

Backed by ESL, lifted further by Telko

Aspo's H1'19 results were subdued as ESL was hampered by a plethora of one-off problems, while Telko and Leipurin also posted weaker profits. We expect Aspo's results will improve sharply from H2'19 onwards, particularly due to ESL as the dry bulk carrier's recent investments start to contribute. We also expect gradual improvement for Telko and Leipurin as both segments are taking actions to address profitability. Our TP is now EUR 9.5 (9.0) due to higher peer multiples raising SOTP valuation; our rating remains BUY.

We expect ESL to carry Aspo to materially higher results

We estimate ESL's H2'19 EBIT to almost double compared to H1'19 as the malfunctioning cranes have been fixed, the market for Supramaxes has improved, and acute issues with Baltic Sea steel industry and ports have subsided. For FY '19 we expect ESL to record EUR 16.6m in EBIT. We estimate the figure to further improve to EUR 23.6m in 2020 as synergies with AtoB@C fully materialize. In our view ESL will remain the cornerstone of Aspo as the segment contributes ca. 60% of the conglomerate's value.

Telko and Leipurin have plenty of improvement potential

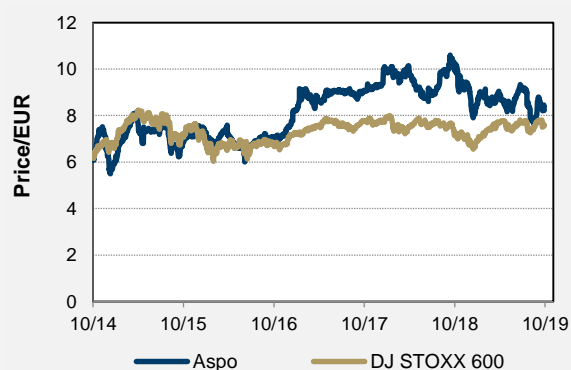
Telko's operating margin weakened in H1'19 as the distributor carried high inventories and plastics and chemicals prices declined. Although market outlook remains soft we expect profitability to have bottomed out as the company is taking measures to boost efficiency. In our view Telko could prove a source of further upside for Aspo shareholders as there's good potential for improved profitability. The situation for Leipurin is not unlike that for Telko; Leipurin is developing its operations and H2'19 results are bound to improve due to machinery deliveries. We expect Telko and Leipurin to post a combined EBIT at a level EUR 5.3m higher in 2020 compared to 2019.

Value is anchored to ESL, yet Telko could move the needle

Our updated TP is EUR 9.5 (9.0) as peer multiples have increased, boosting SOTP. Our estimates for next year and beyond do not fully capture the profitability potential of Telko and Leipurin, which could drive further upside beyond ESL. Our rating is BUY.

Rating

BUY



Share price, EUR (Last trading day's closing price) 8.22

Target price, EUR 9.5

Latest change in recommendation 14-Aug-19

Latest report on company 15-Aug-19

Research paid by issuer: YES

No. of shares outstanding, '000's 31,420

No. of shares fully diluted, '000's 31,420

Market cap, EURm 258

Free float, % -

Exchange rate EUR/RUB -

Reuters code ASPO.HE

Bloomberg code ASPO FH

Average daily volume, EURm 0.1

Next interim report 29-Oct-19

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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
2017	502	23	4.6%	21	0.63	16.0	0.9	17.8	19.5	0.43
2018	541	21	3.8%	16	0.45	18.7	0.9	5.1	22.8	0.44
2019E	610	25	4.1%	23	0.62	13.2	0.8	7.7	18.3	0.50
2020E	646	37	5.8%	33	0.91	9.1	0.7	4.5	11.5	0.60
2021E	667	44	6.6%	40	1.11	7.4	0.6	3.9	9.1	0.67
Market cap, EURm	258			BV per share 2019E, EUR		3.1		CAGR EPS 2018-21, %		35.0
Net debt 2019E, EURm	203			Price/book 2019E		2.7		CAGR sales 2018-21, %		7.3
Enterprise value, EURm	461			Dividend yield 2019E, %		6.1		ROE 2019E, %		20.7
Total assets 2019E, EURm	424			Tax rate 2019E, %		9.2		ROCE 2019E, %		7.8
Goodwill 2019E, EURm	43			Equity ratio 2019E, %		23.0		PEG, P/E 19/CAGR		0.5

Investment summary

A conglomerate with segments operating around the Baltic Sea

Aspo is a conglomerate with three independent segments each of which operates in geographies surrounding the Baltic Sea. The segments engage in providing logistics solutions. ESL Shipping, the most significant business, is a leading dry bulk carrier in the Baltic Sea and has achieved strong and stable results in comparison to global dry bulk shipping companies thanks to its long-term customer relationships and specialized fleet. Telko is a mid-sized chemicals distributor, while Leipurin distributes bakery raw materials and equipment.

In our view Aspo is well-positioned for developing its segments' long-term value

Aspo helps its segments to build long-lasting customer relationships. Aspo assists its wholly-owned subsidiaries with administration and business development issues, in addition to which the conglomerate structure is also helpful in facilitating low-cost debt financing. Moreover, ESL's strong asset-backing aids beyond the diversification benefits of conglomeratization, while the continued presence of long-term family shareholders further adds to Aspo's ability to act as a sole patient shareholder for its segments. We thus expect Aspo to make well-considered long-term capital allocation decisions.

ESL Shipping, a dry bulk carrier with a strong and stable track record, is about to post significantly higher EBIT following recent major investments

ESL Shipping placed an order for two new-built LNG-powered dry bulk vessels in 2015 and received the sister ships in late 2018. The vessels' effective deployment with SSAB was delayed due to malfunctioning loading cranes, but since the mechanical problems have now been fixed we expect the assets' full operational potential to manifest itself from H2'19 onwards. ESL also gained further 30 (mostly time-chartered) small vessels with the 2018 acquisition of AtoB@C, a deal that improves ESL's biofuel shipping capabilities. We expect the recent EUR 84m of investments in LNG-powered vessels (EUR 54m including subsidies) and AtoB@C (EV of EUR 30m) will add more than EUR 10m to ESL's EBIT potential, and thus estimate the dry bulk carrier's EBIT to improve from the recent level of around EUR 15m to the EUR 25m ballpark during the next year or so.

Uncertainty remains over Telko's targeted profit improvement, which also represents clear upside potential for Aspo's share

Telko, a chemical distributor with strong presence in Eastern Europe, has posted a revenue CAGR of ca. 3% in recent years. While other regions have remained flat, Eastern European revenues have expanded at a CAGR of 9%, and consequently the region's share has increased from about a third in the beginning of the decade to roughly half lately. Nevertheless, Telko has been unable to improve its operating margin from the 4.5% level (declining raw materials prices led to ca. 3.5% margin in H1'19) towards the target 6% margin in 2020. The 4.5% margin is close to that averaged by larger chemical distributors, and we expect Telko to achieve gradual margin improvement over the next years with the help of its efficiency program. However, we are cautious towards Telko fully achieving the targeted 6% margin.

Leipurin has ambitious targets, yet uncertainty over their realization coupled with Leipurin's small size mean the segment is not a major Aspo value driver

Leipurin has developed in a similar fashion with Telko in the sense that its Russian revenues have continued to grow strongly (ca. 10% CAGR in local-currency terms) while Western market volumes have remained flat. Moreover, operating margin development has been subdued. Leipurin's official target implies a doubling of operating profit from current levels by 2022. We expect Leipurin to achieve gradual profitability improvement with the aid of measures such as procurement rationalization yet view the target 5% margin as ambitious.

Current valuation is conservative with respect to next year estimates

Aspo is now trading at ca. 9x EV/EBITDA and 19x EV/EBIT on our 2019 estimates, not a particularly low level in relation to the comparable historical averages of 10x and 15x. However, on our estimates for 2020 Aspo is currently valued at 7x EBITDA and 12x EBIT, which we consider an attractive level as both ESL and Telko have plenty of room to improve in the wake of weak performance in H1'19.

We expect Aspo to post flat EBIT in 2019, and significant improvement in 2020

We expect Aspo to post EUR 25.1m in 2019 EBIT, i.e. slightly lower than the EUR 25.4m recorded in 2018. We expect significant improvement from H2'19 onwards as ESL has left its acute problems behind. We estimate Aspo to reach EUR 37.4m in EBIT next year, most of the gain attributable to ESL but Telko also returning to a margin level more in line with history.

We rate Aspo BUY, TP EUR 9.5 per share

We rely mostly on SOTP valuation in arguing our EUR 9.5 TP. Peer multiples may understate ESL's value, however the opposite is more likely true in the case of Telko and Leipurin. On the other hand, we view Aspo as a patient long-term owner with a commitment to realizing its segments' full potential. In our view Telko could prove to be a source of further upside.

Aspo overview

Aspo background

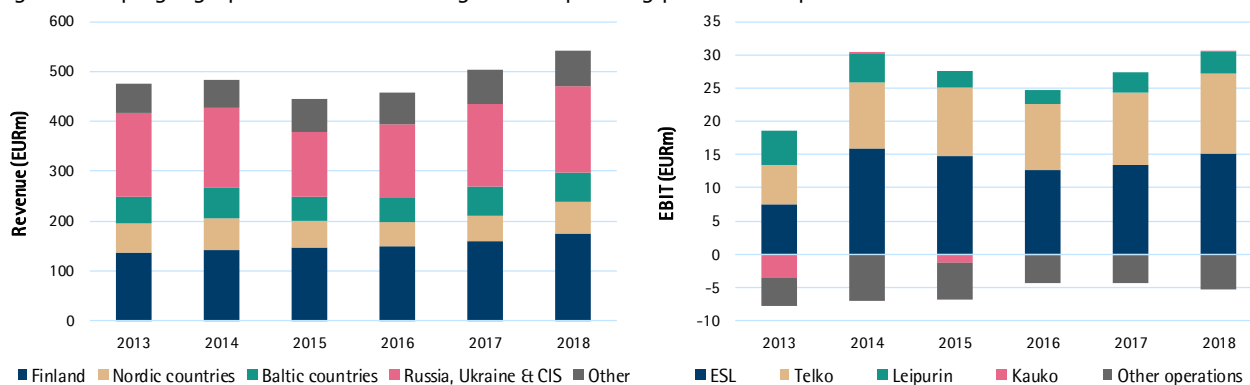
Aspo is a company featuring three independent wholly-owned business-to-business segments each operating in regions surrounding the Baltic Sea. The three segments share a common denominator in the sense that they all provide logistics solutions (be it maritime transportation or raw materials wholesale distribution), but as the businesses have no material operational synergies between them, Aspo can be best described as a conglomerate. Aspo is also a family-owned company, with representatives of the two key shareholding families appointed in board directorship roles.

Aspo's history dates to 1929, a time when modern central heating systems were gaining ground in Helsinki as the city's wooden houses were being replaced by apartment buildings. As a result, coke demand was increasing exponentially, and Asunto-osakeyhtiöitten Polttoaine Osuuskunta ("The Fuel Cooperative for Housing Associations") was established in order to import coke for housing associations' central heating systems. Initially the cooperative operated its own storage facility, from where the fuel was carried forward by lorries. The operations gradually expanded into transportation, shipping and chemicals distribution.

The cooperative entered the oil trade as well as business in the Soviet Union in the 1950s. Chemicals and electronics operations followed, and by the 1970s Aspo had developed into a conglomerate with presence in multiple sectors. Aspo listed in 1981 and the company structure continued to evolve throughout the 1980s and 1990s, culminating with the 1999 demerger into two separate listed companies, namely Aspocomp (electronics) and Aspo (Chemicals, Shipping and Systems). Another milestone was reached when Aspo acquired Kauko-Telko Oy (and sold Autotank, a gas station solutions provider) in 2008 and thus organized itself around four businesses: ESL Shipping (dry bulk shipping), Telko (chemicals and plastics distribution), Leipurin (bakery raw materials distribution) and Kauko (mobile and energy solutions).

A major part of Aspo's enterprise value is attributable to its dry bulk shipping operations. Supported by such an asset-backed business, a conglomerate like Aspo is a highly bankable entity. As the structure enables access to reliable low-cost financing, Aspo can afford to act as the sole patient shareholder for each of its individual segments. Unlike a private equity fund, Aspo does not need to consider restrictive timetable frameworks when evaluating investments. Every segment has its own separate board of directors, while Aspo's CEO (currently Mr Aki Ojanen, since 2009) acts as the chairman for each subsidiary board. Besides financing and expertise on Eastern European markets, Aspo companies gain access to other corporate support functions provided by the parent.

Figure 1: Aspo geographical revenue and segmental operating profit development



Source: Aspo

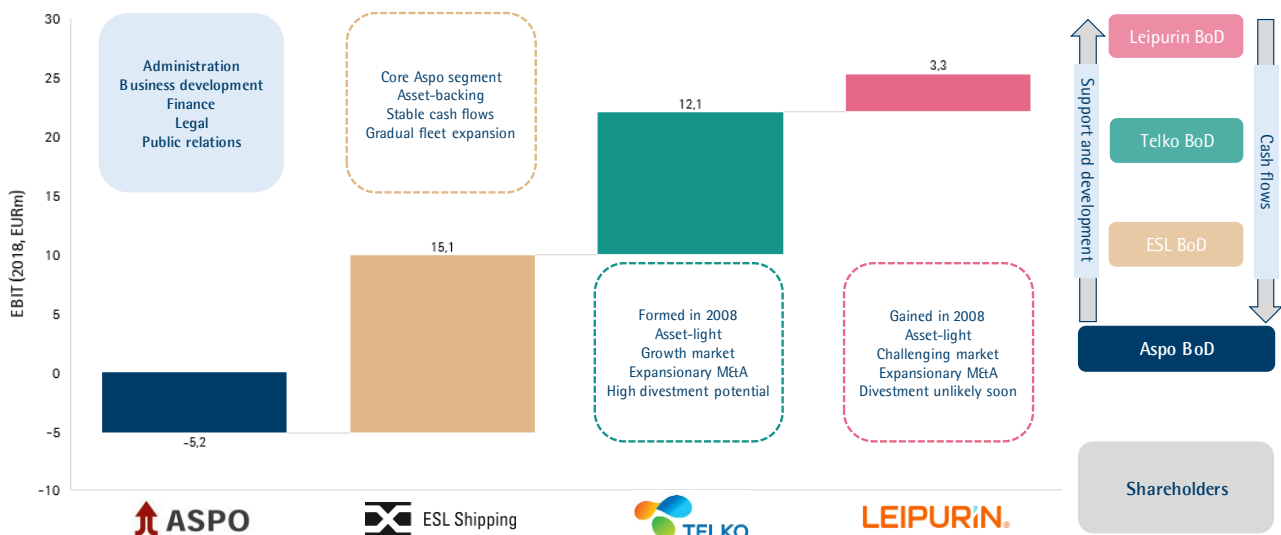
Aspo's segments mainly operate close to the Baltic Sea. Finland and Russia are the two most important countries in terms of revenue exposure. Other Nordic countries besides Finland also generate significant revenue, in addition to Baltic countries as well as Ukraine and other CIS countries. Aspo's operating profits are now mostly attributable to ESL and Telko as Leipurin's profitability has been under pressure due to challenges in key markets Finland and Russia, leading to a sharp decline in Leipurin's relative profit contribution during a period when ESL and Telko have improved. Moreover, Aspo decided to restructure Kauko at the end of 2018 due to a long-run of underperformance and so the segment was folded into Telko.

Aspo has historically achieved a good and stable financial performance. Including dividends, Aspo has generated annual shareholder returns averaging ca. 9% during the last 15 years. Much of the performance is attributable to ESL's robust cash flows, however we note the 2008 acquisition of Kauko-Telko Oy was also highly value-accretive for Aspo's shareholders (even if the acquired segments have not managed to perform up to expectations in recent years).

Aspo company structure

All the business segments are wholly-owned by the parent company Aspo. Although all three group companies are domiciled in Finland, their respective subsidiaries are domiciled in various countries, a structure which lowers the average tax rate of Aspo as a whole. The combination of businesses at different stages of strategic development also enables Aspo to optimize group-level taxes. In addition, ESL's vessels serve as collateral for debt financing and thus help to lower group borrowing costs further. Aspo companies are not ring-fenced, another aspect that improves group financial flexibility.

Figure 2: Aspo corporate structure



Source: Aspo

We view ESL Shipping as Aspo's cornerstone and thus deem the dry bulk carrier's sale unlikely. We think Aspo is proactively considering selling either Telko or Leipurin (or possibly both), but a divestment seems somewhat unlikely any time soon as neither of the subsidiaries has yet reached their relatively ambitious financial targets.

Aspo strategy and M&A considerations

Aspo's goal is to help each of its operating segments to build long-lasting customer relationships. Aspo's businesses engage with demanding B-to-B customers, and Aspo aims to create shareholder value by developing and internationalizing its businesses persistently and responsibly in Northern Europe and growth markets (such as Russia).

A well-considered approach to major acquisitions underpins Aspo's conglomerate strategy

In addition to its long-term business development orientation, Aspo's active owner role also includes the evaluation to make potential structural changes by either acquiring, divesting or listing segments. The last major transaction was the 2008 acquisition of Kauko-Telko Oy for an EV of EUR 79m, through which Aspo gained its current segments besides ESL Shipping: Telko, Leipurin, and Kauko (Aspo restructured Kauko into Telko at the end of 2018 due to a long-run of disappointing performance). Aspo also considered floating Leipurin as a separate entity in 2014, but the process was aborted due to the Crimean crisis. Despite the recent rather lackluster development of Telko, Leipurin and Kauko, the 2008 purchase was a highly value-accretive transaction for Aspo's shareholders. We estimate the segments' current combined EV at around EUR 225m (Telko EUR 175m and Leipurin EUR 50m), and assuming half of Telko's EUR 175m EV to be attributable to the acquired chemical distribution operations we arrive at a current EV of roughly EUR 140m for the purchase. When we add an estimated EUR 65m in realized cash flows during the holding period (the acquired businesses have generated some EUR 105m in EBITDA from which we deduct EUR 40m in combined capital expenditures and taxes) we arrive at a total value of EUR 205m, which translates to an annualized return of close to 12% when compared to the EUR 61m acquisition value adjusted for divestitures Aspo made following the transaction.

Aspo has not explicitly excluded any potential sets of investment opportunities, however we believe any additional segments would be such companies that operate in B-to-B markets, possibly within wholesale distribution and logistics, and might possibly gain from Aspo's accumulated experience in Eastern European countries. Moreover, we would expect any potential new business to be unlike ESL Shipping but rather similar with Telko and Leipurin in the sense of being asset-light.

Although we do not consider Aspo selling ESL Shipping, we see there is some reasonable likelihood for individual vessel sales (e.g. the two Supramax vessels). However, in our view ESL is more likely to keep its long-running course of gradual capacity expansion.

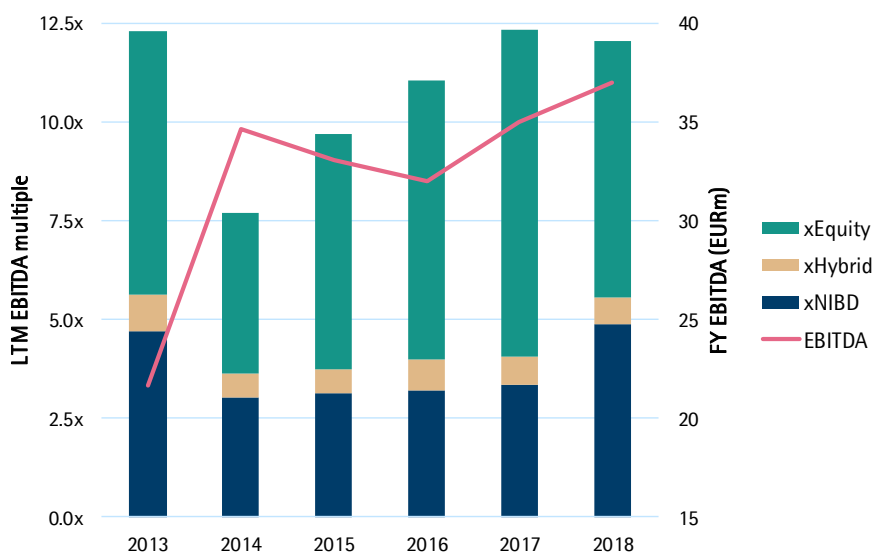
Even though Telko's late profitability development has been muted there might still be many interested buyers

In our view there is a long list of potential buyers for Telko (including private equity funds as well as larger global chemical distributors) and thus we see a good probability of Telko being sold in some years' time. Although Telko hasn't yet managed to perform up to its financial targets, such a sale might even occur relatively soon as we think there are two aspects about Telko that might appeal to two different types of acquirers: First, private equity funds might see inherent upside potential in the fact that Telko hasn't yet reached its financial targets, thus making further value creation through improved operations more likely (Telko is also in a kind of sweet spot size-wise as the potential EV of close to EUR 200m is such that many private equity funds would find palatable). Second, global chemical distributors might find Telko an attractive target due to its significant Eastern European exposure (the geographical presence could deter some private equity buyers). However, there remains the possibility of Telko continuing to acquire relatively small or mid-sized chemical distributors, and thus Aspo might well hold on to its investment for an extended period.

While we think Telko could attract keen interest from many potential buyers, we see the current situation for Leipurin as rather cold. While Telko's business (specialty chemicals' third-party distribution) is clearly a growth market, bakery raw materials distribution has been challenging in Leipurin's key markets Finland and Russia. The challenging markets,

in addition to Leipurin's relatively small size (around EUR 50m in terms of EV), are likely to limit interest in Leipurin.

Figure 3: Aspo capital structure development



Source: Aspo

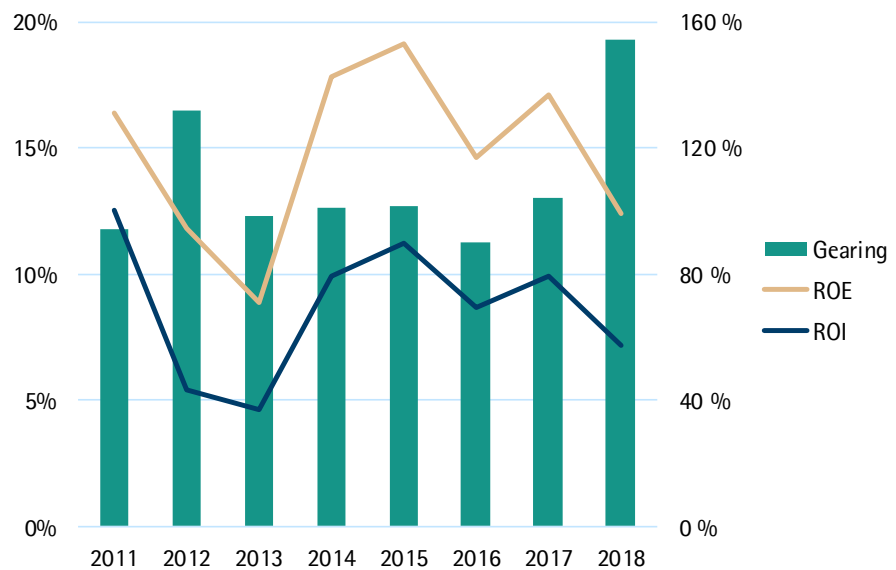
Although Aspo's balance sheet currently looks rather leveraged relative to realized results, we expect the situation will soon normalize

Aspo's balance sheet is currently somewhat more leveraged than its recent historical average (based on a trailing twelve-month multiple). Aspo's LTM NIBD/EBITDA multiple amounted to 4.9x at the end of 2018 (5.5x including the hybrid bond), compared to the 3.7x historical average (4.4x with hybrid). However, we estimate these figures to normalize close to their averages once ESL posts higher operating profits in the wake of its recent fleet investments. We note Aspo's balance sheet was also relatively geared for a period following the purchase of two Supramax vessels, which ESL received in 2012. We calculate Aspo to have paid an average 1.6% interest rate on its loans in 2018 (excluding the EUR 25m 6.75% coupon hybrid bond issued in 2016 which the company can call in 2020). Aspo has historically focused on providing group-level financing, however each Aspo company may also seek financing separately.

Aspo financial targets

Aspo targets an average ROE of above 20%, which we equate with an ROI of around 12% in the light of Aspo's historical capital structure. Aspo aims to keep gearing at or below 130% (Aspo previously had a 100% upper limit target for gearing but following the application of IFRS 16 standards updated the target accordingly). Furthermore, Aspo aims to achieve a 7% group-level operating margin by 2020, which we consider an ambitious target given that the company has not managed to post an operating margin in excess of 5% in any year during the last decade. Each segment also has its own financial targets, and we view these targets more relevant than the group-level goals as the segments operate with different levels of capital intensity.

Figure 4: Aspo return on capital and gearing development



Source: Aspo

Aspo hasn't managed to achieve a 20% ROE in any year during the past decade. Nevertheless, we view the company's recent average return levels (15% in terms of ROE and 9% ROI) as satisfactory.

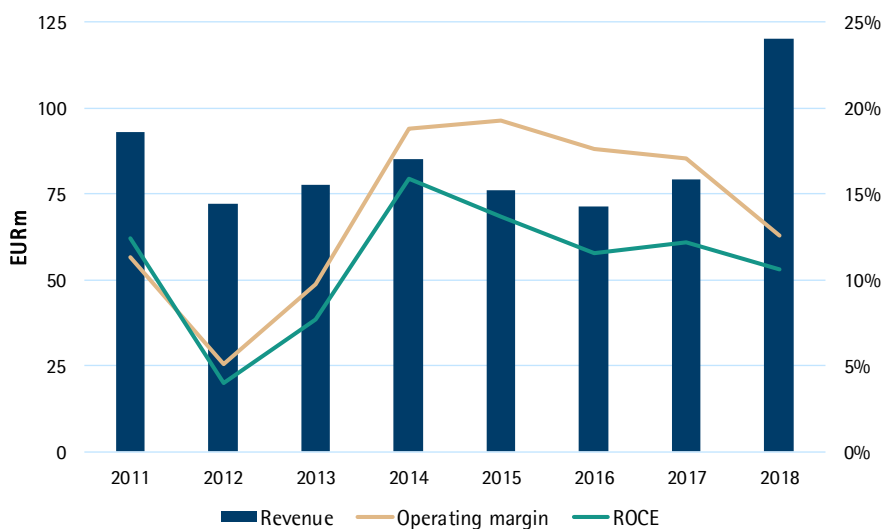
Aspo updated its dividend policy in 2018, now aiming to increase absolute dividend payments on annual basis (previously Aspo targeted to distribute more than half of profit as dividend). Aspo pays out dividends in equal-sized biannual installments.

ESL Shipping

ESL overview

ESL Shipping is a Helsinki-based dry bulk shipping company with a fleet of 49 vessels operating for the most part in the Baltic Sea. The ships range from 3,000 to 56,000 deadweight tonnage (DWT) in size, are all ice-strengthened and have relatively shallow drafts. The fleet's total capacity amounts to more than 460,000 DWT and is mainly utilized in the service of steel, energy and chemical industries. The company's most important dry cargo shipping materials include coal, limestone and iron ore pellets. ESL Shipping focuses on long-term relationships in the Baltic Sea with a fleet specifically designed for the region in order to partially shield itself from the more volatile global dry bulk spot market and achieve relatively stable capacity utilization. The company reported EUR 120m in 2018 revenue and its major customers include the likes of SSAB, a steel producer. ESL Shipping employed an average of 254 staff in 2018 (of which 215 were marine personnel). The company averaged a 14% operating margin and an 11% return on capital employed during the last eight fiscal years.

Figure 5: ESL Shipping revenue and profitability development



Source: Aspo, Evli Research

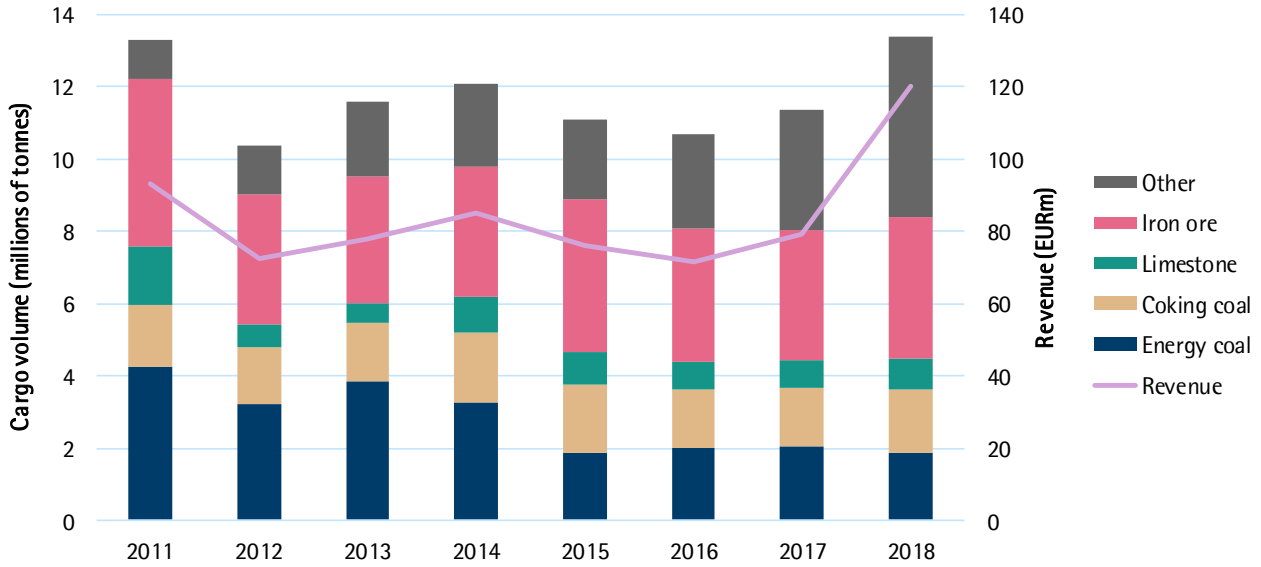
Aspo decided to acquire its first vessel in 1949 as the cooperative’s substantial coke and coal imports turned the economics of operating an own ship favorable. The cooperative set up a shipping subsidiary, called Etelä-Suomen Laiva (“Southern Finland’s Ship”), in 1950 and the fleet started to grow in steady steps with customers’ demand for transport. Over the years ESL has solidified its position as the key Aspo segment by building long-term customer relationships within the Baltic Rim steel and energy industries. ESL now plays a vital role in serving these industries’ logistical requirements.

ESL business model and strategy

ESL owns and operates dry cargo vessels, providing reliable raw material shipments for e.g. steel and energy industries

ESL Shipping currently wholly owns 23 vessels (75% of DWT), minority owns 2 (2%) and operates the remaining 24 (23%) through time-charter contracts. The vessels have been specifically designed to carry dry cargo in icy conditions. Dry bulk cargo, or raw materials and semi-manufactures shipped in high volumes and not requiring any special treatment during the voyage, includes iron ore, grain, and coal as the major articles. More minor dry bulk categories include e.g. steel and forest products. Coal transport used to be an important profit center for ESL; the company’s energy coal shipments declined from 32% of total cargo volume in 2011 to 17% in 2015. ESL has since ceased to report its cargo volume distribution by article type. However, the company has managed to navigate its way around the decreasing demand trend for energy coal transports without impaired profitability by expanding to cargo types such as biofuels, fertilizers and timber. ESL expects biofuel shipments to replace the lost energy coal transports. ESL still transports significant amounts of coal; the volumes are bound to continue their decline as the fuel is increasingly under scrutiny due to its high CO2 emissions. Nevertheless, coking coal (as used by the steel industry) volumes have held up and we see no reason to expect steel industry demand to decline.

Figure 6: ESL Shipping cargo volume and revenue development



Source: Aspo, Evli Research (estimated cargo volume types since 2016)

ESL's fleet is technically specialized for the Baltic Sea, and most vessels are equipped with cranes to provide a vital service for the port infrastructure

ESL Shipping operates dry bulk vessels and transports dry bulk cargo for customers in industries such as steel and energy, sectors which in fact do represent the most important industries for the wider dry bulk shipping market, although ESL has positioned itself apart from a typical dry bulk cargo company. The company has been able to achieve such a position with its fleet of ice-strengthened, shallow-draft vessels, which operate mainly in the Baltic Sea region through long-term relationships. Moreover, the majority of ESL's fleet, in terms of DWT, comes equipped with separate cranes to perform loading and unloading services for ships at sea (which happens to be a handy service in the Baltic Sea region as the largest global bulk carriers tend to have drafts too deep to enter the shallow local ports). The loading and unloading services are significantly more profitable than ESL's overall operations. ESL Shipping aims to be the leading marine logistics solutions provider operating in icy conditions.

Figure 7: ESL Shipping's dry bulk cargo vessel positioning and customer examples

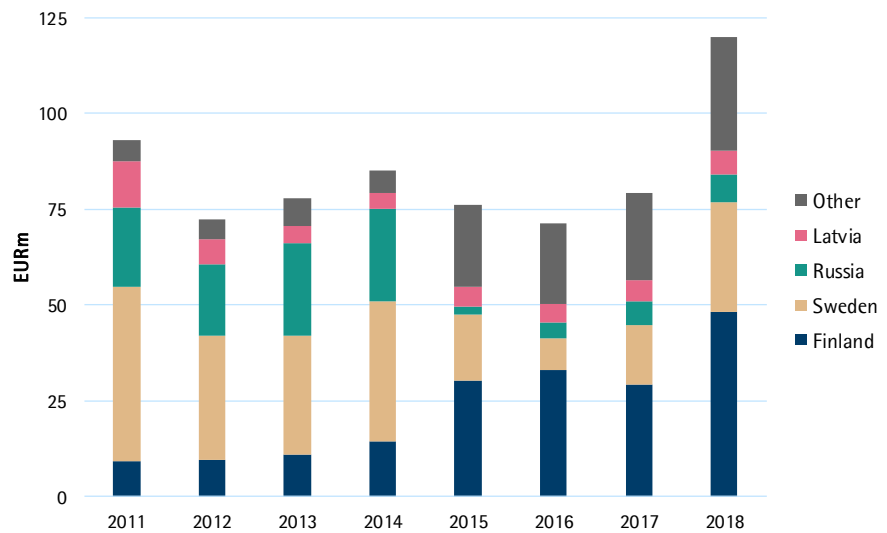


Source: ESL Shipping, Aspo

ESL's niche positioning has helped the company to secure strong and stable financial performance

The Baltic Sea hosts the bulk of ESL Shipping's annual cargo volumes. ESL's operations in the Baltic Sea are largely based on well-established customer relationships and long-term contracts, a premise which helps to secure the fleet's utilization rate at high levels. Nevertheless, ESL aims to keep around 20% of its shipping capacity outside long-term agreements to maintain good operational responsiveness to changing market demands. In practice the company achieves this through its two Supramax vessels, which are more exposed to the rather volatile global spot markets (as represented by the Baltic Dry Index) than the rest of ESL's fleet. The Supramax vessels have occasionally hampered ESL's results, but overall the company has been able to maintain good profitability (while the wider dry bulk cargo market development has been weak) thanks to its differentiated positioning. In recent years the company has continued to achieve double-digit returns on capital employed while a typical peer company has barely posted a positive figure. Moreover, ESL has recently managed to better optimize its fleet's routes and improve utilization rates. The fleet's fuel efficiency has also increased.

Figure 8: ESL Shipping geographical revenue breakdown



Source: Aspo, Evli Research

ESL owns two Supramax-grade vessels, M/S Arkadia and M/S Kumpula, 56,000 DWT sister ships delivered in 2012 from a Vietnamese shipyard. The vessels are the world's only ice-strengthened Supramax-class dry bulk carriers, and thus well-positioned to serve Arctic routes. Unlike other ESL ships, the two vessels mainly operate outside the Baltic Sea and serve routes such as that between Germany and Canada in addition to the Northern Sea Route (which is open from July to November in an average year).

ESL's new LNG-powered vessels should add around EUR 6m in EBIT

ESL recently acquired two new-built liquefied natural gas (LNG) powered vessels, which are some 30% more fuel-efficient than similar-sized ships and consequently produce 50% lower CO2 emissions. ESL placed the order in late 2015; the vessels were delivered from the Jinling shipyard in Nanjing, China in late summer 2018. The vessels' total cost amounted to EUR 60m (ESL is due to receive EUR 5.9m in EU subsidies owing to the ships' positive environmental impact). The vessels replace ESL's older vessels covering SSAB's inbound raw material sea transports within the Baltic Sea and the North Sea. ESL says there's good demand for the replaced vessels elsewhere, and thus the increase in total vessel capacity (from 280,000 DWT to 330,000 DWT) will translate to higher revenues directly. We expect the new vessels will add a combined 2.5-3.0 million tonnes to ESL's annual cargo volumes. However, the sister ships (M/S Haaga and M/S Viikki) encountered some unexpected early-stage challenges as their loading cranes suffered from mechanical problems. Aspo says the crane supplier, Cargotec MacGregor, has since

repaired all the six cranes as obliged by warranty. We estimate each LNG-powered vessel to have an annual operating profit potential of close to EUR 3m.

AtoB@C is expected to add more than EUR 5m in annual EBIT by 2020

The acquisition of AtoB@C (based in Ystad, Sweden) in 2018 for an EV of EUR 30m further expanded ESL's small vessel offering. The purchase added 30 vessels to ESL's fleet, all within the 4,000-5,000 DWT range. Of these vessels six are wholly-owned, two are 49% owned, and the remaining 22 are time-chartered. The acquisition adds about EUR 80m in annual revenues and 5 million tonnes in annual cargo volumes to ESL's figures, and consequently ESL's revenue is expected to double to EUR 160m while cargo volumes will increase from the previous 11-12 million tonnes to 16-17 million tonnes. The main rationale for the acquisition was to improve ESL's ability to provide biofuel shipments for the energy industry, where coal shipments (historically an important business for ESL) are being gradually phased out. AtoB@C reported EUR 3.2m in 2017 operating profit, and Aspo expects to realize roughly EUR 2m in cost synergies by 2020.

ESL Shipping's customers include e.g. the steel producer SSAB, the energy utility Stockholm Exergi and the chemicals manufacturer Yara. The specific revenue shares are not disclosed, however Aspo says SSAB is a significant and by far the largest customer account.

ESL fleet

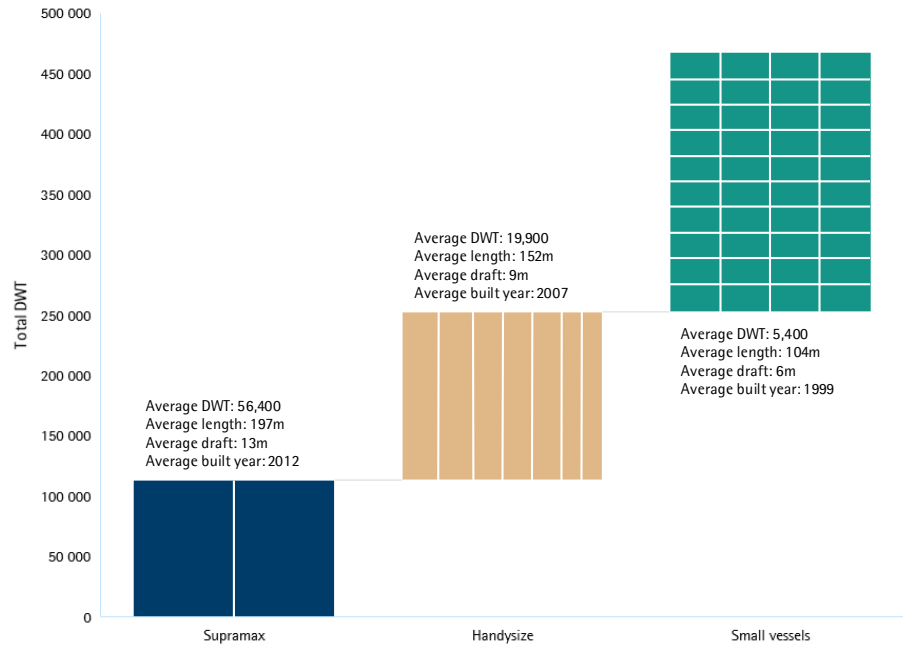
ESL's fleet size remained steady during the earlier part of the 2010s, the number of vessels averaging 15. The fleet has recently expanded dramatically, as ESL now operates 49 vessels.



Source: ESL Shipping

ESL Shipping wholly owns its larger vessels, and in total owns almost half of the 49 vessels it operates. These 23 wholly-owned vessels represent three-quarters of total DWT, while the other half of vessels and remaining quarter of capacity is mostly attributable to AtoB@C. The AtoB@C fleet is operated through time-charter contracts. We note that global dry bulk flows are mostly shipped aboard vessels that belong to classes a notch or two above the Supramax grade (to which ESL's two largest vessels belong), and thus one could say that size-wise ESL's fleet of 49 is comprised of rather small vessels when set against the global dry bulk shipping context.

Figure 9: ESL Shipping's current fleet breakdown by vessel size category



Source: ESL Shipping, Aspo

All ESL vessels are registered in Finland (AtoB@C vessels have Mediterranean ports of registries) and thus the fleet accounts for some 20% of the entire Finnish merchant navy's transportation capacity. The re-domiciliation of a ship from one country to another takes no longer than a few days. A typical ESL vessel needs to be docked for maintenance twice every five years. ESL is unlikely to scrap (or sell) any current vessels within the next few years. However, we do expect some refurbishing investments to take place during the 2020s (especially concerning the pusher-barge fleet).

ESL, market and competition

ESL has a strong relationship with steel producer SSAB

ESL ships raw materials for the steel industry, including iron ore, coal and limestone. ESL counts SSAB as its largest customer; SSAB reportedly sources iron ore pellets, metallurgical coal and injection coal from Russia. ESL also ships for certain other large steel manufacturers such as ArcelorMittal. ESL deepened its relationship with SSAB in 2015 with the signing of an inbound raw material shipping agreement, the contract including ESL's commitment to order two new-built eco-friendly LNG-powered vessels. The ships entered service in 2018.

Steel industry volumes are remarkably steady despite the sector's inherent cyclicality

The steel industry is an ideal customer base for dry bulk carriers in the sense that steel production plants need to be run at sufficiently high utilization rates i.e. there is not much production downtime; what follows is a relatively steady rate of production that is rather insensitive to macroeconomic considerations. Instead, industry cyclicality is more manifest in steel prices. To illustrate, SSAB operates five blast furnaces in the Nordic region (one in Luleå and two in Oxelösund and Raahe each). SSAB can bring down two of these active furnaces depending on market demand. Such limited flexibility means steel price variations will have only a moderate impact on ESL's shipping volumes.

Global steel production growth continues to outpace demand

Following a 2.1% demand increase in 2018, The World Steel Association (worldsteel) expects global steel demand to grow by 1.3% in 2019 and by 1.0% in 2020. Demand growth is expected to be strongest in Latin America and Africa. While aggregate demand continues to grow, the global steel market still suffers from overcapacity as annual production growth has remained above the demand trend (global crude steel production

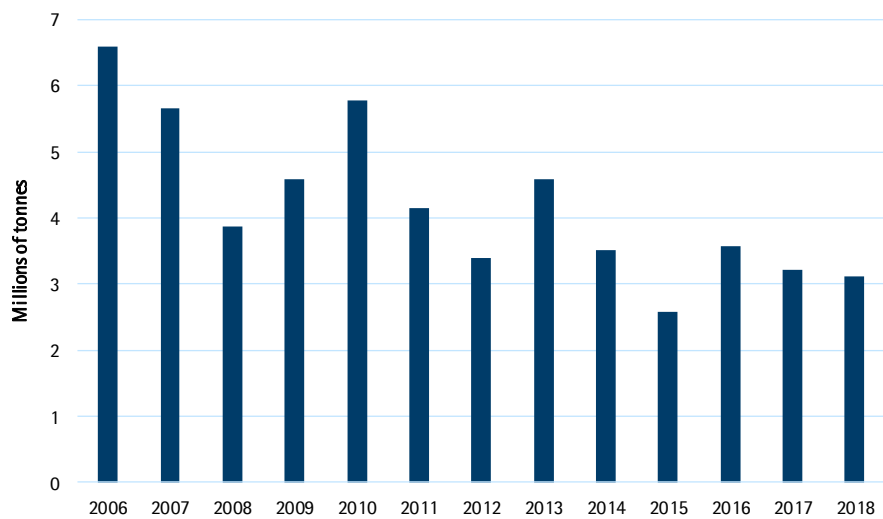
grew by 6.3% in 2017 and 4.6% in 2018). The situation is particularly challenging in China, where demand development has been weak in recent years while local production growth rates have been above global average. Chinese steel demand is expected to decline by 2.0% in 2019 due to a slowdown in construction activity and the Chinese government's effort to shift to a more consumption-driven growth track.

SSAB is in the process of developing an approach to replace coal with hydrogen in steel production. However, the project is still in a pilot phase and the potential transition would not occur any time soon. The pilot phase is scheduled for 2018-24 with demonstration plant trials set to take place in 2025-35. Moreover, the coal-free production process would still require iron ore pellets as an input.

Finland will abandon coal use by 2029

The energy industry represents another important customer base for ESL as the fleet serves power and heat plants along the Finnish coast by transporting coal (in addition to biofuel shipments). Indeed, coal shipments are declining, and Finland is planning to ditch coal use altogether by 2029; legislation will then forbid coal use in electricity and heat generation. The 2024 shutdown of the Hanasaari power plant in Helsinki was decided years ago. Four coastal coal-powered plants have been closed in recent years, leaving seven still-operational plants along the Finnish coastline. Finnish consumption of hard coal has been declining for well over a decade now, amounting to slightly more than 3 million tonnes in recent years. On an annual basis, this translates to an average decline of more than 7%.

Figure 10: Finnish hard coal consumption



Source: Statistics Finland

Coal will be replaced with biofuels, a transition representing a cargo volume upside opportunity

Coal is increasingly being replaced with other energy sources, such as biofuels. Finland is mostly replacing coal with wood. According to the Finnish National Renewable Energy Action Plan, biomass-based energy production should increase from 10,900GWh in 2017 to 12,900GWh in 2020. Biofuels transportation within the Baltic Sea may increase due to greenfield bioenergy plants as well as the conversion of existing coal plants into biofuel plants. The transition from coal to biofuels may amount to a great commercial opportunity for dry bulk carriers as biomass such as woodchips require significantly more transportation capacity than coal for the same energy content on a pound for pound basis. In technical terms, the energy content of coal amounts to 5.6MWh/m³, while woodchips carry an energy content of just 0.8MWh/m³. In other words, volume-wise it takes a measure of woodchips seven times that of coal to produce the equivalent amount of energy. Wood pellets, however, do hold a much higher energy density, at some 3MWh/m³, yet the level would still imply significant transportation volume

potential. One practical consideration relates to the size and frequency of shipments; Supramax vessels are too large for efficient transport of biofuels.

ESL has expanded to smaller vessels to better service the biofuel market

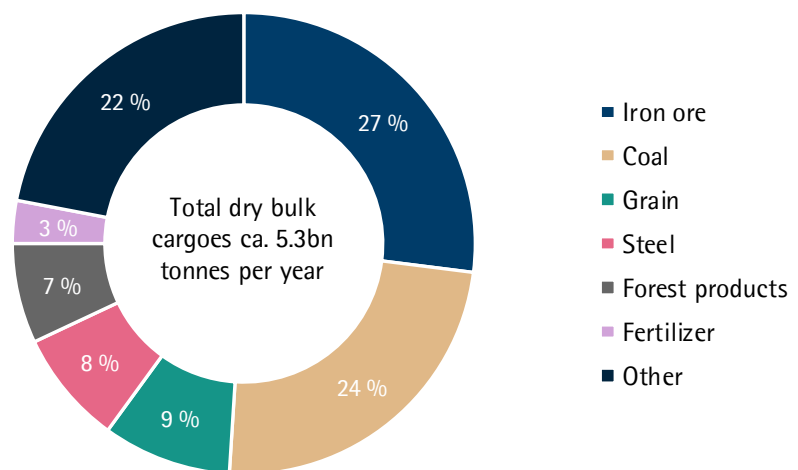
ESL Shipping has been present in the renewable energy market since 2015, when the company signed a biofuel transportation agreement with Fortum Värme (nowadays known as Stockholm Exergi). Biofuel plants' needs, however, are serviced with smaller cargo loads. The storage of wood pellets is challenging (due to e.g. carbon monoxide emissions and spontaneous combustion) and thus power plants prefer to secure a continuous pellet flow as opposed to large and infrequent shipments. This creates demand for smaller vessels. Indeed, ESL announced the commencement of a smaller vessel class in late 2017 to better transport various cargo (especially wood pellets) in the Baltic Sea, initially operating with four time-chartered vessels ranging in size from 3,000 to 5,000 DWT. ESL's 2018 acquisition of AtoB@C has further bolstered the company's ability to efficiently transport biofuels. The fleet now includes 33 smaller vessels in the 3,000-5,000 DWT range.

Demand for biofuel shipping is most urgent in urban areas

Transportation of biofuels in great volumes by road to urban locations, such as the Salmisaari power plant in Helsinki, could be problematic as relatively close and ample supplies would be required. Nearby traffic would be congested. Yet we see that roads and railways could offer a competitive transport alternative to shipping in less urban locations. For example, the Pietarsaari Power Station (Alholmens Kraft, the largest biomass cogeneration power station in the world) sources its wood-based fuels from nearby pulp mills, sawmills and forests. Both trains and ships deliver Stockholm Exergi's biofuel needs. The multifuel power plant in Naantali can source nearby wood up to 40% of its fuel needs.

Clarksons estimates the major bulk commodities iron ore, coal and grain make up roughly 60% of the total dry bulk cargo trade, which amounts to some 5.3bn tonnes per year in volume terms.

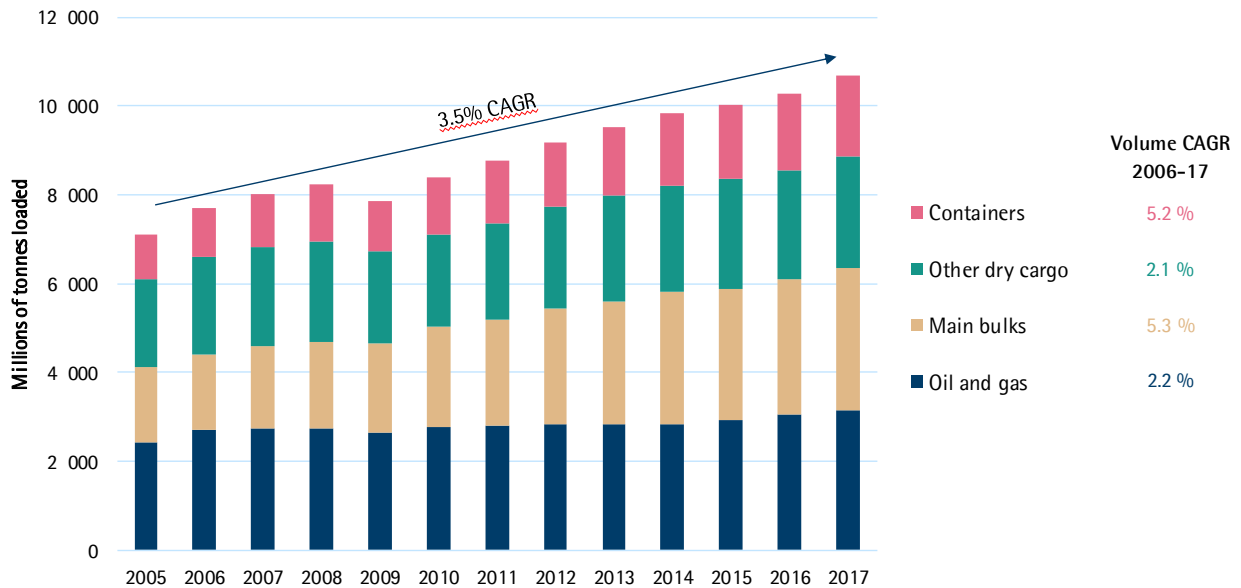
Figure 11: Global dry bulk cargo trade volume distribution



Source: Clarksons (Apr 2019)

Main bulks (i.e. iron ore, coal and grain) have been the fastest growing shipping cargo category since 2005, achieving a 5.3% volume CAGR in 2006-17 (in comparison to the 3.5% expansion rate in total international seaborne trade volumes). United Nations Conference on Trade and Development (UNCTAD) forecasts 3.8% CAGR for global seaborne trade between 2018 and 2023, expecting volume growth across all segments.

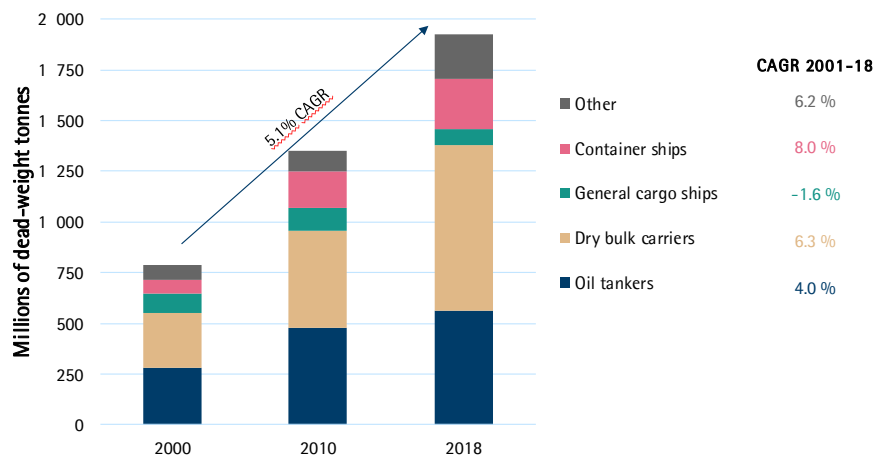
Figure 12: International seaborne trade volumes (millions of tonnes loaded)



Source: Review of Maritime Transport 2018

The global shipping markets, including those for dry bulk cargo but even more so for categories like oil and gas as well as container shipments, have remained oversupplied for many years now. Shipping markets often wait for the clearance of overcapacity for extended periods of time as a vessel's lifespan typically reaches 25 to 30 years. However, ESL sees the supply-demand balance improving as dry bulk vessel deliveries and order books have remained at historically low levels. Moreover, the numbers of scrapped vessels have increased significantly in recent years.

Figure 13: Global shipping trade capacity development



Source: UNCTAD, Review of Maritime Transport

The IMO 2020 regulations can both lift scrapping rates as well as welcome new eco-friendly capacity

A significant amount of global shipping capacity could potentially exit the market following certain upcoming environmental regulations. The International Maritime Organization (IMO) has stipulated regulations concerning the permissible amounts of ballast water, nitrogen and sulfur. The new standards will turn effective on Jan 1, 2020; one impact could be to reduce global shipping capacity as the low-sulfur fuel standard will increase fuel costs either directly or indirectly. Direct fuel costs will increase as many operators are going to have to switch to significantly cleaner fuel as the sulfur-content limit will be tightened from the current 3.5% to 0.5% (mass by mass). Alternatively, fuel

costs will increase indirectly should an operator choose instead to either install scrubber equipment to remove sulfur from the exhaust system or convert to an LNG system (a sizable investment which also reduces cargo capacity). While these costly fueling alternatives may nudge many ship operators to scrap, the regulations also encourage the building of new eco-friendly ships such as LNG-powered vessels, which manage some 30% better fuel efficiency and consequently 50% lower CO2 emissions.

Global warming may open more Arctic shipping routes. If current climate trends continue (i.e. sharp declines in sea ice cover on the Arctic Ocean each decade), ice-strengthened cargo ships capable of operating in ice up to four feet thick may be able to pass directly over the North Pole by the year 2030.

Table 1: Major dry bulk cargo vessel categories

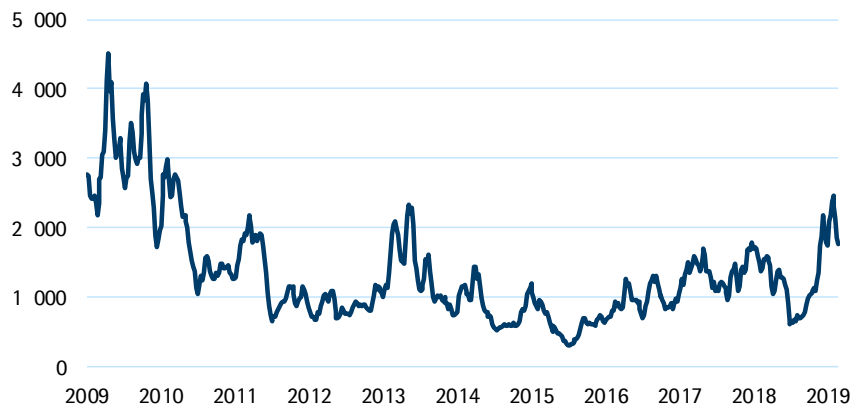
Classification	Min DWT	Max DWT	Typical length	Approximate second-hand price
Capesize	100,000		~300m	USD 35m
Panamax	65,000	99,999	200-290m	USD 19m
Handymax (Supramax)	40,000	64,999	150-200m	USD 18m
Handysize	10,000	39,999	130-150m	USD 16m

Source: Clarkson Research Services, Danish Ship Finance

The Baltic Dry Index measures global demand for dry cargo shipping capacity

The Baltic Dry Index is an indicator issued daily by the London-based Baltic Exchange, often cited to state the health of the global dry bulk shipping market. The index measures the average rates for chartering dry bulk cargo ships in size categories ranging from the Supramax class up to the Capesize class. The index is calculated by assessing the shipping rates for some 20 routes across the globe, i.e. it provides a measure of the global dry cargo shipping market. The index basically measures demand for dry cargo shipping capacity as the supply of cargo ships tends to stay constant over the short-term: It takes two to three years to build a new ship, while the high cost of vessel lay-up (either hot or cold) is prohibitive enough to deter immediate supply cuts in response to weakened demand. As a result, the Baltic Dry Index can be highly volatile should global dry cargo shipping demand increase or decrease significantly. Lots of new shipping capacity entered service in 2011-13, leading to an oversupplied market at a time when Chinese demand for raw materials turned out to be less than expected. The index then improved in 2016-18 with the help of a buoyant global macroeconomic climate, only to decline sharply in late 2018 and early 2019 as the conditions again deteriorated. The index then staged a strong rebound during the summer of 2019 despite considerations such as the US-China trade war, and now stands around its five-year highs.

Figure 14: The Baltic Dry Index



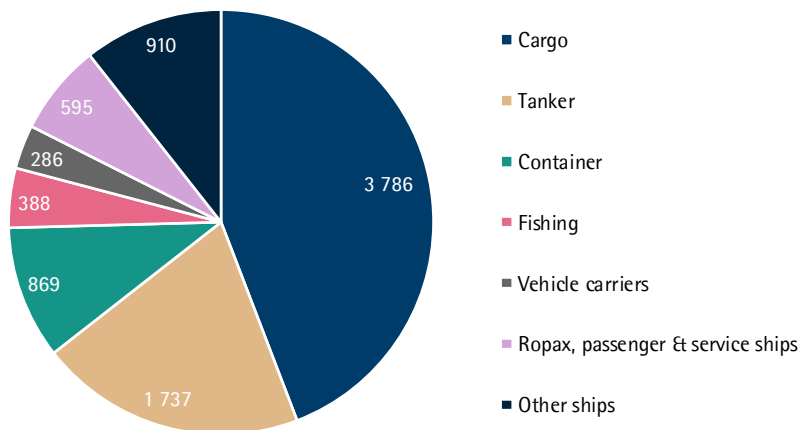
Source: Bloomberg

The Baltic Dry Index has limited significance to ESL as the index represents average time-charters for ships only from the Supramax-size upwards (ESL currently has two ice-strengthened Supramax vessels). Moreover, the Baltic Dry Index reflects spot market pricing, whereas ESL's fleet largely operates on long-term contracts. ESL's two Supramax vessels are occasionally employed through international spot markets, which can lead to periodical low profitability (for example, the Supramax vessels posted losses in Q2'19 as the Baltic Dry Index remained at subdued levels for most of the period before rebounding sharply during July).

A busy shipping market, the Baltic Sea also imposes special requirements on vessels

At any given time, there are roughly 2,000 ships operating around the Baltic marine region. Somewhere between 3,500 and 5,000 vessels navigate the sea each month; of these ships more than 40% are general cargo vessels that, for the most part, stay within the Baltic Rim or in Northern Europe. Up to one billion tonnes of cargo traffic is handled in the Baltic Sea each year, a figure representing some 15% of global volume. Such an activity level makes the Baltic Sea as one of the busiest maritime regions globally. To provide some further context, ESL's current fleet ships around 16-17 million tonnes of cargo annually. The Baltic Rim dry cargo market has been faring better than the wider global market due to the specific requirements the maritime region's infrastructure and conditions place on vessels: The local ports' shallowness and the sea's periodical ice coverage require features rather special in the global dry cargo shipping context. Ice-strengthened ships are rare as a percentage of global capacity, and consequently the Baltic Sea is relatively immune to competition.

Figure 15: Commercial shipping in the Baltic Sea (vessel numbers by type, 2014)



Source: Centrum Balticum

ESL's relatively small-sized ice-strengthened ships position it well to serve the Baltic Sea dry bulk market

Most of the dry cargo ships operating in the Baltic Sea are significantly larger than ESL's vessels. ESL refrains from competing in this high-volume market. Instead, the company serves major dry bulk carriers by offering loading and unloading services for vessels too large to make their entry into the shallow Baltic Sea ports. Even though the Baltimax standard allows 15-meter draft vessels to enter the Baltic Sea, many ports are nevertheless too shallow to accommodate such ships. ESL's largest vessels are 13-meter draft Supramaxes; all the other ships have drafts of 10 meters or less. Moreover, as all of ESL's vessels are ice-strengthened they can operate reliably in other icy environments as well, such as the Arctic regions of Russia and Canada (although the Arctic routes are operational only a fraction of the year and the opportunity is relevant only for the two Supramax vessels, which are sufficiently sized to operate on the longer shipping routes). ESL tries to ensure the crossing of an icy region for at least one leg of each shipping route. The company does not see the Baltic Sea's decreasing ice coverages as a threat; only an ice-strengthened fleet will ensure reliable shipments so long as icy winters

continue to occur every now and then. Aspo says ESL's main competitors include shipping names such as Wagenborg, Spliethoff and Oldendorff.

ESL financials

ESL's annual cargo volumes, revenues and operating profits remained stable during the period 2011-17 as the company averaged 11.5 million tonnes in shipments, about EUR 80m in revenue and slightly above EUR 11m in EBIT.

ESL's annual total cargo volumes varied around 10 and 13 million tonnes in 2011-17. However, these figures do not reflect certain considerations, such as the distance of cargo shipments. To take one example, ESL's cargo volumes declined in 2016 mainly due to the long distances traveled by the Supramax vessels. Conversely, the vessels travel relatively short distances during the loading and unloading operations. Different cargo types also have different nominal weights that are uncaptured by the cargo volume metric. For example, biofuel shipments carry a relatively low nominal weight and thus don't contribute that much to the total cargo volume (this was reflected already in the 2018 figures as the acquisition of AtoB@C contributed more than twice the amount of revenue per cargo volume compared to ESL).

We calculate that historically one million tonne of cargo delivered by ESL has generated ca. EUR 7m in revenue for the company. The corresponding figure for AtoB@C is close to EUR 16m as the subsidiary predominantly ships relatively low-weight cargo such as biofuels. We thus estimate ESL's revenue per million tonne of cargo will increase to slightly above EUR 9m following the consolidation of AtoB@C.

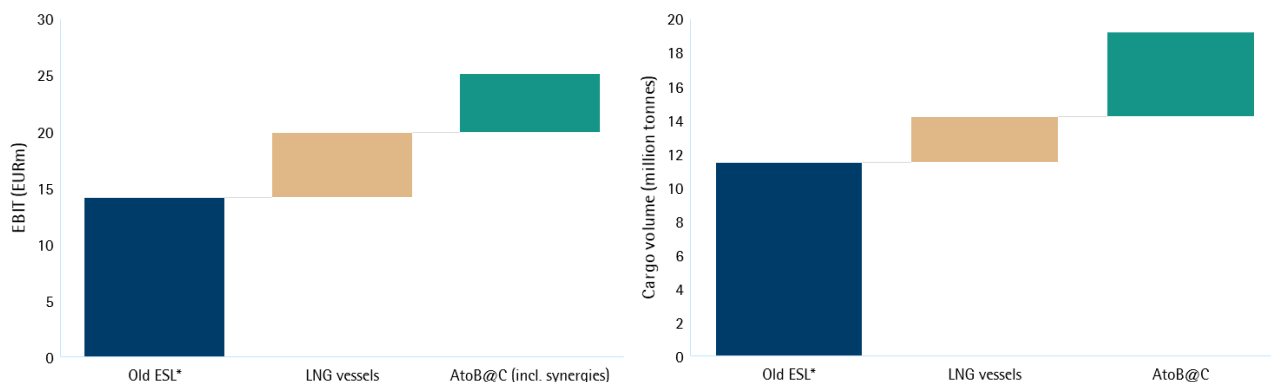
Despite the previously mentioned limitations of cargo volume tonnage, we note that ESL's revenue to cargo volume ratio has remained stable over the years due to the quite steady mix of different cargo types. Fleet utilization also stayed high with the ratio of annual cargo volume per vessel averaging roughly 0.75 million tonnes during 2011-17.

ESL acquired the two LNG-powered vessels for EUR 60m (the EU subsidy amounts to EUR 5.9m). The sister ships have a combined DWT of 51,000 and we expect them to reach high utilization rates due to their being expressly commissioned to cover SSAB's raw material transports; we estimate the vessels to ship around 2.5 million tonnes of cargo annually. Furthermore, due to the ships' high level of automation (e.g. automated cranes) as well as their fuel efficiency (some 30% more fuel-efficient than similar-sized vessels) we estimate the vessels' combined annual contribution potential to EBIT at around EUR 6m.

AtoB@C, which ESL acquired for an EV of EUR 30m, posted EUR 79.3m in 2017 revenue and EUR 3.2m in operating profit. Aspo targets annual cost synergies to the tune of EUR 2m and expects to fully realize them by 2020. AtoB@C is to keep its own separate head office, however ESL Shipping plans to bring the entire fleet under one unified ERP system.

Following the acquisition of AtoB@C and the delivery of the two LNG-powered vessels, we estimate ESL's annual cargo volumes going forward at around 18-19 million tonnes, which translates to annual revenues of some EUR 175-200m and an EBIT potential of EUR 25-30m.

Figure 16: ESL's annual EBIT and cargo volume potential following recent investments



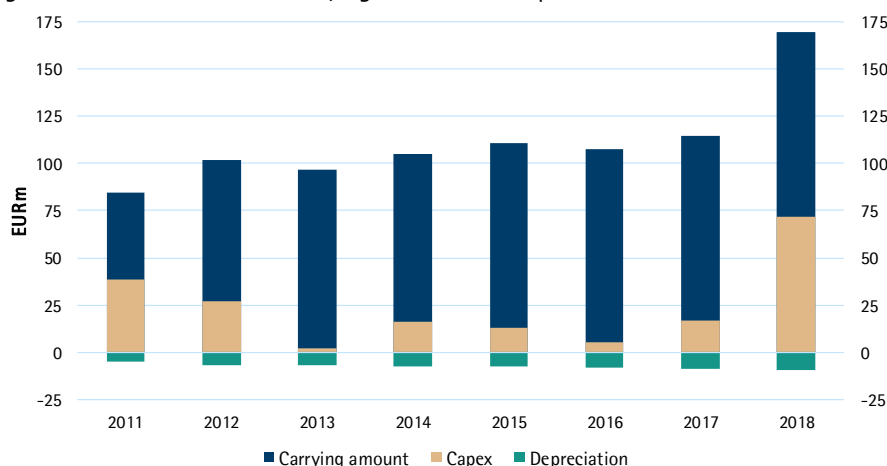
* based on ESL's average EBIT and cargo volume in 2014-17
Source: Aspo, Evli Research

ESL's operating costs are attributable to two key components, namely fuel and labor. Most of ESL vessels run on hybrid fuel provided by multiple suppliers. ESL's customers assume the fuel price risk thanks to contractual clauses, and consequently ESL's revenue moves in sync with fuel prices while operating profit is not affected. However, fuel consumption positively correlates with the Baltic Sea ice levels and thus ESL tends to post somewhat reduced operating profits during the winter months.

ESL aims to reduce labor cost with the help of automation and by slowly increasing foreign labor-share. For example, the two new LNG-powered vessels are equipped with automated cranes, which should help reduce labor input. ESL also actively negotiates with the Finnish Seafarers' Union, the Finnish Engineers' Association and the Finnish Ship's Officers' Union.

ESL has been subject to tonnage taxation retroactively from Jan 1, 2011. In practical terms the implication is a shift from business income taxation to tonnage-based taxation, leading to a very modest tax burden in the low six-figure range, i.e. effectively a tax rate close to zero.

Figure 17: ESL's vessel book carrying amount development



Source: Aspo

ESL aims to depreciate its vessels in 25 to 30 years. ESL's annual vessel depreciations have averaged around EUR 8m in recent years, while the company has tended to record annual capital expenditures, excluding new vessels and acquisitions, of ca. EUR 7m

directed at maintaining and extending the current fleet's in operational condition. ESL recently announced the purchase of M/S Alppila according to the terms and conditions set forth in the lease agreement signed in 2011 with SEB Leasing.

ESL estimates and valuation

We expect energy coal volumes to decline at a CAGR of 10% going forward (the current decade has seen the consumption of hard coal in Finland declining by more than 7% annually). Energy coal represented 17% of ESL's cargo volume in 2015, and we estimate the share to have declined to 14% by 2018. As ESL's energy coal volumes will continue to decrease, we expect other cargo types, such as biofuels, to replace the lost shipments. Energy content of wood is volume-wise significantly lower than that of coal, which would imply higher shipping volumes in terms of cubic meters.

Aspo said, in connection with the Q2'19 earnings release, that it has so far seen no negative changes to ESL's operating profit potential. We expect ESL's H2'19 to be significantly stronger compared to H1'19, even should the wider macroeconomic environment show signs of softening.

Table 2: ESL Shipping estimates

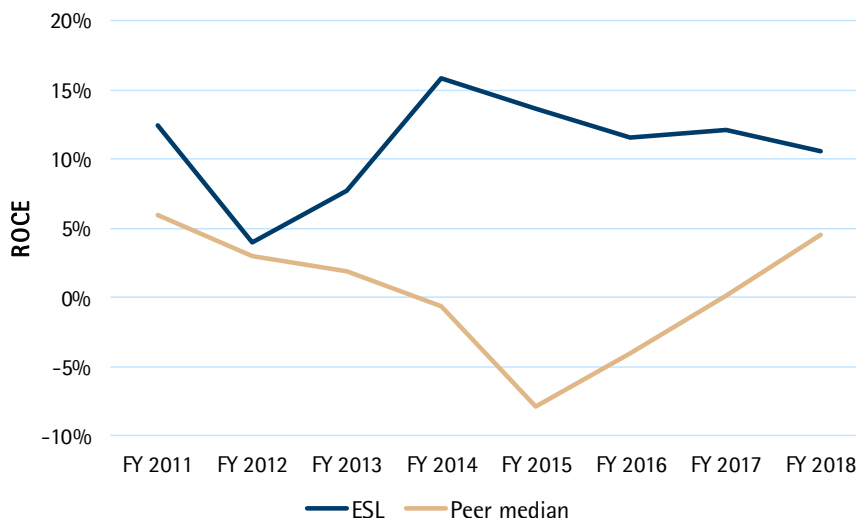
ESL Shipping	2017	Q1'18	Q2'18	Q3'18	Q4'18	2018	Q1'19	Q2'19	Q3'19e	Q4'19e	2019e	2020e	2021e
Cargo volume (mt)	11.4	2.5	3.2	3.4	4.5	13.4	3.6	4.0	4.6	4.9	17.1	18.4	18.7
Revenue	79.3	20.5	22.6	30.6	46.4	120.1	43.7	42.6	43.3	46.0	175.6	194.6	200.4
<i>growth-%</i>	<i>11 %</i>	<i>8 %</i>	<i>16 %</i>	<i>67 %</i>	<i>105 %</i>	<i>51 %</i>	<i>113 %</i>	<i>88 %</i>	<i>42 %</i>	<i>-1 %</i>	<i>46 %</i>	<i>11 %</i>	<i>3 %</i>
Operating profit	13.5	2.6	4.3	4.0	4.2	15.1	3.2	2.6	5.3	5.5	16.6	23.6	26.0
Operating margin	17.0 %	12.7 %	19.0 %	13.1 %	9.1 %	12.6 %	7.3 %	6.1 %	12.2 %	12.0 %	9.5 %	12.1 %	13.0 %

Source: Evli Research

We expect ESL's H2'19 operating profit will improve significantly compared to the first half of the year. H1'19 operating profit only amounted to EUR 5.8m (EUR 6.9m in H1'18) as the LNG-powered vessels' cranes malfunctioned, the two Supramax vessels faced a challenging market situation and Baltic Sea steel industry shipments were low due to the steel mills' annual maintenance procedures stretching longer than expected. Furthermore, Baltic Sea ports suffered from operational challenges, which led to prolonged waiting periods for vessels. The first half of 2019 was thus exceptionally challenging, and Aspo says it has seen no change in ESL's long-term operating profit potential. ESL's H2'19 cargo volumes are expected to be 25% higher than those of the first half of the year. We estimate H2'19 operating profit to increase to EUR 10.8m, thus bringing the full-year metric to EUR 16.6m. Our estimates for the following year are on the cautious side in the context of ESL's targeted EUR 200m in revenue and 12-15% operating margin in 2020.

ESL has posted consistently higher returns on capital employed compared to its peer group, averaging 11% during the last eight fiscal years while a typical peer has managed to record barely positive figures.

Figure 18: ESL and peer group return on capital employed



Source: Aspo, Bloomberg

ESL's relatively stable dry bulk business also implies ship purchases and acquisitions can be done at attractive prices

We have identified a peer group for ESL consisting of shipping companies domiciled in North America and Western Europe. The dry bulk carrier peers tend to have fleets mostly made up of vessels significantly larger than those of ESL's i.e. the peers operate predominantly with Capesize and Panamax class ships and are more exposed to the volatile global spot market. Consequently, their results can vary widely. In our view ESL's stable profitability justifies a valuation premium relative to its peers. While it is difficult to flesh out any exact figure for the purpose, we note that the recent EUR 84m of investments in LNG-powered vessels (EUR 54m including subsidies) and AtoB@C (EV of EUR 30m) are likely to prove themselves attractive as we estimate their operating profit contribution at above EUR 10m. The corresponding EV/EBIT multiple of roughly 8x looks very favorable compared to the current peer group multiples as well as their average trailing twelve-month EV/EBITDA multiple of ca. 13.5x for the last seven years.

Table 3: ESL Shipping peer group

ESL PEER GROUP	MCAP MEUR	EV/EBITDA		EV/EBIT		P/B	
		19	20	19	20	19	20
Algoma Central	355	6.2x	5.7x	14.3x	12.1x	0.8x	0.7x
Diana Shipping	306	7.5x	6.8x	15.9x	15.8x	0.5x	0.5x
Eagle Bulk Ship	311	10.0x	5.7x	34.0x	10.5x	0.7x	0.6x
Genco Shipping & Trading	362	8.9x	4.7x	71.5x	9.6x	0.4x	0.4x
Golden Ocean Group	737	11.5x	9.1x	27.5x	18.1x	0.5x	0.5x
Navios Maritime Partners	178	5.6x	4.3x	11.2x	7.3x		
Pangaea Logistics	129	6.3x	4.9x	9.3x	8.5x		
Safe Bulkers	171	7.2x	5.3x	14.7x	9.0x	0.4x	0.4x
Scorpio Bulkers	423	12.0x	8.3x	30.8x	14.0x	0.5x	0.5x
Ship Finance Intl	1399	11.8x	11.4x	19.5x	18.8x	1.4x	1.4x
Star Bulk Carriers	899	10.1x	5.0x	23.2x	6.8x	0.6x	0.5x
Peer Group Average	479	8.8x	6.5x	24.7x	11.9x	0.6x	0.6x
Peer Group Median	355	8.9x	5.7x	19.5x	10.5x	0.5x	0.5x

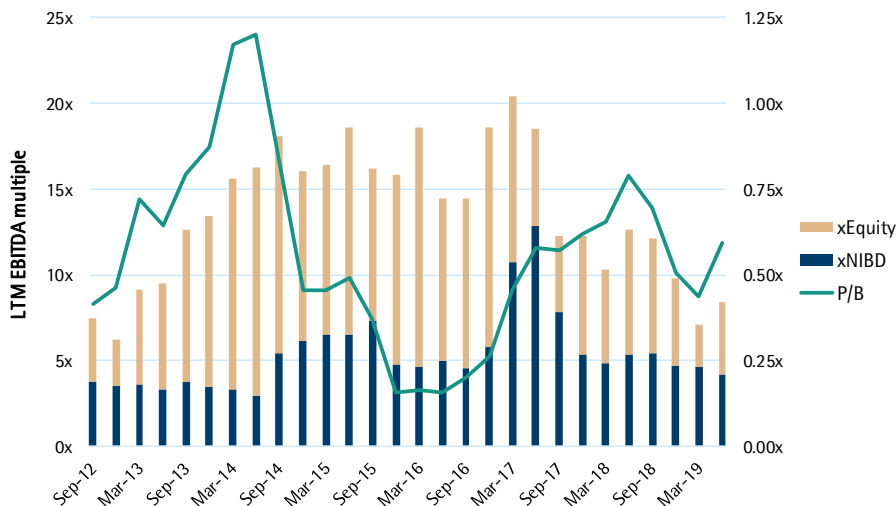
Source: FactSet

In our view Aspo is not currently excessively leveraged as ESL has high debt capacity

ESL's peer group has averaged a trailing twelve-month NIBD/EBITDA multiple (based on median figures) of 5.4x during the last seven years. Aspo's comparable figure amounted to 4.9x at the end of 2018 (5.5x when including the hybrid bond). In other words, although Aspo's current leverage is somewhat elevated compared to its own historical 3.7x average (4.4x with hybrid), the figure is largely in line with a typical dry cargo shipping company, and we find that the peer group relies only slightly more on bond

financing (which tends to carry looser terms) than Aspo. Moreover, one could argue Aspo has a debt capacity above that of a typical dry bulk carrier due to ESL's relatively steady positioning as well as the diversification benefits associated with the conglomerate structure (however, the asset-light Telko and Leipurin segments would have lower debt service capabilities as stand-alone businesses).

Figure 19: ESL peer group valuation and capital structure development



Source: Bloomberg (quarterly median values)

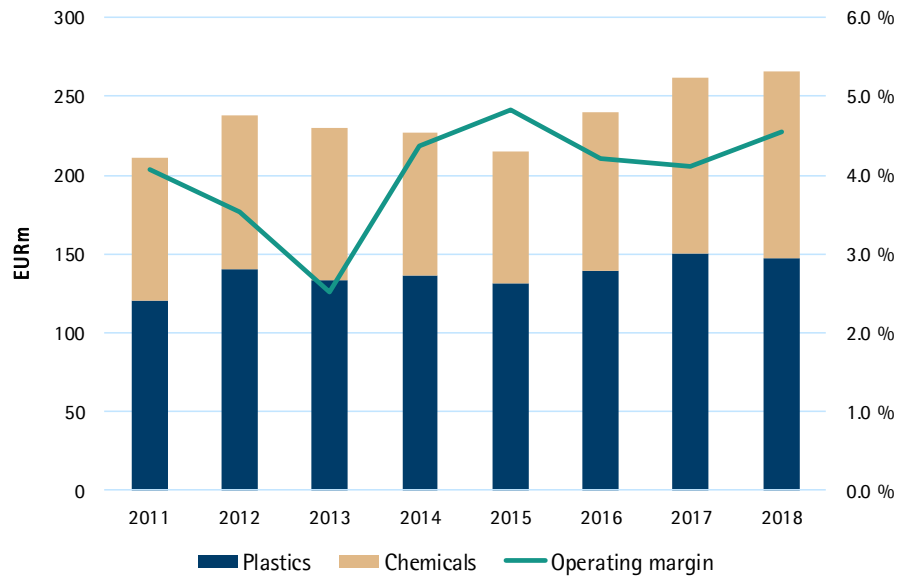
ESL's peer multiples would imply a midpoint EV of EUR 285m, which would translate to EV/EBIT of approximately 17x for '19e and 12x for '20e (based on our estimates). In our view a slight valuation premium is justified for ESL due to the dry bulk carrier's strong and stable performance. We consider a valuation of EUR 325m reasonable; on our estimates this would imply EV/EBIT multiples of roughly 20x for '19e and almost 14x for '20e.

Telko

Telko overview

Espoo-based Telko operates as an intermediary in the chemicals business; the company distributes plastic raw materials and chemicals by bridging suppliers (a typical principal is a large global materials producer) with customers (a typical user is an industrial SME). Telko has leading market positions in Northern Europe and the CIS countries, counting subsidiaries in Finland, the Baltic countries, Scandinavia, Poland, Russia, Belarus, Ukraine, Kazakhstan, Azerbaijan, China and Uzbekistan (the company has also lately entered Romania). Telko connects more than 400 principals with over 7,000 customers and generated EUR 266m in 2018 revenue (55% of which was attributable to plastics and the remaining 45% to chemicals). The company employed an average of 280 personnel in 2018.

Figure 20: Telko revenue mix and profitability development



Source: Aspo

Telko was established in 1908 and its name derives from Suomen Teollisuuskonttori ("Finnish Industrial Office"), a business that focused on importing coal and coke. Aspo built Telko in its current form with the acquisition of Kauko-Telko Oy from Kesko in 2008, merging the acquired chemicals distribution business with Aspo Chemicals (Aspokem). We estimate Aspo Chemicals contributed around 50% of the combined entity's value as Aspokem was larger in terms of revenue but somewhat less profitable.



Source: Aspo

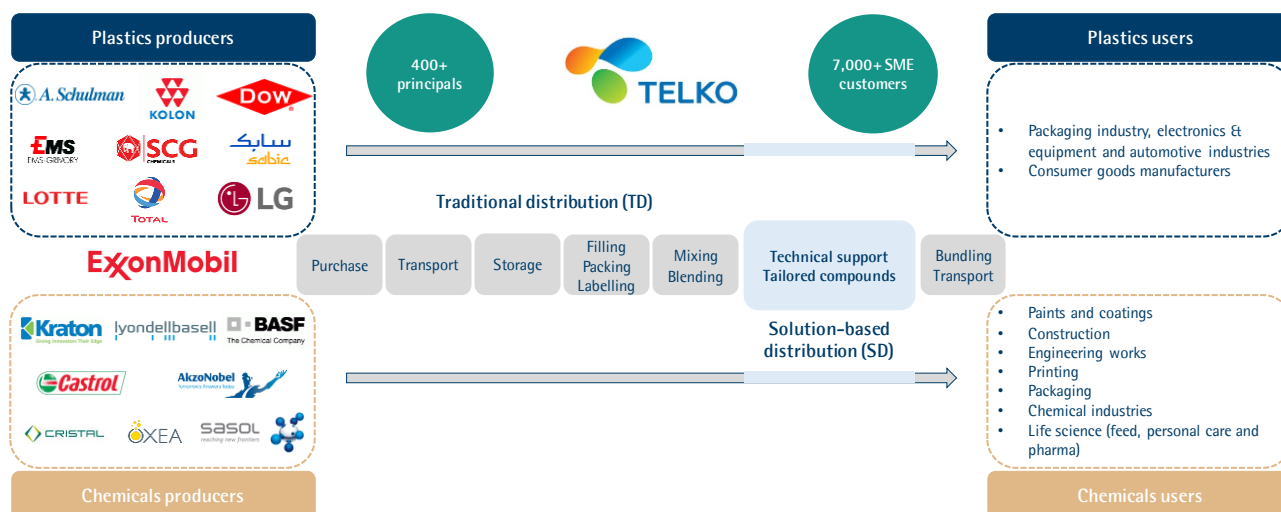
In our opinion Aspo doesn't view Telko as a core holding in the way it sees ESL, i.e. Aspo is likely quite receptive to potential buyer interest. However, we also note Aspo seems to remain committed to realizing further upside on its investment and thus Telko's ownership might remain unchanged for a while should potential buyers fail to match Aspo's price expectations. Although Telko has been very successful in expanding its operations in Eastern markets (revenues from Russia, Ukraine and other CIS countries doubled during 2011-18), the company's cyclical exposure to Russia might deter a few buyers. Aspo says considerations such as the Russian sanctions are not, in practice, a big impediment on Telko's business operations within the country.

Telko business model and strategy

Telko distributes chemicals for such users whom chemical manufacturers find hard to service directly

Telko's value proposition is based on both traditional distribution (TD) and solution-based distribution (SD). TD refers to more straightforward service activities like the purchase, transport, storage, packing, blending and transport of materials from the principals (the 400-plus plastics and chemicals producers served by Telko) to the customers (Telko supplies more than 7,000 SME users). Supplementing the basic logistics service, Telko's SD includes technical support and vendor-managed inventory (tailored compounds) offering. An average Telko SME customer spends slightly less than EUR 40,000 annually on Telko-supplied plastics and chemicals. Chemical suppliers don't find the direct service of such small accounts worthwhile, whereas the customers often look for a wide breadth of specialty chemicals that they typically order in relatively small quantities. Consequently, Telko's operational success is premised on managing a logistically efficient and sufficiently wide-ranging specialty chemicals inventory. Telko's product catalogue includes more than 9,000 items, one-third of which are plastics and two-thirds chemicals.

Figure 21: Telko's plastics and chemicals distribution services offering



Source: Aspo

One example of Telko's SD offering is the company's agreement with Castrol; Telko acts as Castrol's Finnish representative and maintains a constant supply of chemicals for Castrol's customers such as Bilia. Another SD example is the contract with Volvo under which the automotive company outsourced its chemicals, lubricants and metal working fluids supply chain to Telko in Scandinavia.

Telko's value proposition can be summarized as the offering of outsourced distribution service for principals (which they value for its cost-effective and reliable logistics) and the cost-competitive provision of technical know-how and tailor-made deliveries for customers. The pricing of plastic raw materials and chemicals happens in negotiations taking place between Telko's principals and customers, and consequently Telko earns a margin over the agreed upon price. Oil is the main input for products supplied by Telko. Other significant raw materials include ether and propene. Telko's end-market exposure is spread relatively wide, however we note that e.g. winter conditions in Russia and Ukraine have the potential to affect Telko's volumes as cold weather can delay the beginning of the local construction industry's spring season.

Table 4: Telko's product catalogue

Plastics	Chemicals	Industrial Lubricants
<ul style="list-style-type: none"> • Masterbatches & Additives <ul style="list-style-type: none"> ○ Often used to modify surface properties and create e.g. anti-block, slip and anti-slip, and anti-static features ○ Also used to add color to plastic materials • Volume Plastics <ul style="list-style-type: none"> ○ Includes polyolefins such as low-density polyethylene (LDPE), linear low-density polyethylene (LLDPE), high-density polyethylene (HDPE) and polypropylene (PP) ○ The plastics are used as e.g. sheets and foams in different applications across industries • Technical Plastics <ul style="list-style-type: none"> ○ A wide range of engineering and technical plastics for various purposes in e.g. electronic devices, home appliances, healthcare products, and packaging 	<ul style="list-style-type: none"> • Binders <ul style="list-style-type: none"> ○ Various binders such as polymer binders, silicates, acrylates, epoxy, epoxidized soybean oil, castor oil, natural gypsum and cement for use in e.g. concrete, dry mortar mixtures, and paints and coatings • Fragrances <ul style="list-style-type: none"> ○ Thousands of fragrances for e.g. cosmetics, household and cleaning products, and industrial chemistry • Solvents <ul style="list-style-type: none"> ○ Various alcohols, such as isopropanol and ethanols, as well as amines (like acetates), glycols and ketones • Pigments & Fillers <ul style="list-style-type: none"> ○ Common industrial fillers such as colloidal minerals, titanium dioxide and talcum ○ Glass spheres and specialty fillers used in plastic and paint as well as composites materials 	<ul style="list-style-type: none"> • Cleaners & Corrosion <ul style="list-style-type: none"> ○ Grease removers and other cleaning agents as well as corrosion prevention chemicals • Greases <ul style="list-style-type: none"> ○ Includes e.g. calcium, barium and aluminium complex greases, NLGI, and Molybdenum Disulfide for use in machinery equipment • Metalworking fluids <ul style="list-style-type: none"> ○ Fluids for aluminium, steel and other metal compositions • Mould oils <ul style="list-style-type: none"> ○ A range of biodegradable mould oils that protect the mould surface from rust • Gear oils <ul style="list-style-type: none"> ○ Telko supplies Castrol Gear oils that help protect against the harmful effects of friction

Source: Telko

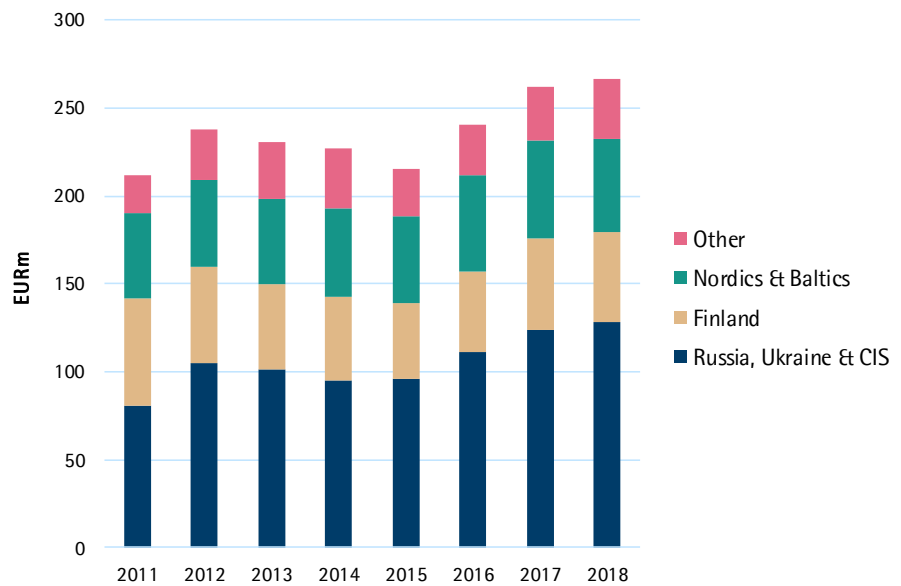
Telko is a full liner i.e. it distributes both commodity and specialty chemicals, yet focuses on the latter type

While Telko also supplies bulk volume chemicals and bulk plastics, the company focuses on offering specialty chemicals and engineering plastics as the volume products are easier to distribute and thus the principals themselves often manage their distribution. It follows that the distribution of specialty chemicals and plastics tends to be more profitable (we estimate the gross margins in this category can be as high as 25%) and less vulnerable to macroeconomic conditions. Higher margin products also tend to pose less risk of customers switching suppliers. However, it should be noted that the process of developing a specific material solution together with a customer is often expensive for Telko and thus Telko needs to secure the input chemicals' eventual provision. Furthermore, a specialty chemicals distributor usually carries higher inventory levels as the users' volume needs are not so easily anticipated.

Telko's network positions the company favorably, especially in Eastern Europe

Telko strives to understand its customers' processes to be able to provide the right chemicals at the right time and to reach a position from which it can suggest new chemicals for improving the customers' processes and product quality. Consequently, a wide product offering (i.e. large principal network) is crucial for attaining attractive positioning from Telko's customers' point of view. Conversely, Telko's principals want to tap a wide distribution network, and thus Telko needs to secure strong market shares in its key geographic regions. From this perspective Telko looks an attractive partner to many blue-chip materials producers as the company has achieved a solid footprint in Russia, Ukraine and other CIS countries, with almost 50% of revenues stemming from the region (many Western companies are likely not very keen to establish their own operations in these countries). We also note that Telko's principals vary from country to country. The principals may already have an active third-party distributor present in a country which Telko is only just entering, and thus strong product offering in one country may not be extended into another.

Figure 22: Telko geographical revenue development



Source: Aspö

Telko serves demanding principals

Telko typically signs agreements with its principals for a term of three years, whereas the actual relationships tend to be more long-term. Telko very rarely loses a principal. The principals generally focus on manufacturing chemicals and sell directly only to large customers, often leaving the smaller customers to be served by third-party distributors. The principals seldom grant exclusive distribution rights (Telko is the exclusive supplier of AkzoNobel's asphalt chemicals in the Nordics), but they do tend to exert control over who distributes their products. The chemicals producers may also engage in competition with Telko. This could happen in a case where Telko's customer grows sufficiently large so that it becomes worthwhile for the principal to bypass Telko and serve the account directly. Furthermore, consolidation among chemicals producers poses not insignificant risks for Telko, as the company could lose a principal following a merger between two manufacturers.

Telko needs to achieve high delivery volumes as its value proposition to principals and customers alike is premised on logistical efficiency. Telko's logistical efficiency is further based on centralized sourcing of raw materials and comprehensive supply chain management, and the company relies on regional inventories to facilitate rapid delivery times. Indeed, a major part of Telko's otherwise light balance sheet is tied to inventories.

Telko currently operates 25 sales offices and 50 warehouses in 16 countries. Telko does not typically own the warehouses it operates in. Telko's customer delivery target time is 1-3 working days from its local warehouses.

Certain areas of the chemical distribution business require an operating license. Besides this specific entry barrier, Telko has nurtured long-term relationships with many blue-chip principals, while the company's solution-based distribution services can to some extent create entrenchment with its customers.

Acquisitions are a fixture on the agenda as the global chemical distribution market is highly fragmented, the industry counting more than 10,000 companies. Consolidation can be expected to be partially driven by increased regulation, which can prove a strain on smaller companies' resources. Telko is most likely to consider acquisitions in Central and Eastern Europe as well as the Nordics. When it comes to Russian expansion, Telko

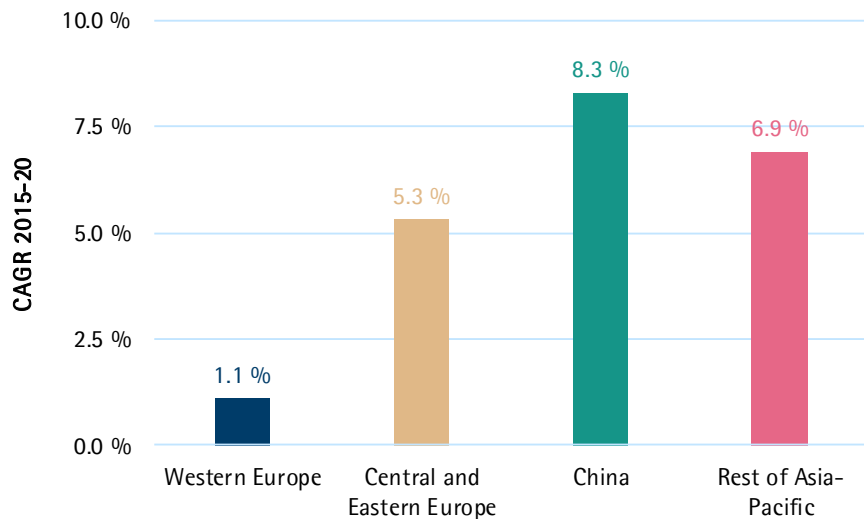
prefers organic growth over M&A to mitigate some of the more material risks associated with the country. In our view Telko mainly considers acquisition targets with revenues in the ballpark of a few ten million euros, while the company probably would not bid any more than 0.5x in terms of EV/S multiple. Telko acquired two Danish chemical distributors in 2018, each of them generating around EUR 3m in revenue. We further note that Telko and its competitors view the potential gain of new principal relationships as an important consideration in their processes when assessing acquisition opportunities.

Telko, market and competition

Third-party chemical distribution accounts for roughly 15% of the total chemicals market

The chemical distribution market is set for continued global growth as chemicals producers are likely to outsource an increasing share of their supply network to third-party distributors. The global chemical distribution market stood at USD 204bn in 2017 (according to Grand View Research). The figure amounts to around 15% of the total chemicals market, and encompasses third-parties like agents, traders and chemical distributors. Conversely, the chemicals producers sell some 85% of their output directly. Indeed, the authors expect the distribution market to expand at a 5.7% CAGR by the end of 2025 as the penetration level is still quite low. Third-party distribution can prove a compelling alternative for chemicals producers who want to widen their geographical reach in a cost-efficient way (chemicals companies typically focus on serving directly only their large key accounts). More particularly, many Western chemicals producers might consider third-party distribution as the more attractive route to increasing their developing markets presence as the approach saves many corporate resources from being tied up.

Figure 23: Third-party chemical distribution market growth estimates



Source: Technavio

A specialty chemical distributor's positioning can translate to attractive growth rates through both upstream and downstream supply

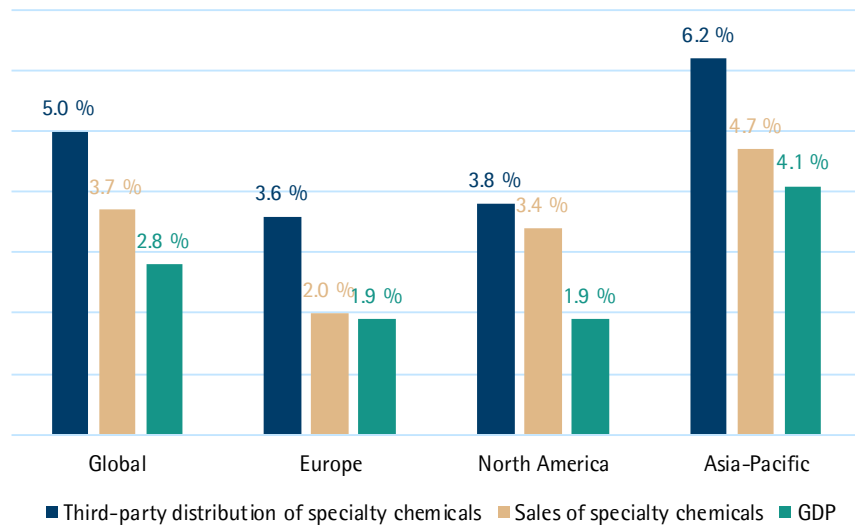
Third-party distribution also makes it easier for chemical manufacturers to reach small customers or those that are difficult to serve economically (certain chemical production plants face such logistical challenges that prevent them from running small batches or processing smaller orders). Moreover, the specialty chemical distribution market is especially well positioned for further expansion as the leading specialty distributors have deep market understanding and can create value for producers and users alike. For example, a distributor could be in a place to share valuable information if a manufacturer wants to develop an offering for a product or application segment in which it currently has no presence. Distributors can also help specialty chemical

manufacturers to source such materials that are needed in production only infrequently or in small quantities (as a matter of fact, chemical manufacturers' largest customers are often other chemical manufacturers). In other words, a distributor can service the upstream part of supply chain in addition to the more traditional downstream leg and thus help simplify procurement for producers as well as users. Indeed, producers have lately adopted a more systematic approach by defining strict criteria for distributor usage, in addition to actively screening and monitoring these relationships. On the other hand, manufacturers are often not ready to provide additional services for different customer segments, whereas a distributor can more easily offer various kinds of technical support, tailored compounds and outsourced logistics (and thus help facilitate a one-stop shop experience, a key consideration as customers often need several products in relatively small quantities). What follows from all this is that scale alone is not the answer to improving a distributor's competitiveness. Rather, specialty distributors should pick specific product segments and geographies and then proceed to develop the necessary capabilities that will enable them to succeed in the selected areas. Scale mainly matters to the extent that producers seek distributors covering multiple regions as such relationships can yield the widest coverage most efficiently.

Specialty chemicals distribution market has grown faster than the underlying market

BCG estimates specialty chemical distribution grew at a 5.6% CAGR from 2012 through 2017, reaching a global market size of about EUR 97bn. The figure compares favorably to the growth in overall GDP (2.7%), the overall chemical industry (2.9%), and specialty chemical consumption (4.9%) during the same period. BCG expects third-party distribution of specialty chemicals will continue to grow faster than the underlying product market.

Figure 24: Regional specialty chemicals and GDP CAGR estimates for 2017-22

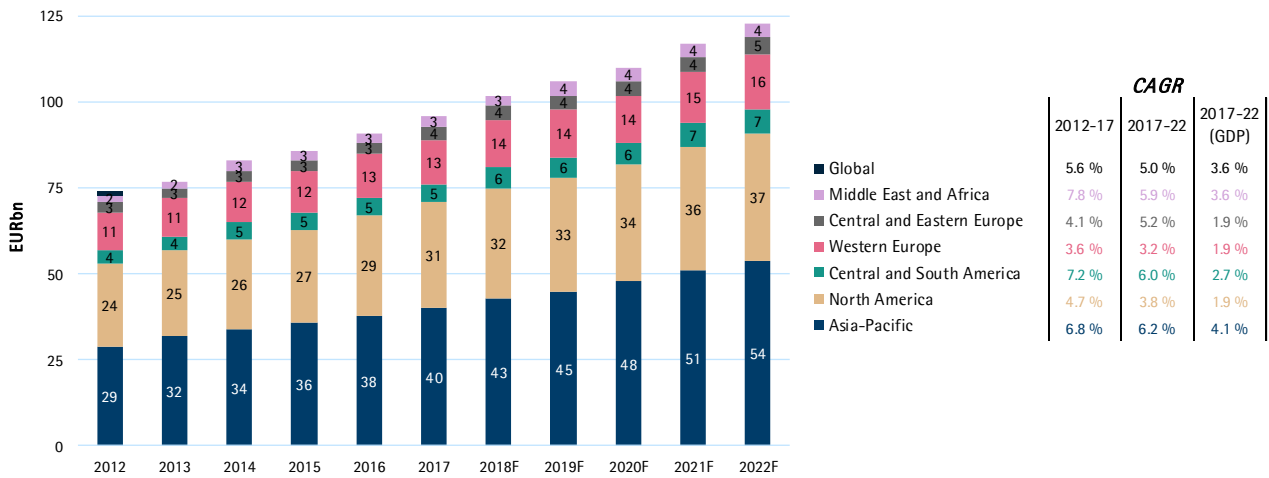


Source: The Economist Intelligence Unit, IHS Markit, Phillips McDougall, Ramakers, Technavio, BCG
Note: GDP growth is shown using constant currency in real terms

In global context Central and Eastern Europe is a small market but is expected to grow at an above-average rate

BCG estimates Asia-Pacific to have been the largest specialty chemical distribution market in 2017 (EUR 40bn), followed by North America (EUR 31bn) and Western Europe (EUR 13bn). Consequently, Asia-Pacific is expected to contribute roughly half of total market growth through 2022, while almost another quarter is expected to be attributable to North America. Central and Eastern Europe, a key market for Telko, is projected to grow at a 5.2% CAGR, a figure slightly higher than the estimated 5.0% for the global market.

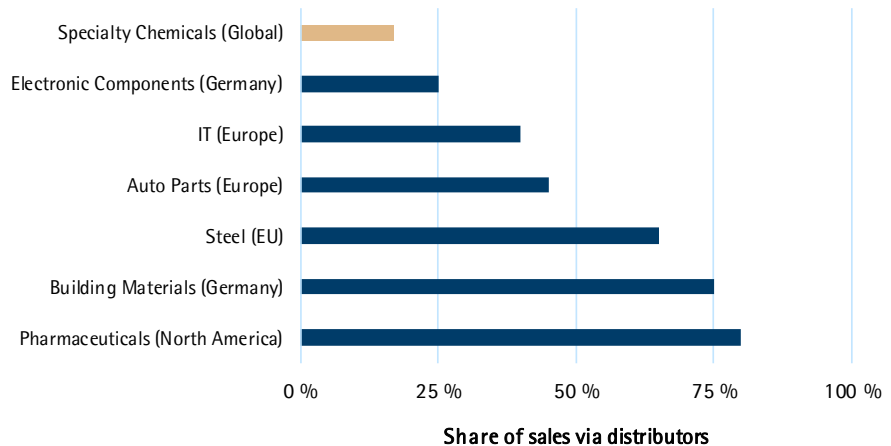
Figure 25: Specialty chemicals' third-party distribution global market development forecast



Source: The Economist Intelligence Unit, Phillips McDougall, Ramakers, Technavio, BCG
Note: GDP growth is shown using constant currency in real terms

BCG's brisk growth estimates find support from the fact that third-party distribution of specialty chemicals still has a relatively low market penetration rate. For the six other industries highlighted by BCG, the share of sales via distributors averages 55%. By contrast, third-party distribution's share for specialty chemicals only amounts to some 17% (BCG puts the share between 10% to 12% for the overall chemical industry). The reference points selected by BCG include both more consumer-oriented industries (such as pharmaceuticals and auto parts) and sectors that typically interface with businesses (building materials and steel).

Figure 26: Third-party distribution's share for select industries



Source: Baustoffmarkt, ChannelObserver, Elektronik Praxis, Eurometal, MarketLine, Wolk, BCG

The North American distribution market is more mature than those of Europe and Asia-Pacific

BCG expects specialty chemicals' third-party distribution share to increase to 18% globally by 2022. There is relatively little variation between the major regions' penetration rates as Europe's share was estimated at 15% in 2017, North America's at 20%, and Asia-Pacific's at 17%. The five-percentage point difference between Europe and North America is due to geographic considerations; deliveries across the North American market happen over longer distances, whereas in Europe the logistics are not

as challenging due to regional proximity. As a result, North American manufacturers take a more selective approach to doing business with distributors; the distributors themselves have consolidated to a smaller set of more competent players. BCG expects each of these markets' third-party distribution share to increase by roughly a percentage point by 2022.

The specific product segments largely determine the potential for third-party distribution share

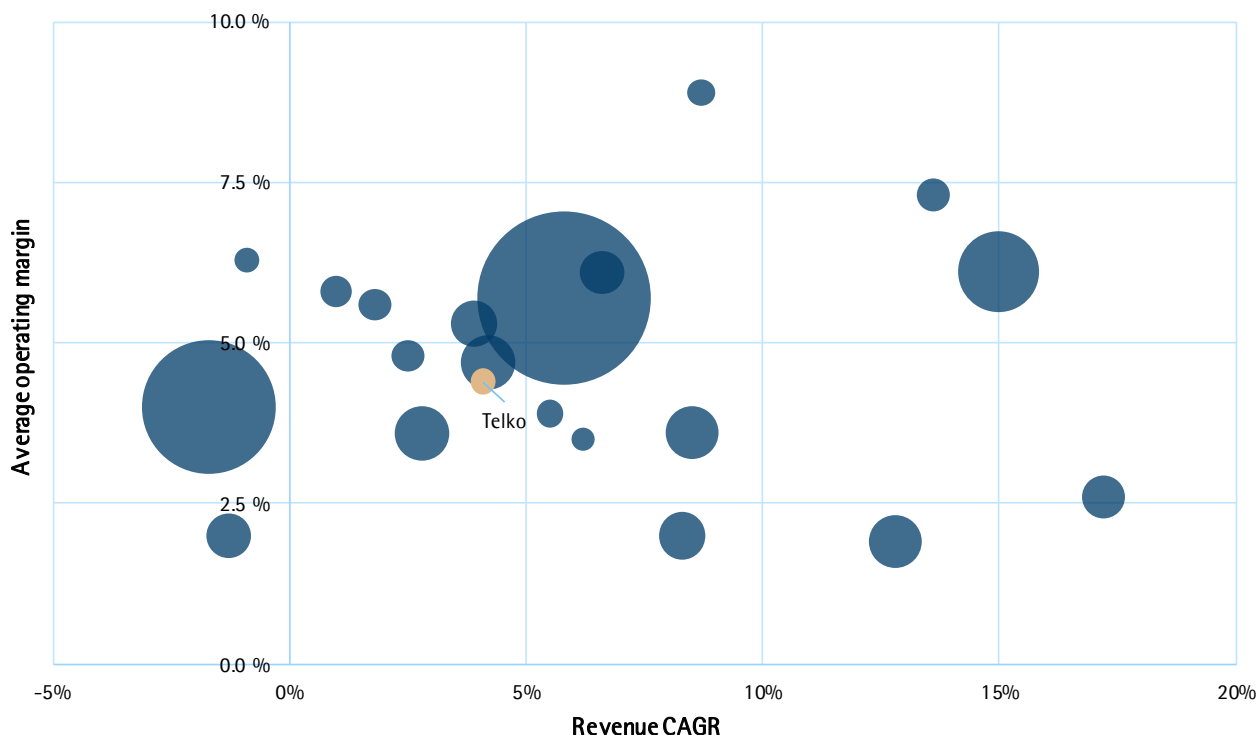
However, even though BCG projects solid growth across different geographies, it should also be noted that the share of outsourced distribution varies significantly between product segments. For example, specialty distributors tend to have higher shares in more fragmented chemical categories where there are many relatively small manufacturers providing a wide range of products to large numbers of relatively small customers (who place somewhat small orders). Such segments where distributors can more easily create value include coatings and adhesives, construction, and cleaning products. Specialty distributors' market penetration can reach as high as 80% in segments such as laboratory chemicals, where customers, like university labs, are extremely small and need a wide variety of chemical products delivered on a regular basis. At the other end of the spectrum are segments such as complex active ingredients for pharmaceuticals. Major barriers to entry mean the pharmaceutical industry remains rather consolidated, and there are many large drug manufacturers that chemical producers can serve directly (besides, some specialty chemicals companies produce tailor-made active pharmaceutical ingredients). Consequently, there is not that much scope for middlemen roles.

Digital disruption does not seem an urgent concern for chemical distributors

BCG argues digital is not at present a major threat for chemical distributors as the business involves complex materials handling requirements, technical expertise as well as services like after-sale support, safety and regulatory requirements, and documentation. The threat of digital cutting off the middlemen seems subdued as distributors are not just in the business of reducing complexity but rather offer such warehousing and bundling services that most chemical producers are not ready to extend to their customers (i.e. logistical services like repacking from large bulk quantities into more manageable, less-than-truckload deliveries). Probably the most relevant concern is a potential reduction in distributors' pricing power should an increase in transparency through digital lead to elevated competition. BCG sees digital more as a long-term opportunity for chemical distributors as the companies should be able to improve their operations throughout the supply chain.

ICIS says Telko's 2018 revenues placed the company as the 51st largest chemical distributor in the world (and number 26 in Europe). Brenntag, a distributor based in Germany, is by far the single largest entity with reported EUR 12.6bn in 2018 revenue. Brenntag has averaged a 5.7% operating margin in recent years, or roughly 100bps above that of a typical large chemical distributor. This puts Telko (4.4% average operating margin) slightly below average in terms of profitability.

Figure 27: Select large chemical distributors' revenue growth and profitability



Source: FactSet, ICIS

Note: Bubble size indicates 2018 revenue (USD), revenue CAGR and average operating margin for the latest four available fiscal years

Looking at Telko's competitors' profitability levels, we find Telko's targeted 6% operating margin plausible but rather on the ambitious side. Telko's operating margin has remained broadly flat, close to 4.5%, for the last five years or so. Interestingly, we find the chemical distributors owned by private equity funds (five out of the 20 companies in our sample of competitors) have managed an average operating margin of around 3.5%, or more than a percentage point below that of the median.

Telko financials

Telko's revenues grew at a 3.3% CAGR in 2012-18. The years 2014 and 2015 proved soft for top line development as raw materials prices declined. While Telko has been growing successfully in Eastern markets (the regional top line has grown at a 9% CAGR last decade), the company's Finnish revenues have remained flat for the last ten years.

Telko's product mix varies from country to country, and certain countries have been set specific growth ambitions. As an example, in Poland Telko's revenues consist mostly of plastics (of which around 80% are technical plastics used in equipment manufacturing), while the company targets volume growth within solution-based distribution especially in Russia.

Although Telko's distribution volumes have continued to improve in recent years, lately declining raw materials prices have put some pressure on the company's profitability. Telko says it carried exceptionally high inventories in the beginning of 2019, and as raw materials prices declined the company reduced its inventory levels at a lowered margin. Telko's inventory levels have since normalized. The company distributes raw materials in local currency-terms and makes euro-denominated purchases (Telko also buys chemicals to some extent in US dollars).

Telko's profitability enhancing initiatives include improving procurement and pricing as well as more efficient logistics and administration. The company seeks ways to boost inventory turnover in order to improve its net working capital position. Telko reports it has made some headway, saying inventory turnover increased by 11% in Q2'19 compared to Q4'18.

Telko's net working capital as a percentage of revenue stands at around 15% (the latest figure being 17%). Almost 90% of NWC is further attributable to inventories, while receivables account for slightly below 70%. Payables subtract more than 50%.

Telko's three most relevant publicly traded peers (in our view Brenntag, Univar and IMCD) average gross margins at around 22%. We understand these are industry-leading figures, and Aspo says Telko's current gross margin is not as high. Besides these sector giants, certain other smaller specialty chemical distributors should be able to generate similarly high gross margins when they have positioned themselves to earn most of their revenues from solution-based distribution.

Telko's annual depreciation and amortization expenses have amounted to EUR 1.0-1.5m in recent years, whereas capital expenditures have stood at EUR 0.5-1.5m. We assume annual capex going forward will be roughly EUR 1.5m, i.e. slightly more than 0.5% of revenues.

Telko estimates and valuation

We expect Telko's plastics and chemicals businesses to grow their top line at about a 4% annual clip going forward, a figure in line with BCG's estimates for third-party chemical distribution market growth in the regions Telko is present. We further expect Telko will continue to achieve high single-digit revenue growth in Russia, Ukraine and other CIS countries. Profitability-wise we expect gradual improvement due to e.g. improved inventory turnover and measures aiming to rationalize pricing and procurement. Nevertheless, we view the 6% operating margin target for 2020 as quite ambitious.

Table 5: Telko estimates

Telko	2017	Q1'18	Q2'18	Q3'18	Q4'18	2018	Q1'19	Q2'19	Q3'19e	Q4'19e	2019e	2020e	2021e
Revenue	300.8	64.6	78.9	77.7	78.6	299.8	71.9	80.6	81.5	80.8	314.8	325.6	337.3
<i>growth-%</i>	<i>10 %</i>	<i>-9 %</i>	<i>6 %</i>	<i>-2 %</i>	<i>2 %</i>	<i>0 %</i>	<i>11 %</i>	<i>2 %</i>	<i>5 %</i>	<i>3 %</i>	<i>5 %</i>	<i>3 %</i>	<i>4 %</i>
Plastics	150.7	33.4	39.6	37.4	37.3	147.7	38.9	40.5	41.0	40.5	160.9	168.1	174.6
Chemicals	111.5	24.3	32.1	29.9	32.2	118.5	26.9	31.4	30.5	31.3	120.1	125.0	130.2
Kauko	38.6	6.9	7.2	10.4	9.1	33.6	6.1	8.7	10.0	9.0	33.8	32.5	32.5
Operating profit (excl. Kauko)	10.8	2.2	3.6	2.9	3.4	12.1	2.4	2.3	2.7	3.0	10.4	14.5	18.3
Operating profit (incl. Kauko)	10.6	1.6	3.2	3.6	-1.0	7.4	2.4	2.3	2.7	3.0	10.4	14.5	18.3
Operating margin (excl. Kauko)	4.1 %	3.8 %	5.0 %	4.3 %	4.9 %	4.5 %	3.6 %	3.2 %	3.8 %	4.2 %	3.7 %	4.9 %	6.0 %
Operating margin (incl. Kauko)	3.5 %	2.5 %	4.1 %	4.6 %	-1.3 %	2.5 %	3.3 %	2.9 %	3.3 %	3.7 %	3.3 %	4.5 %	5.4 %

Source: Evli Research

According to Telko, the current market outlook is rather cautious in both West and East as the company expects either flat or decreasing demand. The company expects plastic raw materials prices to decline further but sees chemicals prices stabilizing. Telko targets EUR 300-350m in revenue and 6-7% operating margin by the end of 2020.

Kauko was consolidated into Telko in the beginning of 2019. The restructuring will add more than EUR 30m in annual revenue to Telko's reported figures.

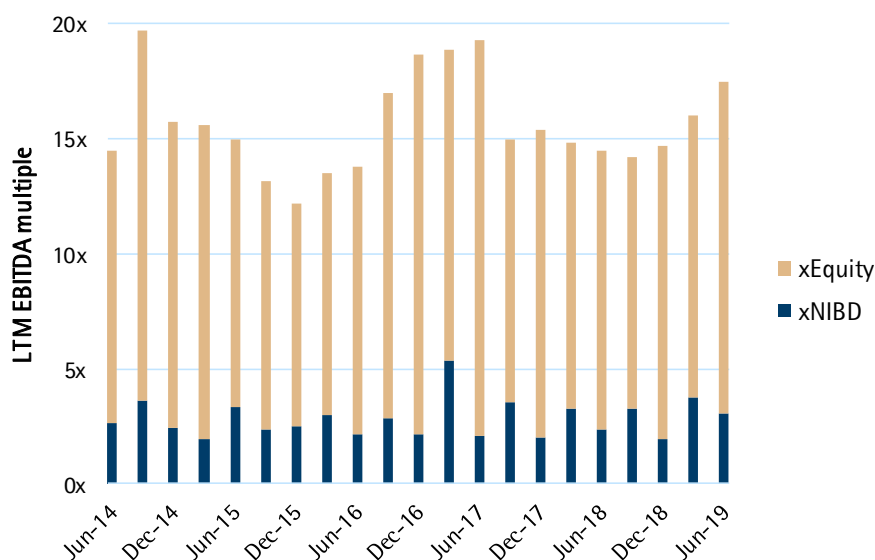
Table 6: Telko peer group

TELKO PEER GROUP	MCAP MEUR	EV/EBITDA		EV/EBIT		EBIT-%	
		19	20	19	20	19	20
AKR Corporindo	1084	13.6x	11.8x	16.3x	15.4x	6.1 %	6.1 %
Ashland Global Holdings	4161	13.1x	12.0x	24.2x	21.1x	11.7 %	13.0 %
Brenntag	6651	9.1x	8.8x	12.4x	11.9x	5.6 %	5.7 %
IMCD	3566	17.3x	16.2x	22.9x	21.1x	6.8 %	7.1 %
Univar Solutions	3095	9.0x	8.1x	14.2x	11.4x	4.8 %	5.7 %
Peer Group Average	3712	12.4x	11.4x	18.0x	16.2x	7.0 %	7.5 %
Peer Group Median	3566	13.1x	11.8x	16.3x	15.4x	6.1 %	6.1 %

Source: FactSet

We have identified a peer group for Telko. The peers are all quite a bit larger than Telko, on average more profitable and tend to carry borrowings amounting to some 3x NIBD/EBITDA (based on trailing twelve-month figures).

Figure 28: Telko peer group valuation and capital structure development



Source: Bloomberg (quarterly median values)

Telko peer company Nexeo Solutions was acquired by another peer, Univar Solutions, in Mar 2019 in a transaction valuing the target at USD 2bn, or around 9x LTM EV/EBITDA (6.5x when including the projected USD 100m in annual run rate operating synergies). Univar expects the NIBD/EBITDA leverage ratio to stand at below 3x by the end of the combined company's first full-year. We find the Nexeo valuation multiples, excluding synergies, to have stood at a neutral level compared to other recent public distributor transactions.

Table 7: Telko public precedent transactions

Target	Acquirer	Completion date	Payment type	Deal Value (EURm)	Equity Value (EURm)	Net Debt (EURm)	EV/S ¹⁾	EV/EBITDA ¹⁾	EV/EBIT ¹⁾
Ahlsell	CVC Capital Partners	Mar-19	Cash	2 532	1 747	785	1.1x	11.7x	14.7x
Nexeo Solutions	Univar	Mar-19	Cash & Stock	1 580	887	693	0.5x	9.0x	14.3x
Essendant	Staples	Feb-19	Cash	792	368	424	0.2x	9.2x	16.0x
MWI Veterinary Supply	AmerisourceBergen	Feb-15	Cash	2 139	2 075	64	0.8x	19.1x	21.0x
Brightpoint	Ingram Micro	Oct-12	Cash	711	494	217	0.2x	8.6x	16.5x
Average				1 551	1 114	436	0.5x	11.5x	16.5x
Median				1 580	887	424	0.5x	9.2x	16.0x

1) Multiples based on trailing twelve months financials
 Source: Bloomberg

Brenntag, the leading global chemical distributor, is very active on the M&A front, closing some EUR 265m worth of acquisitions in 2018 alone (and divesting another EUR 72m). During the period from 2007 to Mar 2019 Brenntag completed 90 acquisitions (i.e. 7-8 deals in an average year) with a total cash cost of EUR 2.0bn, or EUR 22.4m per transaction. The fragmented chemicals distribution market is expected to continue to consolidate as larger companies like Brenntag keep acquiring more minor distributors (the trend is also partly driven by increasing regulation, which can be a considerable strain on smaller companies).

Table 8: Select acquisitions by Brenntag

Target	Target country	Seller	Completion date	EV (EURm)	EV/S ¹⁾	EV/EBITDA ¹⁾
Desbro Group (Chemical distribution)	Kenya; UAE	Desbro Group	Jul-19	30	0.4x	6.4x
Alphamin	Belgium	KeBeK Private Equity	Aug-18	30	0.7x	
Quimitecnica.com	Portugal	Various shareholders	May-18	34	0.9x	
EPChem International (Distribution business)	Singapore	EPChem International	Dec-16	24	0.5x	
Mayer County Petroleum Products	OK, USA	Various shareholders	Oct-16	14	0.4x	6.2x
Warren Chem	South Africa	Various shareholders	Jun-16	24	0.9x	7.2x
Lubrication Services	OK, USA	TEPPCO Partners	Apr-13	32	0.3x	5.6x
G.S. Robins and Company	MO, USA	Various shareholders	May-11	30	0.4x	6.3x
Average				27	0.6x	6.3x
Median				30	0.5x	6.3x

1) Multiples based on latest reported full fiscal year
 Source: Mergermarket

According to Mergermarket data, Brenntag paid on average 0.6x EV/S and 6.3x EV/EBITDA for a set of eight companies all size-wise representative of a typical Brenntag acquisition.

Table 9: Telko private precedent transactions

Target	Seller	Acquirer	Completion date	EV (EURm)	EV/S ¹⁾	EV/EBITDA ¹⁾	EV/EBIT ¹⁾
Nexeo Solutions Plastics	Nexeo Solutions	One Rock Capital Partners	Mar-19	565	0.3x	7.5x	
VWR International	Madison Dearborn Partners	Avantor	Nov-17	5 846	1.4x	14.4x	20.3x
Seqens (67% Stake)	Ardian	Eurazeo	Jun-16	684	1.1x	7.5x	
Pietro Carini	Bozzi family	KRAHN CHEMIE	Apr-14	18	0.7x	11.5x	12.7x
Archway Sales; Jacaab	Baumstark family	Nexeo Solutions	Apr-14	92	0.6x	11.4x	11.4x
TMS International	Onex Partners	The Pritzker Organization	Oct-13	723	0.4x	7.3x	15.2x
CFAO	Kering Group	Toyota Tsusho Corporation	Feb-13	2 597	0.8x	8.5x	9.8x
Warwick International Group	Sequa Corporation	CBPE Capital	Sep-08	153	0.9x	7.0x	8.9x
Univar	HAL Holding	CVC Capital Partners	Oct-07	2 004	0.4x	9.6x	11.4x
SABIC Polymershapes	General Electric	Saudi Basic Industries	Aug-07	8 615	1.7x		
Chemcentral Corporation	Various shareholders	Univar USA	Apr-07	493	0.5x	9.3x	
Azelis (61% Stake)	Motion Equity Partners	3i Group	Feb-07	315	0.4x	9.3x	
Brenntag	Bain Capital	BC Partners	Aug-06	3 000	0.6x	10.0x	
Royster-Clark	Court Square Capital Partners	Agrium	Feb-06	383	0.4x	8.0x	15.0x
Average				1 821	0.7x	9.3x	13.1x
Median				624	0.6x	9.3x	12.1x

1) Multiples based on latest reported full fiscal year
 Source: Mergermarket

We identify a sample of 14 relevant distributor M&A deals from Mergermarket data. Most of our sample companies are engaged in chemicals distribution, while the set also includes the likes of VWR International, a distributor of research laboratory products. A typical sample company was sold for around 0.6x EV/S, 9x EV/EBITDA and 12x EV/EBIT.

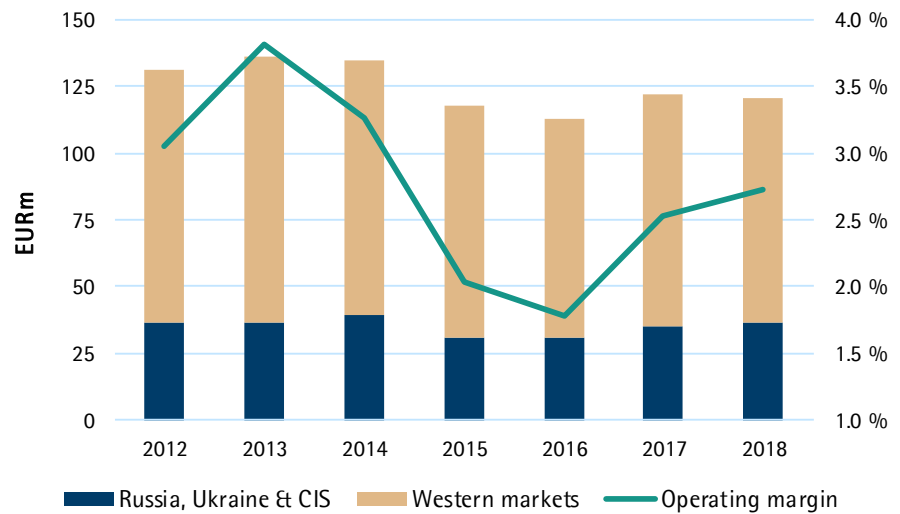
Based on our estimates, Telko's peer group multiples would imply a midpoint EV of EUR 197m. However, in our view a valuation of EUR 175m would be more reasonable for Telko as the peer group consists of global leaders in specialty chemicals distribution. The EUR 175m EV would imply, on our estimates, EV/EBIT of almost 17x for '19e (which we consider a rather high multiple) and 12x for '20e.

Leipurin

Leipurin overview

Leipurin distributes raw materials, frozen goods and bakery equipment for the food industry. The company bridges producers of bulk bakery ingredients (such as flours, fats and starches) and more technical products (such as frozen baked goods, bakery fillings and toppings) with different users like bakeries, restaurants, cafes and other companies operating in the food sector. Leipurin connects over 500 principals with more than 3,000 customers and operates in Finland, Russia, the Baltic countries, Poland, Ukraine, Kazakhstan and Belarus. The Vantaa-based company generated EUR 121m in 2018 revenue (of which 83% was attributable to raw materials and ingredients distribution, the remainder stemming from the manufacturing and distribution of bakery equipment) and employed an average of 320 staff during the year.

Figure 29: Leipurin regional sales mix and profitability development



Source: Aspo

Leipurin has a hundred-year history. The company was initially known as Suomen Leipurien Tukkuliike (Finnish Bakers' Wholesaler), founded by private bakeries for procurement purposes. The business, launched in 1920, initially involved only ingredients distribution, but soon expanded into bakery equipment as well. The company has had a significant presence in Eastern Europe since the 1970s.



Source: Aspo, Leipurin

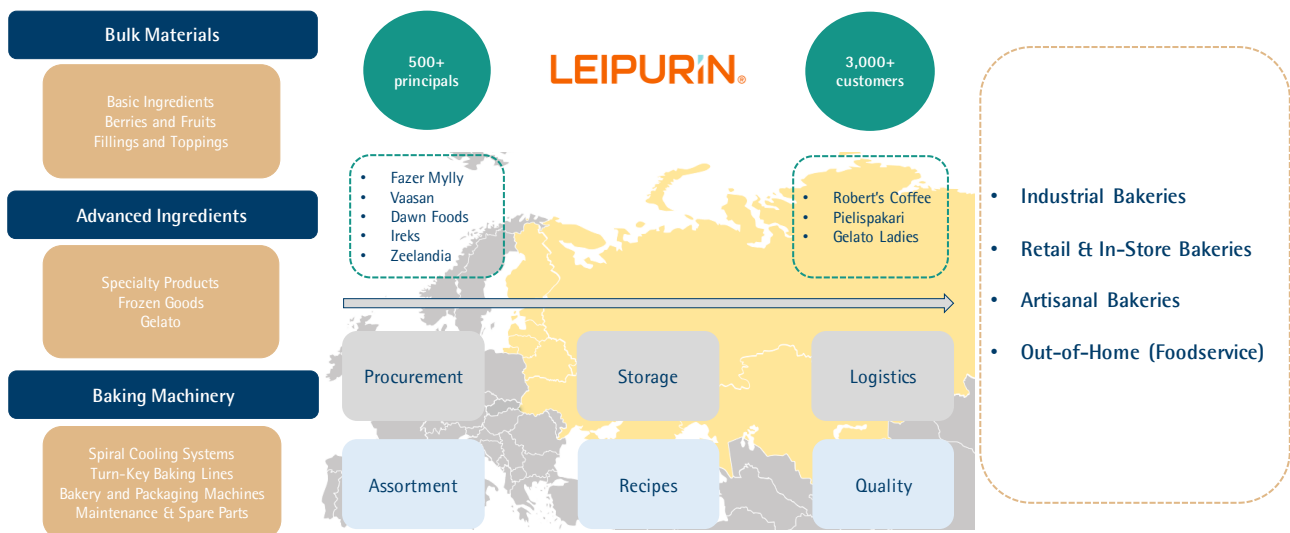
Aspo acquired Leipurin in 2008 in connection with the Kauko-Telko transaction. Leipurin grew strongly in the years following the acquisition, achieving a top line CAGR of more than 8% in 2010-13. Leipurin also acquired the bakery machinery business Vulganus in 2011. However, since then the company has faced several headwinds. The Russian economic crisis has hurt organic growth in the region (although local-currency revenues have continued to grow at a 10% CAGR), the sliding ruble has had a significant negative impact, in addition to which declining bakery raw materials prices have put further pressure on the figures. As a result, Leipurin's operating profit has remained flat for the last decade even though the top line has grown by some 20%.

Leipurin business model and strategy

Leipurin distributes baking ingredients and equipment to a wide range of bakeries

Leipurin approaches the bakery and out-of-home (foodservice) markets in a differentiated way through its offering of both raw materials and baking machinery (some of which the company assembles at its plant in Lahti, Finland), in addition to which it develops recipes. The offering is untied, allowing Leipurin to service bakeries throughout the value chain. The company acts strictly as an intermediary within raw materials and does not engage in the production of ingredients. Leipurin does not distribute products that are ready for consumption (like pastries and bread). The company's raw material sales (around 80% of total revenue) can be further divided into bulk bakery materials and more advanced ingredients (we estimate Leipurin distributes bulk ingredients and technical products in somewhat equal measures). Advanced ingredients earn higher margins so Leipurin would prefer their distribution, however a wide selection of raw materials remains essential especially from the point of view of Leipurin's smaller customers. Leipurin has also established its own private label under which it distributes ingredients sourced from suppliers. These branded sales generate higher margins and represent more than 20% of the company's raw materials distribution.

Figure 30: Leipurin service offering



Source: Aspo, Leipurin

Wheat, oat, rye, sugar and oil constitute some of the key ingredients included in products distributed by Leipurin. The company distributes food industry raw materials mainly to different types of bakeries but also to dairy, meat and convenience food customers. Contracts are typically signed for a year-long period, however smaller customers are not usually ready to commit to long-term raw material sourcing agreements. Leipurin carries raw material inventories on its own balance sheet.

Machinery offering enables Leipurin to service bakeries throughout the value chain

Leipurin sells bakery machinery and baking lines to industrial, retail and in-store bakeries. Machinery sales include equipment manufactured by Leipurin's principals as well as machines manufactured by Leipurin (under the Vulganus brand name). We estimate the sales in these two machine categories are roughly equal. The company does not lease out machines. Overall, machinery sales generate around 20% of the company's revenue. The machines are usually sold independent from raw materials. Leipurin designs and builds the machines at a leased plant in Lahti. The manufacturing consists mainly of labor-intensive assembly. The machines are manufactured exclusively on a firm-order basis, and thus the company carries no machinery-related inventory. The machines' project-like

deliveries mean the operation's profitability can vary considerably from quarter to quarter. Leipurin has said it may consider divesting the machinery manufacturing business.

Leipurin offers additional services, such as product, process and concept development. The service offering is centered around Leipurin's test bakeries, where new recipe development takes place. The company operates several test bakeries in various countries.

Leipurin aims to develop its offering for foodservice chains

Leipurin's out-of-home (OOH) solutions offering includes the supply of raw materials, services and machinery for customers such as cafes and restaurants. The offering also includes recipes and gelato machines (which are manufactured by a third-party). The company provides OOH customers with e.g. frozen and semi-finished goods, yet the focus is now on developing and widening its concept offering for foodservice chains. The current supply chain solutions offering includes assortment development, logistics, procurement, warehousing, order portal as well as quality and sustainability solutions. The foodservice segment currently plays only a limited role in Leipurin's business (some 5% of revenue), but Leipurin has ambitions to expand the operation beyond its positioning as a niche Finnish operator to a more widely established concept. The concept development relies on Leipurin's logistics expertise. The offering is focused on the Western market due to the OOH trend's prevalence among more advanced consumers.

Leipurin's wide offering and network of relationships ranging from food universities to bakeries, suppliers and retailers helps Leipurin to develop better products that allow its customers to react to changing consumption habits and tastes.

Table 10: Leipurin's product catalogue

Bulk Materials	Advanced Ingredients	Baking Machinery
<ul style="list-style-type: none"> • Basic Ingredients <ul style="list-style-type: none"> ○ Flours, fats, sugars, cheeses and other dairy goods ○ Baking additives • Berries and Fruits <ul style="list-style-type: none"> ○ Various jams and marmalades ○ Berries and fruits for pastry usage • Fillings and Toppings <ul style="list-style-type: none"> ○ Sugar-based toppings such as marzipan and caramel-like fillings ○ Jellies 	<ul style="list-style-type: none"> • Specialty Products <ul style="list-style-type: none"> ○ Thickening agents ○ Organic color additives ○ Fruit purees ○ Lecithins, functional ingredients • Frozen Goods <ul style="list-style-type: none"> ○ Breads, buns, pies, rolls, donuts, croissants and other pastries • Gelato <ul style="list-style-type: none"> ○ Gelato and sorbet ingredients ○ Toppings and dressings ○ Waffles and cones 	<ul style="list-style-type: none"> • Spiral Cooling Systems <ul style="list-style-type: none"> ○ Spiral systems for the leavening, cooling and freezing of baked goods ○ Spiral system accessories • Turn-Key Baking Lines <ul style="list-style-type: none"> ○ Standardized and customized production lines • Bakery and Packaging Machines <ul style="list-style-type: none"> ○ Weighers, proofers, retarders, freezers, steamers, dishwashers, rolling and panning units, make-up tables, rack and deck ovens, flow pack and wrapping machines • Maintenance & Spare Parts <ul style="list-style-type: none"> ○ Service agreements in three tiers

Source: Leipurin

Leipurin's value proposition is premised on efficient logistics, which requires such delivery volumes that cannot be achieved without a sufficiently wide network of principals and customers. Leipurin can provide an attractive offering for its bakery customers by acting as a cost-competitive one-stop shop for baking ingredients.

Leipurin, market and competition

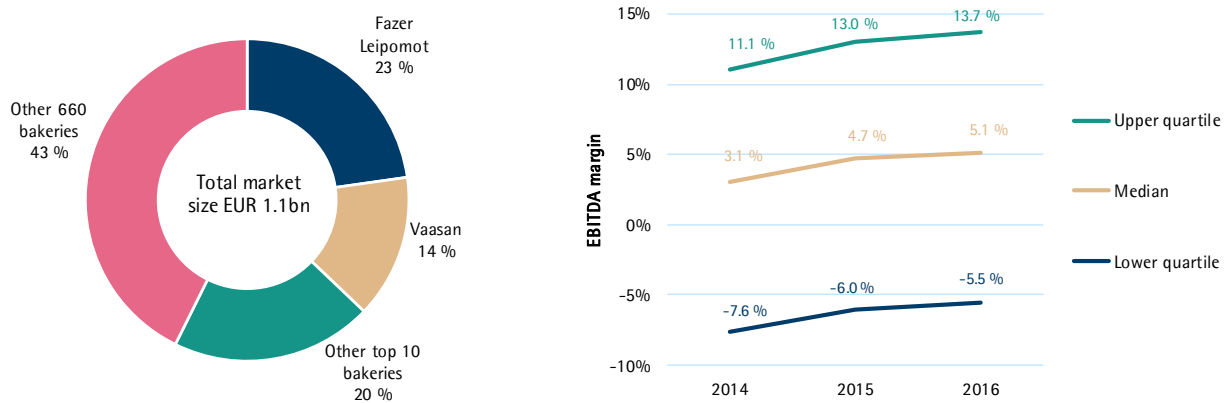
The Western consumer's changing tastes and habits have led to a secular decline in demand for industrially packed bread (and the trend for low-carbohydrate foods has reduced overall bread consumption), however there has been a simultaneous market

expansion for in-store bakeries and baking units. The market dynamic poses challenges for industrial bakeries, and volume-based growth tends to be negligible. Nevertheless, major food trends such as snackification, takeaway and out-of-home dining can open possibilities for bakeries in the form of different bread-based products positioned for high price points. These differentiation opportunities can help individual bakeries to achieve levels of profitability significantly above the industry norm.

The Finnish bakery market includes a long tail of small bakeries, many of which are not very profitable

Finland is Leipurin's single most important market, representing 38% of the company's 2018 revenues. The Finnish bakery market grew by almost 3% in 2016 but managed only 1% CAGR in 2011-16. The market is dominated by two bakeries, namely Fazer Leipomot and Vaasan, which together amounted to 37% of the industry's EUR 1,084m total revenue in 2016. A report published by the Ministry of Economic Affairs and Employment finds the ten largest bakery companies together represented 57% of total revenue. Those bakeries employing less than 10 personnel accounted for some 80% of the total number of companies but generated less than 10% of the total industry revenue. Not surprisingly, a typical Finnish bakery operation is not particularly profitable as the median company generated a 5.1% EBITDA margin in 2016, even if the figure was at a five-year high. We also note that profitability varies widely between individual bakeries.

Figure 31: Finnish bakery market (2016) and bakeries' profitability development



Source: Ministry of Economic Affairs and Employment

Several Finnish bakeries announced the discontinuation of their operations in 2018. The effect will be a reduction in Leipurin's revenue in Finland. Leipurin continues to see the Finnish bakery market as stabilized at best. Nonetheless, Leipurin expects to retain its strong market position within the industrial baking sector in Finland (as well as in Russia and the Baltic region).

Although traditional Western bakeries remain Leipurin's key customers, more potential lies in Russia and foodservice

Leipurin has faced challenges in the Western markets as bakery sector consolidation has led to more independent raw materials sourcing among the largest bakeries. In this sense growth prospects for bakery raw materials distributors seem rather muted. Leipurin's 2018 Finnish revenues were some 20% below the 2013 figure. While certain specific bakery products may achieve substantial growth rates, a widely dispersed distributor like Leipurin is unlikely to see such popular hits translate to significant top line growth. We thus recognize Leipurin's out-of-home (foodservice) efforts as correctly focused as the sector is likely to continue to grow at a rate clearly above that of the wider bakery market. For instance, Euromonitor says the bakery fast food segment is growing at a 4% annual rate. Leipurin estimates the addressable foodservice solutions market in Finland at roughly EUR 100m (while currently Leipurin's revenue within the segment amounts to ca. EUR 5m per year). Foodservice customers tend to be smaller than industrial bakeries, which helps to improve Leipurin's pricing power.

Condite, a company belonging to Orkla's Food Ingredients division, competes with Leipurin in the Finnish wholesale bakery raw materials market. Orkla Food Ingredients has been quite consistently managing an operating margin slightly north of 5%.

The Russian bakery market is important for Leipurin as the geographical area spanning Russia, Ukraine and other CIS countries generated 30% of 2018 revenues (and achieves an operating margin approximately twice that of the Western markets as the company distributes mainly advanced ingredients in the region). Most of the exposure is attributable specifically to the Russian market, which is highly fragmented and controlled by local producers.

Leipurin's customers are typically larger in the East than in the West. This is partly due to artisanal bakeries' rarer presence in Russia (i.e. there is not a similarly long tail of small producers as in Finland), but also reflects the market's lesser concentration among the largest industrial bakeries. On the other hand, supermarkets are gaining market share in Russia, which is likely to lead to a growing bread market slice for local industrial bakeries (and possibly a more challenging position for raw materials distributors as large industrial bakeries hold stronger negotiation power).

Russia remains a challenging market, yet Leipurin sees potential especially for in-store bakeries

Prior to the Crimean crisis, Russians were increasingly visiting supermarkets and willing to accept higher price points for higher quality bread. However, the economic crisis that followed nudged consumption back towards cheaper bread. While the economy may be now stabilizing, the years 2014-16 left a mark on Russian households, changing spending priorities to the extent that it's unlikely pricier bread will regain its former popularity for quite some time. According to a 2017 BCG survey, the health-conscious Russian consumer is unlikely to increase spending on bread and pastries, already a well-established market (whereas the sentiment seems confident regarding higher spending on e.g. fruits and vegetables as well as education). Many food trends that have gained major traction in the West have also established themselves in Russia, yet they do play only a relatively minor role. Certain constraints such as an underdeveloped cold chain also hamper the out-of-home trend. Leipurin sees major market growth potential particularly within flour confectionary and in-store bakeries (which are segments where Leipurin has significant experience). The company's exposure to Ukraine is currently of limited size but the country is recognized as having good potential.

Russian sanctions have not had an adverse impact on Leipurin's sales to the same extent as the declining ruble. The ruble fluctuations transfer directly to prices, affecting demand. The decline in ruble has effectively reduced the competitiveness of Leipurin's supplies, even though the company has increased its share of locally sourced raw materials. Leipurin continues to develop its bakery raw materials procurement in the region.

Leipurin financials

Leipurin's 2018 top line was below that of 2011. Revenue continued to grow slightly in 2012-14 but fell by some 15% in 2015-16 due to declining food prices and Finnish revenue (challenging industrial baking market) as well as weak machinery demand in Russia. Leipurin's Finnish revenues, as well as those of other Western markets, have remained flat for several years now.

Leipurin's euro-denominated revenues from the region spanning Russia, Ukraine and other CIS countries remained broadly flat during the 2013-18 period. The Russian ruble depreciated by ca. 10% p.a. during the period, and thus we estimate Leipurin's regional top line to have gained at a 10% CAGR in local currency terms during this timeframe.

Leipurin's volumes are highly seasonal; especially the annual timing of Easter determines the allocation of major business for either the first or second quarter. Christmas and New Year also provide lift for bakery raw materials sales. Machinery sales are typically at their highest close to year-end. By contrast, the first quarter tends to be slow. A few large orders can generate a significant portion of machinery revenue and have a meaningful impact on Leipurin's operating margin.

Leipurin acquired the Vulganus machinery business in Dec 2011 (for EUR 5m), in addition to which the company continues to distribute machinery manufactured by third parties. All in all, the machinery business is highly cyclical due to project delivery timings. For example, in Q2'19 machinery revenue declined by more than 50% y/y due to Vulganus sales as well as principal machinery deliveries being scheduled in an unfavorable fashion. This led to the machinery business recording a loss for the quarter.

Although Leipurin has identified foodservice as a segment with high growth potential, the business is for now exclusively based in Finland, amounting to some 5% of Leipurin's total revenue in Q2'19. The operation remained loss-making due to still being in a relatively early stage of development. The nascent business has recently shown promising signs of further top line growth.

Leipurin manages relatively high profitability levels in the market spanning Russia, Ukraine and other CIS countries as the company predominantly distributes more advanced ingredients in the region. Leipurin's operations in the region generated an average operating margin of roughly 4% in 2017-18, while the Western markets managed about 2%. This implies that the area is responsible for around 40-50% of Leipurin's operating profit while accounting for some 30% of revenues.

Leipurin's net working capital profile is not unlike that of Telko, i.e. Leipurin's NWC amounts to about 15% of revenue and can be further broken down to ca. 90% share for inventories and 70% for receivables while payables subtract more than 50%.

Leipurin has identified certain growth and profitability measures for improved financial performance. The growth actions include efforts to better serve retail and in-store bakeries as well as flour confectionery customers. The company also aims to improve sourcing in the Eastern markets, proceed with scaling up the Foodservice business, and identify M&A opportunities. Leipurin targets greater operational efficiency with the help of better pricing models, in addition to developing assortment and procurement. The company could also consider selling its own machinery manufacturing business and is going to exit certain loss-making units (Leipurin recently closed its operation in Poland, where the company was only a minor presence). Leipurin has set a target operating margin of 5% by 2022, aiming for EUR 7m operating profit in that year (compared to the EUR 3.3m EBIT Leipurin achieved in 2018). The figure implies a revenue target of EUR 140m, which would translate to a 3.7% top line CAGR in 2019-22. Leipurin expects more than half of the targeted EUR 3.7m increase in operating profit should stem from the bakery sector in the Eastern markets, while around a quarter would be attributable to Western bakeries and another quarter to foodservice.

Leipurin estimates and valuation

We expect Leipurin's H2'19 to be significantly stronger than the first half of the year as the machinery business is going to recognize an improved amount of deliveries. Nevertheless, we estimate Leipurin's top line to decline slightly in 2019. Leipurin guides improved operating profit for 2019, however we expect the figure to remain flat. Our expectation for 2020 is a 6% growth in top line due to continued 10% Eastern expansion as well as slight improvement in Finland attributable to the foodservice business. We do

expect Leipurin's profitability to improve gradually going forward as the company has identified several internal efficiency measures to implement, however we note Leipurin's EUR 140m revenue and 5% operating margin goal for 2022 do seem on the high side unless the company starts to show more rapid progress soon.

Table 11: Leipurin estimates

Leipurin	2017	Q1'18	Q2'18	Q3'18	Q4'18	2018	Q1'19	Q2'19	Q3'19e	Q4'19e	2019e	2020e	2021e
Revenue	122.3	30.2	31.2	28.0	31.6	121.0	25.9	28.0	30.5	35.2	119.6	126.4	130.3
<i>growth-%</i>	9 %	3 %	4 %	-6 %	-4 %	-1 %	-14 %	-10 %	9 %	11 %	-1 %	6 %	3 %
Operating profit	3.1	0.8	0.9	0.8	0.8	3.3	0.5	0.6	0.9	1.3	3.3	4.5	4.9
Operating margin	2.5 %	2.6 %	2.9 %	2.9 %	2.5 %	2.7 %	1.9 %	2.1 %	3.0 %	3.7 %	2.8 %	3.6 %	3.8 %

Source: Evli Research

Leipurin says it sees key markets will continue challenging. In particular, the company expects revenues attributable to Finland to decline in 2019 as several Finnish bakeries announced the folding of operations during 2018. Nevertheless, Leipurin expects to hold on to its strong local bakery market share in Finland as well as in Russia and the Baltic countries. Furthermore, Leipurin expects increased operating profit in 2019.

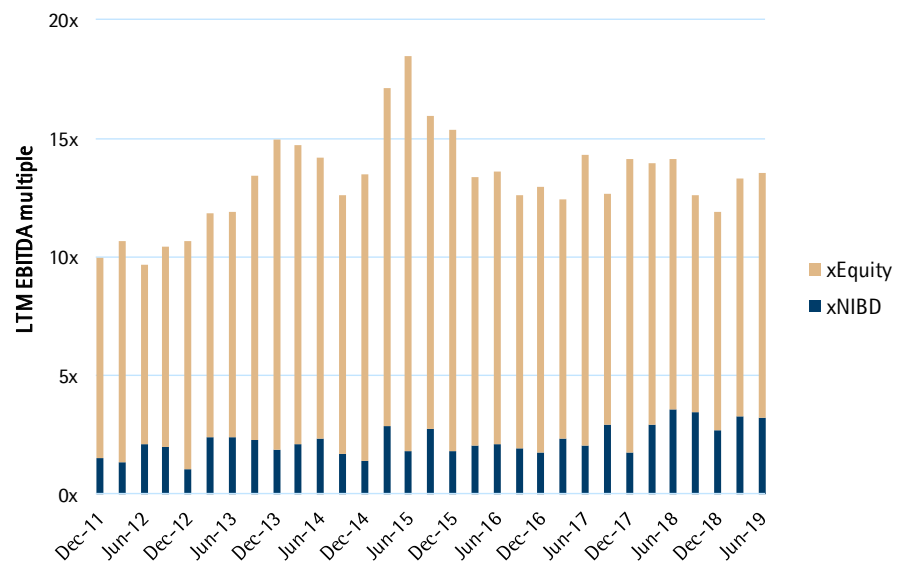
Table 12: Leipurin peer group

LEIPURIN PEER GROUP	MCAP	EV/EBITDA		EV/EBIT		EBIT-%	
	MEUR	19	20	19	20	19	20
Amsterdam Commodities	477	10.4x	10.0x				
Chefs' Warehouse	1003	16.5x	14.9x	24.1x	21.6x	3.9 %	4.1 %
Marr	1288	12.1x	11.6x	14.6x	14.1x	6.0 %	6.1 %
Middleby	5670	12.5x	11.3x	15.1x	13.4x	17.9 %	19.1 %
Orkla	8460	14.7x	14.2x	19.5x	18.9x	11.5 %	11.5 %
Performance Food Group	4216	11.8x	10.7x	18.1x	16.8x	1.5 %	1.4 %
Sysco	36446	13.6x	12.7x	17.4x	16.1x	4.6 %	4.8 %
Tate & Lyle	3630	7.8x	7.5x	11.5x	11.1x	11.0 %	11.1 %
Total Produce	517	11.0x	10.7x	14.0x	13.5x	1.8 %	1.9 %
US Foods Holding	8070	10.1x	9.0x	14.5x	13.0x	3.2 %	3.3 %
Welbilt	2131	12.4x	11.0x	16.3x	13.6x	14.0 %	16.2 %
Peer Group Average	6537	12.1x	11.2x	16.5x	15.2x	7.5 %	7.9 %
Peer Group Median	3630	12.1x	11.0x	15.7x	13.9x	5.3 %	5.4 %

Source: FactSet

Our peer group for Leipurin consists of companies that tend to be larger and more profitable than Leipurin. Leipurin targets significant profitability improvement by 2022, the stated goal being a 5% operating margin (compared to the historical average margin of 3 percent). The targeted margin doesn't seem such a lofty goal when viewed against the median company in Leipurin's peer group, as the typical peer manages an operating margin above 5 percent. Nevertheless, in the light of Leipurin's recent profitability struggles we view the target operating margin as rather ambitious.

Figure 32: Leipurin peer group valuation and capital structure development



Source: Bloomberg (quarterly median values)

Leipurin peer group has been typically leveraged at a trailing twelve-month NIBD/EBITDA multiple of slightly above 2x, however debt levels have been trending up recently and now the metric stands north of 3x for a typical peer.

Table 13: Leipurin precedent transactions

Target	Seller	Acquirer	Announcement date	Completion date	EV (EURm)	EV/S ¹⁾	EV/EBITDA ¹⁾	EV/EBIT ¹⁾
Kotipizza	Public shareholders	Orkla	Nov-18	Jun-19	158	1.7x	19.7x	24.5x
Supervalu	Public shareholders	United Natural Foods	Jul-18	Oct-18	2 676	0.2x	9.7x	25.2x
Dole Food	Mr. David H. Murdock	Total Produce	Feb-18	Jul-18	240	0.2x	5.2x	31.1x
Brake Bros	Bain Capital	Sysco	Feb-16	Jul-16	2 811	0.7x	14.5x	21.0x
Aga Rangemaster	Public shareholders	Middleby	Jul-15	Sep-15	170	0.5x	7.3x	12.8x
US Foods	KKR; Clayton, Dubilier & Rice	Sysco Corporation	Dec-13	Antitrust cancel	5 975	0.4x	11.9x	24.5x
Grupa Dystrybucyjna	Emperia Holding	Eurocash	Jan-11	Dec-11	244	0.2x		15.8x
Performance Food Group	Public shareholders	Blackstone	Jan-08	May-08	855	0.2x	10.7x	14.4x
Brake Bros	Clayton, Dubilier & Rice	Bain Capital	Jun-07	Sep-07	2 077	0.9x	13.0x	17.5x
FGDI (45% Stake)	INTL FCStone	Agrex	Jun-07	Jun-07	190	0.2x		
US Foods	Royal Ahold Delhaize	KKR; Clayton, Dubilier & Rice	May-07	Jul-07	5 226	0.4x	25.7x	30.7x
Average					1 875	0.5x	13.1x	21.7x
Median					855	0.4x	11.9x	22.8x

1) Multiples based on latest reported earnings
 Source: Bloomberg, Mergermarket

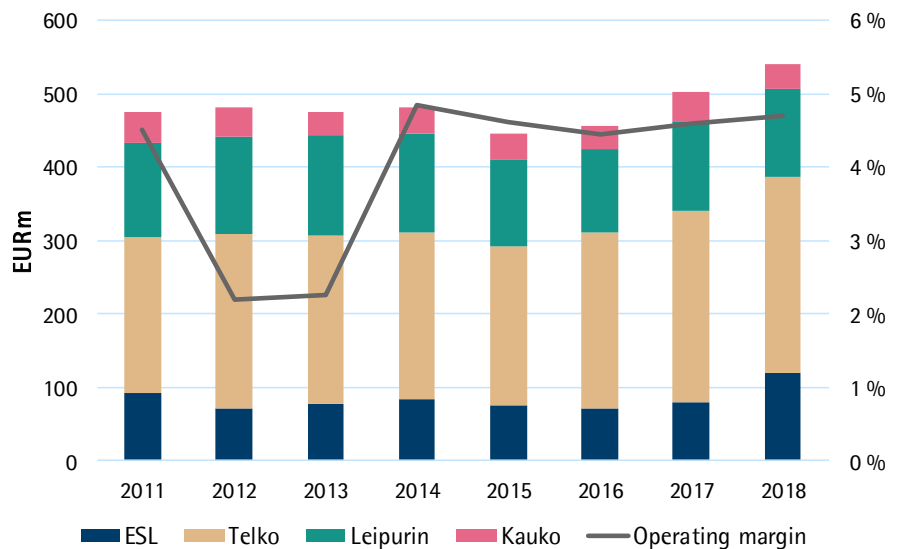
Our sample of 11 precedent transactions for Leipurin consists mainly of food products wholesaler M&A deals, involving targets operating e.g. in grocery distribution, and so the valuation multiples' applicability to Leipurin is somewhat curtailed as the bakery ingredients wholesale market is distinct from that for groceries.

We value Leipurin by peer group multiples. Based on our estimates, the median peer group EV/EBIT multiples for '19e and '20e would indicate a midpoint EV of EUR 57m for Leipurin. However, in our view these multiples would likely overstate Leipurin's value as the peers are considerably larger and often more profitable. In our view an EV of no more than EUR 50m would be justifiable for Leipurin, which would imply an EV/EBIT of ca. 15x for '19e and 11x for '20e (based on our estimates).

Aspo financials and estimates

Aspo's revenue grew at a 1.8% CAGR in 2012-18, while group-level EBIT margin averaged 4%. Aspo's official target is to achieve a 7% operating margin by 2020. This looks ambitious in the light of recent history, although in our view it is an achievable level in terms of the current segments' long-term potential. The measure's relevance is however diluted by the fact that the segments operate different business models with consequent differences in capital intensity and operating margins. According to our estimates, all three segments fall short of their stated profitability targets in 2019. We expect ESL to reach the lower bound of its target operating margin range (12-15%) in 2020. Telko targets 6-7% operating margin by the end of 2020 (we expect 4.5% operating margin for 2020). Leipurin targets 5% operating margin in 2022, a level we view ambitious.

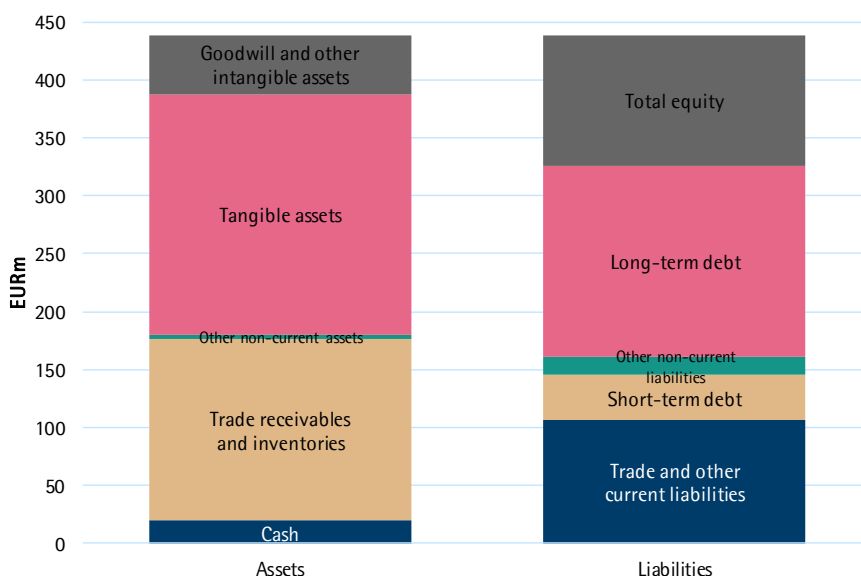
Figure 33: Aspo group revenue and operating margin development



Source: Aspo

Aspo's fixed assets (EUR 171m at the end of Q2'19) are largely comprised of ESL's vessels. Aspo's current assets included, at the end of Q2'19, EUR 88m in receivables and EUR 69m in inventories.

Figure 34: Aspo balance sheet composition (as of 30 Jun 2019)

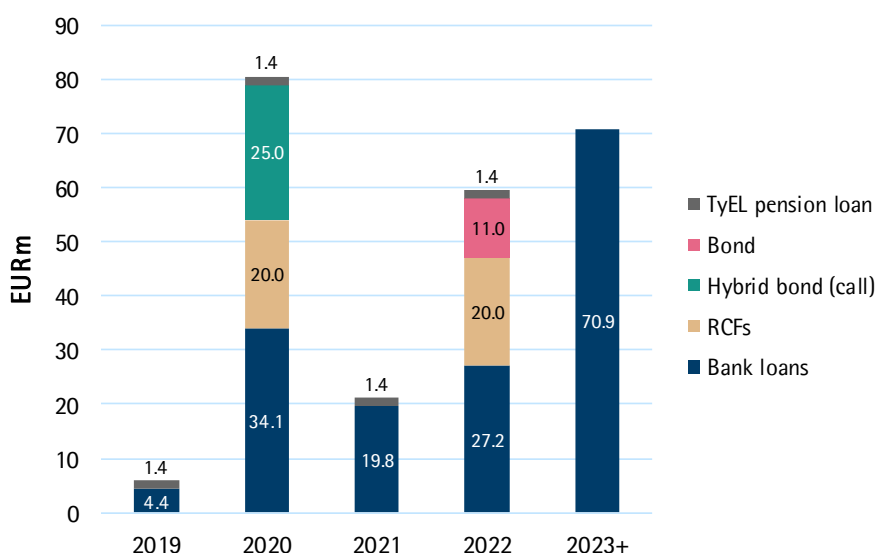


Source: Aspo

Aspo has a common inventory policy for all its group companies, according to which any inventory more than 12 months old will be fully written off. A reverse charge will be naturally applied should the products be later sold.

Aspo's interest-bearing debts (excluding the hybrid bond as well as lease contracts) carried an average interest rate of 1.5% at the end of Q2'19 and amounted to EUR 204m. The EUR 25m hybrid bond carries a 6.75% cash coupon.

Figure 35: Aspo debt maturities (as of 30 Jun 2019)



Source: Aspo

Aspo has in recent years recorded relatively steady operating profits in the EUR 20-25m ballpark with ESL contributing roughly EUR 15m and Telko another EUR 10m, while Leipurin and Kauko have posted more variable results. Aspo's administrative costs have amounted to about EUR 5m on average in past years, a level which we view decent.

Aspo guides 2019 operating profit in the EUR 24–30m range. Aspo achieved a EUR 20.6m operating profit in 2018 (EUR 25.4m when adjusted for the EUR 4.8m impairment loss recognized on Kauko's goodwill in Q4'18).

Table 14: Aspo estimates summary

Aspo	2017	Q1'18	Q2'18	Q3'18	Q4'18	2018	Q1'19	Q2'19	Q3'19e	Q4'19e	2019e	2020e	2021e
Revenue	502.4	115.3	132.7	136.3	156.6	540.9	141.5	151.2	155.3	162.0	610.0	646.6	668.0
<i>growth-%</i>	<i>10 %</i>	<i>-3 %</i>	<i>7 %</i>	<i>7 %</i>	<i>18 %</i>	<i>8 %</i>	<i>23 %</i>	<i>14 %</i>	<i>14 %</i>	<i>3 %</i>	<i>13 %</i>	<i>6 %</i>	<i>3 %</i>
ESL Shipping	79.3	20.5	22.6	30.6	46.4	120.1	43.7	42.6	43.3	46.0	175.6	194.6	200.4
Telko (incl. Kauko)	300.8	64.6	78.9	77.7	78.6	299.8	71.9	80.6	81.5	80.8	314.8	325.6	337.3
Leipurin	122.3	30.2	31.2	28.0	31.6	121.0	25.9	28.0	30.5	35.2	119.6	126.4	130.3
EBITDA	35.0	6.6	9.7	10.1	10.7	37.1	11.8	11.2	14.6	15.5	53.1	65.4	72.0
Operating profit	23.1	3.7	7.1	7.2	2.6	20.6	4.9	4.1	7.6	8.5	25.1	37.4	44.0
ESL Shipping	13.5	2.6	4.3	4.0	4.2	15.1	3.2	2.6	5.3	5.5	16.6	23.6	26.0
Telko (incl. Kauko)	10.6	1.6	3.2	3.6	-1.0	7.4	2.4	2.3	2.7	3.0	10.4	14.5	18.3
Leipurin	3.1	0.8	0.9	0.8	0.8	3.3	0.5	0.6	0.9	1.3	3.3	4.5	4.9
Other operations	-4.1	-1.3	-1.3	-1.2	-1.4	-5.2	-1.2	-1.4	-1.3	-1.3	-5.2	-5.2	-5.2
Adjusted operating profit	23.1	3.7	7.1	7.2	7.4	25.4	4.9	4.1	7.6	8.5	25.1	37.4	44.0
Adjusted operating margin	4.6 %	3.2 %	5.4 %	5.3 %	4.7 %	4.7 %	3.5 %	2.7 %	4.9 %	5.2 %	4.1 %	5.8 %	6.6 %
Net financials	-2.1	-1.2	-1.0	-0.9	-1.1	-4.2	-1.0	0.3	-1.1	-1.1	-2.9	-4.5	-4.5
Profit before taxes	21.1	2.5	6.1	6.3	1.5	16.4	3.9	4.4	6.5	7.4	22.2	32.9	39.5
Taxes	-1.6	-0.5	-0.7	-0.3	-0.7	-2.2	-0.4	-0.4	-0.6	-0.6	-2.0	-3.3	-4.0
Profit for the period	19.4	2.0	5.4	6.0	0.8	14.2	3.5	4.0	5.9	6.8	20.2	29.6	35.5

Source: Evli Research

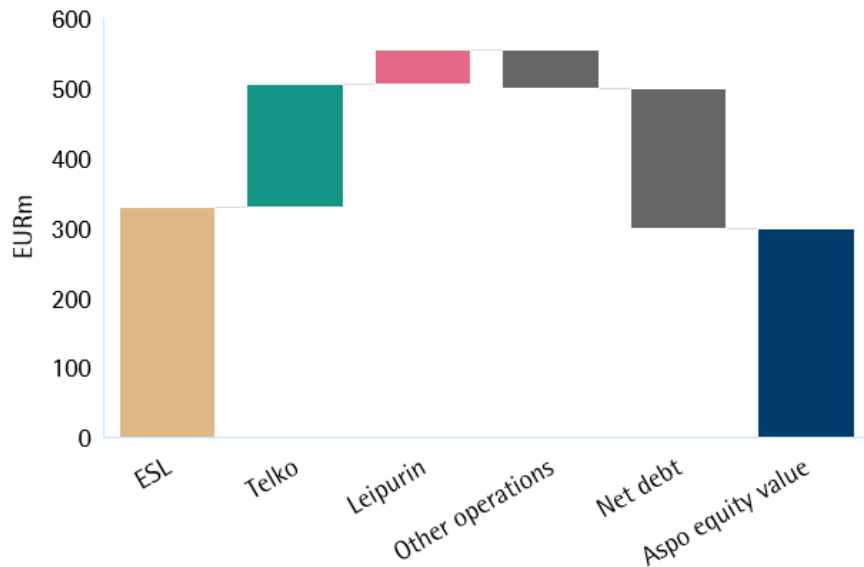
We estimate Aspo to reach EUR 25.1m in terms of 2019 operating profit i.e. we expect slight decrease compared to the EUR 25.4m adjusted operating profit Aspo recorded in 2018. We expect ESL and Telko to contribute significant earnings growth next year. We assume a 10% group-level tax rate going forward (Aspo's corporate structure is efficient in terms of after-tax earnings as ESL Shipping enjoys a very low tax rate due to the Finnish tonnage taxation regime, leading to Aspo's consolidated tax rate falling to about 10%).

Aspo valuation

We value Aspo using sum-of-the-parts and DCF valuation approaches. We note the SOTP approach may understate ESL's fair value as one can argue the dry bulk carrier deserves to be valued at higher multiples compared to a typical peer. On the other hand, one could argue the multiples will overstate Telko's and Leipurin's value as the peer group companies are considerably larger (and may have better industry positioning).

Our EUR 9.5 per share target price for Aspo implies an approximate equity value of EUR 300m and an enterprise value of EUR 500m.

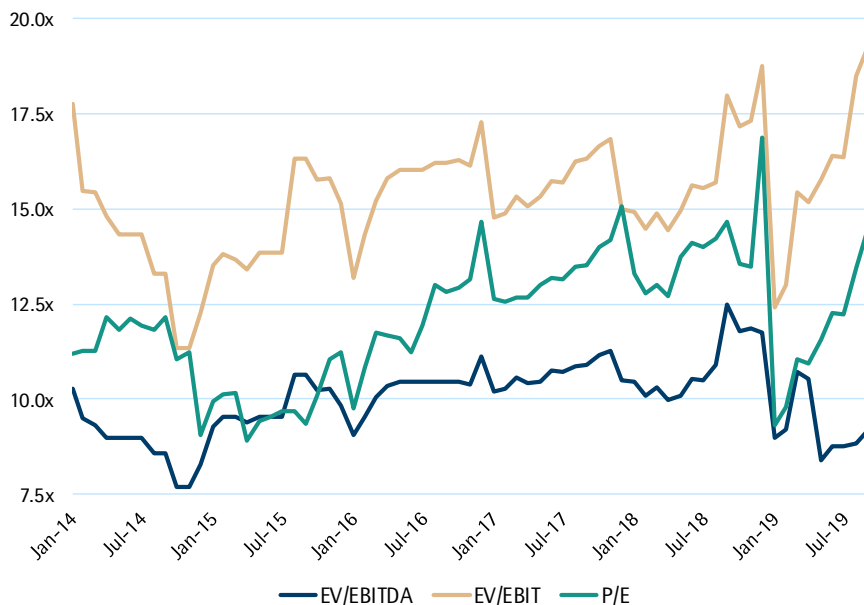
Figure 36: Aspo segments valuation summary



Source: Evli Research

During the last five calendar years Aspo has been valued, on average, at 10x EV/EBITDA, 15x EV/EBIT and 12x P/E (based on multiples for the current fiscal year estimates). Aspo is currently trading at around 9x EV/EBITDA, 19x EV/EBIT and 14x P/E on our estimates for 2019, which we consider somewhat neutral level. However, as we expect significant profitability improvement for next year (we estimate operating profit to grow to EUR 37.4m from EUR 25.1m), the '20e multiples amount to approximately 7x EV/EBITDA, 12x EV/EBIT and 9x P/E.

Figure 37: Aspo CFY valuation multiples development

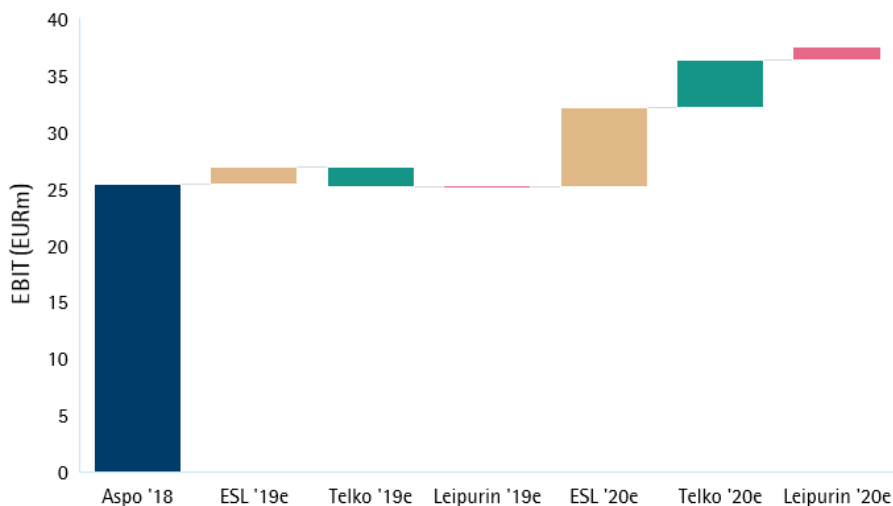


Source: Bloomberg

Our EUR 12.3m estimated improvement in 2020 EBIT is mostly attributable to ESL Shipping (EUR 7.0m) and Telko (EUR 4.1m). We are confident especially about ESL's prospects to post materially higher operating profits in the coming quarters as the dry

bulk carrier has recently faced numerous acute challenges. We see no reason to expect why these issues would remain around hampering results in the future. Although the current market outlook for Telko warrants caution, we note our expectations for next year imply a 3% growth in top line and an operating margin in line with the chemical distributor's historical performance. Keeping in mind the company's recent measures to improve efficiency, we see EUR 14.5m in 2020 operating profit as a realistic target for Telko.

Figure 38: Aspo adjusted operating profit bridge 2018-20e



Source: Evli Research

Our sum-of-the-parts valuation indicates Aspo share fair value in the EUR 9.0-9.6 range, the midpoint of which would imply a current EV of just shy of EUR 500m. The mid-point EV would be EUR 285m for ESL, EUR 197m for Telko, and EUR 57m for Leipurin. In our view an EV of approximately EUR 325m would be justifiable for ESL, while we would say Telko is more likely worth closer to EUR 175m and Leipurin EUR 50m.

Table 15: Aspo sum-of-the-parts valuation

Segment	EBIT '19e	EV/EBIT '19e *	EV	EBIT '20e	EV/EBIT '20e *	EV
ESL	16.6	19.5x	323	23.6	10.5x	247
Telko	10.4	16.3x	169	14.5	15.4x	224
Leipurin	3.3	15.7x	52	4.5	13.9x	63
Other operations	-5.2	11.7x	-61	-5.2	11.5x	-60
Total			484			474
Net debt (Evli YE est.)			203			172
Equity value			282			302
Per share			9.0			9.6

*Peer group median (OMXH 25 for other operations)

Source: FactSet, Evli Research

We conclude by reiterating our confidence regarding ESL and expect the segment to extend its historically strong and stable performance by posting significantly higher results in the coming quarters. We also note Telko and Leipurin have recorded quite subdued results recently, and thus see potential for material earnings improvement in a longer perspective especially if the efficiency measures prove successful. We hence consider DCF analysis useful in valuing Aspo as our estimates for this year and next do not fully capture the distributors' operating margin potential.

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	8.22 PV of Free Cash Flow	262 Long-term growth, %	1.0 Risk-free interest rate, %	2.25
DCF share value	10.52 PV of Horizon value	287 WACC, %	7.4 Market risk premium, %	5.8
Share price potential, %	28.0 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	2.8
Maximum value	11.9 Marketable securities	19 Minimum WACC, %	6.9 Equity beta coefficient	1.00
Minimum value	9.3 Debt - dividend	-238 Maximum WACC, %	7.9 Target debt ratio, %	35
Horizon value, %	52.3 Value of stock	331 Nr of shares, Mn	31.4 Effective tax rate, %	10

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	541	610	646	667	687	704	718	732	743	755	762	770
<i>Sales growth, %</i>	<i>7.7</i>	<i>12.8</i>	<i>5.9</i>	<i>3.3</i>	<i>2.9</i>	<i>2.5</i>	<i>2.0</i>	<i>2.0</i>	<i>1.5</i>	<i>1.5</i>	<i>1.0</i>	<i>1.0</i>
Operating income (EBIT)	21	25	37	44	52	49	47	44	41	42	42	42
<i>EBIT margin, %</i>	<i>3.8</i>	<i>4.1</i>	<i>5.8</i>	<i>6.6</i>	<i>7.6</i>	<i>7.0</i>	<i>6.5</i>	<i>6.0</i>	<i>5.5</i>	<i>5.5</i>	<i>5.5</i>	<i>5.5</i>
+ Depreciation+amort.	16	28	28	28	20	23	23	23	23	24	24	
- Income taxes	-5	-2	-4	-4	-5	-5	-5	-4	-4	-4	-4	
- Change in NWC	20	-17	-4	-2	-2	-2	-1	-1	-1	-1	-1	
<i>NWC / Sales, %</i>	<i>8.0</i>	<i>9.9</i>	<i>9.9</i>	<i>9.9</i>	<i>9.9</i>	<i>9.9</i>	<i>9.9</i>	<i>9.9</i>	<i>9.9</i>	<i>9.9</i>	<i>9.9</i>	
+ Change in other liabs	3	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-105	-14	-7	-11	-43	-24	-23	-23	-26	-26	-26	-26
<i>Investments / Sales, %</i>	<i>19.4</i>	<i>2.3</i>	<i>1.1</i>	<i>1.7</i>	<i>6.2</i>	<i>3.4</i>	<i>3.2</i>	<i>3.1</i>	<i>3.4</i>	<i>3.4</i>	<i>3.4</i>	<i>3.4</i>
- Other items	0	-1	-1	-1	-1	-1	-1	-1	-1	-1	0	
= Unlevered Free CF (FCF)	-50	18	49	53	21	41	40	37	32	33	35	556
= Discounted FCF (DFCF)		18	45	45	17	30	27	24	19	18	18	287
= DFCF min WACC		18	45	46	17	31	28	25	20	19	19	325
= DFCF max WACC		18	45	45	16	30	27	23	19	17	18	255

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	115	133	136	157	541	142	151	157	161	610	646	667
EBITDA	7	10	10	11	37	12	11	15	15	53	65	72
<i>EBITDA margin (%)</i>	<i>5.8</i>	<i>7.3</i>	<i>7.4</i>	<i>6.8</i>	<i>6.9</i>	<i>8.3</i>	<i>7.4</i>	<i>9.4</i>	<i>9.6</i>	<i>8.7</i>	<i>10.1</i>	<i>10.8</i>
EBIT	4	7	7	3	21	5	4	8	8	25	37	44
<i>EBIT margin (%)</i>	<i>3.2</i>	<i>5.4</i>	<i>5.3</i>	<i>1.7</i>	<i>3.8</i>	<i>3.5</i>	<i>2.7</i>	<i>4.9</i>	<i>5.3</i>	<i>4.1</i>	<i>5.8</i>	<i>6.6</i>
Net financial items	-1	-1	-1	-1	-4	-1	0	-1	-1	-2	-4	-4
Pre-tax profit	3	6	6	2	16	4	4	7	8	23	33	40
Tax	0	-1	0	-1	-2	0	0	-1	-1	-2	-3	-4
<i>Tax rate (%)</i>	<i>20.0</i>	<i>11.5</i>	<i>4.8</i>	<i>11.1</i>	<i>10.4</i>	<i>10.3</i>	<i>11.4</i>	<i>8.7</i>	<i>7.8</i>	<i>9.2</i>	<i>10.0</i>	<i>10.0</i>
Net profit	2	5	6	1	14	4	4	6	6	20	29	35
EPS	0.06	0.17	0.19	0.03	0.45	0.11	0.12	0.20	0.19	0.62	0.91	1.11
EPS adjusted (diluted no. of shares)	0.06	0.17	0.19	0.03	0.45	0.11	0.12	0.20	0.19	0.62	0.91	1.11
Dividend per share	0.00	0.00	0.00	0.00	0.44	0.00	0.00	0.00	0.00	0.50	0.60	0.67
SALES, EURm												
ESL Shipping	21	23	31	46	120	44	43	43	46	176	195	200
Leipurin	30	31	28	32	121	26	28	31	34	119	126	130
Telko	58	72	67	70	266	72	81	82	81	315	326	337
	7	7	10	9	34	0	0	0	0	0	0	0
Total	115	133	136	157	541	142	151	157	161	610	646	667
SALES GROWTH, Y/Y %												
<i>ESL Shipping</i>	<i>8.5</i>	<i>15.9</i>	<i>67.2</i>	<i>105.3</i>	<i>51.5</i>	<i>113.2</i>	<i>88.5</i>	<i>41.4</i>	<i>-0.8</i>	<i>46.2</i>	<i>10.8</i>	<i>3.0</i>
<i>Leipurin</i>	<i>2.7</i>	<i>3.7</i>	<i>-6.4</i>	<i>-4.0</i>	<i>-1.1</i>	<i>-14.2</i>	<i>-10.3</i>	<i>11.3</i>	<i>7.9</i>	<i>-1.5</i>	<i>5.6</i>	<i>3.0</i>
<i>Telko</i>	<i>-9.3</i>	<i>9.1</i>	<i>0.0</i>	<i>6.0</i>	<i>1.5</i>	<i>24.6</i>	<i>12.4</i>	<i>21.9</i>	<i>15.9</i>	<i>18.4</i>	<i>3.5</i>	<i>3.5</i>
	<i>-2.8</i>	<i>-15.3</i>	<i>-11.1</i>	<i>-19.5</i>	<i>-13.0</i>	<i>-100.0</i>	<i>-98.6</i>	<i>-99.0</i>	<i>-98.9</i>	<i>-99.1</i>	<i>-99.9</i>	<i>0.0</i>
Total	-3.1	7.2	7.1	18.3	7.7	22.7	14.0	14.9	2.7	12.8	5.9	3.3
EBIT, EURm												
ESL Shipping	3	4	4	4	15	3	3	5	5	17	24	26
Leipurin	1	1	1	1	3	1	1	1	1	3	5	5
Telko	2	4	3	3	12	2	2	3	3	10	15	18
	-1	0	1	-4	-5	0	0	0	0	0	0	0
Other operations	-1	-1	-1	-1	-5	-1	-1	-1	-1	-5	-5	-5
Total	4	7	7	3	21	5	4	8	8	25	37	44
EBIT margin, %												
<i>ESL Shipping</i>	<i>12.7</i>	<i>19.0</i>	<i>13.1</i>	<i>9.1</i>	<i>12.6</i>	<i>7.3</i>	<i>6.1</i>	<i>12.3</i>	<i>11.9</i>	<i>9.5</i>	<i>12.1</i>	<i>13.0</i>
<i>Leipurin</i>	<i>2.6</i>	<i>2.9</i>	<i>2.9</i>	<i>2.5</i>	<i>2.7</i>	<i>1.9</i>	<i>2.1</i>	<i>3.1</i>	<i>3.7</i>	<i>2.8</i>	<i>3.6</i>	<i>3.8</i>
<i>Telko</i>	<i>3.8</i>	<i>5.0</i>	<i>4.3</i>	<i>4.9</i>	<i>4.5</i>	<i>3.3</i>	<i>2.9</i>	<i>3.3</i>	<i>3.7</i>	<i>3.3</i>	<i>4.5</i>	<i>5.4</i>
	<i>-8.7</i>	<i>-5.6</i>	<i>6.7</i>	<i>-48.4</i>	<i>-14.0</i>	<i>0.0</i>	<i>2.4</i>	<i>2.4</i>	<i>2.8</i>	<i>2.5</i>	<i>0.0</i>	<i>0.0</i>
Total	3.2	5.4	5.3	1.7	3.8	3.5	2.7	4.9	5.3	4.1	5.8	6.6

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	483	446	457	502	541	610	646	667
<i>Sales growth (%)</i>	<i>1.4</i>	<i>-7.7</i>	<i>2.6</i>	<i>9.8</i>	<i>7.7</i>	<i>12.8</i>	<i>5.9</i>	<i>3.3</i>
Costs	-448	-413	-425	-467	-504	-557	-581	-595
Reported EBITDA	35	33	32	35	37	53	65	72
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	<i>7.2</i>	<i>7.4</i>	<i>7.0</i>	<i>7.0</i>	<i>6.9</i>	<i>8.7</i>	<i>10.1</i>	<i>10.8</i>
Depreciation	-11	-12	-12	-12	-12	-28	-28	-28
EBITA	23	21	20	23	25	25	37	44
Goodwill amortization / writedown	0	0	0	0	-5	0	0	0
Reported EBIT	23	21	20	23	21	25	37	44
<i>EBIT margin (%)</i>	<i>4.8</i>	<i>4.6</i>	<i>4.5</i>	<i>4.6</i>	<i>3.8</i>	<i>4.1</i>	<i>5.8</i>	<i>6.6</i>
Net financials	-4	1	-3	-2	-4	-2	-4	-4
Pre-tax profit	19	21	17	21	16	23	33	40
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	-1	-1	-1	-2	-2	-2	-3	-4
Minority shares	0	0	0	0	0	0	0	0
Net profit	18	20	16	19	14	20	29	35
BALANCE SHEET, EURm								
Assets								
Fixed assets	127	128	124	128	215	202	181	165
<i>% of sales</i>	<i>26</i>	<i>29</i>	<i>27</i>	<i>25</i>	<i>40</i>	<i>33</i>	<i>28</i>	<i>25</i>
Goodwill	44	43	43	42	43	43	43	43
<i>% of sales</i>	<i>9</i>	<i>10</i>	<i>9</i>	<i>8</i>	<i>8</i>	<i>7</i>	<i>7</i>	<i>6</i>
Inventory	47	48	57	61	71	67	71	73
<i>% of sales</i>	<i>10</i>	<i>11</i>	<i>12</i>	<i>12</i>	<i>13</i>	<i>11</i>	<i>11</i>	<i>11</i>
Receivables	56	58	60	70	78	80	84	87
<i>% of sales</i>	<i>12</i>	<i>13</i>	<i>13</i>	<i>14</i>	<i>14</i>	<i>13</i>	<i>13</i>	<i>13</i>
Liquid funds	19	24	23	20	19	31	32	33
<i>% of sales</i>	<i>4</i>	<i>5</i>	<i>5</i>	<i>4</i>	<i>4</i>	<i>5</i>	<i>5</i>	<i>5</i>
Total assets	298	305	310	321	430	424	414	404
Liabilities								
Equity	84	83	90	87	92	97	110	126
<i>% of sales</i>	<i>17</i>	<i>19</i>	<i>20</i>	<i>17</i>	<i>17</i>	<i>16</i>	<i>17</i>	<i>19</i>
Deferred taxes	6	5	4	0	0	0	0	0
<i>% of sales</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Interest bearing debt	144	148	150	162	224	233	206	176
<i>% of sales</i>	<i>30</i>	<i>33</i>	<i>33</i>	<i>32</i>	<i>41</i>	<i>38</i>	<i>32</i>	<i>26</i>
Non-interest bearing current liabilities	62	68	64	68	105	85	90	93
<i>% of sales</i>	<i>13</i>	<i>15</i>	<i>14</i>	<i>14</i>	<i>19</i>	<i>14</i>	<i>14</i>	<i>14</i>
Other interest free debt	1	2	1	4	8	8	8	8
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>1</i>	<i>2</i>	<i>1</i>	<i>1</i>	<i>1</i>
Total liabilities	298	305	310	321	430	424	414	404
CASH FLOW, EURm								
+ EBITDA	35	33	32	35	37	53	65	72
- Net financial items	-4	1	-3	-2	-4	-2	-4	-4
- Taxes	-2	-2	-2	-3	-5	-2	-3	-4
- Increase in Net Working Capital	-8	-4	-11	-13	20	-17	-4	-2
+/- Other	2	-2	0	0	0	-1	-1	-1
= Cash flow from operations	22	25	16	17	50	30	53	61
- Capex	-20	-15	-6	-18	-105	-14	-7	-11
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	2	10	10	0	-55	16	45	50
+/- Change in interest-bearing debt	-6	3	3	11	63	9	-28	-30
+/- New issues/buybacks	-11	-9	4	-9	4	0	0	0
- Paid dividend	-6	-12	-13	-13	-13	-14	-16	-19
+/- Change in loan receivables	3	5	0	1	3	0	0	0
Change in cash	-18	-3	4	-10	2	11	2	1

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	229	250	310	265	258	258	258
Net debt	124	128	142	205	203	173	142
Enterprise value	353	378	451	470	461	431	401
Sales	446	457	502	541	610	646	667
EBITDA	33	32	35	37	53	65	72
EBIT	21	20	23	21	25	37	44
Pre-tax	21	17	21	16	23	33	40
Earnings	20	16	19	14	20	29	35
Book value	83	90	87	92	97	110	126
Valuation multiples							
EV/sales	0.8	0.8	0.9	0.9	0.8	0.7	0.6
EV/EBITDA	10.7	11.8	12.9	12.7	8.7	6.6	5.6
EV/EBITA	17.1	18.5	19.5	18.5	18.3	11.5	9.1
EV/EBIT	17.1	18.5	19.5	22.8	18.3	11.5	9.1
EV/operating cash flow	14.1	23.3	25.9	9.1	13.7	7.5	6.1
EV/cash earnings	11.4	13.9	14.8	16.6	9.5	7.5	6.2
P/E	11.6	15.7	16.0	18.7	13.2	9.1	7.4
P/E excl. goodwill	11.6	15.7	16.0	14.0	13.2	9.1	7.4
P/B	2.8	2.8	3.5	2.9	2.7	2.3	2.0
P/sales	0.5	0.5	0.6	0.5	0.4	0.4	0.4
P/CF	9.2	15.4	17.8	5.1	7.7	4.5	3.9
Target EV/EBIT	0.0	0.0	0.0	0.0	19.9	12.6	10.0
Target P/E	0.0	0.0	16.5	19.2	15.3	10.5	8.5
Target P/B	0.0	0.0	0.0	0.0	3.1	2.7	2.4
Per share measures							
Number of shares	30,496	30,579	30,976	31,420	31,420	31,420	31,420
Number of shares (diluted)	30,496	30,579	30,976	31,420	31,420	31,420	31,420
EPS	0.65	0.52	0.63	0.45	0.62	0.91	1.11
EPS excl. goodwill	0.65	0.52	0.63	0.60	0.62	0.91	1.11
Cash EPS	1.02	0.89	0.98	0.90	1.55	1.83	2.05
Operating cash flow per share	0.82	0.53	0.56	1.64	1.07	1.84	2.09
Capital employed per share	6.77	7.11	7.39	9.45	9.55	9.02	8.55
Book value per share	2.71	2.93	2.82	2.92	3.10	3.51	4.02
Book value excl. goodwill	1.31	1.53	1.46	1.55	1.73	2.14	2.65
Dividend per share	0.41	0.42	0.43	0.44	0.50	0.60	0.67
Dividend payout ratio, %	63.1	80.8	68.7	97.4	80.4	66.1	60.0
Dividend yield, %	5.5	5.1	4.3	5.2	6.1	7.3	8.1
Efficiency measures							
ROE	23.8	18.5	21.9	15.9	20.7	27.5	29.6
ROCE	9.0	8.7	9.5	7.3	7.8	11.6	14.2
Financial ratios							
Capex/sales, %	3.4	1.4	3.5	19.4	2.3	1.1	1.7
Capex/depreciation excl. goodwill,%	133.5	54.8	154.0	849.9	50.9	26.5	40.2
Net debt/EBITDA, book-weighted	3.7	4.0	4.0	5.5	3.8	2.7	2.0
Debt/equity, market-weighted	0.6	0.6	0.5	0.8	0.9	0.8	0.7
Equity ratio, book-weighted	27.1	28.9	27.2	21.3	23.0	26.6	31.3
Gearing	1.50	1.43	1.62	2.24	2.08	1.57	1.13
Number of employees, average	862	871	909	1,017	1,017	1,017	1,017
Sales per employee, EUR	517,169	525,144	552,695	531,858	599,954	635,583	656,253
EBIT per employee, EUR	23,898	23,421	25,413	20,256	24,721	36,763	43,261

COMPANY DESCRIPTION: Aspo is a conglomerate operating mainly in Northern and Eastern Europe through subsidiaries ESL Shipping, Telko and Leipurin. Two thirds of Aspo's revenue is attributable to Finland, Russia, Ukraine and other CIS countries.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Havsudden Oy Ab	3,142,941	25.835	10.0%
Vehmas Tatu Antti Aleksi	2,306,676	18.961	7.3%
Varma Mutual Pension Insurance Company	1,438,412	11.824	4.6%
Vehmas Tapio	1,375,827	11.309	4.4%
Ilmarinen Mutual Pension Insurance Company	952,972	7.833	3.0%
Robinson Joanna	754,259	6.200	2.4%
Nyberg Gustav	731,667	6.014	2.3%
Nordea Nordic Small Cap Fund	721,040	5.927	2.3%
Procurator-Holding Oy	514,882	4.232	1.6%
Mandatum Life Insurance Company Limited	491,952	4.044	1.6%
Ten largest	12,430,628	102.180	40%
Residual	18,989,151	156.091	60%
Total	31,419,779	258.271	100%

EARNINGS CALENDAR

October 29, 2019

Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

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P.O. Box 499, Mikonkatu 13 A, FI-00101 Helsinki

CFO: Meitsalo Arto

Tel: +358 ,9 5,211

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

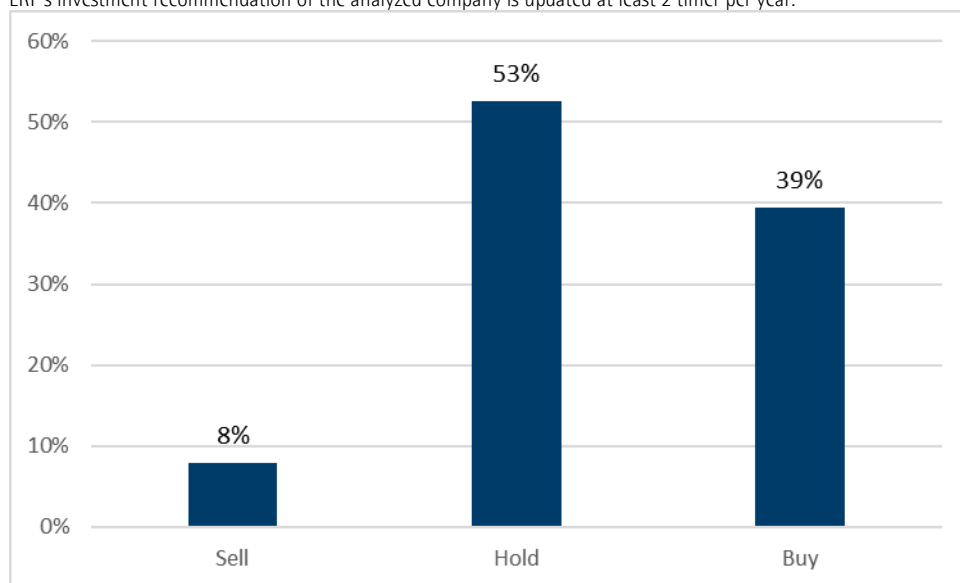
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Investment recommendations are defined as follows:

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): Ilvonen

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