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Nokia OYJ (NOKIA.HE)

Citi Global TMT Conference Takeaways

CITI'S TAKE

We hosted meetings with Nokia CFO, Marco Wiren, on Day 1 of our Global TMT Conference. The discussion focused on the company's positioning in AI infrastructure, where the key message was that demand remains exceptionally strong across both optical and IP networking, with Nokia increasingly benefiting from hyperscaler and neo-cloud investments. Management reiterated that current growth is primarily volume-driven, supported by a supply-constrained industry backdrop, while maintaining confidence that optical margins can ultimately approach peers as scale increases and current investment levels moderate.

Optical Demand Remains Strong, Supply Still the Constraint — Mgmt. highlighted broad exposure to hyperscaler spending, with Nokia having 9 of the top 10 hyperscalers. While optical has a broad customer base, IP routing and switching remains more concentrated but offers opportunities for both customer expansion and share gains. Nokia continues to see growing demand from hyperscalers and neo-cloud providers, while stressing that the €2.8bn AI & Cloud order intake in Q2 should be viewed over multiple quarters given order lumpiness, with c.50% Q2 orders expected to convert into revenue within 12 months. Management suggested supply constraints are likely to persist through at least 2028.

Well Positioned for the 800G Optical Upgrade Cycle — Management sees significant opportunity in pluggable optics as customers migrate from 400G to 800G. Nokia believes it is well positioned versus peers given its DSP capabilities, large in-house optical development team and expanding manufacturing footprint, with positive customer feedback on power efficiency, performance and reliability.

Margin Potential — While IP routing is currently higher margins, mgmt. noted optical margins are improving with scale. Nokia continues to invest aggressively behind the AI opportunity but remains confident that optical margins can narrow the gap to peers as scale increases and current investment levels moderate.

AI-RAN Progressing on Schedule — Management reiterated that AI-RAN pilots are expected to begin around year-end, with commercial deployment targeted during 2027, with more meaningful volume adoption likely in 2028. T-Mobile remains the lead deployment partner, while Nokia believes GPU-based architectures offer a compelling economic proposition for operators.

Nokia OYJ (EUR)

Year to 31 Dec	2023A	2024A	2025E	2026E	2027E
Sales (€M)	22,258.0	19,440.5	19,989.8	21,005.4	21,763.3
Net Income (€M)	1,607.0	2,158.5	1,456.3	1,889.0	2,093.1
Diluted EPS (€)	0.29	0.39	0.27	0.35	0.40
Diluted EPS (Old) (€)	0.29	0.39	0.27	0.35	0.40
PE (x)	32.0	23.5	34.6	26.2	23.0
EV/EBITDA (x)	11.4	10.8	13.6	14.6	13.0
DPS (€)	0.18	0.22	0.27	0.33	0.39
Net Div Yield (%)	2.0	2.4	2.9	3.6	4.2

Sell

Price (08 Sep 26 18:30)	€9.18
Target price	€4.65
Expected share price return	-49.3%
Expected dividend yield	2.0%
Expected total return	-47.4%
Market Cap	€52,714M
	US$61,269M

Price Performance
(RIC: NOKIA.HE, BB: NOKIA FH)



Pavan Daswani, CFA[AC]

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Nokia OYJ

Company description

Nokia is a communications technology leader with sales of ~€25bn in 2022. The firm has four main businesses: Mobile Networks (~48% group revenues), Network Infrastructure (~31%), Cloud and Network Services (~14%), and Technologies (~6%).

Investment strategy

Our Sell recommendation reflects the lack of prospect for multiple expansion while estimates continue to decline due to decelerating end markets. The negative estimate momentum will lead shares to remain a value trap, as they have been for 2023.

Valuation

Our target price for Nokia is €4.65, valued at ~12x P/E 2027E. We belive such a multiple is unquestionably cheap and we think in the long-term, unjustifiably so, however we do not see any prospect of multiple expansion while estimates continue to decline.

Risks

We highlight the following risk factors for Nokia. If the impact of these risk factors is more or less negative than we anticipate, the share price could deviate significantly from our target price:

Competitive risk – Any fluctuations in market share could result in risk to our estimates.

Customer risk – Nokia's revenues are dependent on a limited number of customers. A loss of or a reduced role with a key customer would be a risk to our estimates.

Execution risk – The new mgmt team's strategic plan requires a significant change in corporate culture which brings execution risk.

FX risk – Nokia has entities with functional currency other than the euro, hence any fluctuations in FX could result in either upside or downside risk to our estimates.

Macro risk – Any prolonged macro downturn/upturn could result in downside/upside to our estimates.

Technology risk – We see technology risk manifesting in terms of three key dynamics: a) ramp of 5G, b) adoption of standardized hardwa
to cloud sourcing and automation in services.

