VAISALA

Electronic Equipment & Instruments/Finland, January 15, 2019
Preview

Positive profit warning

Vaisala issued a positive profit warning yesterday, with operating result being better than previously guided (EBIT range 30-36 MEUR). Operating profit for 2018 was 39 MEUR vs. 35.5 MEUR our estimates. Net sales for 2018 was 349 MEUR vs. 349 our estimate. W&E net sales in Q4 were 78 MEUR vs. 78 MEUR our estimates, IM net sales in Q4 were 31 MEUR vs. 30 MEUR our estimates. Most of the profitability beat was due to better than expected profitability in W&E, were EBIT was 10 MEUR vs. 5.2 MEUR our estimates (IM EBIT 6 MEUR vs. 5.5 MEUR our estimate).

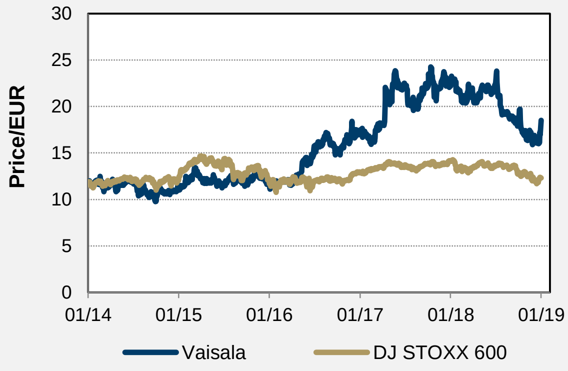
Favorable mix in W&E and higher sales in IM impacted EBIT

In the fourth quarter 2018, operating result was higher than estimated due to higher than estimated gross profit and other operating income. In W&E, gross margin was higher than estimated due to favorable sales mix. In IM, net sales were higher than estimated resulting in higher operating result. Other operating income included EUR 1.5 million of reversal of earn-outs and other contractual liabilities related to acquisitions in the recent years.

2019E growth mainly non-organic, TP 19 and HOLD recommendation maintained

We estimate Vaisala's net sales to grow 11% to 387 MEUR in 2019E. Growth is mainly driven by the Leosphere and K-Patents acquisitions (adding 24 MEUR and 12 MEUR to top line in 2019E). We estimate 2019E EBIT to be 45 MEUR. On our estimates Vaisala is trading at 2019/20E at P/E 20.4 and 17.9, which is ~17% higher than peer group. On our estimates, EV/EBIT multiples for 2019/20E are 14.5 and 12.8 respectively, which are in line with peer group. We await some more color from the Q4 call, especially regarding China and the W&E project outlook. We retain our HOLD recommendation and target price of 19 euros.

Rating HOLD



Share price, EUR (Last trading day's closing price)	18.50
Target price, EUR	19.0
Latest change in	28-Jun-18
Latest report on company	25-Oct-18
Research paid by issuer:	YES
No. of shares outstanding, '000's	36,437
No. of shares fully diluted, '000's	36,437
Market cap, EURm	674
Free float, %	-
Exchange rate EUR/USD	-
Reuters code	VAIAS.HE
Bloomberg code	VAIAS FH
Average daily volume, EURm	-
Next interim report	-
Web site	https://www.vaisala.com/en

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2017	333	41	12.3%	38	0.76	29.3	2.1	15.5	17.2	1.05
2018	349	39	11.2%	38	0.77	23.9	1.8	18.5	16.2	0.55
2019E	387	45	11.5%	45	0.91	20.4	1.7	15.2	14.5	0.60
2020E	400	50	12.6%	50	1.04	17.9	1.6	11.7	12.8	0.65
2021E	417	54	12.9%	54	1.11	16.7	1.5	11.3	11.7	0.70

Market cap, EURm	674	BV per share 2019E, EUR	5.2	CAGR EPS 2018-21, %	12.8
Net debt 2019E, EURm	-25	Price/book 2019E	3.6	CAGR sales 2018-21, %	6.2
Enterprise value, EURm	649	Dividend yield 2019E, %	3.2	ROE 2019E, %	18.1
Total assets 2019E, EURm	351	Tax rate 2019E, %	26.0	ROCE 2019E, %	19.1
Goodwill 2019E, EURm	16	Equity ratio 2019E, %	53.9	PEG, P/E 19/CAGR	1.8

All the important disclosures can be found on the last pages of this report.

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	18.50	PV of Free Cash Flow	263	Long-term growth, %	2.5	Risk-free interest rate, %	2.25
DCF share value	21.33	PV of Horizon value	480	WACC, %	7.4	Market risk premium, %	5.8
Share price potential, %	15.3	Unconsolidated equity	0	Spread, %	0.0	Debt risk premium, %	2.8
Maximum value	21.3	Marketable securities	77	Minimum WACC, %	7.4	Equity beta coefficient	0.80
Minimum value	21.3	Debt - dividend	-43	Maximum WACC, %	7.4	Target debt ratio, %	10
Horizon value, %	64.6	Value of stock	777	Nr of shares, Mn	36.4	Effective tax rate, %	25

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	349	387	400	417	434	451	469	486	500	516	528	542
Sales growth, %	*4.9*	*10.9*	*3.4*	*4.3*	*4.0*	*4.0*	*4.0*	*3.5*	*3.0*	*3.0*	*2.5*	*2.5*
Operating income (EBIT)	39	45	50	54	61	63	63	63	65	67	69	70
EBIT margin, %	*11.2*	*11.5*	*12.6*	*12.9*	*14.0*	*14.0*	*13.5*	*13.0*	*13.0*	*13.0*	*13.0*	*13.0*
+ Depreciation+amort.	9	15	21	21	21	21	21	22	22	22	23	
- Income taxes	-10	-12	-13	-13	-15	-16	-16	-16	-16	-17	-17	
- Change in NWC	-2	-4	-1	-2	-2	-2	-2	-2	-1	-1	-1	
NWC / Sales, %	*9.5*	*9.5*	*9.5*	*9.5*	*9.5*	*9.5*	*9.5*	*9.5*	*9.5*	*9.5*	*9.5*	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-56	-33	-33	-22	-17	-21	-22	-21	-21	-26	-26	-26
Investments / Sales, %	*16.0*	*8.4*	*8.2*	*5.3*	*4.0*	*4.7*	*4.6*	*4.3*	*4.1*	*5.0*	*4.9*	*4.9*
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	-20	12	25	37	48	46	46	47	49	45	47	981
= Discounted FCF (DFCF)		11	22	30	36	32	30	28	28	24	23	480

= DFCF min WACC		11	22	30	36	32	30	28	28	24	23	480
= DFCF max WACC		11	22	30	36	32	30	28	28	24	23	480

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1E	2019Q2E	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	76	80	84	108	349	88	94	97	107	387	400	417
EBITDA	8	7	17	17	48	10	11	16	23	60	72	75
EBITDA margin (%)	*10.4*	*8.5*	*19.9*	*15.2*	*13.7*	*11.7*	*11.2*	*16.5*	*21.2*	*15.4*	*17.9*	*17.9*
EBIT	6	5	15	14	39	7	7	12	19	45	50	54
EBIT margin (%)	*7.5*	*5.9*	*17.4*	*13.1*	*11.2*	*7.5*	*7.2*	*12.6*	*17.7*	*11.5*	*12.6*	*12.9*
Net financial items	-1	0	0	0	-1	0	0	0	0	0	0	0
Pre-tax profit	5	5	14	14	38	7	7	12	19	45	50	54
Tax	-1	-1	-3	-4	-10	-2	-2	-3	-4	-12	-13	-13
Tax rate (%)	*22.2*	*22.0*	*23.6*	*30.2*	*25.7*	*30.2*	*33.9*	*26.0*	*21.6*	*26.0*	*25.0*	*25.0*
Net profit	4	4	11	10	28	5	4	9	15	33	38	40
EPS	0.10	0.11	0.30	0.27	0.77	0.13	0.12	0.25	0.41	0.91	1.04	1.11
EPS adjusted (diluted no. of shares)	0.10	0.11	0.30	0.27	0.77	0.13	0.12	0.25	0.41	0.91	1.04	1.11
Dividend per share	0.00	0.00	0.00	0.00	0.55	0.00	0.00	0.00	0.00	0.60	0.65	0.70
SALES, EURm												
Weather and Environment	48	52	55	78	233	55	60	63	72	250	255	263
Industrial Measurements	28	28	30	31	116	33	34	34	35	137	145	155
Total	76	80	84	108	349	88	94	97	107	387	400	417
SALES GROWTH, Y/Y %												
Weather and Environment	*19.4*	*5.5*	*-6.3*	*4.6*	*4.6*	*14.9*	*15.9*	*15.1*	*-7.7*	*7.6*	*1.9*	*3.1*
Industrial Measurements	*0.4*	*10.2*	*2.4*	*9.7*	*5.5*	*17.1*	*20.9*	*16.8*	*15.9*	*17.6*	*6.1*	*6.3*
Total	*11.5*	*7.1*	*-3.4*	*6.0*	*4.9*	*15.7*	*17.6*	*15.7*	*-1.1*	*10.9*	*3.4*	*4.3*
EBIT, EURm												
Weather and Environment	0	0	8	10	17	1	1	4	12	18	22	23
Industrial Measurements	6	5	8	6	24	6	6	8	7	27	29	31
Other	0	0	-1	-1	-2	0	0	0	0	0	0	0
Total	6	5	15	14	39	7	7	12	19	45	50	54
EBIT margin, %												
Weather and Environment	*0.0*	*-0.6*	*13.7*	*12.9*	*7.4*	*1.8*	*1.9*	*6.3*	*16.7*	*7.2*	*8.5*	*8.7*
Industrial Measurements	*20.9*	*16.7*	*26.4*	*18.5*	*20.7*	*17.1*	*16.6*	*24.3*	*19.6*	*19.4*	*19.7*	*20.1*
Total	*7.5*	*5.9*	*17.4*	*13.1*	*11.2*	*7.5*	*7.2*	*12.6*	*17.7*	*11.5*	*12.6*	*12.9*

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	300	319	319	333	349	387	400	417
Sales growth (%)	*9.7*	*6.3*	*0.2*	*4.2*	*4.9*	*10.9*	*3.4*	*4.3*
Costs	-258	-274	-273	-282	-301	-327	-328	-343
Reported EBITDA	42	45	46	50	48	60	72	75
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*13.9*	*14.0*	*14.5*	*15.1*	*13.7*	*15.4*	*17.9*	*17.9*
Depreciation	-15	-15	-13	-9	-9	-15	-21	-21
EBITA	27	30	33	41	39	45	50	54
Goodwill amortization / writedown	0	0	-11	0	0	0	0	0
Reported EBIT	26	30	22	41	39	45	50	54
EBIT margin (%)	*8.8*	*9.3*	*7.0*	*12.3*	*11.2*	*11.5*	*12.6*	*12.9*
Net financials	3	3	0	-3	-1	0	0	0
Pre-tax profit	29	33	22	38	38	45	50	54
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	-6	-5	-3	-11	-10	-12	-13	-13
Minority shares	0	0	0	0	0	0	0	0
Net profit	23	27	19	27	28	33	38	40
BALANCE SHEET, EURm								
Assets								
Fixed assets	68	63	46	46	93	111	122	123
% of sales	*23*	*20*	*14*	*14*	*27*	*29*	*31*	*30*
Goodwill	14	16	17	16	16	16	16	16
% of sales	*5*	*5*	*5*	*5*	*5*	*4*	*4*	*4*
Inventory	34	39	32	29	30	33	34	36
% of sales	*11*	*12*	*10*	*9*	*9*	*9*	*9*	*9*
Receivables	72	77	78	84	88	98	101	106
% of sales	*24*	*24*	*24*	*25*	*25*	*25*	*25*	*25*
Liquid funds	48	59	72	91	77	85	88	92
% of sales	*16*	*19*	*23*	*27*	*22*	*22*	*22*	*22*
Total assets	245	264	255	274	312	351	370	380
Liabilities								
Equity	170	181	179	186	176	189	205	222
% of sales	*57*	*57*	*56*	*56*	*50*	*49*	*51*	*53*
Deferred taxes	5	5	0	1	1	1	1	1
% of sales	*2*	*1*	*0*	*0*	*0*	*0*	*0*	*0*
Interest bearing debt	0	0	0	0	43	60	60	50
% of sales	*0*	*0*	*0*	*0*	*12*	*15*	*15*	*12*
Non-interest bearing current liabilities	64	75	71	81	85	94	98	102
% of sales	*21*	*23*	*22*	*24*	*24*	*24*	*24*	*24*
Other interest free debt	4	3	4	5	5	5	5	5
% of sales	*1*	*1*	*1*	*2*	*1*	*1*	*1*	*1*
Total liabilities	245	264	255	274	312	351	370	380
CASH FLOW, EURm								
+ EBITDA	42	45	46	50	48	60	72	75
- Net financial items	3	3	0	-3	-1	0	0	0
- Taxes	-4	-7	-9	-7	-10	-12	-13	-13
- Increase in Net Working Capital	-13	2	2	7	-2	-4	-1	-2
+/- Other	-5	-6	3	4	0	0	0	0
= Cash flow from operations	22	36	42	51	35	44	58	60
- Capex	-8	-8	-8	-8	-56	-33	-33	-22
- Acquisitions	0	0	0	-2	0	0	0	0
+ Divestments	1	0	1	0	0	0	0	0
= Net cash flow	15	28	36	41	-21	12	25	37
+/- Change in interest-bearing debt	0	0	0	0	43	17	0	-10
+/- New issues/buybacks	4	0	-4	-2	0	0	0	0
- Paid dividend	-16	-16	-17	-18	-37	-20	-22	-24
+/- Change in loan receivables	0	0	0	0	0	0	0	0
Change in cash	3	12	14	21	-15	8	3	4

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	431	602	794	670	674	674	674
Net debt	-59	-72	-91	-33	-25	-28	-42
Enterprise value	372	529	703	637	649	646	632
Sales	319	319	333	349	387	400	417
EBITDA	45	46	50	48	60	72	75
EBIT	30	22	41	39	45	50	54
Pre-tax	33	22	38	38	45	50	54
Earnings	27	19	27	28	33	38	40
Book value	181	179	186	176	189	205	222
Valuation multiples							
EV/sales	1.2	1.7	2.1	1.8	1.7	1.6	1.5
EV/EBITDA	8.3	11.4	14.0	13.3	10.9	9.0	8.5
EV/EBITA	12.4	16.1	17.2	16.2	14.5	12.8	11.7
EV/EBIT	12.6	23.8	17.2	16.2	14.5	12.8	11.7
EV/operating cash flow	10.4	12.6	13.7	17.6	14.6	11.2	10.6
EV/cash earnings	9.2	14.0	17.4	17.3	13.5	10.9	10.3
P/E	15.8	32.2	29.3	23.9	20.4	17.9	16.7
P/E excl. goodwill	15.5	20.5	29.3	23.9	20.4	17.9	16.7
P/B	2.4	3.4	4.3	3.8	3.6	3.3	3.0
P/sales	1.4	1.9	2.4	1.9	1.7	1.7	1.6
P/CF	12.0	14.3	15.5	18.5	15.2	11.7	11.3
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*14.9*	*13.2*	*12.1*
Target P/E	*0.0*	*0.0*	*0.0*	*28.3*	*20.9*	*18.3*	*17.2*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*3.7*	*3.4*	*3.1*
Per share measures							
Number of shares	36,054	35,703	35,692	36,437	36,437	36,437	36,437
Number of shares (diluted)	36,054	35,703	35,692	36,437	36,437	36,437	36,437
EPS	0.76	0.52	0.76	0.77	0.91	1.04	1.11
EPS excl. goodwill	0.77	0.82	0.76	0.77	0.91	1.04	1.11
Cash EPS	1.12	1.06	1.13	1.01	1.32	1.62	1.68
Operating cash flow per share	1.00	1.18	1.43	1.00	1.22	1.59	1.63
Capital employed per share	3.36	2.95	2.61	3.89	4.47	4.83	4.91
Book value per share	5.03	5.00	5.20	4.83	5.19	5.63	6.08
Book value excl. goodwill	4.58	4.54	4.74	4.39	4.75	5.18	5.64
Dividend per share	0.48	0.50	1.05	0.55	0.60	0.65	0.70
Dividend payout ratio, %	62.5	95.5	138.3	71.3	66.1	62.7	63.2
Dividend yield, %	4.0	3.0	4.7	3.0	3.2	3.5	3.8
Efficiency measures							
ROE	15.6	10.4	14.9	15.5	18.1	19.2	18.9
ROCE	16.7	12.4	22.4	19.4	19.1	19.6	20.1
Financial ratios							
Capex/sales, %	2.5	2.0	3.0	16.0	8.4	8.2	5.3
Capex/depreciation excl. goodwill,%	40.1	-34.1	109.5	641.6	218.2	154.4	106.1
Net debt/EBITDA, book-weighted	-1.3	-1.6	-1.8	-0.7	-0.4	-0.4	-0.6
Debt/equity, market-weighted	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Equity ratio, book-weighted	68.6	70.0	67.7	56.5	53.9	55.5	58.3
Gearing	-0.33	-0.41	-0.49	-0.19	-0.13	-0.14	-0.19
Number of employees, average	1,611	1,590	1,592	1,592	1,592	1,592	1,592
Sales per employee, EUR	197,765	200,755	208,920	219,158	243,112	251,357	262,165
EBIT per employee, EUR	18,312	13,962	25,628	24,633	28,059	31,611	33,807

COMPANY DESCRIPTION: Vaisala offers a comprehensive range of observation and measurement products and services for environmental and industrial applications. Headquartered in Finland, Vaisala employs approximately 1,600 professionals worldwide and is listed on the Nasdaq Helsinki stock exchange.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Novametor Oy	3,774,792	69.834	10.4%
Nordea Bank Ab (publ), Finnish Branch	3,186,914	58.958	8.7%
Skandinaviska Enskilda Banken Ab (publ) Helsinki Branch	2,247,215	41.573	6.2%
Finnish Academy of Science and Letters	2,130,832	39.420	5.8%
Mandatum Life Insurance Company Ltd.	1,533,300	28.366	4.2%
Nordea Nordic Small Cap Fund	1,475,832	27.303	4.1%
Ilmarinen Mutual Pension Insurance Company	1,470,628	27.207	4.0%
Weisell-Säätiö Sr	1,440,000	26.640	4.0%
Voipio Mikko	1,268,312	23.464	3.5%
Caspers Anja	969,496	17.936	2.7%
Ten largest	19,497,321	360.700	54%
Residual	16,939,341	313.378	46%
Total	36,436,662	674.078	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Kjell Forsén	Vanha Nurmijärventie 21, 01670 Vantaa
CFO: Kaarina Muurinen	Tel:
IR: Paula Liimatta	

DEFINITIONS

P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales $\frac{\text{Market cap}}{\text{Sales}}$	DPS Dividend for the financial period per share
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	CEPS $\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF $\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share $\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value) Market cap + net debt + minority interest at market value – share of associated companies at market value	Sales/Share $\frac{\text{Sales}}{\text{Number of shares}}$
Net debt Interest bearing debt – financial assets	EBITDA/Share $\frac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Number of shares}}$
EV/Sales $\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share $\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortisation}}$	EAFI/Share $\frac{\text{Pretax profit}}{\text{Number of shares}}$
EV/EBIT $\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share $\frac{\text{Total assets} - \text{non interest bearing debt}}{\text{Number of shares}}$
Div yield, % $\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets Balance sheet total
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Interest coverage (x) $\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share $\frac{\text{Financial assets} - \text{interest bearing debt}}{\text{Number of shares}}$	Asset turnover (x) $\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, % $\frac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balance sheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, % $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, % $\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non interest bearing debt (average)}}$	Equity ratio, % $\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest free loans}}$
ROE, % $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions (average)}}$	CAGR, % Cumulative annual growth rate = Average growth per year

Important Disclosures

Evli Research Partners Plc ("ERP") uses 12-month target prices. Target prices are defined by utilizing analytical techniques based on financial theory including (but not limited to) discounted cash flow analysis and comparative valuation. The selection of valuation methods depends on different circumstances. Target prices may be altered on the basis of new information coming to light in the underlying company or changes in interest rates, changes in foreign exchange rates, other securities prices or market indices or outlook for the aforementioned factors or other factors that may change the conditions of financial markets. Recommendations and changes by analysts are available at
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Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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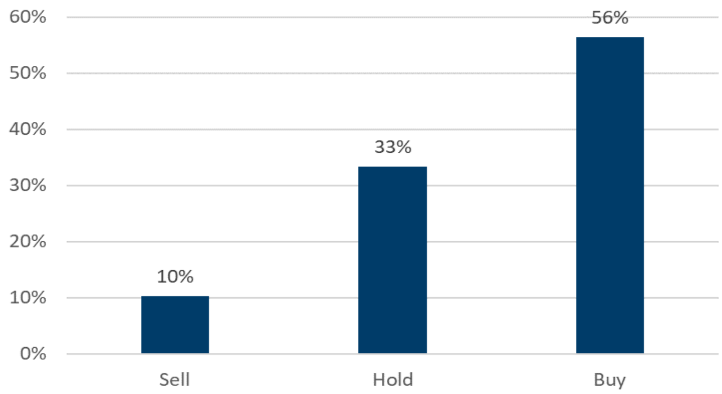

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Name(s) of the analyst(s): Forslund

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