

Results Review

Maritime transport

5 November 2018

Tallink Grupp

Good result on the Tallinn-Helsinki route

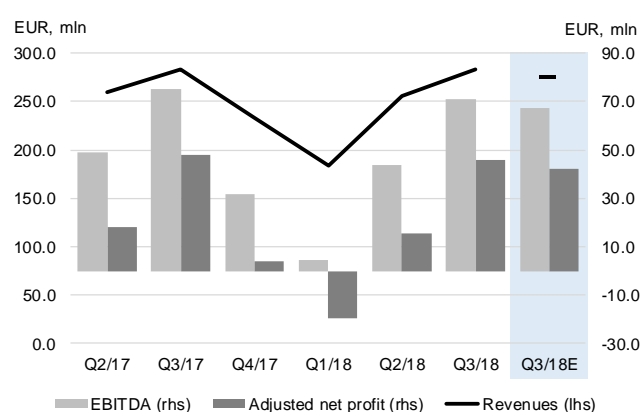
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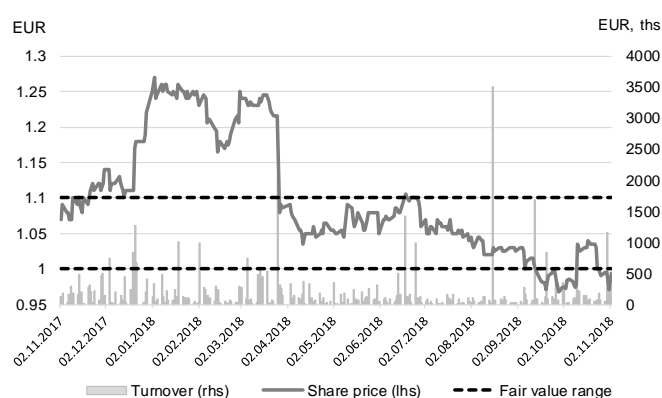
Neutral

Fair value range (EUR):	1.00-1.10
Share price (EUR):	1.00
Symbol:	TAL1T

Company's financial results



Historical share price: TAL1T



Sources: Tallink Grupp, Nasdaq Baltic, LHV. *lhs – left hand side, rhs – right hand side. E - Estimate

In our view Tallink (TAL1T) managed to post a solid set of Q3 2018 figures, somewhat ahead of our estimates in terms of both revenues and profits, driven in part by a better than anticipated performance on its busiest route, Tallinn-Helsinki. As predicted, the company highlighted the negative impact on profitability from increased fuel costs, though this was offset to some degree by lower marketing expenses and higher other operating income.

In Q3 2018, Tallink transported a total of 2.95m passengers (+1.2% y-o-y) and 94,900 cargo units (+3.9% y-o-y). Total revenues advanced 0.3% y-o-y to EUR 283.6m, about 3% ahead of our forecast. In terms of revenues by service, the difference stemmed mostly from higher than predicted ticket revenues, as well as on-board and onshore restaurant and shop sales. Ticket revenues grew 4.4% y-o-y to EUR 87.5m, while we had expected a slight decline. Total restaurant and shop sales slipped only 1% y-o-y to EUR 148.3m, compared to our estimate of -3.5% y-o-y. Also total cargo revenues were slightly better than expected at EUR 30.7m, up 6.2% y-o-y.

As predicted, charter revenues dropped 58.5% y-o-y to EUR 2.0m, following the sale of two Superfast vessels last year, with one vessel still serving in a similar capacity. Other revenues, which have experienced some volatility recently, remained flat y-o-y at EUR 8.3m, over EUR 1m short of our estimates. The company has indicated that the decline in restaurant and shop sales mostly relates to substantially lower revenues from onshore shops located in the Port of Tallinn, which were affected negatively by sharply increased alcohol excise taxes, while the impact of reduced alcohol purchases on board is less dramatic, with more stable dynamics expected going forward.

We were quite pleased with the growth in ticket revenues, which recorded its first quarterly y-o-y expansion since Q3 2017. In our view, the company has managed to successfully exploit the easing of competition on the Tallinn-Helsinki route, accounting for the fact that,

contrary to last year, Viking Line did not operate a second vessel on the route this summer. This probably enabled Tallink to better utilise its strong market position and slightly increase ticket prices.

In terms of revenues by route in Q3, Estonia-Finland generated EUR 100.8m (+4.1% y-o-y), Finland-Sweden EUR 103.9m (-0.5% y-o-y), Estonia-Sweden EUR 36.1m (+0.6% y-o-y) and Latvia-Sweden EUR 23.8m (+2.4% y-o-y). Considering the segment result by route (defined as segment profit before administrative expenses, finance costs and taxes), the company managed to increase profits only on the Estonia-Finland route (EUR 31.3m, +8.8% y-o-y), while all other routes saw their results decline: Finland-Sweden EUR 15.8m (-11.9% y-o-y), Estonia-Sweden EUR 6.3m (-19.9% y-o-y) and Latvia-Sweden EUR 4.4m (-0.6% y-o-y).

According to the company, the main reason for weaker profitability was higher fuel costs - Tallink does not use any hedging for its fuel supplies. We consider recent developments in results between Estonia-Finland as clearly positive, reflecting the company's improved pricing power and efficiency both in terms of passenger and cargo flows.

Mostly due to lower charter revenues (almost fully reflected at the EBITDA level) and higher fuel costs, total EBITDA declined 5.7% y-o-y to EUR 71.1m in Q3 2018, while EBITDA margins slipped 1.6pp. According to our calculations, the sale of the Superfast vessels reduced EBITDA by around EUR 2.8m and EBIT by approximately EUR 1.0m. Thus, adjusted for the sold Superfasts, EBITDA would have declined only 2% y-o-y. EBIT decreased 3.6% y-o-y to EUR 51.3m, the figure receiving support from a EUR 1.1m drop in marketing expenses, compared to Q3 2017, and abnormally high other operating income of EUR 1.4m. Net profit was 3.6% lower than a year ago at EUR 46.1m, about EUR 4m ahead of estimates.

All in all, despite Tallink's flat revenues and slightly lower profits, compared to Q3 2017, we treat these results as slightly positive,

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remaining modestly optimistic regarding the medium-term outlook for the company. We believe the better utilisation of the fleet and tighter cost controls have helped the company offset dual pressures of changing ticket prices and higher fuel costs. Tallink recently announced plans to

pay out EUR 0.12 per share in 2019 as dividends and share capital reductions.

Our fair value range for Tallink is EUR 1.00-1.10 (closing price as of 2 November: EUR 1.00).

TAL1T: Results Review, EUR mln	Q3/18	Q3/17	% y-o-y	Q3/18E	Dev, abs	Dev, %	9m/18	9m/17	% y-o-y
Passengers, ths	2 947.6	2 912.8	1.2				7 509.4	7 439.6	0.9
Cargo Units, ths	94.9	91.3	3.9				286.7	267.0	7.4
Net sales	283.6	282.7	0.3	275.4	8.2	3.0	723.2	734.1	-1.5
-Restaurants and shops	148.3	149.8	-1.0	144.5	3.8	2.6	394.3	403.2	-2.2
-Tickets	87.5	83.8	4.4	82.5	4.9	6.0	192.0	191.1	0.5
-Cargo	30.7	28.9	6.2	30.1	0.6	2.1	92.7	86.9	6.7
-Accommodation	6.8	7.1	-3.8	6.8	0.1	1.2	15.5	16.2	-4.7
-Charter	2.0	4.9	-58.5	2.0	0.0	1.2	6.0	14.5	-58.5
-Other	8.3	8.3	0.7	9.5	-1.2	-12.4	22.7	22.2	2.0
Gross profit	78.4	81.9	-4.3	77.0	1.4	1.8	149.2	156.1	-4.4
EBITDA	71.1	75.4	-5.7	67.4	3.7	5.5	118.8	129.5	-8.3
Operating profit	51.3	53.2	-3.6	47.6	3.7	7.7	59.8	64.9	-7.9
Net profit	46.1	47.8	-3.6	42.1	4.0	9.5	41.8	45.4	-8.0
Gross margin, %	27.7	29.0		28.0			20.6	21.3	
EBITDA margin, %	25.1	26.7		24.5			16.4	17.6	
Operating margin, %	18.1	18.8		17.3			8.3	8.8	
Net margin, %	16.3	16.9		15.3			5.8	6.2	

Sources: Tallink Grupp, LHV

Dividends and payouts

Company	Symbol	Dividend, EUR	Ex-date	Record date	Payment date
HansaMatrix	HMX1R	0,04	13.11.2018	14.11.2018	15.11.2018

Sources: companies, Nasdaq Baltic, LHV

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