

Delicate Digitalization

The tour operator industry has been slow to digitalize with most of the sales going through external travel agencies which dampens the margins. The pandemic triggered a digitalization of the tour operator industry set to increase the long-term profitability. But travel agencies continue to be key partners, so the digitalization needs to be delicate.

Package tour industry to digitalize

While the do-it-yourself (book your own flight, hotel etc.) travel segment is close to fully digitalized and dominated by booking sites such as e.g., booking.com, Airbnb etc., the packaged tour travel segment has yet to digitalize with more than 60-70% of sales via physical travel agencies.

Novaturas starting its digital journey

In 2019, Novaturas had 14% of its sales online and an EBIT margin of 2.1% vs. 19-20% for online only peers. We forecast Novaturas to boost its commission-free (mainly online) sales to 32% in 2023 (25% 2019), leading to an EBIT margin improvement to 3.5% (2.1% 2019). The main savings with online sales vs. external travel agencies is the avoidance of the 7-12% commission paid to travel agencies.

Initiate coverage with Base case FV of EUR 5.06

Our Base case Fair value (FV) for Novaturas is EUR 5.06/shr. This assumes a terminal EBIT margin of 5.0%, which implies 38% commission-free sales. Our Bear case FV is EUR 3.36/shr, which assumes the EBIT margin and commission-free sales stays around current levels. Our Bull case FV is EUR 6.76/shr (7% EBIT margin, 46% commission-free sales).

Key figures (MEUR)

	2020	2021	2022E	2023E	2024E
Net sales	32.9	110.1	155.3	187.9	193.6
Net sales growth	-81.7%	234.8%	41.0%	21.0%	3.0%
EBITDA	-3.3	2.6	4.7	6.8	8.1
EBITDA margin	-10.1%	2.4%	3.0%	3.6%	4.2%
EBIT	-3.6	2.5	4.7	6.6	7.7
EBIT margin	-10.8%	2.2%	3.0%	3.5%	4.0%
EV/Sales	1.1	0.4	0.3	0.2	0.2
EV/EBITDA	-11.3	14.9	8.7	5.9	4.6
EV/EBIT	-10.5	15.8	8.8	6.2	4.8
P/E adj.	-4.0	23.4	9.8	6.5	5.6
P/BV	1.7	1.9	1.7	1.4	1.2
EPS adj.	-0.74	0.16	0.42	0.64	0.74
EPS growth adj.	-236.45%	-122.12%	158.93%	51.76%	15.65%
Div. per share	0.00	0.00	0.14	0.20	0.22
Dividend yield	0.00%	0.00%	3.39%	4.84%	5.33%

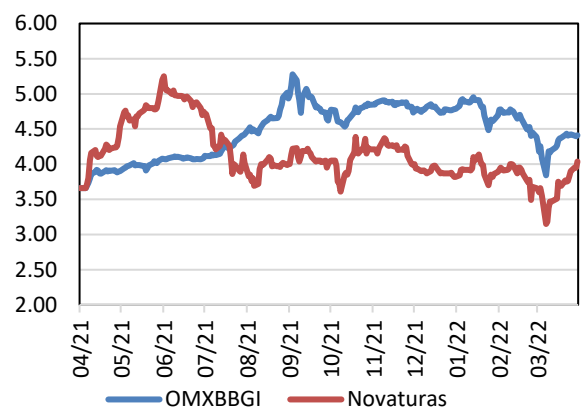
Source: Company data, Enlight Research estimates

Fair value range (EUR)

Bull (term. EBIT marg. 7%)	6.76
Base (term. EBIT marg. 5%)	5.06
Bear (term. EBIT marg. 3%)	3.36

Key Data

Price (EUR)	4.13
Ticker	NTU1L
Country	Lithuania
Listed	Vilnius (Lithuania)
Market Cap (EURm)	32
Net debt (EURm)	1.5
Shares (m)	7.8
Free float	51.5%



Price range

52-week high	5.25
52-week low	3.15

Analyst

ResearchTeam@enlightresearch.net

Coverage frequency

4x per year

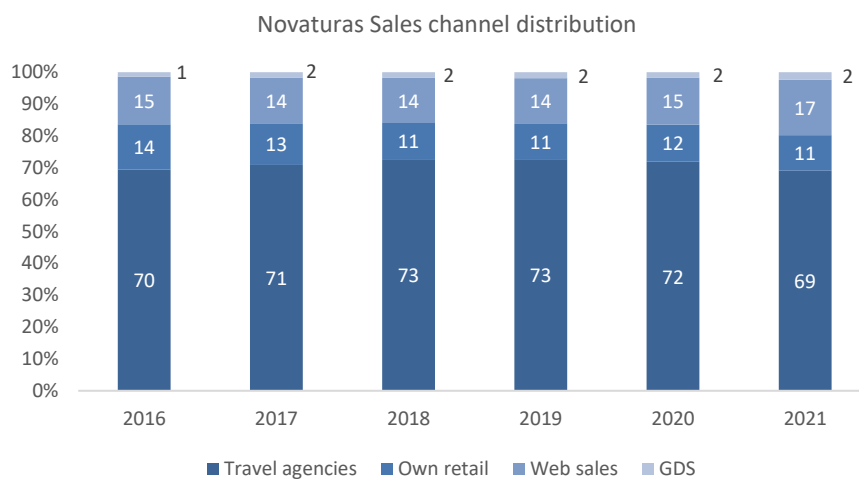
Time to Digitalize

Tour operators slow to digitalize...

While the segment for bookings of individual flights and hotel rooms has been disrupted by online travel agencies (OTAs) and accommodation websites, the packaged tour segment has stayed traditional with most of the bookings coming through physical travel agencies. We estimate that Baltic tour operators gets 60-70% of its sales from physical travel agencies – Novaturas share of sales from external physical travel agencies has been stable at around 70% since 2017 (see “Travel agencies” in chart below). The situation in Europe is the same; according to the leading travel industry research company, Phocuswright, the tour operator segment has the lowest online penetration among all European travel segments, however, it is expected to reach 37% by 2022.

Travel segment	Dominated by	Dominating sales channel	Example of companies
Pre-packaged trips (flight & hotel)	Suppliers (tour operators)	Traditional physical travel agencies working on commission	Novaturas, Tez Tour, TUI, Itaka, Begonija, Tiketa Tours
Individual flights and accommodation (DIY)	OTA (Online Travel Agencies)	Own websites	Booking.com, Expedia, Trip.com, Lastminute.com

Source: Enlight Research



Source: Company reports

GDS = Global Distribution System such as e.g., Amadeus, Sabre

...but need to lower their sales expenses

Tour operators use of external physical travel agencies as the main sales channel is expensive as 7-12% of the sales have to be paid away in commissions. Out of the six tour operators active in the Baltic region with available financials reports, only three (Novaturas, Tez Tour, Alida) were profitable in the “normal” year 2019, and they were barely profitable with an EBIT margin around 1-2% (Novaturas 2019 EBIT margin was 2.1%). In our view, the tour operators active in the Baltics must increase their commission-free sales channels (own websites and agencies) vs. the commissioned-based sales channels (external travel agencies, GDS = global distribution systems e.g., Amadeus) to improve margins to attractive levels. This mainly means increasing own online sales i.e., going digital. The pandemic has rushed the need for digitalization, but it was evident already before as (a) the small size of the Baltic market with four languages including Russian makes it hard to achieve sufficient profitability, (b) the

commissions paid to physical travel agencies squeeze margins, and (c) the younger generations prefer to book on the internet. Worth noting is that we believe the “packaged tour” as product is very much alive. A packaged tour provides a convenient full-service holiday solution often at a better price (through economies of scale) than OTAs where flights and hotels must be booked separately by the client. Consequently, it is about digitalizing the tour operator business model with focus on own online sales.

Tour operators Baltic 2019 EBIT margin

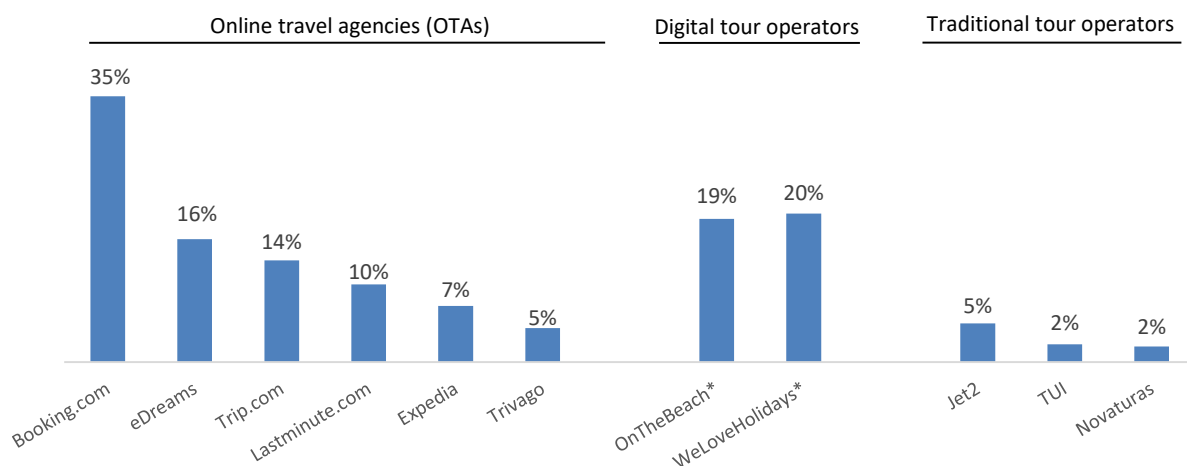
Novaturas	2.1%
Tez Tour EE	1.8%
Tez Tour LT	0.6%
Alida	0.5%
Tez Tour LV	0.0%
Tiketa Tours (Kidy) EE	-2.7%
TUI Baltics	-5.5%
Itaka LT	-13.5%
Tiketa Tours LT	-20.8%
Itaka LV	-53.6%

Source: Company reports

Digitalization implies substantial margin improvement

The “digital only” tour operators OnTheBeach, and WeLoveHolidays posted 2019 EBIT margins of 19%, and 20%, respectively, while the online travel agencies (OTAs) had 2019 EBIT margins between 5-35% (average 15%). Consequently, we believe a successful digitalization of Novaturas own sales channel has potential to increase the EBIT margin from around 2% to 5% or higher. On the other hand, failure to digitalize its sales channel could lead to persistent low margins or even losses, especially as the competition from other players intensify. For example, OTAs continue to ramp up their dynamic packaging capabilities, enabling travellers to mix-and-match travel products to build their own vacation packages, while suppliers – especially airlines – are widening their own tour operator strategies (easyJet has announced an ambitious plan to expand its easyJet Holidays division into a major, pan-European holiday package firm).

EBIT margin of selected travel companies, 2019

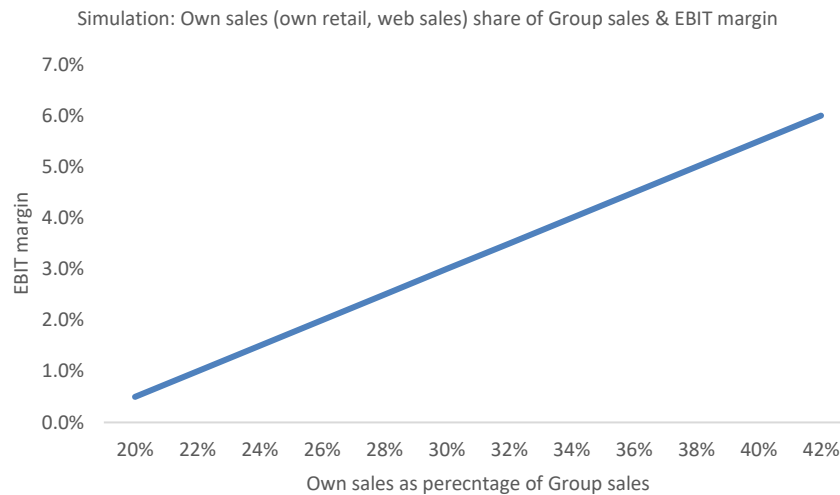


Source: company website

* Excludes one-off costs mainly related to the bankruptcy of Thomas Cook

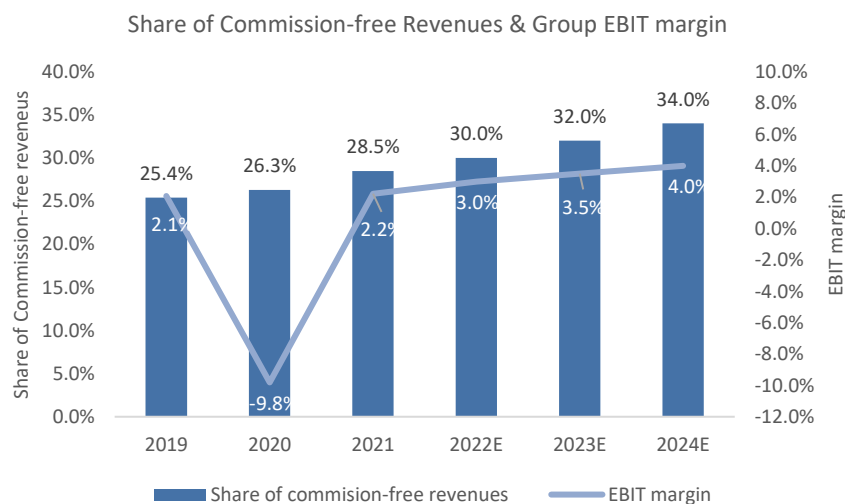
Novaturas digital take-off

For Novaturas, going digital means increasing the sales channels “Own retail” and “Web sales” where no sales commissions are paid vs. the sales channels “Travelling agencies” and “GDS” (global travel booking system, Amadeus) where sales commissions must be paid. According to our simulation, for every two percentage point increase in own sales, the EBIT margin improves by half a percentage point (from 2022 and onward).



Source: Enlight Research simulation

This year, we forecast the commission-free sales to reach 30% of Group sales (up from 28.5% in 2021, and 26.3% in 2020), while the EBIT margin is expected to reach 3.0% (up from 2.2% in 2021). We forecast commission-free sales to increase by two percentage points in 2023 and 2024, resulting in an EBIT margin of 3.5%, and 4.0% respectively. We believe the pandemic has served as a trigger for Novaturas’ digital journey resulting in a focused strategy to increase share of commission-free sales (mainly web based sales). However, the digitalization must be done gradually and with care as external physical travel agencies will remain to be key partners representing 60-70% of sales in the near-term.



Source: Company reports (historical), Enlight Research (Estimates)

Valuation

Peer valuation

We divide our peer group into the following three subgroups: (1) Traditional tour operators, (2) Digital only tour operators, and (3) Online travel agencies (OTAs). As 2020-2022 multiples are misleading due to the pandemic, we focus on 2023 estimated multiples. Not surprisingly, the Traditional tour operators have the lowest 2023 estimated average EV/EBITDA multiple at 4.8x, vs. 11.0x for OTAs and 10.2x for Digital only tour operators. We find it interesting that OTAs and Digital tour operators trade at similar multiples. In our view, this shows that digitalization is the most important aspect – not if you are a travelling agency or a tour operator. This is supported by the historical EBIT margins which in the “normal” year 2019 was 2-5% for the Traditional tour operators vs. 15-19% for the OTAs and Digital tour operators. With a 2023 estimated EV/EBITDA of 5.9x, Novaturas has a premium to the Traditional tour operators. Worth noting is that the peers are substantially bigger and often have different business model so a straight comparison might not be relevant. Regardless, we believe an increase in Novaturas’ online sales could boost margins and lead to a higher valuation multiple (approaching the OTAs and the Digital only tour operators).

Travel & leisure peers

Online Travel Agencies (OTAs)

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	P/Sales 2019	P/Sales 2020	P/Sales 2021	P/Sales 2022E	P/Sales 2023E	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBITDA 2021	EV/EBITDA 2022E	EV/EBITDA 2023E
Booking Holdings Inc	BKNG	USD	2372.00	97,394	98,329	6.5	14.3	9.4	6.4	5.4	16.8	111.9	38.3	18.2	14.6
Expedia Group Inc	EXPE	USD	195.41	29,472	32,329	2.4	5.7	3.6	2.6	2.2	15.1	neg	27.7	13.8	10.7
Trivago	TRVG	EUR	2.19	783	589	0.9	3.1	2.2	1.3	1.1	8.4	neg	45.3	11.3	6.8
eDreams Odigeo SA	EDR	EUR	7.92	932	1,396	1.7	1.8	8.4	3.1	2.1	11.6	12.1	neg	40.9	17.8
Lastminute.com NV	LMN	EUR	38.32	422	359	1.2	3.3	2.6	1.3	1.2	5.7	neg	13.3	5.6	5.0
Average						2.6	5.6	5.2	2.9	2.4	11.5	62.0	31.2	18.0	11.0
Median						1.7	3.3	3.6	2.6	2.1	11.6	62.0	33.0	13.8	10.7

Digital only tour operators

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	P/Sales 2019	P/Sales 2020	P/Sales 2021	P/Sales 2022E	P/Sales 2023E	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBITDA 2021	EV/EBITDA 2022E	EV/EBITDA 2023E
OnTheBeach Group	OTB	GBP	2.42	400	370	2.9	5.6	19.1	2.8	2.4	9.6	53.7	neg	11.3	8.9
HolidayCheck Group AG	HOC	EUR	2.67	232	191	1.6	16.0	8.6	2.7	1.9	29.9	neg	neg	18.4	11.5
Average						2.2	10.8	13.8	2.8	2.2	19.7	53.7	neg	14.9	10.2
Median						2.2	10.8	13.8	2.8	2.2	19.7	53.7	neg	14.9	10.2

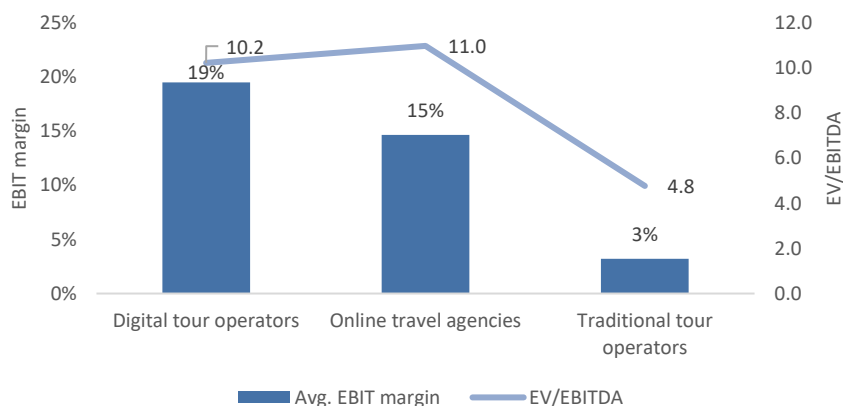
Traditional tour operator

Company	Ticker	Ccy	Price (last)	Mcap (m) (last)	EV (m) (last)	P/Sales 2019	P/Sales 2020	P/Sales 2021	P/Sales 2022E	P/Sales 2023E	EV/EBITDA 2019	EV/EBITDA 2020	EV/EBITDA 2021	EV/EBITDA 2022E	EV/EBITDA 2023E
TUI Group (TUI AG)	TUI1	EUR	2.93	3,221	9,495	0.2	0.4	0.6	0.2	0.2	7.0	neg	neg	5.9	4.8
Jet2 Group (Jet2 PLC)	JET2	GBP	11.48	2,463	2,485	0.8	0.7	6.2	1.8	0.6	7.4	5.0	neg	119.5	4.7
Average						0.5	0.5	3.4	1.0	0.4	7.2	5.0	neg	62.7	4.8
Median						0.5	0.5	3.4	1.0	0.4	7.2	5.0	neg	62.7	4.8

Novaturas	NTU	EUR	4.04	32	40	0.2	1.0	0.3	0.2	0.2	9.5	neg	15.5	8.5	5.9
-----------	-----	-----	------	----	----	-----	-----	-----	-----	-----	-----	-----	------	-----	-----

Source: Company reports, MarketScreener (consensus estimates), Enlight Research (Novaturas estimates), Prices on 30 March 2022

Avg. 2023 EV/EBITDA & 2019 EBIT margin by peer subgroup



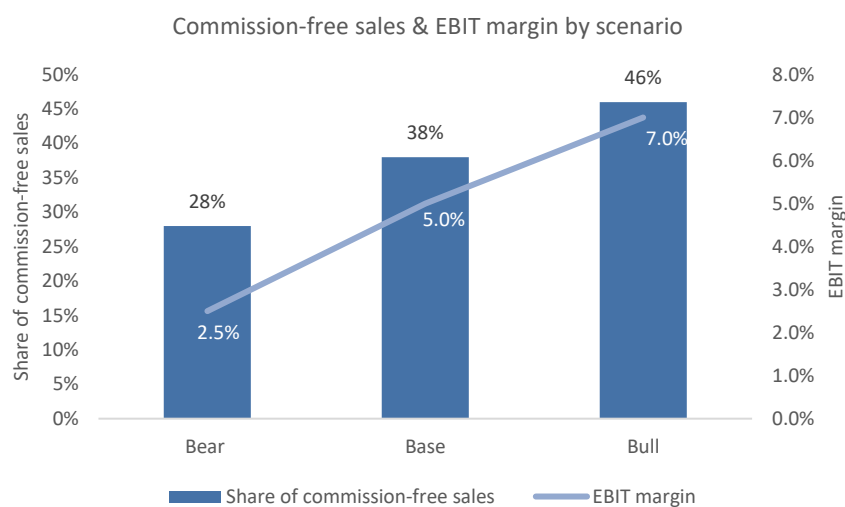
Source: Company reports, MarketScreener (consensus estimates), Enlight Research (Novaturas estimates)

DCF valuation

As illustrated in the Forecast section of this report, we estimate Novaturas’ EBIT margin to improve to 3.5% by the end of 2023, which is driven by an increased share of commission-free sales (assumed to be 32% in 2023). We believe the digitalization and EBIT margin will continue to increase beyond the forecast period 2022-24 and assume a Base case terminal EBIT margin of 5.0%, which indicates a fair value of EUR 5.06 per share (assume 38% share of commission-free sales). Our Bear case Fair value of EUR 3.36 per share assumes the share of commission-free sales and EBIT will stay around current levels of 28%, and 2-3%, respectively. Our Bull case Fair value of EUR 6.76 per share assumes the share of commission-free sales will increase to 46% and the EBIT will increase to 7%. Worth noting is that the assumed increase in commission-free sales is driven by own online sales rather than own travel agency sales.

DCF Valuation Scenarios	Bear	Base	Bull
WACC	13.0%	13.0%	13.0%
Terminal sales growth	2.0%	2.0%	2.0%
Terminal EBIT margin	3.0%	5.0%	7.0%
Fair Value per share	3.36	5.06	6.76
Upside/Downside (last price)	-4%	45%	94%

Source: Enlight Research

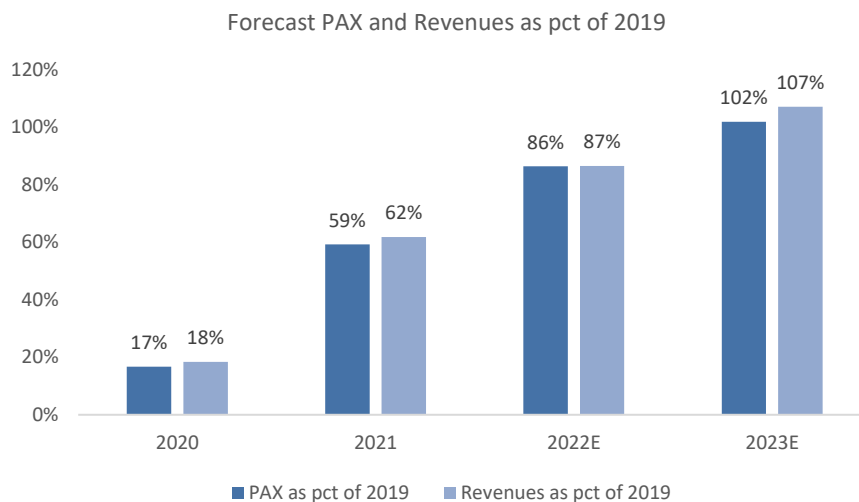


Source: Enlight Research

Forecast

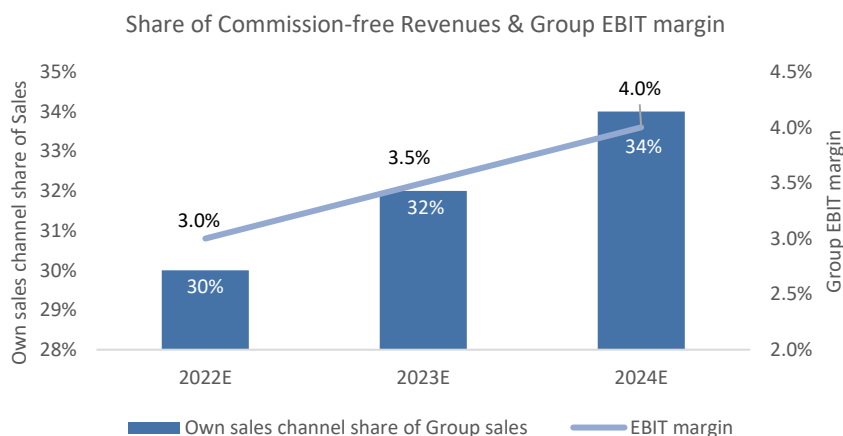
Sales channel and EBIT margin forecast

Our forecast is done by sales channel (Travel agencies, Own retail, Web sales, GDS) rather than by product line (Flight package tours, Sightseeing tours by coach, Sightseeing tours by plane), which we believe will make us better at forecasting the EBIT margin. Our revenue forecast is based on percentage of passengers in relation to the “normal” year 2019. This year, we forecast the pax to reach 250K corresponding to 86% of the 2019 level. In 2023, we forecast the pax to reach 295K corresponding to 102% of the 2019 level. The 2022, and 2023 revenues are expected to reach 87%, and 107%, respectively of the 2019 level, which implies slightly higher revenue per pax.



Source: Enlight Research

The key driver for our improved EBIT margin estimates is a higher share of commission-free sales channels (Own retail, Web sales) vs. commissioned-based sales channels (Travel agencies, GDS). We forecast the commission-free sales to increase to 30.0% in 2022 from 25.4% in the “normal” year 2019. The commission-free sales share is estimated to increase further to 32% in 2023 and 34% in 2024. We estimate the increased share of commission-free sales to improve the 2022 EBIT margin to 3.0% from 2.1% in the “normal year” 2019. For 2023, and 2024, we see further expansion of the EBIT margin to 3.5%, and 4.0%, respectively i.e., 2-pct point increase in commission-free sales gives 0.5-pct point increase in the EBIT margin.



Source: Enlight Research

Group forecast

We forecast 2022 Sales to grow 39% y-on-y to EUR 153m, as the gradual pandemic recovery continue. Worth noting is that the 2022 estimated Sales is still 15% below 2019 year's level. We forecast double-digit sales growth in 2023 (+21%), and then a more normal growth in 2024 (+3%).

Group forecast	Q1/22E	Q2/22E	Q3/22E	Q4/22E	2020	2021	2022E	2023E	2024E
Group sales	21.2	36.6	51.5	43.8	32.9	110.1	153.1	185.2	190.8
<i>Whereof commission based</i>	15.4	26.3	36.8	28.7	24.2	78.7	107.2	126.0	125.9
<i>Travel agencies</i>	15.0	25.7	35.8	27.9	23.7	76.1	104.4	122.6	122.5
<i>GDS</i>	0.4	0.7	0.9	0.8	0.6	2.6	2.8	3.3	3.4
<i>Whereof commission-free</i>	5.9	10.3	14.7	15.1	8.7	31.4	45.9	59.3	64.9
<i>Own retail</i>	2.8	4.9	7.2	2.7	3.8	12.2	17.6	22.2	24.8
<i>Web sales</i>	3.1	5.3	7.5	12.4	4.8	19.2	28.3	37.0	40.1
Cost of Sales	-18.1	-30.7	-42.7	-36.3	-29.2	-97.7	-127.8	-153.8	-158.4
Cost of sales/Group sales	85.0%	84.0%	83.0%	82.9%	88.7%	88.7%	83.5%	83.0%	83.0%
Gross profit	3.2	5.9	8.8	7.5	3.7	12.5	25.3	31.5	32.4
Sales commission expenses	-1.2	-1.9	-2.7	-2.1	-1.8	-5.7	-7.9	-9.2	-9.1
Sales commission rate	7.5%	7.4%	7.4%	7.3%	7.2%	7.2%	7.4%	7.3%	7.2%
Sales after commissions	2.0	3.9	6.0	5.4	2.0	6.8	17.3	22.3	23.4
Other Oper. Inc./exp.	-1.4	-2.8	-4.5	-4.0	-2.5	-4.3	-12.7	-15.8	-15.7
Other Oper. Inc./exp. of Sales	6.6%	7.7%	8.7%	9.2%	7.8%	0.0	8.3%	8.5%	8.2%
EBIT	0.6	1.1	1.5	1.3	-3.2	2.5	4.6	6.5	7.6
Financial net	-0.3	-0.3	-0.3	-0.3	-3.0	-1.1	-1.0	-1.0	-0.9
Pre-tax Profit	0.4	0.8	1.3	1.1	-6.2	1.3	3.6	5.4	6.7
Tax	0.0	-0.1	-0.1	-0.1	0.8	-0.1	-0.4	-0.5	-1.0
Net profit	0.3	0.8	1.2	1.0	-5.4	1.3	3.2	4.9	5.7

Sales growth y-on-y	Q1/22E	Q2/22E	Q3/22E	Q4/22E	2020	2021	2022E	2023E	2024E
Group sales growth	281.3%	55.5%	12.8%	23.7%	-81.7%	234.8%	39.0%	21.0%	3.0%
Commission based sales growth	240.8%	54.0%	14.6%	14.6%	-81.9%	224.8%	36.1%	17.5%	0.0%
Travel agencies sales growth	296.4%	55.2%	15.8%	12.4%	-81.9%	221.8%	37.2%	17.5%	-0.1%
GDS sales growth	-47.6%	16.6%	-18.8%	279.2%	-82.7%	346.4%	4.3%	21.0%	3.0%
Commission-free sales growth	453.9%	59.4%	8.7%	45.8%	-81.0%	262.8%	46.3%	29.1%	9.4%
Own retail sales growth	390.7%	82.5%	46.3%	-33.0%	-80.7%	217.6%	44.0%	26.3%	11.6%
Web sales growth	525.5%	42.7%	-12.8%	96.2%	-81.3%	299.0%	47.8%	30.8%	8.1%

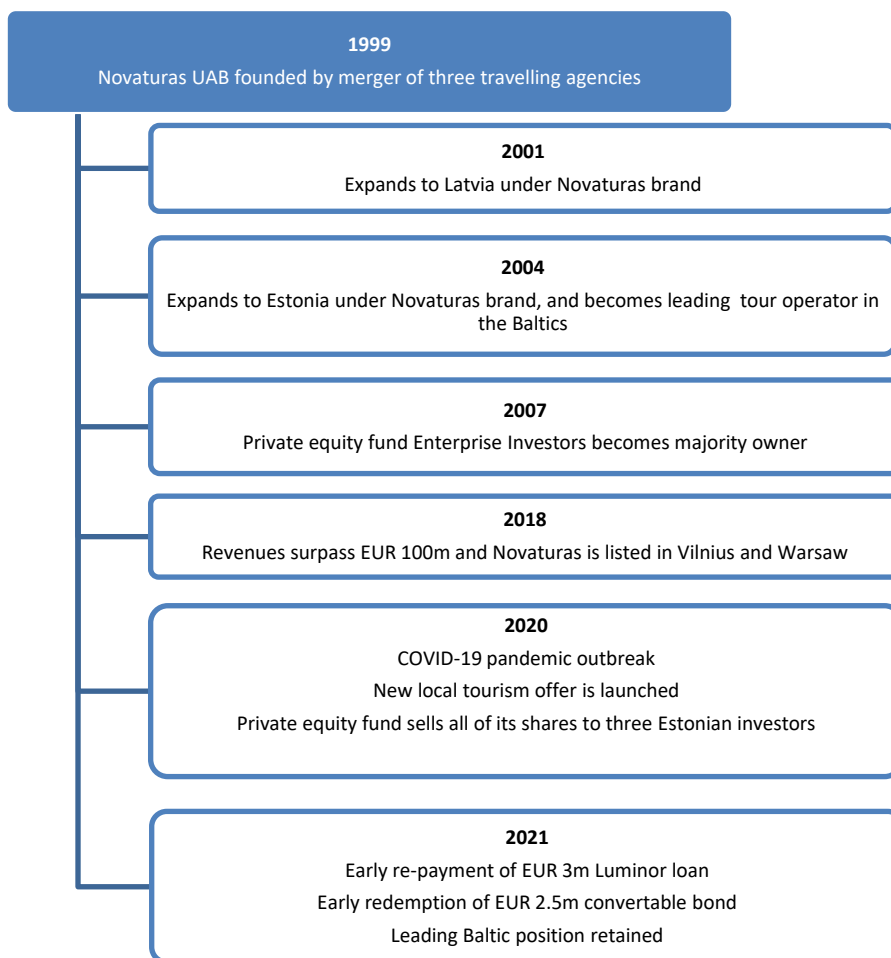
Group margins	Q1/22E	Q2/22E	Q3/22E	Q4/22E	2020	2021	2022E	2023E	2024E
Gross profit margin	15.0%	16.0%	17.0%	17.1%	11.3%	11.3%	16.5%	17.0%	17.0%
EBIT margin	3.0%	3.0%	3.0%	3.0%	-9.8%	2.2%	3.0%	3.5%	4.0%
Pre-tax Profit margin	1.8%	2.3%	2.5%	2.4%	-18.9%	1.2%	2.3%	2.9%	3.5%
Net profit margin	1.6%	2.1%	2.3%	2.2%	-16.5%	1.2%	2.1%	2.6%	3.0%

Source: Company reports (historic), Enlight Research (estimates)

Company description

History

Novaturas was founded in 1999 in Lithuania with the merger of three local travelling agencies. In 2001, the company expanded to Latvia and in 2004 to Estonia (became the largest tour operator in the Baltics). In 2007, the private equity fund, Enterprise Investors becomes the majority owner. In 2016, the turnover surpassed EUR 100m EUR. In 2018, Novaturas was listed on the Nasdaq Vilnius Stock Exchange and the Warsaw Stock Exchange. Following the COVID-19 outbreak in 2020, the company introduced a new offering for local tourism. The same year, the private equity fund, Enterprise Investors sold all its shares to three Estonian investors. The COVID-19 pandemic has hit Novaturas hard, but the leading Baltic market position have been retained, perhaps even strengthened.



Source: Company website, Company reports, Company press releases

Product offer and Brands

Novaturas product portfolio consists of the following five key offerings: flight package tours, round trips by plane, round trips by coach, other ancillary products, and recently added local tourism. These offers are sold under three main brands (Novaturas/Novatours, Novaturas Gold, Eco Travel).

Flight package tours is the main product offer. The Flight package tours includes a full range of services, including flights, transfers from airport to hotel, accommodation, around-the-clock resident tour guide and attractions during the stay. The destinations include the most popular summer destinations in Europe (Turkey, Greece, Bulgaria, Spain etc.), and North Africa (Egypt) as well as winter destinations in Italy and France.

Round trips by plane are long distance trips (charter or regular flights) mainly to Asia and North Africa offering customers the possibility to organise part of the trip themselves. These tours may also include overnight arrangements as well as sightseeing tours by coach in the destination country, and a full-time guide who stays with the tourists during the entire trip, providing them with information on the country and the available attractions.

Round trips by coach are organised from Lithuania to European destinations (including Poland, France, Italy, Austria, Croatia and Greece) and are fully arranged including overnight stays as well as coach transport to destinations chosen by the customers. The trips almost always include roundtrip sightseeing in the country, supported by the company's travel guides who accompany tourists on the entire trip and provide comprehensive information about the country, culture, and sightseeing points etc.

Other products include selling airline tickets and hotel bookings online. These are sold both to retail customers but also to other tour operators in case the company needs to share plane seats. The company sells flight tickets via the Global Distribution System (GDS), Amadeus.

Local Baltic tourism packages were added to meet the demand for local travel due to constraints on foreign travel caused by the pandemic. The company also introduced a new service called, Covid Pause, that allows people to postpone the trip in case the traveller is confirmed Covid-19 positive before the trip. With this, the company aims to protect the travellers from additional stress while planning future holidays and holiday budgets.

Novaturas brands

To reach a wider range of customer segments and provide price flexibility, the company operates several brands in addition to its main brand, "Novaturas/Novatours". One example is the budget flight package tours brand, "ECO Travel", as well as premium holiday package brand, "Novaturas Gold". In addition, the company owns the retail agency brand, "Sofa travel" in Lithuania.



Source: Company website

Business model

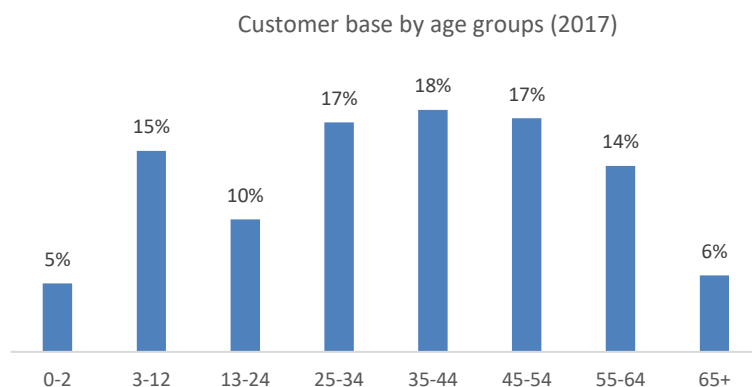
Using the consulting company BMI’s Business Model Canvas, we illustrate Novaturas’ business model as follows:

Novaturas BMI business model canvas

Key Partners	Key Activities	Value Propositions	Customer Relationships	Customer Segments
<ul style="list-style-type: none"> - Charter airlines: main partners are two Baltic aviation companies; buy pre-defined flight hours - Coach companies: rent coaches on seasonal basis - Hotel operator: buy rooms on allotment basis - Local suppliers: annual or seasonal contracts - Travel agency: sell packaged tours, commissions range between 8-12% 	<ul style="list-style-type: none"> - Arrange packaged tours (flight, transfer, hotel, cruises) for one price - Buy in bulk at discount - Take financial risk 	<ul style="list-style-type: none"> - Full service leisure travel with local support and services, priced better than buying separately - Differentiated offering: <ul style="list-style-type: none"> o Standard o Budget o Premium - Wide product portfolio of types of tours and destinations: <ul style="list-style-type: none"> o Summer o Winter o Short-haul o Long-haul 	<ul style="list-style-type: none"> - Personal customer service via phone and email - Online self-service capabilities 	<ul style="list-style-type: none"> - Mass market in Estonia, Latvia and Lithuania - Market share: 49% in Lithuania, 39% in Latvia, 39% in Estonia.
	Key Resources		Channels	
	<ul style="list-style-type: none"> - Number of employees is 153 as of end of June 2021, o/w 22% representatives abroad, 13% retail personnel and 65% office personnel - Asset light business model: does not own hotels or airlines 		<ul style="list-style-type: none"> - Network of 400 travel agencies (70% of sales in 6m 2021) - Own retail sales offices (11%) - E-commerce (15%) - E-commerce GDS (3%) 	
Cost Structure		Revenue Streams		
<ul style="list-style-type: none"> - Cost structure as % of total costs (2019): agency commissions 54%, other cost of sales (mainly own distribution) 22%, general and admin costs 25% 		<ul style="list-style-type: none"> - Revenue structure by products (2019, pre-Covid): Flight package tours 87%, sightseeing tours by coach 2%, sightseeing tours by plane 1%, other sales 11% - Revenue seasonality as percent of yearly income by quarters (2019): Q1 16%, Q2 30%, Q3 31%, Q4 22% - Revenue model: fixed pricing model 		

Source: BMI (structure), Enlight Research (content), Designed by: The Business Model Foundry www.businessmodelgeneration.com/canvas. Word implementation by: Neos Chronos Limited (<https://neoschronos.com>). License: CC BY-SA 3.0

Customer segments: the company serves the mass market in Lithuania, Latvia, and Estonia. According to the IPO prospectus from 2018, Novaturas has the leading market share in the Baltics (44%) and in each of the Baltic countries (49% in Lithuania, 39% in Latvia, 39% in Estonia). Since then, several new players have tried to establish themselves, but no one has managed to take over the leading position i.e., Novaturas is still the market leader. The main customer focus group and most loyal spender is a customer in the age group 35-40 years. According to the IPO prospectus, an average customer typically makes 1.4 trips per year with an average duration of 7.7 days, on average booked 100 days in advance. The Company’s overall customer base distribution is presented in below chart.



Source: IPO prospectus

Value proposition: the company’s value proposition is to offer full service leisure travel packages at an attractive price.

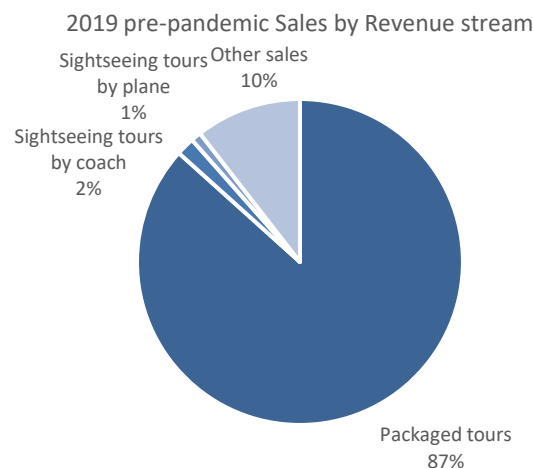
Channels: the company sells its holiday packages through four main sales channels: 1) external travel agencies (more than 400 agencies), 2) direct sales in its offices in Lithuania, Latvia and Estonia, 3) own online sales platform and 4) GDS platform Amadeus. External travel agencies are the largest sales channel with about 70% of group sales, followed by own online sales (around 17% of group sales).

Revenue by channel (EURm)	2018	2019	2020	2021
Travel agencies	132.3	130.7	23.7	76.1
Own retail	20.8	19.9	3.8	12.2
Web sales	25.7	25.7	4.8	19.2
GDS	3.3	3.4	0.6	2.6
Total	182.0	179.7	32.9	110.1

Source: Company reports

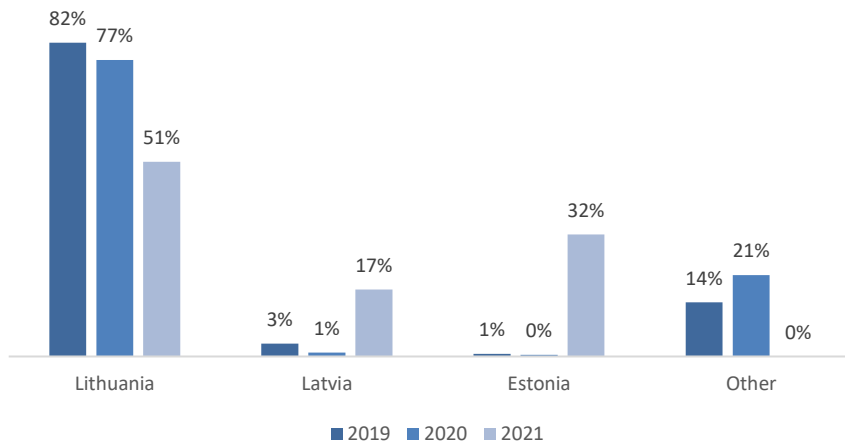
Customer relationships: the customer contact points are handled by the company via email, phone, and self-service online support. Furthermore, the customer relationship is built by the onsite destination tour guides.

Revenue streams: In non-pandemic year, Sale of packaged tours is the largest revenue stream with around 87% of Group sales. This is followed by sightseeing tours by coach (2%), sightseeing tours by plane (1%), and other sales (10%). From a geographical client perspective, the largest market is Lithuania representing about half of total clients served, followed by Estonia with approximately one third with the remaining part from Latvia. Key destinations include Turkey and Egypt that generate approximately two thirds of total sales, followed by European destinations representing about one third of total sales. The revenue streams follow a strong seasonal pattern. The strongest quarters are second and third quarters, each representing about 30% of annual sales.



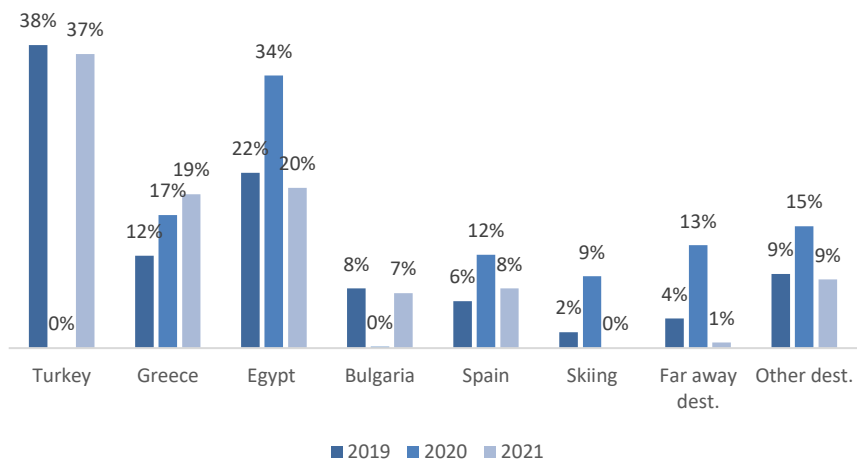
Source: Company reports

Client distribution by Country



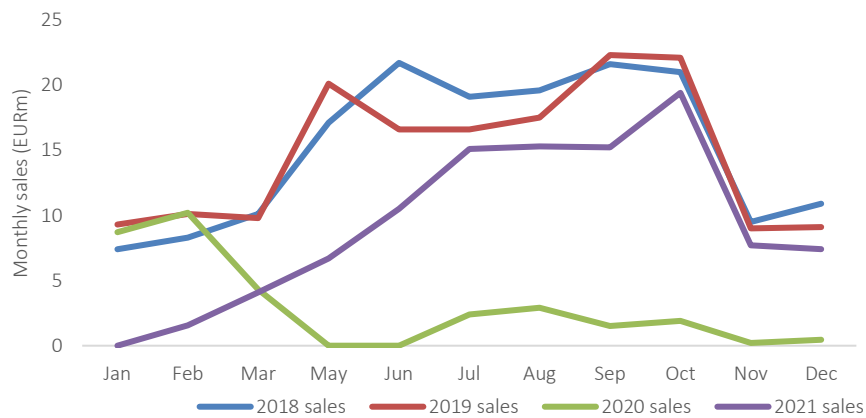
Source: company reports

Destination distribution by Country



Source: company reports

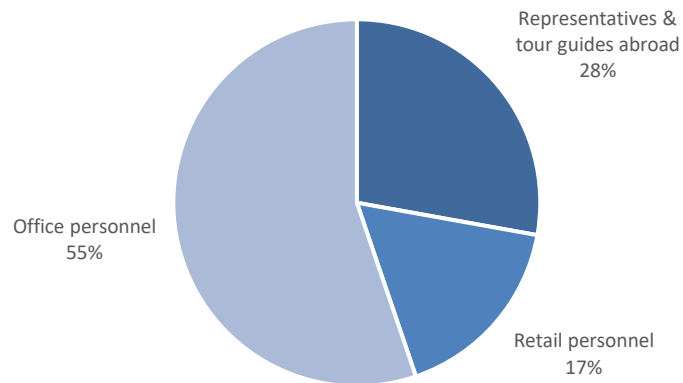
Monthly Group Sales by Year (EURm)



Source: company reports

Key resources: the company operates an asset light business model and does not own hotels or airlines. The key resource is its employees. The total number of employees at the end of 2020 was 119, which is roughly half of the number of employees at the end of 2019 (reduction is due to the pandemic). In the normal year 2019, the three main categories of employees are representatives abroad/tour guides (28%), retail personnel (17%), and office personnel (55%).

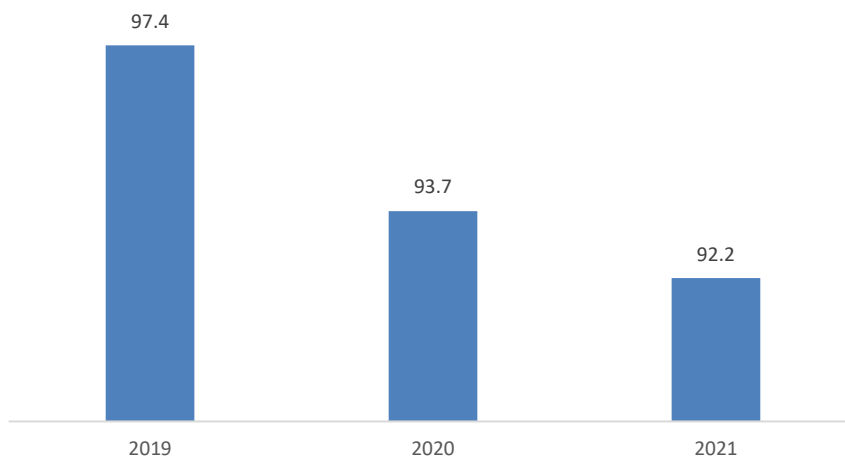
2019 Employee distribution by category



Source: company reports

Key activities: the company takes financial risk by buying in bulk charter flight seats and hotel rooms and other necessary supporting services and bundling them into a package that is sold to customers. An important efficiency metric to follow is the load factor (percentage of available seating capacity that has been filled with passengers) which has been around 97-98% in pre-Covid area.

Load factor (%)

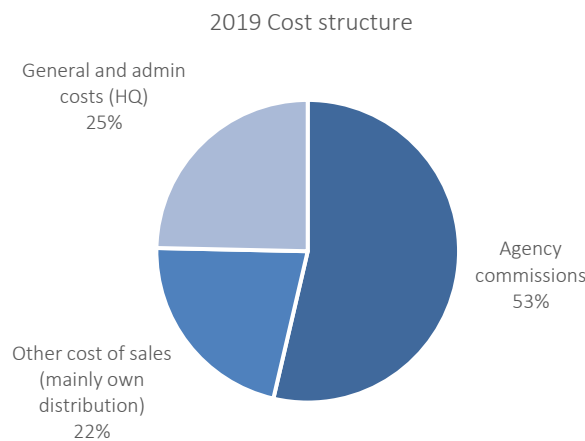


Source: company reports

Key partners: as the company operates an asset light business model, it relies on several key partners to provide it services:

- **Transportation suppliers:** the company mainly works with two key Baltic aviation companies but is also constantly looking for and negotiating new offers with transport suppliers to ensure maximum efficiency.
- **Coach companies:** Although the Group is working with several companies from which it rents coaches on a seasonal basis, it has a main partner who buys new busses and brand them with Novaturas logos.
- **Accommodation suppliers:** The Group contracts accommodation primarily on an allotment basis, meaning that a certain number of rooms are contracted without any obligation by the Group to use them. As a result, the Group pays only for the actual number of rooms used. Standard contracts are concluded for a period of one season. The Company hedges against currency risk for hotel expenses for hoteliers demanding payment in other currencies than EUR.
- **Local suppliers:** they are partners providing ordinary destination services such as transfers from and to the airport, excursions, hotel contracts/capacities, representative’s support. The Company concludes annual or seasonal contracts with the local suppliers.

Cost structure: based on pre-pandemic 2019, the largest cost item for the company is the travel agency commissions which make up a bit over half of the total costs. This is followed by Other costs (22%) which is mainly cost of own distribution channels. The remaining 25% of total costs is General and administrative costs.



Source: company reports

Shareholders

As of end of September 2021, the two largest owners were the Lithuanian logistics group, Girtėka’s investment company, ME Investicija (9.99%), and the co-founder Ugnius Radvila (9.49%). The Estonian company Rendez Vous OU is the third largest owner (8.34%). The fourth largest owner is another Estonian company, Moonrider OU (6.96%), related with the Estonian Investment company, Go Group. The co-founders Rytis Sumakaris, and Vidas Paliunas are also among the main shareholders. See below table for shareholders.

Shareholders	Pct capital and votes
ME Investicija	9.99%
Ugnius Radvila	9.49%
Rendez Vous OU	8.34%
Moonrider OU	6.96%
Rytis Sumakaris	6.86%
Vidas Paliunas	6.86%
Others	51.50%
Total	100.00%

Source: 2021 Company report

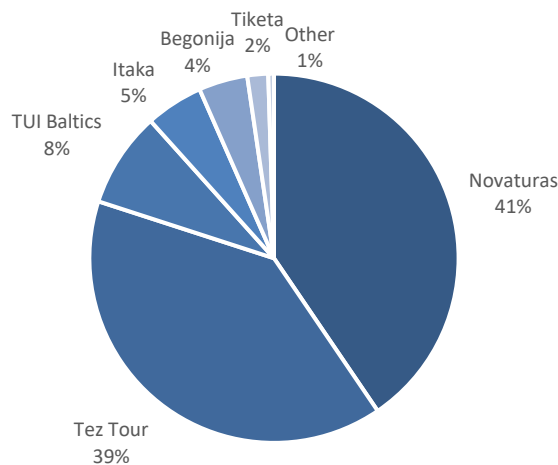
Market overview

The market is dominated by three large Pan-Baltic players: Novaturas, Tez Tour and TUI Baltics who command approximately 88% of the Baltic packaged tour market. Novaturas is the market leader with about 41% of the market but the tour operator, Tez Tour, is not far behind with about 39% of the market. The world’s leading tourism group, TUI Group, is the third largest player in the Baltics with an estimated 8% market share. This year, the international tour operator, Coral Travel, entered the Baltic countries. Given the pandemic, it is too soon to judge if the entry has been successful or not.

Largest players	Operating in			Sales, EURm	
	Estonia	Latvia	Lithuania	2019	2020
Novaturas	yes	yes	yes	179.7	32.9
Tez Tour	yes	yes	yes	175.2	28.7
TUI Baltics	yes	yes	yes	37.1	8.1
Itaka	no	yes	yes	22.4	2.6
Begonija	no	yes	no	19.0	3.4
Tiketa Tours	yes	no	yes	8.1	0.7
Alida	no	yes	no	0.8	0.1
Germalo	yes	no	no	1.4	0.3
Coral Travel	yes	yes	yes	na	na

Source: Company reports

2019 Novaturas estimated market share



Source: Company reports

Risk factors

Below should not be regarded at a complete list of risk factors for Novaturas. It is a list of risk factors that we deem to be most relevant given the current environment. For more risk factors, we recommend reading the Company prospectus.

Covid-19 development

Our base case assumption is that no additional complete lock-down will be implemented. This means that people with a green certificate will be able to travel freely. If a complete lock-down would occur, our forecast is most likely too optimistic under all scenarios.

Digitalization

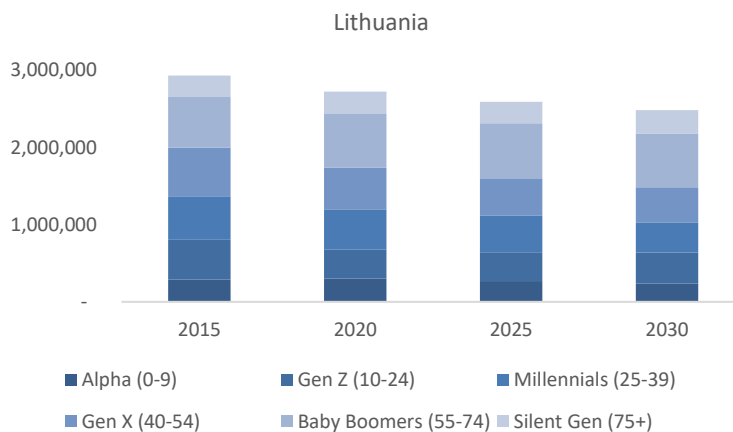
Digitalization is a key driver for our investment case. Failure to increase the online share of group sales will most likely mean that our EBIT margin is too optimistic, especially for our Base and Bull cases.

Insider selling

The fourth largest shareholder (8.8% of shares), the Estonian company, Rendez Vous OU, has been reducing its position frequently in the last months. This does not automatically mean there is something wrong with the company, but it does affect the share price occasionally.

Demographic situation

While the current demographic situation is supportive with a relatively high share of the population being in the main target group (Millennials 25-39 years of age) for packaged travel, it should be mentioned that the absolute number of people in the age group between 25-39 years of age is expected to decrease in the coming 5-10 years.



Source: populationpyramid.net

Changes in customer preferences

The package tour market is subject to changing customer trends, demands and preferences. Customer preferences may vary depending on economic, social, and technological factors. There can be no assurance that the company will be able to recognize such changes and adapt its existing services in a timely fashion to suit such changes in customer preferences.

Russia – Ukraine conflict

The Russia – Ukraine conflict could affect people willingness and ability to travel, which could have a negative effect on the Novaturas sales and earnings.

Income Statement	2020	2021	2022E	2023E	2024E
Net sales	33	110	155	188	194
Total operating costs	-36	-108	-151	-181	-185
EBITDA	-3	3	5	7	8
Depr. & Amort.	0	0	0	0	0
One-off EBIT items	0	0	0	0	0
EBIT	-4	2	5	7	8
Financial net	-3	-1	-1	-1	-1
Pre-tax profit	-7	1	4	6	7
Taxes	1	0	0	-1	-1
Minority interest	0	0	0	0	0
Other items	0	0	0	0	0
Net profit	-6	1	3	5	6

Balance Sheet	2020	2021	2022E	2023E	2024E
Cash and cash equivalent	3	9	12	15	15
Receivables	0	0	1	1	1
Inventories	0	0	0	0	0
Other current assets	10	8	12	13	13
Total current assets	14	16	25	29	29
Tangible assets	0	0	0	0	0
Goodwill & intangible assets	31	31	31	31	31
Lease & Investment properties	0	0	0	0	0
Long-term Investments	0	0	0	0	0
Associated companies	0	0	0	0	0
Other long-term assets	0	0	0	0	0
Total fixed assets	32	32	32	32	32
Total Assets	45	48	57	61	62
Accounts payable	2	5	8	6	5
Short-term IB debt	6	5	8	10	8
Other current liabilities	12	9	9	9	9
Total current liabilities	20	20	25	25	23
Long-term IB debt	9	5	8	10	8
Convertibles & Lease liab.	3	7	5	4	4
Deferred tax liab.	0	0	0	0	0
Provisions	0	0	0	0	0
Other long-term liab.	0	0	0	0	0
Total long-term liab.	12	12	13	14	12
Total Liabilities	32	33	38	38	35
Minority interest	0	0	0	0	0
Shareholders' equity	14	15	19	23	27
Total liabilities and equity	45	48	57	61	62

DCF valuation	Cash flow, mEUR		
WACC (%)	13.27 %	NPV FCF (2022-2024)	7
Assumptions 2022-2028 (%)		NPV FCF (2025-2031)	16
Sales CAGR	5.65 %	NPV FCF (2032-)	26
Avg. EBIT margin	4.29 %	Non-operating assets	9
Fair value per share (EUR)	5.06	Interest-bearing debt	-18
Share price (EUR)	4.13	Fair value estimate	39

Free Cash Flow	2020	2021	2022E	2023E	2024E
Operating profit	-4	2	5	7	8
Depreciation	0	0	0	0	0
Working capital chg	-6	1	-3	-3	-1
Other Operating CF items	0	0	0	-1	-1
Operating Cash Flow	-10	3	1	3	6
Net investments	0	0	0	0	0
Other items	0	0	0	0	0
Free Cash Flow	-10	3	1	3	6

Capital structure	2020	2021	2022E	2023E	2024E
Equity ratio	30.3%	32.2%	32.8%	37.1%	43.6%
Debt / Equity ratio	127.8%	114.0%	113.1%	103.0%	76.3%
Gearing %	105.5%	57.3%	46.8%	36.6%	18.7%
Net debt/EBITDA	-4.4	3.4	1.9	1.2	0.6

Profitability	2020	2021	2022E	2023E	2024E
ROE	-33.9%	8.7%	19.3%	24.2%	23.4%
FCF yield	-42.6%	21.2%	3.2%	7.9%	17.6%
EBITDA margin	-10.1%	2.4%	3.0%	3.6%	4.2%
EBIT margin	-10.8%	2.2%	3.0%	3.5%	4.0%
PTP margin	-19.9%	1.2%	2.4%	3.0%	3.5%
Net margin	-17.5%	1.2%	2.1%	2.7%	3.0%

Valuation	2020	2021	2022E	2023E	2024E
P/E	-4.0	23.4	9.8	6.5	5.6
P/E adjusted	-4.0	23.4	9.8	6.5	5.6
P/Sales	0.7	0.3	0.2	0.2	0.2
EV/Sales	1.1	0.4	0.3	0.2	0.2
EV/EBITDA	-11.3	14.9	8.7	5.9	4.6
EV/EBIT	-10.5	15.8	8.8	6.2	4.8
P/BV	1.7	1.9	1.7	1.4	1.2
P/BV tangible	-1.3	-1.9	-2.6	-3.7	-7.2

Per share ratios	2020	2021	2022E	2023E	2024E
EPS	-0.74	0.16	0.42	0.64	0.74
EPS, adjusted	-0.74	0.16	0.42	0.64	0.74
Operating CF/share	-1.28	0.83	0.18	0.37	0.78
Free Cash Flow/share	-1.25	0.81	0.13	0.33	0.73
BV/share	1.76	1.98	2.40	2.90	3.44
Tangible BV/share	-2.12	-1.91	-1.48	-0.98	-0.44
Div. per share	0.00	0.00	0.14	0.20	0.22
Div. payout ratio	0.0%	0.0%	33.2%	31.2%	29.7%
Dividend yield	0.0%	0.0%	3.4%	4.8%	5.3%

Shareholders	Capital	Votes
ME Investicija	3.221	9.99 %
Ugnius Radvila	3.060	9.49 %
Rendez Vous OU	2.689	8.34 %
Moonrider OU	2.244	6.96 %
Rytis Sumakaris	2.212	6.86 %
Vidas Paliunas	2.212	6.86 %

Key people	
CEO	Vitalij Rakovski
CFO	Giedrius Ribakovas
IR	
Chairman	

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraordinary items and taxes – income taxes + minority interest}}{\text{Number of shares}}$
P/Sales	$\frac{\text{Market cap}}{\text{Sales}}$	DPS	Dividend for financial period per share
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity + taxed provisions per share}}$	CEPS	$\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF	$\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share	$\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value)	Market cap + Net debt + Minority interest at market value – share of associated companies at market value	Sales/Share	$\frac{\text{Sales}}{\text{Number of shares}}$
Net debt	Interest-bearing debt – financial assets	EBITDA/Share	$\frac{\text{Earnings before interest, tax, depreciation and amortization}}{\text{Number of shares}}$
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share	$\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	EAFI/Share	$\frac{\text{Pre-tax profit}}{\text{Number of shares}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share	$\frac{\text{Total assets – non-interest-bearing debt}}{\text{Number of shares}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets	Balance sheet total
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes – income taxes + minority interest}}$	Interest coverage (x)	$\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share	$\frac{\text{Financial assets – interest-bearing debt}}{\text{Number of shares}}$	Asset turnover (x)	$\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, %	$\frac{\text{Operating profit + financial income + extraordinary items}}{\text{Balance sheet total – interest-free short-term debt – long-term advances received and accounts payable (average)}}$	Debt/Equity, %	$\frac{\text{Interest-bearing debt}}{\text{Shareholders' equity + minority interest + taxed provisions}}$
ROCE, %	$\frac{\text{Profit before extraordinary items + interest expenses + other financial costs}}{\text{Balance sheet total – non-interest-bearing debt (average)}}$	Equity ratio, %	$\frac{\text{Shareholders' equity + minority interest + taxed provisions}}{\text{Total assets – interest-free loans}}$
ROE, %	$\frac{\text{Profit before extraordinary items – income taxes}}{\text{Shareholders' equity + minority interest + taxed provisions (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth rate per year

Disclaimer

Enlight Research OÜ's main valuation methods are discounted cash flow valuation and peer valuation with common multiples such as Price to Earnings, Enterprise Value to EBITDA, dividend yield etc. Aforementioned methods are used to estimate a company's fair value according to the following three scenarios: Bull (positive), Base (main scenario), and Bear (negative).

This report is commissioned by the company covered in this report which means Enlight Research OÜ receives compensation to write research on the company. The compensation is pre-determined and does not depend on the content in the report. This report is not to be considered investment research under MiFID regulations. Enlight Research OÜ does not issue investment recommendations or advice.

This report is for informational purposes only i.e. it should not be considered as an offer to sell or buy. Investors are encouraged to make their own research and not rely solely on this report when making their investment decisions. The decision to invest or not to invest is fully the responsibility of the investor i.e. Enlight Research OÜ takes no responsibility nor gives any guarantees with regards to investment decisions made by investors. Investing in equities entails risk e.g. the price of an equity decreases. Past performance is not a guarantee for future performance.

This report is based on information and sources that Enlight Research OÜ deemed to be reliable. However, Enlight Research OÜ cannot guarantee the accuracy or completeness of the information. All forward-looking statements and financial forecasts entail uncertainty and are subject to change without notice. Enlight Research OÜ accept no liability for any loss or damage resulting from the use of this report.

The analyst(s) writing this report own shares in the company in this report: No

The analyst(s) responsible for this report are not allowed to trade in any financial instruments of the company in this report until after the analyst report has been published, or if other conflict of interest exist e.g., advisory related.

Investors should assume that Enlight Research OÜ is seeking, or is performing, or have performed advisory services or other revenue generating services for the company in this report. An analyst's compensation is never directly related to advisory projects. An analyst working on advisory projects will be taken over the "Chinese wall" as soon as relevant regulations and/or guidelines require this.

The document may not be copied, reproduced, distributed, or published to physical or legal entities that are citizens of or domiciled in any country where relevant laws and/or regulations prohibit this.

This report may not be copied, reproduced, distributed, or published other than for personal reasons without written permission by Enlight Research OÜ. To apply for permission, send an email to below address:

ResearchTeam@enlightresearch.net

© Copyright 2019 Enlight Research OÜ



Follow on Twitter

@ResearchEnlight

Contact information

ResearchTeam@EnlightResearch.net