KESKO

Food & Staples Retailing/Finland, November 1, 2018
Spot comment

Downgraded to "Sell"

We continue to expect earnings to improve in 2019-2020E driven primarily by BT trade, but find valuation to have increased to unattractive levels recently. We downgrade to "Sell" ("Hold") with TP of EUR 46.

Earnings improvement in B&T trade reliant on Onninen

Kesko's adj. EBIT in Building and Technical (B&T) trade improved by EUR 5.2m in Q3. Within this Onninen improved by EUR 4.1m, while Specialty Trade weakened by EUR 1.8m. These imply hardware improvement of EUR 2.9m – however EUR 2.3m of this came from M&A in Norway (Skattum and Kipling). In underlying terms hardware earnings thus looked to remain nearly flat. That is still an improvement compared to H1 when underlying hardware earnings looked to be down by EUR ~3m, but a material turn remain to be delivered. We expect underlying hardware earnings to improve in 2019E, but also note that the slowdown of construction may limit this in 2019E.

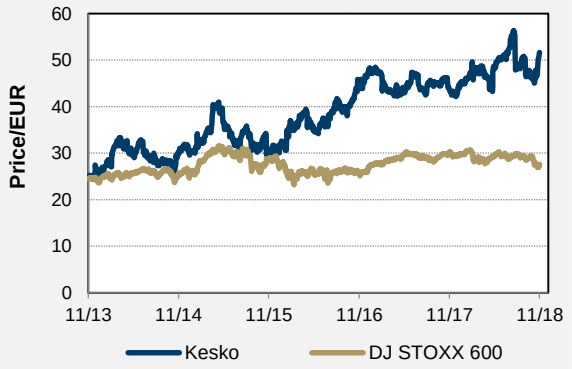
Grocery still strong

Kesko's grocery division continue solid performance, with 5-6% LFL growth both in Q3 and YTD and with improving earnings. Grocery is supported by full impact of SLK synergies, chain redesigns and favorable macro environment. Going into 2019E SLK synergies no longer provide material tailwind, LFL comparables are tougher and economic growth is expected to slightly soften. We expect solid earnings improvement to continue in Grocery in Q4, but have incorporated more modest improvement for 2019E.

Valuation now unattractive - Downgraded to "Sell" ("Hold")

We value Kesko using our DCF and SOTP, which both indicate fair value of EUR 46. We continue to expect earnings to improve in 2019-2020E driven primarily by BT trade, but find valuation to have increased to unattractive levels recently. We downgrade to "Sell" ("Hold"), while maintaining TP at EUR 46.

Rating — SELL



Share price, EUR (Last trading day's closing price)	51.62
Target price, EUR	46.0
Latest change in recommendation	31-Oct-18
Latest report on company	30-Jul-18
Research paid by issuer:	No
No. of shares outstanding, '000's	100,020
No. of shares fully diluted, '000's	100,020
Market cap, EURm	5,163
Free float, %	89.0
Exchange rate EUR/EUR	1.000
Reuters code	KESBV.HE
Bloomberg code	KESBV FH
Average daily volume, EURm	na.
Next interim report	-
Web site	www.kesko.fi

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2016	10,180	273	2.7%	271	1.99	23.8	0.5	70.8	17.5	2.00
2017	10,677	297	2.8%	300	2.26	21.0	0.5	12.8	16.4	2.20
2018E	10,356	332	3.2%	327	2.44	21.1	0.5	11.3	16.4	2.30
2019E	10,484	350	3.3%	348	2.61	19.8	0.5	12.5	15.6	2.40
2020E	10,678	364	3.4%	361	2.71	19.0	0.5	12.1	15.1	2.50

Market cap, EURm	5,163	BV per share 2018E, EUR	21.4	CAGR EPS 2017-20, %	6.2
Net debt 2018E, EURm	175	Price/book 2018E	2.4	CAGR sales 2017-20, %	0.0
Enterprise value, EURm	5,437	Dividend yield 2018E, %	4.5	ROE 2018E, %	11.4
Total assets 2018E, EURm	4,523	Tax rate 2018E, %	21.0	ROCE 2018E, %	12.0
Goodwill 2018E, EURm	175	Equity ratio 2018E, %	49.5	PEG, P/E 18/CAGR	4.3

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

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Estimates

						Growth-% (y/y)			
Revenue summary (EURm)	2016	2017	2018E	2019E	2020E	2017	2018E	2019E	2020E
Grocery trade	**5235**	**5284**	**5404**	**5477**	**5566**	***0.9%***	***2.3%***	***1.3%***	***1.6%***
of which sales to K- Retailers	3162	3331	3753	3854	3932	*5.3%*	*12.7%*	*2.7%*	*2.0%*
of which Kespro	803	816	869	901	919	*1.6%*	*6.5%*	*2.0%*	*2.0%*
of which KCM non-food	588	586	585	579	573	*-0.3%*	*-0.2%*	*-1.0%*	*-1.0%*
of which own retail (Suomen lähikauppa)	574	479	55	0	0	*-16.6%*	*-88.5%*	*-100.0%*	*na.*
of which K-Food Russia	104	0	0	0	0	*-100.0%*	*na.*	*na.*	*na.*
Building and technical trade	**4100**	**4486**	**4038**	**4060**	**4145**	***9.4%***	***-10.0%***	***0.5%***	***2.1%***
of which hardware*	2204	2283	2120	2243	2297	*3.6%*	*-7.1%*	*5.8%*	*2.4%*
of which specialty trade*	999	664	348	199	198	*-33.5%*	*-47.6%*	*-42.8%*	*-0.5%*
of which Onninen	908	1571	1608	1657	1690	*73.0%*	*2.4%*	*3.0%*	*2.0%*
Car trade	**850**	**909**	**912**	**944**	**963**	**6.9%**	**0.4%**	**3.5%**	**2.0%**
Common operations	**-5**	**-1**	**3**	**3**	**3**	**-80.0%**	**-400.0%**	**0.0%**	**0.0%**
Total net sales	**10180**	**10678**	**10357**	**10484**	**10678**	***4.9%***	***-3.0%***	***1.2%***	***1.8%***

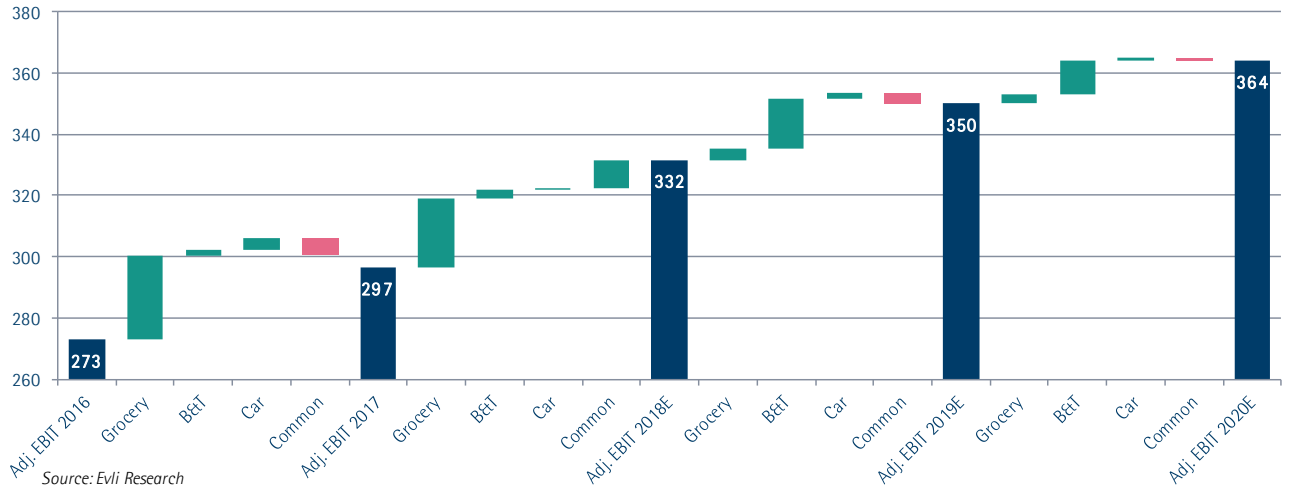
						Growth-% (y/y)			
Adj. EBIT summary (EURm)	2016	2017	2018E	2019E	2020E	2017	2018E	2019E	2020E
Grocery trade	**176**	**203**	**226**	**229**	**233**	***15.5%***	***11.1%***	***1.6%***	***1.4%***
of which Grocery trade Finland** and S-L synergies	193	203	226	229	233	*5.3%*	*11.1%*	*1.6%*	*1.4%*
of which K-Food Russia	-17	0	0	0	0	*-100.0%*	*na.*	*na.*	*na.*
Building and technical trade	**98**	**96**	**98**	**115**	**126**	***-2.1%***	***2.7%***	***16.5%***	***9.7%***
of which hardware*	54	47	44	56	59	*-13.7%*	*-6.1%*	*27.6%*	*5.8%*
of which specialty trade*	26	16	7	4	4	*-36.5%*	*-57.4%*	*-42.0%*	*0.0%*
of which Onninen incl. synergies	18	33	48	55	63	*80.2%*	*45.1%*	*14.8%*	*14.4%*
Car trade	**30**	**33**	**34**	**36**	**37**	***12.2%***	***2.5%***	***5.7%***	***2.0%***
Common operations	**-31**	**-36**	**-27**	**-30**	**-31**	***17.0%***	***-25.5%***	***12.8%***	***3.3%***
Total Group adj. EBIT	**273**	**297**	**332**	**350**	**364**	***8.6%***	***11.8%***	***5.5%***	***4.0%***

Adj. EBIT margins (%)	2016	2017	2018E	2019E	2020E
Grocery trade	**3.4%**	**3.8%**	**4.2%**	**4.2%**	**4.2%**
Building and technical trade	**2.4%**	**2.1%**	**2.4%**	**2.8%**	**3.0%**
Hardware	2.5%	2.0%	2.1%	2.5%	2.6%
Specialty trade	2.6%	2.4%	2.0%	2.0%	2.0%
Onninen	2.0%	2.1%	3.0%	3.3%	3.7%
Car trade	**3.5%**	**3.6%**	**3.7%**	**3.8%**	**3.8%**
Group adj. EBIT margin	**2.7%**	**2.8%**	**3.2%**	**3.3%**	**3.4%**

** Breakdown for 2016-2020E is indicative and based on Evli estimates*

*** Grocery trade Finland = sales to K-retailers, Kespro and KCM non-food*

Kesko - Adj. EBIT 2016-2020E



Source: Evli Research

SOTP

Kesko SOTP	2019E EBIT	2019E EV/EBIT	EV	Per share	Comments
Grocery trade	229	15.5x	3556	35.6	ICA, Axfood
Building and technical trade	115	11.0x	1262	12.6	Onninen synergies fully in 2020E
Car trade	36	9.5x	341	3.4	Kamux, Bilia
Eliminations	-30	10.0x	-300	-3.0	
Total	**350**		**4859**	**48.6**	
-Net debt			-175	-1.8	2018E Evli est.
+Associates			0	0.0	
-Minorities			-99	-1.0	2017A book value
Equity value (SOTP)				**46**	
Equity value (DCF)				**46**	
Target price (EUR)				**46**	

Source: Evli Research

Peer group

KESKO PEER GROUP	MCAP local FX	EV/Sales 18	EV/Sales 19	EV/Sales 20	EV/EBITDA 18	EV/EBITDA 19	EV/EBITDA 20	EV/EBIT 18	EV/EBIT 19	EV/EBIT 20	EV/FCF 18	EV/FCF 19	EV/FCF 20
Grocery trade peers													
Axfood AB	34200	0.7x	0.7x	0.7x	12.0x	11.9x	11.7x	16.5x	16.5x	16.4x	22.4x	30.9x	29.6x
ICA Gruppen AB	65152	0.6x	0.6x	0.6x	11.4x	11.0x	10.7x	15.2x	14.8x	14.5x	35.0x	28.0x	25.0x
J Sainsbury plc	6851	0.3x	0.3x	0.2x	5.7x	5.3x	4.9x	11.4x	10.4x	9.6x	16.3x		12.5x
Tesco PLC	20889	0.4x	0.3x	0.3x	6.8x	6.0x	5.4x	11.3x	9.4x	8.2x	18.4x	13.7x	11.7x
Carrefour SA	13335	0.2x	0.2x	0.2x	5.0x	4.4x	3.9x	9.1x	7.9x	6.7x	34.9x	16.0x	12.2x
Etablissementen Franz Colruyt N.V.	7108	0.8x	0.8x	0.8x	10.2x	9.9x	9.7x	15.4x	15.1x	15.0x	26.5x	36.0x	27.7x
Building and technical trade peers													
Ahlsell AB	19885	0.9x	0.8x	0.8x	9.5x	8.6x	7.8x	11.2x	10.5x	9.4x	18.1x	12.9x	11.8x
Rexel SA	3411	0.4x	0.4x	0.4x	7.6x	6.8x	6.2x	9.4x	8.1x	7.3x	20.0x	17.4x	14.9x
Byggmax Group AB	2278	0.7x	0.6x	0.5x	9.0x	7.3x	6.4x	16.7x	11.9x	9.9x	21.4x	14.2x	12.5x
Kingfisher Plc	5435	0.5x	0.4x	0.4x	5.7x	4.9x	4.3x	7.8x	6.5x	5.6x	19.6x	13.5x	8.7x
HORNBACH Baumarkt AG	747	0.3x	0.3x	0.3x	5.9x	5.5x	5.2x	10.2x	9.5x	8.9x			53.4x
Car trade peers													
Bilia AB Class A	8657	0.4x	0.4x	0.4x	6.4x	6.4x	6.2x	10.5x	10.5x	10.1x	24.0x	19.4x	17.4x
Kamux Oyj	248	0.5x	0.4x	0.3x	12.0x	8.6x	7.1x	11.9x	9.0x	7.4x	51.6x	44.3x	
Grocery peers median	**17112**	**0.5x**	**0.5x**	**0.5x**	**8.5x**	**8.0x**	**7.6x**	**13.3x**	**12.6x**	**12.0x**	**24.5x**	**28.0x**	**18.7x**
Building & technical peers median	**3411**	**0.5x**	**0.4x**	**0.4x**	**7.6x**	**6.8x**	**6.2x**	**10.2x**	**9.5x**	**8.9x**	**19.8x**	**13.9x**	**12.5x**
Car trade peers median	**4452**	**0.4x**	**0.4x**	**0.3x**	**9.2x**	**7.5x**	**6.6x**	**11.2x**	**9.8x**	**8.8x**	**37.8x**	**31.9x**	**17.4x**
Kesko Group (Evli est.)		**0.5x**	**0.5x**	**0.5x**	**11.6x**	**11.2x**	**10.8x**	**16.4x**	**15.6x**	**15.1x**	**27.4x**	**26.4x**	**24.8x**

KESKO PEER GROUP	Ticker	Dividend yield 18	Dividend yield 19	Dividend yield 20	EBIT margin 18	EBIT margin 19	EBIT margin 20	ROCE-% 18	ROCE-% 19	ROCE-% 20	ROE-% 18	ROE-% 19	ROE-% 20
Grocery trade peers													
Axfood AB	AXFO-SE	4.3%	4.4%	4.4%	4.2%	4.1%	4.1%	34.8%	34.4%	34.4%	36.2%	36.4%	36.8%
ICA Gruppen AB	ICA-SE	3.5%	3.6%	3.7%	4.1%	4.1%	4.1%	10.5%	10.4%	10.3%	11.1%	10.6%	10.3%
J Sainsbury plc	SBRY-GB	3.5%	3.6%	3.9%	2.5%	2.6%	2.6%	6.0%	3.6%		6.1%	6.2%	6.7%
Tesco PLC	TSCO-GB	2.4%	3.5%	4.4%	3.2%	3.7%	3.9%	7.5%	8.7%	9.2%	9.9%	11.1%	11.2%
Carrefour SA	CA-FR	2.6%	3.1%	3.6%	2.5%	2.7%	3.0%	7.2%	7.9%	8.6%	7.1%	8.0%	8.8%
Etablissementen Franz Colruyt N.V.	COLR-BE	2.4%	2.4%	2.4%	5.3%	5.2%	5.0%				16.3%	14.9%	14.1%
Building and technical trade peers													
Ahlsell AB	AHSL-SE	4.1%	4.2%	4.5%	7.7%	7.8%	8.0%	12.2%	12.4%	12.5%	18.9%	17.5%	17.1%
Rexel SA	RXL-FR	3.9%	4.2%	4.6%	4.3%	4.6%	4.9%	8.0%	8.7%	9.1%	7.4%	8.2%	8.7%
Byggmax Group AB	BMAX-SE	5.1%	7.4%	7.7%	4.0%	5.0%	5.6%	10.4%	13.6%	14.9%	13.2%	16.5%	18.2%
Kingfisher Plc	KGF-GB	4.3%	4.9%	5.6%	5.9%	6.8%	7.5%	9.3%	10.7%	12.0%	7.4%	8.4%	9.2%
HORNBACH Baumarkt AG	HBM-DE	2.9%	2.9%	2.9%	2.8%	2.9%	2.9%				6.1%	6.2%	6.2%
Car trade peers													
Bilia AB Class A	BILI.A-SE	5.1%	5.1%	5.2%	3.5%	3.5%	3.5%	14.9%	14.1%	13.7%	26.5%	24.0%	22.8%
Kamux Oyj	KAMUX-FI	2.4%	3.2%	3.9%	4.1%	4.4%	4.5%				20.4%	25.2%	25.5%
Grocery peers median		**3.0%**	**3.5%**	**3.8%**	**3.7%**	**3.9%**	**4.0%**	**7.5%**	**8.7%**	**9.7%**	**10.5%**	**10.8%**	**10.8%**
Building & technical peers median		**4.1%**	**4.2%**	**4.6%**	**4.3%**	**5.0%**	**5.6%**	**9.8%**	**11.6%**	**12.2%**	**7.4%**	**8.4%**	**9.2%**
Car trade peers median		**3.8%**	**4.2%**	**4.5%**	**3.8%**	**3.9%**	**4.0%**	**14.9%**	**14.1%**	**13.7%**	**23.4%**	**24.6%**	**24.1%**
Kesko Group (Evli est.)		**4.5%**	**4.6%**	**4.8%**	**3.2%**	**3.3%**	**3.4%**	**12.0%**	**12.4%**	**12.6%**	**11.4%**	**12.1%**	**12.4%**

KESKO PEER GROUP	Cash conversion (FCF/EBITDA) 18	Cash conversion (FCF/EBITDA) 19	Cash conversion (FCF/EBITDA) 20	CAPEX/sales 18	CAPEX/sales 19	CAPEX/sales 20	Net debt/EBITDA 18	Net debt/EBITDA 19	Net debt/EBITDA 20	Equity ratio 18	Equity ratio 19	Equity ratio 20
Grocery trade peers												
Axfood AB	53%	38%	40%	2%	3%	3%	-0.3x	-0.2x	0.0x	38%	37%	36%
ICA Gruppen AB	33%	39%	43%	3%	3%	3%	1.1x	1.0x	0.9x	42%	42%	43%
J Sainsbury plc	35%	-86%	40%	2%	2%	2%	0.9x	0.6x	0.4x	34%	25%	
Tesco PLC	37%	43%	46%	2%	2%	2%	0.7x	0.4x	0.2x	29%	31%	33%
Carrefour SA	14%	28%	32%	2%	2%	2%	1.1x	0.8x	0.6x	23%	24%	25%
Etablissementen Franz Colruyt N.V.	38%	28%	35%	4%	4%	4%	-0.2x	-0.3x	-0.5x	53%	54%	55%
Building and technical trade peers												
Ahlsell AB	53%	67%	66%	1%	1%	1%	2.3x	1.8x	1.3x	38%	40%	42%
Rexel SA	38%	39%	41%	1%	1%	1%	2.7x	2.3x	1.9x	42%	43%	44%
Byggmax Group AB	42%	51%	51%	3%	2%	2%	3.0x	2.3x	1.8x	37%	39%	40%
Kingfisher Plc	29%	36%	49%	4%	4%	3%	-0.1x	-0.1x	-0.1x	66%	67%	69%
HORNBACH Baumarkt AG	-66%	-2%	10%	7%	4%	3%	2.0x	2.0x	1.8x	49%	50%	51%
Car trade peers												
Bilia AB Class A	27%	33%	36%	3%	3%	3%	1.0x	0.9x	0.8x	25%	26%	27%
Kamux Oyj	23%	19%	na.				0.2x	0.0x	0.0x	57%	57%	
Grocery peers median	**36%**	**33%**	**40%**	**2%**	**3%**	**2%**	**0.8x**	**0.5x**	**0.3x**	**36%**	**34%**	**36%**
Building & technical peers median	**38%**	**39%**	**49%**	**3%**	**2%**	**2%**	**2.3x**	**2.0x**	**1.8x**	**42%**	**43%**	**44%**
Car trade peers median	**25%**	**26%**	**36%**	**3%**	**3%**	**3%**	**0.6x**	**0.5x**	**0.4x**	**41%**	**42%**	**27%**
Kesko Group (Evli est.)	**42%**	**42%**	**44%**	**4%**	**2%**	**2%**	**0.4x**	**0.4x**	**0.5x**	**50%**	**49%**	**49%**

Source: Factset, Evli Research

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Spot comment

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	51.62	PV of Free Cash Flow	1,783	Long-term growth, %	2.0	Risk-free interest rate, %	2.25
DCF share value	46.37	PV of Horizon value	3,309	WACC, %	6.5	Market risk premium, %	5.8
Share price potential, %	-10.2	Unconsolidated equity	-99	Spread, %	0.5	Debt risk premium, %	3.3
Maximum value	52.5	Marketable securities	398	Minimum WACC, %	6.0	Equity beta coefficient	0.85
Minimum value	41.5	Debt - dividend	-754	Maximum WACC, %	7.0	Target debt ratio, %	20
Horizon value, %	65.0	Value of stock	4,637	Nr of shares, Mn	100.0	Effective tax rate, %	25

DCF valuation, EURm	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Horizon
Net sales	10,677	10,356	10,484	10,678	10,891	11,109	11,331	11,558	11,789	12,025	12,265	12,510
Sales growth, %	*4.9*	*-3.0*	*1.2*	*1.8*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*
Operating income (EBIT)	297	332	350	364	379	378	385	393	401	397	405	413
EBIT margin, %	*2.8*	*3.2*	*3.3*	*3.4*	*3.5*	*3.4*	*3.4*	*3.4*	*3.4*	*3.3*	*3.3*	*3.3*
+ Depreciation+amort.	139	137	140	146	152	157	162	167	172	176	181	
- Income taxes	-58	-70	-74	-76	-80	-79	-81	-83	-84	-83	-85	
- Change in NWC	-7	57	-4	-7	-7	-8	-8	-8	-8	-8	-8	
NWC / Sales, %	*3.9*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	
+ Change in other liabs	-9	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-245	-240	-205	-205	-205	-207	-210	-214	-218	-223	-230	-234
Investments / Sales, %	*2.3*	*2.3*	*2.0*	*1.9*	*1.9*	*1.9*	*1.9*	*1.9*	*1.9*	*1.9*	*1.9*	*1.9*
- Other items	-47	-17	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	70	198	207	222	239	241	249	255	262	259	263	5,913
= Discounted FCF (DFCF)		196	192	193	196	185	179	173	166	154	147	3,309

= DFCF min WACC		196	193	195	199	189	184	178	172	160	154	3,884
= DFCF max WACC		196	191	192	193	182	175	168	161	149	141	2,856

INTERIM FIGURES

EVLI ESTIMATES, EURm	2017Q1	2017Q2	2017Q3	2017Q4	2017	2018Q1	2018Q2	2018Q3	2018Q4E	2018E	2019E	2020E
Net sales	2,598	2,813	2,647	2,619	10,677	2,413	2,673	2,642	2,628	10,356	10,484	10,678
EBITDA	63	119	135	119	436	72	123	149	125	468	490	510
EBITDA margin (%)	*2.4*	*4.2*	*5.1*	*4.6*	*4.1*	*3.0*	*4.6*	*5.6*	*4.8*	*4.5*	*4.7*	*4.8*
EBIT	29	85	103	81	297	40	89	113	90	332	350	364
EBIT margin (%)	*1.1*	*3.0*	*3.9*	*3.1*	*2.8*	*1.7*	*3.3*	*4.3*	*3.4*	*3.2*	*3.3*	*3.4*
Net financial items	5	-2	-1	1	3	0	-3	-1	0	-5	-2	-3
Pre-tax profit	34	83	102	82	300	40	86	112	89	327	348	361
Tax	-6	-17	-24	-15	-63	-8	-18	-24	-19	-69	-73	-76
Tax rate (%)	*18.8*	*21.1*	*23.5*	*18.3*	*20.9*	*19.3*	*21.3*	*21.3*	*21.0*	*21.0*	*21.0*	*21.0*
Net profit	28	61	72	65	226	35	60	81	69	245	261	271
EPS	0.28	0.61	0.72	0.65	2.26	0.35	0.60	0.80	0.69	2.44	2.61	2.71
EPS adjusted (diluted no. of shares)	0.28	0.61	0.72	0.65	2.26	0.35	0.60	0.80	0.69	2.44	2.61	2.71
Dividend per share	0.00	0.00	0.00	0.00	2.20	0.00	0.00	0.00	0.00	2.30	2.40	2.50
SALES, EURm												
Grocery trade	1,243	1,327	1,313	1,400	5,283	1,276	1,328	1,352	1,448	5,404	5,477	5,566
Building and technical trade	1,112	1,252	1,122	1,000	4,486	877	1,102	1,089	970	4,038	4,060	4,145
Car trade	245	234	212	218	909	259	243	201	209	912	944	963
Eliminations	-2	0	0	1	-1	1	0	0	1	2	3	3
Total	2,598	2,813	2,647	2,619	10,677	2,413	2,673	2,642	2,628	10,356	10,484	10,678
SALES GROWTH, Y/Y %												
Grocery trade	*13.6*	*-1.9*	*-4.0*	*-1.5*	*0.9*	*2.7*	*0.1*	*3.0*	*3.4*	*2.3*	*1.3*	*1.6*
Building and technical trade	*60.0*	*19.7*	*-9.4*	*-10.8*	*9.4*	*-21.1*	*-12.0*	*-2.9*	*-3.0*	*-10.0*	*0.5*	*2.1*
Car trade	*8.9*	*9.3*	*12.2*	*-1.4*	*7.1*	*5.7*	*3.8*	*-5.2*	*-4.0*	*0.4*	*3.5*	*2.0*
Eliminations	*100.0*	*-100.0*	*-100.0*	*0.0*	*-80.0*	*-150.0*	*0.0*	*0.0*	*0.0*	*-300.0*	*50.0*	*0.0*
Total	*29.1*	*7.7*	*-5.2*	*-5.2*	*4.9*	*-7.1*	*-5.0*	*-0.2*	*0.4*	*-3.0*	*1.2*	*1.8*
EBIT, EURm												
Grocery trade	26	51	59	67	203	39	53	65	70	226	229	233
Building and technical trade	3	36	43	15	96	-2	33	46	21	98	115	126
Car trade	10	8	9	7	33	11	9	8	6	34	36	37
Eliminations	-11	-9	-8	-7	-36	-7	-6	-6	-7	-27	-30	-31
Total	29	85	103	81	297	40	89	113	90	332	350	364
EBIT margin, %												
Grocery trade	*2.1*	*3.8*	*4.5*	*4.8*	*3.8*	*3.0*	*4.0*	*4.8*	*4.8*	*4.2*	*4.2*	*4.2*
Building and technical trade	*0.3*	*2.8*	*3.8*	*1.5*	*2.1*	*-0.3*	*3.0*	*4.2*	*2.2*	*2.4*	*2.8*	*3.0*
Car trade	*4.1*	*3.2*	*4.2*	*3.1*	*3.6*	*4.2*	*3.6*	*3.9*	*3.1*	*3.7*	*3.8*	*3.8*
Eliminations	*540.0*			*-740.1*	*3,560.0*	*-740.0*			*-750.0*	*-1,330.0*	*-1,000.0*	*-1,033.3*
Total	*1.1*	*3.0*	*3.9*	*3.1*	*2.8*	*1.7*	*3.3*	*4.3*	*3.4*	*3.2*	*3.3*	*3.4*

KESKO

Food & Staples Retailing/Finland, November 1, 2018
Spot comment

INCOME STATEMENT, EURm	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	9,316	9,070	8,679	10,180	10,677	10,356	10,484	10,678
Sales growth (%)	*-3.8*	*-2.6*	*-4.3*	*17.3*	*4.9*	*-3.0*	*1.2*	*1.8*
Costs	-8,924	-8,680	-8,297	-9,775	-10,241	-9,888	-9,994	-10,167
Reported EBITDA	392	390	382	405	436	468	490	510
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*4.2*	*4.3*	*4.4*	*4.0*	*4.1*	*4.5*	*4.7*	*4.8*
Depreciation	-153	-157	-137	-132	-139	-137	-140	-146
EBITA	239	233	245	273	297	332	350	364
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	239	233	245	273	297	332	350	364
EBIT margin (%)	*2.6*	*2.6*	*2.8*	*2.7*	*2.8*	*3.2*	*3.3*	*3.4*
Net financials	-6	-7	-7	-2	3	-5	-2	-3
Pre-tax profit	233	226	238	271	300	327	348	361
Extraordinary items	10	-81	-19	-29	-39	-17	0	0
Taxes	-58	-50	-53	-56	-63	-69	-73	-76
Minority shares	-12	-12	-16	-15	-11	-14	-14	-14
Net profit	172	97	149	170	188	228	261	271
BALANCE SHEET, EURm								
Assets								
Fixed assets	2,088	2,024	1,767	1,793	1,914	2,017	2,082	2,141
% of sales	*22*	*22*	*20*	*18*	*18*	*19*	*20*	*20*
Goodwill	41	41	41	190	175	175	175	175
% of sales	*0*	*0*	*0*	*2*	*2*	*2*	*2*	*2*
Inventory	797	776	735	979	939	880	891	908
% of sales	*9*	*9*	*8*	*10*	*9*	*9*	*9*	*9*
Receivables	753	757	709	1,054	1,045	1,036	1,048	1,068
% of sales	*8*	*8*	*8*	*10*	*10*	*10*	*10*	*10*
Liquid funds	682	601	887	391	398	414	419	427
% of sales	*7*	*7*	*10*	*4*	*4*	*4*	*4*	*4*
Total assets	4,361	4,199	4,139	4,407	4,471	4,523	4,616	4,719
Liabilities								
Equity	2,352	2,266	2,242	2,126	2,232	2,240	2,270	2,301
% of sales	*25*	*25*	*26*	*21*	*21*	*22*	*22*	*22*
Deferred taxes	68	67	71	48	52	52	52	52
% of sales	*1*	*1*	*1*	*0*	*0*	*1*	*0*	*0*
Interest bearing debt	554	499	439	515	534	590	633	676
% of sales	*6*	*6*	*5*	*5*	*5*	*6*	*6*	*6*
Non-interest bearing current liabilities	1,320	1,285	1,290	1,621	1,565	1,553	1,573	1,602
% of sales	*14*	*14*	*15*	*16*	*15*	*15*	*15*	*15*
Other interest free debt	12	13	43	41	31	31	31	31
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total liabilities	4,361	4,199	4,139	4,407	4,471	4,523	4,616	4,719
CASH FLOW, EURm								
+ EBITDA	392	390	382	405	436	468	490	510
- Net financial items	-6	-7	-7	-2	3	-5	-2	-3
- Taxes	-69	-51	-49	-79	-59	-69	-73	-76
- Increase in Net Working Capital	108	-18	94	-258	-7	57	-4	-7
+/- Other	-2	-79	-35	-45	-58	-31	-14	-14
= Cash flow from operations	445	248	396	59	323	435	410	425
- Capex	-69	-93	120	-306	-245	-277	-205	-205
- Acquisitions	0	0	0	0	0	-147	0	0
+ Divestments	0	0	0	0	0	184	0	0
= Net cash flow	376	155	516	-247	77	195	205	220
+/- Change in interest-bearing debt	-70	-55	-60	76	19	56	44	42
+/- New issues/buybacks	30	-44	-25	-38	118	0	0	0
- Paid dividend	-118	-139	-149	-248	-200	-220	-230	-240
+/- Change in loan receivables	-6	15	15	0	-9	0	0	0
Change in cash	213	-68	297	-456	5	30	19	22

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Food & Staples Retailing/Finland, November 1, 2018
Spot comment

KEY FIGURES	2014	2015	2016	2017	2018E	2019E	2020E
M-cap	3,071	3,209	4,634	4,642	5,163	5,163	5,163
Net debt	-102	-448	124	136	175	214	249
Enterprise value	3,059	2,771	4,768	4,877	5,437	5,476	5,511
Sales	9,070	8,679	10,180	10,677	10,356	10,484	10,678
EBITDA	390	382	405	436	468	490	510
EBIT	233	245	273	297	332	350	364
Pre-tax	226	238	271	300	327	348	361
Earnings	164	169	199	226	245	261	271
Book value	2,184	2,163	2,029	2,133	2,141	2,171	2,202
Valuation multiples							
EV/sales	0.3	0.3	0.5	0.5	0.5	0.5	0.5
EV/EBITDA	7.9	7.3	11.8	11.2	11.6	11.2	10.8
EV/EBITA	13.2	11.3	17.5	16.4	16.4	15.6	15.1
EV/EBIT	13.2	11.3	17.5	16.4	16.4	15.6	15.1
EV/operating cash flow	9.6	6.5	71.1	13.2	11.9	13.3	12.9
EV/cash earnings	9.2	8.5	14.7	12.8	13.8	13.2	12.8
P/E	18.8	19.0	23.8	21.0	21.1	19.8	19.0
P/E excl. goodwill	18.8	19.0	23.8	21.0	21.1	19.8	19.0
P/B	1.4	1.5	2.3	2.2	2.4	2.4	2.3
P/sales	0.3	0.4	0.5	0.4	0.5	0.5	0.5
P/CF	9.6	7.6	70.8	12.8	11.3	12.5	12.1
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*14.7*	*14.0*	*13.6*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*18.8*	*17.7*	*17.0*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*2.1*	*2.1*	*2.1*
Per share measures							
Number of shares	99,284	99,142	100,020	100,020	100,020	100,020	100,020
Number of shares (diluted)	99,284	99,142	100,020	100,020	100,020	100,020	100,020
EPS	1.65	1.70	1.99	2.26	2.44	2.61	2.71
EPS excl. goodwill	1.65	1.70	1.99	2.26	2.44	2.61	2.71
Cash EPS	3.34	3.28	3.24	3.80	3.95	4.15	4.32
Operating cash flow per share	3.21	4.28	0.67	3.71	4.55	4.12	4.27
Capital employed per share	21.80	18.09	22.50	23.68	24.14	24.84	25.49
Book value per share	22.00	21.82	20.29	21.33	21.40	21.71	22.02
Book value excl. goodwill	21.58	21.40	18.39	19.57	19.65	19.95	20.26
Dividend per share	1.50	2.50	2.00	2.20	2.30	2.40	2.50
Dividend payout ratio, %	91.0	146.9	100.3	97.2	94.1	92.1	92.2
Dividend yield, %	4.8	7.7	4.2	4.6	4.5	4.6	4.8
Efficiency measures							
ROE	7.3	7.8	9.5	10.9	11.4	12.1	12.4
ROCE	8.5	9.2	10.5	11.2	12.0	12.4	12.6
Financial ratios							
Capex/sales, %	1.0	-1.4	3.0	2.3	2.3	2.0	1.9
Capex/depreciation excl. goodwill,%	59.0	-87.3	119.2	187.0	175.7	146.4	140.3
Net debt/EBITDA, book-weighted	-0.3	-1.2	0.3	0.3	0.4	0.4	0.5
Debt/equity, market-weighted	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Equity ratio, book-weighted	54.0	54.2	48.2	49.9	49.5	49.2	48.8
Gearing	-0.05	-0.20	0.06	0.06	0.08	0.09	0.11
Number of employees, average	19,300	17,800	17,889	17,978	18,068	18,159	18,249
Sales per employee, EUR	469,948	487,584	569,065	593,878	573,167	577,344	585,090
EBIT per employee, EUR	12,052	13,736	15,250	16,498	18,354	19,276	19,947

KESKO

Food & Staples Retailing/Finland, November 1, 2018
Spot comment

COMPANY DESCRIPTION:

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
K-retailers´ Association	4,168,311	215.168	4.2%
Vähittäiskaupan Takaus Oy	3,491,771	180.245	3.5%
Kruunuvuoren Satama Oy	3,438,885	177.515	3.4%
Ilmarinen Mutual Pension Insurance Company	2,142,418	110.592	2.1%
Valluga-sijoitus Oy	1,340,439	69.193	1.3%
Foundation for Vocational Training in the Retail Trade	1,187,434	61.295	1.2%
Varma Mutual Pension Insurance Company	1,130,986	58.381	1.1%
The State Pension Fund	1,050,000	54.201	1.0%
Oy The English Tearoom Ab	1,000,000	51.620	1.0%
Heimo Välinen Oy	530,000	27.359	0.5%
Ten largest	19,480,244	1,005.570	19%
Residual	80,539,508	4,157.449	81%
Total	100,019,752	5,163.020	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Mikko Helander
CFO: Jukka Erlund
IR: Kia Aejmelaeus

Mannerheimintie 117, 00280, Helsinki
Tel: +358 1,0 5,311

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

Important Disclosures

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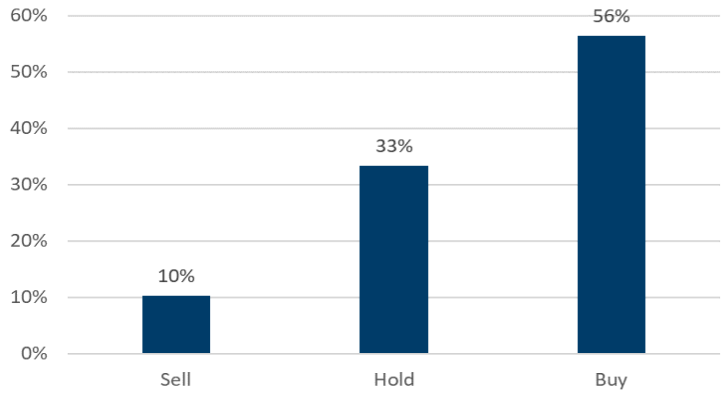
Detailed information about the valuation or methodology and the underlying assumptions is accessible via ERP: http://research.evli.com
Investment recommendations are defined as follows:

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

ERP's investment recommendation of the analyzed company is in general updated 2 – 4 per year.



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Name(s) of the analyst(s): Häyhä

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KESKO

Food & Staples Retailing/Finland, November 1, 2018
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