have increased/decreased by EUR 1.9m, assuming all other variables remained constant.

Currency risk

The company does not have meaningful currency risk. Currency risk is exposure to fluctuations in the fair value of the company's financial instruments or cash flows arising from movements in foreign exchange rates. Tallinna Sadam has no material liabilities or receivables denominated in any currency other than EUR. All outstanding long-term loans and borrowings are also denominated in EUR.

Credit risk

Credit risk can arise if a counterparty to Tallinna Sadam's operations cannot meet its obligations. Credit risk exposure mostly results from trade receivables, cash and cash equivalents and derivative transactions. At the end of 2022, the company's maximum exposure to credit risk was EUR 51m.

The risk related to cash and cash equivalents is low, as they are held at reputable international banks. Customer-related credit risk exposure is reduced by requesting advance payments or bank guarantees from customers whose solvency is in doubt. Credit risk is also mitigated by performing due diligence on the customer prior to entering into any major contracts. Receivables not past due as at the reporting date accounted for 89% (2021: 95%) of total trade receivables at the end of 2022.

Concentrated ownership

The state of Estonia holds shares representing over two-thirds of the voting power. As such, there could potentially be a governance issue putting the state of Estonia's interests ahead of those of the minority shareholders. However, the overall governance culture in Estonia is good and comprehensive, which lowers the risk related to concentrated ownership. Port operations are strategically important for the country, which means that a reduction to below 50% in voting power could be unlikely in the short term.

Competition

We do not view competition as a major risk for the company

Large global ports such as Rotterdam, Los Angeles or Singapore are not direct competitors. The port of St. Petersburg is no longer a competitor due to sanctions.

The closest competitor is the port of Sillamäe, which is a cargo harbour close to the Russian border. Sillamäe has a 24% market share in Estonian cargo traffic. Tallinna has a 52% market share (2022) in Estonia. Competition for ferry passenger traffic to Tallinn does not even exist. In the cruise market, Western harbours in the Baltic Sea could attract more visitors when St. Petersburg is excluded from ordinary cruise routes. Overall, we do not consider competition to be the biggest risk for the company.

Quarterly segment estimates

SEGMENT ESTIMATES PER QUARTER (EURm)

	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23	Q2 23E	Q3 23E	Q4 23E
Passenger harbours												
Sales (EURm)	5.0	5.7	9.7	8.4	6.0	10.7	13.0	8.1	8.0	12.8	14.7	9.8
Sales growth (%)	-37%	23%	3254%	36%	21%	88%	34%	-3%	33%	19%	13%	20%
Adj. EBIT (EURm)	0.2	0.8	3.6	2.2	0.6	4.5	5.6	0.2	1.2	5.1	6.3	2.1
Adj. EBIT margin (%)	3%	14%	37%	26%	10%	42%	43%	3%	15%	40%	43%	21%
Cargo harbours												
Sales (EURm)	9.6	9.8	10.9	10.4	9.7	9.9	9.4	9.9	7.9	7.3	7.2	7.2
Sales growth (%)	3%	4%	19%	-2%	1%	0%	-14%	-5%	-18%	-26%	-23%	-27%
Adj. EBIT (EURm)	3.4	3.3	3.6	3.3	3.1	3.0	1.5	0.9	1.2	0.5	0.3	0.2
Adj. EBIT margin (%)	36%	33%	33%	32%	32%	31%	16%	9%	16%	7%	5%	3%
Ferry segment												
Sales (EURm)	6.8	7.8	8.6	7.4	7.4	8.8	10.2	8.3	8.4	9.9	10.9	9.0
Sales growth (%)	-3%	6%	8%	7%	9%	13%	18%	12%	13%	12%	7%	8%
Adj. EBIT (EURm)	1.5	2.0	2.2	0.9	1.8	2.5	3.0	1.6	2.4	2.9	3.2	2.1
Adj. EBIT margin (%)	22%	25%	26%	12%	24%	28%	30%	20%	28%	29%	29%	24%
Other												
Sales (EURm)	3.6	0.9	3.1	2.3	3.7	1.0	3.8	1.9	4.0	1.1	4.0	2.1
Sales growth (%)	-1%	-1%	-7%	46%	2%	4%	22%	-17%	10%	9%	5%	10%
Adj. EBIT (EURm)	2.1	-0.8	1.3	0.3	1.8	-0.8	1.8	-0.1	2.0	-0.5	2.0	0.0
Adj. EBIT margin (%)	58%	-84%	41%	14%	48%	-88%	47%	-6%	49%	-49%	49%	1%
Group												
Sales (EURm)	25.0	24.3	32.3	28.5	26.8	30.4	36.3	28.2	28.4	31.0	36.8	28.0
Sales growth (%)	-10%	8%	56%	13%	7%	25%	13%	-1%	6%	2%	1%	-1%
Adj. EBITDA (EURm)	13.0	11.1	17.1	12.9	13.5	15.4	18.0	9.0	13.6	14.0	17.8	10.5
Adj. EBITDA margin (%)	52%	46%	53%	45%	50%	51%	50%	32%	48%	45%	48%	37%
Adj. EBIT (EURm)	7.2	5.2	10.7	6.6	7.2	9.1	11.8	2.6	6.8	7.9	11.8	4.4
Adj. EBIT margin (%)	29%	22%	33%	23%	27%	30%	33%	9%	24%	26%	32%	16%
Net financials	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.9	-1.1	-1.2	-1.3	-1.3
PTP	6.9	5.2	10.4	6.4	7.0	8.8	11.5	1.7	5.7	6.8	10.5	3.1
Net result adj.	6.9	1.9	10.4	6.4	7.0	4.7	11.5	1.8	5.7	2.5	10.5	3.1
Net result	6.9	1.9	10.4	6.4	7.0	4.7	11.5	1.8	5.7	2.5	10.5	3.1
EPS adj. (EUR)	0.03	0.01	0.04	0.02	0.03	0.02	0.04	0.01	0.02	0.01	0.04	0.01
EPS (EUR)	0.03	0.01	0.04	0.02	0.03	0.02	0.04	0.01	0.02	0.01	0.04	0.01

Source: Company data and Nordea estimates

Annual segment estimates

SEGMENT ESTIMATES (EURm)

	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Passenger harbours									
Sales (EURm)	49.9	49.9	49.8	19.0	28.8	37.9	45.2	47.9	50.0
Sales growth (%)		0%	0%	-62%	51%	32%	19%	6%	4%
Adj. EBIT (EURm)	28.8	26.4	26.4	-0.5	6.7	10.9	14.6	16.6	17.9
Adj. EBIT margin (%)	58%	53%	53%	-3%	23%	29%	32%	35%	36%
Cargo harbours									
Sales (EURm)	39.8	41.7	40.1	38.5	40.7	38.8	29.7	29.7	31.1
Sales growth (%)		5%	-4%	-4%	6%	-5%	-24%	0%	5%
Adj. EBIT (EURm)	15.1	15.5	14.2	11.1	13.6	8.4	2.3	2.3	2.8
Adj. EBIT margin (%)	38%	37%	35%	29%	33%	22%	8%	8%	9%
Ferry segment									
Sales (EURm)	27.1	30.1	30.8	29.4	30.7	34.8	38.2	40.1	41.7
Sales growth (%)		11%	2%	-5%	4%	13%	10%	5%	4%
Adj. EBIT (EURm)	3.5	7.4	8.3	8.1	6.6	8.9	10.6	11.8	12.5
Adj. EBIT margin (%)	13%	25%	27%	28%	21%	26%	28%	30%	30%
Other									
Sales (EURm)	4.6	8.9	9.8	9.5	9.9	10.3	11.1	11.5	11.7
Sales growth (%)		95%	9%	-3%	5%	4%	8%	3%	2%
Adj. EBIT (EURm)	-7.1	2.3	2.9	1.9	2.9	2.6	3.4	3.7	3.9
Adj. EBIT margin (%)	-154%	25%	29%	20%	29%	25%	31%	33%	33%
Group									
Sales (EURm)	121.3	130.6	130.5	107.4	110.1	121.7	124.2	129.2	134.5
Sales growth (%)		8%	0%	-18%	3%	11%	2%	4%	4%
Adj. EBITDA (EURm)	66.7	74.4	74.7	59.7	54.5	56.1	58.6	63.9	69.5
Adj. EBITDA margin (%)	55%	57%	57%	56%	50%	46%	47%	49%	52%
Adj. EBIT (EURm)	40.3	52.1	51.7	35.6	29.8	30.8	30.9	34.4	37.0
Adj. EBIT margin (%)	33%	40%	40%	33%	27%	25%	25%	27%	28%
Net financials	-1.6	-1.5	-1.5	-2.1	-0.9	-1.8	-4.9	-5.9	-6.5
PTP	38.7	50.6	50.2	33.4	28.9	29.0	26.1	28.5	30.5
Net result adj.	26.8	24.4	44.4	28.5	25.6	24.8	21.8	24.2	27.0
Net result	26.8	24.4	44.4	28.5	25.6	24.8	21.8	24.2	27.0
EPS adj. (EUR)	0.10	0.11	0.17	0.11	0.10	0.09	0.08	0.09	0.10
EPS (EUR)	0.10	0.11	0.17	0.11	0.10	0.09	0.08	0.09	0.10

Source: Company data and Nordea estimates

Peer group financials and valuation

PEER GROUP FINANCIALS

	Sales (EURm)				Sales growth				EBIT margin			
	2021	2022	2023E	2024E	2021	2022	2023E	2024E	2021	2022	2023E	2024E
Shanghai International Port Group	4,748	5,050	4,787	5,071	31%	9%	-3%	6%	41%	37%	32%	30%
Hamburger Hafen und Logistik	1,465	1,578	1,520	1,543	13%	8%	-2%	2%	13%	13%	10%	11%
Adani Ports	1,463	2,038	2,226	2,640	6%	36%	18%	19%	55%	48%	44%	48%
China Merchants Port Holdings	1,337	1,501	1,483	1,557	32%	6%	0%	5%	38%	36%	34%	34%
Qube Holdings	1,234	1,635	1,860	1,969	7%	27%	24%	6%	9%	9%	9%	9%
COSCO SHIPPING Ports	1,063	1,347	1,357	1,442	21%	19%	4%	6%	18%	19%	20%	21%
Abu Dhabi Ports Company	936	1,399	2,184	2,678	14%	41%	63%	23%	25%	30%	27%	23%
Vegetexco Port	398	512	n.a.	n.a.	12%	25%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sociedad Matriz SAAM	359	432	0	0	-30%	13%	0%	0%	19%	15%	n.a.	n.a.
Ocean Wilsons Holdings	349	411	434	457	12%	11%	9%	5%	25%	26%	24%	25%
Wilson Sons Holdings Brasil	338	402	1,316	1,373	18%	6%	6%	4%	25%	26%	48%	48%
Dalrymple Bay Infrastructure	323	399	367	381	2053%	24%	12%	4%	33%	37%	37%	29%
Isewan Terminal Service	322	387	n.a.	n.a.	-12%	25%	n.a.	n.a.	2%	6%	n.a.	n.a.
Santos Brasil Participacoes	242	341	436	492	65%	26%	21%	13%	23%	29%	34%	37%
Westshore Terminals Investment	237	201	242	228	-8%	-14%	18%	-6%	49%	39%	45%	43%
Saudi Industrial Services	231	247	257	289	-3%	1%	18%	12%	32%	26%	26%	27%
Touage Investissements Reunies	168	211	189	202	3%	25%	-9%	7%	22%	14%	15%	15%
Alexandria Container and Cargo	129	145	151	169	-7%	19%	n.a.	12%	56%	60%	76%	70%
Sun Kwang	121	128	n.a.	n.a.	7%	6%	n.a.	n.a.	20%	16%	n.a.	n.a.
China Container Terminal	98	96	n.a.	n.a.	9%	2%	n.a.	n.a.	11%	11%	n.a.	n.a.
Fushiki Kairiku Unso	94	86	n.a.	n.a.	-6%	-1%	n.a.	n.a.	4%	6%	n.a.	n.a.
Gujarat Pipavav Port	86	89	101	109	0%	1%	24%	7%	43%	36%	43%	45%
Namyong Terminal	35	39	44	49	12%	9%	11%	11%	31%	27%	27%	30%
Group median					**9%**	**11%**	**11%**	**6%**	**25%**	**26%**	**32%**	**30%**
Tallinna Sadam (Nordea)	110	122	124	129	3%	11%	2%	4%	27%	25%	25%	27%
diff. from median (pp)					**-6**	**0**	**-9**	**-2**	**2**	**-1**	**-7**	**-3**

Source: Company data, Refinitiv and Nordea estimates

PEER GROUP VALUATION

	P/E				EV/EBIT				P/B			
	2021	2022	2023E	2024E	2021	2022	2023E	2024E	2021	2022	2023E	2024E
Shanghai International Port Group	14.0	53.4	n.a.	n.a.	18.4	36.9	n.a.	n.a.	1.0	2.3	n.a.	n.a.
Hamburger Hafen und Logistik	13.7	9.7	13.7	13.5	8.5	6.5	10.3	10.0	1.5	1.2	1.2	1.1
Adani Ports	28.6	34.2	22.5	18.2	29.2	27.5	21.0	16.2	4.7	3.6	3.3	2.9
China Merchants Port	6.5	5.7	6.6	6.4	30.2	20.9	21.8	20.7	0.5	0.4	0.5	0.4
Qube Holdings	43.3	45.1	36.1	25.5	11.6	11.0	12.0	10.3	1.7	1.0	1.0	1.0
COSCO SHIPPING Ports	8.1	8.7	7.3	6.9	30.6	25.2	21.7	19.5	0.4	0.4	0.4	0.4
Abu Dhabi Ports Company	n.a.	22.8	22.2	22.9	4.6	24.6	18.5	17.1	n.a.	1.7	1.6	1.5
Intergis Co	21.5	7.6	4.2	n.a.	10.3	2.5	0.9	n.a.	0.5	0.5	0.4	n.a.
Vegetexco Port	0.0	n.a.	n.a.	n.a.	0.0	n.a.	n.a.	n.a.	0.0	n.a.	n.a.	n.a.
Sociedad Matriz SAAM	3.8	7.6	7.7	6.2	12.0	13.3	14.5	13.7	0.5	0.6	n.a.	n.a.
Ocean Wilsons Holdings	42.4	38.3	24.5	23.8	23.8	31.7	25.7	24.4	1.8	1.9	1.8	1.8
Wilson Sons Holdings Brasil	17.5	14.1	5.0	4.1	9.7	9.9	2.0	1.9	1.8	0.4	0.4	0.3
Dalrymple Bay Infrastructure	7.8	17.5	15.1	13.9	20.2	12.5	13.4	16.5	1.3	1.1	1.1	1.1
Isewan Terminal Service	23.6	17.2	n.a.	n.a.	19.1	14.1	n.a.	n.a.	1.4	1.4	n.a.	n.a.
Santos Brasil Participacoes	19.8	15.6	14.7	12.6	13.7	13.3	11.1	9.4	3.6	3.6	3.3	3.3
Westshore Terminals Investment	0.0	n.a.	n.a.	n.a.	0.0	n.a.	n.a.	n.a.	0.0	n.a.	n.a.	n.a.
Saudi Industrial Services	21.0	51.0	n.a.	n.a.	12.1	21.8	n.a.	n.a.	0.7	1.3	n.a.	n.a.
Touage Investissements Reunies	15.0	21.2	16.7	18.7	10.6	15.1	12.5	13.9	2.4	n.a.	n.a.	n.a.
Alexandria Container and Cargo	8.3	5.5	8.8	8.1	7.2	5.2	7.6	7.4	7.2	2.1	4.7	4.5
Sun Kwang	12.9	n.a.	n.a.	n.a.	43.3	45.4	n.a.	n.a.	1.1	0.0	n.a.	n.a.
China Container Terminal	16.3	21.6	n.a.	n.a.	26.4	24.3	n.a.	n.a.	1.1	1.0	n.a.	n.a.
Fushiki Kairiku Unso	8.6	8.3	n.a.	n.a.	20.2	10.8	n.a.	n.a.	0.3	0.3	n.a.	n.a.
Gujarat Pipavav Port	21.1	18.7	18.4	16.2	13.7	10.1	11.9	10.7	2.6	2.6	1.5	2.6
Namyong Terminal	7.0	n.a.	8.2	7.8	6.8	6.9	6.9	6.2	0.8	0.7	n.a.	n.a.
Sakurajima Futo Kaisha	8.7	7.2	9.2	9.0	15.8	15.7	13.4	13.2	1.3	1.2	1.1	1.0
Group median	**13.8**	**17.2**	**13.7**	**13.0**	**13.7**	**14.1**	**12.5**	**13.5**	**1.2**	**1.1**	**1.1**	**1.1**
Tallinna Sadam (Nordea)	19.1	15.1	16.6	15.0	22.1	16.8	16.2	14.2	1.3	1.0	0.9	0.8
diff. from average	**38%**	**-12%**	**21%**	**15%**	**62%**	**19%**	**30%**	**5%**	**5%**	**-13%**	**-21%**	**-26%**

Source: Refinitiv and Nordea estimates

Reported numbers and forecasts

INCOME STATEMENT

EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Total revenue	**94**	**103**	**121**	**131**	**131**	**107**	**110**	**122**	**124**	**129**	**135**
Revenue growth	-16.5%	10.0%	17.5%	7.7%	-0.1%	-17.8%	2.5%	10.6%	2.0%	4.1%	4.1%
of which organic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which FX	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	40	49	67	74	75	60	55	56	59	64	69
Depreciation and impairments PPE	0	0	-26	-22	-23	-24	-25	-25	-28	-29	-32
of which leased assets	0	0	0	0	0	0	0	0	0	0	0
EBITA	40	49	40	52	52	36	30	31	31	34	37
Amortisation and impairments	0	0	0	0	0	0	0	0	0	0	0
EBIT	40	49	40	52	52	36	30	31	31	34	37
of which associates	0	0	0	0	0	0	0	0	0	0	0
Associates excluded from EBIT	0	0	0	0	0	0	0	0	0	0	0
Net financials	-1	-1	-2	-1	-1	-2	-1	-2	-5	-6	-7
of which lease interest	0	0	0	0	0	0	0	0	0	0	0
Changes in value, net	0	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	**39**	**48**	**39**	**51**	**50**	**33**	**29**	**29**	**26**	**29**	**31**
Reported taxes	-8	-9	-12	-26	-6	-5	-3	-4	-4	-4	-4
Net profit from continued operations	31	40	27	24	44	29	26	25	22	24	27
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0	0	0	0	0	0
Net profit to equity	31	40	27	24	44	29	26	25	22	24	27
EPS, EUR	**0.12**	**0.15**	**0.10**	**0.11**	**0.17**	**0.11**	**0.10**	**0.09**	**0.08**	**0.09**	**0.10**
DPS, EUR	0.12	0.13	0.18	0.46	0.12	0.08	0.10	0.07	0.07	0.08	0.08
of which ordinary	0.12	0.13	0.18	0.46	0.12	0.08	0.10	0.07	0.07	0.08	0.08
of which extraordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit margin in percent											
EBITDA	43.1%	47.4%	55.0%	57.0%	57.2%	55.6%	49.5%	46.1%	47.2%	49.5%	51.7%
EBITA	43.1%	47.4%	33.2%	39.9%	39.6%	33.1%	27.0%	25.3%	24.9%	26.7%	27.5%
EBIT	43.1%	47.4%	33.2%	39.9%	39.6%	33.1%	27.0%	25.3%	24.9%	26.7%	27.5%
Adjusted earnings											
EBITDA (adj)	40	49	67	74	75	60	55	56	59	64	69
EBITA (adj)	40	49	40	52	52	36	30	31	31	34	37
EBIT (adj)	40	49	40	52	52	36	30	31	31	34	37
EPS (adj, EUR)	0.12	0.15	0.10	0.11	0.17	0.11	0.10	0.09	0.08	0.09	0.10
Adjusted profit margins in percent											
EBITDA (adj)	43.1%	47.4%	55.0%	57.0%	57.2%	55.6%	49.5%	46.1%	47.2%	49.5%	51.7%
EBITA (adj)	43.1%	47.4%	33.2%	39.9%	39.6%	33.1%	27.0%	25.3%	24.9%	26.7%	27.5%
EBIT (adj)	43.1%	47.4%	33.2%	39.9%	39.6%	33.1%	27.0%	25.3%	24.9%	26.7%	27.5%
Performance metrics											
CAGR last 5 years											
Net revenue	1.6%	3.0%	6.5%	4.8%	3.1%	2.7%	1.3%	0.1%	-1.0%	-0.2%	4.6%
EBITDA	-1.0%	2.7%	11.1%	8.3%	7.1%	8.1%	2.2%	-3.4%	-4.7%	-3.1%	3.1%
EBIT	-1.0%	2.7%	0.4%	0.9%	-0.5%	-2.5%	-9.5%	-5.2%	-9.9%	-7.8%	0.8%
EPS	-6.2%	1.1%	-2.6%	-6.7%	2.7%	-1.5%	-8.3%	-1.5%	-4.9%	-11.5%	-1.1%
DPS	n.m.	0.7%	19.1%	46.7%	0.4%	-1.6%	0.7%	-10.7%	-30.5%	-8.0%	0.1%
Average last 5 years											
Average EBIT margin	46.2%	46.2%	43.5%	41.8%	40.3%	38.5%	34.9%	33.3%	30.1%	27.3%	26.3%
Average EBITDA margin	46.2%	46.2%	48.5%	50.5%	52.7%	54.7%	55.0%	53.2%	51.1%	49.4%	48.8%

VALUATION RATIOS - ADJUSTED EARNINGS

EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
P/E (adj)	n.a.	n.a.	n.a.	19.1	11.7	16.6	19.1	15.1	16.9	15.2	13.6
EV/EBITDA (adj)	n.a.	n.a.	n.a.	9.5	9.3	11.0	12.1	9.2	9.0	8.3	7.4
EV/EBITA (adj)	n.a.	n.a.	n.a.	13.6	13.4	18.5	22.1	16.8	17.0	15.5	13.9
EV/EBIT (adj)	n.a.	n.a.	n.a.	13.6	13.4	18.5	22.1	16.8	17.0	15.5	13.9

VALUATION RATIOS - REPORTED EARNINGS

EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
P/E	n.a.	n.a.	n.a.	19.1	11.7	16.6	19.1	15.1	16.9	15.2	13.6
EV/Sales	n.a.	n.a.	n.a.	5.42	5.32	6.13	5.97	4.25	4.24	4.13	3.83
EV/EBITDA	n.a.	n.a.	n.a.	9.5	9.3	11.0	12.1	9.2	9.0	8.3	7.4
EV/EBITA	n.a.	n.a.	n.a.	13.6	13.4	18.5	22.1	16.8	17.0	15.5	13.9
EV/EBIT	n.a.	n.a.	n.a.	13.6	13.4	18.5	22.1	16.8	17.0	15.5	13.9
Dividend yield (ord.)	n.a.	n.a.	n.a.	22.5%	5.8%	4.3%	5.2%	5.1%	5.3%	5.4%	5.5%
FCF yield	n.a.	n.a.	n.a.	8.0%	6.7%	4.1%	7.8%	13.9%	0.9%	3.6%	10.2%
FCF Yield bef A&D, lease adj	n.a.	n.a.	n.a.	8.0%	6.7%	4.1%	7.8%	13.9%	0.9%	3.6%	10.2%
Payout ratio	71.3%	62.3%	126.2%	430.6%	68.0%	71.0%	99.6%	77.4%	89.7%	82.7%	75.4%

Source: Company data and Nordea estimates

BALANCE SHEET

EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
Intangible assets	0	1	2	2	2	2	2	2	2	2	2
of which R&D	0	0	0	0	0	0	0	0	0	0	0
of which other intangibles	0	1	2	2	2	2	2	2	2	2	2
of which goodwill	0	0	0	0	0	0	0	0	0	0	0
Tangible assets	544	569	577	569	575	588	576	564	580	587	577
of which leased assets	0	0	0	0	0	0	0	0	0	0	0
Shares associates	1	1	1	2	2	1	2	2	2	2	2
Interest bearing assets	0	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0	0	0	0	0	0
Other non-IB non-current assets	0	0	0	0	0	0	1	0	0	0	0
Other non-current assets	0	0	0	0	0	0	0	0	0	0	0
Total non-current assets	546	571	581	573	579	591	580	569	584	591	581
Inventory	0	0	0	0	0	0	0	1	1	1	1
Accounts receivable	9	17	9	8	11	10	14	7	9	11	11
Short-term leased assets	0	0	0	0	0	0	0	0	0	0	0
Other current assets	0	0	0	0	0	0	0	0	0	0	0
Cash and bank	26	50	7	43	35	27	35	44	28	22	40
Total current assets	35	68	17	51	46	37	49	53	38	34	52
Assets held for sale	0	0	0	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	**581**	**639**	**597**	**624**	**626**	**628**	**630**	**621**	**622**	**625**	**632**
Shareholders equity	343	347	326	368	377	375	381	381	384	388	395
Of which preferred stocks	0	0	0	0	0	0	0	0	0	0	0
Of which equity part of hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0	0	0	0	0	0
Total Equity	343	347	326	368	377	375	381	381	384	388	395
Deferred tax	0	0	0	0	0	0	0	0	0	0	0
Long term interest bearing debt	171	128	214	198	192	194	187	171	172	173	174
Pension provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	25	25	25	24	26	28	31	31	31	31	31
Non-current lease debt	0	0	0	0	0	0	0	0	0	0	0
Convertible debt	0	0	0	0	0	0	0	0	0	0	0
Shareholder debt	0	0	0	0	0	0	0	0	0	0	0
Hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Total non-current liabilities	196	153	238	222	217	222	219	203	204	205	206
Short-term provisions	1	1	2	2	2	1	2	2	2	2	2
Accounts payable	6	8	8	10	12	9	10	10	10	10	11
Current lease debt	0	0	0	0	0	0	0	0	0	0	0
Other current liabilities	10	11	2	6	1	3	2	10	7	5	5
Short term interest bearing debt	26	118	22	16	16	17	16	16	15	14	13
Total current liabilities	42	139	33	34	31	30	30	37	34	32	31
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	**581**	**639**	**597**	**624**	**626**	**628**	**630**	**621**	**622**	**625**	**632**
Balance sheet and debt metrics											
Net debt	171	196	229	171	173	185	168	143	159	165	148
of which lease debt	0	0	0	0	0	0	0	0	0	0	0
Working capital	-6	-2	0	-8	-2	-1	2	-11	-8	-4	-4
Invested capital	539	569	581	565	577	589	582	557	576	587	576
Capital employed	539	593	561	581	585	587	584	568	571	576	583
ROE	8.6%	11.5%	8.0%	7.0%	11.9%	7.6%	6.8%	6.5%	5.7%	6.3%	6.9%
ROIC	6.5%	7.6%	6.0%	7.8%	7.8%	5.2%	4.4%	4.6%	4.7%	5.1%	5.5%
ROCE	7.6%	8.6%	7.0%	9.1%	8.9%	6.1%	5.1%	5.4%	5.4%	6.0%	6.4%
Net debt/EBITDA	4.2	4.0	3.4	2.3	2.3	3.1	3.1	2.5	2.7	2.6	2.1
Interest coverage	32.6	82.5	20.8	26.0	29.5	20.9	21.7	15.4	6.3	5.8	5.7
Equity ratio	59.0%	54.3%	54.6%	59.0%	60.3%	59.8%	60.5%	61.3%	61.7%	62.1%	62.5%
Net gearing	49.9%	56.5%	70.2%	46.5%	45.8%	49.3%	44.2%	37.5%	41.4%	42.6%	37.3%

Source: Company data and Nordea estimates

CASH FLOW STATEMENT

EURm	2015	2016	2017	2018	2019	2020	2021	2022	2023E	2024E	2025E
EBITDA (adj) for associates	**40**	**49**	**67**	**74**	**75**	**60**	**55**	**56**	**59**	**64**	**69**
Paid taxes	0	-8	-21	-21	-11	-5	-3	-4	-4	-4	-4
Net financials	-2	-2	-2	-2	0	0	0	-1	-5	-6	-7
Change in provisions	-3	0	0	0	0	-1	0	0	0	0	0
Change in other LT non-IB	1	0	0	0	1	3	3	1	0	0	0
Cash flow to/from associates	0	0	0	0	0	0	0	0	0	0	0
Dividends paid to minorities	0	0	0	0	0	0	0	0	0	0	0
Other adj to reconcile to cash flow	21	9	-3	4	-1	-7	-4	0	0	0	0
Funds from operations (FFO)	**57**	**49**	**41**	**55**	**63**	**50**	**50**	**52**	**50**	**54**	**60**
Change in NWC	0	0	0	0	n.a.	0	0	0	-3	-4	0
Cash flow from operations (CFO)	**57**	**49**	**41**	**55**	**63**	**50**	**50**	**52**	**46**	**50**	**60**
Capital expenditure	-63	-39	-25	-12	-28	-30	-12	0	-43	-37	-22
Free cash flow before A&D	**-6**	**10**	**16**	**43**	**35**	**19**	**38**	**52**	**3**	**13**	**38**
Proceeds from sale of assets	0	0	0	0	0	0	0	0	0	0	0
Acquisitions	0	0	0	0	0	0	0	0	0	0	0
Free cash flow	-6	10	16	43	35	19	38	52	3	13	38
Free cash flow bef A&D, lease adj	-6	10	16	43	35	19	38	52	3	13	38
Dividends paid	-31	-35	-48	-105	-35	-30	-20	-25	-19	-20	-20
Equity issues / buybacks	0	0	0	120	0	0	0	0	0	0	0
Net change in debt	51	49	-10	-22	-8	2	-10	-17	0	0	0
Other financing adjustments	0	0	0	0	0	0	0	0	0	0	0
Other non-cash adjustments	0	0	0	0	0	0	0	0	0	0	0
Change in cash	14	24	-43	36	-7	-9	8	10	-16	-6	18
Cash flow metrics											
Capex/D&A	n.m.	n.m.	96.3%	55.2%	n.m.	n.m.	49.2%	0.5%	n.m.	n.m.	68.2%
Capex/Sales	67.4%	37.6%	21.0%	9.4%	21.6%	28.0%	11.1%	0.1%	34.5%	28.5%	16.5%
Key information											
Share price year end (/current)	n.a.	n.a.	n.a.	2	2	2	2	1	1	1	1
Market cap.	n.a.	n.a.	n.a.	537	522	473	489	375	368	368	368
Enterprise value	n.a.	n.a.	n.a.	708	695	658	657	518	527	533	516
Diluted no. of shares, year-end (m)	263.0	263.0	263.0	263.0	263.0	263.0	263.0	263.0	263.0	263.0	263.0

Source: Company data and Nordea estimates

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