Aspo

Business Services
Finland

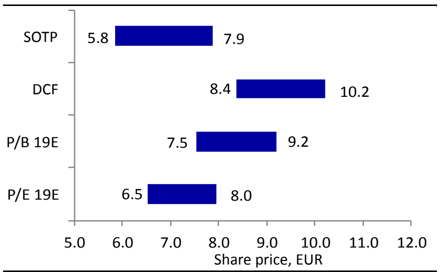
KEY DATA

Stock country	Finland
Bloomberg	ASPO FH
Reuters	ASPO.HE
Share price (close)	EUR 8.66
Free Float	88%
Market cap. (bn)	EUR 0.27/EUR 0.27
Website	www.aspo.com
Next report date	13 Feb 2020

PERFORMANCE

Source: Thomson Reuters

VALUATION APPROACH



Source: Nordea estimates

ESTIMATE CHANGES

Year	2019E	2020E	2021E
Sales	0%	0%	0%
EBIT (adj)	-3%	-2%	-2%

Source: Nordea estimates

Nordea Markets - Analysts
Pasi Väisänen
Senior Analyst

Joni Sandvall
Analyst

Lots of catching up to do in Q4

Aspo reiterated its operating profit guidance of EUR 24-30m for 2019 despite the soft Q3 report, which fell short of Thomson Reuters' consensus expectations. ESL Shipping was affected by lower volumes from key customers, and we believe this weakness will persist in Q4 2019. The company still expects moderate growth in its eastern market, despite declining demand in Telko's eastern markets. We remain cautious towards the full-year guidance – it will require almost flawless execution across all divisions. We trim our 2019-21 EBIT estimates by 2-3%, mainly due to the weaker-than-anticipated Telko results. We hence derive a new trading range of EUR 7.1-8.8 (7.2-8.9).

Q3 was soft; it will be hard to post a positive surprise for Q4

Weak cargo volumes and small issues with new LNG vessels' warranty repairs pressured sales and profitability for ESL Shipping. Steel and forest industry shipments were lower than anticipated in Q3 and we expect this will continue in Q4, as one of its key customers, SSAB, has announced idle time for one of its blast furnaces in Raahe. The Telko segment continued to suffer from low volume plastic prices and the economic slowdown. Kauko, which is reported beneath Telko, turned loss-making in Q3. The Leipurin machinery business will remain loss-making for 2019E as a large order was postponed until Q2 2020.

We trim our 2019-21 estimates – guidance at risk

We lower our 2019-21 adjusted EBIT estimates by 2-3% and flag guidance risk for 2019; Aspo must execute perfectionly on all fronts during in Q4 to reach 2019 guidance of EUR 24-30m EBIT. That guidance range of EUR 6m is abnormally wide considering there are only two months left in the year. Aspo's net debt decreased due to strong cash flow but remains elevated, with reported net gearing of 174%. Aspo will host its CMD on 26 November, when we think the company could lower its ambitious group EBIT margin target from 7% down to a more reasonable target of around 6%.

Valuation

We derive our fair value for Aspo using a combination of peer group, SOTP, and DCF analyses. By equally weighting the four different valuation approaches (DCF, P/BV, SOTP, and P/E), we arrive at a fair value range of EUR 7.1-8.8 (7.2-8.9). Aspo's dividend yield for 2019E-21E is ~5.5%, offering good support for the share.

SUMMARY TABLE - KEY FIGURES

EURm	2015	2016	2017	2018	2019E	2020E	2021E
Total revenue	446	457	502	541	597	624	650
EBITDA (adj)	33	32	36	38	52	60	63
EBIT (adj)	21	20	24	27	24	31	34
EBIT (adj) margin	4.6%	4.5%	4.7%	4.9%	4.0%	5.0%	5.2%
EPS (adj)	0.50	0.48	0.59	0.58	0.49	0.69	0.79
EPS (adj) growth	-17.5%	-2.4%	22.7%	-2.1%	-16.4%	42.6%	14.2%
DPS (ord)	0.41	0.41	0.43	0.44	0.46	0.48	0.50
EV/Sales	0.7	0.8	0.8	0.8	0.8	0.8	0.7
EV/EBIT (adj)	16.2	17.5	17.9	16.2	20.9	15.6	14.1
P/E (adj)	15.1	16.9	16.8	13.7	17.8	12.5	10.9
P/BV	2.2	2.2	2.8	2.1	2.3	2.1	2.0
Dividend yield (ord)	5.5%	5.0%	4.3%	5.5%	5.3%	5.5%	5.8%
FCF Yield bef A&D, lease	4.5%	3.9%	-0.1%	-9.1%	4.9%	8.3%	9.3%
Net debt	104	103	117	180	220	214	205
Net debt/EBITDA	3.1	3.2	3.3	4.9	4.2	3.5	3.2
ROIC after tax	8.2%	8.0%	8.9%	8.4%	6.3%	7.9%	8.6%

Source: Company data and Nordea estimates

Q3 results, revisions and detailed estimates

Aspo's Q3 net sales and adjusted EBIT were below Thomson Reuters consensus estimates. There where no items affecting comparability in Q3. ESL Shipping beat our sales estimates but missed our adjusted EBIT estimate. Leipurin beat our net sales and adjusted EBIT estimates, while Telko missed on both Q3 sales and adjusted EBIT estimates. Aspo reiterated its lowered guidance (1 August), however, we see full-year EBIT guidance of EUR 24-30m as somewhat challenging because we continue to see uncertainty in all operating segments for Q4 2019.

ESL and Telko missed our estimates

ESL missed our Q3 EBIT estimate by 7% (EUR 0.3m) with 6% (EUR 2.3m) higher sales. ESL continued to be affected by the lower transportation volumes, especially from its main segment (steel industry). We note that AtoB@C increased net sales by EUR 13.3m, leaving the underlying sales growth in ESL at -2% during Q3. ESL operates normally with contractual deals, while lower-than-budgeted contractual transportation volumes resulted in higher-than-expected operations in less profitable spot markets during Q3. We note that the Baltic Dry index has been somewhat higher y/y in Q3, however, which mitigates some of the effect.

A key issue for Aspo is, of course, how steel deliveries will develop in the future, especially since Aspo's two new LNG vessels were purchased, to our knowledge, specifically to meet steel delivery demand. One of Aspo's major customers, SSAB, noted in its Q3 report that it will idle one blast furnace (with a capacity of 1.3m tonnes) in Raahe at the end of November. This comes on top of mid-term repair, which lowered volumes during Q3. In addition, AtoB@C is dependent on forest industry shipments, which we will likely remain under pressure in the Nordics.

There were still warranty issues with the new LNG vessels, which caused some idle days, but the company says there should not be any more. During Q3, one larger and two smaller vessels were docked as scheduled, while one large ship was repaired for two weeks, unexpectedly. Aspo acquired m/s Alppila in August and expects it to improve ESL profitability from Q4 onwards.

Telko's EBIT missed our estimate by 19% (EUR 0.6m) with 3% (EUR 2.7m) lower sales as its operations were further affected by lower material prices, intensified price competition, and more cautious customers. In volume terms, Telko's sales increased by 8% y/y. The Kauko segment was reported under the Telko segment for the third time, and it contributed EUR 6m (-42% y/y) to Telko's sales, indicating 2% sales growth for Telko's plastic and chemical operations in Q3. Kauko's turned loss-making during the quarter as its EBIT fell EUR 0.8m from EUR 0.7m in Q3 2018.

Telko's new Managing Director, Mikko Pasanen, has started at the company. We view it as a positive that the company found a replacement for previous MD rather quickly. Mr. Pasanen joins Telko having last been the CEO of Onninen and Senior Vice President, B2B, in Kesko’s Building and Technical Trade Division.

Leipurin's EBIT was again burdened by the highly cyclical machinery unit which is now expected to be loss-making during 2019 as a large shipment has been delayed from Q4 2019 to Q2 2020. Net sales of the machinery unit increased by 24% in Q3 (after a <50% drop in Q2 and a ~50% drop in Q1) with lower margins. Leipurin beat our EBIT estimate by EUR 0.1m (9%) due to higher sales. The outlook for Leipurin seems unfavourable in the long term, as machinery sales depend highly on industrial investment levels, which are depressed.

Q3 DEVIATION TABLE

EURm	Actual Q3 2019	NDA est. Q3 2019E	Deviation vs. actual		Consensus Q3 2019E	Deviation vs. actual		Actual Q2 2019	q/q	Actual Q3 2018	y/y
Sales	148	145	3	2%	153	-5	-3%	151	-2%	136	9%
Adj. EBIT	6.7	7.3	-1	-8%	7.8	-1	-14%	3.9	72%	8.1	-17%
Adj. EBIT margin	4.5%	5.0%		-0.5pp	5.1%		-0.6pp	2.6%	1.9pp	5.9%	-1.4pp
EPS	0.15	0.15	0.00	-3%	0.18	-0.03	-18%	0.12	30%	0.18	-17%
Divisional											
Sales											
ESL	43.4	41.1	2.3	6%				42.6	2%	30.6	42%
Leipurin	29.9	26.6	3.3	12%				28.0	7%	28.0	7%
Telko	74.7	77.4	-2.7	-3%				80.6	-7%	77.7	-4%
Adj. EBIT											
ESL	4.4	4.7	-0.3	-7%				2.6	69%	4.9	-10%
Leipurin	0.8	0.7	0.1	9%				0.6	33%	0.8	0%
Telko	2.4	3.0	-0.6	-19%				2.1	14%	2.9	-17%

Source: Company data, Nordea estimates and Thomson Reuters consensus

Estimate revisions

We trim our 2019-21 estimates on the back of the Q3 result. Our estimate revisions in different segments are mainly driven by sales and EBIT deviations in Q3, but we also lower our profitability expectations for Telko.

REVISIONS TO OUR ESTIMATES FOLLOWING THE Q3 RESULTS

	New estimates				Old estimates				Difference %			
EURm	Q4 2019E	2019E	2020E	2021E	Q4 2019E	2019E	2020E	2021E	Q4 2019E	2019E	2020E	2021E
Sales	**157**	**597**	**624**	**650**	**158**	**596**	**623**	**649**	**-1%**	**0%**	**0%**	**0%**
Adj. EBIT	**8.1**	**24**	**31**	**34**	**8.2**	**24**	**32**	**34**	**-1%**	**-3%**	**-2%**	**-2%**
Adj. EBIT margin	5.2%	4.0%	5.0%	5.2%	5.2%	4.1%	5.1%	5.3%	0.0pp	-0.1pp	-0.1pp	-0.1pp
Adj. EPS	**0.17**	**0.49**	**0.69**	**0.79**	**0.18**	**0.50**	**0.75**	**0.85**	**-1%**	**-2%**	**-8%**	**-7%**

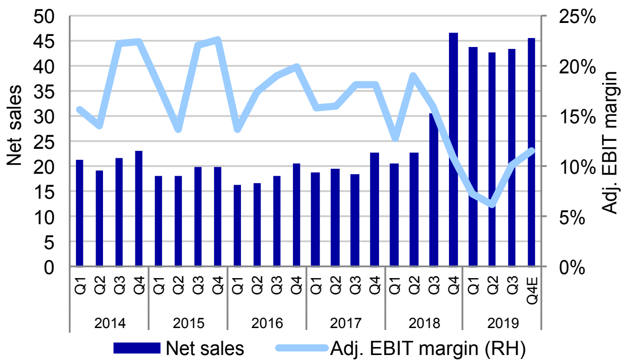
Source: Nordea estimates

QUARTERLY SEGMENT ESTIMATES

	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19E
ESL Shipping												
Sales	18.9	19.5	18.3	22.6	20.5	22.6	30.6	46.4	43.7	42.6	43.4	45.5
- sales growth	17%	17%	2%	10%	8%	16%	67%	105%	113%	88%	42%	-2%
EBIT	3.0	3.1	3.3	4.1	2.6	4.3	4.9	5.1	3.2	2.6	4.4	5.2
EBIT margin	16%	16%	18%	18%	13%	19%	16%	11%	7%	6%	10%	11%
Leipurin												
Sales	29.4	30.1	29.9	32.9	30.2	31.2	28.0	31.6	25.9	28.0	29.9	33.2
- sales growth	12%	5%	11%	7%	3%	4%	-6%	-4%	-14%	-10%	7%	5%
EBIT	0.4	0.6	1.4	1.2	0.8	0.9	0.8	0.8	0.5	0.6	0.8	0.9
EBIT margin	1%	2%	5%	4%	3%	3%	3%	3%	2%	2%	3%	3%
Telko												
Sales	63.6	65.7	67.3	65.6	57.7	71.7	67.3	69.5	71.9	80.6	74.7	77.9
- sales growth	29%	6%	5%	1%	-9%	9%	0%	6%	25%	12%	11%	12%
EBIT	2.3	2.4	3.5	3.2	2.2	3.6	2.9	3.4	2.4	2.1	2.4	3.1
EBIT margin	4%	4%	5%	5%	4%	5%	4%	5%	3%	3%	3%	4%
Kauko												
Sales	7.1	8.5	11.7	11.3	6.9	7.2	10.4	9.1	n.a.	n.a.	n.a.	n.a.
- sales growth	6%	0%	23%	36%	-3%	-15%	-11%	-19%	n.a.	n.a.	n.a.	n.a.
EBIT	-0.2	0.1	0.2	0.0	-0.6	-0.4	0.7	0.4	n.a.	n.a.	n.a.	n.a.
EBIT margin	-3%	1%	2%	0%	-9%	-6%	7%	4%	n.a.	n.a.	n.a.	n.a.
Aspo Group												
Sales	119.0	123.8	127.2	132.4	115.3	132.7	136.3	156.6	141.5	151.2	148.0	156.6
- sales growth	21%	7%	8%	6%	-3%	7%	7%	18%	23%	14%	9%	0%
EBIT clean	4.7	5.1	7.5	7.2	3.7	7.1	8.1	8.3	4.9	3.9	6.7	8.1
EBIT margin	3.9%	4.1%	5.9%	5.4%	3.2%	5.4%	5.9%	5.3%	3.5%	2.6%	4.5%	5.2%
PTP clean	4.4	2.7	6.8	6.8	2.2	5.8	6.9	6.1	3.9	3.0	5.4	6.6
Net Profit clean	4.1	2.4	6.3	6.2	1.7	5.1	6.6	2.8	3.5	2.5	4.9	5.9
EPS clean, EUR	0.13	0.08	0.20	0.20	0.05	0.16	0.21	0.09	0.10	0.07	0.15	0.17
EPS reported, EUR	0.13	0.08	0.19	0.18	0.05	0.16	0.18	0.02	0.10	0.12	0.15	0.17

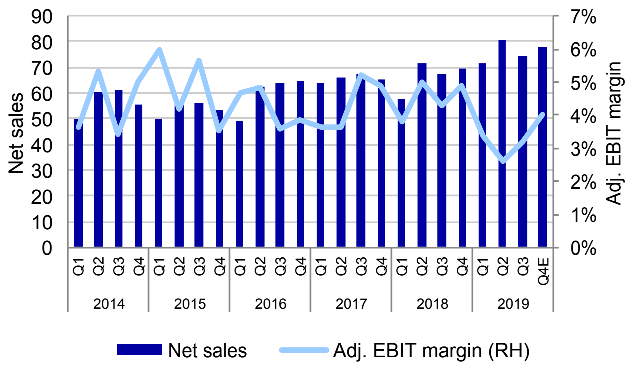
Source: Company data and Nordea estimates

ESL SHIPPING



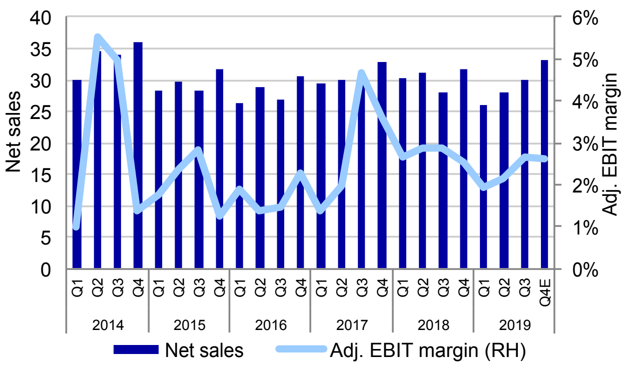
Source: Company data and Nordea estimates

TELKO



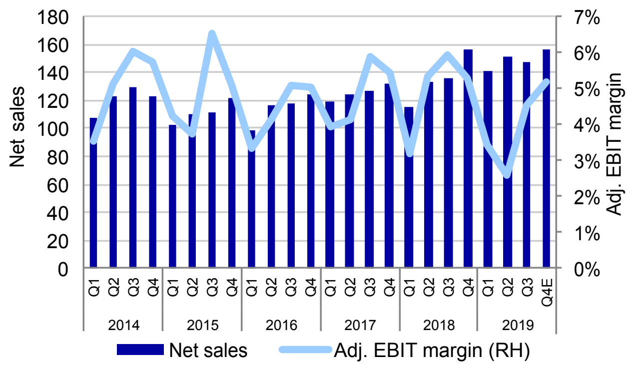
Source: Company data and Nordea estimates

LEIPURIN



Source: Company data and Nordea estimates

ASPO GROUP LEVEL



Source: Company data and Nordea estimates

YEARLY SEGMENT ESTIMATES

	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
ESL Shipping										
Sales	72	78	85	76	71	79	120	175	184	192
- sales growth	-22%	8%	10%	-11%	-6%	11%	51%	46%	5%	4%
EBIT	1	8	16	15	13	14	17	15	21	22
EBIT margin	2%	10%	19%	19%	18%	17%	14%	9%	11%	11%
Leipurin										
Sales	131	137	135	118	113	122	121	117	122	125
- sales growth	2%	4%	-1%	-12%	-5%	9%	-1%	-3%	4%	3%
EBIT	4.0	5.2	4.4	2.4	2.0	3.6	3.3	2.8	3.4	3.9
EBIT margin	3%	4%	3%	2%	2%	3%	3%	2%	3%	3%
Telko										
Sales	238	230	227	215	240	262	266	305	319	333
- sales growth	12%	-3%	-1%	-5%	12%	9%	2%	15%	5%	4%
EBIT	8	6	10	10	10	11	12	10	11	13
EBIT margin	4%	3%	4%	5%	4%	4%	5%	3%	4%	4%
Kauko										
Sales	41	32	36	37	33	39	34	0	0	0
- sales growth	-7%	-21%	13%	1%	-10%	17%	-13%	n.a.	n.a.	n.a.
EBIT	-0.6	-3.6	0.1	0.1	-0.1	0.1	0.1	n.a.	n.a.	n.a.
EBIT margin	-1%	-11%	0%	0%	0%	0%	0%	n.a.	n.a.	n.a.
Aspo Group										
Sales	482	476	483	446	457	502	541	597	624	650
- sales growth	1%	-1%	1%	-8%	3%	10%	8%	10%	5%	4%
EBIT clean	8	11	25	21	20	24	27	24	31	34
EBIT margin	1.7%	2.3%	5.2%	4.6%	4.5%	4.7%	4.9%	4.0%	5.0%	5.2%
PTP clean	5	7	19	17	17	20	21	19	26	30
Net Profit clean	8	9	19	15	15	18	18	15	22	25
EPS clean, EUR	0.27	0.28	0.60	0.50	0.48	0.59	0.58	0.49	0.69	0.79
EPS reported, EUR	0.35	0.28	0.60	0.60	0.48	0.57	0.42	0.53	0.69	0.79

Source: Company data and Nordea estimates

Factors to consider when investing in Aspo

Aspo is a holding company whose success, in our view, depends on how its four current subsidiaries can prosper on their own. The right M&A activity also plays a crucial part in how well Aspo can create value for its shareholders in the future. Despite the short-term problems, the outlook for Telko and ESL Shipping appears promising to us in the long term. Leipurin, however, has not been able to reach the growth level needed for profitability, and the positive momentum in group earnings, which lasted two years, will likely be lost in this year. Its balance sheet is also stretched but, as a holding company, Aspo is accustomed to high leverage. Its high exposure to Russia could burden accepted valuation multiples, but Aspo has already proved successful in Eastern European markets, even during the tougher years.

We consider the following factors key when evaluating an investment in Aspo:

- The acquisition of AtoB@C was made with low valuation multiples and the value-creation opportunity for Aspo with these new 30 ships is good.
- Cost discipline is tight and the risk of Aspo making a loss barely exists, we argue.
- Telko has grown a lot and improved its profitability, which is why it could be the next divestment target for Aspo. As a holding company, the value for shareholders is created with these kinds of structural arrangements.
- Over the last 18 years, EPS has moved more or less sideways, but the tone is about to change, we believe. We forecast as much as 24% EPS CAGR for 2018-21.
- Eastern European markets have offered good growth options for the company regardless of the volatile economic outlook in Russia and the other CIS countries.
- Aspo is a dividend company; at its latest CMD, management even guided for growing dividend payments in the future.
- Its track record of long-term value creation is good and we believe the company will maintain this strength.

Key risk factors:

- Weaker consumer confidence, increasing political uncertainty and possible tighter sanctions in Russia could hinder growth and restrict Aspo's earnings improvement capabilities in the country.
- Coal shipments will decline in the Baltic Rim and could reduce the utilisation ratios for ESL Shipping.
- Goodwill and other intangibles in the balance sheet are currently EUR 51m, which is ~50% of shareholder equity.
- In Q3 2019, net gearing including the EUR 25m hybrid debt stood at 247% (reported net gearing was 174%), while the new target after implementation of IFRS 16 is 130%.
- Net debt/EBITDA has been over 4x in 2016-18, according to our estimates.
- Aspo is a conglomerate; by definition, it should trade under the combined value of its businesses. Equity investors should create the needed diversification in their own portfolio by themselves, rather than via listed companies.

Aspo has been successful in value creation

We have identified that the core strength of the company is effectively understanding and managing the bigger economic picture. For example, Aspo divested Aspocomp before the IT downturn that started in 2000. Furthermore, the company has looked for steady and resistant areas like energy delivery and the bakery business to secure dividend payments. When interest rates dropped after the financial crisis in 2008, Aspo started to invest heavily in business operations because money was almost free and offered a good yield from its main segments.

We believe the company should keep its core strength and be value-accretive in the coming years as well

We argue that the core strength of Aspo lies beyond its three business segments – the right capital allocation, divestments and investments create the true competitive edge and core strength of the company. Ownership has not been faceless and a strong commitment by the principal owners has enabled the long-standing strategy, which is value creation. Since 2000, Aspo's share price (including dividends) has yielded 16% per year on average. Regardless of the increased uncertainty in Russia and the tight balance sheet, we believe the company will keep its core strength and be value-accretive in the coming years as well.

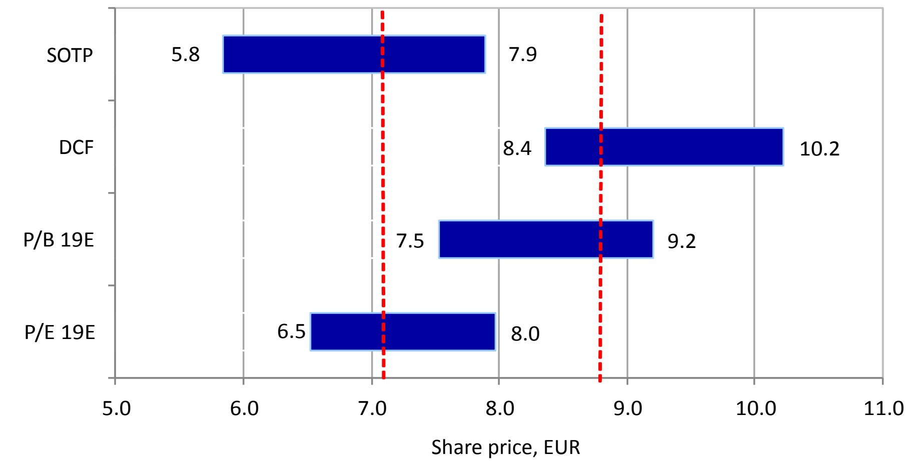
For example, Aspo paid Kesko EUR 76m for the Leipurin, Kauko and Telko segments in 2008. Today, the combined value of these three business areas in our sum-of-the-parts calculation is around EUR 180m. In the previous ten-year period, the enterprise value for this investment has increased by EUR 10m per year, or 9% per year on average, excluding dividends. Most likely, in our view, Aspo will try to do the same again with its summer 2018 acquisition of AtoB@C.

Our valuation range for Aspo is EUR 7.1-8.8 per share

We use a relative valuation and a DCF-based fair value calculation in our analysis. We believe that segment-specific peer group multiples are informative and give a relevant view of Aspo's subsidiaries in the SOTP analysis. However, we also derive a relative valuation analysis for Aspo on a group level.

Based on the assumption that the company can deliver revenue growth and an operating profit margin in line with our expectations, we derive a fair value range of EUR 7.1-8.8 per share, which is an equally-weighted range based on our four different valuation approaches (DCF, P/B, SOTP and P/E). The red lines in the following chart show this valuation range.

VALUATION APPROACH FOR ASPO



Source: Company data and Nordea estimates

Based on our DCF framework and WACC assumptions of 7.7-8.2%, we derive a fair value range of EUR 8.4-10.2 for Aspo. We calculate our P/E valuation range of EUR 6.5-8.0 per share for Aspo by taking our 2019 adjusted EPS forecast of EUR 0.49 and multiplying it by the accepted valuation multiple range of 13.4-16.4x, representing a midpoint of 14.9x. This P/E valuation range represents Nordea's view and has been derived by looking at peer groups for ESL Shipping, Telko, and Leipurin. It also highlights the risks related to Eastern European markets.

Similarly, we calculate the P/B valuation range for Aspo by using the accepted valuation multiple range of 2.0-2.4x, indicating a mathematical midpoint of 2.2x. This calculation gives a valuation range of EUR 7.5-9.2 per share for Aspo, as seen in the previous chart.

Risk factors

There are several major and minor risks associated with the Aspo investment case. We believe the biggest risks currently relate to the company's financial position, possible Russian sanctions, and steel and coal shipments in the Baltic Rim. For example, new economic sanctions against Russia could affect Aspo either directly through import sanctions or indirectly through reduced cargoes and restricted cross-border transfers of money. Aspo's balance sheet is currently stretched due to investments, but we acknowledge that the company should survive this challenge even without divestments due to increasing cash flows. Furthermore, it has a track record from its operations in Russia and good knowledge of the country, which reduces the risks related to possible market turbulence there.

Financial position and capital needs

Aspo's reported net gearing at the end of Q2 2019 stood at 174%. Including the hybrid debt component, we calculate net gearing at 247%. IFRS 16 increased net gearing by around 30 pp, hence the company's new target gearing level is 130% (previously 100%) and it might need to address its debt issue.

Aspo's short-term capital needs were secured in May and June with a new EUR 15m term loan facility and EUR 20m revolving credit facility. In addition, the company participated in a EUR 40m group bond in September, with a loan unit of EUR 15m and with five-year maturity. In 2019-20, the company will need to renegotiate about EUR 70m worth of loans and revolving credit facilities, including the outstanding EUR 25m hybrid bond, as that has early redemption rights exercisable in 2020.

General economy and specifically the Russian economy

Aspo's companies are highly exposed to the general economic development, and thus rapid changes in the general economic outlook would have an impact on demand for their services. In addition, Aspo is highly exposed to Eastern European economies, especially Russia. Russia, Ukraine and other CIS countries accounted for one-third of group revenue in 2018.

In the event of possible new sanctions against or from Russia, consumer confidence and industrial activity in the country could be affected – and Telko, together with Leipurin, could face a weaker end-demand environment.

Expansion strategy

Aspo is investing to expand its Telko and ESL Shipping operations. The acquisitions of Square Oil (Telko), H H plastkombi (Telko) and AtoB@C (ESL Shipping) are part of this strategy. Further expansions in the fleet could lead to lower utilisation rates, causing integration problems for Aspo and its subsidiaries.

Change in flow of goods

ESL Shipping mainly operates in the Baltic Sea region, and changes to energy production structures may alter the flow of goods in the Baltic Sea, possibly reducing the need for transportation offered by ESL Shipping.

Coal represents some 10% of ESL Shipping's transport tonnage today. There is a possibility for Aspo to replace coal shipments with wood chips, but this material can already be found in Finland and there is therefore no need to transport it from abroad, as for thermal coal.

Competition

Aspo faces different competition in each of its companies. ESL Shipping may face fiercer competition as ice-free winters become more common and if the flow of goods changes in the Baltic Sea. Telko operates in a highly fragmented market and consolidation here could intensify competition. Also, chemical companies such as Dow and BASF could increase their own sales channels, leaving less room for raw material distributors such as Telko.

Currency exposure
Aspo has operations using 12 different currencies, of which the Russian rouble is the most significant foreign currency. The main currency risks are associated with trade receivables and payables, and translation risks related to foreign investments and exchange rate changes. A weakening of the Russian rouble would have an impact on Telko and Leipurin, as increasingly significant share of their net sales originates from Russia. The company does not hedge the translation effects of its subsidiaries abroad.

Environmental issues related to ESL Shipping
ESL Shipping's environmental risks relate to possible accidents, fuel leakages or environmental damage caused by bunkering or washing cargo holds. If any of these environmental risks were to occur, it could lead to compensation liability for ESL Shipping. In addition, stricter environmental legislation would cause unexpected investment expenditure for ESL Shipping. However, the safety standard in ESL Shipping is very good and accidents per working hours are far lower than for peers or for Finnish industrial companies on average.

Plastic has received bad publicity in Europe. There is a possibility that investors will start to avoid plastic-related companies for sustainability reasons. Telko delivers plastics, and therefore might not look sufficiently sustainable for all investors, we note.

Reported numbers and forecasts

INCOME STATEMENT											
EURm	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Total revenue	**476**	**482**	**476**	**483**	**446**	**457**	**502**	**541**	**597**	**624**	**650**
Revenue growth	20.3%	1.1%	-1.1%	1.4%	-7.6%	2.5%	9.8%	7.7%	10.4%	4.5%	4.2%
of which organic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which FX	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	30	21	22	36	33	32	35	37	52	60	63
Depreciation and impairments PPE	-8	-11	-11	-11	-13	-12	-12	-12	-29	-29	-30
of which leased assets	0	0	0	0	0	0	0	0	-14	-14	-14
EBITA	22	11	11	25	21	20	23	25	24	31	34
Amortisation and impairments	0	0	0	0	0	0	0	-5	0	0	0
EBIT	22	11	11	25	21	20	23	21	24	31	34
of which associates	0	0	0	0	0	0	0	0	0	0	0
Associates excluded from EBIT	0	0	0	0	0	0	0	0	0	0	0
Net financials	-4	-3	-4	-6	-1	-4	-4	-5	-4	-5	-4
of which lease interest	0	0	0	0	0	0	0	0	-1	-1	0
Changes in value, net	0	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	**17**	**7**	**7**	**19**	**20**	**17**	**19**	**15**	**20**	**26**	**30**
Reported taxes	-4	3	2	-1	-2	-2	-2	-2	-2	-3	-3
Net profit from continued operations	13	11	9	19	18	15	18	13	18	23	26
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0	0	0	0	0	0
Net profit to equity	13	11	9	19	18	15	18	13	17	22	25
EPS	**0.47**	**0.35**	**0.28**	**0.60**	**0.60**	**0.48**	**0.57**	**0.42**	**0.53**	**0.69**	**0.79**
DPS	0.42	0.42	0.21	0.40	0.41	0.41	0.43	0.44	0.46	0.48	0.50
of which ordinary	0.42	0.42	0.21	0.40	0.41	0.41	0.43	0.44	0.46	0.48	0.50
of which extraordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit margin in percent											
EBITDA	6.2%	4.4%	4.5%	7.5%	7.4%	7.0%	7.0%	6.9%	8.8%	9.7%	9.7%
EBITA	4.5%	2.2%	2.3%	5.2%	4.6%	4.5%	4.6%	4.7%	4.0%	5.0%	5.2%
EBIT	4.5%	2.2%	2.3%	5.2%	4.6%	4.5%	4.6%	3.8%	4.0%	5.0%	5.2%
Adjusted earnings											
EBITDA (adj)	30	19	22	36	33	32	36	38	52	60	63
EBITA (adj)	22	8	11	25	21	20	24	26	24	31	34
EBIT (adj)	22	8	11	25	21	20	24	27	24	31	34
EPS (adj)	0.47	0.27	0.28	0.60	0.50	0.48	0.59	0.58	0.49	0.69	0.79
Adjusted profit margins in percent											
EBITDA (adj)	6.2%	3.9%	4.5%	7.5%	7.4%	7.0%	7.1%	7.0%	8.7%	9.7%	9.7%
EBITA (adj)	4.5%	1.7%	2.3%	5.2%	4.6%	4.5%	4.7%	4.9%	4.0%	5.0%	5.2%
EBIT (adj)	4.5%	1.7%	2.3%	5.2%	4.6%	4.5%	4.7%	4.9%	4.0%	5.0%	5.2%
Performance metrics											
CAGR last 5 years											
Net revenue	16.1%	18.2%	5.9%	8.0%	2.4%	-0.8%	0.8%	2.6%	4.3%	7.0%	7.3%
EBITDA	6.1%	-10.6%	-2.8%	8.3%	4.9%	1.5%	10.3%	11.4%	7.7%	12.8%	14.7%
EBIT	10.9%	-17.7%	-5.2%	10.2%	2.8%	-1.0%	16.9%	13.8%	-0.9%	8.6%	10.6%
EPS	7.9%	-15.6%	1.2%	12.7%	8.8%	0.8%	10.4%	8.1%	-2.3%	2.9%	10.3%
DPS	0.5%	0.0%	-12.9%	-1.0%	-0.5%	-0.5%	0.5%	15.9%	2.8%	3.2%	4.0%
Average last 5 years											
Average EBIT margin	5.5%	3.9%	3.5%	3.7%	3.7%	3.7%	4.2%	4.5%	4.3%	4.4%	4.5%
Average EBITDA margin	8.0%	6.2%	5.7%	5.8%	6.0%	6.2%	6.7%	7.1%	7.5%	8.0%	8.5%

VALUATION RATIOS - ADJUSTED EARNINGS											
EURm	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
P/E (adj)	14.6	23.6	21.3	9.5	15.1	16.9	16.8	13.7	17.8	12.5	10.9
EV/EBITDA (adj)	9.9	16.5	13.2	7.8	10.1	11.1	11.9	11.3	9.4	8.1	7.5
EV/EBITA (adj)	13.7	38.3	26.4	11.3	16.2	17.5	17.9	16.4	20.9	15.6	14.1
EV/EBIT (adj)	13.8	39.6	26.4	11.3	16.2	17.5	17.9	16.2	20.9	15.6	14.1

VALUATION RATIOS - REPORTED EARNINGS											
EURm	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
P/E	14.6	18.3	21.3	9.5	12.5	16.9	17.5	19.1	16.2	12.5	10.9
EV/Sales	0.62	0.65	0.60	0.58	0.75	0.78	0.85	0.80	0.82	0.78	0.73
EV/EBITDA	10.0	14.9	13.2	7.8	10.1	11.1	12.2	11.6	9.4	8.1	7.5
EV/EBITA	13.8	30.4	26.4	11.3	16.2	17.5	18.5	16.9	20.7	15.6	14.1
EV/EBIT	13.8	30.4	26.4	11.3	16.2	17.5	18.5	20.9	20.7	15.6	14.1
Dividend yield (ord.)	6.2%	6.6%	3.5%	7.0%	5.5%	5.0%	4.3%	5.5%	5.3%	5.5%	5.8%
FCF yield	-14.0%	-7.2%	6.8%	2.7%	6.7%	3.9%	-0.1%	-13.9%	10.0%	13.4%	14.5%
FCF Yield bef A&D, lease adj	-14.1%	-9.2%	6.6%	2.6%	4.5%	3.9%	-0.1%	-9.1%	4.9%	8.3%	9.3%
Payout ratio	90.1%	120.4%	74.3%	66.6%	68.3%	84.7%	75.2%	105.6%	86.0%	69.2%	63.2%

Source: Company data and Nordea estimates

BALANCE SHEET

EURm	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Intangible assets	61	60	59	57	54	52	50	52	52	52	52
of which R&D	0	0	0	0	0	0	0	0	0	0	0
of which other intangibles	16	15	13	12	11	9	8	9	9	9	9
of which goodwill	45	45	45	44	43	43	42	43	43	43	43
Tangible assets	89	108	103	111	116	113	120	175	197	194	191
of which leased assets	0	0	0	0	0	0	0	0	25	24	24
Shares associates	2	2	2	0	0	0	0	0	0	0	0
Interest bearing assets	0	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0	0	0	0	0	0
Other non-IB non-current assets	0	0	0	0	0	0	0	0	0	0	0
Other non-current assets	2	3	4	7	4	5	4	4	4	4	4
Total non-current assets	154	174	169	175	174	170	174	231	253	250	247
Inventory	43	51	48	47	48	57	61	71	79	82	86
Accounts receivable	58	65	58	56	58	60	66	78	86	90	94
Short-term leased assets	0	0	0	0	0	0	0	0	14	14	14
Other current assets	0	0	0	0	0	0	0	0	0	0	0
Cash and bank	15	21	29	19	24	23	20	19	17	14	13
Total current assets	115	137	134	123	131	139	147	168	196	200	206
Assets held for sale	0	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	**269**	**311**	**303**	**298**	**305**	**310**	**321**	**400**	**449**	**450**	**454**
Shareholders equity	92	90	103	104	103	115	112	117	120	127	137
Of which preferred stocks	0	0	0	0	0	0	0	0	0	0	0
Of which equity part of hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Minority interest	1	1	1	0	0	0	0	0	0	0	0
Total Equity	92	90	103	104	103	115	112	117	120	127	137
Deferred tax	13	11	8	6	5	4	3	0	0	0	0
Long term interest bearing debt	93	84	85	77	116	117	109	171	176	171	164
Pension provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	2	1	1	0	1	0	1	7	7	7	7
Non-current lease debt	0	0	0	0	0	0	0	0	25	24	24
Convertible debt	0	0	0	0	0	0	0	0	0	0	0
Shareholder debt	0	0	0	0	0	0	0	0	0	0	0
Hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Total non-current liabilities	108	96	94	83	121	121	113	178	208	203	195
Short-term provisions	0	0	0	0	0	1	1	0	0	0	0
Accounts payable	56	68	60	62	68	64	67	76	84	88	92
Current lease debt	0	0	0	0	0	0	0	0	14	14	14
Other current liabilities	4	1	1	1	1	1	0	0	0	0	0
Short term interest bearing debt	9	56	45	48	12	9	27	29	24	19	16
Total current liabilities	68	125	105	111	81	74	96	105	122	121	122
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	**269**	**311**	**303**	**298**	**305**	**310**	**321**	**400**	**449**	**450**	**454**
Balance sheet and debt metrics											
Net debt	87	119	101	105	104	103	117	180	220	214	205
of which lease debt	0	0	0	0	0	0	0	0	39	39	39
Working capital	41	47	45	41	38	52	60	73	80	84	88
Invested capital	195	221	213	216	212	222	234	304	333	334	335
Capital employed	194	230	233	229	231	240	249	316	357	355	355
ROE	16.7%	11.9%	9.1%	17.9%	17.8%	13.8%	15.6%	11.4%	14.2%	17.7%	18.9%
ROIC	10.5%	3.4%	4.2%	9.9%	8.2%	8.0%	8.9%	8.4%	6.3%	7.9%	8.6%
ROCE	13.5%	4.4%	5.0%	11.0%	11.1%	8.7%	9.7%	9.4%	7.0%	8.8%	9.5%
Net debt/EBITDA	2.9	5.5	4.7	2.9	3.1	3.2	3.3	4.9	4.2	3.5	3.2
Interest coverage	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Equity ratio	34.1%	28.8%	33.9%	34.9%	33.7%	37.0%	35.0%	29.2%	26.6%	28.2%	30.1%
Net gearing	94.1%	131.6%	98.2%	101.0%	101.4%	89.8%	103.9%	154.5%	184.4%	168.7%	150.2%

Source: Company data and Nordea estimates

CASH FLOW STATEMENT											
EURm	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
EBITDA (adj) for associates	**29**	**21**	**22**	**36**	**33**	**32**	**35**	**37**	**52**	**60**	**63**
Paid taxes	-3	-1	-3	-2	-2	-2	-3	-2	-2	-3	-3
Net financials	-4	-3	-3	-4	-3	-3	-4	-3	-4	-5	-4
Change in provisions	0	0	0	0	0	1	1	-1	0	0	0
Change in other LT non-IB	1	-3	-2	-3	3	-1	1	7	0	0	0
Cash flow to/from associates	0	0	0	0	0	0	0	0	0	0	0
Dividends paid to minorities	0	0	0	0	0	0	0	0	0	0	0
Other adj to reconcile to cash flow	0	3	2	3	-2	1	0	-6	0	0	0
Funds from operations (FFO)	**23**	**18**	**16**	**30**	**29**	**27**	**30**	**31**	**47**	**53**	**56**
Change in NWC	-11	-6	0	-8	-4	-11	-13	-11	-8	-4	-4
Cash flow from operations (CFO)	**12**	**12**	**16**	**22**	**25**	**16**	**17**	**20**	**39**	**49**	**53**
Capital expenditure	-42	-30	-4	-17	-15	-6	-18	-43	-12	-12	-13
Free cash flow before A&D	**-29**	**-18**	**12**	**5**	**10**	**10**	**0**	**-23**	**27**	**36**	**40**
Proceeds from sale of assets	0	4	0	0	0	0	0	1	0	0	0
Acquisitions	0	0	0	0	5	0	0	-13	0	0	0
Free cash flow	-29	-14	13	5	15	10	0	-35	27	36	40
Free cash flow bef A&D, lease adj	-29	-18	12	5	10	10	0	-23	13	22	25
Dividends paid	-11	-13	-13	-6	-12	-13	-13	-13	-14	-14	-15
Equity issues / buybacks	19	0	0	0	0	0	0	0	0	0	0
Net change in debt	24	37	-12	-8	2	1	7	50	0	-10	-10
Other financing adjustments	8	-3	20	0	0	0	0	-2	-15	-16	-16
Other non-cash adjustments	-3	0	-1	1	-1	1	4	-1	0	0	0
Change in cash	7	7	7	-9	5	-1	-3	-1	-2	-4	-1
Cash flow metrics											
Capex/D&A	n.m.	n.m.	33.9%	n.m.	n.m.	54.3%	n.m.	n.m.	41.8%	42.8%	43.9%
Capex/Sales	8.7%	6.2%	0.8%	3.6%	3.3%	1.4%	3.5%	8.0%	2.0%	2.0%	2.0%
Key information											
Share price year end (/current)	7	6	6	6	8	8	10	8	9	9	9
Market cap.	208	197	186	175	229	253	310	250	272	272	272
Enterprise value	294	314	286	280	333	356	426	430	493	486	478
Diluted no. of shares, year-end (m)	30.6	30.8	30.8	30.8	30.5	31.0	31.0	31.4	31.4	31.4	31.4

Source: Company data and Nordea estimates

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We calculate our fair values by weighting DCF, DDM, SOTP, asset-based and other standard valuation methods. When applicable, we set a 12-month target price by applying an appropriate premium/discount and/or other relevant adjustment to our fair value to reflect the share price potential we see within the coming 12 months. Our fair values are sensitive to changes in valuation assumptions, of which growth, margins, tax rates, working capital ratios, investment-to-sales ratios and cost of capital are typically the most sensitive.
It should be noted that our fair values would change by a disproportionate factor if changes are made to any or all valuation assumptions, owing to the non-linear nature of the standard valuation models applied (mentioned above). As a consequence of the standard valuation models we apply, changes of 1-2 percentage points in any single valuation assumption can change the derived fair value by as much as 30% or more. Dividend payouts are included in the target price. All research is produced on an ad hoc basis and will be updated when the circumstances require it.

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This report has not been reviewed by the Issuer prior to publication.

Completion Date

30 Oct 2019, 04:44 CET

Nordea Bank Abp

Nordea Markets Division, Research
Visiting address:
Aleksis Kiven katu 7, Helsinki
FI-00020 Nordea
Finland

Tel: +358 9 1651
Fax: +358 9 165 59710

Reg.no. 2858394-9
Satamaradankatu 5
Helsinki

Nordea Bank Abp, filial i Sverige

Nordea Markets Division, Research
Visiting address:
Smålandsgatan 17
SE-105 71 Stockholm
Sweden

Tel: +46 8 614 7000
Fax: +46 8 534 911 60

Nordea Danmark, Filial af Nordea Bank Abp, Finland

Nordea Markets Division, Research
Visiting address:
Grønjordsvej 10
DK-2300 Copenhagen S
Denmark

Tel: +45 3333 3333
Fax: +45 3333 1520

Nordea Bank Abp, filial i Norge

Nordea Markets Division, Research
Visiting address:
Essendropsgate 7
N-0107 Oslo
Norway

Tel: +47 2248 5000
Fax: +47 2256 8650