

Tear Sheet:

Elisa Oyj

April 14, 2023

In 2023-2024, Elisa Oyj will likely continue to demonstrate strong growth potential and maintain leverage comfortably within its mid-term financial target of 1.5x-2.0x, on the back of steady EBITDA growth. Efficiency improvement measures and higher revenue from mobile data and digital services will be the main drivers, but increasing dividends and absolute capital expenditure (capex) linked to revenue will likely offset some of the gain. This follows solid 2022 performance in its principal activities, notably fixed and digital services, which showed a 6.6% increase in revenue. Elisa will likely maintain relatively low capex, no higher than 12% of revenue, and stick to its profit distribution policy of 80%-100% of the previous fiscal year's net profit. We base our expectations on the following assumptions:

- Real GDP growth in Finland slowing to 0%-1.1% in 2023-2024, after 2.1% in 2022.
- Annual revenue to grow 3%-4% over 2023-2024, supported by strong 5G momentum and expanding fixed and digital services and mobile revenues.
- S&P Global Ratings-adjusted EBITDA margins to stay flat at about 35% in 2023-2024 due to inflationary headwinds and strain on operating expenses offset by Elisa's continuous efficiency measures.
- Capex of €270 million-€280 million in 2023-2024 (before spectrum payments).
- Dividend payouts at 90%-95% in 2023.
- Annual cash outflow of €50 million-€60 million for potential expansion through acquisitions in 2023-2024.

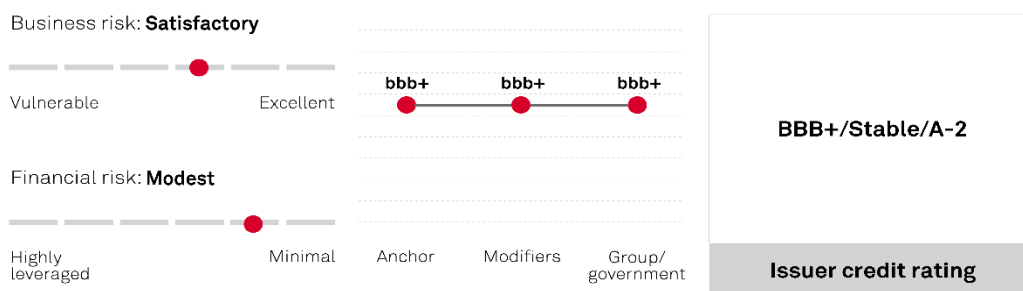
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Ratings Score Snapshot



Recent Research

- [Industry Top Trends 2023: Telecommunications](#), Jan. 23, 2023
- [Elisa Oyj](#), Oct. 7, 2022

Company Description

Elisa is a leading operator in Finland, where it provides fixed and mobile telecom services to consumers (61% of revenue in 2022) and corporate customers (39%), as well as information and communications technology and digital services in adjacent segments, such as information technology (IT) security for enterprise clients or internet protocol TV (IPTV) for consumers. In terms of 5G network coverage, by end-2022, Elisa already covered over 86% of Finns and 70% of Estonians and is primarily represented on international markets through its digital services segment. In 2022, it reported revenue of about €2.13 billion and employed 5,600 people in more than 20 countries, with Finland and Estonia being core markets. At end-2022, Elisa had about 5.08 million mobile subscribers, of which about 91% were postpaid, and about 1.43 million fixed-line subscriptions, including about 650,000 in broadband and more than 650 thousand in cable TV.

Elisa is listed on the Nasdaq Helsinki Large Cap with a market capitalization of approximately €8.2 billion, at end-2022. Its largest shareholder is the Finnish government with a 10% stake.

Outlook

The stable outlook reflects our expectation that Elisa will report stable adjusted EBITDA margins of about 35% and revenue growth of about 4% in the next 12 months, mainly thanks to higher revenue from mobile and new digital services. We further anticipate that adjusted debt to EBITDA will be below 2.0x and free operating cash flow (FOCF) to debt of about 30%.

Downside scenario

We could lower our ratings if Elisa's EBITDA or FOCF weakens, for example, if intense competition causes a pronounced revenue decline or weaker margins, or if unexpected competitive developments force the company to significantly step up its capex. We could also downgrade Elisa if its adjusted debt to EBITDA increases to 2.0x or higher, or adjusted FOCF to debt decreases toward 20% for a prolonged period, for instance, due to debt-financed acquisitions or high shareholder returns.

Upside scenario

Rating upside is remote, given Elisa's limited scale and diversification and its financial policy, under which it targets net debt to EBITDA of 1.5x-2.0x.

Key Metrics

Elisa Oyj--Key Metrics*

Mil. €	2021a	2022a	2023f	2024f
Revenue	1,998	2,130	2,200-2,250	2,260-2,320
Revenue growth (%)	5.5	6.6	~4.0	~3.0
EBITDA margin (%)	35	34.7	34-35	34-35
Funds from operations (FFO)	603.9	641.5	640-670	660-690
Capex (as % of revenue)	12.6	12.4	~12	~12
Free operating cash flow (FOCF)	337	321	350-370	360-380
Debt to EBITDA (x)	1.5	1.5	~1.5	~1.6
FFO to debt (%)	57	58	54-57	53-56
FOCF to debt (%)	32	29	30-31	29-31

*S&P Global Ratings-adjusted metrics, after captive finance adjustments where applicable. a--Actual. f--Forecast.

Financial Summary

Elisa Oyj--Financial Summary

Period ending	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021	Dec-31-2022
Reporting period	2017a	2018a	2019a	2020a	2021a	2022a
Display currency (mil.)	EUR	EUR	EUR	EUR	EUR	EUR
Revenues	1,787	1,832	1,844	1,895	1,998	2,130
EBITDA	641	670	663	684	697	739
Funds from operations (FFO)	552	576	570	598	604	642
Interest expense	29	30	23	20	16	16
Cash interest paid	26	26	24	18	17	13
Operating cash flow (OCF)	515	529	547	592	589	584
Capital expenditure	247	227	225	241	252	263
Free operating cash flow (FOCF)	268	302	322	351	337	321
Discretionary cash flow (DCF)	29	39	43	55	26	(7)
Cash and short-term investments	44	81	52	220	114	85
Gross available cash	44	81	52	220	114	85
Debt	1,226	1,160	1,211	1,229	1,235	1,291
Common equity	1,040	1,127	1,150	1,184	1,204	1,252
Adjusted ratios						
EBITDA margin (%)	35.9	36.6	36.0	36.1	34.9	34.7
Return on capital (%)	17.1	17.6	17.2	17.2	17.5	18.6
EBITDA interest coverage (x)	22.1	22.2	29.0	34.7	44.4	46.5
FFO cash interest coverage (x)	22.1	23.3	24.3	34.6	35.7	51.9
Debt/EBITDA (x)	1.9	1.7	1.8	1.8	1.8	1.7
FFO/debt (%)	45.0	49.7	47.0	48.7	48.9	49.7
OCF/debt (%)	42.0	45.6	45.2	48.2	47.7	45.2
FOCF/debt (%)	21.9	26.0	26.6	28.5	27.3	24.9
DCF/debt (%)	2.3	3.3	3.5	4.5	2.1	(0.6)

Peer Comparison

Elisa Oyj--Peer Comparisons

	Elisa Oyj	Telenor ASA	Tele 2	Telia Co. AB
Foreign currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2	A-/Stable/A-2	BBB/Stable/A-2	BBB+/Stable/A-2
Period	Annual	Annual	Annual	Annual
Period ending	2022-12-31	2021-12-31	2022-12-31	2021-12-31
Mil.	EUR	EUR	EUR	EUR
Revenue	2,130	11,003	2,523	8,591
EBITDA	739	4,973	1,003	2,783
Funds from operations (FFO)	642	4,100	857	2,321
Interest	16	315	54	289
Cash interest paid	13	263	37	272
Operating cash flow (OCF)	584	4,219	741	2,651
Capital expenditure	263	1,941	321	1,510
Free operating cash flow (FOCF)	321	2,278	419	1,141
Discretionary cash flow (DCF)	(7)	667	(804)	323
Cash and short-term investments	85	1,551	114	1,396
Gross available cash	85	1,551	114	2,561
Debt	1,291	12,400	2,870	6,902
Equity	1,252	3,144	2,126	8,999
EBITDA margin (%)	34.7	45.2	39.8	32.4
Return on capital (%)	18.6	13.7	11.2	5.3
EBITDA interest coverage (x)	46.5	15.8	18.7	9.6
FFO cash interest coverage (x)	51.9	16.6	24.4	9.5
Debt/EBITDA (x)	1.7	2.5	2.9	2.5
FFO/debt (%)	49.7	33.1	29.9	33.6
OCF/debt (%)	45.2	34.0	25.8	38.4
FOCF/debt (%)	24.9	18.4	14.6	16.5
DCF/debt (%)	(0.6)	5.4	(28.0)	4.7

Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	E-3	E-4	E-5	S-1	S-2	S-3	S-4	S-5	G-1	G-2	G-3	G-4	G-5
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ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumeric 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental, social, and governance factors are an overall neutral consideration in our credit rating analysis of Elisa. The company achieved carbon neutrality in 2020, making it the first carbon-neutral Nordic telecom operator. Elisa committed to become one of the first Finnish companies to reduce its emissions in line with the 1.5-degree climate target by 2025 (Science Based Targets). Elisa's carbon footprint (both scope 1 and 2) already decreased more than 77% since 2016 (fully met target). The company is working towards its sustainability targets for 2022-2024, focused on the availability of fast connections, cyber security, increasing its carbon handprint (actions that have a positive impact), the energy efficiency of the mobile network, innovations, and promoting equality.

Rating Component Scores

Foreign currency issuer credit rating	BBB+/Stable/A-2
Local currency issuer credit rating	BBB+/Stable/A-2
Business risk	Satisfactory
Country risk	Very Low
Industry risk	Intermediate
Competitive position	Satisfactory
Financial risk	Modest
Cash flow/leverage	Modest
Anchor	bbb+
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Satisfactory (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	bbb+

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Standard & Poor's Analytical Approach To Wireless Equipment Installment Plans, March 30, 2016
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017

- Criteria | Corporates | General: Methodology: The Impact Of Captive Finance Operations On Nonfinancial Corporate Issuers, Dec. 14, 2015
- Criteria | Corporates | Industrials: Key Credit Factors For The Telecommunications And Cable Industry, June 22, 2014
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

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