

VIRSI: Operational Update

AS VIRŠI-A acquired a 20% stake in AS Skulte LNG Terminal

AS VIRŠI-A ('VIRSI' or the 'Company') announced that it has signed an agreement to acquire a 20% stake in AS Skulte LNG Terminal and has plans to jointly develop a liquefied natural gas (LNG) terminal at the port of Skulte. As per project developers, the Skulte LNG terminal project has unique geographical, economic, and technological advantages. The plan for the Skulte project is to build a floating regasification terminal ('FRU') which is much cheaper compared to a floating storage and regasification unit ('FSRU') as in Klaipeda, thus Skulte terminal requires only 34 km of direct pipeline connection to the Inčukalns underground gas storage facility and does not require investment in LNG storage infrastructure, which typically accounts for 70-80% of a terminal's investment. The Company has neither disclosed the potential investment amount for the deal yet nor any expected schedule for the project implementation. According to unofficial sources, construction costs are estimated at EUR 120-150m and we assume it will be financed through a mixture of debt and equity. Other shareholders in AS Skulte LNG Terminal are the National Gas Terminal Society and Peter A. Ragauss, an entrepreneur with experience in the energy sector in the US market.

AS Skulte LNG Terminal has been established back in 2016 and has tried to implement the project for several years now but had a few obstacles including objections from Coastal Environmental Protection Association regarding the environmental risk and required more detailed economic justification. Furthermore, the Skulte terminal is seeking to have state guarantees for certain use of the terminal's capacity, most likely referring to state-owned energy producer and trader AS Latvenergo. Considering the geopolitical crisis, the EU has a strict policy to minimise trade with Russia which is creating a gas supply risk from Russia (a major supplier) and forcing member states to sincerely focus on energy independence. We believe that there is a high possibility of the state awarding certain guarantees regarding the terminal's capacity utilisation and the government may lift many bureaucratic obstacles due to its urgency. However, there is another project in Riga, Kundzinsala which also look forward to such guarantees and guarantee will likely be awarded to only one terminal. However, even without any state guarantees, there should be demand for the Skulte terminal considering the stated competitive advantage of having proximity to the Inčukalns underground gas storage facility and the fact that LNG will be the only financially reasonable alternative natural gas source for the Baltics through LNG terminals. According to Eurostat and vert.lt, Klaipeda's LNG terminal (capacity c.a. 3.7bn m³) cannot presently supply the required consumption volume of the Baltics and Finland (total consumption in 2020 – c.a. 6.5bn m³) without Russia's supply, also extra capacity could be needed for Poland with the opening of a new connection pipeline (GIPL). Currently, both Latvia and Estonia have LNG terminal construction plans which will ensure energy independence and considering the lack of Klaipeda's capacity

Company Profile

Listing Market:	First North Baltic Share List
Bloomberg Ticker:	VIRSI LR
ISIN:	LV0000101848
Industry (Bloomberg):	Consumer Discretionary
Sector (Bloomberg):	Retail
Website:	www.virsi.lv

Share Data, as of 19th May 2022

Current Share Price (EUR):	4.385
Fair Value Range, EUR (FVR):	5.50-5.90
Upwside, % (to mid-point of FVR):	29.99
52-week High/Low (EUR):	6.40/3.95
3m Avg. Daily Volume (th):	1.69
Market Cap (EURm):	66.17
Ordinary Shares (m):	15.09

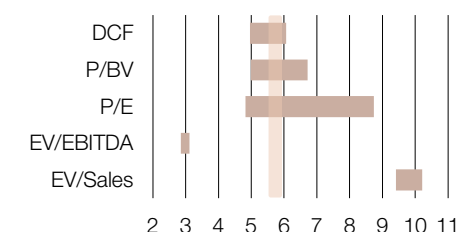
Key Shareholders, as of 3rd Nov 2021

Jānis Riekstiņš	21.1%
Jānis Rušmanis	20.9%
Ruta Plūme	20.9%
Andris Priedītis	12.8%
Ilgvars Zuzulis	12.8%

YTD-Price Performance



LHV Fair Value Range: EUR 5.50-5.90



* As of 7th Dec 2021

Key Numbers (EURm)	2018*	2019	2020	2021	2022E	2023E
Sales (EURm)	180.3	187.0	171.4	220.9	224.4	245.0
Sales growth (%)	21.5	3.7	(8.3)	28.8	1.6	9.2
Net profit (EURm)	3.8	3.6	4.2	6.6	5.3	6.5
EPS (EUR)	583.60	546.45	87.78	0.5	0.3	0.4
P/E (x)	-	-	-	9.7	12.5	10.3
Payout per share (EUR)*	76.88	122.62	-	0.1	0.1	0.1
Payout yield (%)	-	-	-	1.9	1.4	2.4
P/B (x)	-	-	-	1.4	1.2	1.1
EV/Sales (x)	-	-	-	0.4	0.4	0.4
EV/EBITDA (x)	-	-	-	9.2	9.2	7.9
EV/EBIT (x)	-	-	-	13.5	15.1	12.4
ROE (%)	15.7	11.9	12.1	15.3	10.2	11.6

Source: VIRSI for historicals, LHV # The valuation multiples from 2022E -2023E are calculated using the share price of EUR 4.385 (19th May 2022)

* Note: All P&L and CF data until 2018 (BS data until 2017) is presented based on Latvian GAAP, from 2019 (BS data from end-2018) based on IFRS.

other terminals are needed. VIRSI has to be considered not only as a fuel retailer because it is becoming a vertically integrated energy company. We see investment in the Skulte terminal as a long-term strategic investment which will bring synergy to its natural gas trad-

ing through SIA VIRŠI Renergy and also support CNG supply in the fuel retail business, not considering the income from the terminal itself. However, at this early stage, it is hard to estimate how lucrative or not the LNG terminal segment could be.

Contacts:**Ivars Bergmanis**

Head of Institutional Markets

Tel: +372 680 2720

Mob: +372 534 11114

ivars.bergmanis@lhv.ee

Sander Danil

Senior Analyst

Tel: +372 680 2793

sander.danil@lhv.ee

Valters Smiltāns

Analyst

valters.smiltans@lhv.ee

Images:

Front cover © istockphoto.com

Date and time of sign-off: Friday 20th May, 18:00**Disclaimer**

The copyright in this report belongs to AS LHV Pank (hereinafter 'LHV'). LHV is a full service bank with a focus on the Baltic region. LHV is a member of the Tallinn, Riga, and Vilnius stock exchanges. LHV is under the supervision of the Estonian Financial Supervisory Authority (Finantsinspektsioon; see also www.fi.ee). Readers of this report should be aware of that LHV and LHV affiliated companies (hereinafter 'LHV's Group') are constantly seeking to offer investment banking services to companies (hereinafter, 'Company' or 'Companies') mentioned in research reports or may have other financial interests in those Companies.

AS LHV Pank has made an arrangement with AUGA group ('AUGA'), AB whereby LHV's research analysts independently produce research reports on AUGA group and provide them to AUGA for the purposes of providing more information about AUGA to investors who are not customers of LHV.

AS LHV Pank has made an agreement with EFTEN Real Estate Fund III on commercial terms whereby LHV's research analysts independently produce research reports on EFTEN Real Estate Fund III. In turn, LHV is paid a fixed fee for a certain number of reports on an annual basis.

AS LHV Pank has made an arrangement with MADARA Cosmetics ('MADARA'), whereby LHV's research analysts independently produce research reports on MADARA and provide them to MADARA for the purposes of providing more information about MADARA to investors who are not customers of LHV. MADARA is listed on the Nasdaq Baltic First North List. In addition to being the certified adviser for MADARA, LHV is also the certified adviser for Linda Nektar ('LINDA') on Nasdaq Baltic First North on an ongoing fee-based arrangement

LHV's Group acts as a market maker /and/ liquidity provider for TKM1T, APG1L, TVEAT, HMX1R, LINDA, MDARA, DGR1R, and VIRSI.

All reports are produced by LHV's research department. In order to proactively prevent conflicts of interest, LHV has established several procedural and physical measures. Such measures include, among other things, confidentiality measures through separation, or so-called "Chinese walls", virtual and physical barriers to limit the exchange of information between different departments, groups or individuals within LHV Group. These measures are monitored by the compliance department of LHV. LHV does everything possible to avoid the conflict of interests but it cannot guarantee that conflict of interests situations do not arise at all.

LHV provides coverage on this company on a regular basis, therefore this report may include assumptions and findings laid out in greater detail elsewhere. If interested, clients may approach LHV for these previous reports.

In October 2021, AS LHV Pank was the Global Lead Manager for the IPO of AS DelfinGroup on Nasdaq Riga. AS LHV Pank has made an arrangement with AS Delfin-Group ('DelfinGroup'), whereby LHV's research analysts independently produce research reports on DelfinGroup and provide them to DelfinGroup for the purposes of providing more information about DelfinGroup to investors who are not customers of LHV. AS LHV Pank is also a market maker for the shares of DelfinGroup.

In November 2021 AS LHV Pank was the Global Lead Manager for the IPO of AS Hepsor on Nasdaq Tallinn. LHV Pank has made an arrangement with AS Hepsor, whereby LHV's research analysts independently produce research reports on Hepsor, and provide them to Hepsor, for the purposes of providing more information about Hepsor, to investors who are not customers of LHV.

In November 2021, AS LHV Pank was the Global Lead Manager for the IPO of Virši-A ('VIRSI') on A to Nasdaq First North Riga. AS LHV Pank has made an arrangement with VIRSI, whereby LHV's research analysts independently produce research reports on VIRSI and provide them to VIRSI for the purposes of providing more information about VIRSI to investors who are not customers of LHV. AS LHV Pank is also a market maker for the shares of VIRSI. LHV is also the certified adviser for VIRSI on Nasdaq Baltic First North on an ongoing fee-based arrangement.

In November 2021, AS LHV Pank was the Global Lead Manager for the private placement of the first (EUR 3m) tranche of a EUR 10m bond programme for SIA CrossChem and subsequent admission to trading on Nasdaq First North Riga. AS LHV Pank has made an arrangement with CrossChem,

whereby LHV's research analysts independently produce research reports on CrossChem and provide them to CrossChem for the purposes of providing more information about CrossChem to investors who are not customers of LHV. LHV is also the certified adviser for CrossChem on Nasdaq Baltic First North on an ongoing fee-based arrangement.

In December 2021, AS LHV Pank was the Global Lead Manager for the IPO of TextMagic on Nasdaq First North Tallinn. AS LHV Pank has made an arrangement with TextMagic, whereby LHV's research analysts independently produce research reports on TextMagic and provide them to TextMagic for the purposes of providing more information about TextMagic to investors who are not customers of LHV.

This report is based upon information available to the general public. The information contained within has been compiled from sources deemed to be suitably reliable. However, no guarantee to that effect is given and henceforth neither the accuracy, completeness, nor the timeliness of this information should be relied upon. Any opinions expressed herein reflect a professional judgment of market conditions as at the date of publication of this document and are therefore subject to change without prior notice.

LHV reviews its estimates at least once during financial reporting period and upon most major financial events.

The report is not intended for public distribution and may not be reproduced, redistributed or published in any form whatsoever (in whole or in part) without prior written permission of LHV. The user shall be liable for any non-authorized reproduction or use of this report, whether in whole or in part, and such reproduction may lead to legal proceedings. LHV does not accept any liability whatsoever for the actions of third parties in this respect. This information may not be used to create any financial instruments or products or any indices.

Neither LHV nor its directors nor its representatives nor its employees will accept liability for any injuries, losses or damages, direct or consequential caused to the reader that may result from the reader's acting upon or using the content contained in the publication.

The analyst(s) of this report hereby confirm that the views expressed in this report accurately reflect their personal views about the Companies and securities covered at the time of publication. The authors further confirm that they have not been, nor are nor will be receiving direct or indirect compensation in exchange for expressing any of the views contained in the report.

The analysts receive remuneration based on among others, the overall group revenues of LHV, including investment banking revenues. However, no compensation is based on a specific investment banking transaction. Trading with securities which are covered by a report is subject to strict compliance with internal rules governing own-account trading by staff members and third parties acting for the account of such staff members.

This research report is produced for the private information of recipients and LHV is not advising nor soliciting any action based upon it. If you are not a client of LHV, you are not entitled to this research report.

This report does not by any means constitute an offer or a solicitation, nor a recommendation to purchase or sell securities, commodities, currencies or other investments referred to herein.

This report does not constitute independent investment advice. LHV does not assume any fiduciary responsibility or liability for any consequence, financial or otherwise, arising from any investment or disinvestment decision taken on the basis of this report. It has been prepared without regard to the individual financial circumstances and objectives of those who receive this report. The securities referred to in this report may not be suitable for all investors.

Investors should independently and carefully evaluate every particular investment and seek the advice of a financial adviser if needed.

The analysis contained in this research report is based on numerous assumptions; different assumptions could result in materially different results. Any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. The inclusion of any such valuations, projections and forecasts in this report should not be regarded as a representation or warranty by or on behalf of LHV or any person within LHV that such valuations, projections and forecasts or their underlying assumptions and estimates will be met or realised.

Past performance is not a reliable indicator of future returns.

Where an investment is described as being likely to yield income, please note that the amount of income that the investor will receive from such an investment may fluctuate due to currency exchange rate moves and taxation considerations specific to that investor.

The information contained in this report does not constitute advice on the tax consequences of making any particular investment decision.

The fair value range has been issued for a 12-18 month period and has been derived from a weighted approach combining both DCF valuation and relative multiple comparisons. The relative multiple comparisons further incorporate additional weighting considerations relating to the underlying metrics

and time forecast periods. Company specific inputs have been forecast and a list of peer companies has been compiled by the LHV analyst(s) writing this research commentary, whereas the consensus peer data has been obtained from Bloomberg.

For more detailed information about the valuation methods please contact the analyst(s) using the contact details provided above. For a useful summary of our coverage of this company, including the current sensitivity analysis, please refer to our latest monthly product: The Baltic Equity Companion. Alternatively you can also contact the analyst(s) using the contact details provided above.

Although we do not issue explicit recommendations, for regulation compliance purposes we adhere to the following synthetic structure:

- Buy- Expected return of more than 10% within 12-18 months (including dividends)
- Neutral- Expected return from -5% to 10% within 12-18 months (including dividends)
- Sell- Expected return less than -5% within 12-18 months (including dividends)

In the 12-month period preceding 30.09.2021 LHV has issued recommendations, of which 27.8% have been 'Buy recommendations', 21.5% as 'Neutral', 21.5% as 'Sell' and 29.1% as 'under review'. Of all the 'Buy recommendations' issued, 31.8% have been for companies for which LHV has provided investment banking services in the preceding 12-month period. Of all the 'Neutral recommendations' issued, 17.6% have been issued to companies for which LHV has provided investment banking services in the preceding 12-month period. The classification is based on the above structure.

For a list of recommendations that were disseminated during the preceding 12-month period, including the date of dissemination, the identity of the person(s) who produced the recommendation, the price target and the relevant market price at the time of dissemination, the direction of the recommendation and the validity time period of the price target, please contact the analyst(s) using the contact details provided above.