

Upgrade to HOLD

Endomines' Q3 results were clearly below our estimates, as no concentrate from Friday was sold during the quarter. Mining operations have progressed well but issues with the commissioning of the mill delayed concentrate production. Full forecasted production rates at Friday are expected by the end of the year. We adjust our TP to SEK 4.7 (4.8) and upgrade to HOLD (SELL) following share price declines.

Estimates miss from mill commissioning delays

Endomines Q3 results fell clearly below our estimates, as no gold concentrate from the Friday-mine was yet sold, whereas we had expected minor sales. The gold concentrate production was affected by issues with commissioning the mill at Friday, which delayed previous plans of commencing production during Q3. Revenue amounted to SEK 1.6m (Evli 10.9m) and EBIT to SEK -16.4m (Evli -7.2m). Revenue was generated from gold recovered from the clean-up at Pampalo. Production at the Friday-mine has progressed well and a significant ore stockpile has been built up and Endomines expects to be reaching full forecasted production rates by the end of the year.

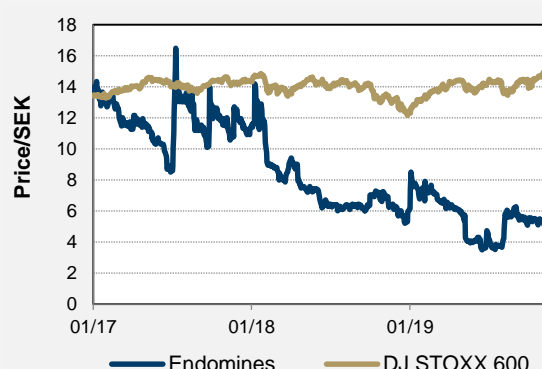
Bumps on the road in the near-term not unlikely

We have slightly revised our 2019 estimates downwards following the delay in concentrate production. The issues relating to the commissioning of the mill continue to pose risks for concentrate production in Q4. The impact of any further delays are however essentially not of any major importance and would only shift cashflows to a slightly later stage and the improved financial situation from the completed rights issue allows for some headwind.

HOLD (SELL) with a TP or SEK 4.7 (4.8)

Our view on Endomines post-Q3 in general remains intact. Our SOTP (Gold spot price) implies a value of SEK 5.4 per share but with the production uncertainty still present we continue to justify a discount and check our target price to SEK 4.7 (4.8) per share following SOTP adjustments. Due to a near 10% share price decline since our previous update we upgrade our rating to HOLD (SELL).

Rating

■ HOLD


Share price, SEK (Last trading day's closing price) 5.08

Target price, SEK 4.7

Latest change in recommendation 08-Nov-19

Latest report on company 19-Oct-19

Research paid by issuer: YES

No. of shares outstanding, '000's 79,957

No. of shares fully diluted, '000's 86,545

Market cap, SEKm 406

Free float, % -

Exchange rate EUR/SEK 10.650

Reuters code ENDO.ST

Bloomberg code ENDO SS

Average daily volume, SEKm 0.4

Next interim report

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■ BUY ■ HOLD ■ SELL

KEY FIGURES

	Sales SEKm	EBIT SEKm	EBIT %	FCF SEKm	EPS SEK	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS SEK
2017	122.2	-64.8	-53.0%	-19.3	-4.53	-1.8	1.6	-3.0	-15.3	0.00
2018	104.0	-48.5	-46.6%	-371.3	-1.06	-5.6	3.9	-8.4	-176.1	0.00
2019E	27.1	-43.5	-160.3%	-111.2	-0.64	-7.9	18.9	-11.8	-27.4	0.00
2020E	107.3	-10.0	-9.3%	-104.8	-0.24	-21.4	5.0	-53.0	-25.8	0.00
2021E	186.4	11.2	6.0%	-71.7	-0.01	-637.7	3.2	54.0	-17.7	0.00
Market cap, SEKm			406	Gearing 2019E, %			4.4	CAGR EPS 2018-21, %		-80.4
Net debt 2019E, SEKm			106	Price/book 2019E			1.0	CAGR sales 2018-21, %		21.5
Enterprise value, SEKm			512	Dividend yield 2019E, %			0.0	ROE 2019E, %		-15.7
Total assets 2019E, SEKm			604	Tax rate 2019E, %			0.0	ROCE 2019E, %		-8.4
Goodwill 2019E, SEKm			0	Equity ratio 2019E, %			80.1	PEG, P/E 19/CAGR		0.0

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

Endomines (SEK)	2017	Q1/'18	Q2/'18	Q3/'18	Q4/'18	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19E	2019E	2020E	2021E
Net sales	122.2	29.4	42.1	25.9	8.3	105.3	2.1	1.4	1.6	22.0	27.1	107.3	186.4
<i>sales growth %</i>	21.0%	3.2%	21.6%	-6.2%	-72.7%	-13.9%	-92.9%	-96.7%	-93.8%	166.2%	-74.2%	295.4%	74%
EBITDA	-5.7	-8.5	8.5	0.6	-6.1	-5.5	-11.5	-9.3	-12.9	-0.8	-34.5	10.7	41.4
EBIT	-64.8	-19.9	-3.2	-11.2	-14.2	-48.5	-13.3	-9.0	-16.4	-4.8	-43.5	-10.0	11.2
<i>EBIT margin</i>	-53.0%	-67.7%	-7.6%	-43.2%	<-100%	-46.0%	<-100%	-	<-100%	-21.8%	#####	-9.3%	6.0%
Gold production (Oz)	12 799	2 865	4 167	2 624	897	10 552	0	0	0	1 693	1 693	8 912	15 481
Pampalo	2017	Q1/'18	Q2/'18	Q3/'18	Q4/'18	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19E	2019E	2020E	2021E
Net sales	122.2	29.4	42.1	25.9	8.3	105.3	2.1	1.4	1.6	0.0	5.1	0.0	0.0
Gold production (Oz)	12799	2865	4167	2624	897	10552	0	0	0	0	0	0.0	0.0
Idaho	2017	Q1/'18	Q2/'18	Q3/'18	Q4/'18	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19E	2019E	2020E	2021E
Net sales							0.0	0.0	0.0	22.0	22.0	107.3	186.4
Gold production (Oz)							0.0	0.0	0.0	1 693	1 693	8912	15481
Assumptions	2017	Q1/'18	Q2/'18	Q3/'18	Q4/'18	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19E	2019E	2020E	2021E
Gold price USD/Oz	1257	1329	1306	1213	1229	1269	1304	1310	1473	1490	1394	1400	1400
Gold price EUR/Oz	1114	1082	1096	1044	1077	1073	1148	1170	1325	1342	1245	1250	1250
USD/SEK	8.19	8.11	8.68	8.95	8.96	8.67	9.18	9.47	9.59	9.59	9.46	9.45	9.45
EUR/SEK	9.83	9.97	10.34	10.41	10.30	10.26	10.42	10.61	10.66	10.66	10.59	10.59	10.59
EUR/USD	1.20	1.23	1.19	1.16	1.15	1.18	1.14	1.12	1.11	1.11	1.12	1.12	1.12

Valuation	Evli est. MSEK	Spot MSEK	Estimate basis
Friday	165	190	LOM 7 years, avg. CC 830 USD/oz, ~92,000oz concentrate produced
Idaho other assets	335	368	Purchase price and in-situ value analysis
Pampalo deep	45	50	Real option model, assuming profitability above 1,550-1,600 USD/oz gold price
Karelia other	70	74	In-situ value for assets. Exploration ~200usd/m, mainly recent drillings
Corporate/other	-117	-117	DCF estimate assuming active operations between 2019-2030
Net cash (debt)	-155	-155	Q3/19 net debt
Total	343	410	
Per share	4.3	5.1	
Long-term gold price (USD/Oz)	1400		Evli
Spot price (USD/Oz)		1469	
Shares (m)	80.0		

INTERIM FIGURES

EVLI ESTIMATES, SEKm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3	2019Q4E	2019E	2020E	2021E
Net sales	29.4	42.1	24.3	8.3	104.0	2.1	1.4	1.6	22.0	27.1	107.3	186.4
EBITDA	-8.6	8.5	0.6	-6.1	-5.5	-11.5	-9.3	-12.9	-0.8	-34.5	10.7	41.4
<i>EBITDA margin (%)</i>	<i>-29.1</i>	<i>20.3</i>	<i>2.4</i>	<i>-73.4</i>	<i>-5.3</i>	<i>-547.6</i>	<i>-663.0</i>	<i>-806.2</i>	<i>-3.7</i>	<i>-127.1</i>	<i>10.0</i>	<i>22.2</i>
EBIT	-19.9	-3.2	-11.2	-14.2	-48.5	-13.3	-9.0	-16.4	-4.8	-43.5	-10.0	11.2
<i>EBIT margin (%)</i>	<i>-67.7</i>	<i>-7.6</i>	<i>-46.1</i>	<i>-171.1</i>	<i>-46.6</i>	<i>-633.3</i>	<i>-642.9</i>	<i>-1,025.0</i>	<i>-21.8</i>	<i>-160.3</i>	<i>-9.3</i>	<i>6.0</i>
Net financial items	21.7	-2.1	-4.9	-3.8	11.0	0.0	-7.8	2.1	-2.0	-7.7	-14.0	-12.0
Pre-tax profit	1.8	-5.3	-16.0	-18.0	-37.5	-13.3	-16.8	-14.3	-6.8	-51.2	-24.0	-0.8
Tax	0.0	0.0	0.0	0.1	0.1	0.3	-0.3	0.0	0.0	0.0	5.0	0.2
<i>Tax rate (%)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.6</i>	<i>0.3</i>	<i>2.3</i>	<i>-1.8</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>21.0</i>	<i>21.0</i>
Net profit	1.8	-5.3	-16.0	-17.9	-37.4	-13.0	-17.1	-14.3	-6.8	-51.2	-19.0	-0.6
EPS	0.05	-0.15	-0.46	-0.51	-1.06	-0.16	-0.21	-0.18	-0.09	-0.64	-0.24	-0.01
EPS adjusted (diluted no. of shares)	0.05	-0.15	-0.46	-0.51	-1.06	-0.15	-0.20	-0.17	-0.08	-0.59	-0.22	-0.01
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	29.4	42.1	24.3	8.3	104.0	2.1	1.4	1.6	22.0	27.1	107.3	186.4
Total	29.4	42.1	24.3	8.3	104.0	2.1	1.4	1.6	22.0	27.1	107.3	186.4
SALES GROWTH, Y/Y %												
Endomines	3.2	21.6	-12.1	-73.7	-14.9	-92.9	-96.7	-93.4	166.2	-73.9	295.4	73.7
Total	3.2	21.6	-12.1	-73.7	-14.9	-92.9	-96.7	-93.4	166.2	-73.9	295.4	73.7
EBIT, SEKm												
Endomines	-19.9	-3.2	-11.2	-14.2	-48.5	-13.3	-9.0	-16.4	-4.8	-43.5	-10.0	11.2
Total	-19.9	-3.2	-11.2	-14.2	-48.5	-13.3	-9.0	-16.4	-4.8	-43.5	-10.0	11.2
EBIT margin, %												
Endomines	-67.7	-7.6	-46.1	-171.1	-46.6	-633.3	-642.9	-1,025.0	-21.8	-160.3	-9.3	6.0
Total	-67.7	-7.6	-46.1	-171.1	-46.6	-633.3	-642.9	-1,025.0	-21.8	-160.3	-9.3	6.0

INCOME STATEMENT, SEKm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	172.0	113.0	101.1	122.2	104.0	27.1	107.3	186.4
<i>Sales growth (%)</i>	<i>5.3</i>	<i>-34.3</i>	<i>-10.5</i>	<i>21.0</i>	<i>-14.9</i>	<i>-73.9</i>	<i>295.4</i>	<i>73.7</i>
EBITDA	-0.2	-67.8	-7.7	-5.7	-5.5	-34.5	10.7	41.4
<i>EBITDA margin (%)</i>	<i>-0.1</i>	<i>-60.0</i>	<i>-7.6</i>	<i>-4.7</i>	<i>-5.3</i>	<i>-127.1</i>	<i>10.0</i>	<i>22.2</i>
Depreciation	-44.8	-84.9	-95.4	-59.1	-43.0	-9.0	-20.8	-30.2
EBITA	-45.0	-152.7	-103.1	-64.8	-48.5	-43.5	-10.0	11.2
Goodwill amortization / writedown	0.0	-3.9	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	-45.0	-156.6	-103.1	-64.8	-48.5	-43.5	-10.0	11.2
<i>EBIT margin (%)</i>	<i>-26.2</i>	<i>-138.6</i>	<i>-102.1</i>	<i>-53.0</i>	<i>-46.6</i>	<i>-160.3</i>	<i>-9.3</i>	<i>6.0</i>
Reported EBIT	-45.0	-156.6	-103.1	-64.8	-48.5	-43.5	-10.0	11.2
<i>EBIT margin (reported) (%)</i>	<i>-26.2</i>	<i>-138.6</i>	<i>-102.1</i>	<i>-53.0</i>	<i>-46.6</i>	<i>-160.3</i>	<i>-9.3</i>	<i>6.0</i>
Net financials	1.7	-6.1	-1.5	-4.5	11.0	-7.7	-14.0	-12.0
Pre-tax profit	-43.3	-162.7	-104.7	-69.3	-37.5	-51.2	-24.0	-0.8
Taxes	8.1	-2.3	-20.3	0.0	0.1	0.0	5.0	0.2
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	-35.2	-165.0	-125.0	-69.3	-37.4	-51.2	-19.0	-0.6
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, SEKm								
Assets								
Fixed assets	282	221	171	130	476	540	621	686
Goodwill	0	0	0	0	0	0	0	0
Right of use assets	0	0	0	0	0	0	0	0
Inventory	5	2	1	2	2	1	3	6
Receivables	29	12	21	12	4	1	4	7
Liquid funds	114	20	29	16	19	63	16	28
Total assets	459	274	222	161	501	604	644	727
Liabilities								
Shareholder's equity	318	169	115	45	252	400	465	465
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	169	84	0	0
Lease liabilities	0	0	0	0	0	0	0	0
Deferred taxes	0	0	0	0	0	0	0	0
Interest bearing debt	65	83	84	84	44	84	142	226
Non-interest bearing current liabilities	30	14	0	0	0	0	0	0
Other interest-free debt	45	8	24	32	36	36	36	36
Total liabilities	459	274	222	161	501	604	644	727
CASH FLOW, SEKm								
+ EBITDA	0	-68	-8	-6	-5	-34	11	41
- Net financial items	2	-6	-2	-4	11	-8	-14	-12
- Taxes	-4	6	-1	0	0	0	5	0
- Increase in Net Working Capital	29	-23	-2	9	12	4	-6	-5
+/- Other	-16	13	-2	0	0	0	0	0
= Cash flow from operations	11	-77	-14	-1	18	-38	-4	24
- Capex	-39	-28	-46	-19	-389	-73	-101	-96
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-28	-105	-59	-19	-371	-111	-105	-72
+/- New issues/buybacks	85	16	71	0	244	199	85	0
- Paid dividend	0	0	0	0	0	0	0	0
+/- Other	11	-5	-2	6	131	-45	-26	84
Change in cash	68	-94	9	-14	3	44	-46	12

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	55	192	126	211	406	406	406
Net debt (excl. convertibles)	63	54	68	25	21	126	198
Enterprise value	118	246	194	405	512	532	604
Sales	113	101	122	104	27	107	186
EBITDA	-68	-8	-6	-5	-34	11	41
EBIT	-157	-103	-65	-48	-44	-10	11
Pre-tax	-163	-105	-69	-37	-51	-24	-1
Earnings	-165	-125	-69	-37	-51	-19	-1
Equity book value (excl. minorities)	169	115	45	252	400	465	465
Valuation multiples							
EV/sales	1.0	2.4	1.6	3.9	18.9	5.0	3.2
EV/EBITDA	-1.7	-32.0	-34.0	-73.7	-14.8	49.7	14.6
EV/EBITA	-0.8	-2.4	-3.0	-8.4	-11.8	-53.0	54.0
EV/EBIT	-0.8	-2.4	-3.0	-8.4	-11.8	-53.0	54.0
EV/OCF	-1.5	-18.1	-270.3	23.0	-13.4	-139.2	24.9
EV/FCFF	-1.1	-4.0	-21.0	-1.1	-4.9	-5.7	-9.7
P/FCFE	0.0	-4.7	-9.5	-0.6	-3.7	-3.9	-5.7
P/E	-0.3	-1.5	-1.8	-5.6	-7.9	-21.4	-637.7
P/B	0.3	1.7	2.8	0.8	1.0	0.9	0.9
Target EV/EBITDA	0.0	0.0	0.0	0.0	-14.0	46.8	13.9
Target EV/EBIT	0.0	0.0	0.0	0.0	-11.1	-50.0	51.2
Target EV/FCF	0.0	0.0	0.0	0.0	-4.3	-4.8	-8.0
Target P/B	0.0	0.0	0.0	0.0	0.9	0.8	0.8
Target P/E	0.0	0.0	0.0	0.0	-7.9	-21.3	-590.0
Per share measures							
Number of shares	8,991	15,280	15,280	35,148	79,957	79,957	79,957
Number of shares (diluted)	8,991	15,280	15,280	35,148	86,545	85,996	79,957
EPS	-18.35	-8.18	-4.53	-1.06	-0.64	-0.24	-0.01
Operating cash flow per share	-8.61	-0.89	-0.05	0.50	-0.48	-0.05	0.30
Free cash flow per share	-11.68	-3.88	-1.26	-10.56	-1.39	-1.31	-0.90
Book value per share	18.75	7.50	2.97	7.16	5.00	5.82	5.81
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
FCF yield, %	-190.7	-30.9	-15.3	-176.1	-27.4	-25.8	-17.7
Efficiency measures							
ROE	-67.8	-88.3	-86.6	-25.2	-15.7	-4.4	-0.1
ROCE	-49.3	-45.8	-39.6	-9.9	-8.4	-1.7	1.7
Financial ratios							
Inventories as % of sales	1.5	0.9	1.8	1.7	2.0	3.0	3.0
Receivables as % of sales	10.3	20.6	9.9	3.6	3.6	3.6	3.6
Non-interest bearing liabilities as % of sales	12.3	0.0	0.0	0.0	0.0	0.0	0.0
NWC/sales, %	-1.7	-0.1	-7.9	-20.8	-94.5	-18.7	-7.9
Operative CAPEX/sales, %	24.4	45.2	15.2	373.8	269.0	94.1	51.5
CAPEX/sales (incl. acquisitions), %	24.4	45.2	15.2	373.8	269.0	94.1	51.5
FCFF/EBITDA	1.6	8.0	1.6	69.3	3.0	-8.7	-1.5
Net debt/EBITDA, book-weighted	-0.9	-7.0	-11.9	-4.6	-0.6	11.8	4.8
Debt/equity, market-weighted	1.5	0.4	0.7	0.2	0.2	0.4	0.6
Equity ratio, book-weighted	61.6	51.6	28.3	84.0	80.1	72.3	64.0
Gearing, %	37.6	47.3	149.3	6.0	4.4	27.1	42.6

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

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	SEKm	%
Handelsbanken Finland Standard Client A/C	18,823,668	95.624	23.5%
Nordea Bank Abp	9,225,204	46.864	11.5%
Joensuun Kauppa ja Kone	8,943,216	45.432	11.2%
Aktia Bank Abp	2,559,999	13.005	3.2%
Ålandsbanken Ab	1,600,258	8.129	2.0%
Suokas Petri Kristian	1,500,000	7.620	1.9%
Försäkringbolaget Avanza Pension	1,270,012	6.452	1.6%
K22 Finance Oy	970,087	4.928	1.2%
Oy Q&A Consulting Ab	851,000	4.323	1.1%
Skandinaviska Enskilda Banken S.A	842,000	4.277	1.1%
Ten largest	46,585,444	236.654	58%
Residual	33,371,599	169.528	42%
Total	79,957,043	406.182	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Marcus Ahlström (Interim)

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DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

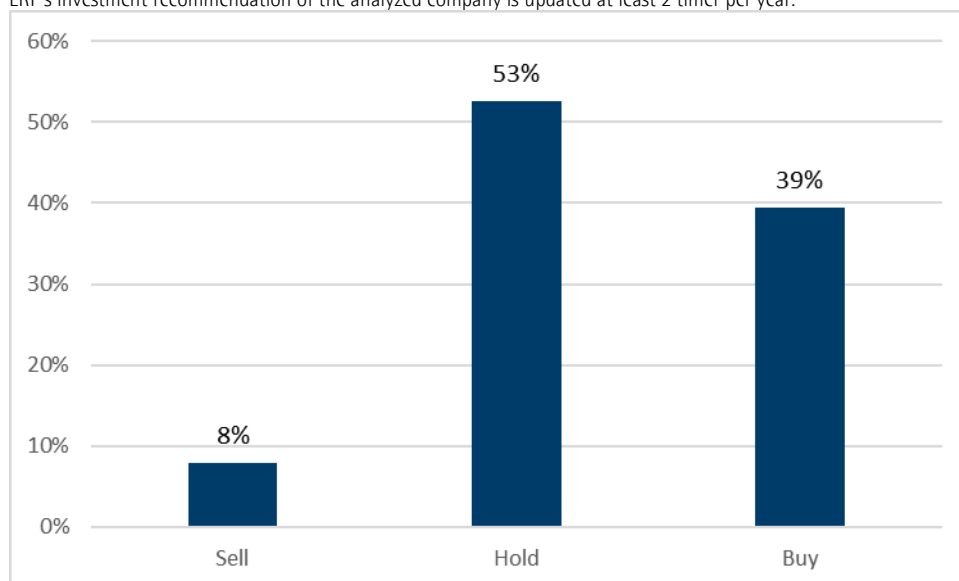
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Investment recommendations are defined as follows:

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 1st of February 2019. If recommendation is not given, it is not mentioned here.

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

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