

Hidden real estate value

Tallinna Sadam's (Tallinn Port – TSM) operations are more pandemic resilient than investors perceive in our view. From a long-term perspective, we see potential for significant value creation from real estate development.

Pandemic resilience

We estimate two thirds of TSM's revenues to be fixed or have fixed characteristics (significant lag between lower demand and lower sales) as vessel calls (core revenue driver) are a lot more resilient than pax numbers (Q3/20 pax vessel calls increased 4% while pax declined by 51%).

Significant potential in real estate

Based on the real estate company 1Partner's independent valuation, our present value expected return from the real estate in Tallinn Port is EUR 125m (EUR 0.47 per share), which is almost one third of TSM's current share price. This is a long-term prospect and therefore, we do not include it in our DCF Fair value but illustrate it separately.

Depressed valuation

We have no illusion that 2020 will be a great year (est. 31% EBIT decline), but the share is trading around our Bear case DCF Fair value (1.71). A normalized environment indicates a Base case Fair value of EUR 2.12 equal to a 23% upside (excluding real estate development). We recognize the current tough environment but also the long-term potential.

Key figures (MEUR)

	2018	2019	2020E	2021E	2022E
Net sales	130.6	130.5	108.4	118.4	126.0
Net sales growth	-1.2%	-0.1%	-17.0%	9.3%	6.4%
EBITDA	57.9	74.5	59.4	65.2	69.6
EBITDA margin	44.3%	57.1%	54.8%	55.0%	55.2%
EBIT	52.1	51.7	35.5	41.5	46.5
EBIT margin	39.9%	39.6%	32.8%	35.1%	36.9%
EV/Sales	5.4	5.3	5.8	5.2	4.8
EV/EBITDA	12.2	9.3	10.6	9.4	8.7
EV/EBIT	13.6	13.4	17.7	14.8	13.1
P/E	22.0	11.7	15.9	12.6	11.2
P/BV	1.5	1.4	1.2	1.2	1.1
EPS	0.09	0.17	0.11	0.14	0.15
EPS growth	-31.44%	81.82%	-35.95%	26.27%	12.06%
Div. per share	0.13	0.12	0.08	0.10	0.11
Dividend yield	6.57%	5.82%	4.65%	5.56%	6.23%

Source: Company data, Enlight Research estimates

Fair value range (EUR)

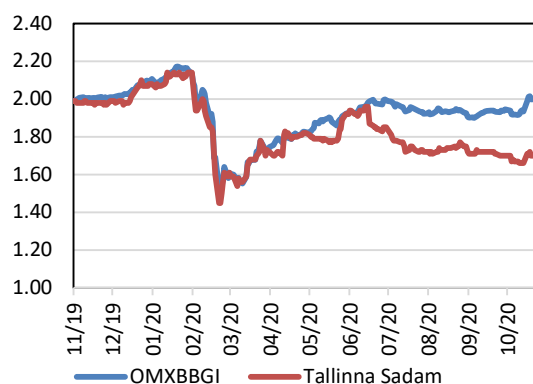
Bull (term. EBIT marg. 40%)	2.52
Base (term. EBIT marg. 37%)	2.12
Bear (term. EBIT marg. 34%)	1.71

Key Data

Price (EUR)	1.72
Ticker	TSM1T
Country	Estonia
Listed	Tallinn

Market Cap (EURm)	452
Net debt (EURm)	175

Shares (m)	263
Free float	33.00 %



Price range

52-week high	2.14
52-week low	1.45

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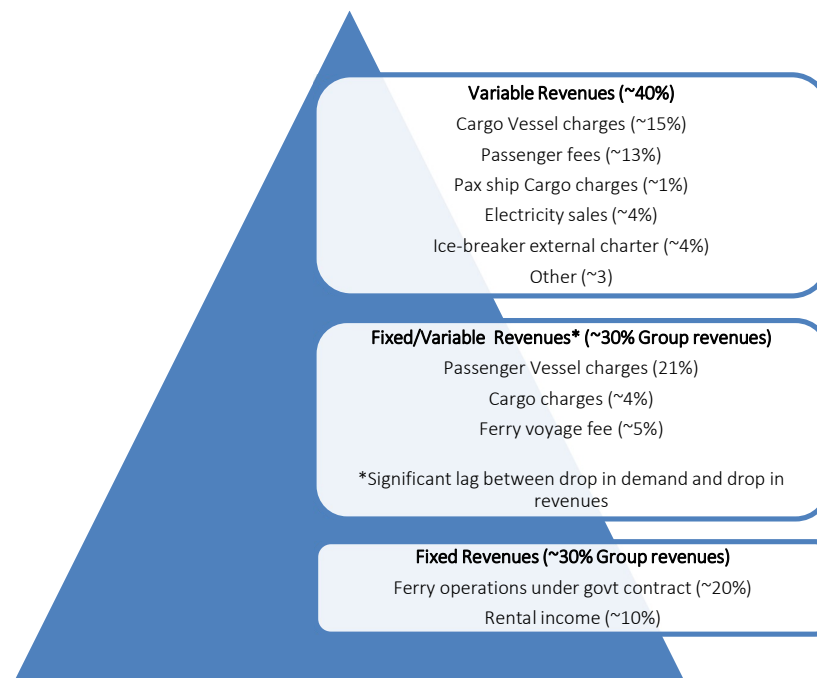
Short-term investment factors

We divide our key investment factors into short-term (focus on covid resilience and subsequent economic recovery), and long-term (focus on long-term prospects). The short- and long-term factors might contradict each other e.g. the exposure to one of the busiest passenger routes on the Baltic Sea (TAL-HEL) might be seen as a weakness during the covid crisis, while it is regarded as a strength post-covid.

Revenue resilience

About two thirds of Tallinna Sadam's revenues are either fully fixed or variable with fixed characteristics meaning there is a significant lag until lower market demand is visible in revenues. For example, the passenger ship vessel charges are relatively stable as Tallinna Sadam's pricing policy is designed so that only small savings are made by decreasing the number of departures above a certain threshold (75% discount is given on annual vessel calls above 241 – a typical HEL-TAL shuttle has round 1,000 vessel calls per year). Consequently, and perhaps a bit surprising, only about 13% of Tallinna Sadam's revenues are directly exposed to the number of pax (pax fees) and less than half (~40%) are purely variable.

Tallinna Sadam Revenue stream structure (fixed and variable)

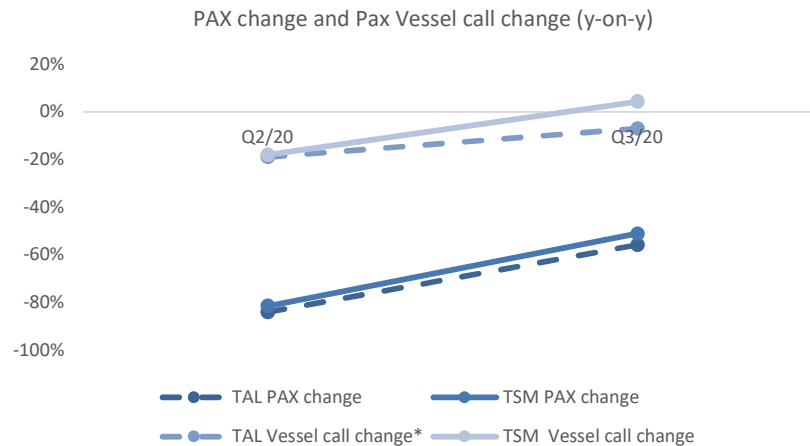


Source: Enlight Research calculation based on Company segment reporting

Passenger vessel call resilience

We believe passenger Vessel calls have good resilience to a sudden decrease in passenger declines. In Q2/20, Tallink's number of passengers (pax) on the Tallinn routes declined by 80% y-on-y, while our estimated number of Tallink passenger ship Vessel calls declined by "just" 19% i.e. significantly less than the pax decrease (also in-line with Tallinna Sadam's reported pax vessel call decline). In Q3/20, the Tallink and Tallinna Sadam pax decline was once again similar with a 56%, and 51% y-on-y decrease, respectively. However, Tallinna Sadam's Q3 number of pax vessel calls increased by 4% y-on-y, and Tallink's number of trips declined 7%, despite a pax

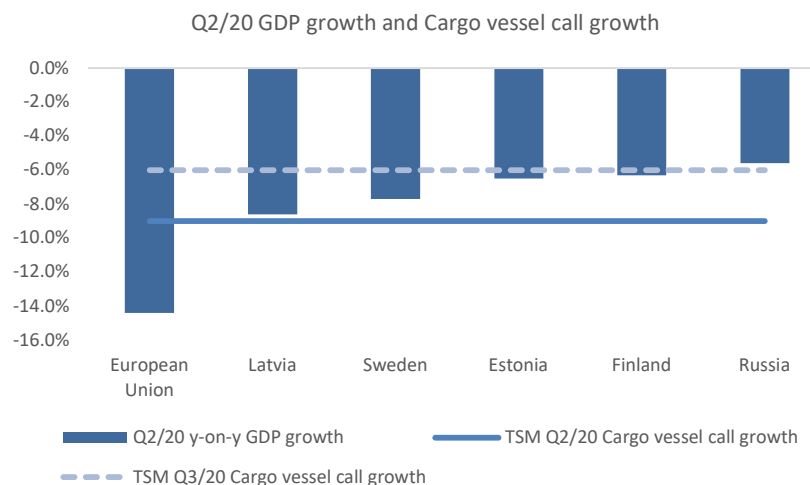
decline of over 50%. In our view, Tallinna Sadam's Q3 vessel call increase was due to ship operators opening temporary lines (Tallinn-Turku, Helsinki-Saaremaa, Tallinn-Mariehamn) to get the most out of the high-season i.e. we do not expect vessel call growth during the winter low-season, but we do expect a much lower decline compared to the pax decline. Based on Q2 and Q3 reported figures, our conclusion is that only in the event of a prolonged (several years) low passenger demand, do we foresee a drastic decrease in passenger vessel calls. Given that we will most likely know the outcome of a covid vaccine in the beginning of next year, we do not forecast passenger ship operators to make significant additional cuts in vessel calls.



Source: Tallink (reported pax change on Tallinn routes, and *change in number of trips), Tallinna Sadam (reported pax change on Tallinn routes excluding Cruise pax, and reported pax vessel calls change)

Cargo vessel call resilience

The Cargo vessel calls are dependent on the economic growth rather than travel restrictions. As the GDP growth has held up relatively well for Estonia and its most important trading partners (Q2/20 GDP decline 6-9% vs. 14% decline for EU), the number of Cargo vessel calls also showed resilience with a decline of 9% y-on-y in Q2/20, and 6% in Q3/20. A shift from air to sea transport has most likely contributed to Tallinna Sadam's cargo volume resilience. According to IATA, the global air cargo capacity in ACTK (available cargo tonne-kilometres) declined around 20% in Q2/20 y-on-y due to grounded passenger aircrafts.



Source: SEB, Swedbank, Central Bank in respective country, IMF, European Commission

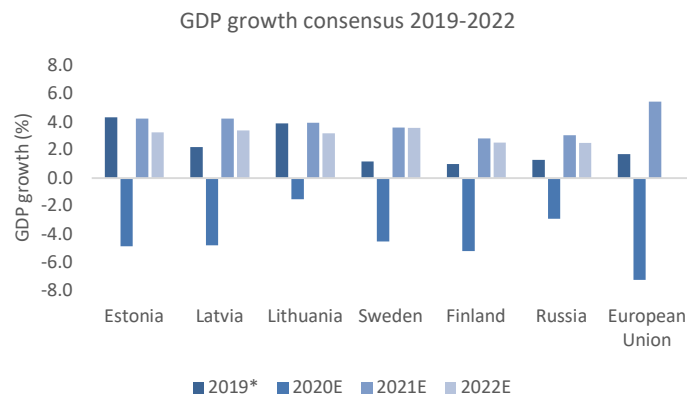
Estonia's biggest export partners

Share of Estonian exports	2019
Finland	16.3%
Sweden	10.5%
Latvia	10.2%
Russia	8.1%

Source: Estonian Statistics Center

GDP fall and recovery

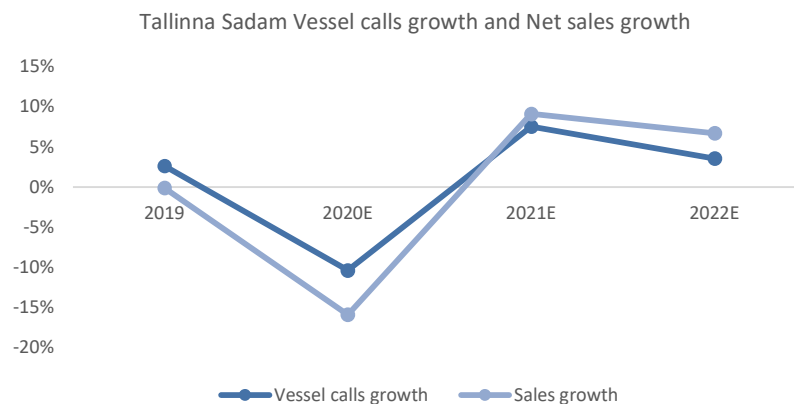
In 2020, Estonia's most important trading partners are forecast to have negative GDP growth of 1.5-5.2%, with Lithuania being the strongest and Finland the weakest. Worth to note is that this is significantly better than the expected EU GDP decline of 7.3%. In 2021, a recovery is expected for all countries with a GDP growth of 2.8-4.3%, with Estonia and Latvia being the strongest while Finland is the weakest. The expected EU growth in 2021 is even higher at 5.5% which is an effect of lower base due to the much weaker 2020 (EU forecast for 2022 not available).



Source: SEB, Swedbank, Central Bank in respective country, IMF, European Commission, *2019 actual figure, 2022 EU forecast not available

Vessel calls fall and recovery

We believe the economic recovery next year will have a positive impact on Tallinna Sadam's number of vessel calls resulting in a pick-up of financial performance. In our Base case scenario, we forecast 2021's number of Vessel calls and Net sales to grow by 8% and 9%, respectively. This follows our forecast decline of 10% (vessel calls), and 17% (Net sales) this year. In 2022, the sales growth will outgrow the vessel call growth, which is an effect of an increasing number of passengers per call.



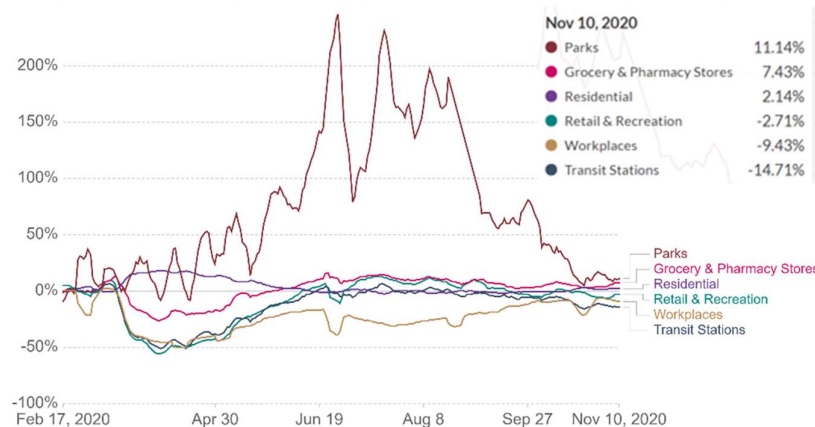
Source: Company (historical), Enlight Research (forecast)

Mobility trend confirms gradual recovery despite second wave

During the Q2/20 lock down, the mobility measured as number of visitors or time spent in categorized places changed drastically compared to before the pandemic. In Estonia, the mobility for most categories (retail stores, workplaces, transit stations) was down around 50% during the lock down, while the Grocery & pharmacy store mobility was only down around 25% (mobility in homes and parks was up). Before the second corona wave, the mobility for the most hit categories were back to pre-pandemic levels, with workplaces being the exception (was still 14% below pre-pandemic level). The same pattern could be seen for Estonia's most important trading partner, Finland. The second corona wave has once again decreased mobility, especially in workplaces and transit stations, which are now 9-15% below pre-pandemic levels in Estonia. However, it is far from the levels seen during the first wave in March/April (-50%). We believe the positive mobility trend will resume once the second wave is behind us.

How did the number of visitors change since the beginning of the pandemic?, Estonia

The data shows how visitors to (or time spent in) categorized places change compared to baseline days – the median value from the 5-week period from January 3rd to February 6th 2020. This index is smoothed to the rolling 7-day average.



Source: Google COVID-19 Community Mobility Trends – Last updated 13 November, 17:30 (London time)
 Note: It's not recommended to compare levels across countries; local differences in categories could be misleading.
[OurWorldInData.org/coronavirus](https://ourworldindata.org/coronavirus) • CC BY

How did the number of visitors change since the beginning of the pandemic?, Finland

The data shows how visitors to (or time spent in) categorized places change compared to baseline days – the median value from the 5-week period from January 3rd to February 6th 2020. This index is smoothed to the rolling 7-day average.

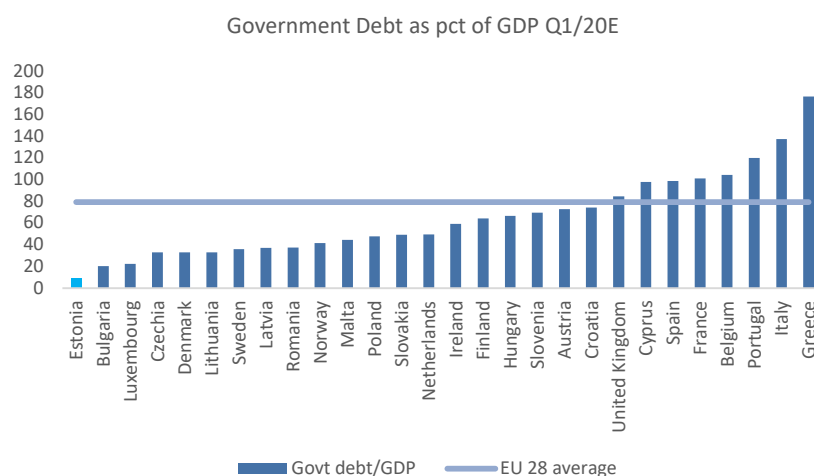


Source: Google COVID-19 Community Mobility Trends – Last updated 13 November, 17:30 (London time)
 Note: It's not recommended to compare levels across countries; local differences in categories could be misleading.
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Estonian government provide short-term liquidity and dividend comfort

With Europe's lowest government debt to GDP (estimated at 9% at end of Q1/20), we believe the Estonian State is a strong majority shareholder (own 67% of shares), which is especially important in current times of uncertainty (even though we do not foresee Tallinna Sadam to have liquidity issues). Furthermore, we regard the decision to stick to the dividend policy and pay out EUR 30m (EUR 0.12 per share) in dividends from 2019's profit as an investor friendly sign, as the Board could have paid-out less given the special circumstances due to the pandemic. Our 2020-22 estimated Base case dividend forecast of EUR 0.08, 0.10, and 0.11 per share, respectively, is in-line with the dividend policy to pay-out at least 70% of the Net profit.

To summarize, we believe the 2019 dividend shows the Supervisory Board has an "investor friendly" stance towards dividends and we do not expect the recent changes/additions to the Supervisory Board to change this. We forecast dividends to be in-line with the dividend policy despite the pandemic, which according to our estimate, implies a yield of 4.7% in 2020, increasing to 6.2% in 2022 (based on a share price of EUR 1.72).



Source: Eurostat (countries forecast Q1/20, EU 28 average actual Q4/19)

Dividend forecast (Base case)

	2019	2020E	2021E	2022E
EPS	0.17	0.11	0.14	0.15
Declared Dividend per share (EUR) to be paid out following year	0.12	0.08	0.10	0.11
Declared Dividend total (EURm) to be paid out following year	30	21	25	28
Pay-out ratio	68%	70%	70%	70%
Dividend yield	6.7%	4.7%	5.6%	6.2%

Source: Company (2019 actual), Enlight Research (forecast 2020-22E), 2020-2022E 70% pay-out is according to company's dividend policy to pay at least 70% of preceding years net profit starting from 2021, Dividend yield based on share price of EUR 1.72

Long-term investment factors

Our long-term investment factors focus on the long-term prospects for Tallinna Sadam. From a long-term perspective (5-10 years), the covid pandemic has a minor effect on Tallinna Sadam's financial performance and motivated share price.

Real estate development

Based on the independent valuation made by 1Partner Kinnisvara's valuation department, we see potential for significant value creation by developing the real estate on Tallinna Sadam's land on the city centre coastline (within Port of Tallinn). According to the Tallinn City Planning Register, the general city plan is established and allows for residential, business, and multifunctional usage. The detailed plans have been initiated for four main zones where development is planned (see picture below with Zone 10, 7, 5, and 9). The total residential and commercial net area in these zones is 172,256 m². Our expected return on the Tallinn Port real estate is EUR 193m, which at present value is EUR 125m or EUR 0.47 per share, corresponding to about 30% of Tallinna Sadam's current market cap (see valuation section for detailed expected return calculation). The profits from real estate developments could be distributed to investors via dividends and/or share buy-backs. There are also other alternatives. For example, the land could be sold with or without a detailed plan. However, given our much lower estimated sales price from a land sale (EUR 46m without a detailed plan and EUR 89m with a detailed plan) versus a sale of developed properties, we favour Tallinna Sadam to develop the real estate. Other possible solutions include but are not limited to: (a) rent out the land to a developer, (b) partner and share risk with a developer, or (c) rent out and manage the finished property. The development of real estate must be regarded as a long-term opportunity. We believe detailed plans could be approved in 3-5 years. In our view, a detailed plan and subsequent development of the real state could unlock significant value for Tallinna Sadam shareholders.

General plan Tallinna Sadam Tallinn real estate



Source: 1Partner, Tallinna Planeeringute Register (Tallinn City Planning Register)

Tallinna Sadam progress towards Detailed plan

Description	Zone 10	Zone 7	Zone 5	Zone 9
General plan	Established	Established	Established	Established
Usage	Residential & Business	City center multifunctional	Residential & Business, Public land, Green space	Commercial, marina & passenger port area
Max height of buildings	18m	14m	17m	Highest existing building in this zone or the result of architectural competition
Detailed plan	Initiated 31.10.2019 No. DP043560	Initiated 28.11.2019 No. DP043590	Initiated 22.06.2016 No. DP040550	Initiated 12.12.2019 No. DP043610
Building right, gross area above ground m ²	81 120	68 310	113 700	13 000

Source: 1Partner Kinnisvara, Tallinna Planeeringute Register (Tallinn City Planning Register)

GDP growth driving Freight growth

According to a study by Rail Baltica, there is a strong positive correlation between GDP growth and freight growth. There are some exceptions e.g. Finland-Germany where a negative correlation was observed. According to the study, this was likely due to high dependence on timber/wood products flows. For most relevant country pairs, the correlation is above 0.70, which is considered strong by statistical terms. Based on the study, we believe a long-term GDP growth of 2% (our DCF forecast) indicates a cargo volume growth of at least 2-3%.

Correlation Freight growth to GDP growth			
From - To	Correlation to GDP growth	Freight growth as pct of GDP growth	
Russia-Lithuania	0.99	283%	
Latvia-Finland	0.97	338%	
Finland-Poland	0.96	363%	
Finland-Poland	0.96	363%	
Germany-Finland	0.94	119%	
Russia-Germany	0.87	305%	
Italy-Estonia	0.80	93%	
Lithuania-Estonia	0.79	93%	
Lithuania-Finland	0.12	114%	
Italy-Finland	0.07	54%	
Finland-Germany	-0.34	-57%	

Source: railbaltica.org

Rail Baltica re-connecting with Europe

Rail Baltica will re-connect the Baltic and the European railway network which was disconnected in the second world war when the Baltics States switched to Russian 1520mm rails from European 1435mm rails. Tallinna Sadam's Port of Muuga will become an integral part of the European North-South trade corridor as it will be the end station of the European North-South rail transportation corridor before connecting to Finland via sea. According to the Rail Baltica organization, the expected cargo flow to Estonia via Rail Baltica is around 8.2m tonnes per annum. We believe at least half of this could represent additional volume for Tallinna Sadam which given the current cargo volume of around 20m tonnes per year corresponds to a cargo growth of around 20%. In Q3 2020, the design contract for the Rail Baltic Muuga freight terminal was signed. Rail Baltica is expected to be operative in 2026.

Expected Rail Baltica cargo volume to Estonia		
From to	Commodity	Tonnes (m)
Finland-Germany	Paper	2.549
Latvia-Finland	Wood products	1.257
Finland-Poland	Mineral Fuels & Oils	1.149
Finland-Germany	Wood products	1.094
Lithuania-Estonia	Mineral Fuels & Oils	0.599
Lithuania-Finland	Wood products	0.411
Finland-Poland	Paper	0.404
Germany-Finland	Iron & Steel	0.404
Finland-Germany	Mineral Fuels & Oils	0.347
Total		8.214

Source: railbaltica.org

Rail Baltica connecting with Europe's biggest cargo port

The EU Trans-European Transport Network (TEN-T) policy implements a European network of railway lines, railroad terminals, ports, roads, inland waterways, maritime shipping routes, and airports. The Core Network consists of nine corridors that is to be completed by 2030. The main corridor for the Baltic States is the North Sea-Baltic corridor (yellow on below map) that will connect Port of Tallinn with the biggest cargo port in Europe, Port of Rotterdam. Cargo could also flow from the ScanMed corridor (brown on below map) either via railway as the corridors intersect in Germany or via sea from Sweden. Furthermore, some cargo might come from China's East-West corridor (One Belt One Road) as ships could offload cargo in Italian harbours for railway transport to Baltic States and Scandinavia. It should be noted that the ScanMed corridor could also be a competitor for Finnish cargo flow.

Trans-European Transport Network (TEN-T) TSM relevant Rail Freight corridors



Source: TENtec (yellow=North Sea – Baltic, brown=ScanMed, orange=Amber)

Forecast

Forecast Scenarios

We have three forecast scenarios – Bull (positive), Base (neutral), Bear (negative). Note that due to the covid uncertainty, the risk in all scenarios is unusually high. The main difference between our three scenarios is the development and effectiveness of a covid vaccine and its effect on people's willingness to travel. Our Bull and Base case assume a vaccine is developed and distributed before the summer high-season next year, resulting in a reduced fear of travel. Our Bear case assume no effective vaccine is developed before the pandemic dissipates according to its natural course (sometime beginning of 2022 according to WHO). With the support of the Finnish and Estonian governments, the cargo routes between the countries are kept open not only for cargo ships but also for passenger ships with Ro-Ro cargo i.e. this keeps the most important route for Tallinna Sadam (Tallinn-Helsinki) open. Worth to note is that both Estonia and Finland are among the five countries in Europe with the lowest number of 14-day cumulative covid-19 cases per 100,000 population at around 50-170.

Forecast assumptions

Scenario	Vaccine	Sales & Profit	DCF value per share
Bull case (positive)	Effective vaccine before summer next year. People's fear of travel significantly reduced.	Net Sales (EURm) 2020: -14% 112m 2021: +11% 123 m 2022: +8% 133m EBIT (EURm) 2020: 38m, marg. 33.8% 2021: 45m, marg. 36.1% 2022: 50m, marg. 37.9%	EUR 2.52 Perpetual EBIT margin: 40.0%
Base case (neutral)	Somewhat effective vaccine before summer next year. People's fear of travel still present, but less compared to current situation.	Net Sales (EURm) 2020: -17% 108m 2021: +9% 118m 2022: +6% 126m EBIT (EURm) 2020: 36m, marg. 32.8% 2021: 42m, marg. 35.1% 2022: 47m, marg. 36.9%	EUR 2.12 Perpetual EBIT margin: 37.0%
Bear case (negative)	No effective vaccine before Covid dissipate according to its natural course, which is assumed to be 2 years i.e. Q1/22.	Net Sales (EURm) 2020: -19% 106m 2021: +7% 113m 2022: +5% 118m EBIT (EURm) 2020: 27m, marg. 25.4% 2021: 36m, marg. 31.5% 2022: 39m, marg. 33.0%	EUR 1.71 Perpetual EBIT margin: 34.0%

Source: Enlight Research

Lowest no. of covid cases per 100K population in Europe

Finland	54.2
Iceland	89.9
Ireland	123.8
Norway	143.8
Estonia	169.3

Source: ECDC as of 15 November 2020

Dividend forecast scenarios

All our scenarios forecast positive free cash flow for 2020-2022, which illustrates the inherent cash generation in Tallinna Sadam's business model where depreciation (non-cash item) is the biggest cost line (almost one third of total costs). This was also evident in the 9M/20 report where cash flow after investments was positive EUR 10m despite the tough environment. In 2020, our Base case dividend per share forecast is 0.08, equal to a yield of 4.7% (based on a share price of EUR 1.72). In 2020-22, our Bull case dividend forecast is EUR 0.01 higher than our Base case resulting in a higher yield (see table below). Our Bear case does not forecast a dividend this year, which should be regarded as a precaution given that our estimated EPS and Free cash flow per share is positive EUR 0.07. Due to our expected economic recovery next year, the forecast Base and Bull case yield is above 5%, and 6%, respectively, while it is above 4% for our Bear case. In all our scenarios, the forecast Free cash flow per share covers the estimated dividend per share.

Bull case per share data

	2019	2020E	2021E	2022E
EPS	0.17	0.12	0.15	0.17
Free cash flow	0.13	0.12	0.14	0.15
Dividend	0.12	0.09	0.11	0.12
Dividend pay-out	68%	75%	75%	75%
Yield	6.7%	5.1%	6.4%	7.2%

Base case per share data

	2019	2020E	2021E	2022E
EPS	0.17	0.11	0.14	0.15
Free cash flow	0.13	0.11	0.13	0.13
Dividend	0.12	0.08	0.10	0.11
Dividend pay-out	68%	70%	70%	70%
Yield	6.7%	4.7%	5.6%	6.2%

Bear case per share data

	2019	2020E	2021E	2022E
EPS	0.17	0.07	0.13	0.13
Free cash flow	0.13	0.07	0.11	0.11
Dividend	0.12	0.00	0.08	0.08
Dividend pay-out	68%	0%	60%	65%
Yield	6.7%	0.0%	4.5%	4.8%

Source: Company (actual), Enlight Research (estimates), Based on share price of EUR 1.72

Quarterly forecast

Quarterly segment forecast

We forecast the Passenger Harbour segment to decrease sales by 39% y-on-y in Q4/20 to EUR 6.3m, which is in-line with Q3/20's 41% y-on-y decline. We forecast the Cargo Harbours Q4/20 sales to increase by 6% y-on-y to EUR 11.0m, also in-line with previous quarter's growth. The Q4/20 estimated EBIT margin for the Passenger Harbours segment is 6.4%, which is significantly below the previous high-season quarter's 51.3% margin (Q4 is low-season quarter). The Cargo Harbours' Q4/20 estimated EBIT margin of 31.0% is below previous quarter (47.9%) but roughly in-line with Q4 last year (29.9%). The Ferry and Other segment are expected to be relatively unaffected by the covid pandemic (see table below for forecast).

Sales forecast by segment

(EURm)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20	Q4/20E	2019	2020E	2021E	2022E
Passenger harbours	8.2	14.1	17.1	10.4	7.9	4.6	10.0	6.3	49.8	28.9	35.3	40.5
Growth y-on-y	-7%	-1%	2%	3%	-4%	-67%	-41%	-39%	0%	-42%	22%	15%
Cargo harbours	10.0	10.0	9.8	10.4	9.3	9.4	10.3	11.0	40.1	40.1	42.5	43.8
Growth y-on-y	-5%	0%	-7%	-3%	-7%	-6%	6%	6%	-4%	0%	6%	3%
Ferry	6.8	7.9	9.0	7.1	7.0	7.4	8.3	6.6	30.8	29.4	30.6	31.5
Growth y-on-y	3%	2%	3%	2%	3%	-7%	-7%	-6%	2%	-5%	4%	3%
Other	3.5	0.8	3.3	2.1	3.7	0.9	3.0	2.3	9.8	10.0	10.1	10.2
Growth y-on-y	2%	6%	16%	14%	4%	16%	-8%	9%	9%	2%	1%	1%
Total	28.5	32.8	39.2	30.0	27.9	22.4	31.8	26.3	130.5	108.4	118.4	126.0
Growth y-on-y	-3.0%	0.2%	0.7%	1.5%	-2.2%	-31.8%	-18.9%	-12.2%	-0.1%	-17.0%	9.3%	6.4%

EBIT forecast by segment

(EURm)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20	Q4/20E	2019	2020E	2021E	2022E
Passenger harbours	3.7	8.2	10.7	3.8	2.4	0.3	5.2	0.4	26.4	8.2	14.1	18.2
Margin	45.3%	57.9%	62.4%	36.6%	30.6%	5.7%	51.3%	6.4%	52.9%	28.5%	40.0%	45.0%
Cargo harbours	4.1	3.8	3.2	3.1	4.6	3.1	5.0	3.4	14.2	16.0	16.2	16.6
Margin	40.9%	38.1%	32.3%	29.9%	48.9%	33.1%	47.9%	31.0%	35.3%	40.0%	38.0%	38.0%
Ferry	1.8	2.2	2.5	1.9	1.8	2.0	2.8	1.9	8.3	8.5	8.6	8.8
Margin	25.9%	27.2%	28.0%	26.2%	25.6%	27.2%	33.4%	29.1%	26.9%	29.0%	28.0%	28.0%
Other	1.9	-0.9	1.5	0.3	1.7	-0.8	1.3	0.4	2.9	2.7	2.7	2.7
Margin	53.9%	nm	45.7%	14.7%	47.8%	-84.8%	42.9%	18.6%	29.4%	27.0%	27.0%	27.0%
Total	11.5	13.3	17.9	9.1	10.5	4.6	14.2	6.2	51.7	35.5	41.5	46.5
Margin	40.2%	40.4%	45.6%	30.3%	37.7%	20.5%	44.7%	23.5%	39.6%	32.8%	35.1%	36.9%

Source: Company reports, Enlight Research

Quarterly group forecast

In Q4/20, we estimate Group sales to decline 12.2% y-on-y. The Q4/20 EBIT is expected to decline 32% y-on-y to EUR 6.2m from EUR 9.1m in the same period last year. The Q4/20 EBIT margin is estimated at 23.5% compared to 30.3% in the same quarter last year. Note that due to seasonality, the Q4/20 sales and profits is forecast to decline compared to previous quarter (Q3/20) – Q4 and Q1 are usually the weakest quarters of the year.

Group forecast

(EURm)	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20	Q4/20E	2019	2020E	2021E	2022E
Net sales	28.5	32.8	39.2	30.0	27.9	22.4	31.8	26.3	130.5	108.4	118.4	126.0
Other income	0.3	0.3	0.2	0.2	1.8	0.2	0.8	-0.3	1.0	2.5	1.1	1.1
Total revenue	28.8	33.1	39.4	30.2	29.7	22.6	32.6	26.0	131.6	110.9	119.5	127.1
Expenses	-11.8	-14.2	-15.8	-15.0	-13.2	-12.1	-12.4	-13.8	-56.8	-51.5	-54.4	-57.5
EBITDA	17.0	18.9	23.6	15.2	16.5	10.5	20.2	12.2	74.7	59.4	65.2	69.6
Depr. & Amort.	-5.6	-5.6	-5.7	-6.1	-6.0	-5.9	-6.0	-6.0	-23.0	-23.9	-23.6	-23.1
EBIT	11.5	13.3	17.9	9.1	10.5	4.6	14.2	6.2	51.7	35.5	41.5	46.5
Financial net	-0.4	-0.3	-0.1	-0.6	-0.5	-0.5	-0.5	-0.5	-1.5	-2.1	-2.2	-2.1
Pre-tax profit	11.0	12.9	17.7	8.5	10.0	4.1	13.6	5.6	50.2	33.4	39.3	44.3
Tax	0	-5.8	0	0	0	-4.9	0	0	-5.8	-4.9	-3.4	-4.1
Net profit	11.0	7.2	17.7	8.5	10.0	-0.8	13.6	5.6	44.4	28.4	35.9	40.2

Sales growth

	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20	Q4/20E	2019	2020E	2021E	2022E
sequential	-3.5%	15.1%	19.4%	-23.4%	-7.0%	-19.7%	41.8%	-17.1%	na	na	na	na
y-on-y	-3.0%	0.2%	0.7%	1.5%	-2.2%	-31.8%	-18.9%	-12.2%	-0.1%	-17.0%	9.3%	6.4%

Margins

	Q1/19	Q2/19	Q3/19	Q4/19	Q1/20	Q2/20	Q3/20	Q4/20E	2019	2020E	2021E	2022E
EBITDA margin	59.6%	57.6%	60.2%	50.7%	59.2%	47.0%	63.5%	46.3%	57.2%	54.8%	55.0%	55.2%
EBIT margin	40.2%	40.4%	45.6%	30.3%	37.7%	20.5%	44.7%	23.5%	39.6%	32.8%	35.1%	36.9%
Pre-tax Profit margin	38.7%	39.4%	45.3%	28.2%	35.8%	18.2%	43.0%	21.4%	38.4%	30.8%	33.2%	35.2%
Net profit margin	38.7%	21.8%	45.3%	28.2%	35.8%	-3.7%	43.0%	21.4%	34.0%	26.2%	30.3%	31.9%

Source: Company (historical), Enlight Research (forecast)

Valuation

Peer valuation

Our peer profiling (see table below) shows that there is no listed seaport company like Tallinna Sadam. We believe the main differences to the seaport peers are:

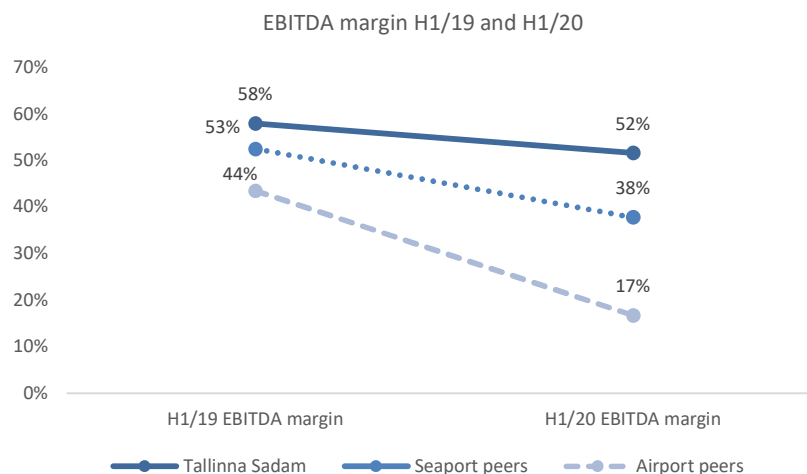
- Tallinna Sadam owns the land directly and not through concessions i.e. no concession renewal risk
- Tallinna Sadam is a pure landlord port without cargo handling or shipping operations (except for monopoly State contracts), which results in less revenue volatility
- Tallinna Sadam's fixed revenue monopoly State contracts for domestic ferry and icebreaker winter-time services provide resilience to economic downturns
- Tallinna Sadam has better revenue diversification (short-term & long-term pax, cargo, domestic ferry, icebreaker)

Seaport peer profiling

Company	Concession risk	Pure landlord port	Description
Global Ports Holding	yes	No	World's largest cruise port operator. Aims to become a pure cruise port operator by divesting cargo ports. Has 21 ports in 13 countries.
Novorossiysk Commercial Sea Port	yes	No	Europe's third largest port operator by cargo volume and the largest in Russia. Has 3 ports in Russia (Novorossiysk, Primorsk, Baltiysk)
Hamburger Hafen und Logistik AG	Yes	No	One of the main operators in Hamburg port. Recent acquisition of cargo handling company in Estonia operating in Muuga.
Luka Koper	yes	No	The only port in Slovenia, that provides port and logistics services

Source: Company reports and Websites

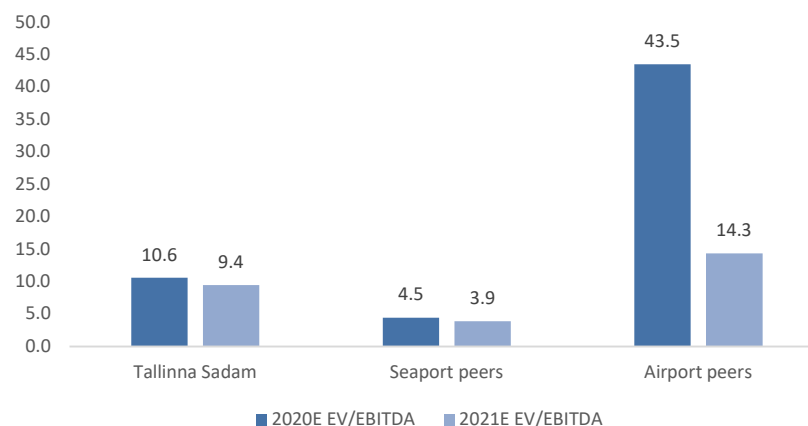
We believe above mentioned differences has resulted in a Tallinna Sadam being able to not only achieve a superior EBITDA margin before the pandemic, but also to sustain the margin better than its peers during the pandemic. In H1/20, Tallinna Sadam's EBITDA margin declined by 6 percentage points to 52% from 58% in H1/19, which was significantly better compared to seaport and airport peers that saw margin declines of 15, and 27 percentage points, respectively.



Source: Company reports

We believe the superior EBITDA margin resilience relative its seaport and airport peers motivate a premium EV/EBITDA valuation, which is also the case when it comes to seaport peers (EV/EBITDA 2021E 9.4 vs. 3.9x). However, relative to airport peers, Tallinna Sadam is trading at a discount of 34% with a 2021E EV/EBITDA of 9.4x vs. 14.3x for airport peers (we consider 2020 airport peer average to be irrelevant due to the pandemic). Given Tallinna Sadam's diversified revenue stream, and superior EBITDA margin, we believe Tallinna Sadam should trade more in-line with airport peers than seaport peers, but with a 20% discount as the airport peers are considerable larger. Applying the airport peers estimated average EV/EBITDA 2021 multiple of 14.3x to Tallinna Sadam, indicates a share price of EUR 2.22 after a 20% discount.

Estimated 2020 and 2021 EV/EBITDA multiple



Source: Company reports

Peer tables**Seaport peers**

Company	Ticker	Ccy	Price (last)	Mcap (m)	EV/EBITDA 2019	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBITDA 2022E	Div. yield 2019	Div. yield 2020E	Div. yield 2021E	Div. yield 2022E
Global Ports Holding PLC	GPH	USD	1.25	78	5.2	4.1	3.7	3.2	16.0%	0.0%	na	na
Novorossiysk Commercial Sea Port	NMTP	USD	0.11	2,082	3.4	3.3	3.2	na	0.0%	na	na	na
Hamburger Hafen und Logistik AG	HHFA	EUR	17.92	1,285	4.5	6.0	4.8	4.5	3.9%	2.3%	3.4%	4.2%
Luka Koper	LKPG	EUR	18.30	256	3.8	na	na	na	0.0%	na	na	na
Average				925	4.2	4.5	3.9	3.9	5.0%	1.2%	3.4%	4.2%
Median				771	4.1	4.1	3.7	3.9	2.0%	1.2%	3.4%	4.2%
Average excluding extremes									1.3%			
Tallinna Sadam	TSM	EUR	1.72	452	9.3	10.6	9.4	8.7	5.8%	4.7%	5.6%	6.2%

Airport peers

Company	Ticker	Ccy	Price (last)	Mcap (m)	EV/EBITDA 2019	EV/EBITDA 2020E	EV/EBITDA 2021E	EV/EBITDA 2022E	Div. yield 2019	Div. yield 2020E	Div. yield 2021E	Div. yield 2022E
Aena	AENA	EUR	144.75	21,713	10.3	31.2	15.5	12.2	5.2%	0.5%	2.5%	3.6%
Aéroports de Paris SA	ADP	EUR	112.70	11,151	9.4	60.2	16.8	11.9	3.3%	0.1%	0.6%	1.6%
Fraport AG	FRA	EUR	45.99	4,249	7.4	105.1	13.8	9.1	4.3%	0.0%	1.0%	2.1%
Flughafen Wien AG	FLU	EUR	27.08	2,271	6.1	53.7	12.0	7.8	4.2%	0.0%	1.3%	2.5%
Flughafen Zurich	FHZN	CHF	152.70	4,688	8.6	29.1	13.5	9.8	4.6%	0.0%	2.0%	2.8%
Average				8,814	8.4	55.8	14.3	10.2	4.3%	0.1%	1.5%	2.5%
Median				4,688	8.6	53.7	13.8	9.8	4.3%	0.0%	1.3%	2.5%
Average excluding extremes						43.5						
Tallinna Sadam	TSM	EUR	1.72	452	9.3	10.6	9.4	8.7	5.8%	4.7%	5.6%	6.2%

Source: MarketScreener.com, Enlight Research (Tallinna Sadam), prices as of 20 November 2020

Real estate valuation

Our valuation of the undeveloped real estate in Tallinn port is based on real estate company 1Partner Kinnisvara's independent valuation i.e. it was done by a certified real estate valuator. Our estimated total building gross area is 282,925 m² divided into four zones whereof 228,320 m² is above ground and 54,605 m² is underground. See table below for assumptions and source.

Tallinn port General plan from Tallinn City Planning Register



Source: Tallinna Planeeringute Register (Tallinn City Planning Register)

Zone specifications							
Description	Zone 10	Zone 7	Zone 5	Zone 9	Total	Source	
Size of planned plot area, m ²	62,400	75,900	210,050	69,000	417,350	1Partner (Zone 10,7,5), Enlight (Zone 9)	
Above ground building gross area, GBA m ²	81,120	35,500	98,700	13,000	228,320	1Partner (Zone 10,7,5), Enlight (Zone 9)	
Underground building gross area, GBA m ²	19,396	8,488	23,600	3,120	54,605	1Partner (Zone 5), Enlight (Zone 10, 7, 9)	
Total building gross area, GBA m ²	100,516	43,988	122,300	16,120	282,925	1Partner (Zone 5), Enlight (Zone 10, 7, 9)	
Underground share of above ground area	24%	24%	24%	24%	24%	1Partner (Zone 5), Enlight (Zone 10, 7, 9)	

Our assumed residential/commercial split of the above ground area is 80/20 resulting in 172,256 m² of residential gross area and 43,064 m² of commercial gross area. Our assumed net to gross area ratio is 80% resulting in 137,805 m² of residential net area and 34,451 m² of commercial net area (net area is what you get paid for).

Above ground specifications							
Above ground	Zone 10	Zone 7	Zone 5	Zone 9	Total	Source	
Residential share	80%	80%	80%	0%	75%	1Partner (Zone 5), Enlight (Zone 10, 7, 9)	
Commercial share	20%	20%	20%	100%	19%	1Partner (Zone 5), Enlight (Zone 10, 7, 9)	
Residential gross area, m ²	64,896	28,400	78,960	0	172,256	1Partner (Zone 5), Enlight (Zone 10, 7, 9)	
Commercial gross area, m ²	16,224	7,100	19,740	13,000	43,064	1Partner (Zone 5), Enlight (Zone 10, 7, 9)	
Net area/Gross area ratio	80%	80%	80%	80%	80%	Enlight (all Zones)	
Residential net area, m ²	51,917	22,720	63,168	0	137,805	Enlight (all Zones)	
Commercial net area, m ²	12,979	5,680	15,792	10,400	34,451	Enlight (all Zones)	

Above ground estimated value

Based on 1Partner's estimated mid-price range per m2 (excluding VAT) for developed real estate, we calculate the total value of the above ground residential real estate to be EUR 605m whereof EUR 459m is residential and EUR 146m is commercial.

Above ground estimated value Description	Zone 10	Zone 7	Zone 5	Zone 9	Total	Source
Residential price/m2 (EUR)						
High	3,750	3,750	3,750	na	3,750	1Partner (all Zones)
Mid	3,333	3,333	3,333	na	3,333	1Partner (all Zones)
Low	2,917	2,917	2,917	na	2,917	1Partner (all Zones)
Commercial price/m2 (EUR)						
High	3,500	3,500	3,500	3,500	4,557	1Partner (all Zones)
Mid	3,250	3,250	3,250	3,250	4,231	1Partner (all Zones)
Low	3,000	3,000	3,000	3,000	3,906	1Partner (all Zones)
Residential value (EURm)						
High	195	85	237	na	517	Enlight (all zones) based on 1Partner
Mid	173	76	211	na	459	Enlight (all zones) based on 1Partner
Low	151	66	184	na	402	Enlight (all zones) based on 1Partner
Commercial value (EURm)						
High	45	20	55	36	157	Enlight (all zones) based on 1Partner
Mid	42	18	51	34	146	Enlight (all zones) based on 1Partner
Low	39	17	47	31	135	Enlight (all zones) based on 1Partner
Total above ground value (EURm)						
High	240	105	292	36	674	Enlight (all zones) based on 1Partner
Mid	215	94	262	34	605	Enlight (all zones) based on 1Partner
Low	190	83	232	31	536	Enlight (all zones) based on 1Partner

Underground estimated value

Based on 1Partner's estimated mid-price per parking lot of EUR 17,500 (excluding VAT), we calculate the value of the underground area to be EUR 32m. We make no distinction between residential and commercial for the underground parking area.

Underground estimated value Description	Zone 10	Zone 7	Zone 5	Zone 9	Total	Source
Residential & Commercial Gross area, m2	19,396	8,488	23,600	3,120	54,605	1Partner (Zone 5), Enlight (Zone 10, 7, 9)
Net area/Gross are ratio	90%	90%	90%	90%	90%	Enlight (all zones)
Residential & Commercial Net area, m2	17,457	7,640	21,240	2,808	49,144	Enlight (all zones)
Number of parking spaces at 27m2 per space	647	283	787	104	1,820	Enlight (all zones)
Price per parking space (EUR)						
High	20,000	20,000	20,000	20,000	20,000	1Partner (all zones)
Mid	17,500	17,500	17,500	17,500	17,500	1Partner (all zones)
Low	15,000	15,000	15,000	15,000	15,000	1Partner (all zones)
Total underground value (EURm)						
High	13	6	16	2	36	Enlight (all zones) based on 1Partner
Mid	11	5	14	2	32	Enlight (all zones) based on 1Partner
Low	10	4	12	2	27	Enlight (all zones) based on 1Partner

Above ground and Under-ground estimated value

Adding our estimated value of the above ground area (EUR 605m) and the underground area (EUR 32m), gives an estimated total value of EUR 637m for the developed real estate. This is equal to EUR 2.42 per share; however, we must also consider the development costs (investments) to calculate our estimated profit to shareholders (before present value discounting).

Total value Above and Under ground	Zone 10	Zone 7	Zone 5	Zone 9	Total
High	253	111	308	38	710
Mid	227	99	276	36	637
Low	200	88	243	33	564

Development costs estimate

The estimated mid-range development costs per m² is EUR 1,400 according to 1Partner (excluding VAT). This includes one floor underground, which is what we are assume in our real estate valuation. With these assumptions, our total mid-range development cost is EUR 396m.

Estimated Development costs						
Above ground + one floor underground	Zone 10	Zone 7	Zone 5	Zone 9	Total	Source
Above ground + one floor underground, m ²	100,516	43,988	122,300	16,120	282,925	Enlight (all zones) based on 1Partner
Development costs gross area (GBA)/m ² (EUR)						
High	1568	1,568	1,568	1,568	1,568	1Partner (all zones)
Mid	1400	1,400	1,400	1,400	1,400	1Partner (all zones)
Low	1232	1,232	1,232	1,232	1,232	1Partner (all zones)
Total development costs (GBA)/(EURm)						
High	158	69	192	25	444	Enlight (all zones) based on 1Partner
Mid	141	62	171	23	396	Enlight (all zones) based on 1Partner
Low	124	54	151	20	349	Enlight (all zones) based on 1Partner

Estimated profit

Deducting our estimated development costs of EUR 396 (mid-range) from our estimated sales price of the developed real estate of EUR 637m (mid-range), gives an estimated profit of EUR 241m, equal to EUR 0.92 per share. The corresponding value per share for the high and low range is EUR 1.01, and EUR 0.82, respectively (see table below for expected profit).

Estimated profit						
Total	Zone 10	Zone 7	Zone 5	Zone 9	Total	Source
High	95	42	116	13.2	267	Enlight (all zones) based on 1Partner
Mid	86	38	104	13.1	241	Enlight (all zones) based on 1Partner
Low	76	33	93	12.9	215	Enlight (all zones) based on 1Partner
Per share						
High	0.36	0.16	0.44	0.05	1.01	Enlight (all zones) based on 1Partner
Mid	0.33	0.14	0.40	0.05	0.92	Enlight (all zones) based on 1Partner
Low	0.29	0.13	0.35	0.05	0.82	Enlight (all zones) based on 1Partner

Estimated value of Land with and without Detailed plan

If the development is not done, the estimated land price per m² (excluding VAT) for residential land without a detailed plan is EUR 200-250, and EUR 125-150 for commercial land, according to 1Partner. The corresponding values with a detailed plan approved are EUR 400-500 (residential), and EUR 250-300 (commercial), respectively. This means an approved detailed plan could almost double the total value of the land from EUR 46m to EUR 89m (from EUR 0.18 to EUR 0.35 per share). See table below for land value calculations.

Estimated value of land without detailed plan (m2)						
	Zone 10	Zone 7	Zone 5	Zone 9	Total	Source
Residential gross area, m2	64,896	28,400	78,960	0	172,256	1Partner (Zone 5), Enlight (Zone 10, 7, 9)
Commercial gross area, m2	16,224	7,100	19,740	13,000	43,064	1Partner (Zone 5), Enlight (Zone 10, 7, 9)
Land estimated value without Detailed plan						
Description	Zone 10	Zone 7	Zone 5	Zone 9	Total	Source
Residential land price/m2 (EUR)						
High	250	250	250	na	250	1Partner (all Zones)
Mid	225	225	225	na	225	1Partner (all Zones)
Low	200	200	200	na	200	1Partner (all Zones)
Commercial land price/m2 (EUR)						
High	150	150	150	150	195	1Partner (all Zones)
Mid	138	138	138	138	179	1Partner (all Zones)
Low	125	125	125	125	163	1Partner (all Zones)
Residential land value (EURm)						
High	16	7	20	na	43	Enlight (all zones) based on 1Partner
Mid	15	6	18	na	39	Enlight (all zones) based on 1Partner
Low	13	6	16	na	34	Enlight (all zones) based on 1Partner
Commercial land value (EURm)						
High	2	1	3	2.0	8.4	Enlight (all zones) based on 1Partner
Mid	2	1	3	1.8	7.7	Enlight (all zones) based on 1Partner
Low	2	1	2	1.6	7.0	Enlight (all zones) based on 1Partner
Total land value (EURm)						
High	19	8	23	2.0	51	Enlight (all zones) based on 1Partner
Mid	17	7	20	1.8	46	Enlight (all zones) based on 1Partner
Low	15	7	18	1.6	41	Enlight (all zones) based on 1Partner
Land estimated value with Detailed plan						
Description	Zone 10	Zone 7	Zone 5	Zone 9	Total	Source
Residential land price/m2 (EUR)						
High	500	500	500	na	500	1Partner (all Zones)
Mid	450	450	450	na	450	1Partner (all Zones)
Low	400	400	400	na	400	1Partner (all Zones)
Commercial land price/m2 (EUR)						
High	300	300	300	300	300	1Partner (all Zones)
Mid	275	275	275	275	275	1Partner (all Zones)
Low	250	250	250	250	250	1Partner (all Zones)
Residential land value (EURm)						
High	32	14	39	na	86	Enlight (all zones) based on 1Partner
Mid	29	13	36	na	78	Enlight (all zones) based on 1Partner
Low	26	11	32	na	69	Enlight (all zones) based on 1Partner
Commercial land value (EURm)						
High	5	2	6	3.9	13	Enlight (all zones) based on 1Partner
Mid	4	2	5	3.6	12	Enlight (all zones) based on 1Partner
Low	4	2	5	3.3	11	Enlight (all zones) based on 1Partner
Total land value (EURm)						
High	37	16	45	3.9	99	Enlight (all zones) based on 1Partner
Mid	34	15	41	3.6	89	Enlight (all zones) based on 1Partner
Low	30	13	37	3.3	80	Enlight (all zones) based on 1Partner
Total land value per share without Detailed plan (EUR)						
	Zone 10	Zone 7	Zone 5	Zone 9	Total	Source
Bull	0.07	0.03	0.09	0.01	0.20	Enlight (all zones) based on 1Partner
Base	0.06	0.03	0.08	0.01	0.18	Enlight (all zones) based on 1Partner
Bear	0.06	0.02	0.07	0.01	0.16	Enlight (all zones) based on 1Partner
Total land value per share with Detailed plan (EUR)						
	Zone 10	Zone 7	Zone 5	Zone 9	Total	Source
Bull	0.14	0.06	0.17	0.01	0.39	Enlight (all zones) based on 1Partner
Base	0.13	0.06	0.16	0.01	0.35	Enlight (all zones) based on 1Partner
Bear	0.11	0.05	0.14	0.01	0.32	Enlight (all zones) based on 1Partner

Expected return E(R) on Real estate

To calculate our weighted expected return, we assign probabilities to all scenarios. Given that our estimated profit of developed real estate is significantly higher than the estimated profit from sale of just the land, we predict the company will develop the real estate. Accordingly, we assign the following probabilities to the main scenarios: (1) 70% to sale of developed real estate, (2) 24% to sale of land with detailed plan, and (3) 6% to sale of land without detailed plan. Using these probabilities, our weighted expected return for the real estate is EUR 193m, equal to EUR 0.74 per share.

Expected return of Real estate			Weighted	
Main outcome	Outcome	Probability	Expected Return (EURm)	Expected Return (EURm)
Sale of developed real estate	High-price range	10%	267	27
	Mid-price range	50%	241	120
	Low-price range	10%	215	22
Sale of land with Detailed plan	High-price range	10%	99	10
	Mid-price range	8%	89	7
	Low-price range	6%	80	5
Sale of land without Detailed plan	High-price range	3%	51	2
	Mid-price range	2%	46	1
	Low-price range	1%	41	0
Total		100%		193

Source: Enlight Research

Although it is very hard to predict, we foresee that the following timeline for the real estate development: (a) Detailed plan approved within 3 years i.e. by 2023, (b) Design and permits by 2024 (c) Construction and sales start in 5 years i.e. by 2025, and (d) Construction and sales period last for 10 years i.e. it will end in 2034. Furthermore, we assume an average size per apartment of 70 m² (higher than current average as we predict apartment size to increase), which given our net residential area, results in 1,969 apartments to be sold. Assuming 200 apartments can be sold per year, it will take about 10 years to sell all the apartments. To put our assumed number of apartments sold per year into perspective, we observe that the total number of new apartments sold in Tallinn per year is currently around 2,400, and in the last 3 years, Merko has sold between 400-500 apartments per year.

Present value of Expected return

Discounting our expected return of EUR 193m by 9 years (mid-point of construction/sales period) at a discount rate of 5%, indicate a present value of the expected return of EUR 125m, equal to EUR 0.47 per share, which corresponds to 29% of current market value. Note that the 9-year discount period is in the middle of the 10-year apartment sales period (year 2029), which means it is the average sales period for all apartments assuming the sales is evenly distributed.

The sensitivity to years to completion is high. For example, assuming the construction/sales start is 3 years earlier (2022 instead of 2025), bringing the mid-sales year to 2026 from 2029, the present value would increase by EUR 20m equal to EUR 0.07 per share.

Present value of expected return
on real estate per share (EUR)

Project stage	Year	Years	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
Detailed plan	2021	1	191	190	188	186	184	182	181	179	177	176
Detailed plan	2022	2	190	186	182	179	175	172	169	166	163	160
Detailed plan	2023	3	188	182	177	172	167	162	158	153	149	145
Design/Permitting	2024	4	186	179	172	165	159	153	147	142	137	132
Construction/Sales1	2025	5	184	175	167	159	151	144	138	132	126	120
Construction/Sales2	2026	6	182	172	162	153	144	136	129	122	115	109
Construction/Sales3	2027	7	180	168	157	147	137	129	120	113	106	99
Construction/Sales4	2028	8	179	165	153	141	131	121	113	104	97	90
Construction/Sales5*	2029	9	177	162	148	136	125	114	105	97	89	82
Construction/Sales6	2030	10	175	159	144	131	119	108	98	90	82	75
Construction/Sales7	2031	11	173	155	140	126	113	102	92	83	75	68
Construction/Sales8	2032	12	172	152	136	121	108	96	86	77	69	62
Construction/Sales9	2033	13	170	149	132	116	103	91	80	71	63	56
Construction/Sales10	2034	14	168	147	128	112	98	86	75	66	58	51
All sold	2035	15	167	144	124	107	93	81	70	61	53	46
All sold	2036	16	165	141	120	103	89	76	65	56	49	42
All sold	2037	17	163	138	117	99	84	72	61	52	45	38
All sold	2038	18	162	135	114	95	80	68	57	48	41	35
All sold	2039	19	160	133	110	92	77	64	53	45	38	32
All sold	2040	20	158	130	107	88	73	60	50	41	34	29

Present value of expected return
on real estate per share (EUR)

Project stage	Year	Years	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
Detailed plan	2021	1	0.73	0.72	0.71	0.71	0.70	0.69	0.69	0.68	0.67	0.67
Detailed plan	2022	2	0.72	0.71	0.69	0.68	0.67	0.65	0.64	0.63	0.62	0.61
Detailed plan	2023	3	0.71	0.69	0.67	0.65	0.64	0.62	0.60	0.58	0.57	0.55
Design/Permitting	2024	4	0.71	0.68	0.65	0.63	0.60	0.58	0.56	0.54	0.52	0.50
Construction/Sales1	2025	5	0.70	0.67	0.63	0.60	0.58	0.55	0.52	0.50	0.48	0.46
Construction/Sales2	2026	6	0.69	0.65	0.62	0.58	0.55	0.52	0.49	0.46	0.44	0.41
Construction/Sales3	2027	7	0.69	0.64	0.60	0.56	0.52	0.49	0.46	0.43	0.40	0.38
Construction/Sales4	2028	8	0.68	0.63	0.58	0.54	0.50	0.46	0.43	0.40	0.37	0.34
Construction/Sales5*	2029	9	0.67	0.62	0.56	0.52	0.47	0.44	0.40	0.37	0.34	0.31
Construction/Sales6	2030	10	0.67	0.60	0.55	0.50	0.45	0.41	0.37	0.34	0.31	0.28
Construction/Sales7	2031	11	0.66	0.59	0.53	0.48	0.43	0.39	0.35	0.32	0.28	0.26
Construction/Sales8	2032	12	0.65	0.58	0.52	0.46	0.41	0.37	0.33	0.29	0.26	0.23
Construction/Sales9	2033	13	0.65	0.57	0.50	0.44	0.39	0.34	0.31	0.27	0.24	0.21
Construction/Sales10	2034	14	0.64	0.56	0.49	0.42	0.37	0.33	0.29	0.25	0.22	0.19
All sold	2035	15	0.63	0.55	0.47	0.41	0.35	0.31	0.27	0.23	0.20	0.18
All sold	2036	16	0.63	0.54	0.46	0.39	0.34	0.29	0.25	0.21	0.19	0.16
All sold	2037	17	0.62	0.52	0.44	0.38	0.32	0.27	0.23	0.20	0.17	0.15
All sold	2038	18	0.61	0.51	0.43	0.36	0.31	0.26	0.22	0.18	0.16	0.13
All sold	2039	19	0.61	0.50	0.42	0.35	0.29	0.24	0.20	0.17	0.14	0.12
All sold	2040	20	0.60	0.49	0.41	0.34	0.28	0.23	0.19	0.16	0.13	0.11

Source: Enlight Research, *Our main scenario (assume mid-range prices, and total selling period of 10 years with an average selling period of 5 years)

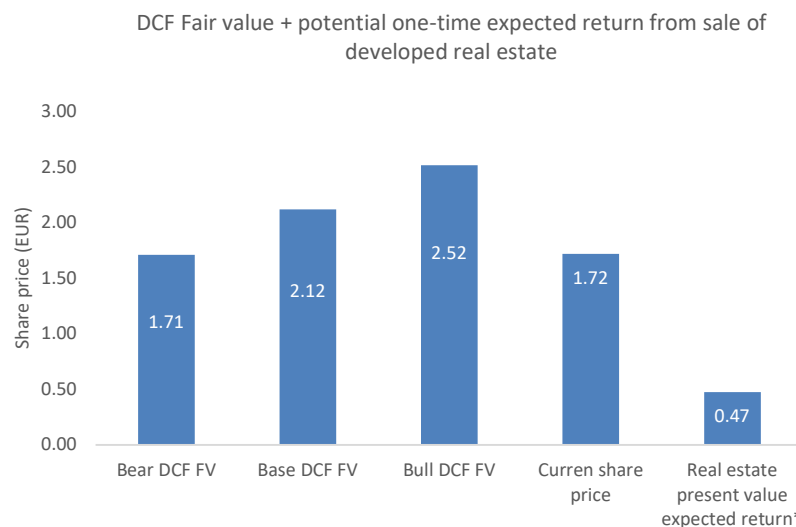
DCF Valuation

The DCF valuation is the basis of our Fair value share prices at our different scenarios (Bear, Base, Bull). We use the same WACC for all three scenarios while our sales growth and margin assumptions differ between scenarios (see table below for assumptions). Our Base case DCF Fair value per share is EUR 2.12, indicating an upside of 23%. The corresponding figures for our Bear and Bull scenarios are EUR 1.71 (-1%), and EUR 2.52 (+47%).

DCF Valuation Scenarios	Bear	Base	Bull
WACC	6.3%	6.3%	6.3%
Avg. sales growth 2020-24	0.3%	1.3%	2.1%
Terminal sales growth	1.8%	2.0%	2.2%
Avg. EBIT margin 2020-24	32.5%	36.4%	40.2%
Terminal EBIT margin	34.0%	37.0%	40.0%
Fair Value per share	1.71	2.12	2.52
Upside/Downside (last price)	-1%	23%	47%

Source: Enlight Research, Based on a share price of EUR 1.72

Our DCF valuation does not include the potential expected return from real estate development (see previous section) as it is still highly uncertain when and if it will happen. However, we believe investors should beware of the value that could be unlocked if the real estate is developed successfully. Therefore, we illustrate our DCF Fair value at our three scenarios and the Present value of the Expected return E[R] of the real estate development (EUR 0.47 per share) separately in the chart below.

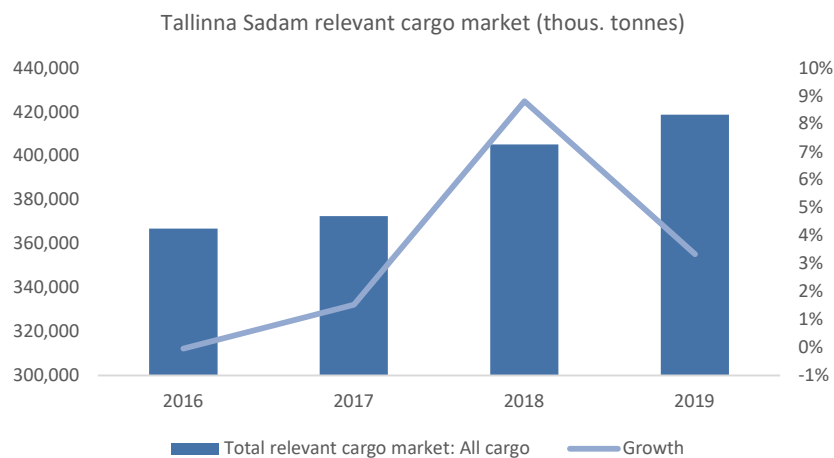


Source: Enlight Research, *Present value of Expected return from Real estate at 5% discount rate for 9 years (average sales period then occur in year 2029).

Market overview

Cargo market

We estimate Tallinna Sadam's relevant cargo market in handled tonnes per year to be around 420,000 thousand tonnes. This includes all types of cargo (Liquid bulk, Dry bulk, Ro-Ro bulk, Containers, General cargo). The market has grown in the last three years. In 2018, the market grew by 9% driven by a healthy growth for all cargo types. Note that one could argue that liquid bulk from Russian ports (Ust-Luga, Primorsk, St. Petersburg) should not be included in our relevant market as there is a clear order from President Putin to ship all liquid bulk through Russian. Excluding Russian liquid bulk, the total relevant market for Tallinna Sadam would be around 290,000 thousand tonnes. For the Polish ports (Gdansk, Gdynia), we only include liquid bulk into the relevant market as this is the only cargo type where the Polish harbours compete with Tallinna Sadam.



Source: Estonia Statistics Center (Cargo for whole Estonia by Cargo type), Tallinna Sadam (reported Cargo by type), Eurostat (Cargo by type for Finland and Lithuania for whole country, 2019 increased by GDP growth), Port of Riga, Port of Ventspils, Port of Liepaja, Port of Gdansk, Port of Gdynia, Port of Ust-Luga, Primorsk, St. Petersburg.

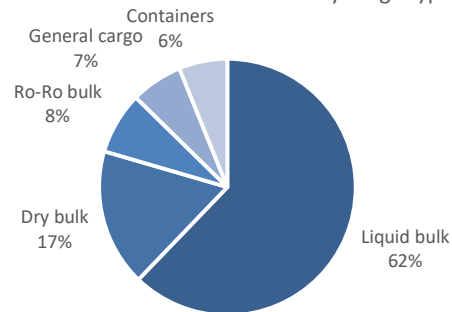
Cargo market by Cargo type

Looking at the distribution by cargo type of Tallinna Sadam's relevant market, we estimate liquid bulk to be the biggest with 62% share followed by Dry bulk (17%). If Russian ports were to be excluded in our relevant liquid bulk market, the liquid bulk cargo market would decrease from 240,000 to 109,000 thousand tonnes i.e. to less than half. During the past four years, there have only been three occasions with negative growth in a cargo category - in 2016, and 2017, when liquid bulk decreased by 1%, and 2%, respectively; and in 2019 when General cargo decreased by 1%. See below table for volumes by cargo type for the relevant Baltic Sea cargo market.

With regards to market share for the relevant Baltic Sea market, we estimate Tallinna Sadam to have around 5% market share for all cargo types (7% excluding Russian liquid bulk), with Ro-Ro bulk being the highest (18%) and General cargo the lowest (2%). See below chart for market share per cargo type.

In the three years (2017-19), the liquid bulk market excluding Russia has grown. We believe this is a sign that the redirection of Russian liquid bulk to Russian ports has been completed. At the end of Q3/20, the 12-month rolling liquid bulk volumes (excluding Russia) was up 28% y-on-y. See below chart for liquid cargo volumes on 12 month rolling basis.

Tallinna Sadam relevant market by Cargo type



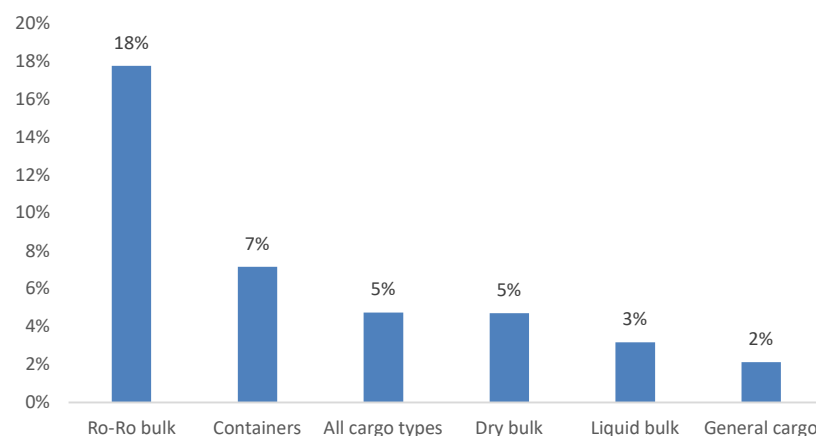
Source: Estonia Statistics Center (Cargo for whole Estonia by Cargo type), Tallinna Sadam (reported Cargo by type), Eurostat (Cargo by type for Finland and Lithuania for whole country, 2019 increased by GDP growth), Port of Riga, Port of Ventspils, Port of Liepaja, Port of Gdansk, Port of Gdynia, Port of Ust-Luga, Primorsk, St. Petersburg

Tallinna Sadam relevant market size and growth by Cargo type

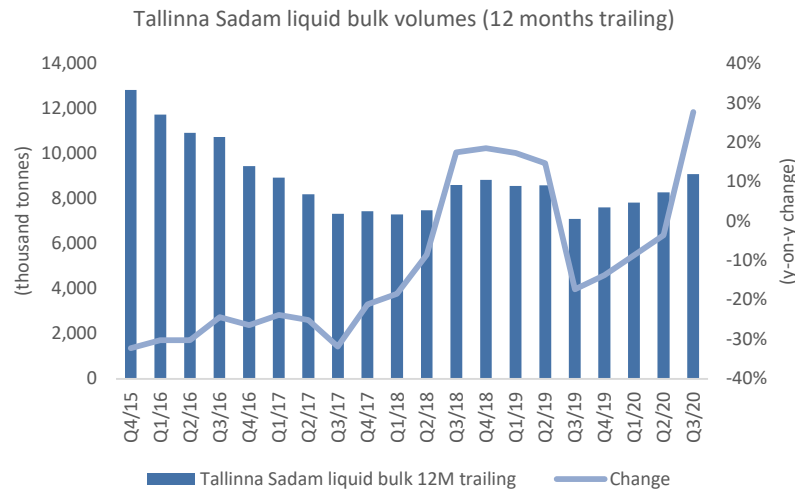
(thousand tonnes)	2016	2017	2018	2019
Total relevant market: Liquid bulk	215,901	211,020	227,705	239,753
Growth: Liquid bulk	-9%	0%	28%	4%
Total relevant market: Dry bulk	79,209	85,012	94,769	95,518
Growth: Dry bulk	0%	7%	11%	1%
Total relevant market: Containers	20,516	22,575	25,093	25,590
Growth: Containers	8%	10%	11%	2%
Total relevant market: Ro-Ro	26,712	28,428	29,496	30,159
Growth: Ro-Ro	2%	6%	4%	2%
Total relevant market: General cargo	24,567	25,486	28,292	27,875
Growth: General cargo	4%	4%	11%	-1%
Total relevant cargo market: All cargo	366,905	372,522	405,355	418,895
Growth: All cargo	0%	2%	9%	3%

Source: Estonia Statistics Center (Cargo for whole Estonia by Cargo type), Tallinna Sadam (reported Cargo by type), Eurostat (Cargo by type for Finland and Lithuania for whole country, 2019 increased by GDP growth), Port of Riga, Port of Ventspils, Port of Liepaja, Port of Gdansk, Port of Gdynia.

TSM estimated market share of relevant Baltic Sea market 2019



Source: Estonia Statistics Center (Cargo for whole Estonia by Cargo type), Tallinna Sadam (reported Cargo by type), Eurostat (Cargo by type for Finland and Lithuania for whole country, 2019 increased by GDP growth), Port of Riga, Port of Ventspils, Port of Liepaja, Port of Gdansk, Port of Gdynia.



Source: Tallinna Sadam

Shuttle and overnight cruise passenger market

We define the shuttle market as the ships going between Tallinn-Helsinki (2-3 hour trip) while the overnight cruise market consists of 1-night cruises mainly between Estonia-Sweden, Sweden-Finland, Sweden-Riga. In the past three years (2017-19), the number of passengers on the shuttle and overnight cruise passenger market has been stable around 20m per year with Tallinn, Helsinki, and Stockholm capturing about one third each. Consequently, market share must be gained from another country/route. Tallinna Sadam captures about half of the relevant Baltic Sea shuttle and overnight cruise passengers. The biggest non-Tallinna Sadam passenger routes are Sweden-Finland (7.4m pax), Sweden-Gotland (1.3m pax), and Sweden-Latvia (1.0m pax), equal to over 9m passengers annually. We do not regard the Dover-Calais route as relevant as we believe very few passengers chose between e.g. Stockholm-Tallinn and Dover-Calais. One could argue that Sweden-Gotland is not competing, but we believe that e.g. Sweden-Estonia could be a valid alternative. Worth to note is that Tallinna Sadam is part of the busiest route on the Baltic Sea (Tallinn-Helsinki shuttle) with close to 9m passengers, equal to 44% of our relevant market. Our conclusion with regards to the shuttle and overnight cruise market is that market share could be gained by marketing Estonia as a tourist destination to Swedes and Finns. At the same time, the major Baltic Sea ports (Tallinn, Helsinki, Stockholm) are also helping each other by creating a network of modern ports as at least two cities are part of a route. Following the recent renovation/expansion of Tallinna Sadam's D-Terminal, all three cities (Tallinn, Helsinki, Stockholm) has modern passenger friendly terminals.

Pax: Shuttle and Overnight cruises (pax thousands)

Port	2018	2019
Port of Helsinki	11,554	11,600
Port of Stockholm	11,026	10,934
Port of Tallinn	9,981	9,978
Total	32,561	32,512

Source: Port of Tallinn, Port of Helsinki, Ports of Stockholm

Shuttle and Overnight cruise PAX

	2017	2018	2019	Description
Tallinn – Helsinki	9,012	8,846	8,925	TSM route
Tallinn – Stockholm	1,013	1,007	933	TSM route
Total TSM routes	10,025	9,853	9,858	
Helsinki - St. Petersburg	210	209	196	Competing
Helsinki – Travemunde	148	151	158	Competing
Helsinki - Mariehamn	43	44	48	Competing
Helsinki - Other	28	22	24	Competing
Sweden - Finland	7,515	7,440	7,349	Competing
Sweden - Gotland	1,281	1,298	1,349	Competing
Sweden - Latvia	955	1,017	1,017	Competing
Sweden - Poland	106	120	166	Competing
Sweden - Russia	78	83	66	Competing
Total competing countries/routes	10,363	10,384	10,373	
Total	20,388	20,237	20,231	

Source: Port of Tallinn, Port of Helsinki, Ports of Stockholm

Cruise passenger market

We define the cruise market as longer e.g. 9-day cruises between several cities in the Baltic Sea. One example is Norwegian Cruise Line's 9-day cruise stopping in 6 different ports including Tallinn, Helsinki, and St. Petersburg. We regard Helsinki, Stockholm, Tallinn, and St. Petersburg as relevant cities when looking at the relevant Baltic Sea cruise market. There are two main differences between the shuttle/overnight cruise market and the multi-day cruise market. One is that there is a clear market leader in the multi-day cruise market, with the Port of Stockholm with having around 1.1m passengers per year compared to around 600-660K for Helsinki, Tallinn, and St. Petersburg. Another difference to the shuttle/overnight cruise market is that the cruise market is growing by around 7% per year vs. flat to low single-digit growth for the shuttle/overnight cruise market. The covid pandemic has obviously put a stop to the growth, but we believe people's desire to travel has not ended, but rather been postponed, and if anything, might even increase once it is safe to travel. We believe most cruise ships who stop in Tallinn, also stop in Helsinki and St. Petersburg i.e. they are rather co-operation partners than competitors. In our view, the biggest opportunity for Tallinna Sadam is to make Estonia an attractive leg for cruises that stop in Stockholm.

Pax: Multi-day Cruise (pax thousands)

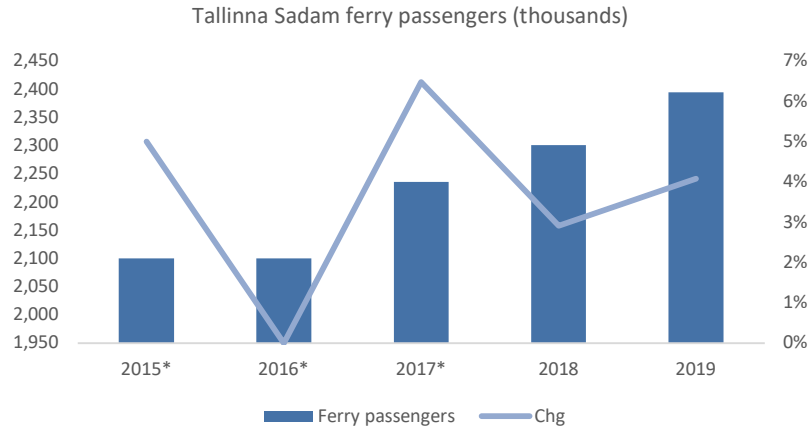
Port	2018	2019
Port of Stockholm	1,071	1,137
Port of Tallinn	638	661
Port of St. Petersburg	623	648
Port of Helsinki	520	604
Total	2,852	3,049

Source: Port of Tallinn, Port of Helsinki, Ports of Stockholm, PortNews (St. Petersburg figure)

Ferry market

Tallinna Sadam's relevant Ferry market consist of the traffic between the Estonian mainland and Estonia's two biggest islands, Saaremaa (27min trip), and Hiiumaa (1hr 15min trip). Tallinna Sadam has monopoly on these routes (current agreement with the State lasts until Sep 2026). An increase in the number of passengers could result in the State putting more vessels on the route, which might result in higher revenues

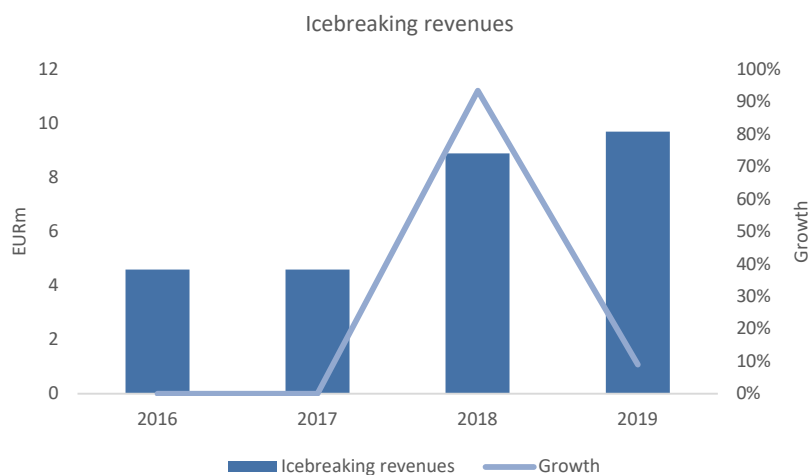
under the state agreement. In the last three years, the number of passengers has grown by about 4-5% annually. However, due to the pandemic, the number of ferry passengers is expected to decrease in 2020 (the y-on-y decrease for 9M/20 and Q3/20 was 19%, and 5%, respectively).



Source: Port of Tallinn, *also includes non-Tallinna Sadam pax (Tallinna Sadam took over the route in the end of 2017)

Ice-breaking service market

Tallinna Sadam's relevant Icebreaking service market consist of the Estonian State (Estonian Maritime Administration) contract for northern Estonian ports plus charter services to external clients on days outside the State contract. The Estonian State contract is a monopoly contract currently held by Tallinna Sadam until April 2022 (10-year contract commenced in 2013). Under the contract, Tallinna Sadam provide icebreaking services with the Icebreaker, Botnica, during the period December to April (120 days). The annual government contract value is around EUR 5m and is indexed according to the Estonian CPI. In addition, the external charter market for ice-breaking services is around EUR 5m based on the current agreement with the Canadian company Baffinland Iron Mines. Consequently, we estimate the relevant icebreaking service market to be around EUR 10m per annum.

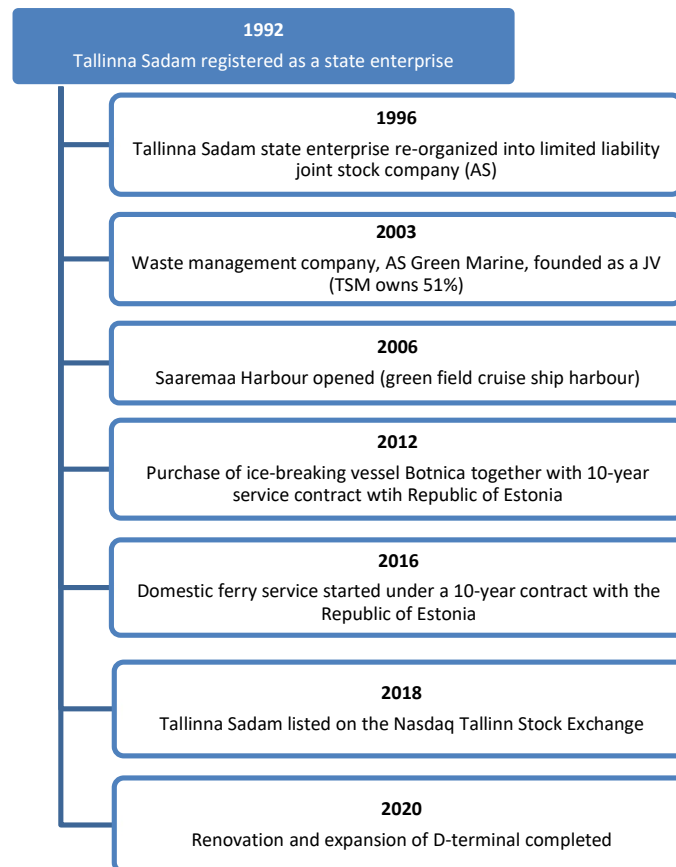


Source: Port of Tallinn

Company description

History

In 1992, one year after Estonia regained independence from the USSR, Tallinna Sadam (Tallinn Port), was registered as a state enterprise. Back then, the major assets consisted of the Old City harbour, the Muuga harbour, and the Paldiski harbour i.e. three out of the four current harbours. The Old City harbour date back to the 7th century, and it established itself as a major trading port during the Hanseatic League era between the 13-16th centuries. The Paldiski harbour is from the 18th century when the city of Paldiski was founded by the Russian tsar, Peter the Great. The cargo harbour, Muuga, was built during the Soviet era in 1986. In the mid-1990s, the group started the strategic initiative of transforming from a service port into a landlord port (the last cargo handling operations were transferred to private companies in 1999). In 2006, the Group's fourth harbour, Saaremaa harbour, was opened. It was a green field project with the state giving the land to Tallinna Sadam as a non-monetary payment to share capital. Today, Tallinna Sadam is the biggest port operator in Estonia and fourth biggest in Northern Europe by number of passengers.

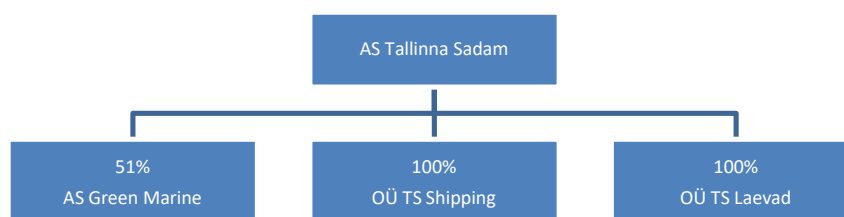


Source: Company

Group structure

AS Tallinna Sadam is the direct owner of the major assets such as the ports (including real estate), and the subsidiaries OÜ TS Shipping (which owns the icebreaker Botnica), and OÜ TS Laevad (which owns the ferries). AS Tallinna Sadam is also the majority shareholder with 51% ownership in the Joint Venture company, AS Green Marine (waste management services), with the AS Green Marine's management owning the remaining 49%.

Tallinna Sadam Group Structure



Source: Company

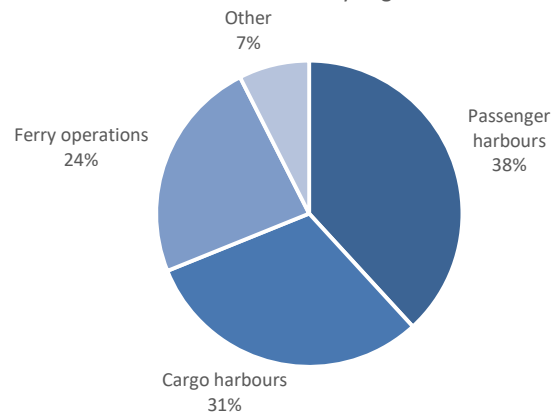
Landlord port by ownership

As Tallinna Sadam is a pure landlord port, there is no concession renewal risk. We have not been able to find another listed port the world that has Tallinna Sadam's pure landlord exposure – other ports work on a combination of concessions/ownership and/or have cargo handling operations. As a landlord port, the main tasks are (a) managing and developing the infrastructure of the harbours, and (b) organizing the traffic of vessels in the harbours. The main clients are ship operators and cargo handlers.

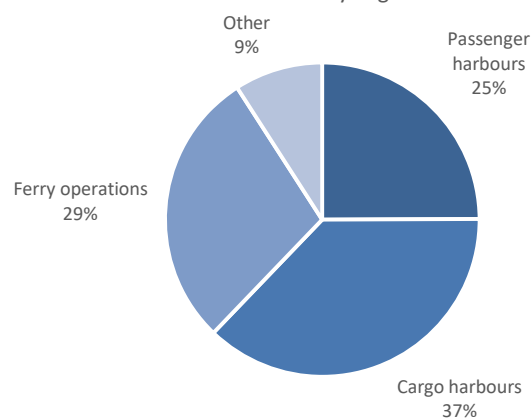
Business Segments

Tallinna Sadam has the following four business segments: Passenger Harbours, Cargo Harbours, Ferry, and Other (mainly icebreaking services under the Estonian government contract). In normal year, the Passenger and the Cargo harbours are the biggest segments with around one third each of group revenues, followed by the Ferry operations with around a quarter of revenues. However, in H1/20, both the Cargo Harbour and the Ferry segment were bigger than the Passenger segment due to covid related travel restrictions. The client categories vary between the segments which provides revenue diversification. For the Passenger segment, the client categories consist of shuttle/overnight cruise operators (Tallink, Viking Line, Eckerö Line), and long-haul cruise operators (Royal Caribbean Cruises, Carnival, Norwegian Cruise Line). For the Cargo segment, the biggest client categories consist of terminal operators (Vopak, TK, Vesta, Alexela), and ship operators (Maersk, msc, CMA CGM). The Estonian government is the largest client for the Ferry segment (service agreement with the Estonian Road Administration until 2026) and the Other segment (icebreaking service agreement with Estonian Maritime Association until 2022).

Revenue distribution by Segment 2019



Revenue distribution by Segment H1 2020



Source: Company

Tallinna Sadam Business Segments


	Passenger Harbours	Cargo Harbours ⁽¹⁾	Ferry
Scope of Services	<ul style="list-style-type: none"> Provision of infrastructure for vessels and servicing of passengers and vehicles Lines serviced include: Tallinn – Helsinki, Tallinn – Stockholm, Tallinn – St. Petersburg Serving PAX vessels' Ro-Ro cargo 	<ul style="list-style-type: none"> Provision of infrastructure for vessels and cargo operators Liquid bulk, Ro-Ro, dry bulk, containers, general cargo 	<ul style="list-style-type: none"> Infrastructure provider between Estonian mainland and two of the largest islands Services provided on 2 routes with 5 ferries, 4 of which are newbuilds Operating under a 10-year service agreement with the Estonian Road Administration⁽²⁾ until Q3 2026
Key Harbours	<ul style="list-style-type: none"> Old City Saaremaa 	<ul style="list-style-type: none"> Muuga Paldiski South 	
Key Customers	<ul style="list-style-type: none"> Passenger line operators Cruise line operators Yachts and other leisure vessels <div> <div>Regular Lines</div> <div> </div> <div>Cruise</div> <div> </div> </div>	<ul style="list-style-type: none"> Terminal operators Cargo vessels and shipping lines Warehouse operators <div> <div>Terminal Operators</div> <div> </div> <div>Shipping Lines</div> <div> </div> </div>	<div>Other</div> <div> <div>Icebreaking (MPSV Botnica)</div> <ul style="list-style-type: none"> 10-year agreement for icebreaking services with the Estonian Maritime Administration⁽²⁾ until Q2 2022 covering northern Estonian ports Available for various maritime support operations from May to Nov <div>Waste Management</div> <ul style="list-style-type: none"> Waste management through a 51% stake in Green Marine joint venture </div>





Source: Company, (1) excludes Paljasaare harbour which is in the process of being divested, (2) government agency

Harbours

Tallinna Sadam owns five harbours whereof two are passenger harbours and three are cargo harbours. The company aims to divest the Paljasaare cargo harbour, and hence, it is not included in company presentations.

Tallinna Sadam Harbours



	Passenger Harbours		Cargo Harbours ⁽²⁾	
	1	2	3	4
				
	Old City Harbour	Saaremaa Harbour	Muuga Harbour	Paldiski South Harbour
Description	<ul style="list-style-type: none"> One of the busiest passenger ports in Europe Handles 99.7% of PoT passengers 	<ul style="list-style-type: none"> Potential to host regional and cruise ships 	<ul style="list-style-type: none"> Biggest cargo harbour in Estonia Handles c.53% of cargo volume of PoT 	<ul style="list-style-type: none"> Primarily handles Estonian export and import cargo and transit cargo Outsized goods handling capability
Terminals / Capabilities	Two passenger terminals (A&D) incl. Cruise, Ro-Ro Facilities	One passenger terminal building	Containers, Liquid Bulk, Dry Bulk, General Cargo, Ro-Ro	Ro-Ro, General Cargo, Dry Bulk, Liquid Bulk
Territory / Aquatory (ha)	55 / 94	14 / 41	567 / 682	119 / 147
Total Length of Quays (km)	5.0	0.4	6.4	1.9
Number of Quays	24 + floating	3 + floating	29	10
Max. Depth / Length of Vessels (m)	11 / 340	10 / 200	18 / 300	14.5 / 230
Warehouse / Open Storage (000' m²)	22 / 95	-	230 / 695	15 / 540
Oil Tank Capacity (000' m³)	-	-	~ 1,550	~ 397

Source: Company

The Tallinn Old City Harbour is fourth biggest passenger port in Northern Europe with about 10m passengers. Together with the Port of Helsinki, and the Port of Stockholm, the Port of Tallinn forms Europe's busiest international passenger route network by sea with over 30m passengers per year.

Top 5 passenger ports in Europe (million pax)	2019
Helsinki	12.2
Stockholm	12.1
Dover	10.9
Tallinn	10.6
Calais	8.5
TAL+HEL+STO	34.9
DOV+CAL	19.4

Source: Company

Tallinn Old City Harbour part of international port network



Source: Company

The Tallinn Old City Harbour is uniquely located by the city centre coastline, just a few minutes' walk to the old city main square as well as the modern city centre. As such, it could be regarded as a natural monopoly in terms of passenger traffic. The location of the Old City Harbour means the unused real estate can be classified as prime real estate in the centre of Tallinn (see valuation section for estimated value of the Old City Harbour real estate).

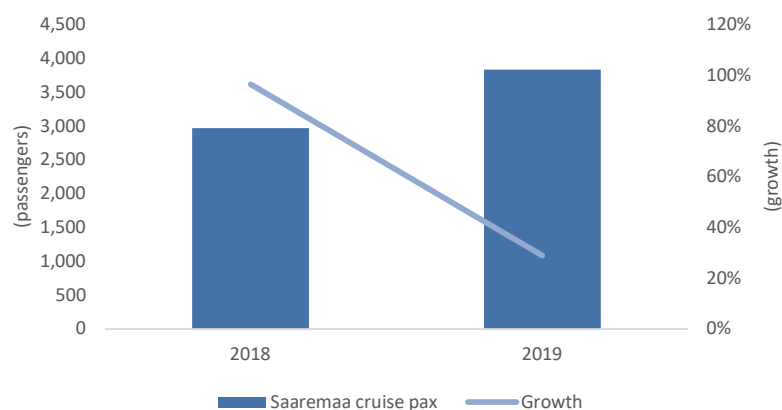
Tallinn Old City Harbour location and unused real estate plots



Source: Company

The Saaremaa Harbour is mainly a cruise ship harbour on the picturesque Estonian island of Saaremaa (Estonia's largest island). It opened in 2006 as greenfield project by Tallinna Sadam. In 2018, the passenger numbers almost doubled albeit from low levels, and in 2019, the passenger increase was nearly 30%, according to Cruise Europe. However, the covid outbreak has paused traffic this year.

Saaremaa Harbour number of cruise passengers



Source: Cruise Europe

The Muuga Harbour is Estonia's biggest cargo harbour handling about 40% of the country's transit cargo. It also serves passengers on the Muuga-Vuosaari line. The Muuga Harbour location (just 17km from the main capital Tallinn) and designation as part of the Trans-European Transport (TEN-T) Core Network, makes it a key point in EU's planned North-South trade corridor (Rail Baltica will have train sorting station in the Muuga Harbour). Muuga Harbour is a designated free zone with more flexible customs procedures (no VAT on transit goods). The industrial park in Muuga Harbour is 76 ha.

The Paldiski South Harbour is located 45 km west of Tallinn. It should not be confused with the Paldiski North Harbour which is another privately owned port. The main cargo types at Tallinna Sadam's Paldiski port are ro-ro, scrap metal, peat, and oil products. The Paldiski South Harbour has a 34-ha industrial park area.

Business model

By providing attractive port locations (land), infrastructure (pax & cargo terminals, quays, storage facilities etc.), and services (traffic control, electricity, cargo import/export handling), Tallinna Sadam attracts clients (ship operators, cargo handlers) who pays revenues mainly in the form of vessel charges, and passenger fees.

Business model

	Harbour operations	Shipping operations
Clients	PAX & Cargo ship operators, Cargo handlers	Republic of Estonia, Baffinland
Revenues	Vessel charges, Cargo charges, pax fees, rent, electricity sales	State contract income, charter income
Costs	Port infrastructure	Port infrastructure/ships
Role	Landowner	Ship owner/operator

Source: Enlight Research

As a land and port infrastructure provider, the costs are mainly fixed. In a normal year, about 88% of the total group costs are fixed, with depreciation as the biggest cost line (around 29% of total group costs). This means that the biggest cost line is a non-cash flow line, which is beneficial from a cash flow point of view in the current environment. Labour costs is only the third biggest cost line i.e. the business model is non-labour intensive compared to e.g. a passenger ship operator's business model.

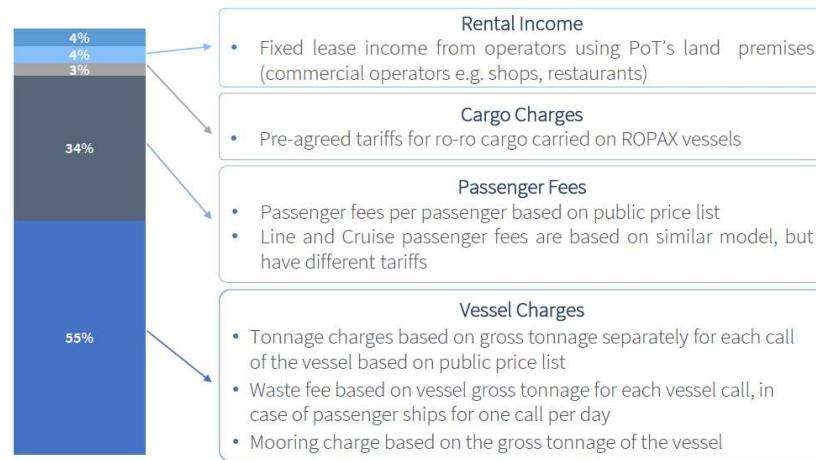
Tallinna Sadam group cost structure

	For the year ended 31 December		
	2016		
	2015	(Adjusted)	2017
Total fixed costs.....	90.0%	88.2%	86.8%
Material, services and other operational expenses.....	21.9%	27.6%	26.5%
Labour costs (including social taxes).....	21.0%	22.6%	19.6%
Depreciation.....	38.0%	27.7%	28.8%
Other costs.....	1.4%	0.9%	0.4%
Fuel, oil and electricity costs.....	7.8%	9.5%	11.5%
Total variable costs.....	10.0%	11.8%	13.2%
Mooring services.....	1.9%	1.9%	1.2%
Reception/discharge of ship-generated waste.....	2.8%	2.9%	2.2%
Other semi-variable costs.....	5.2%	7.0%	9.8%
Total Group costs ⁽¹⁾	100.0%	100.0%	100.0%

Note: (1) Consists of operating expenses, personnel expenses, depreciation, amortisation and impairment, and other
Source: Company IPO prospectus

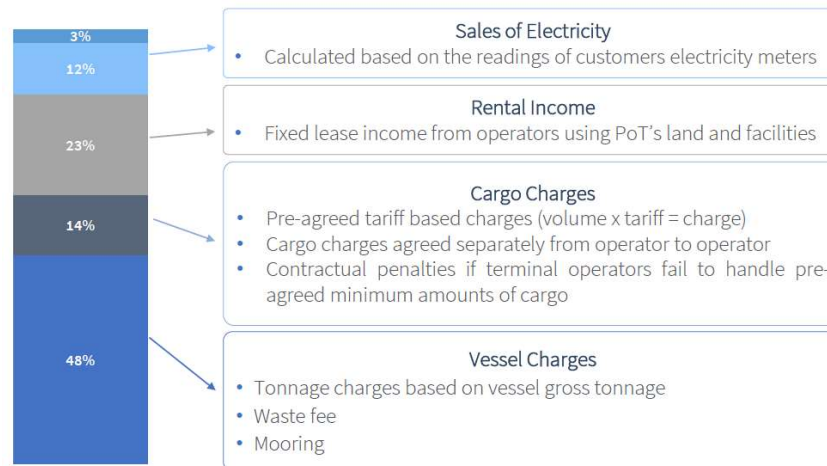
The biggest revenue stream for both the passenger and the cargo harbours segment is tonnage-based vessel charges (vessel calls). The second biggest revenue stream are pax fees (based on number of pax) for the Passenger Harbours segment and cargo charges (based on cargo volume) for the Cargo Harbours segment. For the domestic ferry and icebreaking services, the revenue consists of the contracted income under the exclusive government contract (icebreaking services can get revenue from external clients). See below pictures for the revenue stream distribution of the Passenger and Cargo Harbour segments.

Passenger harbours revenue stream distribution 2019



Source: Company presentation

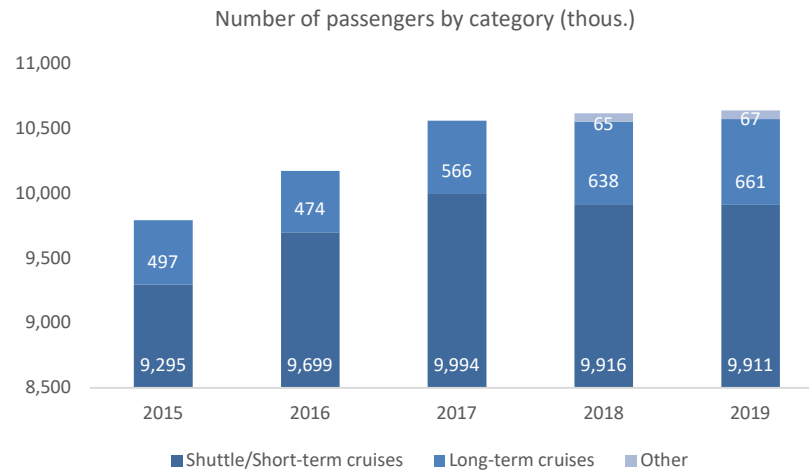
Cargo harbours revenue stream distribution 2019



Source: Company presentation

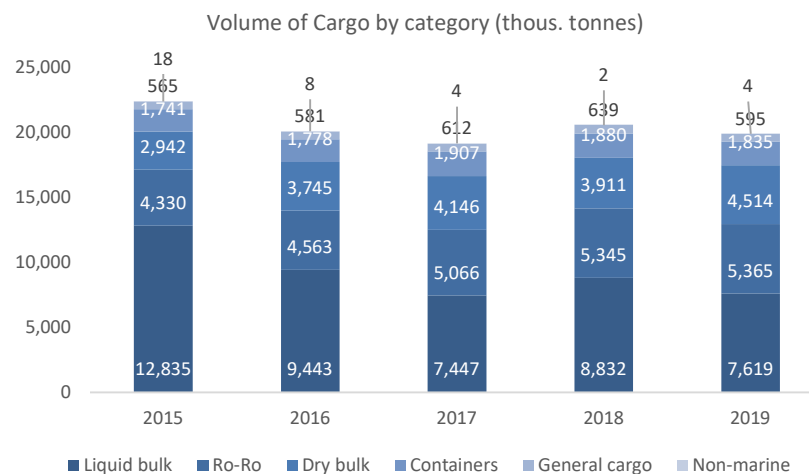
Passenger, Cargo and Vessel call categories

The main **passenger categories** are shuttle/short-term cruises, long-term cruises, and Other cruises. The shuttle/short-term cruises is the biggest category with 93% of the passengers in 2019 whereof the Tallinn – Helsinki route represented 83% of the passengers i.e. the Tallink – Helsinki route is by far the most important. The second largest passenger category is Long-term cruises with 6% of total passengers followed by Other (1%). After growing by 3-4% annually in 2016 and 2017, the shuttle/short-term cruise growth was flat in 2019. The number of long-term cruise passenger grew by 4% in 2019 following growth of 19%, and 13%, in 2017, and 2018, respectively. This year, the number of passengers is down around 55% for the 9M/20 period due to covid.



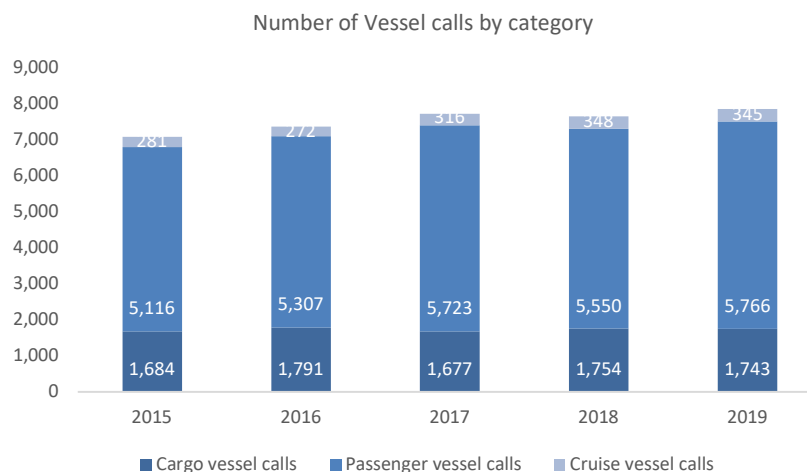
Source: Company

The main **cargo categories** are liquid bulk, Ro-Ro, Dry bulk, Containers, General cargo and non-marine. Liquid bulk is the biggest category with 38% of the volume measured in tonnes in 2019, followed by Ro-Ro (27%), Dry bulk (23%), Containers (9%), and General cargo (3%). The growth among the cargo categories tend to differ quite a lot between the years i.e. it is hard to draw any conclusion regarding a trend. In 2019, the total cargo volume declined by 3% after having increased by 7% in 2018. This year, the cargo volume is up 9% y-on-y for the 9M/20 period due to strong liquid bulk volumes (double-digit y-on-y growth in each quarter this year).



Source: Company

The main **vessel call categories** are Passenger vessel calls (shuttle/short-term cruises), Cargo vessel calls, and Cruise vessel calls (long-term cruises). The biggest vessel call category is passenger vessel calls with 73% share in 2019, followed by cargo vessel calls (22%), and Cruise vessel calls (4%). In 2019, the number of passenger vessel calls grew by 4% while the number of cargo and long-term cruise vessel calls declined by 1% each. However, the number of long-term cruise passengers increased by 4% in 2019 which reflects an increase in the number of passengers per vessel call.



Source: Company

Management Board

The Management Board consist of two to five members appointed by the Supervisory Council for a term of up to five years.

Mr. Valdo Kalm, Chairman the Management Board, CEO: Valdo Kalm has been the chairman of the management board of Tallinna Sadam since March 2016. Prior to this, Mr. Kalm was the CEO of EMT (now Telia Eesti). He has a master's degree in automation and tele-mechanics from Tallinn University of Technology.

Mr. Marko Raid, Member of the Management Board, CFO: Marko Raid has been working for Tallinna Sadam since 1997 and has been the chief financial officer since 2006. He was appointed to the management board in 2015. Marko Raid has a master's degree in business administration (MBA) from Concordia International University Estonia.

Mr. Margus Vihman, Member of the Management Board, Chief Commercial Officer: Margus Vihman has been on the management board of Tallinna Sadam since 2016. He is responsible for the company's commercial activities, i.e. customer relations and sales. Mr. Vihman has a degree in international business administration (MBA) from the Estonian Business School.

Supervisory Council

The Supervisory Council consist of six to eight members appointed by the General Meeting of Shareholders for a term of up to five years.

Mr. Aare Tark, Chairman of the Supervisory Board: Aare Tark has served as chairman of the supervisory board since October 2015. Tark is a lead partner for the law offices of TARK. Mr. Tark has a master's degree in law from the University of Tartu.

Ahti Kuningas, Member of the Supervisory Board: Ahti Kuningas has served as member of the supervisory board since September 2017. Mr. Kuningas is the deputy secretary general of the Ministry of Economic Affairs and Communications. He has an MBA from the University of Tartu.

Ms. Maarika Honkonen, Member of the Supervisory Board: Maarika Honkonen has been a member of the supervisory board since April 2018. The main activities of Honkonen include acting as the manager of the Estonian Hotel and Restaurant Association. Ms. Honkonen has a master's degree in business administration from Tallinn University of Technology.

Mr. Raigo Uukkivi, Member of the Supervisory Board: Raigo Uukkivi has served as member of the supervisory board since September 2017. Mr. Uukkivi is the deputy secretary general of the Ministry of Finance and a supervisory board member of AS Eesti Raudtee. He has a master's degree in public administration from the University of Tartu.

Mr. Urmas Kaarlep, Member of the Supervisory Board: Urmas Kaarlep has served as member of the supervisory board since October 2015. Mr. Kaarlep is a supervisory board member at Prike AS, Wallester AS and Nasdaq CSD SE. He has a master's degree in international business administration from Estonian Business School (EBS) and a degree in mechanical engineering management from the Tallinn University of Technology.

Mr. Üllar Jaaksoo, Member of the Supervisory Board: Üllar Jaaksoo has served as member of the supervisory board since October 2015. Jaaksoo is board member in the company Digital Nation Capital OÜ. He has a master's degree in economics from the University of Tartu and has also studied at London Business School.

Mr. Riho Unt, Member of the Supervisory Board: Riho Unt has served as a member of the Supervisory Board since July 2020. Mr. Unt has previously worked as the Senior Advisor at SEB AB, the head of SEB Baltic and SEB Estonia. He has a master's degree in business administration from the University of Tartu and a master's degree in administrative management from Tallinn University of Technology.

Mr. Veiko Sepp, Member of the Supervisory Board: Veiko Sepp has served as a member of the Supervisory Board since July 2020. Mr. Sepp is a member of the Management Board of AS Levira, he has previously been the Chairman of the Management Board of Ericsson Eesti AS he has a master's degree from the Faculty of Automation of Tallinn University of Technology.

Main owners

The biggest shareholder of Tallinna Sadam is the Republic of Estonia (The Ministry of Economic Affairs and Communications), with a 67% shareholding (there is only one share class with equal voting rights). The bulk of the remaining ownership is represented by institutions such as the EBRD (3.6%) and local and international funds (12%) with the remainder being held by retail investors (18%). The free float is 33% equal to 86.7m shares.

Tallinna Sadam shareholders		
Owner	Shares (m)	Percent
Estonian State	176.3	67.0%
State Street Bank/Omni.	10.4	4.0%
EBRD	9.3	3.6%
SEB Progressiivne PF	6.5	2.5%
LHV Pension fund L	5.5	2.1%
BPSS PAR/Mandatum Life	1.8	0.7%
SEB banka AS	1.6	0.6%
SEB Energiline Fund	1.4	0.5%
Clearstream Banking AG	1.3	0.5%
Citi (Lond)/OP client	1.2	0.5%
Top 10	215.4	81.9%
Other	47.6	18.1%
Total	263.0	100%

Source: Nasdaq Central Depository as end of day 13 November 2020

Risk factors

Below is a list of risk factors that we believe are important to highlight given the current environment. It should not be regarded as a complete list of risk factors. Additional risk factors can be found in the listing prospectus.

Vessel calls resilience

Our forecast assumes that the number of passenger vessel calls has a high resilience to an abrupt decline the number of passengers. If this assumption is wrong, then our forecast is most likely too optimistic, especially when it comes to passenger vessel charges.

Pandemic development

Our Base and Bull case assume that there will be a covid vaccine in the beginning of next year resulting in people being less scared to travel compared to today. If this assumption is wrong, then our Base and Bull case are most likely too optimistic. We can also not exclude that our Bear case is too optimistic if the pandemic development turns out to be much worse than expected.

Travel restrictions

All our scenarios assume that there will be no re-instatement of travel restrictions on the most important route, Tallinn-Helsinki. If this assumption is wrong, then our forecast is most likely too optimistic. See Forecast section page 11 for other key assumptions with regards to travel restrictions.

Dividend pay-out

Our Base case dividend forecast for 2020-22 is in-line with the company dividend policy. However, the dividend policy is subject to market conditions which during the pandemic could motivate lower dividends than stated in the policy.

Economic development

All our scenarios assume that Estonia's most important trading partners will go back to GDP growth in 2021. If this assumption is wrong, then then our financial forecast is most likely too optimistic. See chart on page 5 for GDP consensus forecast of Estonia's most important trading partners.

Real estate development

The uncertainty with regards to Tallinna Sadam's real estate development must be regarded as high i.e. there is no guarantee that detailed plans will be approved. Nor is there a guarantee that the real estate development will be successful. Furthermore, given the long-time frame, it is impossible to predict the state of the real estate market when the development is done.

Income Statement	2018	2019	2020E	2021E	2022E
Net sales	131	131	108	118	126
Total operating costs	-73	-56	-49	-53	-56
EBITDA	58	74	59	65	70
Depreciation	-6	-23	-24	-24	-23
Amortizations (total)	0	0	0	0	0
Impairment charges	0	0	0	0	0
EBIT	52	52	36	42	46
Associated companies' profit/loss	0	0	0	0	0
Net financial items	-1	-2	-2	-2	-2
Exchange rate differences	0	0	0	0	0
Pre-tax profit (PTP)	51	50	33	39	44
Net earnings	24	44	28	36	40

Balance Sheet	2018	2019	2020E	2021E	2022E
Assets					
Cash and cash equivalent	43	35	29	32	34
Receivables	8	11	9	10	10
Inventories	0	0	0	0	0
Other current assets	0	0	0	0	0
Current assets	51	46	39	42	45
Tangible assets	569	575	576	578	585
Associated companies	0	0	0	0	0
Investments	-2	29	25	25	30
Goodwill	2	2	2	2	2
O intangible rights	0	0	0	0	0
O non-current assets	0	0	0	0	0
Total non-current assets	573	579	580	582	589
Deferred tax assets	0	0	0	0	0
Total (assets)	624	626	619	624	633
Liabilities					
Short-term debt	16	16	16	15	15
Non-ib current liabilities	10	12	10	9	10
O current liabilities	8	3	3	3	3
Current liabilities	34	31	29	28	28
Long-term debt	198	192	189	180	174
O long-term liabilities	24	26	26	26	26
Convertibles	0	0	0	0	0
Total Liabilities	256	249	244	234	228
Deferred tax liabilities	0	0	0	0	0
Provisions	0	0	0	0	0
Shareholders' equity	368	377	375	390	405
Minority interest (BS)	0	0	0	0	0
Minority and equity	368	377	375	390	405
Total (liabilities)	624	626	619	624	633

DCF valuation		Cash flow, mEUR	
WACC (%)	6.26 %	NPV FCF (2020-2022)	93.01
		NPV FCF (2023-2029)	178.13
		NPV FCF (2030-)	489.56
		Non-operating assets	4.94
		Interest-bearing debt	-207.85
		Fair value estimate	557.80
		Assumptions 2020-2026 (%)	
Sales, CAGR	4.32 %	Fair value e. per share (EUR)	2.12
EBIT margin	36.35 %	Share price (EUR)	1.72

Free Cash Flow	2018	2019	2020E	2021E	2022E
Net sales	131	131	108	118	126
Total operating costs	-73	-56	-49	-53	-56
Depreciations total	-6	-23	-24	-24	-23
EBIT	52	52	36	42	46
Taxes on EBIT	-13	-6	-5	-4	-4
NOPLAT	39	46	30	38	42
Depreciation (neg.)	6	23	24	24	23
Gross cash flow	45	69	54	62	65
Change in wc	8	-6	0	-1	0
Gross capex (neg.)	2	-29	-25	-25	-30
Free cash flow	41	35	29	35	35
Capital structure	2018	2019	2020E	2021E	2022E
Equity ratio	59.0%	60.3%	60.6%	62.5%	64.0%
Debt / Equity ratio	58.1%	55.1%	54.6%	50.0%	46.7%
Capital invested	538.7	549.7	550.9	553.4	560.4
Capital turnover rate	0.2	0.2	0.2	0.2	0.2
Profitability	2018	2019	2020E	2021E	2022E
ROE %	7.0%	11.9%	7.6%	9.4%	10.1%
ROCE%	9.1%	8.9%	6.1%	7.1%	7.9%
ROC%	7.0%	8.5%	5.5%	6.9%	7.6%
EBITDA %	44.3%	57.1%	54.8%	55.0%	55.2%
EBIT %	39.9%	39.6%	32.8%	35.1%	36.9%
Net Margin	18.7%	34.0%	26.2%	30.3%	31.9%
Valuation	2018	2019	2020E	2021E	2022E
EV	707.6	692.1	628.1	615.7	607.5
P/E	22.0	11.7	15.9	12.6	11.2
P/E diluted	22.0	11.7	15.9	12.6	11.2
P/Sales	4.1	4.0	4.2	3.8	3.6
EV/Sales	5.4	5.3	5.8	5.2	4.8
EV/EBITDA	12.2	9.3	10.6	9.4	8.7
EV/EBIT	13.6	13.4	17.7	14.8	13.1
P/BV	1.5	1.4	1.2	1.2	1.1
Per share measures	2018	2019	2020E	2021E	2022E
EPS, unadjusted	0.09	0.17	0.11	0.14	0.15
EPS	0.09	0.17	0.11	0.14	0.15
CEPS	0.12	0.26	0.20	0.23	0.24
Operating CF/share	0.15	0.24	0.21	0.23	0.25
Capital empl./share	2.05	2.09	2.09	2.10	2.13
BV/share	1.40	1.43	1.43	1.48	1.54
Tangible BV/share	1.39	1.43	1.42	1.48	1.53
Div. per share	0.13	0.12	0.08	0.10	0.11
Payout	144.3%	68.1%	70.0%	70.0%	70.0%
Dividend yield	6.6%	5.8%	4.7%	5.6%	6.2%
Shareholders	Capital			Votes	
Estonian State	303.217			67.03 %	
State Street Bank/Omni.	17.921			3.96 %	
EBRD	16.082			3.56 %	
SEB Progressiivne PF	11.173			2.47 %	
LHV Pension fund L	9.523			2.11 %	
BPSS PAR/Mandatum Life	3.010			0.67 %	
SEB banka AS	2.667			0.59 %	
SEB Energiline Fund	2.428			0.54 %	
Clearstream Banking AG	2.253			0.50 %	
Citi (Lond)/OP client	2.148			0.47 %	
Key people					
CEO	Valdo Kalm				
CFO	Marko Raid				
IR	Marju Zirel				
Chairman	Aare Tark				

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

Disclaimer

Enlight Research OÜ's main valuation methods are discounted cash flow valuation and peer valuation with common multiples such as Price to Earnings, Enterprise Value to EBITDA, dividend yield etc. Aforementioned methods are used to estimate a company's fair value according to the following three scenarios: Bull (positive), Base (main scenario), and Bear (negative).

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