

Nokia

4Q23 review – Green shoots in 2H, IPR helps

Reiterate Rating: NEUTRAL | PO: 3.68 EUR | Price: 3.50 EUR

Lifting FY24-25 EBIT mainly on IPR; Reiterate Neutral

Nokia reported 4Q23 sales of €5,707m vs css €6,274m (9% below) and gross margin (GM) of 43.1% vs css 41.3%. EBIT came at €846m (14.8% margin) vs css at €822.7m (13.2% margin), driven by improvements in Mobile Networks and Cloud and Network Services GM. FCF of €1,700m was substantially higher than css at €1,464m, with working capital significantly improving and a prepayment for a licensing agreement. For CY24, Nokia expects EBIT in the range of €2.3-2.9bn (mid-point 1% ahead) with 30-60% FCF conversion. Nokia lowered its comparable operating margin to be achieved in '26 from "at least 14%" to "at least 13%", considering market conditions in mobile Networks ("deemed a prudent change"). Nokia still expects to grow faster than the market and targets 55-85% FCF conversion. We raise our FY24-25E sales ests by c1% and EBIT by 14/11% as IPR revenue is shifting from '23 to '24. We raise our PO to €3.68 (\$4.05 for the ADR) on slightly raised 4.4x '25E EV/EBITDA (prior €3.10/\$3.41 on 4.3x). Reit Neutral

Likes: Network Infra, cost savings, Enterprise, IPR

(A) Nokia has received strong orders in Q4 which gives confidence in '24 growth and expects Networks infrastructure to grow in the range of 2-8% in '24 (Hyperscalers orders). (B) To counter its Mobile Networks topline challenges, Nokia has planned additional cost savings measures. (C) Nokia continues to see momentum in Enterprise, with 151 new customers added in Q4. (D) Nokia is now in final phase of its smartphone licence renewal cycle in Nokia Technology, which should lead to greater visibility going forward. (E) Nokia will likely see a catch up in cash in CY24 as a result of €700mn worth of IPR prepayments. (F) Nokia has announced a 2-year buybacks program of €600mn.

Risks: Open-RAN, RAN market outlook

(A) Nokia is renegotiating its contract with AT&T after the latest decided to opt for an Open-RAN contract with Ericsson. We see the broadening adoption of Open-RAN as negative for the profit pool of the wireless equipment industry ([see note here](#)). (B) The RAN market remains under pressure in '24, with India sales normalizing after rollouts in '23 and expects a 15-10% sales decline in '24.

Estimates (Dec) (EUR)	2022A	2023A	2024E	2025E	2026E
EPS (NA)	0.44	0.29	0.37	0.37	0.38
EPS Change (YoY)	18.9%	-34.1%	27.6%	0%	2.7%
Dividend / Share	0.06	0.11	0.13	0.13	0.13
ADR EPS (NA - US\$)	0.46	0.31	0.40	0.40	0.41
ADR Dividend / Share (US\$)	0.07	0.12	0.14	0.14	0.14
Valuation (Dec)					
P/E	7.96x	12.1x	9.47x	9.47x	9.22x
Dividend Yield	1.78%	3.16%	3.72%	3.72%	3.72%
EV / EBITDA*	4.61x	5.71x	4.94x	4.86x	2.74x
Free Cash Flow Yield*	4.48%	3.41%	5.60%	8.50%	3.62%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 26 January 2024 12:00AM EST

26 January 2024

Equity

Key Changes

(EUR)	Previous	Current
Price Obj.	3.10	3.68
2024E Rev (m)	21,841.2	22,077.7
2025E Rev (m)	21,630.1	21,940.3
2026E Rev (m)	NA	21,878.5
2024E EPS	0.32	0.37
2025E EPS	0.33	0.37
2026E EPS	NA	0.38
2024E DPS	0.12	0.13

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Stock Data

Price (Common / ADR)	3.50 EUR / 3.41 USD
Price Objective	3.68 EUR / 4.05 USD
Date Established	26-Jan-2024 / 26-Jan-2024
Investment Opinion	B-2-9 / B-2-9
52-Week Range	2.70 EUR-4.60 EUR
Market Value (mn)	19,501 EUR
Shares Outstanding (mn)	5,567.8 / 5,567.8
Average Daily Value (mn)	60.06 USD
Free Float	90.3%
BofA Ticker / Exchange	NOKBF / HEL
BofA Ticker / Exchange	NOK / NYS
Bloomberg / Reuters	NOKIA FH / NOKIA.HE
ROE (2024E)	9.9%
Net Dbt to Eqty (Dec-2023A)	-17.5%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

RAM: radio access networks

IPR: Intellectual property rights

iQprofileSM Nokia

Key Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(EUR Millions)					
Sales	24,911	22,258	22,078	21,940	21,878
EBITDA Adjusted	3,825	3,093	3,572	3,629	6,430
Depreciation & Amortization	(1,140)	(1,087)	(772)	(812)	(852)
EBIT Adjusted	3,109	2,375	2,784	2,801	2,890
Net Interest & Other Income	(50.0)	(148)	(24.0)	(24.0)	(24.0)
Tax Expense / Benefit	2,026	(825)	(527)	(694)	(716)
Net Income (Adjusted)	2,470	1,609	2,037	2,027	2,086
Average Fully Diluted Shares Outstanding	5,614	5,550	5,505	5,478	5,489

Key Cash Flow Statement Data

Net Income (Reported)	NA	NA	NA	NA	NA
Depreciation & Amortization	1,140	1,087	772	812	852
Change in Working Capital	(1,843)	(1,282)	(91.3)	409	(628)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other CFO	(4,694)	1,040	(1,219)	(1,010)	(1,032)
Cash Flow from Operations	1,474	1,317	1,695	2,294	1,341
Capital Expenditure	(601)	(652)	(603)	(636)	(634)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other CFI	NA	NA	NA	NA	NA
Cash Flow from Investing	(1,880)	1,043	(603)	(636)	(634)
Share Issue / (Repurchase)	(300)	(300)	(350)	(250)	0
Cost of Dividends Paid	(353)	(621)	(723)	(719)	(718)
Increase (decrease) debt	33.0	(342)	(510)	0	0
Other CFF	(217)	(239)	0	0	0
Cash Flow from Financing	(837)	(1,502)	(1,583)	(969)	(718)
Total Cash Flow (CFO + CFI + CFF)	NA	NA	NA	NA	NA
FX and other changes to cash	19.0	(91.0)	0	0	0
Change in Cash	(1,224)	767	(491)	689	(11.8)
Change in Net Debt	1,257	(1,109)	(19.1)	(689)	11.8
Net Debt	(4,070)	(3,608)	(3,627)	(4,316)	(4,304)

Key Balance Sheet Data

Property, Plant & Equipment	2,015	1,951	2,168	2,397	2,606
Goodwill	5,667	5,504	5,504	5,504	5,504
Other Intangibles	1,263	1,086	700	497	284
Other Non-Current Assets	20,662	19,743	19,357	19,154	18,941
Trade Receivables	NA	NA	NA	NA	NA
Cash & Equivalents	8,547	7,799	7,308	7,997	7,985
Other Current Assets	4,967	4,275	4,697	4,412	4,978
Total Assets	42,943	39,825	40,305	40,147	40,744
Long-Term Debt	4,249	3,637	3,127	3,127	3,127
Other Non-Current Liabilities	4,494	4,662	4,662	4,662	4,662
Short-Term Debt	228	554	554	554	554
Other Current Liabilities	12,546	10,344	11,393	10,929	10,914
Total Liabilities	21,517	19,197	19,736	19,272	19,257
Total Equity	21,426	20,628	20,569	20,875	21,488
Total Equity & Liabilities	42,943	39,825	40,305	40,147	40,744

Business Performance*

Return On Capital Employed	9.57%	3.97%	7.15%	7.23%	7.34%
Return On Equity	12.8%	7.69%	9.94%	9.86%	9.94%
Operating Margin	12.5%	10.7%	12.6%	12.8%	13.2%
Free Cash Flow (MM)	873	665	1,092	1,658	706

Quality of Earnings*

Cash Realization Ratio	0.60x	0.82x	0.83x	1.13x	0.64x
Asset Replacement Ratio	0.53x	0.60x	0.78x	0.78x	0.74x
Tax Rate	NM	55.0%	25.0%	25.0%	25.0%
Net Debt/Equity	-19.0%	-17.5%	-17.6%	-20.7%	-20.0%
Interest Cover	NA	NA	NA	NA	NA

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Telecom Equipment-Wireless/Cellular

Company Description

Nokia owns two main businesses: 1) Nokia Networks, a network infrastructure equipment supplier to global wireless and wireline operators 2) Technologies, its patent/IPR licensing activities.

Investment Rationale

We believe that (A) a RAN market peaked in 2022, (B) increasing usage of O-RAN and (C) intense competition are likely to weigh on Nokia's topline and margins in the coming years. However, we think these issues could be partly offset by cost-cutting and are somewhat priced in to Nokia's multiple today. Hence, we rate the shares at Neutral.

Stock Data

Shares / ADR	1.00
Price to Book Value	1.0x

Quarterly Earnings Estimates

	2023	2024
Q1	0.06A	0.05E
Q2	0.07A	0.06E
Q3	0.05A	0.09E
Q4	0.10A	0.17E

Key Changes

(US\$)	Previous	Current
Price Obj.	3.41	4.05
2024E EPS	0.35	0.40
2025E EPS	0.36	0.40
2026E EPS	NA	0.41
2024E DPS	0.13	0.14

Nokia changes of estimates table

Exhibit 1: We raise our FY24-25E sales ests by c1% and EBIT by 14/11% as IPR revenue is shifting from '23 to '24

Nokia changes to estimates, FY23-25E

€m (Adj.)	2023E			2024E			2025E		
	Old	New	% chg	Old	New	% chg	Old	New	% chg
Revenue	23,281.1	22,258.0	-4.4%	21,841.2	22,077.7	1.1%	21,630.1	21,940.3	1.4%
YoY growth (%)	-6.5%	-10.6%	-4.1%	-6.2%	-0.8%	5.4%	-1.0%	-0.6%	0.3%
Gross Profit	9,413.0	8,838.0	-6.1%	8,641.5	8,975.4	3.9%	8,613.9	8,882.8	3.1%
Gross margin (%)	40.4%	39.7%	-0.7%	39.6%	40.7%	1.1%	39.8%	40.5%	0.7%
Operating Exp.	6,464.7	6,463.0	0.0%	6,205.5	6,191.3	-0.2%	6,097.9	6,081.9	-0.3%
D&A	718.0	718.0	0.0%	788.0	788.0	0.0%	828.0	828.0	0.0%
EBITDA	3,666.3	3,093.0	-15.6%	3,224.0	3,572.1	10.8%	3,344.0	3,629.0	8.5%
EBITDA margin (%)	15.7%	13.9%	-1.9%	14.8%	16.2%	1.4%	15.5%	16.5%	1.1%
EBIT	2,948.3	2,375.0	-19.4%	2,436.0	2,784.1	14.3%	2,516.0	2,801.0	11.3%
EBIT margin (%)	12.7%	10.7%	-2.0%	11.2%	12.6%	1.5%	11.6%	12.8%	1.1%
Net income to shareholders	2,128.2	1,608.0	-24.4%	1,789.0	2,050.1	14.6%	1,849.0	2,062.7	11.6%
Net Margin (%)	9.1%	7.2%	-1.9%	8.2%	9.3%	1.1%	8.5%	9.4%	0.9%
EPS (basic)	0.38	0.29	-24.4%	0.32	0.37	14.7%	0.33	0.38	12.5%
EPS (diluted)	0.38	0.29	-24.4%	0.32	0.37	15.0%	0.33	0.37	12.8%
DPS	0.11	0.11	-2.6%	0.12	0.13	8%	0.12	0.13	8.3%
Net Cash	4,242.5	4,514.0	6.4%	3,852.9	4,533.1	17.7%	3,862.4	5,222.1	35.2%
Capex	-698.2	-652.0	-6.6%	-632.5	-602.9	-4.7%	-627.3	-635.5	1.3%
Tax rate (%)	24.8%	27.2%	2.3%	25.0%	25.0%	0.0%	25.0%	25.0%	0.0%
FCF	477.3	665.0	39.3%	630.2	1,091.9	73.3%	709.1	1,658.3	133.9%

Source: BofA Global Research estimates

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Price objective basis & risk

Nokia (NOKBF / NOK)

Our PO for Nokia of €3.68/\$4.05 is based on 4.4x 2025E EV/EBITDA, at the lower-end of the 5-year multiple range of c4-9x and largely in-line with peers. We believe Nokia should trade broadly in-line with its 5y avg multiple given solid execution (market share gains and margin expansion) but offset by a peaking 5G cycle, intense competition and the growing threat of O-RAN to pricing and margins.

Upside risks to our PO are 1) better-than-expected cost cutting activities, 2) improved macro and telecom capex environment, 3) significant share gains, 4) longer-than-expected 5G cycle, and 5) potential dividend re-instatement. Downside risks to our PO are 1) poor cost cutting execution, 2) share loss or pricing pressure in the industry, 3) worsening macro/capex outlook, 4) deflationary shifts away from Nokia's legacy hardware products, and 5) 5G standard or product delays.

Analyst Certification

I, Didier Scemama, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

EMEA - Technology Hardware Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	ASMI	ASMXF	ASM NA	Didier Scemama
	ASML Holding N.V.	ASMLF	ASML NA	Didier Scemama
	ASML Holding N.V.	ASML	ASML US	Didier Scemama
	Comet Holding AG	XCHHF	COTN SW	Marie Ganneval
	Infineon Technologies AG	IFNNF	IFX GY	Didier Scemama
	Infineon Technologies AG	IFNNY	IFNNY US	Didier Scemama
	Logitech International S.A.	XLGKF	LOGN SW	Didier Scemama
	Logitech International S.A.	LOGI	LOGI US	Didier Scemama
	Nordic Semiconductor	NDCVF	NOD NO	Didier Scemama
	Soitec	SLOIF	SOI FP	Didier Scemama
	STMicroelectronics NV	STMEF	STMPA FP	Didier Scemama
	STMicroelectronics NV	STM	STM US	Didier Scemama
	Technoprobe S.p.A.	XMDDF	TPRO IM	Marie Ganneval
NEUTRAL				
	Aixtron	AIXXF	AIXA GR	Didier Scemama
	BE Semiconductor Industries N.V.	BESVF	BESI NA	Didier Scemama
	Nokia	NOKBF	NOKIA FH	Didier Scemama
	Nokia	NOK	NOK US	Didier Scemama
	VAT Group AG	VTTGF	VACN SW	Didier Scemama
UNDERPERFORM				
	ams Osram AG	AUKUF	AMS SW	Didier Scemama
	Ericsson	ERIXF	ERICB SS	Didier Scemama
	Ericsson	ERIC	ERIC US	Didier Scemama
	Inficon Holding AG	IFCNF	IFCN SW	Marie Ganneval
	Siltronic AG	SLLF	WAF GR	Marie Ganneval

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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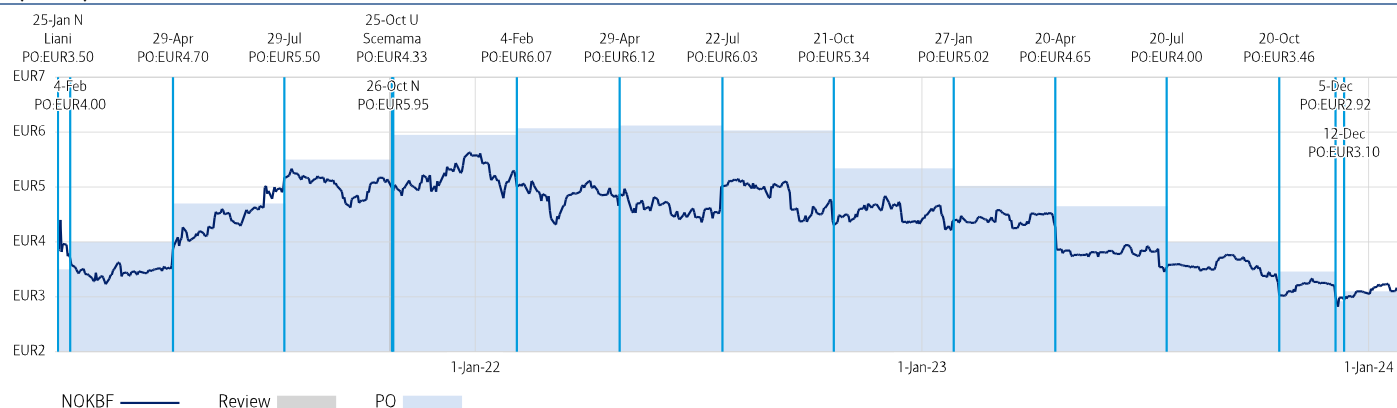
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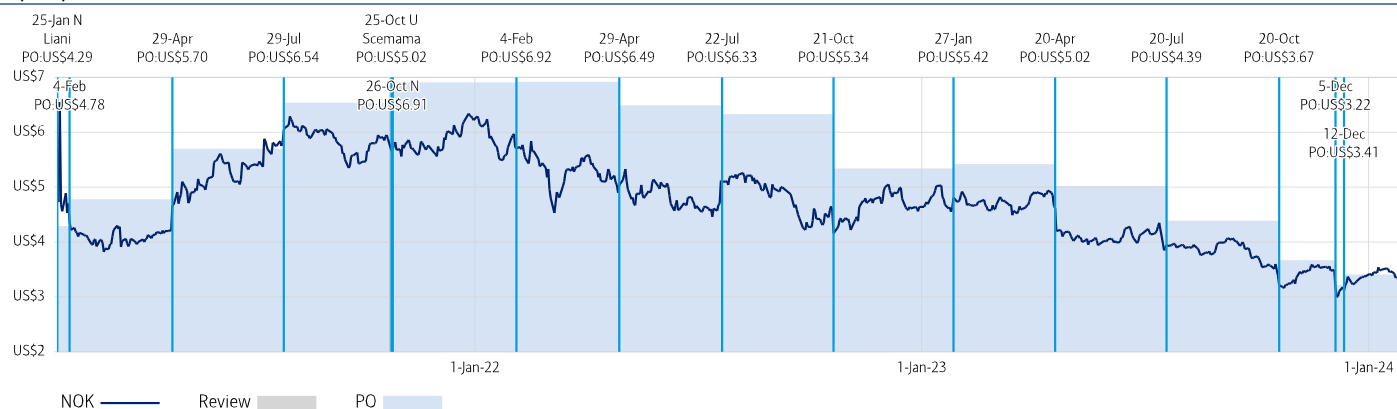
Nokia (NOKBF) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Nokia (NOK) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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