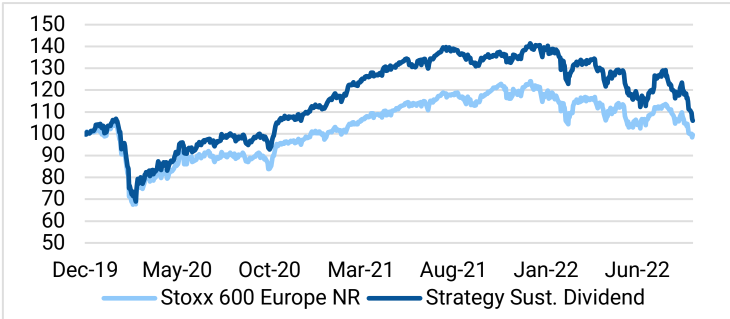
LeanVal Strategy Sustainable Dividend

Stocks in Focus

LeanVal Research stands for in-depth, independent, fundamental equity research. We use our own, functionally and academically tested multi-factor approaches, which have proven to be strong performers and robust in a wide range of market phases. The factors are fundamental and technical and cover a broad range of areas including value, quality, stability, growth, and momentum. This know-how is the basis for the four LeanVal model strategies: Sustainable Dividends, Quality Value, Growth Momentum, and Multifactor.

Based on the defined strategy, approximately 40 stocks are selected from the LeanVal universe on a quarterly basis and made available as a portfolio. In the following, five stocks from this strategy are analyzed in more detail. The LeanVal equity strategies were launched in January 2020.

Performance indicator of the strategy vs. benchmark (31/12/2019 – 30/09/2022)



Performance of the model strategy in euros without costs. A positive performance in the past is no guarantee of a positive performance in the future and in no case represents a return or risk commitment for the future. Sources: Morningstar, LeanVal Research.

The strategy "Sustainable Dividend" focuses on equities that offer the potential of a high dividend yield and at the same time meet LeanVal's sustainability criteria. Both current and expected dividend yields are used to identify the stocks. In addition, consideration is given to whether a company is in a position to generate high cash flows in the future. This is an important indicator of the potential for further dividend increases. In addition to the points mentioned above, growth factors such as the sustainable growth rate as well as the LeanVal Momentum factor are also taken into account.

The figure above is the back test of the strategy created with the LeanVal Screener according to the defined selection criteria.

In 2022, the strategy achieved a performance of -24.1%. Since the strategy's launch at year-end 2019, the total return (before costs) is 6.3%, outperforming the Stoxx 600 Europe NR Index by 6.7%. The dividend yield is 7.8% (trailing) or 8.4% (expected dividend T+1). The current P/E ratio (T+1) is 9.9.

LeanVal Equity Strategies

LeanVal Strategy Sustainable Dividend

Selection criteria

- High expected dividend yield
- Stable cash flows
- High balance sheet quality
- Constant growth
- No negative momentum
- LeanVal sustainability criteria

Marketing document for discussion purposes and for information only. For further information see disclaimer.
Publication date: 12/10/2022 15:00

Engie SA (Buy; EUR 18.00)

ISIN: FR0010208488
Country: France
Sector: Utilities
Industry: Utilities
Market Cap: EUR 28.9 billion
Dividend yield (T+1): 8.5%

Engie SA is a French energy supplier. Its activities are divided into seven segments: Renewables, Networks, Client Solutions, Thermal, Supply, Nuclear and Others. The Renewables division generates electricity from renewable energies (especially photovoltaics, hydroelectricity, and wind power). The Networks division is responsible for the operation of gas and electricity networks. This includes transmission and distribution networks, underground natural gas storage facilities, and activities in the field of liquefied natural gas (LNG) and hydrogen. The Client Solutions business unit combines activities relating to decentralized energy networks for the generation of low-emission energy, solutions for improving energy efficiency, and associated services. The Thermal segment produces electricity from fossil fuels. The majority of this is generated by gas-powered power plants, while the coal-powered power plant business has been scaled back through disposals. In the Supply segment, Engie acts as a seller of electricity and gas to residential and business customers. The Nuclear segment operates nuclear power plants in Belgium (Doel and Tihange). The Others segment bundles the remaining activities.

In H1 2022, Engie generated revenues of EUR 43.2 billion (organic growth +71.3%). Strong growth was also achieved in EBITDA at EUR 7.5 billion (+43.2%) and EBIT at EUR 5.3 billion (+73.1%). This was mainly due to high electricity prices for renewable energies (+EUR 86 million, as well as higher capacities +EUR 146 million)

Price chart Engie SA (in EUR)

Source: LeanVal Research (Closing price 07/10/2022)

and nuclear power plants (+EUR 1.1 billion). The trading period also benefited from high spreads in the volatile energy market.

The sale of the services subsidiary (Equans) for EUR 7.1 billion is currently expected to be completed by the end of the 2022 financial year. The sale to Bouygues will reduce Engie's headcount to 101,500 (Equans: 74,000 employees). However, with annual sales of EUR 12 billion (20% of the group), the company contributes only EUR 400 million (<5%) to operating income.

The sale is in line with the strategic focus on the Networks and Renewables segments, which are characterized by strong cash flow generation. This is because as an operator of gas transmission and distribution networks, Engie has a natural monopoly, which is why the remuneration is set by regulatory authorities. These provide for a fixed return on assets. The company continues to aim for high investments (increasingly in Latin America, especially Brazil due to higher returns) and tries to undercut the regulated cost of capital. This cash cow (2020-2021: 42% EBIT of the Group; EUR 2.2 billion) and the divestments can be used to support the growth of renewable energies. Here, too, electricity prices are mostly fixed for the long term, whether through government subsidies (guaranteed selling price for 10-20 years) or private-sector electricity supply agreements (PPAs).

These two activities are rounded off by the gas business, which offsets weather-dependent fluctuations in renewable energies. The gas business currently accounts for more than half of the Group's installed capacity (57 GW). By 2025, renewables capacity is expected to increase by a factor of 2.6 to 50 GW and 80 GW by 2030. Annual investments of around EUR 5 billion are expected for this growth. Of this, around 40-45% is to be invested in renewable energies (of which 40% photovoltaics and 60% wind), with a strong focus on Latin America.

In the last two years, the three segments Networks (EUR 2.2 billion EBIT), Renewables (EUR 1.1 billion) and Thermal (EUR 1.2 billion) were responsible for over 85% of EBIT. The constant cash flows should make Engie a good long-term dividend payer. With a payout ratio of 65-75%, an attractive dividend in the range of one euro can be expected (dividend yield approx. 8.5%; sector average 5%).

For the full year, management forecasts EBITDA of EUR 11.7-12.7 billion (2021: EUR 12.3 billion), EBIT of EUR 7.0-8.0 billion (2021: EUR 6.9 billion) and net profit of EUR 3.8-4.4 billion (2021: EUR 3.8 billion). If market conditions and the price environment (as of June 30, 2022) continue in the second half of the year, Engie expects additional upside potential in net profit of EUR 0.7 billion.

Author: Lars Dreßen (Analyst)

Marketing document for discussion purposes and for information only. For further information see disclaimer.
Publication date: 12/10/2022 15:00

Imperial Brands plc (Buy; GBX 2.300)

ISIN: GB0004544929
Country: Great Britain
Sector: Consumer Defensive
Industry: Food, beverage, tobacco, and household
Market Cap: GBP 18.5 billion
Dividend yield (T+1): 7.5%

British Imperial Brands plc is one of the five largest tobacco groups in the world. The company consists of the two segments Tobacco & NGP and Distribution. Tobacco & NGP distributes cigarettes, cigars, tobacco and rolling papers. Well-known brands include Davidoff, Gauloises, JPS, West, and Winston. In addition, there are "Next Generation Products" (NGP) such as e-cigarettes and oral tobacco. In addition, Imperial Brands divides its product slate into two categories: Asset Brands (high-value international brands) and Portfolio Brands (local and regional brands). The Distribution segment includes the distribution of tobacco products for Imperial Brands and other manufacturers. It also distributes a wide range of other non-tobacco products. An important investment is the Spanish logistics company Logista (share of around 50%), which supplies kiosks and other local suppliers with cigarettes, groceries, and printed products.

A brief trading update for the fiscal year ending September 30 was published at the beginning of October. Concrete figures for sales and earnings in the second half of the year have not yet been provided and will not be announced until mid-November. Overall, business performance for the year was in line with expectations. Targeted investments in the five largest markets, where around 70% of operating income is generated, led to gains in market share (USA (1st half market share: 9.8%), Germany (19.1%), UK (41.8%), Australia (31.6%) and Spain (28.2%)). At the end of H1, Imperials Brands had already reported a 25-basis point increase there, compared to an average decline of 16 basis points over the previous five years. The trend of a better price mix (H1: +0.8%), continued in H2, resulting in a further improvement in the net sales growth rate at constant exchange rates. Volumes sold, however, declined in line with the 1st half (-0.7%). For the full year, management expects net sales and adjusted operating income to increase by around 1%. Currency effects of 1-2% are also expected to have a positive impact. When presenting the final figures in November, a comparison should be taken into account that in 2022 charges of around GPB 200 million were incurred due to the withdrawal from Russia and in 2021 gains on disposal from the sale of the Premium Cigar division (GBP 281 million).

Price chart Imperial Brands plc (in GBX)

Source: LeanVal Research (Closing price 07/10/2022)

The five-year transformation plan launched in 2021 appears to be bearing its first fruit. The objective of phase 1 (2021-22), strengthening the core business, was achieved with the recovery of market share. The strategic realignment in NGP is still ongoing. The Pulze and iD (tobacco heaters) products gained market share in Greece and the Czech Republic and were also launched in Italy (the largest market for tobacco heaters in Europe). Test runs are taking place in other countries, including France. Despite progress, the NGP business is lagging behind competitors. Therefore, rapid success in this potential growth area (NGP sales 1st half-year: +8.7%) would be desirable, particularly in view of the steadily shrinking market for traditional cigarettes.

Financially, the 1st phase of the transformation is paying off. Shares worth up to GBP 1 billion are to be repurchased by the end of September (fiscal year-end 2023). The prerequisite for share buy-backs is a ratio of net debt to EBITDA at the lower end of the targeted range of 2 - 2.5 (H1 2022: 2.4). This implies that debt could be further reduced in H2 thanks to good results. The dividend for 2023 should be GBP 1.45 (dividend yield approx. 7.5%). Together with the share buybacks, around 13% of the market capitalization will be returned to shareholders.

The goal of the 2nd phase of the transformation plan (2023-25) is to improve profitability. Here, at constant exchange rates, net sales growth in the low single-digit range (2021: 1.4%) and an increase in operating profit in the mid-single-digit range (2021: 4.8%) are targeted. Thus, Imperial Brands should remain an attractive dividend payer in addition to the existing share upside.

Author: Mathias Kimmes (Analyst)

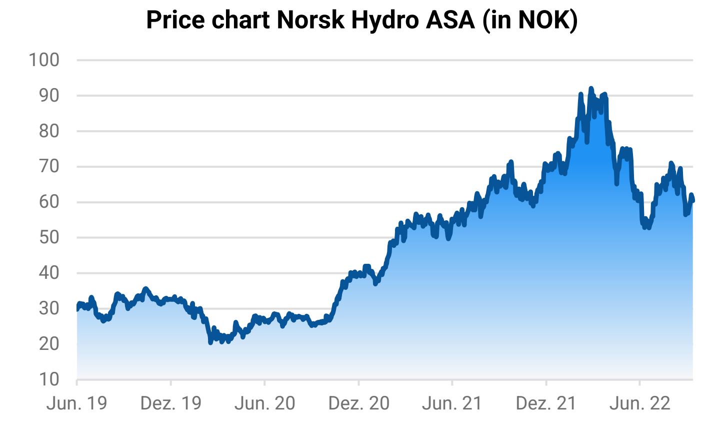
Marketing document for discussion purposes and for information only. For further information see disclaimer.
Publication date: 12/10/2022 15:00

Norsk Hydro ASA (Buy; NOK 72,00)

ISIN: NO0005052605
Country: Norway
Sector: Basic materials
Industry: Raw materials
Market Cap: NOK 125.9 billion
Dividend yield (T+1): 13.4%

Norsk Hydro ASA is an integrated Norwegian aluminum company operating in five segments: Extrusions (share of sales in 2021: 47%), Metal Markets (36%), Bauxite & Alumina (11%), Aluminum Metal (4%), and Energy (2%). The Extrusions division includes extrusion profiles and precision tube products for the construction and automotive industries. The Metal Markets segment includes the sales activities in connection with products from the primary metal plants and the operative responsibility for the independent remelting plants. The metal trading activities are also pooled here. Bauxite & Alumina includes bauxite mining and alumina production and related trading activities. The Aluminum Metal unit combines the production of primary aluminum and other smelting and casting activities. The Energy segment includes the power plants in Norway and global energy procurement for the aluminum activities.

At the end of July 2022, Norsk Hydro published its half-year figures for fiscal 2022, with a remarkable 68% increase in sales to NOK 111.4 billion compared to the same period last year. The sales growth can mainly be attributed to higher realized aluminum prices compared to the previous year. These are a result of the Ukraine war, which increased production costs (energy prices) and restricted the movement of Russian aluminum (sanctions). However, sales volumes decreased slightly in the same period. Furthermore, it should be noted that prices increasingly returned to normal towards the end of the second quarter due to weak demand in China and global fears of a recession. EBIT was quadrupled by the company compared to the previous year and was reported at NOK 21.64 billion (H1/2021: NOK 5.3 billion). The EBIT margin thus improved to 19.4% (H1/2021: 7.9%), as production and energy costs increased at a slightly lower rate than sales growth and other costs (personnel, depreciation, amortization, and other costs). These costs increased only slightly.



Source: LeanVal Research (Closing price 07/10/2022)

The last five years have been characterized by sometimes highly fluctuating results. In 2018, the Extrusion segment was acquired (previously a joint venture). However, in each of the following two years, sales declined by a single-digit percentage. Due to a leak at a Brazilian production facility, a 50% production reduction was obtained from the government. The people affected have also initiated a class action lawsuit. Consequently, margins decreased in 2018 (EBIT: NOK 7.2 billion; EBIT margin: 4.5%), as raw materials produced there had to be purchased externally. 2019 was characterized by low aluminum prices, a cyber-attack, and a restructuring of the Rolling segment. This resulted in negative adjusted EBIT and net income. It should be mentioned that the company is exposed to strong volatility due to aluminum prices and currency fluctuations. As of 2020, a turnaround could be initiated, due to the ability of Norsk Hydro to generate high cash flows. This subsequently led to an extremely healthy balance sheet situation and a net cash position in 2021. Overall, 2021 was a record year with reported EBIT of around NOK 19 billion.

One of the Group's strengths is the diversified earnings mix across the entire aluminum value chain, due to its integrated business model. Mention should be made of the Group's own energy production, which provides strong competitive advantages in the current market environment. Norsk Hydro is also a pioneer in focusing on renewable energy and "green aluminum" (produced with renewable energy). It also has the advantage of low demand volatility due to its focus on the US (57% revenue share) and European markets (22%), while its competitors have a high exposure to China. A high level of profitability with corresponding cash flow is also expected in the future, which will secure future dividend payments. The dividend yield should be around 13.4% for 2022 (2022: NOK 8.1 at a share price of around NOK 60). Overall, the share appears attractive both in relative and absolute terms.

Author: Philip Wentlandt (Analyst)

Marketing document for discussion purposes and for information only. For further information see disclaimer.
Publication date: 12/10/2022 15:00

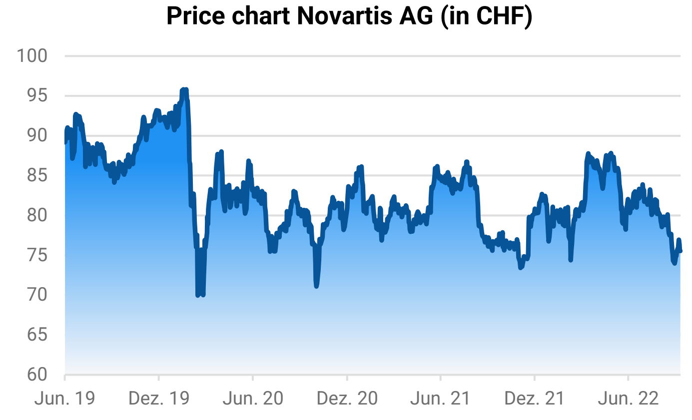
LeanVal RESEARCH

Novartis AG (Buy; CHF 90.00)

ISIN: CH0012005267
Country: Switzerland
Sector: Healthcare
Industry: Drug manufacturing and research
Market Cap: CHF 166.5 billion
Dividend yield (T+1): 4.4%

Novartis is a Swiss pharmaceutical company that ranks third in the world by 2021 sales ($52.6 billion) behind Pfizer ($100.4 billion) and Roche ($68.8 billion). The company reports its results in two segments, Innovative Medicines (82% of 2021 sales) and Sandoz (19%). Innovative Medicines is divided into two segments: (1) Pharmaceuticals for patent-protected medicines in ophthalmology, immunology and dermatology, neurology, respiratory, cardiovascular, and metabolic diseases; and (2) Oncology for cancer and orphan disease therapies. Sandoz, the second Group segment, manufactures generics and biosimilars. The spin-off and listing of Sandoz is planned for early 2023.

Last November, Novartis sold its stake in Roche (approximately 33% of shares) for cash proceeds of approximately USD 20.7 billion (gain: USD 14.6 billion). For better comparability of operating performance, this transaction and currency effects are excluded below. In the first half of 2022, Group sales grew 5% to USD 25.3 billion, driven by volume increases of 12% (benefiting from Entresto, Kesimpta, and Cosentyx medicines) and negative impacts related to price erosion (4%) and generic competition (3%). Despite higher investments in R&D and marketing and distribution, core operating income (COI) rose 7% to $8.4 billion (Innovative Medicines COI: +6%; Sandoz: +10%) and the COI margin on sales improved slightly by 0.6% to 33%. Financial debt decreased by USD 4.6 billion compared to the same period last year. However, net debt increased compared to last December (USD 9.5 billion H1/22; USD 0.9 billion Q4/21; USD 28.5 billion H1/21) given the inflows from the sale of Roche shares and outflows for dividends and share repurchases.



Source: LeanVal Research (Closing price 07/10/2022)

Looking at recent years, there has been a significant improvement in gross margin from an average of 65% (2016-2018) to 70% (2019-2021), which is the highest compared to competitors in the pharmaceutical sector. This was achieved in part with the targeted divestment of low-margin activities. Restructuring and divestments (i.e., the spin-off of the Alcon ophthalmology business in 2019) were also the reason for the headcount reduction (-17% compared to 2018), which together with unchanged administrative and selling expenses (29% on average) and R&D expenses (18%, lower than other companies) increased the operating profit margin (2019: 19%; 2020: 20%; 2021: 22%). In the last 5 years, around 69% of EBITDA was converted into operating cash flow, resulting in a solid liquidity position. It is worth mentioning the high share of intangible assets (49% of total assets in the past) in the balance sheet. However, this is typical for the industry, as pharmaceutical contracts and rights are recognized as intangible assets.

The biggest challenges for the major pharmaceutical companies are the spread of generics, non-prescription alternative treatments, and price pressure from bulk buyers. Key drivers remain innovation and biotech (also due to the maturity of some blockbusters). However, in times of difficult equity markets, the pharmaceutical industry guarantees a steady and growing dividend payout. This has been the case with Novartis, which has always paid a solid annual dividend based on earnings per share growth, even growing at 4% per year (CAGR) over the last five years. In December 2021, a share buyback program of USD 15 billion until the end of 2023 was approved. Around USD 9.4 billion still must be executed (capital payout ratio was 97% in the last 5 years).

Management expects mid-single-digit growth in both sales and core operating income in 2022, with investments of $5.9 billion (mainly R&D). The plan assumes cost savings of $1.5 billion by 2024 and the approval of more than 20 new drugs by 2026, which promises optimistic returns.

Author: Dario Maugeri (Analyst)

Marketing document for discussion purposes and for information only. For further information see disclaimer.
Publication date: 12/10/2022 15:00

LeanVal RESEARCH

Telefónica SA (Buy; EUR 5.00)

ISIN: ES0178430E18
Country: Spain
Sector: Communication Services
Industry: Telecommunications
Market Cap: EUR 19.4 billion
Dividend yield (T+1): 8.9%

Telefónica SA is a Spanish telecommunications group and is one of the largest providers worldwide. Segment reporting is divided by country into five segments: Telefónica Spain (revenue share FY21: 32%), Virgin Media O2 UK (VMO2) formerly known as Telefónica United Kingdom (8%), Telefónica Germany (20%), Telefónica Brazil (19%), and Telefónica Hispam (21%). In the individual countries, the Group provides a wide range of services in the areas of fixed networks, mobile communications, internet (broadband), and pay TV. The Group's commercial brands include Movistar (Spain and Latin America), O2 (Europe), and Vivo (Brazil). The VMO2 business unit bundles the activities in the United Kingdom, which was created in mid-2021 through the merger of O2 UK and Virgin Media (a 50:50 joint venture with Liberty Global). Telefónica Hispam covers the South American countries of Colombia, Mexico, Venezuela, Ecuador, Argentina, Chile, Peru, and Uruguay.

Telefónica's reported first-half results for the period ended June 30, 2022, saw sales decline slightly to EUR 19.5 billion (H1/21: EUR 20.3 billion). This can be explained through the recent joint venture in the UK with Liberty Global, VMO2, which is accounted for under the equity method of accounting. Thus, the results of VMO2 are not consolidated in the group's financial statements. However, sales were slightly up in each of the remaining segments, which was led by a 21% increase in sales from Telefónica Brazil to EUR 4.2 billion. This was a result of integrating Oi's (acquired in 2021) mobile assets with the group which strengthened Telefónica's leadership in the country. Furthermore, EBIT for the period was slightly over EUR 2 billion with an EBIT margin of 10%. Additionally, the group achieved net income of EUR 1.1 billion. Both EBIT and net income for the period were down substantially as the group had a positive one-time contribution from the disposal of businesses in H1/21 amounting to other income of EUR 10.9 billion (H1/22: EUR 1.1 billion). Excluding this extraordinary one-time effect, EBIT and net income for H1/22 would have been up 7% and down 3% respectively.

Price chart Telefónica SA (in EUR)

Source: LeanVal Research (Closing price 07/10/2022)

For the fiscal year 2021, the group's revenue was down 9% to EUR 39.3 billion (FY20: EUR 43.1 billion). EBIT for the year was up over 200% to EUR 13.6 billion, while net income was also up over 400% to EUR 10.7 billion. However, the group managed a tremendous increase in EBIT and net income as a gain of more than EUR 11 billion on the disposal of businesses was realized. This is primarily attributed to the sale of the towers division of Telxius (a company of the Telefónica Group) in Spain, Germany, Brazil, Peru, Chile, and Argentina (gain of EUR 6.1 billion) as well as the gain generated in the constitution of the joint venture VMO2 (gain of EUR 4.5 billion). As a result of achieving strong net income, the group managed to further reduce its net debt by 26% to EUR 26 billion compared to cash and equivalents of EUR 12.4 billion (11% of total assets). Since mid-2016, the group has managed to reduce its net debt by around 30%. Moreover, even as the group has seen a reduction in sales (sales have been declining since 2017: CAGR -5.5%), net income has remained stable despite a reduction in 2018, which was mostly attributed to a provision of EUR 1.6 billion from restructuring expenses predominately in Spain.

A key risk that Telefónica faces is its high reliance on only a handful of suppliers (three handset and five network infrastructure suppliers), of which two network infrastructure suppliers are in China. Thus, continued lockdowns in China due to Covid-19 among other supply chain constraints could negatively affect the group. Although, due to a strong first-half performance, Telefónica is optimistic about its full-year financial performance. The revenue guidance was increased from "low single digit growth" to "high end of low single digit growth". Furthermore, the company reiterated the shareholder remuneration policy for 2022, consisting of a dividend of EUR 0.30 per share (dividend yield FY 2022 of 8.9% (sector average: 4.6%). Lastly, based on an absolute valuation the company receives a buy rating.

Author: Philip Wentlandt (Analyst)

Marketing document for discussion purposes and for information only. For further information see disclaimer.
Publication date: 12/10/2022 15:00

Disclaimer

LeanVal RESEARCH

Notes on investment strategy - investment recommendation pursuant to Section 85 of the German Securities Trading Act (WpHG) in conjunction with the German Securities Trading Act (WpHG). VO (EU) No. 596/2014

General

The investment strategy and/or investment recommendations (hereinafter referred to as "analyses") are prepared by LeanVal Research GmbH for information purposes only.

Neither LeanVal Research GmbH nor its employees assume any liability for damages arising from the use of the analyses or their contents or in any other way in connection with them. The analyses do not constitute an offer or invitation to subscribe to or purchase any security, nor do they or the information contained therein form the basis for any contractual or other obligation of any kind. An investment decision should be made on the basis of a duly approved prospectus or information memorandum and in no case on the basis of the analyses. Investors should seek the advice of an investment adviser in making their investment decision. In this respect, the analyses cannot assume an advisory function. The opinions, estimates and forecasts contained in the analyses are solely those of the respective authors. They are date-related, not necessarily the opinion of LeanVal Research GmbH and may change at any time without prior notice.

The information and evaluations ("Information") reproduced here are primarily intended for clients of LeanVal Research GmbH in Germany. Should the original recipient forward the analysis, he/she is obliged to do so in compliance with existing regulations and laws and no obligation of LeanVal Research GmbH towards a third party arises from this. In particular, the information is not intended for clients or other persons domiciled or resident in the United Kingdom, the United States or Canada and may not be passed on to such persons or imported into or distributed in these countries. Distribution of the Analytics in other jurisdictions may be restricted by law and persons into whose possession the Analytics come should inform themselves about and comply with any restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities laws. Reprinting, redistribution, and publication of the analyses and their contents in whole or in part are permitted only with the prior written consent of LeanVal Research GmbH.

Information sources

All analyses are prepared on the basis of data from a data provider as well as from generally accessible sources ("information") that LeanVal Research GmbH considers to be reliable. However, LeanVal Research GmbH has not verified the accuracy or completeness of the Information and assumes no liability for the accuracy or completeness of the Information. Possible incomplete or incorrect information does not justify any liability of LeanVal Research GmbH for damages of any kind, and LeanVal Research GmbH is not liable for indirect and/or direct damages and/or consequential damages. In particular, LeanVal Research GmbH assumes no liability for statements, plans or other details contained in these analyses with regard to the investigated companies. Although the analyses are compiled with all due care, errors or incompleteness cannot be excluded. LeanVal Research GmbH, its shareholders, corporate bodies and employees assume no liability for the accuracy or completeness of the statements, assessments, recommendations derived from the information contained in the analyses. Data source for all historical prices is Morningstar and LeanVal Research.

Summary of the valuation fundamentals

The valuations underlying the investment recommendations for stocks analyzed by LeanVal Research GmbH are based on generally accepted and widely used methods of fundamental analysis, such as the DCF model, peer group comparisons, NAV valuations and - where possible - a sum-of-the-parts model. The calculated scores (Value, Quality, Stabilty, Growth) are the result of a proprietary model of LeanVal Research GmbH. They result from the comparison of fundamental key figures of the quantitatively analyzed company in relation to comparable companies within a sector (or region). Information on the general approach can be found at www.leanval.investments. The absolute target price and the associated absolute assessment (undervalued, neutrally overvalued) are determined using a forward-looking DCF or ROIC (return on invested capital) method. Estimates of future earnings serve as the basis for this. The earnings estimates are either based on a consensus or are made by LeanVal Research GmbH itself.

Updates

The recipients are not entitled to the publication of updated analyses. LeanVal Research GmbH reserves the right to update analyses without prior notice. A regular update of this document is not intended.

Compliance

LeanVal Research GmbH has taken internal organizational and regulatory precautions to avoid conflicts of interest in the preparation and dissemination of financial analyses. In particular, there are internal information barriers that prevent analysts from accessing insider information. Compliance is monitored by the Compliance Officer.

Explanation of the recommendation system

The relative assessment is based on the various scores of the individual companies in the areas of Value, Quality, Stability, Growth and Momentum which are compared with the average scores of the overall market and/or also with the respective sectors. The companies are ranked on a scale from 0 to 100. From this, the three ratings "unattractive" (0 to 30 on the scale), "neutral" (31 to 70 on the scale) and "attractive" (71 to 100 on the scale) are derived. The relative assessment can change at short notice due to the high complexity of the scores and the multiple interdependencies between the companies analyzed.

LeanVal Research GmbH's rating system for absolute valuation comprises the ratings "undervalued", "fairly valued" and "overvalued". The rating of a share is based on the expected return for the next six to twelve months. The expected return is composed of the prognostic change in the share price and the expected dividend yield. Changes in the discount factor or projected cash flows can lead to significant changes in the target price.

Rating system of the absolute valuation	
Buy	Potential > +15%
Hold	Low upside and downside potential
Sell	Potential < - 15%

Detailed overview

Date	Corporation	Relative Valuation	Absolute Valuation	Current Price	Price Target	Analyst
07/10/22	Engie SA	Attractive	Buy	EUR 11.95	EUR 18.00 (initial coverage)	Lars Dreßen (Analyst)
07/10/22	Imperial Brands plc	Attractive	Buy	GBX 1,991	GBX 2,300	Mathias Kimmes (Analyst)
02/12/21		Neutral	Buy	GBX 1,542	GBX 2,100 (initial coverage)	Mathias Kimmes (Analyst)
07/10/22	Norsk Hydro	Attractive	Buy	NOK 60.42	NOK 72.00 (initial coverage)	Philip Wentlandt (Analyst)
04/02/22		Attractive	Buy	NOK 71.26	NOK 82.00	Philip Wentlandt (Analyst)
07/10/22	Novartis AG	Attractive	Buy	CHF 75.54	CHF 90.00 (initial coverage)	Dario Maugeri (Analyst)
07/10/22	Telefónica SA	Unattractive	Buy	EUR 3.36	EUR 5.00 (initial coverage)	Philip Wentlandt (Analyst)

Conflicts of interest

In the financial analyses, circumstances or relationships that could give rise to conflicts of interest because they could jeopardize the impartiality - of the employees of LeanVal Research GmbH who prepared the analysis, - of LeanVal Research GmbH as the company responsible for the preparation or of companies affiliated with it, or - of other persons or companies working for LeanVal Research GmbH and contributing to the preparation, must be disclosed. Information on interests or conflicts of interest that must be disclosed exists in particular if

1. significant shareholdings (= shareholding > 5 % of the share capital) exist between the above-mentioned persons or companies and the issuers who are themselves or whose financial instruments are the subject of the financial analysis,
2. the above-mentioned persons or companies manage financial instruments which themselves or their issuers are the subject of the financial analysis on a market by placing buy or sell orders (market making/designated sponsoring),
3. the above-mentioned persons or companies have been involved in the management of a consortium for an issue by way of a public offering of such financial instruments which are themselves or whose issuers are the subject of the financial analysis within the previous twelve months,
4. the above-mentioned persons or companies have been bound by an agreement on services in connection with investment banking transactions with issuers who are themselves or whose financial instruments are the subject of the financial analysis within the previous twelve months or have received a service or a promise of service from such an agreement within this period, insofar as no confidential business information is affected by the disclosure of this information,
5. the above-mentioned persons or companies have entered into an agreement with issuers, who themselves or whose financial instruments are the subject of the financial analysis, for the preparation of the financial analysis,
6. the above-mentioned persons hold management or supervisory board mandates with issuers whose financial instruments are the subject of the financial analysis, or
7. the above-mentioned persons or companies have any other significant financial interests in relation to the issuers whose financial instruments are the subject of the financial analysis.

LeanVal Research GmbH
Bleichstraße 52, 60313 Frankfurt am Main

Phone: +49 69 9494 88 050,
Email: research@leanval.investments

Standardized Information Sheet for Shares on the organized market pursuant to §64 par. 2 WpHG

LeanVal RESEARCH

This information sheet provides general information on the main characteristics of a share traded on an organized market. It is taken from the Annex to Section 4 (3) of the Ordinance on the Specification of Conduct Rules and Organizational Requirements for Securities Services Companies (WpDVerOV).

An organized market is defined as German or European trading venues (stock exchanges) that are approved, regulated and supervised by government bodies. The stock corporations whose shares are admitted to trading there must comply with detailed publication requirements. Many stock corporations provide information such as half-yearly and annual financial reports as well as notifications of price-relevant events on their websites, for example under "Investor Relations".

Please inform yourself about the specific opportunities and risks of a particular share, for example on the websites of the respective stock corporation, or ask your investment advisor.

What is a share?

A share is a security with which you acquire a share in the capital stock of a stock corporation. When you buy a share, you become a shareholder of this stock corporation in the amount of the capital share of your shares. Through your shares, you participate in the economic development of the company through price increases and dividend payments, but also share in losses, in extreme cases up to the amount of your investment.

For whom are shares a possible form of investment?

Shares are a possible investment for you if you

- have a basic knowledge of the stock markets
- want to invest directly in a company
- want to take advantage of the opportunities associated with a share, and
- are willing and able to bear the risks of an equity investment.

What rights are associated with a share?

When you buy a share, you leave your money to the stock corporation for an indefinite period of time, so it will not be paid back to you on a specific maturity date, for example. By selling your shares, you can get out of your participation in a stock corporation.

There are various rights associated with a share. The rights can vary depending on the type of share: ordinary shares are the rule; they carry the rights set out in the Stock Corporation Act and the Articles of Association of the stock corporation (see points 1 to 3), for example voting and subscription rights. In addition, there are preferred shares: these grant certain privileges, for example an increased dividend entitlement, although voting rights are generally omitted.

In particular, they have the following rights:

1. voting rights and right to information: they can participate in the stock corporation's Annual General Meeting and vote there, as well as request information.
2. right to a share in profits (dividend): if the company generates a (balance sheet) profit, the company's Annual General Meeting can resolve to pay this out to the shareholders. As a rule, you are then entitled to a share of these profits in proportion to your share in the capital stock, unless the Articles of Association stipulate otherwise. The prerequisite is that you hold the shares on the record date relevant for the payment of the dividend.
3. subscription right: If the share capital of a stock corporation is increased, new shares are issued. If you already have shares in this stock corporation, you are entitled to buy new shares. This allows you to keep your share in the capital stock constant. However, this subscription right can be excluded by a resolution of the Annual General Meeting.

What opportunities does a share offer?

By buying a share, you have the opportunity to make price gains. If the price at the time you sell the share is higher than at the time you bought it, you can make a profit. You will also receive a dividend if the Annual General Meeting decides to pay a dividend.

What risks do you run when you buy a share?

1. creditworthiness/issuer risk: the stock corporation can become insolvent, i.e., it has too much debt or is insolvent. Then you may lose all the money you have invested (total loss).
2. price change risk: the market price of the share (price) depends on supply and demand and can fall if the stock market develops negatively as a result of the general development of the market, for example because the economic or industry outlook deteriorates. Reasons for the fall in the share price can also be company-specific. Examples include a deterioration in business prospects or missed earnings targets.
3. dividend risk: the stock corporation does not pay a dividend or the dividend is lower than expected. This may be the case, for example, if the stock corporation makes no profit or a lower profit than expected or if the Annual General Meeting decides not to pay out a profit.
4. currency risk: if a share is listed on the stock exchange in a currency other than euros, the exchange rate will also affect your profit or loss.
5. risk of delisting/revocation of admission: the stock corporation may delist the stock or revoke its admission to trading on the stock exchange. In this case, you may not be able to sell the share at all or only at a large discount.

When can you buy or sell shares?

Shares traded on an organized market can generally be bought or sold on any trading day. There may be difficulties in selling or larger price discounts if there is no sufficient exchange trading of the share.

What are the costs?

In addition to this information sheet, you will receive a formalized cost breakdown. This contains information on the costs and incidental expenses incurred for the purchase or sale of a share and, if applicable, for a securities account (securities account fee). Costs can be avoided or reduced by comparing price lists. The costs reduce a possible return.

Location, Date, handed over by:

Marketing document for discussion purposes and for information only. For further information see disclaimer.
Publication date: 12/10/2022 15:00