

Ramp-up phase ahead

Endomines' gold production in Q3 amounted to 81.6kg and revenue to SEK 25.9m. EBITDA remained barely positive at SEK 0.6m, aided by higher head grades and lower costs due to suspension of the mining operations. Production at the Friday mine is expected to begin in December 2018. We retain our BUY rating with a target price of SEK 7.2 (7.8).

EBITDA positive despite mining operation suspension

Endomines gold production amounted to 81.6kg in Q3. Production figures were aided by the high head grades of 3.9g/tonne. Revenue and EBITDA in Q3 were SEK 25.9m and 0.6m respectively. Mining operations at the Pampalo mine were suspended in mid-September, which along with the higher head grades contributed to a positive EBITDA, despite lower volumes. Gold production during 1-9/2018 was 303.5kg, with another 15kg produced in October and the total 2018 output expected to exceed 320kg.

Limited new information in the earnings release

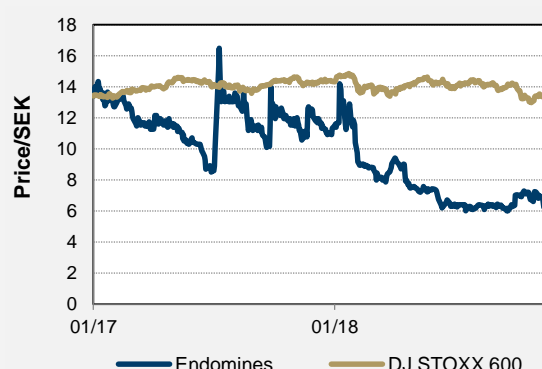
Endomines' third quarter earnings release contained limited new information regarding the Idaho projects. The start-up timetable of the Friday mine was updated, with production anticipated to start in December. Details on the progress of the exploration activities in the vicinity of Pampalo were given, noting some samples with anomalies warranting further evaluation. Endomines had earlier specified the expected cash costs of the Friday mine, estimated to be around USD 650-900 per oz following ramp-up. We have updated our estimates for the cash costs for Friday and expect levels of around 900 USD/oz during 2019 and a decrease to 700-800 USD/Oz levels towards later production phases.

BUY with a target price of SEK 7.2 (7.8)

Following our revised estimates, we lower our target price to SEK 7.2 (7.8) but retain our BUY rating. The gold price has hovered at around 1,200 USD/oz following declines in Q3 but has seen slight upward pressure following recent stock market uncertainty.

Rating

BUY



Share price, SEK (Last trading day's closing price) 6.24

Target price, SEK 7.2

Latest change in recommendation 18-May-18

Latest report on company 15-Nov-18

Research paid by issuer: YES

No. of shares outstanding, '000's 35,148

No. of shares fully diluted, '000's 35,148

Market cap, SEKm 219

Free float, % 0.0

Exchange rate 0.000

Reuters code ENDO.ST

Bloomberg code ENDO SS

Average daily volume, SEKm 0.381

Next interim report

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BUY HOLD SELL

KEY FIGURES

	Sales SEKm	EBIT SEKm	EBIT %	Ptx profit SEKm	EPS SEK	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS SEK
2016	101	-103	-102.1%	-105	-8.18	-1.5	2.4	-16.3	-2.4	0.00
2017	122	-65	-53.0%	-69	-4.53	-1.8	1.6	33.5	-3.0	0.00
2018E	101	-46	-45.5%	-31	-0.89	-7.0	4.1	-46.6	-9.1	0.00
2019E	81	-32	-39.4%	-32	-1.01	-6.2	5.6	217.8	-14.1	0.00
2020E	178	18	9.9%	18	0.26	23.6	2.5	7.6	25.7	0.00
Market cap, SEKm		219	BV per share 2018E, SEK		6.3	CAGR EPS 2017-20, %				0.0
Net debt 2018E, SEKm		200	Price/book 2018E		1.0	CAGR sales 2017-20, %				13.3
Enterprise value, SEKm		419	Dividend yield 2018E, %		0.0	ROE 2018E, %				-23.5
Total assets 2018E, SEKm		488	Tax rate 2018E, %		0.0	ROCE 2018E, %				-9.2
Goodwill 2018E, SEKm		0	Equity ratio 2018E, %		45.3	PEG, P/E 18/CAGR				0.0

All the important disclosures can be found on the last pages of this report.

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC
Current share price	6.24 PV of Free Cash Flow	444 Long-term growth, %	-3.8 Risk-free interest rate, %
DCF share value	10.69 PV of Horizon value	0 WACC, %	8.7 Market risk premium, %
Share price potential, %	71.4 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %
Maximum value	11.6 Marketable securities	16 Minimum WACC, %	8.2 Equity beta coefficient
Minimum value	9.9 Debt - dividend	-84 Maximum WACC, %	9.2 Target debt ratio, %
Horizon value, %	0.0 Value of stock	376 Nr of shares, Mn	35.1 Effective tax rate, %

DCF valuation, SEKm	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Horizon
Net sales	122	101	81	178	355	642	681	668	641	520	500	0
<i>Sales growth, %</i>	<i>21.0</i>	<i>-17.2</i>	<i>-19.7</i>	<i>118.9</i>	<i>99.7</i>	<i>80.5</i>	<i>6.1</i>	<i>-1.9</i>	<i>-4.0</i>	<i>-18.9</i>	<i>-3.8</i>	<i>0.0</i>
Operating income (EBIT)	-65	-46	-32	18	94	239	239	205	181	112	95	0
<i>EBIT margin, %</i>	<i>-53.0</i>	<i>-45.5</i>	<i>-39.4</i>	<i>9.9</i>	<i>26.5</i>	<i>37.3</i>	<i>35.2</i>	<i>30.7</i>	<i>28.3</i>	<i>21.5</i>	<i>19.0</i>	<i>0.0</i>
+ Depreciation+amort.	59	40	32	37	78	103	104	105	107	91	91	
- Income taxes	0	0	0	0	0	0	0	0	0	0	0	
- Change in NWC	9	1	1	-16	-28	-44	-6	2	4	19	3	
<i>NWC / Sales, %</i>	<i>-7.9</i>	<i>-10.6</i>	<i>-14.9</i>	<i>2.1</i>	<i>8.8</i>	<i>11.8</i>	<i>12.0</i>	<i>11.9</i>	<i>11.8</i>	<i>10.9</i>	<i>10.7</i>	
+ Change in other liabs	6	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-19	-349	-108	-118	-123	-106	-43	-41	-42	-36	-36	0
<i>Investments / Sales, %</i>	<i>15.2</i>	<i>344.9</i>	<i>132.8</i>	<i>66.3</i>	<i>34.6</i>	<i>16.5</i>	<i>6.3</i>	<i>6.1</i>	<i>6.5</i>	<i>6.9</i>	<i>7.2</i>	<i>0.0</i>
- Other items	0	0	-10	-5	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	-9	-354	-117	-84	22	191	295	271	251	186	153	0
= Discounted FCF (DFCF)		-350	-106	-70	17	136	193	163	139	95	72	0
= DFCF min WACC		-350	-107	-71	17	138	197	168	143	98	75	0
= DFCF max WACC		-350	-106	-70	17	133	188	158	134	91	69	0

INTERIM FIGURES

EVLI ESTIMATES, SEKm	2017Q1	2017Q2	2017Q3	2017Q4	2017	2018Q1	2018Q2	2018Q3	2018Q4E	2018E	2019E	2020E
Net sales	28	35	28	32	122	29	42	24	5	101	81	178
EBITDA	-1	0	1	-6	-6	-9	9	1	-6	-6	0	55
<i>EBITDA margin (%)</i>	<i>-4.6</i>	<i>1.4</i>	<i>3.9</i>	<i>-18.8</i>	<i>-4.7</i>	<i>-29.1</i>	<i>20.3</i>	<i>2.4</i>	<i>-118.0</i>	<i>-5.8</i>	<i>-0.2</i>	<i>30.8</i>
EBIT	-11	-9	-7	-38	-65	-20	-3	-11	-12	-46	-32	18
<i>EBIT margin (%)</i>	<i>-38.4</i>	<i>-26.9</i>	<i>-23.9</i>	<i>-120.4</i>	<i>-53.0</i>	<i>-67.7</i>	<i>-7.6</i>	<i>-46.1</i>	<i>-215.6</i>	<i>-45.5</i>	<i>-39.4</i>	<i>9.9</i>
Net financial items	-1	0	-2	-1	-4	22	-2	-5	0	15	0	0
Pre-tax profit	-12	-10	-8	-39	-69	2	-5	-16	-12	-31	-32	18
Tax	0	0	0	0	0	0	0	0	0	0	0	0
<i>Tax rate (%)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Net profit	-12	-10	-8	-39	-69	2	-5	-16	-12	-31	-42	13
EPS	-0.80	-0.64	-0.55	-2.55	-4.53	0.05	-0.15	-0.46	-0.34	-0.89	-1.01	0.26
EPS adjusted (diluted no. of shares)	-0.80	-0.64	-0.55	-2.55	-4.53	0.05	-0.15	-0.46	-0.34	-0.89	-1.01	0.26
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SALES, SEKm												
Endomines	28	35	28	32	122	29	42	24	5	101	81	178
Total	28	35	28	32	122	29	42	24	5	101	81	178
SALES GROWTH, Y/Y %												
Endomines	76.8	67.3	2.1	-15.3	21.0	3.2	21.6	-12.1	-82.8	-17.2	-19.7	118.9
Total	76.8	67.3	2.1	-15.3	21.0	3.2	21.6	-12.1	-82.8	-17.2	-19.7	118.9
EBIT, SEKm												
Endomines	-11	-9	-7	-38	-65	-20	-3	-11	-12	-46	-32	18
Total	-11	-9	-7	-38	-65	-20	-3	-11	-12	-46	-32	18
EBIT margin, %												
Endomines	-38.4	-26.9	-23.9	-120.4	-53.0	-67.7	-7.6	-46.1	-215.6	-45.5	-39.4	9.9
Total	-38.4	-26.9	-23.9	-120.4	-53.0	-67.7	-7.6	-46.1	-215.6	-45.5	-39.4	9.9

INCOME STATEMENT, SEKm	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	163	172	113	101	122	101	81	178
<i>Sales growth (%)</i>	<i>-30.4</i>	<i>5.3</i>	<i>-34.3</i>	<i>-10.5</i>	<i>21.0</i>	<i>-17.2</i>	<i>-19.7</i>	<i>118.9</i>
Costs	-168	-172	-181	-109	-128	-107	-81	-123
Reported EBITDA	-5	0	-68	-8	-6	-6	0	55
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	<i>-3.0</i>	<i>-0.1</i>	<i>-60.0</i>	<i>-7.6</i>	<i>-4.7</i>	<i>-5.8</i>	<i>-0.2</i>	<i>30.8</i>
Depreciation	-62	-45	-85	-95	-59	-40	-32	-37
EBITA	-67	-45	-153	-103	-65	-46	-32	18
Goodwill amortization / writedown	-9	0	-4	0	0	0	0	0
Reported EBIT	-76	-45	-157	-103	-65	-46	-32	18
<i>EBIT margin (%)</i>	<i>-46.7</i>	<i>-26.2</i>	<i>-138.6</i>	<i>-102.1</i>	<i>-53.0</i>	<i>-45.5</i>	<i>-39.4</i>	<i>9.9</i>
Net financials	1	2	-6	-2	-4	15	0	0
Pre-tax profit	-75	-43	-163	-105	-69	-31	-32	18
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	12	8	-2	-20	0	0	0	0
Minority shares	0	0	0	0	0	0	0	0
Net profit	-63	-35	-165	-125	-69	-31	-42	13
BALANCE SHEET, SEKm								
Assets								
Fixed assets	288	282	221	171	130	439	515	596
<i>% of sales</i>	<i>176</i>	<i>164</i>	<i>195</i>	<i>169</i>	<i>107</i>	<i>434</i>	<i>634</i>	<i>335</i>
Goodwill	0	0	0	0	0	0	0	0
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Inventory	7	5	2	1	2	1	2	5
<i>% of sales</i>	<i>4</i>	<i>3</i>	<i>2</i>	<i>1</i>	<i>2</i>	<i>1</i>	<i>2</i>	<i>3</i>
Receivables	36	29	12	21	12	13	10	22
<i>% of sales</i>	<i>22</i>	<i>17</i>	<i>10</i>	<i>21</i>	<i>10</i>	<i>13</i>	<i>13</i>	<i>13</i>
Liquid funds	46	114	20	29	16	35	16	27
<i>% of sales</i>	<i>28</i>	<i>66</i>	<i>18</i>	<i>29</i>	<i>13</i>	<i>35</i>	<i>20</i>	<i>15</i>
Total assets	393	459	274	222	161	488	544	651
Liabilities								
Equity	268	318	169	115	45	221	263	360
<i>% of sales</i>	<i>164</i>	<i>185</i>	<i>149</i>	<i>113</i>	<i>37</i>	<i>218</i>	<i>323</i>	<i>202</i>
Deferred taxes	0	0	0	0	0	0	0	0
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Interest bearing debt	66	65	83	84	84	235	249	259
<i>% of sales</i>	<i>40</i>	<i>38</i>	<i>74</i>	<i>83</i>	<i>68</i>	<i>232</i>	<i>306</i>	<i>146</i>
Non-interest bearing current liabilities	31	30	14	0	0	0	0	0
<i>% of sales</i>	<i>19</i>	<i>18</i>	<i>12</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Other interest free debt	28	45	8	24	32	32	32	32
<i>% of sales</i>	<i>17</i>	<i>26</i>	<i>7</i>	<i>24</i>	<i>26</i>	<i>31</i>	<i>39</i>	<i>18</i>
Total liabilities	393	459	274	222	161	488	544	651
CASH FLOW, SEKm								
+ EBITDA	-5	0	-68	-8	-6	-6	0	55
- Net financial items	1	2	-6	-2	-4	15	0	0
- Taxes	48	-4	6	-1	0	0	0	0
- Increase in Net Working Capital	-39	29	-23	-2	9	1	1	-16
+/- Other	-18	-17	19	0	0	0	-10	-5
= Cash flow from operations	-12	10	-71	-12	-1	10	-9	34
- Capex	-54	-39	-28	-46	-19	-349	-108	-118
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	-84	0	-126	-77	-19	-339	-117	-84
+/- Change in interest-bearing debt	-13	-1	18	0	0	152	14	10
+/- New issues/buybacks	196	85	16	71	0	207	84	84
- Paid dividend	0	0	0	0	0	0	0	0
+/- Change in loan receivables	-157	-4	-11	-4	6	0	0	0
Change in cash	-59	80	-103	-10	-14	20	-19	10

KEY FIGURES	2014	2015	2016	2017	2018E	2019E	2020E
M-cap	149	55	192	126	219	219	219
Net debt	-49	63	54	68	200	233	233
Enterprise value	100	118	246	194	419	452	452
Sales	172	113	101	122	101	81	178
EBITDA	0	-68	-8	-6	-6	0	55
EBIT	-45	-157	-103	-65	-46	-32	18
Pre-tax	-43	-163	-105	-69	-31	-32	18
Earnings	-35	-165	-125	-69	-31	-42	13
Book value	318	169	115	45	221	263	360
Valuation multiples							
EV/sales	0.6	1.0	2.4	1.6	4.1	5.6	2.5
EV/EBITDA	-533.3	-1.7	-32.0	-34.0	-71.9	-2,636.1	8.2
EV/EBITA	-2.2	-0.8	-2.4	-3.0	-9.1	-14.1	25.7
EV/EBIT	-2.2	-0.8	-2.4	-3.0	-9.1	-14.1	25.7
EV/operating cash flow	10.0	-1.7	-21.0	51.5	-89.0	378.1	11.6
EV/cash earnings	-41.4	-1.8	-24.7	-19.0	47.3	-2,636.1	8.2
P/E	-4.2	-0.3	-1.5	-1.8	-7.0	-6.2	23.6
P/E excl. goodwill	-4.2	-0.3	-1.5	-1.8	-7.0	-6.2	23.6
P/B	0.5	0.3	1.7	2.8	1.0	0.8	0.6
P/sales	0.9	0.5	1.9	1.0	2.2	3.2	1.7
P/CF	14.9	-0.8	-16.3	33.5	-46.6	217.8	7.6
Target EV/EBIT	0.0	0.0	0.0	0.0	-9.8	-16.7	32.7
Target P/E	0.0	0.0	0.0	0.0	-8.1	-7.2	27.3
Target P/B	0.0	0.0	0.0	0.0	1.1	1.1	1.0
Per share measures							
Number of shares	8,991	8,991	15,280	15,280	35,148	41,736	47,775
Number of shares (diluted)	8,991	8,991	15,280	15,280	35,148	41,736	47,775
EPS	-3.92	-18.35	-8.18	-4.53	-0.89	-1.01	0.26
EPS excl. goodwill	-3.92	-17.91	-8.18	-4.53	-0.89	-1.01	0.26
Cash EPS	-0.27	-7.50	-0.65	-0.67	0.25	0.00	1.15
Operating cash flow per share	1.12	-7.93	-0.77	0.25	-0.13	0.03	0.82
Capital employed per share	29.88	25.81	11.04	7.40	11.97	11.88	12.40
Book value per share	35.35	18.75	7.50	2.97	6.29	6.30	7.53
Book value excl. goodwill	35.35	18.75	7.50	2.97	6.29	6.30	7.53
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend payout ratio, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Efficiency measures							
ROE	-12.0	-67.8	-88.3	-86.6	-23.5	-17.4	4.1
ROCE	-12.6	-49.3	-45.8	-39.6	-9.2	-6.6	3.1
Financial ratios							
Capex/sales, %	22.8	24.4	45.2	15.2	344.9	132.8	66.3
Capex/depreciation excl. goodwill,%	87.5	27.8	47.9	31.5	868.9	339.1	317.0
Net debt/EBITDA, book-weighted	261.5	-0.9	-7.0	-11.9	-34.3	-1,356.9	4.2
Debt/equity, market-weighted	0.4	1.5	0.4	0.7	1.1	1.1	1.2
Equity ratio, book-weighted	69.3	61.6	51.6	28.3	45.3	48.4	55.3
Gearing	-0.15	0.38	0.47	1.49	0.90	0.88	0.65
Number of employees, average	0	0	0	0	0	0	0
Sales per employee, SEK	0	0	0	0	0	0	0
EBIT per employee, SEK	0	0	0	0	0	0	0

COMPANY DESCRIPTION: Endomines AB engages in exploration, mining, and extraction of gold deposits. Its site is found in Eastern Finland along the Karelian Gold line. The company was founded on October 20, 2005 and is headquartered in Stockholm, Sweden.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	SEKm	%
Handelsbanken Finland Standard Client A/C	7,748,000	48.348	22.0%
Nordea Bank Abp	4,975,898	31.050	14.2%
Joensuun Kauppa ja Kone	3,688,960	23.019	10.5%
Ålandsbanken Ab	932,685	5.820	2.7%
Aktia Bank Abp	780,000	4.867	2.2%
Lago Kapital	753,909	4.704	2.1%
Försäkringbolaget Avanza Pension	628,770	3.924	1.8%
Handels & Industri	501,728	3.131	1.4%
Skandinaviska Enskilda Banken S.A	396,000	2.471	1.1%
WIP Hakkapeliitat Sijoitusrahasto	360,000	2.246	1.0%
Ten largest	20,765,950	129.580	59%
Residual	14,381,835	89.743	41%
Total	35,147,785	219.322	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Saila Miettinen-Lähde

Birger Jarlsgatan 41 A 3 fl., SE-11145 Stockholm

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IR:

DEFINITIONS

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

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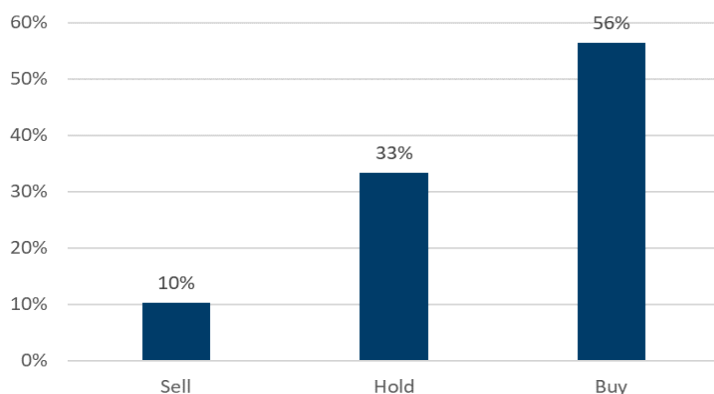
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Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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The graph above shows the distribution of ERP's recommendations of companies under coverage in 16th of April 2018. If recommendation is not given, it is not mentioned here.

Name(s) of the analyst(s): Salokivi

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