

Market outlook remains volatile

Finnair's Q3 earnings fell short of expectations. We have cut our estimates for 2019E-2021E after Q3 earnings. Considering the weakening profitability trend and market outlook uncertainties we do not see valuation being particularly attractive. We downgrade to "HOLD" with TP of EUR 6.5 (prev. EUR 7.4)

Profitability weighed down by fuel costs and currencies

Finnair's Q3 revenue increased by 7.9% and was EUR 870.3m vs. our expectations of EUR 889.2m and consensus of EUR 871.4m. Finnair's traffic from Asia to Europe remained at good level, whereas demand from Europe to Asia was softer. Finnair's Q3 profitability fell short of expectations as comparable EBIT decreased by ~14% from last year and was EUR 100.7m vs. our expectation of EUR 135.4m and consensus of EUR 121.9m. Profitability was weighed down by fuel costs (incl. hedging), a decline in the dollar-based discount rate on maintenance reserves and negative exchange rate effects.

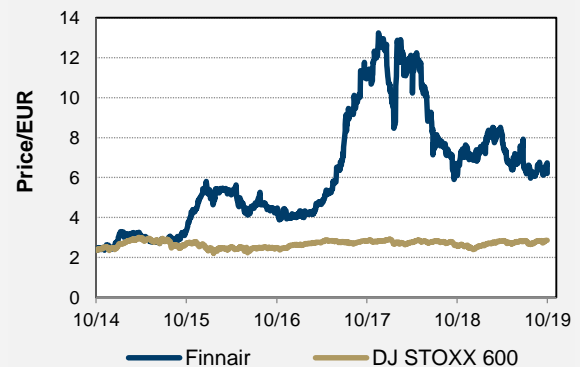
Guidance for 2019E unchanged

Finnair reiterated its guidance and expects capacity growth of 11%-12% which is mainly due to the new route to Beijing's Daxing International Airport which will be opened in early November. The company expects revenue to grow at a slightly slower pace than capacity in 2019. Finnair expects adj. EBIT margin to be between 4.5-6.0% in 2019. We expect capacity to grow by 11% in 2019E while we expect RPK growth of 10% and total revenue growth of 8%. Our expectation for 2019E adj. EBIT margin is at the lower end of the guidance at 4.6%.

Estimates cut – downgrade to "HOLD"

After Q3'19 earnings we have cut our 2019E-2021E estimates. We have lowered our 2019E-2021E revenue expectations by ~1% and cut our EBIT estimate for 2019E by 23% and for 2020E-2021E by 12-17%. We now expect 2019E revenue of EUR 3074m (prev. EUR 3104m) while our 2019E adj. EBIT expectation is at EUR 140m (prev. EUR 181m) resulting in EBIT margin of 4.6%. With our new TP of EUR 6.5 (prev. EUR 7.4) Finnair trades on our estimates at its historical average of NTM EV/EBITDA of 3.5x. We downgrade our rating to "HOLD" (prev. "BUY").

Rating 🟡 HOLD



Share price, EUR (Last trading day's closing price) 6.21

Target price, EUR 6.5

Latest change in rating 16-Oct-19

Latest report on company 16-Oct-19

Research paid by issuer: YES

No. of shares outstanding, '000's 128,136

No. of shares fully diluted, '000's 128,136

Market cap, EURm 796

Free float, % 44.0

Exchange rate EUR/USD 1.170

Reuters code FIA1S.HE

Bloomberg code FIA1S FH

Average daily volume, EURm na.

Next interim report -

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🟢 BUY 🟡 HOLD 🔴 SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2017	2,568.4	170.4	6.6%	134.6	0.88	14.6	0.5	8.2	8.2	0.30
2018	2,849.7	218.4	7.7%	185.3	0.40	17.7	0.6	7.4	20.4	0.27
2019E	3,074.3	140.2	4.6%	-18.1	0.23	27.5	0.5	11.1	-2.3	0.30
2020E	3,175.7	164.6	5.2%	-109.1	0.29	21.4	0.5	10.4	-13.7	0.35
2021E	3,301.6	207.9	6.3%	-21.3	0.51	12.1	0.5	8.5	-2.7	0.40
Market cap, EURm	796			Gearing 2019E, %	83.4			CAGR EPS 2018-21, %	8.7	
Net debt 2019E, EURm	760			Price/book 2019E	0.9			CAGR sales 2018-21, %	5.0	
Enterprise value, EURm	1,556			Dividend yield 2019E, %	4.8			ROE 2019E, %	3.2	
Total assets 2019E, EURm	4,097			Tax rate 2019E, %	17.4			ROCE 2019E, %	5.1	
Goodwill 2019E, EURm	0			Equity ratio 2019E, %	24.3			PEG, P/E 19/CAGR	0.5	

Profitability weighed down by fuel costs and currencies

Finnair's Q3 revenue increased by 7.9% and was EUR 870.3m vs. our expectation of EUR 889.2m and consensus of EUR 871.4m. The revenue was boosted by increased passenger numbers (11.9% y/y). Especially the European traffic development was good as well as traffic in North America due to the new Los Angeles route which was opened last March. Finnair's traffic from Asia to Europe remained at good level, whereas demand from Europe to Asia was softer. Capacity (ASK) increased by 9.5% y/y while RASK decreased by 1.5% y/y. Finnair's Q3 profitability fell short of expectations as comparable EBIT decreased by ~14% from last year and was EUR 100.7m vs. our expectation of EUR 135.4m and consensus of EUR 121.9m. Profitability was weighed down by fuel costs (incl. hedging), a decline in the dollar-based discount rate on maintenance reserves and negative exchange rate effects. Also, softening demand in cargo impacted Finnair's Q3 earnings.

Global uncertainties increasing risks

We expect the market outlook to remain volatile in the latter half of the year as the global economies of Finnair's key markets are slowing down and the uncertainties surrounding global trade, such as Brexit and US-China trade talks continue which could have an impact on air travel and cargo demand. We have already seen some softening in cargo demand especially in Asia and we expect the market environment to remain challenging. Finnair experienced some lower air travel demand in Hong Kong in Q3 and we expect this to continue as long as the disorder continues. We expect Finnair to gain some competitive advantage in short term, especially in the European routes as Norwegian has cut down its capacity growth expectations for 2019 (Norwegian expects capacity growth of 0-5% in 2019). Considering the tight competition, we expect the advantages to last only for a short time.

Guidance for 2019E unchanged

Finnair reiterated its guidance and expects capacity growth of 11%-12% which is mainly due to the new route to Beijing's Daxing International Airport which will be opened in early November. The company expects revenue to grow at a slightly slower pace than capacity in 2019E. Finnair expects adj. EBIT margin to be between 4.5-6.0% in 2019, assuming no material changes in fuel prices and exchange rates. We expect capacity to grow by 11% in 2019E while we expect RPK growth of 10% and total revenue growth of 8%. Our expectation for 2019E adj. EBIT margin is at the lower end of the guidance at 4.6%.

Estimates cut – downgrade to "HOLD"

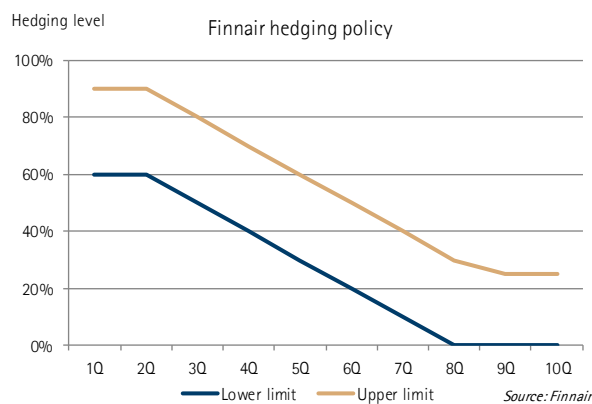
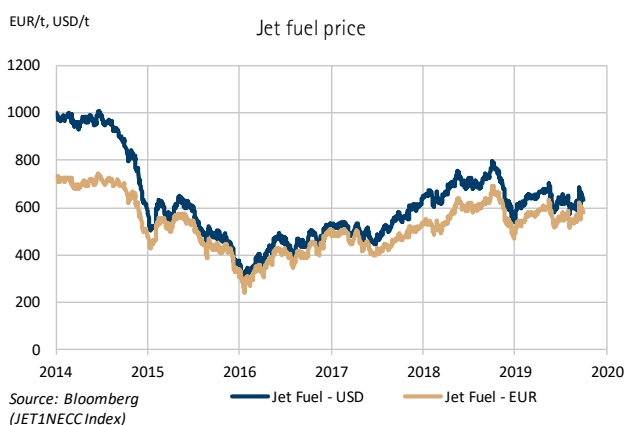
After Q3'19 earnings we have cut our 2019E-2021E estimates. We have lowered our 2019E-2021E revenue expectations by ~1% and cut our EBIT estimate for 2019E by 23% and for 2020E-2021E by 12-17%. We now expect 2019E revenue of EUR 3074m (prev. EUR 3104m) while our 2019E adj. EBIT expectation is at EUR 140m (prev. EUR 181m) resulting in EBIT margin of 4.6%. Considering the weakening profitability trend and market outlook uncertainties we do not see valuation being particularly attractive. With our new TP of EUR 6.5 (prev. EUR 7.4) Finnair trades on our estimates at its historical average of NTM EV/EBITDA of 3.5x. After estimates cut we downgrade our rating to "HOLD" (prev. "BUY").

Estimates

FINNAIR EURm	2015 FY	2016 FY	2017 FY	2018 FY	2019E Q1	2019E Q2	2019E Q3	2019E Q4	2019E FY
Passengers (thousands)	10294	10866	11905	13281	3148	3910	4088	3451	14597
<i>y/y change</i>	7 %	6 %	10 %	12 %	4 %	13 %	12 %	9 %	10 %
ASK (mkm)	31 836	33 914	36 922	42 386	10 670	12 308	12 624	11 457	47 059
<i>y/y change</i>	3 %	7 %	9 %	14,8 %	10 %	15 %	10 %	9 %	11,0 %
RPK (mkm)	25 592	27 065	30 749	34 660	8 356	10 152	10 879	8 812	38 200
<i>y/y change</i>	3 %	6 %	14 %	13 %	4 %	14,8 %	12 %	9 %	10 %
Load factor (RPK/ASK), PLF	80,4 %	79,8 %	83,3 %	81,8 %	78,3%	82,5%	86,2%	76,9%	81,2 %
<i>y/y change</i>	0,2%-p	-0,6%-p	3,5%-p	-1,5%-p	-4,6%-p	-0,1%-p	1,7%-p	0,0%-p	-0,6%-p
Total revenue	2255	2317	2569	2850	673	793	870	738	3074
YoY change	-1 %	3 %	11 %	11 %	5 %	10 %	8 %	8 %	8 %
Other income	85	76	77	74	15	13	13	18	59
Staff costs	-353	-363	-423	-500	-130	-137	-132	-133	-531
<i>y/y change</i>	2 %	3 %	17 %	18 %	5 %	3 %	6 %	11 %	6 %
<i>% of revenue</i>	16 %	16 %	16 %	18 %	19 %	17 %	15 %	18 %	17 %
Fuel	-596	-492	-472	-581	-145	-181	-190	-168	-684
<i>y/y change</i>	-10 %	-17 %	-4 %	23 %	14 %	24 %	17 %	16 %	18 %
<i>% of revenue</i>	26 %	21 %	18 %	20 %	22 %	23 %	22 %	23 %	22 %
Other OPEX	-1160	-1268	-1314	-1330	-353	-363	-380	-365	-1460
<i>y/y change</i>	3 %	9 %	4 %	1 %	9 %	11 %	10 %	9 %	10 %
<i>% of revenue</i>	51 %	55 %	51 %	47 %	52 %	46 %	44 %	49 %	47 %
Comparable EBITDA	132	161	300	513	60	126	182	90	458
Depreciation	-108	-106	-129	-294	-76	-79	-81	-82	-317,4
Comparable EBIT	24	55	171	218	-16	47	101	8	140
Comp. EBIT-%	1,0 %	2,4 %	6,6 %	7,7 %	-2,4 %	5,9 %	11,6 %	1,1 %	4,6 %
IAC & fair value changes	98	61	54	38	-2	1	-6	0	-7
EBIT	122	116	225	256	-18	48	95	8	134

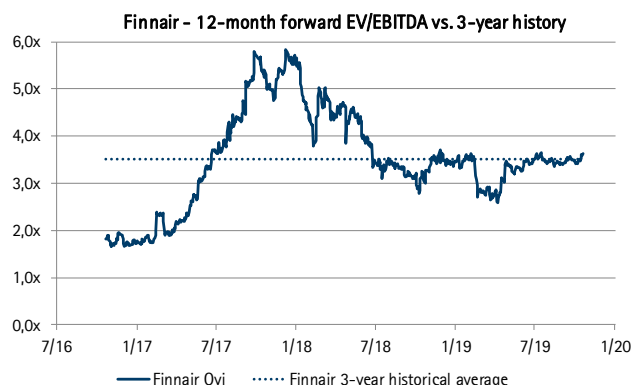
Sources: Finnair, Evli estimates

Fuel Price



Finnair valuation vs. peers

Our model treats Finnair's EUR 200m hybrid bond as 100% equity. Our estimates exclude IAC and fair value changes, but include hybrid interest. On our estimates, Finnair trades EV/EBITDA multiple of 3.4x and 3.5x in 19E-20E and EV/EBIT multiple of 11.1x and 10.4x, which translates into 5-26% premium compared to the peer group. Our new target price of EUR 6.5 (prev. EUR 7.4) values the shares at Finnair's 3yr historical average NTM EV/EBITDA (3.5x) on our FY19E estimates.



Source: Factset

FINNAIR PEER GROUP	MCAP local FX	EV/EBITDA			EV/EBIT			P/E			P/B		
		19	20	21	19	20	21	19	20	21	19	20	21
Primary European peers													
SAS AB	5195	6,1x	4,9x	4,2x	23,5x	12,7x	9,7x	22,2x	5,9x	3,9x	1,0x	0,8x	0,6x
International Consolidated Airlines Group	10223	3,6x	3,2x	2,9x	5,8x	5,2x	4,7x	5,4x	5,0x	4,6x	1,6x	1,3x	1,1x
Air France-KLM SA	4418	2,8x	2,5x	2,3x	9,7x	8,2x	6,9x	8,9x	6,5x	5,3x	1,9x	1,6x	1,2x
Deutsche Lufthansa AG	7477	3,3x	3,0x	2,9x	7,4x	6,5x	5,8x	5,9x	4,6x	4,1x	0,7x	0,7x	0,6x
Norwegian Air Shuttle ASA	4874	9,9x	8,3x	7,2x	230,4x	30,9x	21,5x			11,6x	1,6x	1,8x	1,4x
Other European peers													
Aegean Airlines SA	580	0,8x	1,4x		1,9x	3,0x		9,5x	8,7x	8,3x	2,0x	1,8x	1,6x
easyJet plc	4914	5,5x	5,4x	4,8x	11,1x	10,7x	9,2x	14,4x	13,1x	11,3x	1,4x	1,4x	1,3x
Ryanair Holdings Plc	13278	8,5x	7,4x	6,5x	15,1x	12,2x	10,8x	16,4x	12,5x	10,9x	2,5x	2,1x	1,8x
Wizz Air Holdings Plc	2786	4,1x	3,5x	2,7x	8,1x	6,6x	5,0x	16,2x	13,3x	11,1x	2,8x	2,2x	1,7x
North American peers													
American Airlines Group, Inc.	12583	6,5x	6,0x	5,5x	10,1x	9,4x	8,3x	5,7x	5,3x	4,7x	9,2x	4,2x	2,9x
Delta Air Lines, Inc.	35345	4,9x	4,8x	4,5x	7,0x	7,0x	6,5x	7,8x	7,7x	7,1x	2,3x	1,9x	1,6x
JetBlue Airways Corporation	5570	5,0x	4,4x	4,0x	8,2x	6,9x	6,2x	9,8x	7,9x	6,8x	1,0x	0,9x	0,8x
Southwest Airlines Co.	28445	6,6x	5,8x	5,3x	9,4x	8,0x	7,3x	12,5x	10,4x	9,3x	2,4x	2,1x	1,8x
Spirit Airlines, Inc.	2548	5,6x	5,5x	4,8x	8,2x	8,3x	7,0x	7,8x	7,6x	6,4x	1,2x	1,0x	0,8x
WestJet	3539	5,1x	4,5x		15,8x	13,3x		17,1x	15,6x	10,3x			
Primary European peers median		3,6x	3,2x	2,9x	9,7x	8,2x	6,9x	7,4x	5,4x	4,6x	1,6x	1,3x	1,1x
Finnair (Evli est)*		3,4x	3,5x	3,2x	11,1x	10,4x	8,5x	27,6x	21,4x	12,1x	0,9x	0,9x	0,9x

Finnair discount/premium to primary peer group median* -4% 8% 9% 15% 26% 23% 273% 294% 166% -45% -33% -25%

FINNAIR PEER GROUP	Ticker	Div yield			EBIT-%			ROCE-%			ROE-%		
		19	20	21	19	20	21	19	20	21	19	20	21
Primary European peers													
SAS AB	SAS-SE	0,0%	0,0%	0,0%	1,8%	4,2%	5,2%	4,1%	9,5%	11,0%	4,6%	14,3%	16,5%
International Consolidated Airlines Group	IAG-GB	5,2%	5,4%	6,0%	12,6%	13,0%	13,3%	15,5%	15,8%	16,0%	29,3%	26,1%	25,1%
Air France-KLM SA	AF-FR	0,1%	0,5%	0,7%	4,3%	4,7%	5,3%	6,9%	7,5%	8,1%	21,8%	24,2%	23,8%
Deutsche Lufthansa AG	LHA-DE	4,6%	5,2%	5,9%	5,6%	6,2%	6,8%	8,7%	9,4%	10,0%	12,5%	14,4%	14,6%
Norwegian Air Shuttle ASA	NAS-NO	0,0%	0,3%	0,8%	0,7%	4,9%	6,8%	0,4%	3,4%	4,7%	-73,2%	-12,9%	12,3%
Other European peers													
Aegean Airlines SA	AEGN-GR	6,5%	6,1%	6,7%	8,4%	8,9%	9,4%	10,9%	12,0%	13,1%	20,7%	20,7%	19,8%
easyJet plc	EZJ-GB	3,6%	3,9%	4,6%	7,3%	7,5%	8,1%	8,4%	8,4%	9,1%	10,1%	10,4%	11,2%
Ryanair Holdings Plc	RY4C-IE	0,7%	0,7%	0,8%	11,3%	13,5%	13,8%	9,8%	11,7%	12,0%	15,0%	16,8%	16,7%
Wizz Air Holdings Plc	WIZZ-GB	0,0%	0,0%	0,0%	14,6%	15,3%	15,9%	11,4%	11,9%	12,2%	17,1%	16,8%	15,5%
North American peers													
American Airlines Group, Inc.	AAL-US	1,4%	1,4%	1,4%	8,0%	8,0%	8,3%	8,4%	8,5%	9,3%	161,6%	79,2%	62,2%
Delta Air Lines, Inc.	DAL-US	2,9%	3,1%	3,3%	13,9%	12,8%	13,0%	14,8%	13,6%	13,4%	29,7%	24,6%	22,1%
JetBlue Airways Corporation	JBLU-US	0,0%	0,0%	0,0%	10,2%	11,3%	11,9%	9,6%	10,5%	10,4%	10,7%	11,7%	11,5%
Southwest Airlines Co.	LUV-US	1,3%	1,4%	1,6%	13,3%	14,3%	14,5%	16,6%	18,1%	18,8%	19,5%	20,1%	19,3%
Spirit Airlines, Inc.	SAVE-US	0,0%	0,0%	0,0%	12,9%	11,7%	12,2%	9,3%	8,6%	9,1%	14,9%	13,1%	13,3%
WestJet	WJA-CA	1,8%	1,8%	1,8%	5,9%	6,5%	7,9%						
Primary European peers median		0,1%	0,5%	0,8%	4,3%	4,9%	6,8%	6,9%	9,4%	10,0%	12,5%	14,4%	16,5%
Finnair (Evli est)*	FIA1S-FI	4,8%	5,6%	6,4%	4,6%	5,2%	6,3%	5,1%	5,6%	6,8%	3,2%	4,1%	7,1%

Source: Factset, Evli Research

Note: Our model treats Finnair's EUR 200m hybrid bond as 100% equity. Our estimates exclude IAC and fair value changes, but include hybrid interest.

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	641.1	718.2	806.9	683.5	2,849.7	673.0	793.4	870.3	737.6	3,074.3	3,175.7	3,301.6
EBITDA	86.6	130.5	191.4	104.1	512.6	59.9	125.9	181.9	89.9	457.6	478.9	559.6
<i>EBITDA margin (%)</i>	<i>13.5</i>	<i>18.2</i>	<i>23.7</i>	<i>15.2</i>	<i>18.0</i>	<i>8.9</i>	<i>15.9</i>	<i>20.9</i>	<i>12.2</i>	<i>14.9</i>	<i>15.1</i>	<i>16.9</i>
EBIT	14.6	59.1	118.2	26.5	218.4	-16.1	47.2	100.7	8.4	140.2	164.6	207.9
<i>EBIT margin (%)</i>	<i>2.3</i>	<i>8.2</i>	<i>14.6</i>	<i>3.9</i>	<i>7.7</i>	<i>-2.4</i>	<i>5.9</i>	<i>11.6</i>	<i>1.1</i>	<i>4.6</i>	<i>5.2</i>	<i>6.3</i>
Net financial items	-0.1	-70.1	-27.8	-31.0	-129.0	-31.0	-8.8	-22.9	-27.0	-89.7	-102.2	-109.8
Pre-tax profit	14.5	-11.0	90.4	-4.5	89.4	-47.1	38.4	77.8	-18.6	50.5	62.3	98.1
Tax	-3.3	3.9	-17.6	-8.6	-25.6	9.7	-7.8	-14.4	3.7	-8.8	-12.5	-19.6
<i>Tax rate (%)</i>	<i>22.8</i>	<i>35.5</i>	<i>19.5</i>	<i>-191.1</i>	<i>28.6</i>	<i>20.6</i>	<i>20.3</i>	<i>18.5</i>	<i>20.0</i>	<i>17.4</i>	<i>20.0</i>	<i>20.0</i>
Net profit	8.1	-10.2	69.7	-16.2	51.2	-40.6	27.4	60.2	-18.1	29.0	37.3	65.8
EPS	0.06	-0.08	0.54	-0.13	0.40	-0.32	0.21	0.47	-0.14	0.23	0.29	0.51
EPS adjusted (diluted no. of shares)	0.06	-0.08	0.54	-0.13	0.40	-0.32	0.21	0.47	-0.14	0.23	0.29	0.51
Dividend per share	0.00	0.00	0.00	0.00	0.27	0.00	0.00	0.00	0.00	0.30	0.35	0.40
SALES, EURm												
Group total	641.1	718.2	806.9	683.5	2,849.7	673.0	793.4	870.3	737.6	3,074.3	3,175.7	3,301.6
Total	641.1	718.2	806.9	683.5	2,849.7	673.0	793.4	870.3	737.6	3,074.3	3,175.7	3,301.6
SALES GROWTH, Y/Y %												
Group total	15.6	13.4	9.7	5.9	11.0	5.0	10.5	7.9	7.9	7.9	3.3	4.0
Total	15.6	13.4	9.7	5.9	11.0	5.0	10.5	7.9	7.9	7.9	3.3	4.0
EBIT, EURm												
Group total	14.6	59.1	118.2	26.5	218.4	-16.1	47.2	100.7	8.4	140.2	164.6	207.9
Total	14.6	59.1	118.2	26.5	218.4	-16.1	47.2	100.7	8.4	140.2	164.6	207.9
EBIT margin, %												
Group total	2.3	8.2	14.6	3.9	7.7	-2.4	5.9	11.6	1.1	4.6	5.2	6.3
Total	2.3	8.2	14.6	3.9	7.7	-2.4	5.9	11.6	1.1	4.6	5.2	6.3

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	2,284.5	2,254.5	2,316.8	2,568.4	2,849.7	3,074.3	3,175.7	3,301.6
<i>Sales growth (%)</i>	-4.8	-1.3	2.8	10.9	11.0	7.9	3.3	4.0
EBITDA	97.8	131.8	161.0	299.6	512.6	457.6	478.9	559.6
<i>EBITDA margin (%)</i>	4.3	5.8	6.9	11.7	18.0	14.9	15.1	16.9
Depreciation	-134.3	-108.1	-105.8	-129.2	-294.2	-187.9	-196.8	-233.5
EBITA	-36.5	23.7	55.2	170.4	218.4	140.2	164.6	207.9
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	-36.5	23.7	55.2	170.4	218.4	140.2	164.6	207.9
<i>EBIT margin (%)</i>	-1.6	1.1	2.4	6.6	7.7	4.6	5.2	6.3
Reported EBIT	-36.5	12.4	53.8	169.5	218.3	139.6	164.6	207.9
<i>EBIT margin (reported) (%)</i>	-1.6	0.6	2.3	6.6	7.7	4.5	5.2	6.3
Net financials	-26.6	-8.3	-10.5	-13.7	-129.0	-89.7	-102.2	-109.8
Pre-tax profit	-63.1	15.4	44.7	156.7	89.4	50.5	62.3	98.1
Taxes	12.6	-3.1	-8.9	-31.3	-25.6	-8.8	-12.5	-19.6
Minority shares	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	-50.7	-17.8	19.4	111.9	51.1	28.4	37.3	65.8
Cash NRIs	0.0	-11.3	-1.4	-0.9	-0.1	-0.6	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, EURm								
Assets								
Fixed assets	1,053	957	1,189	1,446	1,547	1,809	1,952	2,008
Goodwill	0	0	0	0	0	0	0	0
Right of use assets	0	0	0	0	999	784	788	819
Inventory	15	12	15	17	121	130	135	140
Receivables	358	364	512	460	210	222	228	235
Liquid funds	426	708	814	965	1,067	1,151	1,189	1,237
Total assets	1,885	2,050	2,529	2,887	3,944	4,097	4,291	4,438
Liabilities								
Shareholder's equity	514	727	857	1,016	918	912	910	931
Minority interest	1	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	0	1,159	784	788	819
Deferred taxes	0	0	33	74	48	48	48	48
Interest bearing debt	428	346	718	719	615	1,128	1,309	1,392
Non-interest bearing current liabilities	601	682	519	566	285	308	318	331
Other interest-free debt	246	201	339	428	811	811	811	811
Total liabilities	1,885	2,050	2,529	2,887	3,944	4,097	4,291	4,438
CASH FLOW, EURm								
+ EBITDA	98	132	161	300	513	458	479	560
- Net financial items	-27	-8	-10	-14	-129	-90	-102	-110
- Taxes	0	0	33	-1	-52	-9	-12	-20
- Increase in Net Working Capital	-33	43	56	57	50	1	0	1
+/- Other	-33	-2	-28	29	-91	-13	-13	-13
= Cash flow from operations	5	164	211	371	291	347	352	418
- Capex	-146	-81	-486	-394	-320	-365	-461	-439
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	268	448	153	157	214	0	0	0
= Free cash flow	126	531	-122	135	185	-18	-109	-21
+/- New issues/buybacks	143	231	110	60	-110	0	0	0
- Paid dividend	0	0	0	-13	-38	-35	-38	-45
+/- Other	-46	-480	117	-30	66	137	186	113
Change in cash	223	282	105	151	103	84	38	47

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	694	516	1,643	908	796	796	796
Net debt (excl. convertibles)	-362	-96	-246	707	760	908	974
Enterprise value	332	420	1,397	1,615	1,556	1,703	1,769
Sales	2,255	2,317	2,568	2,850	3,074	3,176	3,302
EBITDA	132	161	300	513	458	479	560
EBIT	24	55	170	218	140	165	208
Pre-tax	15	45	157	89	51	62	98
Earnings	-6	21	113	51	29	37	66
Equity book value (excl. minorities)	727	857	1,016	918	912	910	931
Valuation multiples							
EV/sales	0.1	0.2	0.5	0.6	0.5	0.5	0.5
EV/EBITDA	2.5	2.6	4.7	3.2	3.4	3.6	3.2
EV/EBITA	14.0	7.6	8.2	7.4	11.1	10.4	8.5
EV/EBIT	14.0	7.6	8.2	7.4	11.1	10.4	8.5
EV/OCF	2.0	2.0	3.8	5.6	4.5	4.8	4.2
EV/FCFF	1.5	-1.4	6.6	9.3	-53.3	18.1	8.2
P/FCFE	1.3	-4.2	12.2	4.9	-43.9	-7.3	-37.4
P/E	-107.2	24.9	14.6	17.7	27.5	21.4	12.1
P/B	1.0	0.6	1.6	1.0	0.9	0.9	0.9
Target EV/EBITDA	0.0	0.0	0.0	0.0	3.5	3.6	3.2
Target EV/EBIT	0.0	0.0	0.0	0.0	11.4	10.6	8.7
Target EV/FCF	0.0	0.0	0.0	0.0	-87.9	-15.9	-84.8
Target P/B	0.0	0.0	0.0	0.0	0.9	0.9	0.9
Target P/E	0.0	0.0	0.0	0.0	28.8	22.3	12.6
Per share measures							
Number of shares	128,136	128,136	128,136	128,136	128,136	128,136	128,136
Number of shares (diluted)	128,136	128,136	128,136	128,136	128,136	128,136	128,136
EPS	-0.05	0.16	0.88	0.40	0.23	0.29	0.51
Operating cash flow per share	1.28	1.65	2.90	2.27	2.71	2.75	3.26
Free cash flow per share	4.15	-0.95	1.05	1.45	-0.14	-0.85	-0.17
Book value per share	5.68	6.69	7.93	7.17	7.11	7.11	7.27
Dividend per share	0.00	0.10	0.30	0.27	0.30	0.35	0.40
Dividend payout ratio, %	0.0	61.7	34.1	68.6	132.8	120.3	77.8
Dividend yield, %	0.0	2.5	2.3	3.9	4.8	5.6	6.4
FCF yield, %	76.5	-23.5	8.2	20.4	-2.3	-13.7	-2.7
Efficiency measures							
ROE	-1.0	2.6	12.0	5.3	3.2	4.1	7.1
ROCE	2.4	4.2	10.3	9.9	5.1	5.6	6.8
Financial ratios							
Inventories as % of sales	0.5	0.6	0.7	4.2	4.2	4.2	4.2
Receivables as % of sales	16.2	22.1	17.9	7.4	7.2	7.2	7.1
Non-interest bearing liabilities as % of sales	30.3	22.4	22.0	10.0	10.0	10.0	10.0
NWC/sales, %	-21.6	-12.7	-18.7	-26.3	-24.4	-23.6	-22.7
Operative CAPEX/sales, %	3.6	21.0	15.3	11.2	11.9	14.5	13.3
CAPEX/sales (incl. acquisitions), %	3.6	21.0	15.3	11.2	11.9	14.5	13.3
FCFF/EBITDA	1.6	-1.8	0.7	0.3	-0.1	0.2	0.4
Net debt/EBITDA, book-weighted	-2.7	-0.6	-0.8	1.4	1.7	1.9	1.7
Debt/equity, market-weighted	0.5	1.4	0.4	0.7	1.4	1.6	1.7
Equity ratio, book-weighted	40.6	37.8	39.1	25.4	24.3	23.2	22.9
Gearing, %	-49.8	-11.2	-24.2	77.0	83.4	99.7	104.5

OWNERSHIP STRUCTURE	SHARES	EURm	%
Prime Minister's Office	71,515,426	444.111	55.8%
The Local Government Pensions Institution	6,250,875	38.818	4.9%
Ilmarinen Mutual Pension Insurance Company	3,203,403	19.893	2.5%
Tiiviste-Group Oy	2,150,000	13.351	1.7%
The State Pension Fund	1,700,000	10.557	1.3%
Oy Etra Invest Ab	1,000,000	6.210	0.8%
Veritas Pension Insurance Company Ltd.	830,028	5.154	0.6%
Laakkonen Mikko Kalervo	740,000	4.595	0.6%
Evli Finland Select Investment Fund	675,000	4.192	0.5%
Ten largest	88,064,732	546.882	69%
Residual	40,071,383	248.843	31%
Total	128,136,115	795.725	100%

EARNINGS CALENDAR	
February 07, 2020	FY 2019 Results
April 29, 2020	Q1 report
July 17, 2020	Q2 report
October 28, 2020	Q3 report
OTHER EVENTS	
November 12, 2019	CMD

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IR: Mari Reponen	

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

ERP's investment recommendation of the analyzed company is updated at least 2 times per year.

Recommendation	Percentage
Sell	8%
Hold	53%
Buy	39%

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

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