AS Virši-A

Initiation of Coverage Report

July 4, 2024

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Investment Summary

VIRSI fueling energy and convenience

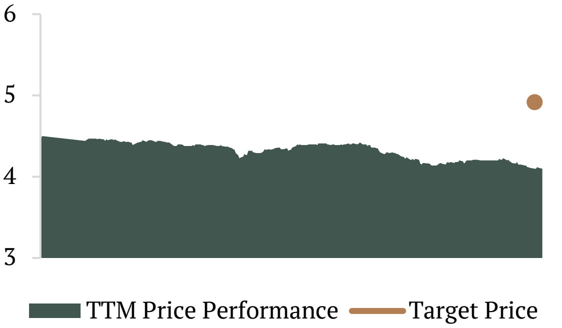
Company overview

- AS 'Virši-A' (hereinafter referred to as 'VIRSI', or the 'Group') engages in retail and wholesale of traditional and alternative fuels and operates convenience stores throughout its 76 gas station network across Latvia. In 2022 the Group launched electricity trading operations selling electricity to business and household clients.
- In order to finance its development plans in 2021 VIRSI successfully concluded initial public offering (IPO), raising EUR 7.8m of gross proceeds and was listed on Nasdaq Riga alternative market First North. From its foundation until its IPO, Virši has been fully controlled by domestic investors, being directly owned by five private persons, who still maintain their skin in the game.

Sector overview

- We observe that energy consumption generally mirrors economic trends, demonstrating resilience due to the essential nature of the commodity. The past two years have brought notable supply chain disruptions and price swings, however the market has adapted and though we see positive trends in consumption, the weak economic performance is hindering the recovery.
- The fuel retail market is oligopolistic, and transparency is characterized by the relative ease of price screening. Fuel is largely a homogeneous product and fuel retailers seek competitive advantage through offering discounts, establishing fuel stations at convenient locations and offering clients wide assortment of goods and services in their convenience stores where fuel retailers source significant profit pool.
- Despite the impending shift away from fossil fuels, it is crucial to note that the fuel retailer's business landscape should remain stable. By strategically updating their offerings to include a diverse range of fuel types, including EV charging stations and alternative fuel options, retailers can continue to meet the evolving needs of their customers.

Company profile	
Listing market	Nasdaq Riga First North
Ticker	VIRSI
Industry	Speciality Retailer
Website	www.virsi.lv/en



Share Data (July 1 2024)	
Current price, EUR	4.10
Target price, EUR	4.91
Potential Upside/Downside, %	19.8
52 week Low/High, EUR	4.10/4.50
3 month av. daily volume	830
Market cap, EURm	62.0
Ordinary shares	15.1

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Key Numbers (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Revenue	220.9	375.1	343.7	370.7	402.6	436.4	454.8	469.9
EBITDA	9.7	12.3	13.7	14.3	17.2	20.1	22.1	22.9
Operating Profit	6.1	7.9	8.7	8.2	10.2	12.3	13.7	14.4
Net Profit	6.6	10.4	5.1	5.9	7.8	9.5	10.1	11.4
Total Assets	101.4	133.2	135.8	145.5	162.1	177.9	182.9	186.0
Net Debt	19.6	17.5	26.2	34.7	40.9	45.4	39.2	32.4
Total Equity	50.0	66.5	69.6	74.7	81.6	90.0	96.5	104.1
CAPEX	14.6	10.0	16.8	19.6	20.3	20.9	9.2	9.2
EV/Revenue (x)	0.4	0.2	0.3	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	9.2	6.7	6.6	6.1	5.0	4.3	3.9	3.8
P/E (x)	10.8	6.4	13.1	10.5	8.0	6.5	6.1	5.4
P/Book (x)	1.4	1.0	1.0	0.8	0.8	0.7	0.6	0.6

Source: VIRSI, Signet Bank for estimates. Valuation multiples 2024-2028E are calculated based on the share price EUR 4.10 at July 1, 2024.

- Four leading fuel retail chains hold ca. 90% of the market volumes. Over a decade VIRSI has increased its market share over 10pp, becoming third largest fuel retailer in Latvia. We estimate that VIRSI market share in fuel retail at the end of 2023 stood at 15.2% and fuel wholesale – 11.6%.
- The Public Utilities Commission of Latvia (PUC) estimates indicate a high market concentration in the electricity trading market, with the household and business segment HHI both well above the 2500 threshold for high concentration. The largest electricity trader in Latvia is Elektrum, claiming to have ca. 50% market share.
- Differentiation in electricity trade market presents a significant challenge due to homogeneity of the electricity, thus traders are primarily seeking a competitive edge through competitive tariffs. We estimate that VIRSI has expanded its market share to 3.9% over the past two years since it initiated the electricity trading operations.

Financials

- The projected capital expenditures for new stations serve as the primary driver for our total Capex projection for the Group in the coming years. Overall, we anticipate total Capex volumes to remain at relatively high levels over the next three years.
- We project VIRSI to expand its fuel retail segment market share to approximately 16.2% by 2026 and further to around 17.0% by 2028, while the wholesale segment to remain stable at 11.6% throughout our forecast period. We anticipate that the stiff competition will persist, limiting the margins. However, given the anticipated growth in B2C client base, we expect positive trend in gross margin. Fuel segment gross profit is anticipated to expand at 5Y CAGR of 4.9%
- The fuel station expansion will expand the convenience store retail area and attract new customers, accordingly total sales are expected to record a 10.7% 5Y CAGR. We broadly see the current gross margin at healthy level and anticipate it to remain steady for our forecast period, resulting in convenience store gross profit to record 5Y CAGR of 10.7%.
- In electricity trading we project VIRSI's market share to increase by 1% annually, reaching approximately 8.6% by the end of our forecast period with electricity volumes recording 5Y CAGR of 20.5%. We estimate that the Group's ambitions to increase market share will limit the margin growth and accordingly electricity segment gross profit to record 5Y CAGR of 12.9%.
- The fuel station expansion should drive the total head count contributing to OpEx growth, nonetheless, we believe that the Group will expand its gross profit ahead of costs. Accordingly operating profit is expected to reach EUR 12.3m by 2026 and EUR 14.4m by 2028, recording 10.6% 5Y CAGR.
- The high Capex needs for expansion is anticipated to require additional debt funding. We anticipate the Group to retain stable debt financing capacity and be able to keep the respective ratio bellow 2.5x in the near to medium term. We expect Net debt / EBITDA ratio to reach 2.1x by 2026 and gradually decline to 1.2x by 2028. All in all, net profit is expected to reach EUR 9.5m by 2026 and EUR 11.4m by 2028, recording 5Y CAGR of 17.5%.

Valuation

- We believe VIRSI has a strong opportunity to sustain and further expand its market share in the Latvian energy market. Key attractions of the investment case for VIRSI include its strategic focus on growth, the potential to leverage its image as a leading domestic energy trader with a clear focus on the Latvian market and local customers, and its proven track record in profitably developing the convenience store concept.
- In valuing the total equity of VIRSI, we applied a weighted average of values derived from the DCF method and peer group data, which included comparisons across three market multiples. Considering the Group's more attractive long-term growth prospects and the limited number of fully comparable listed peers, we assigned a 70% weight to the DCF-based income approach valuation. The remaining 30% weight was allocated to the peer valuation. Based on our current projections and assumptions, we've set our target price for the Group at EUR 4.91 per share.
- Given the capital-intensive fuel station expansion, VIRSI has limited its payout ratio to 20%, resulting in dividend yields of 1.6% and 2.5% in 2022 and 2023, respectively. We anticipate the Group to maintain this 20% payout ratio during its fuel station network expansion, keeping the expected dividend yield between 1.6% and 2.5% for the period 2024-2026E. Once the network reaches the desired coverage, we believe the payout ratio will increase to 50%, leading to dividend yields of 7.7%-8.1% in 2027-2028E.
- The key risk factors to our valuation include high competitive intensity, high oil price volatility, slower-than-projected expansion of the station network and revenues, and weaker-than-anticipated margins for its core operating segments.

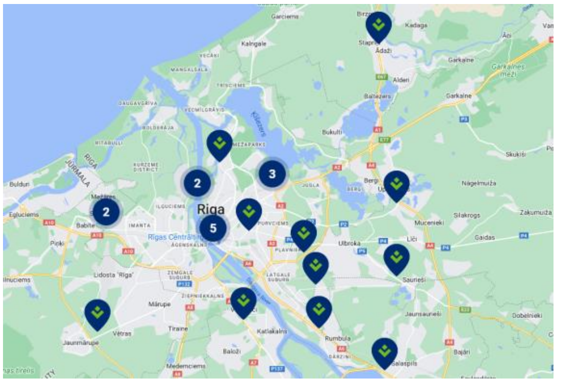
Company Overview

AS 'Virši-A' (hereinafter referred to as 'VIRSI' or, the 'Group') is the largest and fastest-growing domestic fuel trader, controlled by domestic investors. Their main avenue of operations includes the wholesale and retail of traditional and alternative fuel sources, as well as electricity trading, sale of auto goods and food retail in its gas station chain.

The origins of the Group can be found in 1995, when the first gas station was opened in a small Latvian town Aizkraukle. Founded by three citizens of Latvia, of which 2 are still with the Group, it has managed to consistently increase its fuel retail market share and become the third largest fuel retailer in the Latvian market. Within 10 years from its foundation, VIRSI managed to expand its chain of gas stations to 24 separate venues, employing more than 180 people. As of 2024, the Company operates 77 gas stations (76 in Latvia) in all regions of Latvia and employs 724 people. In 2022 the Group through its subsidiary SIA Virši Renergy, launched energy trading operations for B2B clients in Latvia. During the second half of 2023, the Group expanded its electricity retail business by offering the commodity to households, building on top of the already serviced business segment. In January 2024 the Group incorporated a subsidiary in Lithuania with the purpose of expanding its fuel retail operations in the Baltic region

In 2021, the Group successfully completed an IPO listing its shares on Nasdaq Riga alternative market First North. An unprecedented investor activity for the local equity market resulted in the IPO being oversubscribed, ultimately attracting EUR 7.8m in gross proceeds. The raised capital allowed the Group to take the next step in its development phase – expanding the new concept network of gas stations and convenience stores as well as to develop their alternative fuel offer. During 2023, VIRSI received the Nasdaq Baltic Awards award for the best investor relations within the First North market, highlighting professional corporate governance and transparency exhibited towards investors.

Source: VIRSI, branch network in Latvia



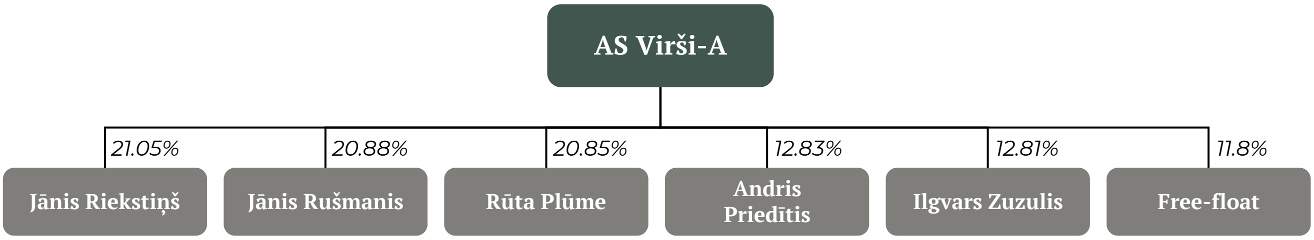
Source: VIRSI, branch network within Riga and surrounding cities

Source: VIRSI, gas station in Krustpils

Source: VIRSI, convenience store view in Rēzekne gas station

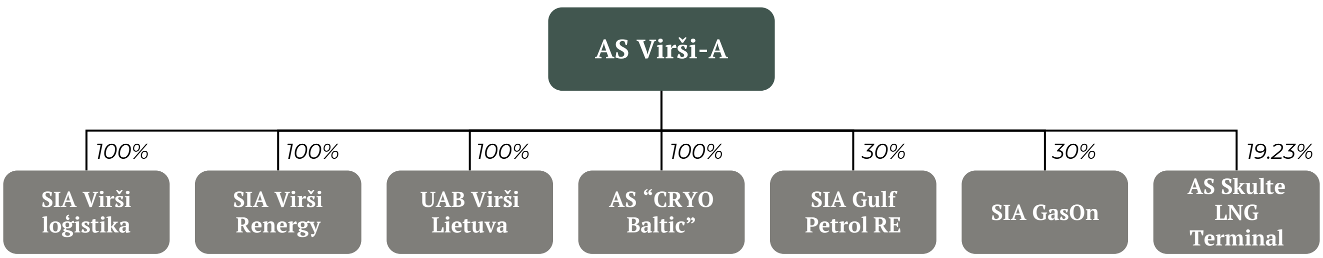
Source: VIRSI

Shareholder structure



Source: VIRSI

Group's structure



Source: VIRSI

Shareholders

VIRSI were founded by Latvian investors. Two out of three founders (Jānis Riekstiņš and Jānis Rušmanis) retain their skin in the game since the incorporation in 1995. 5 largest shareholders control 88% while 12% of the Group' s shares are free float. As of May 29, 2024, the shareholder structure stands as follows: Jānis Riekstiņš (21.05%), Jānis Rušmanis (20.88%), Rūta Plūme (20.85%), Andris Priedītis (12.83%) and Ilgvars Zuzulis (12.81%).

Group's structure

Group's entities were consolidated in joint structure during 2020. Prior to restructuring, SIA Viršu nekustamie īpašumi and SIA Virši Loģistika were related parties to AS Virši-A with a single ownership structure. During 2023, the subsidiary SIA Viršu nekustamie īpašumi was merged with the parent company. As of 2024, the Group's parent company managed 2 subsidiaries: SIA Virši loģistika and SIA Virši Renergy. Starting from January 2024, the Group founded a subsidiary in Lithuania, UAB Virši Lietuva, and AS CRYO Baltic in April. The functions of Group's subsidiaries are as follows:

- SIA Virši loģistika (100% ownership) is providing fuel logistics services in the station network starting from January 2024.
- SIA Virši Renergy (100% ownership) was founded for the purposes of trading natural gas and electricity.
- UAB Virši Lietuva (100% ownership) for the purposes of expanding the gas station network to Lithuania
- AS "CRYO Baltic" (100% ownership) serves as a holding company for further strategic expansion.
- SIA Gulf Petrol RE (30% ownership) owns filling station's property located in Mārupe.
- SIA GasOn (30% ownership) is in the business of producing and distributing CNG.
- AS Skulte LNG Terminal (19.23% ownership) in collaboration with VIRSI intends to develop an LNG terminal.

Management Board

According to the Corporate Governance Code of the Company, the Management Board ('Board') consists of three members: the Chairman of the Management board and two members of the Board. The members and the Chairman of the Board is elected by the Council every 5 years.

The Management Board consists of:

- Jānis Vība – Chairman of the Management Board, CEO

The Chairman of the Board since 2017. Distinguished corporate finance professional with more than 15 years of experience, having served as the head of finance division of AS Citadele Banka and CFO and member of the management board at AS GE Money Bank. Has an Executive MBA and Bachelor degree from the Stockholm School of Economics in Riga, the leading business school in the Nordic and Baltic region.

- Linda Prūse – Member of the Board, Retail Manager

Having been with the Company for 10 years, she is responsible for the expansion of convenience stores as well as the quality, environmental and labor control for all the Company's subsidiaries. She has 25 years of managerial experience at leading fuel industry companies, including SIA Latvija Statoil and SIA Sumata.

- Vita Čirjevska – Member of the Board, CFO

Has been with the company since 2019. Ms Čirjevska has amassed more than 10 years of experience in the financial sector. Previous experience includes the head of business service organization and head of controllership of SIA SCHWENK Latvija, finance director of AS BDO Latvia. In addition, Ms Čirjevska has worked for six years in the consultancy sector at SIA Ernst & Young Baltic.

The Council

In accordance to the Articles of association of VIRSI, the Council consists of six members. The election of said members is solely upon the shareholders. The Council is entitled to adopt decisions if more than one-half of the members of the council are present at its meeting. Decisions are made by a simple majority vote of the members present. In the event of a tied vote, the vote of the chairperson shall prevail. Four out of six members of the Council are shareholders, one is an independent Council member:

- Jānis Riekstiņš (Chairman of the Council and the largest shareholder)
- Jānis Rušmanis (Deputy Chairman of the Council and shareholder)
- Andris Priedītis (Member of the Council and shareholder)
- Ilgvars Zuzulis (Member of the Council and shareholder)
- Silva Skudra (Member of the Council)
- Ivars Blumbergs (Independent member of the Council)

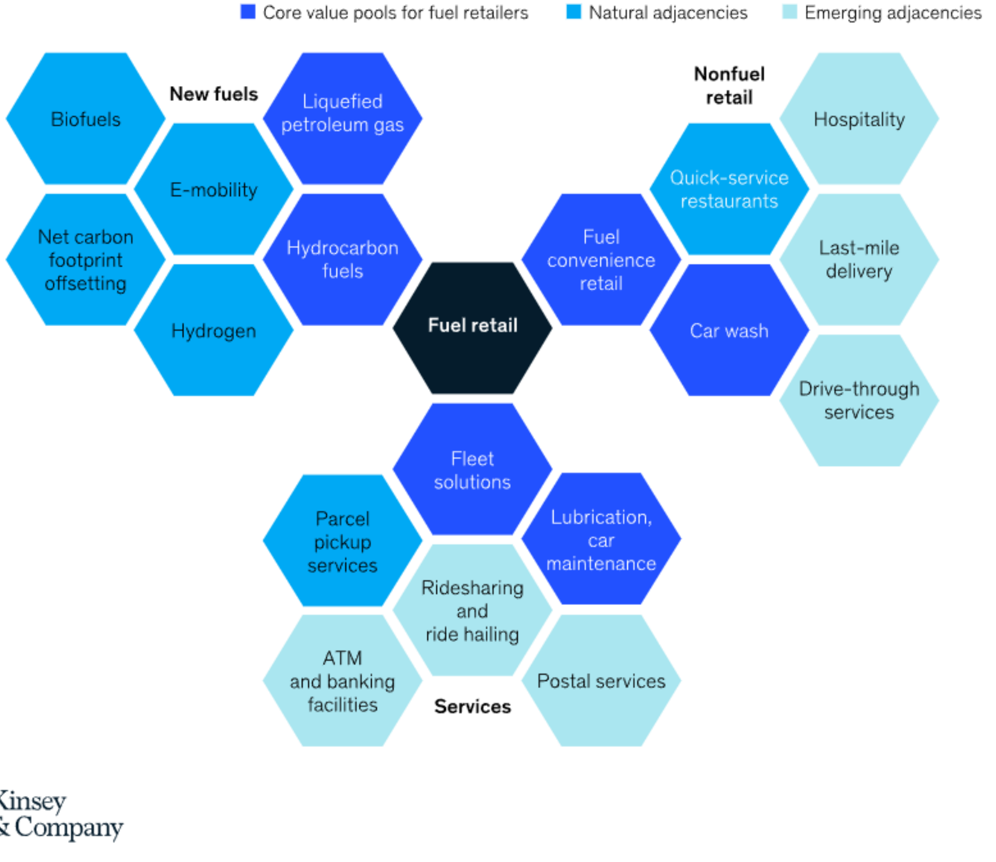
Fuel Retail

Presently, the core value pools for fuel retailers include traditional fossil fuels and convenience stores. However, there is a growing demand for alternative fuels such as EV charging, hydrogen, and various biofuels. Additionally, quick-service restaurants are becoming common place at fuel stations, catering to the need for quick yet healthier food options during trips. Leveraging advanced logistics management tools, fuel retailers are also introducing parcel pickup services at their locations. Over recent years, fuel retailers have significantly diversified their value pools, introducing new offerings that complement each other and enhance customer appeal, thereby increasing their competitiveness in the market and capitalize on higher value added services. In general, the scope of services and products overlap between the main fuel retailers in Latvia.

The fuel retail market is oligopolistic, and transparency is characterized by the relative ease of price screening, furthermore competitors monitor each other's offered prices and respond accordingly on daily basis. Fuel is largely a homogeneous product that cannot be distinguished from competing products from different suppliers. The fuel retailers seek competitive advantage through offering discounts, establishing fuel stations at convenient locations and offering clients wide assortment of goods and services in their convenience stores.

Consolidation is evident in the fuel market, with major retail chains acquiring smaller players. For example, the latest M&A activity involves Kool, which was acquired by one of the leading fuel retailers in Estonia – Olerex. As part of its expansion strategy, Kool has further acquired Gotika in 2022 and Latvijas Nafta in 2023. While the market share of these acquired chains is relatively small, they provide significant additional fuel station network coverage. Currently, it appears that the expansion is progressing steadily. However, it remains unclear whether the chain will continue to operate under the Kool brand or if it will be rebranded to Olerex. Despite this trend, the market remains saturated and highly competitive. The Latvian Competition Council (LCC) reported that in 2021, the Herfindahl-Hirschman Index (HHI) for fuel retailers in Latvia was 2382, indicating a moderately concentrated market. This suggests that while there are efforts towards consolidation, competition remains robust among existing players.

Four leading fuel retail chains hold ca. 90% of the market volumes. The LCC surveys show that in the last decade Neste has increased market share by 10-20%, and Circle K is no longer the absolute market leader. Circle K's market share has declined by 1-5% over the past ten years, making Circle K the second largest fuel retailer by revenue from fuel sold.



VIRSI has increased its market share by 10-20%, VIADA only by 1-5%. Until now VIRSI has become the third largest fuel retailer in Latvia. Besides other things we believe that VIRSI network expansion, new concept convenience stores, technological advancements and also positive PR from IPO have largely contributed to the Group' s increase in market share. Nonetheless, we consider that the competition remains heavy and VIRSI could potentially expand its market share by continuing to expand fuel station network and offer appealing fuel discounts. We estimate that VIRSI market share in fuel retail at the end of 2023 stood at 15.2% and fuel wholesale – 11.6%.

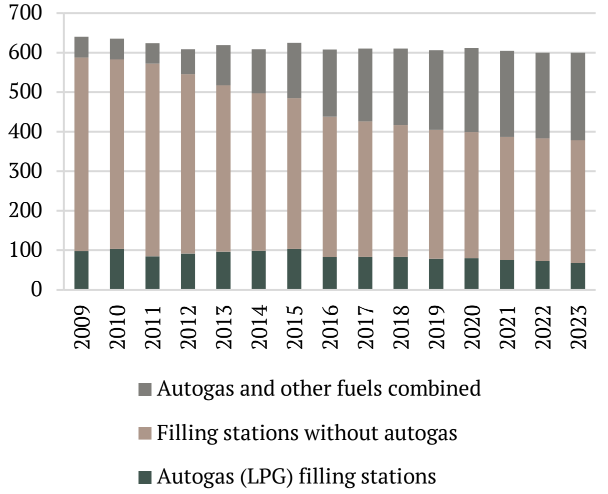
According to the Latvian Fuel Traders Association, the filling station level throughout the decade has been stable, with 600 filling stations at the end of 2023 (605 filling stations in 2021). The changes can be observed in filling stations that provide fuel, excluding utogas (LPG) and filling stations that provide both; namely, filling stations are starting to provide both options.

Comparing the station networks of major competitors in Latvia, in the recent years VIRSI has closed the gap with competition, however other players retain stronger presence in the capital city. In other regions, the station networks are similar. Although there are no statistics on fuel volumes realized per city, a strong presence in Riga is logical given that roughly one-third of Latvia's population resides or is employed there. Recently, VIRSI has announced several additions in Riga and its surrounding vicinities which might have had a notable contribution to Group's market share expansion.

Currently, there is no consolidated data on the total number of EV charging points available in Latvia. However, key market players and their respective contributions to the EV charging infrastructure can be identified. One of the main players in the market currently stands Electrum Drive a state-owned electricity trader with 193 charging stations and E-mobi a national network of 141 fast charging stations, maintained by VAS "Road Safety Directorate" (CSDD). According to respective fuel retailer websites VIRSI has EV charging in 22 stations, and Circle-K and Astarte have 10. Although no information is provided regarding Neste charging station network, it is announced that Neste cooperates with E-mobi and Elektrum Drive to provide charging stations in Neste network.

It is quite hard to establish who will be the main providers of EV charging - whether the natural owners of the business would be original equipment manufacturers (OEMs), oil and gas companies, power companies, or other players. Home charging stations are common, significantly reducing the need for external EV charging. Considering the VIRSI latest venture in electricity trading, it could be a good foundation for having EV charging as a value pool for the Group outside fuel stations. Fuel stations possess a competitive advantage over other established charging points, particularly in remote areas lacking convenience stores nearby, thus VIRSI can leverage existing infrastructure.

Filling stations in Latvia



Source: LDTA

Number of filling stations by fuel retailer

Filling Stations	Neste	Circle K	Virsi	Viada
Riga	30	40	22	34
Kurzeme	13	9	12	12
Vidzeme	16	27	21	30
Zemgale	9	6	10	14
Latgale	8	3	11	11

Source: Respective company websites (June 2024)

Market share of fuel retailers

Fuel retailer	Neste	Circle K	Virši	Viada	Astarte	Latvijas Nafta	Kool	Gotika	Rietumu Nafta
Market share (%)	30% - 40%	20% - 30%	10% - 20%	10% - 20%	1% - 5%	1% - 5%	1% - 5%	1% - 5%	<1%

Source: Latvian Competition Council 2021. In 2022 Kool has acquired Gotika and Latvijas Nafta in 2023.

Fuel plays a pivotal role in both our daily lives and the functioning of businesses worldwide. From powering our vehicles for commuting to heating our homes and fueling industrial processes, the significance of fuel cannot be overstated. According to State Revenue Service of Latvia (SRS) data, in the last decade fuel retail volumes have showed a stable upside trend with 10Y CAGR of 2.9%. However, one should note that historically (2013-2018) retail fuel volumes grew with 5Y CAGR of 5.6%, compared to CAGR of 0.2% in the last five years. This trend could be potentially driven by fuel-efficient vehicles and growing popularity of alternative fuel sources such as electricity.

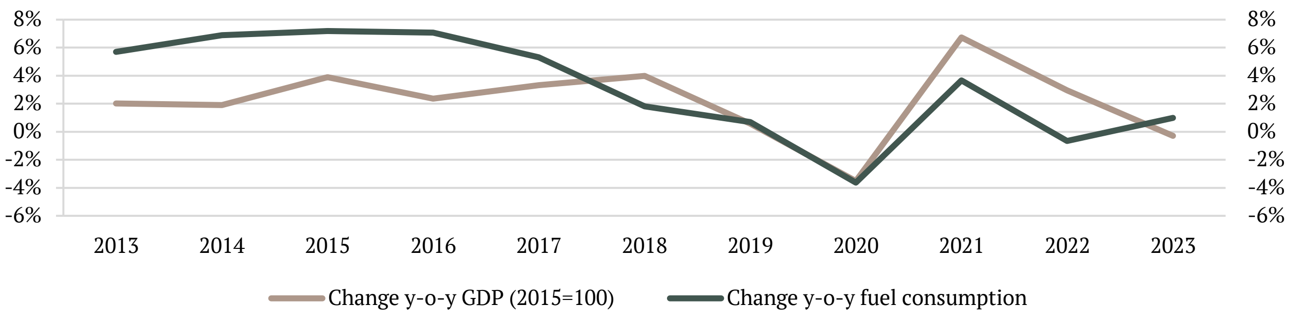
Among other factors we believe that the fuel volumes are primarily driven by the economic growth. Comparing GDP and fuel retail volume data sets for a 10-year time span we get correlation coefficient of 0.91x, indicating strong interrelation. In general, the economic growth should support the growth of vehicle fleet and overall consumption.

the past three years. Post-COVID-19 recovery saw a rebound in volumes as restrictions eased, but this was followed by a steep rise in fuel prices, which impeded market growth. The geopolitical tension arising from Russia's invasion of Ukraine led to reciprocal sanctions with the Russia, severely disrupting oil supply chains and causing a sharp increase in fuel prices in 2022. Consequently, fuel retail volumes decreased by 0.7% year-over-year (y-o-y).

However, as supply chains adapted, oil prices stabilized, leading to a revival in consumption with a 1% y-o-y increase in 2023. In terms of wholesale volumes, fuel consumption grew by 6.6% in 2022 and 2.8% in 2023. This growth was primarily driven by the gradual recovery of jet fuel consumption, spurred by the tourism sector's rebound from the pandemic.

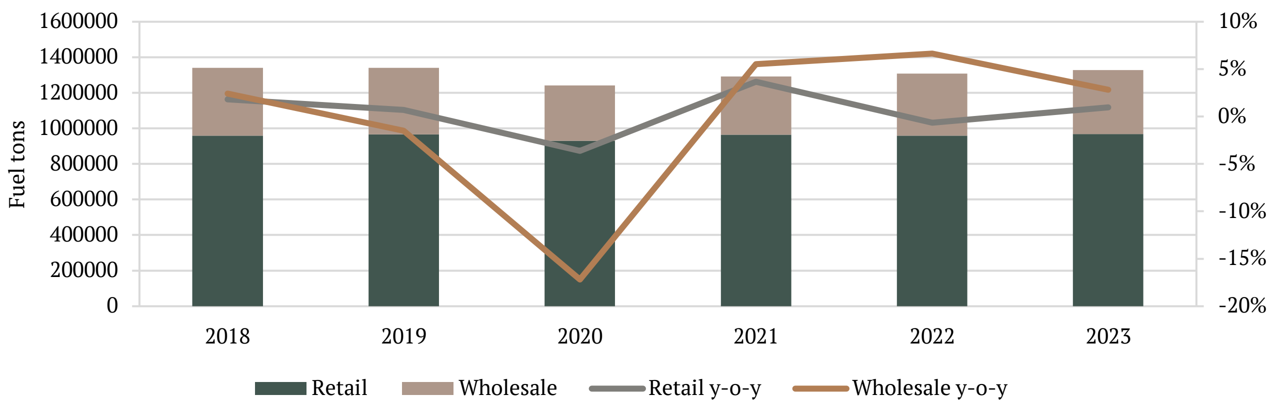
Overall, we view the fuel market as demonstrating resilience amidst various disruptions over recent years. We anticipate that, in the mid-term, the market will largely correlate with broader economic trends.

Fuel consumption vs GDP



Source: SRS, Central Statistical Office of Latvia

Realized fuel volumes



Source: SRS

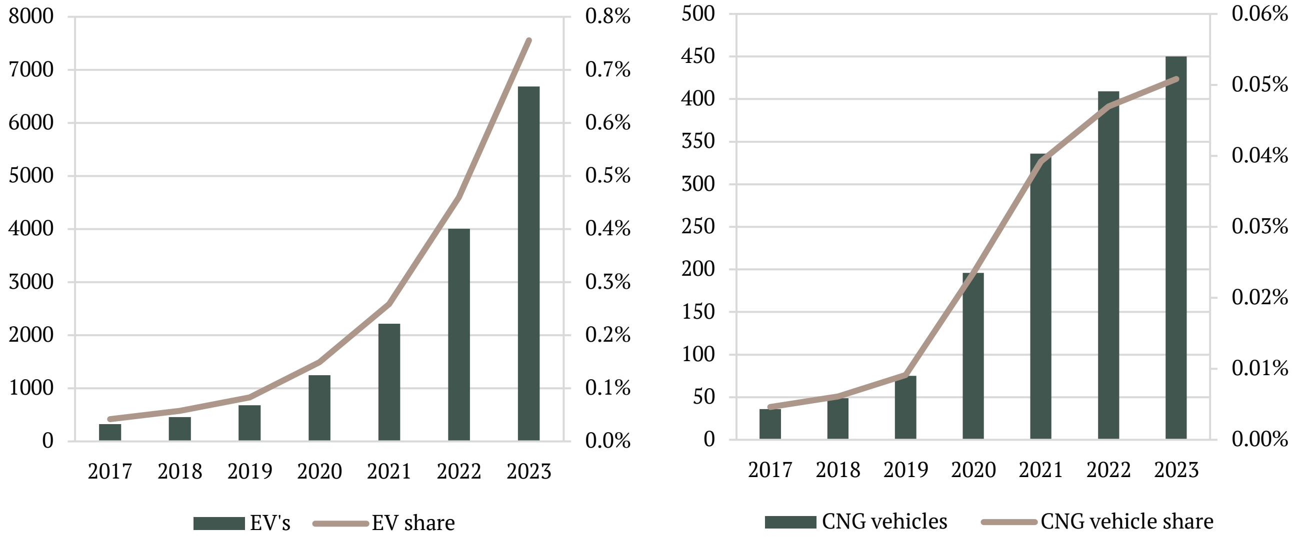
With transportation contributing approximately one-third of greenhouse gas (GHG) emissions in the EU, the sector is poised for significant transformation in the coming years. This transformation is guided by the "Mobility Strategy," a comprehensive plan consisting of 82 initiatives designed to shape policymaking. Aligned with the objectives of the European Green Deal, the Mobility Strategy aims to achieve a 55% and 90% reduction in emissions by 2030 and 2050, respectively. As a result, there will be a shift in the types of fuels used by transportation.

One of the most notable decisions toward EU' s ambitious target was the Parliament backed European Commission's proposal of zero emissions from new cars and vans by 2035 reaching a deal with EU member states in October 2022. Intermediate emissions reduction targets for 2030 would be set at 55% for cars and 50% for vans. The EU's commitment to reducing transport emissions is unwavering, with the 2035 combustion engine ban marking a pivotal moment. The inclusion of e-fuels as a potential exception underscores a pragmatic approach, allowing for technological flexibility while maintaining ambitious climate goals. As negotiations continue, the final regulation will shape the future of the EU transport sector and its stakeholders have to be ready. It is quite evident that the current path leads to traditional fuel eradication in long-term, substituted by alternative fuels (e.g. electricity, hydrogen, CNG/Biomethane) and very likely other low-carbon liquid fuels that are suitable for combustion engines.

However, currently the electric and other alternative fuel (e.g. CNG) vehicles constitute very tiny proportion of the total vehicle fleet in 2023 standing at 0.8% (CNG: 0.05%), though EV's have grown exponentially.

We characterize fuel consumption as resilient and we believe that traditional fuels, such as gasoline and diesel, are likely to retain their prominence over the next ten years. However, beyond this decade, we anticipate a gradual yet significant shift towards alternative fuels. These include biofuels, hydrogen, and potentially e-fuels, which are synthetic fuels produced using renewable energy sources. Despite this impending shift, it is crucial to note that the fuel retailer's business landscape should remain stable. By strategically updating their offerings to include a diverse range of fuel types, including EV charging stations and alternative fuel options, retailers can continue to meet the evolving needs of their customers. This proactive approach will ensure that they remain relevant and competitive in the energy market, regardless of the type of fuel dominating the landscape.

Proportion of alternative fuel vehicles against the total vehicle fleet in Latvia



Source: Ceļu Satiksmes Drošības Direkcija

Electricity trade

Electricity retail is the newest and fastest-growing segment of the Group. While we believe that expanding into other Baltic markets presents a promising opportunity, the Group still has substantial room for growth in the local market. Therefore, our current focus remains within Latvia.

Latvia's electricity consumption has exhibited relative stability in long-term, with a CAGR of 0.9% from 2013 to 2021. Electricity usage in Latvia closely tracks GDP trends, evidenced by a strong correlation coefficient of 0.8x. Beyond economic activity, electricity consumption is influenced by demographic changes, structural economic adjustments, advancements in energy efficiency, weather conditions and fluctuations in electricity prices.

In the past two years, the notable spikes in gas prices have been a primary driver of elevated electricity prices, which adversely affected consumption levels. This led to a y-o-y decline in electricity consumption of 3.8% in 2022 and 4.2% in 2023. However, in a positive development, the normalization of energy prices has contributed to a recovery in electricity consumption, which increased by 2.9% y-o-y in Q1 2024.

According to The Public Utilities Commission of Latvia (PUC), 22 electricity traders operate in the market, providing services to B2B customers, while 15 traders cater to B2C clients. This suggests that the B2B segment could be more lucrative, as the B2C segment typically involves low volumes and high administrative costs per client.

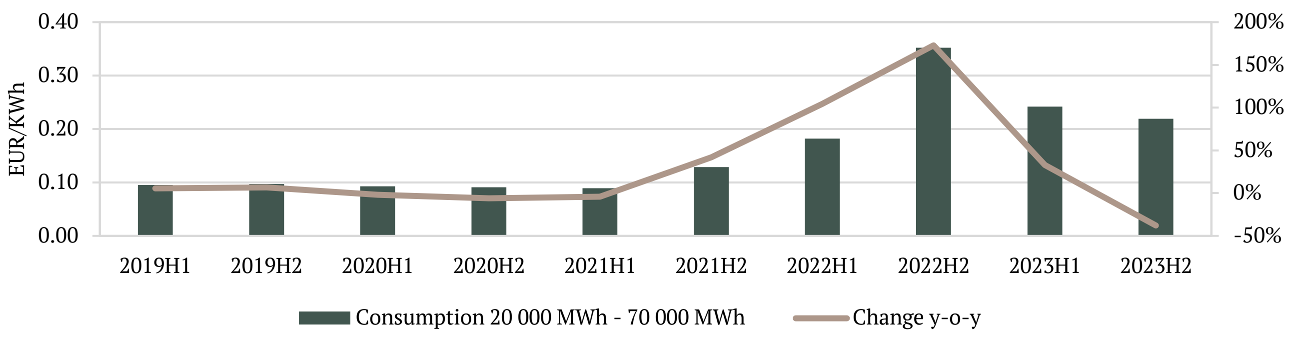
The PUC estimates indicate a high market concentration in the electricity trading market, with the household segment's HHI at 5700 and the business client's segment at 3400, both well above the 2500 threshold for high concentration. Although a detailed split of market shares is not available, this high market concentration can largely be attributed to Elektrum (a subsidiary of Latvenergo), which claims to have ca. 50% market share in Latvia. Elektrum's portfolio includes around 19.7k business clients and 622.9k households.

Differentiation in electricity trade market presents a significant challenge due to homogeneity of the electricity, thus traders are primarily seeking a competitive edge through competitive tariffs. To enhance the customer experience, electricity traders can deploy digital platforms that offer convenient contract signing, market data review, usage data visualization, and quick overviews of invoices and contracts.

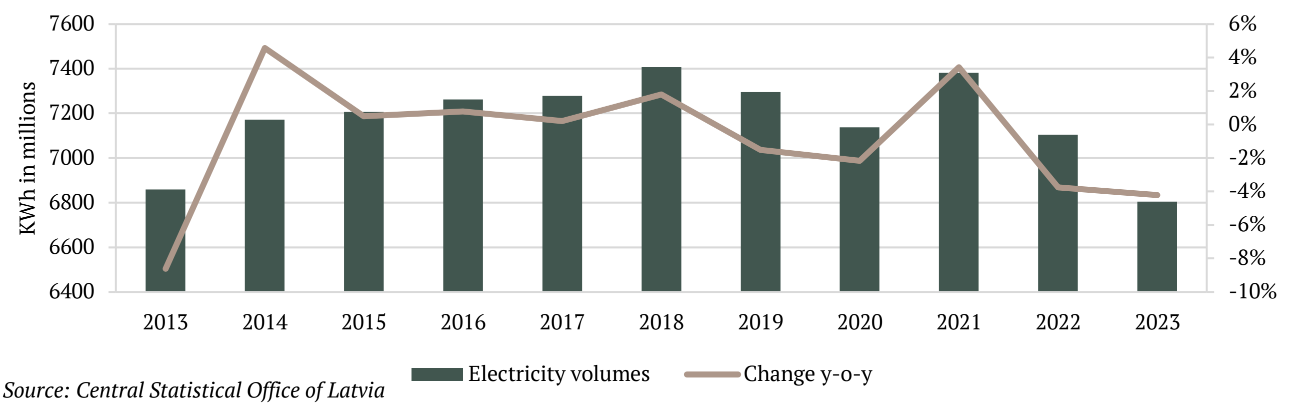
Adopting an "all-in-one" approach, many energy traders also offer natural gas services to customers who use both energy sources. Companies are gradually facing more pressure from customers, investors, regulators, and other stakeholders regarding ESG matters. In response, some energy traders are offering Green Certificates or confirmations of the use of renewable energy (e.g. electricity). This not only helps reduce clients' CO2 footprints but also enhances their appeal to environmentally conscious business partners. Lastly, considering the similarity between competitors, we consider the reputation or brand awareness to play relatively important role in customer decision making.

Based on the Group's presented electricity volumes, we estimate that VIRSI has expanded its market share to 3.9% over the past two years. VIRSI is recognized as a reputable energy provider and is leveraging its vertical integration by offering bundled discounts on electricity, fuel and convenience store purchases. The development of the natural gas segment and the implementation of a modern application could potentially accelerate the growth of its client portfolio in both B2B and B2C segments.

Electricity Prices in Latvia



Consumed electricity volumes in Latvia



Source: Central Statistical Office of Latvia

Financial Overview

With strengthened capital base from IPO (gross proceeds EUR 7.8m), the Group continues to successfully execute its expansion strategy and steadily grow its market share in both the fuel retail and convenience store segments. The management has set strategic targets encompassing operational and financial metrics, reflecting the Group's growth and development plans. Considering market developments and VIRSI's performance, we have opted to use the management's guidance as a broad indicative basis for our projections.

VIRSI is actively expanding its fuel station network to reinforce its position as one of the leading fuel retailers in Latvia and capitalize on the profitability of convenience stores. Recognizing limited growth opportunities in the Latvian fuel retail segment, the Group has diversified its operations with energy trading, selling electricity to both business and household clients.

Although the Group has initiated the construction of its first fuel station in Lithuania and may pursue expansion in that market, strategic targets for Lithuania have not yet been established. Therefore, we will not include the Lithuania market in our projections at this time. Our projections are on the following principal assumptions:

- We assume that Latvia's macroeconomic background remains in line with the latest forecast of Bank of Latvia.
- We don't expect significant disruptions affecting oil price as the noticeable increase would likely hurt the fuel consumption. The oil price decrease would likely give an upside to the consumed fuel volumes.

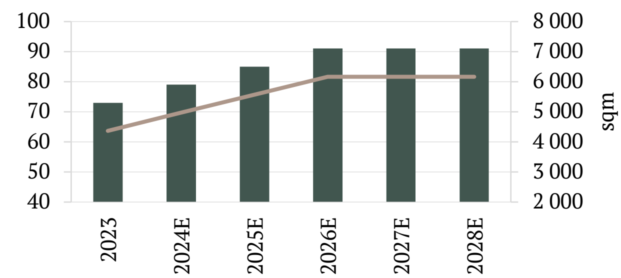
Fuel stations and Capex

The expansion of VIRSI's fuel station network is a pivotal component of its growth strategy and market positioning. Given the expectation of relatively stable fuel consumption volumes in the foreseeable future, the Group's growth in fuel volumes will rely heavily on several factors: the establishment of new locations, modern convenience stores, more importantly, the ability to offer attractive deals to customers. These elements collectively contribute to VIRSI's efforts to increase its market share and maintain competitiveness within the fuel retail sector.

With the contribution of IPO proceeds, VIRSI has successfully established ten new fuel stations across Latvia, focusing on expansion in and around Riga and its nearby cities. As of the end of 2023, the Group operated a total of 73 fuel stations, including five under franchise agreements. According to the Group's strategic targets, the total number of fuel stations is expected to exceed 90 by the end of 2026. In our projections, we anticipate a rapid expansion period until the end of 2026, with the number of fuel stations reaching 91 by that time, of which 86 would be operated directly by VIRSI. We do not expect the number of franchise stations to change during our forecast period.

Convenience stores represent a significant portion of the Group's profit pool. In recent years, VIRSI has introduced a modernized concept for its convenience stores, enhancing visual identity and product assortment. We estimate that by the end of 2023, the Group operated approximately 4,368 sqm of retail area. With the construction of new fuel stations and individual convenience stores, to be ca. 100 sqm per station in our view, the total retail space should increase to approximately 6,168 sqm by the end of 2026, remaining steady thereafter.

No. of stations and retail sales area



Source: VIRSI, Signet Bank for estimates

Guided by the Group's indications, we estimate the average construction cost for a new fuel station, including equipment and interiors, to be approximately EUR 1.8 million. The cost of land plots for new stations may vary widely, depending on factors such as location and size, with potential costs ranging from EUR 0.05 million to EUR 0.30 million. Additionally, stations require regular maintenance, which we estimate to be around EUR 0.05 million per station.

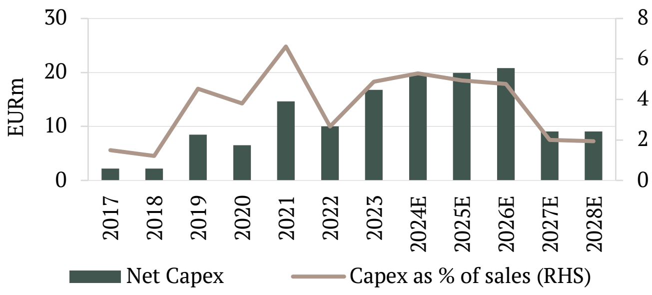
Management' s strategic target map

	2020 actual	2023 actual	2026 target
EBITDA (EURm)	7.8	13.7	20.3
Net profit (EURm)	4.2	5.1 (w/o fin. Instr. 7.2)	12.4 (w/o fin. Instr. 12.7)
Nr of fuel stations (incl. franchise)	63	73	>90
Nr 1 position in alternative fuel segment	CNG/E	CNG/E	CNG/CBG/LNG/E/H2
Portion of non-fuel gross profit	41%	0.6	>55%
Business diversification	fuel/convenience stores	fuel/convenience stores	fuel/convenience stores/energy services

Source: VIRSI

The projected capital expenditures (Capex) for new stations serve as the primary driver for our total Capex projection for the Group in the coming years. Our Capex estimates also include maintenance Capex required for upgrades and repairs of existing properties and equipment. Overall, due to the planned expansion of the fuel station network and other development projects related to alternative fuels, we anticipate total Capex volumes to remain at relatively high levels over the next three years.

CAPEX in EURm and as % of sales



Source: VIRSI, Signet Bank for estimates

Fuel trade

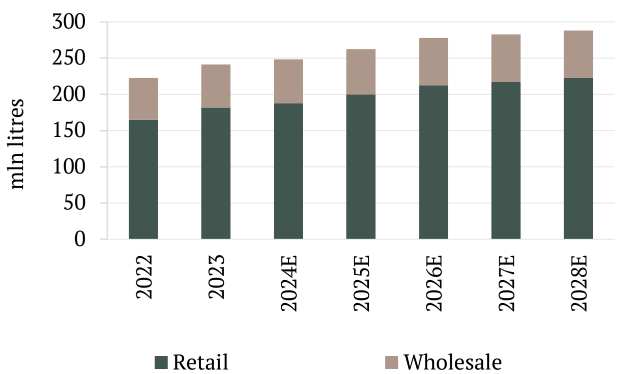
Fuel retail and wholesale have been core business segments for VIRSI and are expected to continue to dominate the Group's revenues. However, it's important to note that this segment is highly volume-driven, characterized by relatively low gross margins and intense competition. Given that the fuel retailer markup constitutes a minor part of the total fuel price, fluctuations in oil prices, reflecting in fuel price, can impact fuel consumption and gross profits, but margins per liter of fuel in general remain stable. Nonetheless, one should note that the margins are highly sensitive to competitor discounts.

During our forecast period, we anticipate the total volume of the Latvian fuel market to closely follow Latvia's GDP forecast, with a projected 3Y CAGR of 3.1%. By the end of our forecast period, we expect the total annual fuel market volume to reach 1.88 billion liters, with approximately 30% of this volume attributed to wholesale sales. Our emphasis is on the retail segment, which holds the majority market share and offers the highest margins for VIRSI.

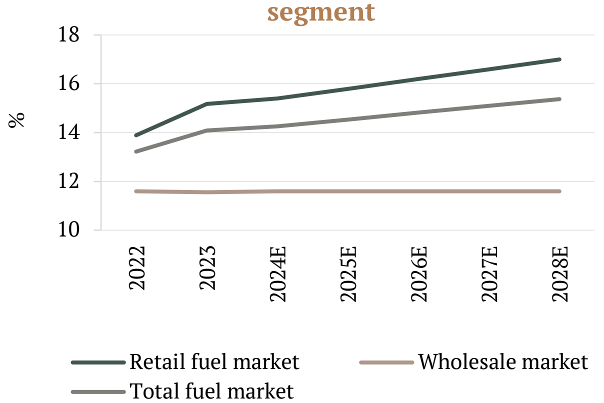
Since its IPO, VIRSI has successfully executed its growth strategy, consistently increasing its retail volumes ahead of the market. Based on VIRSI's financial data, as well as statistics from the State Revenue Service (SRS) and the Competition Council, we estimate that by the end of 2023, the Group held approximately a 15.2% share of total retail fuel volumes and an 11.6% share of wholesale fuel volumes.

Looking forward, we believe the Group's market position in the Latvian retail fuel market will primarily be driven by the expansion rate of its station network in prime locations and its competitive client discounts. Despite intensified competition from leading fuel retailers in the past year, we assume that the Group is capable of increasing its market share in retail volumes by capturing share from smaller players and effectively competing with well-established retailers. We project VIRSI to expand its retail segment market share to approximately 16.2% by 2026 and further to around 17.0% by 2028. However, considering the strategic focus towards retail segment we predict the wholesale segment market share to remain stable at 11.6% throughout our forecast period.

Fuel sales of VIRSI by market segment



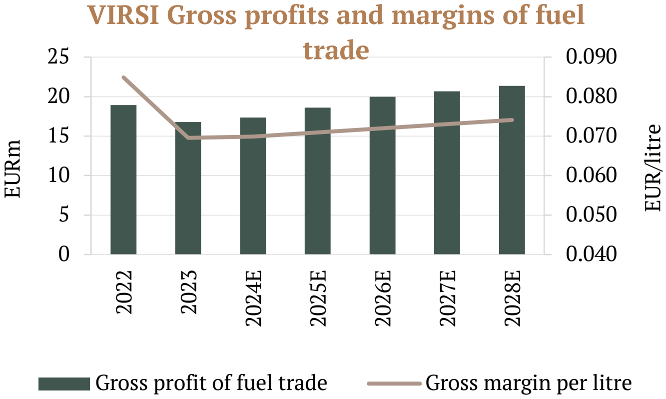
VIRSI market shares by fuel market segment



Source: VIRSI, Signet Bank for estimates

Like other fuel retail companies, VIRSI employs different pricing strategies, mark-ups, and gross margins per liter of fuel for various market and customer segments, influenced largely by competitive forces and market positioning considerations. Margins per liter are understandably the smallest in the wholesale segment. The B2C segment, however, holds the largest margin compared to B2B and wholesale segments. As part of its expansion strategy, VIRSI expects the proportion of the B2C segment to broadly even out with B2B, which should have a positive impact on the average gross margin per liter.

Gross profits in 2023 indicate that margins were under pressure, likely due to intensified market competition and potentially due to the impact of fuel reserves acquired at lower prices, which could had contributed to higher margins during the steep fuel price increases observed in 2022. Consequently, in 2023 VIRSI reported an 11.3% y-o-y decrease in gross profit, despite a 10.2% y-o-y increase in fuel volumes sold. We anticipate that the stiff competition will persist, limiting the margins. However, given the anticipated growth in B2C client base, we expect the total gross margin per liter to increase from EUR 0.070 in 2023 to EUR 0.074 by the end of our forecast period.



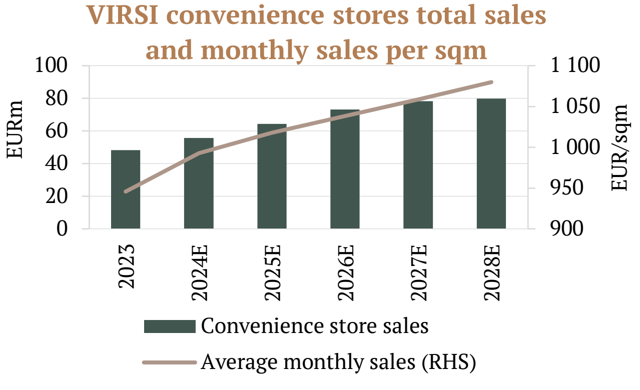
Source: VIRSI, Signet Bank for estimates

Convenience stores

The convenience store operations have become an immensely important part of the Group's business model, contributing nearly half of the total gross profit. The implementation of new concept convenience stores has positively impacted sales per sqm and gross profitability. However, we should broadly view the fuel segment and convenience store segment as tightly connected, as both complement each other and strengthen the overall competitiveness of VIRSI. Importantly, VIRSI has launched two individual convenience stores, separate from fuel stations, aimed at serving a broader client segment in high foot traffic locations.

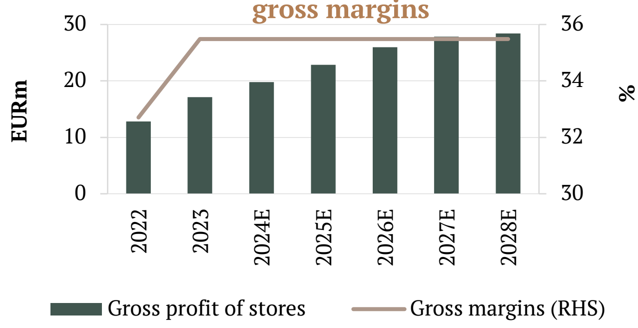
We have decided to analyze convenience store operations as a function of average retail area, sales per sqm of retail space, and the anticipated gross margin of the sales. The Group claims that sales from 2015 to 2021 have more than doubled (+135%), while in recent years, it has managed to expand its convenience store sales with a 3Y CAGR of 22.8%. Sales per square meter have increased by 12.0%, indicating that both expansion and growing customer spending have contributed to overall sales growth. It is important to note that the sales growth has been additionally driven by the inflation. We estimate that sales per sqm growth will gradually decelerate, considering the flattening inflation, the product assortment is likely to remain broadly similar and the market share will be largely driven by new stations. We anticipate monthly sales per sqm to record a 5Y CAGR of 2.7%, reaching EUR 1,080 by the end of our forecast period, while total sales are expected to record a 10.7% 5Y CAGR, reaching EUR 80.0m by the end of 2028.

Convenience stores possess considerably higher markups than grocery stores, and we believe the Group already generates relatively strong gross margins compared to its peers. Profitability is driven by a more efficient selection of goods, advanced inventory management, and a wider selection of additional services. VIRSI managed to expand its gross margin by 2.8 pp y-o-y in 2023, reaching 35.5%, compared to our peer group median of 24.0% and its closest peer in Latvia – Narvesen recording 27.2% gross margin. . In 2022, profitability suffered due to a rapid increase in costs, which were later compensated by gradual price adjustments. Although we can normally expect the margin to fluctuate depending on discounts, we broadly see the current level as a healthy margin and anticipate it to remain steady for our forecast period.



Source: VIRSI, Signet Bank for estimates

Convenience stores gross profit and gross margins



Source: VIRSI, Signet Bank for estimates

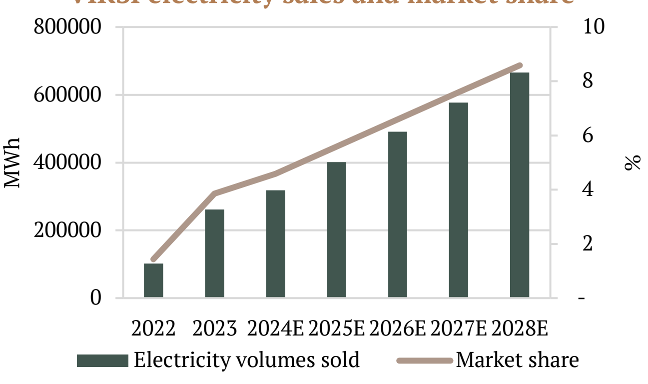
Electricity trade

In the last two years since the launch of its electricity trade operations, VIRSI has shown considerable volume growth, making the segment's share of gross profits more prominent, increasing from approximately 1% in 2022 to 6% in 2023. For the electricity segment, we have considered a similar approach to the fuel segment analysis, focusing on volume-driven growth with relatively stable margins per MWh sold. Our estimates show that by the end of 2023, VIRSI held around a 3.9% market share based on sold volumes compared to total consumption.

We believe that the volume growth has been mainly driven by competitive electricity tariffs, enhanced by bundling offers that include fuel and convenience store discounts. Additionally, nationwide brand recognition has facilitated client acquisition.

Looking ahead, we will closely monitor the future expansion rate, given the limited opportunities for differentiation in the electricity market. We estimate the electricity market will grow in line with the expected GDP growth, recording a 3Y CAGR of 3.1%. We project VIRSI market share to increase by 1% annually, reaching approximately 8.6% by the end of our forecast period and remaining steady thereafter.

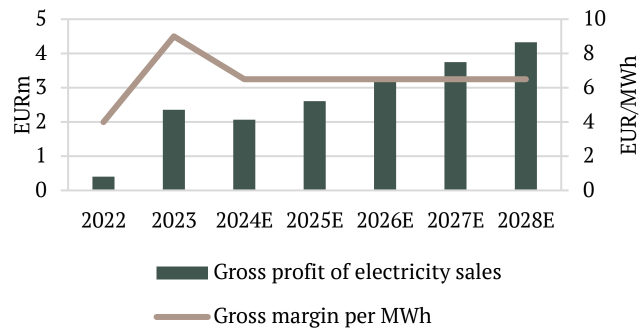
VIRSI electricity sales and market share



Regarding gross margin, we estimate that the Group's ambitions to increase market share will stabilize the margin at EUR 6.5 per MWh. We expect sold volumes to reach around 400 thousand MWh by 2025 and increase to approximately 670 thousand MWh by 2028, recording a 5Y CAGR of 20.5%. Consequently, we anticipate gross profit to reach EUR 2.6m in 2025 and EUR 4.3m by the end of our forecast period, growing its share of the total gross profit to 8%.

Source: VIRSI, Signet Bank for estimates

VIRSI electricity gross profit and margin



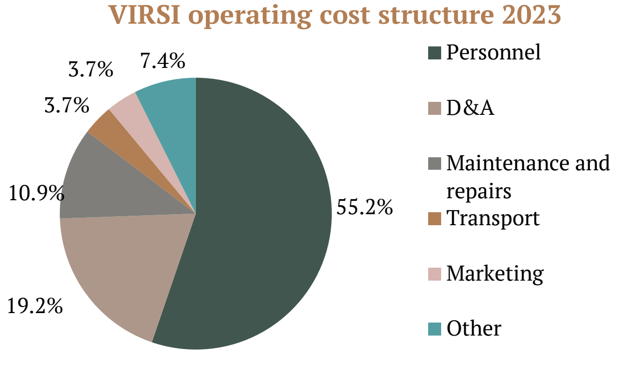
Source: VIRSI, Signet Bank for estimates

Operating expenses

Apart from the cost of goods sold, selling expenses constitute a significant portion of the Group's total costs, related to operating and maintaining the fuel station and convenience store network. Administrative costs make up a relatively small share of total costs, usually standing below 1% of total sales. Selling and administrative expenses are dominated by staff-related expenses, which constituted 55.2% in 2023. Other notable components are costs related to properties (fuel stations), such as depreciation, amortization, and maintenance costs.

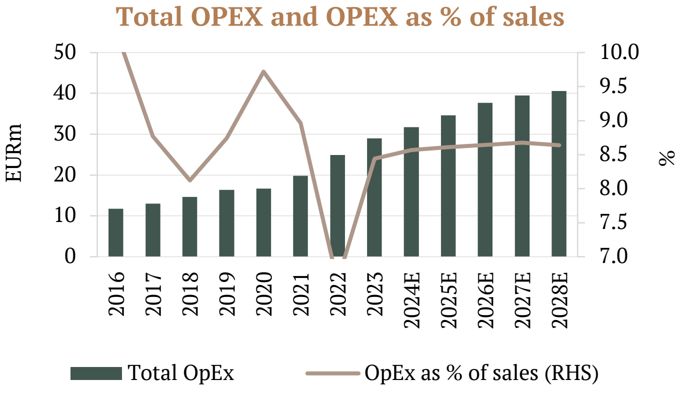
In general, selling and administrative costs are driven by the expansion of the fuel station and convenience store network and salary inflation. In recent years, operating expenses (OpEx) have expanded with a 3Y CAGR of 20.3%. In 2021 and 2022, OpEx grew by 22.2% and 27.6%, respectively, driven by additions to the staff (14.3% and 18.9%, respectively). In 2023, the staff count remained broadly stable, but OpEx saw an increase of 11.3% due to salary inflation and additional marketing expenses, likely linked to the launch of the new electricity segment.

VIRSI operating cost structure 2023



Source: VIRSI, Signet Bank for estimates

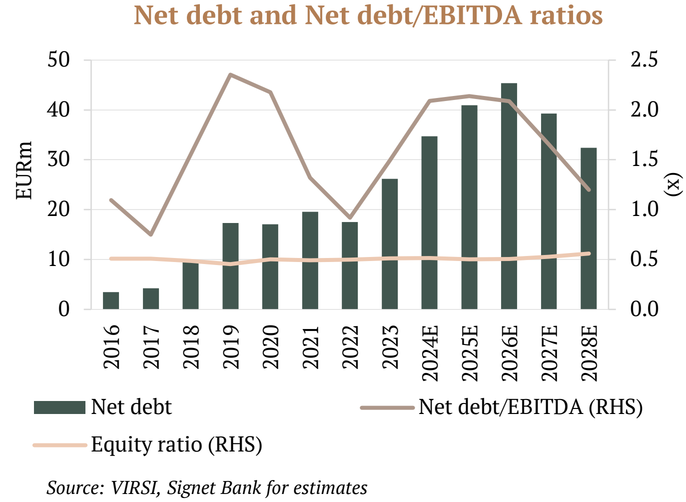
Understandably the deceleration of inflation should help to stabilize the costs. We anticipate OpEx to be driven by the continuous expansion of the fuel station network and the new electricity segment, which is also likely to require additional marketing expenses. We estimate OpEx to record a 5Y CAGR of 6.9%, reaching EUR 37.7m in 2026 and EUR 40.6m in 2028.



Source: VIRSI, Signet Bank for estimates

Debt position and equity capital

Besides raised capital from IPO and generated operating cashflows, the fuel station network expansion Capex requires debt financing. As a result of expansion, the total amount of debt liabilities has increased considerably, rising from EUR 12.7m at the end of 2018 to EUR 20.7m by the end of 2019 and reaching EUR 30.9m at end of 2023. In addition to used bank credit lines, VIRSI holds an unutilized credit facility with a limit of EUR 3m that is normally renewed on an annual basis. We note that the balance of other loans among VIRSI debt liabilities represent loans from shareholders, standing at EUR 5.7m as of 2023. In accordance with VIRSI expansion plans and our Capex estimates, we expect total debt to gradually increase to nearly EUR 48.3m at end of 2026 and gradually decline thereafter amounting to nearly EUR 40m in 2028. The dynamics of total debt are mostly related to fuel station network expansion which in our estimates will continue until 2026.



Source: VIRSI, Signet Bank for estimates

All bank loans have maturities of less than five years and carry floating interest rates comprising of 3M or 6M Euribor + fixed margin. As of 2023, the average effective interest rate was 4.1% up from 2.0% in 2022. All shareholder loans are unsecured and interest-free, but their carrying values are calculated using the effective interest rate of about 2.8% and the respective interest expenses are included in the financial expenses of the Group. We anticipate the average effective interest rate to reach 4.6% in 2024, gradually declining to 3.8% at the end of our forecast period. All bank loans of the Group are secured with mortgages on underlying real estate properties of the fuel stations, including all equipment, a commercial pledge, as well as a financial pledge and guarantees from the subsidiaries and shareholders. Considering the current financial position, the existing loan covenants are quite relaxed and easily met. In terms of financial ratios, VIRSI is required to keep its debt service coverage ratio above 1.5x, while Net Debt/EBITDA should not exceed 3.0x.

Net debt/EBITDA ratio stood at 1.5x at the end of 2023, up from 0.9x a year earlier, well below the limit of 3.0x set by the loan covenants. One should note that the shareholders loans are considered as equity in terms of the covenants. We anticipate the Group to retain stable debt financing capacity and be able to keep the respective ratio bellow 2.5x in the near to medium term. We expect Net debt / EBITDA ratio to reach 2.1x by 2026 and gradually decline to 1.2x by 2028.

At the end of 2023, VIRSI had total equity of EUR 69.6m, with the equity ratio reaching 51%, broadly stable for the last three years. As the Group enters the next development phase VIRSI strengthened its capital base by arranging an IPO. The Group attracted about EUR 7.4m of additional equity as net proceeds to finance its growth ambitions. We anticipate the Group to continue generating healthy cash flows from operations and remain as an important financing source for the Group's growth ambitions. In our projections, we assume that the equity ratio will gradually increase to 55% by 2028.

Dividend policy

According to the approved dividend policy, Virši aims to distribute up to 20% of the previous year's net profit to shareholders each year in the form of dividends. Considering the solid levels of operating cash flow and the respective debt ratios being well within covenant limits, we anticipate the Group will have sufficient flexibility to fulfill its expansion plans while retaining the 20% payout ratio. Given the expansion plan schedule, starting from 2027, we expect the payout ratio to increase to 50%.

Valuation summary

In valuing the total equity of VIRSI, we applied a weighted average of values derived from the Discounted Cash Flow (DCF) method and peer group data, which included comparisons across three market multiples. Considering the Group's more attractive long-term growth prospects and the limited number of fully comparable listed peers, we assigned a 70% weight to the DCF-based income approach valuation. The remaining 30% weight was allocated to the peer valuation, with each of the peer multiples given a 10% weight.

Based on our current projections and assumptions for VIRSI, we set our target price for the Group at EUR 4.91 per share. With the current share price of EUR 4.10 as of 1st July 2024, the Group would be valued at the following 2024E multiples: P/E of 10.5x, P/B of 0.8x, and EV/EBITDA of 6.1x. For 2025E, these ratios are projected to change to 8.0x for P/E, 0.8x for P/B, and 5.0x for EV/EBITDA. By 2026E, the respective ratios are expected to further adjust to 6.5x for P/E, 0.7x for P/B, and 4.3x for EV/EBITDA.

Given the capital-intensive fuel station expansion, VIRSI has limited its payout ratio to 20%, resulting in dividend yields of 1.6% and 2.5% in 2022 and 2023, respectively. We anticipate the Group to maintain this 20% payout ratio during its fuel station network expansion, keeping the expected dividend yield between 1.6% and 2.5% for the period 2024-2026E. Once the network reaches the desired coverage, we believe the payout ratio will increase to 50%, leading to dividend yields of 7.7%-8.1% in 2027-2028E.

The Group's initial steps in expansion and enhancing competitiveness post-IPO have been successful, creating a positive outlook for its growth ambitions. Despite intense competitive pressures, the Group has efficiently and profitably increased its market share. We believe VIRSI has a strong opportunity to sustain and further expand its market share in the Latvian energy market.

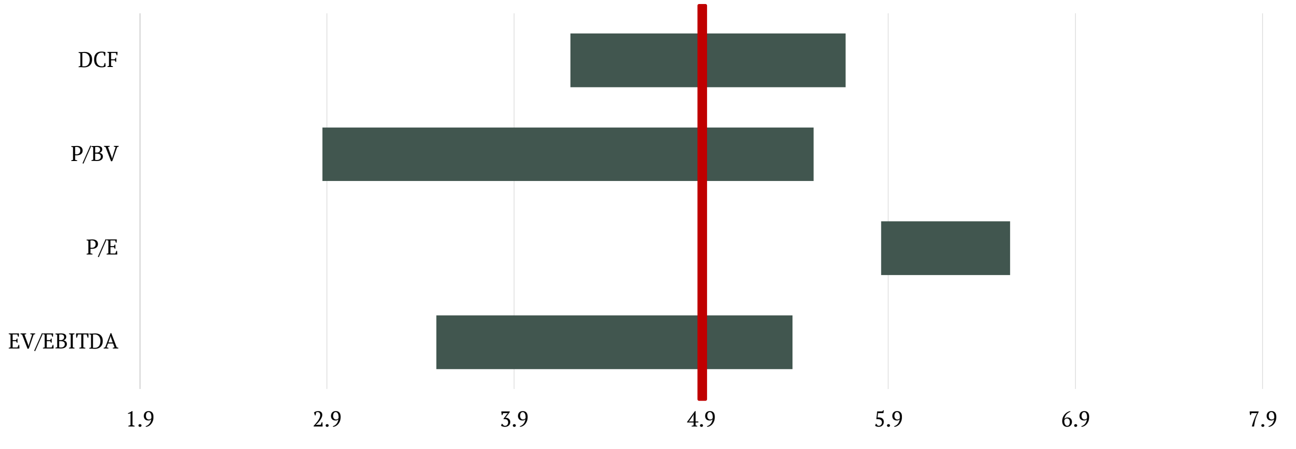
Key Risks:

- High competitive intensity
- Slower than expected expansion
- Weaker margins
- High volatility of oil price

Key Drivers:

- Strong brand image
- Good profitability track record
- Diversification of fuels
- Expansion in energy trading

Weighted Value Per Share, EUR	Period weights			Period weighted value	Weights	Contribution to value
	2024E	2025E	2026E			
Method	33%	33%	33%			
DCF				4.86	70%	3.40
EV/EBITDA	3.48	4.52	5.39	4.47	10%	0.45
P/E	5.96	5.86	6.55	6.12	10%	0.61
P/CF	2.87	4.90	5.50	4.43	10%	0.44
Total weighted value per share						**4.91**



Source: Signet Bank

DCF

Valuing the equity of VIRSI we are applying the free cash flow to the firm. We consider that two-step DCF model, which includes 5-year forecast period, followed by terminal value, is suitable as the Group is expected to enter stable growth phase already in 2026.

Our DCF model assumes 10.4% cost of capital. Considering the relatively small size of the Group, low liquidity of its shares, and highly competitive operating environment involving strong pressure from the market players, we applied company-specific risk premium of 2.0% besides other cost of capital assumptions.

Based on these assumptions, we calculated a DCF-based value of the Group at EUR 4.86 per share. Considering the sensitivity of DCF analysis to long-term growth rate and the cost of capital, we have provided a sensitivity table.

Peer valuation

For the peer valuation, we compiled a diverse list of companies operating in the fuel retail, convenience store, and fast-food sectors. These companies vary significantly in size, with most being considerably larger than VIRSI and typically possessing more complex and diversified business models. Due to the limited number of comparable listed companies in Europe, we included several global names from regions such as the US, Canada, Japan, and other major markets. While we acknowledge potential deviations in average trading multiples across different global regions, we believe that a broader peer selection aids in achieving sufficient market diversification.

The closest operational peer to VIRSI is Alimentation Couche-Tard Inc., the parent company of the global network of Circle-K fuel stations and convenience stores, which is primarily listed in Toronto, Canada. Despite its substantially larger size and different scale of operations, Alimentation Couche-Tard Inc. provides a relevant benchmark for valuing VIRSI's operating model on a global scale. Many other peers in our list are more focused on the convenience store segment and may have minimal or no involvement in the fuel retail business.

We used the peer group harmonic mean values as the basis for our comparative analysis of VIRSI, applying an additional 20% discount to all peer group-derived market multiples to account for differences in company size and liquidity. To ensure a comprehensive selection of market multiples for broader comparison, we focused on three key multiples: EV/EBITDA, P/E, and P/CF. Outliers were excluded from the harmonic mean calculations to minimize the probability of larger statistical errors.

DCF Assumptions:	
Risk free rate	2.50%
Market risk premium	5.10%
Levered Beta	1.58
Country Risk Premium	1.19%
Add. comp. risk premium	2.00%
Share of debt	35.0%
Terminal sales growth	2.0%
Terminal EBIT margin	3.0%
Cost of equity	13.75%
Cost of debt	4.10%
WACC	10.38%

Source: Signet Bank

DCF valuation, EURm	2024E	2025E	2026E	2027E	2028E	Term
EBIT	8.2	10.2	12.3	13.7	14.4	14.4
Taxes	(0.3)	(0.3)	(0.4)	(1.2)	(1.3)	(1.3)
Non-cash charges	6.1	7.0	7.8	8.5	8.5	8.7
Capex	(19.6)	(20.3)	(20.9)	(9.2)	(9.2)	(9.6)
Change in NWC	(0.6)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
FCFF	**(6.2)**	**(3.6)**	**(1.4)**	**11.6**	**12.3**	**12.1**
Discounted FCFF	(5.9)	(3.1)	(1.1)	8.2	7.9	92.9
EV						99.0
Net debt + adjustments						(24.6)
Equity value						73.6
Equity value per share (EUR)						**4.86**

Source: Signet Bank

Sensitivity of DCF value to changes in assumptions (EUR)

		WACC						
		8.9%	**9.4%**	**9.9%**	**10.4%**	**10.9%**	**11.4%**	**11.9%**
Terminal growth rate	**1.1%**	5.81	5.23	4.72	4.27	3.86	3.50	3.17
	1.4%	6.09	5.48	4.94	4.46	4.03	3.64	3.30
	1.7%	6.40	5.74	5.16	4.65	4.20	3.80	3.43
	2.0%	6.73	6.02	5.41	4.86	4.39	3.96	3.58
	2.3%	7.10	6.33	5.67	5.09	4.59	4.13	3.73
	2.6%	7.49	6.67	5.96	5.34	4.80	4.32	3.90
	2.9%	7.93	7.03	6.27	5.61	5.03	4.52	4.07

Source: Signet Bank

Peer comparison table

Company	Country	Market Cap	EV/EBITDA (x)			P/E (x)			P/CF (x)		
		EURm	2024E	2025E	2026E	2024E	2025E	2026E	2024E	2025E	2026E
ALIMENTATION COUCHE-TARD	**CANADA**	**51,100**	**11.9**	**10.8**	**10.2**	**19.9**	**18.3**	**16.2**	**13.1**	**11.9**	**11.0**
RUBIS	FRANCE	3,362	6.0	5.8	5.5	7.8	7.5	7.4	5.1	4.6	4.5
NORTH WEST	CANADA	1,280	7.5	7.3	6.9	14.3	13.6	12.8	7.3	7.3	7.2
AMREST HOLDINGS	SPAIN	1,306	6.6	5.9	5.5	20.6	15.0	11.5	n.a.	n.a.	n.a.
EUROCASH	POLAND	436	4.4	4.1	4.1	18.8	13.3	10.2	2.1	2.0	n.a.
7-ELEVEN MALAYSIA HOLDINGS	MALAYSIA	432	8.4	7.8	7.4	30.5	25.7	16.4	6.3	6.1	5.7
TAIWAN FAMILYMART	TAIWAN	1,211	7.4	8.3	9.3	22.1	18.6	16.6	n.a.	n.a.	n.a.
METRO	CANADA	11,001	10.9	10.2	9.8	17.8	16.0	14.7	n.a.	n.a.	n.a.
LAWSON	JAPAN	6,155	6.4	6.0	6.1	20.8	19.7	18.4	5.3	7.1	6.9
SEVEN & I HOLDINGS	JAPAN	31,903	7.6	7.3	7.1	21.5	17.3	15.4	7.3	6.5	0.3
Median (Excluding outliers)			7.4	7.3	7.0	20.2	16.0	15.0	5.8	6.5	6.3
Harmonic Mean (Excluding outliers)			**6.8**	**6.8**	**6.6**	**19.1**	**14.3**	**13.0**	**4.6**	**6.2**	**5.9**
Quartile 1			6.4	5.9	5.7	18.0	13.9	11.8	5.2	5.4	4.8
Quartile 3			8.2	8.2	8.8	21.4	18.5	16.3	7.3	7.2	7.1
Company size discount applied		20%									
Adjusted Multiples			**5.5**	**5.5**	**5.3**	**15.3**	**11.4**	**10.4**	**3.7**	**4.9**	**4.7**
Respective financial result of VIRSI (EURm)			14.3	17.2	20.1	5.9	7.8	9.5	11.8	15.0	17.7
Implied equity value based on Harmonic Mean (EURm)			**52.7**	**68.4**	**81.5**	**90.1**	**88.7**	**99.1**	**43.5**	**74.1**	**83.2**
Implied value per share (EUR)			**3.5**	**4.5**	**5.4**	**6.0**	**5.9**	**6.6**	**2.9**	**4.9**	**5.5**

Source: Bloomberg, Signet Bank

Balance Sheet (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Assets								
Intangible assets	0.2	0.2	0.7	0.6	0.6	0.6	0.7	0.7
Property, plant and equipment	61.7	74.4	84.2	97.4	110.5	123.3	124.3	125.2
Right-of-use assets	2.6	2.6	4.0	4.4	4.7	5.0	4.8	4.6
Other non-current assets	1.8	3.2	1.8	1.8	1.8	1.8	1.8	1.8
Derivatives	3.5	7.6	5.5	5.1	4.7	4.4	4.0	3.9
Total non-current assets	**69.9**	**88.0**	**96.1**	**109.3**	**122.3**	**135.1**	**135.5**	**136.2**
Inventories	11.8	9.3	12.0	11.2	12.1	13.1	13.5	14.0
Trade receivables	12.4	16.8	17.4	18.2	19.7	21.3	22.1	22.9
Deferred expenses	0.1	0.1	0.3	0.2	0.2	0.2	0.2	0.2
Accrued income	0.3	3.8	1.4	1.4	1.6	1.7	1.8	1.8
Other receivables	0.5	0.3	2.1	2.1	2.1	2.1	2.2	2.2
Derivatives	0.0	2.6	1.8	1.7	1.6	1.5	1.3	1.3
Cash and cash equivalents	6.4	12.4	4.7	1.4	2.5	2.9	6.3	7.5
Total current assets	**31.6**	**45.3**	**39.7**	**36.2**	**39.8**	**42.8**	**47.5**	**49.8**
Total assets	**101.4**	**133.2**	**135.8**	**145.5**	**162.1**	**177.9**	**182.9**	**186.0**
Equity and liabilities								
Equity								
Share capital and reserves	29.4	36.0	34.8	34.8	34.8	34.8	34.8	34.8
Retained earnings	14.0	20.2	29.7	34.0	39.0	45.6	51.6	62.1
Profit for the reporting year	6.6	10.4	5.1	5.9	7.8	9.5	10.1	7.2
Total equity	**50.0**	**66.5**	**69.6**	**74.7**	**81.6**	**90.0**	**96.5**	**104.1**
Liabilities								
Loans from credit insitutions	14.5	17.5	14.5	18.5	22.5	26.0	25.0	23.0
Other borrowings	6.1	5.5	5.0	4.2	3.5	2.7	2.0	4.2
Derivatives	2.5	5.6	4.1	4.1	4.1	4.1	4.1	4.1
Finance lease liabilities	1.7	1.8	3.0	3.0	3.0	3.0	3.0	3.0
Asset retirement obligation	0.9	0.7	0.8	0.9	1.0	1.1	1.1	1.1
Deferred tax liabilities	2.5	5.6	4.1	4.1	4.1	4.1	4.1	4.1
Total non-current liabilities	**25.6**	**31.1**	**27.7**	**31.1**	**34.5**	**37.5**	**35.7**	**36.0**
Loans from credit insitutions	2.4	3.9	7.1	9.1	13.1	15.1	14.1	8.1
Other borrowings	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Derivatives	-	0.3	1.1	1.1	1.1	1.1	1.1	1.1
Finance lease liabilities	0.6	0.5	0.7	0.7	0.8	0.8	0.8	0.9
Trade payables	16.8	20.9	16.8	17.2	18.6	20.1	20.8	21.5
Deferred income	0.0	0.6	0.1	0.1	0.1	0.1	0.1	0.1
Taxes payable	3.4	4.7	6.9	7.3	7.9	8.6	8.9	9.2
Accrued liabilities	1.9	4.0	5.1	3.4	3.7	4.0	4.2	4.3
Total current liabilities	**25.8**	**35.6**	**38.4**	**39.7**	**46.0**	**50.5**	**50.7**	**45.8**
Total liabilities	**51.4**	**66.7**	**66.2**	**70.8**	**80.5**	**87.9**	**86.5**	**81.9**
Total Equity and Liabilities	**101.4**	**133.2**	**135.8**	**145.5**	**162.1**	**177.9**	**182.9**	**186.0**

Source: VIRSI for historicals, Signet Bank for estimates

Report tables

Income Statement (EURm)	2021	2022	2023E	2024E	2025E	2026E	2027E	2028E
Revenues	220.9	375.1	343.7	370.7	402.6	436.4	454.8	469.9
Production costs	(195.0)	(342.3)	(306.0)	(330.7)	(357.7)	(386.4)	(401.7)	(414.9)
Gross profit	**25.9**	**32.8**	**37.7**	**40.0**	**44.9**	**50.0**	**53.1**	**55.0**
Selling expenses	(17.5)	(22.6)	(25.2)	(27.8)	(30.4)	(33.1)	(34.6)	(35.6)
Administrative expenses	(2.1)	(2.5)	(2.8)	(3.0)	(3.2)	(3.5)	(3.6)	(3.7)
Other operating income	0.1	1.1	0.3	0.2	0.2	0.2	0.2	0.2
Other operating expenses	(0.3)	(1.0)	(1.4)	(1.1)	(1.2)	(1.3)	(1.4)	(1.4)
Operating profit	**6.1**	**7.9**	**8.7**	**8.2**	**10.2**	**12.3**	**13.7**	**14.4**
Depreciation & Amortization	(3.6)	(4.4)	(5.1)	(6.1)	(7.0)	(7.8)	(8.5)	(8.5)
EBITDA	**9.7**	**12.3**	**13.7**	**14.3**	**17.2**	**20.1**	**22.1**	**22.9**
Net financial expenses	0.6	2.8	(3.2)	(2.1)	(2.2)	(2.4)	(2.4)	(1.7)
Pre-tax profit	**6.6**	**10.6**	**5.5**	**6.1**	**8.0**	**9.9**	**11.3**	**12.7**
Income tax	(0.0)	(0.3)	(0.4)	(0.3)	(0.3)	(0.4)	(1.2)	(1.3)
Net profit	**6.6**	**10.4**	**5.1**	**5.9**	**7.8**	**9.5**	**10.1**	**11.4**

Cash Flow Statement Summary (EURm)	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Profit before tax	6.6	10.6	5.5	6.1	8.0	9.9	11.3	12.7
Adjustments for:								
- Amortisation and depreciation	3.6	4.4	5.7	6.1	7.0	7.8	8.5	8.5
- Change in loans and receivables	(4.1)	(7.7)	1.6	(0.8)	(1.5)	(1.6)	(0.8)	(0.7)
- Change in inventories	(6.4)	2.5	(2.7)	0.8	(0.9)	(1.0)	(0.5)	(0.4)
- Change in payables and accrued liabilties	7.6	8.1	0.1	(0.7)	2.4	2.6	1.2	1.1
- Other adjustments	(0.6)	(2.2)	3.3	2.1	2.0	2.2	2.3	1.6
Cash generated from operations, gross	**6.9**	**15.7**	**13.5**	**14.1**	**17.5**	**20.4**	**22.5**	**22.8**
Interest paid	(0.3)	(0.4)	(1.0)	(1.6)	(1.7)	(1.9)	(1.9)	(1.6)
Corporate income tax paid	-	(0.3)	(0.4)	(0.3)	(0.3)	(0.4)	(1.2)	(1.3)
Net cash flows from operating activities	**6.6**	**15.0**	**12.1**	**12.3**	**15.5**	**18.2**	**19.5**	**19.9**
Purchase of intangible assets and PPE, net	(14.6)	(10.0)	(16.8)	(19.6)	(20.3)	(20.9)	(9.2)	(9.2)
Other Investments, net	(1.5)	0.1	-	-	-	-	-	-
Net cash flows from investing activities	**(16.1)**	**(11.1)**	**(16.8)**	**(19.6)**	**(20.3)**	**(20.9)**	**(9.2)**	**(9.2)**
Dividends paid	-	(1.1)	(1.7)	(0.8)	(0.9)	(1.2)	(3.6)	(3.8)
Changes in Equity	7.2	0.0	-	-	-	-	-	-
Loans repaid & received, net	5.0	3.1	(1.2)	5.2	7.2	4.7	(2.8)	(5.8)
Net cash flows from financing activities	**12.2**	**2.0**	**(2.9)**	**4.5**	**6.4**	**3.6**	**(6.3)**	**(9.5)**
Change in cash and cash equivalents for the year	**2.7**	**6.0**	**(7.6)**	**(3.3)**	**1.1**	**0.4**	**3.4**	**1.2**
Cash and cash equivalents at the beginning of the year	3.7	6.4	12.4	4.7	1.4	2.5	2.9	6.3
Cash and cash equivalents at the end of the year	**6.4**	**12.4**	**4.7**	**1.4**	**2.5**	**2.9**	**6.3**	**7.5**

Source: VIRSI for historicals, Signet Bank for estimates

Report tables

Main Ratios	2021	2022	2023	2024E	2025E	2026E	2027E	2028E
Growth, %								
Revenues	28.8	69.8	(8.4)	7.8	8.6	8.4	4.2	3.3
Gross Profit	21.2	26.7	15.0	6.0	12.3	11.4	6.2	3.5
EBITDA	23.6	27.0	11.7	3.8	20.4	17.0	10.1	3.6
Pre-tax Profit	58.4	60.4	(48.3)	11.7	31.0	23.3	13.7	12.6
Net Profit	58.0	56.7	(50.8)	15.5	31.7	23.0	5.8	13.4
Margins and profitability, %								
Gross margin	11.7	8.7	11.0	10.8	11.1	11.5	11.7	11.7
EBITDA margin	4.4	3.3	4.0	3.8	4.3	4.6	4.9	4.9
Operating margin	2.7	2.1	2.5	2.2	2.5	2.8	3.0	3.1
Pre-tax Profit margin	3.0	2.8	1.6	1.7	2.0	2.3	2.5	2.7
Net margin	3.0	2.8	1.5	1.6	1.9	2.2	2.2	2.4
Return ratios								
Capital Employed (EUR m)	76.0	96.4	100.5	110.9	125.1	138.2	142.0	144.0
ROCE (%)	9.1	9.2	8.8	7.8	8.7	9.3	9.7	10.1
ROE (%)	15.3	17.8	7.5	8.2	9.9	11.1	10.8	11.4
ROA (%)	7.6	8.8	3.8	4.2	5.0	5.6	5.6	6.2
Leverage								
Net Debt, EURm	19.6	17.5	26.2	34.7	40.9	45.4	39.2	32.4
Net gearing, x	0.4	0.3	0.4	0.5	0.5	0.5	0.4	0.3
Debt/Equity ratio, x	0.5	0.4	0.4	0.5	0.5	0.5	0.5	0.4
Net debt/EBITDA, x	2.0	1.4	1.9	2.4	2.4	2.3	1.8	1.4
Valuation								
Dividend yield (%)	-	1.6	2.5	1.6	1.9	2.5	7.7	8.1
EV/Revenue (x)	0.4	0.2	0.3	0.2	0.2	0.2	0.2	0.2
EV/EBITDA (x)	9.2	6.7	6.6	6.1	5.0	4.3	3.9	3.8
P/E (x)	10.8	6.4	13.1	10.5	8.0	6.5	6.1	5.4
P/BV (x)	1.4	1.0	1.0	0.8	0.8	0.7	0.6	0.6

Source: VIRSI, Signet Bank for estimates. Valuation multiples 2024-2028E are calculated based on the share price EUR 4.10 at July 1, 2024.

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Sign-off time: July 2, 2024, 18:00

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