

## Downgrade to HOLD

Endomines' revenue in Q1 was limited to SEK 2.1m due to lack of production at Friday and as such profitability remained weak, with EBIT at SEK -13.0m. Ramp-up of production at Friday is expected in Q2. With Endomines' financial situation becoming a concern we downgrade to HOLD (BUY) with a target price of SEK 6.0 (8.0).

### Friday production expected in Q2

Endomines' Q1 revenue and EBIT amounted to SEK 2.1m and -13.0m respectively. Ore production at the Friday mine is ongoing but due to damage to the processing facility no new gold concentrate was produced and revenue was only generated from sales of remaining concentrate from Pampalo. Ramp-up of gold concentrate production at the Friday site is expected to start in Q2. Although the concentrate production was delayed Endomines has remained on schedule with the mining of ore and retained its 2019 guidance production for Friday of 5,000-8,000 oz gold concentrate.

### Financial situation concerning

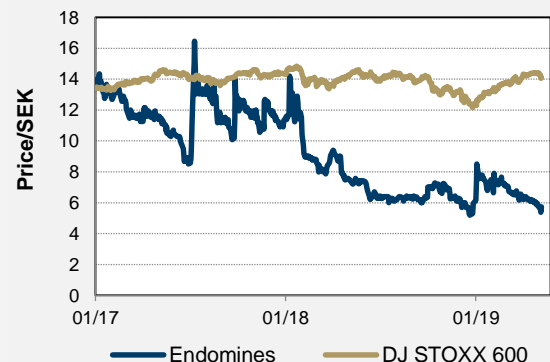
Endomines' financial situation has increased causes for concern. The liquid funds at the end of the period amounted to SEK 7.8m, despite issuance of the EUR 3.7m bond, as Q1 cash flow after investments amounted to SEK -46.7m. The situation should be alleviated with the ramp-up of production at Friday, with the larger investments also having been done. With the additional costs of the processing plant at Friday the financial situation is in our view now even more fragile and Endomines can't really afford more setbacks in production start-up without additional financing.

### HOLD (BUY) with a target price of SEK 6.0 (8.0)

Endomines is in our view in a delicate situation financially and the need for additional financing, at least to finance any new projects, seems inevitable. Endomines already issued a rather expensive bond and further financing will likely not come easily or cheap. We downgrade to HOLD (BUY) with a target price of SEK 6.0 (8.0).

Rating

■ HOLD



Share price, SEK (Last trading day's closing price) 5.74

Target price, SEK 6.0

Latest change in recommendation 09-May-19

Latest report on company 15-Feb-19

Research paid by issuer: YES

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

No. of shares fully diluted, '000's 41,736

Market cap, SEKm 203

Free float, % 0.0

Exchange rate EUR/SEK 10.736

Reuters code ENDO.ST

Bloomberg code ENDO SS

Average daily volume, SEKm 0.381

Next interim report 16-Aug-19

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■ BUY ■ HOLD ■ SELL

## KEY FIGURES

	Sales SEKm	EBIT SEKm	EBIT %	Ptx profit SEKm	EPS SEK	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS SEK
2017	122	-65	-53.0%	-69	-4.53	-1.8	1.6	33.5	-3.0	0.00
2018	104	-48	-46.6%	-37	-1.06	-5.6	3.9	31.6	-8.4	0.00
2019E	65	-21	-32.1%	-35	-0.99	-5.8	6.5	-31.6	-20.2	0.00
2020E	100	2	2.4%	-12	-0.40	-14.2	5.0	8.9	211.8	0.00
2021E	281	59	20.8%	47	1.05	5.5	1.8	1.7	8.8	0.00
Market cap, SEKm		203	BV per share 2019E, SEK			8.6	CAGR EPS 2018-21, %			0.0
Net debt 2019E, SEKm		223	Price/book 2019E			0.7	CAGR sales 2018-21, %			39.3
Enterprise value, SEKm		426	Dividend yield 2019E, %			0.0	ROE 2019E, %			-12.6
Total assets 2019E, SEKm		573	Tax rate 2019E, %			0.0	ROCE 2019E, %			-4.2
Goodwill 2019E, SEKm		0	Equity ratio 2019E, %			52.6	PEG, P/E 19/CAGR			0.0

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

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC
Current share price	5.74 PV of Free Cash Flow	604 Long-term growth, %	-29.2 Risk-free interest rate, %
DCF share value	11.65 PV of Horizon value	0 WACC, %	8.7 Market risk premium, %
Share price potential, %	102.9 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %
Maximum value	12.4 Marketable securities	19 Minimum WACC, %	8.2 Equity beta coefficient
Minimum value	11.0 Debt - dividend	-213 Maximum WACC, %	9.2 Target debt ratio, %
Horizon value, %	0.0 Value of stock	409 Nr of shares, Mn	35.1 Effective tax rate, %

DCF valuation, SEKm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	104	65	100	281	508	579	561	555	479	465	329	0
<i>Sales growth, %</i>	-14.9	-37.1	53.0	181.1	80.5	13.9	-3.1	-1.1	-13.7	-2.9	-29.2	0.0
Operating income (EBIT)	-48	-21	2	59	189	194	158	166	134	123	41	0
<i>EBIT margin, %</i>	-46.6	-32.1	2.4	20.8	37.3	33.5	28.2	30.0	28.0	26.4	12.4	0.0
+ Depreciation+amort.	43	13	24	83	109	125	125	113	96	96	100	
- Income taxes	0	0	0	-12	-40	-41	-33	-35	-28	-26	-9	
- Change in NWC	12	2	-3	-12	-15	-5	1	0	5	1	9	
<i>NWC / Sales, %</i>	-20.8	-35.9	-20.5	-3.0	1.3	1.9	1.8	1.7	1.0	0.8	-1.6	
+ Change in other liabs	1	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-389	-93	-168	-123	-106	-43	-41	-42	-36	-36	-30	0
<i>Investments / Sales, %</i>	373.8	142.1	167.8	43.7	20.9	7.4	7.3	7.6	7.5	7.7	9.1	0.0
- Other items	0	0	-5	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	-381	-99	-150	-5	137	231	211	203	171	158	112	0
= Discounted FCF (DFCF)		-94	-131	-4	101	157	132	117	91	77	50	0
= DFCF min WACC		-94	-132	-4	103	160	135	121	94	80	52	0
= DFCF max WACC		-94	-130	-4	100	154	128	113	87	74	48	0

## INTERIM FIGURES

EVLI ESTIMATES, SEKm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2E	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	29	42	24	8	104	2	12	26	26	65	100	281
EBITDA	-9	9	1	-6	-5	-11	-4	4	4	-8	26	142
<i>EBITDA margin (%)</i>	<i>-29.1</i>	<i>20.3</i>	<i>2.4</i>	<i>-73.4</i>	<i>-5.3</i>	<i>-547.6</i>	<i>-32.1</i>	<i>13.6</i>	<i>13.6</i>	<i>-12.6</i>	<i>26.1</i>	<i>50.4</i>
EBIT	-20	-3	-11	-14	-48	-13	-7	0	0	-21	2	59
<i>EBIT margin (%)</i>	<i>-67.7</i>	<i>-7.6</i>	<i>-46.1</i>	<i>-171.1</i>	<i>-46.6</i>	<i>-633.3</i>	<i>-57.7</i>	<i>-1.9</i>	<i>-1.9</i>	<i>-32.1</i>	<i>2.4</i>	<i>20.8</i>
Net financial items	22	-2	-5	-4	11	0	-4	-4	-4	-14	-14	-12
Pre-tax profit	2	-5	-16	-18	-37	-14	-11	-5	-5	-35	-12	47
Tax	0	0	0	0	0	0	0	0	0	0	2	-10
<i>Tax rate (%)</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.6</i>	<i>0.3</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>21.0</i>	<i>21.0</i>
Net profit	2	-5	-16	-18	-37	-14	-11	-5	-5	-35	-14	37
EPS	0.05	-0.15	-0.46	-0.51	-1.06	-0.39	-0.32	-0.14	-0.14	-0.99	-0.40	1.05
EPS adjusted (diluted no. of shares)	0.05	-0.15	-0.46	-0.51	-1.06	-0.33	-0.27	-0.12	-0.12	-0.83	-0.34	1.05
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>SALES, SEKm</b>												
Endomines	29	42	24	8	104	2	12	26	26	65	100	281
Total	29	42	24	8	104	2	12	26	26	65	100	281
<b>SALES GROWTH, Y/Y %</b>												
Endomines	3.2	21.6	-12.1	-73.7	-14.9	-92.9	-72.1	6.4	211.7	-37.1	53.0	181.1
Total	3.2	21.6	-12.1	-73.7	-14.9	-92.9	-72.1	6.4	211.7	-37.1	53.0	181.1
<b>EBIT, SEKm</b>												
Endomines	-20	-3	-11	-14	-48	-13	-7	0	0	-21	2	59
Total	-20	-3	-11	-14	-48	-13	-7	0	0	-21	2	59
<b>EBIT margin, %</b>												
Endomines	-67.7	-7.6	-46.1	-171.1	-46.6	-633.3	-57.7	-1.9	-1.9	-32.1	2.4	20.8
Total	-67.7	-7.6	-46.1	-171.1	-46.6	-633.3	-57.7	-1.9	-1.9	-32.1	2.4	20.8

INCOME STATEMENT, SEKm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	172	113	101	122	104	65	100	281
<i>Sales growth (%)</i>	<i>5.3</i>	<i>-34.3</i>	<i>-10.5</i>	<i>21.0</i>	<i>-14.9</i>	<i>-37.1</i>	<i>53.0</i>	<i>181.1</i>
Costs	-172	-181	-109	-128	-110	-74	-74	-139
Reported EBITDA	0	-68	-8	-6	-5	-8	26	142
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	<i>-0.1</i>	<i>-60.0</i>	<i>-7.6</i>	<i>-4.7</i>	<i>-5.3</i>	<i>-12.6</i>	<i>26.1</i>	<i>50.4</i>
Depreciation	-45	-85	-95	-59	-43	-13	-24	-83
EBITA	-45	-153	-103	-65	-48	-21	2	59
Goodwill amortization / writedown	0	-4	0	0	0	0	0	0
Reported EBIT	-45	-157	-103	-65	-48	-21	2	59
<i>EBIT margin (%)</i>	<i>-26.2</i>	<i>-138.6</i>	<i>-102.1</i>	<i>-53.0</i>	<i>-46.6</i>	<i>-32.1</i>	<i>2.4</i>	<i>20.8</i>
Net financials	2	-6	-2	-4	11	-14	-14	-12
Pre-tax profit	-43	-163	-105	-69	-37	-35	-12	47
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	8	-2	-20	0	0	0	2	-10
Minority shares	0	0	0	0	0	0	0	0
Net profit	-35	-165	-125	-69	-37	-35	-14	37
<b>BALANCE SHEET, SEKm</b>								
Assets								
Fixed assets	282	221	171	130	476	557	701	741
<i>% of sales</i>	<i>164</i>	<i>195</i>	<i>169</i>	<i>107</i>	<i>458</i>	<i>850</i>	<i>700</i>	<i>263</i>
Goodwill	0	0	0	0	0	0	0	0
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Inventory	5	2	1	2	2	1	3	8
<i>% of sales</i>	<i>3</i>	<i>2</i>	<i>1</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>3</i>	<i>3</i>
Receivables	29	12	21	12	4	2	4	10
<i>% of sales</i>	<i>17</i>	<i>10</i>	<i>21</i>	<i>10</i>	<i>4</i>	<i>4</i>	<i>4</i>	<i>4</i>
Liquid funds	114	20	29	16	19	13	15	42
<i>% of sales</i>	<i>66</i>	<i>18</i>	<i>29</i>	<i>13</i>	<i>18</i>	<i>20</i>	<i>15</i>	<i>15</i>
Total assets	459	274	222	161	501	573	723	801
Liabilities								
Equity	318	169	115	45	252	301	372	409
<i>% of sales</i>	<i>185</i>	<i>149</i>	<i>113</i>	<i>37</i>	<i>242</i>	<i>460</i>	<i>371</i>	<i>145</i>
Deferred taxes	0	0	0	0	0	0	0	0
<i>% of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Interest bearing debt	65	83	84	84	213	236	315	357
<i>% of sales</i>	<i>38</i>	<i>74</i>	<i>83</i>	<i>68</i>	<i>205</i>	<i>360</i>	<i>314</i>	<i>127</i>
Non-interest bearing current liabilities	30	14	0	0	0	0	0	0
<i>% of sales</i>	<i>18</i>	<i>12</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Other interest free debt	45	8	24	32	36	36	36	36
<i>% of sales</i>	<i>26</i>	<i>7</i>	<i>24</i>	<i>26</i>	<i>35</i>	<i>55</i>	<i>36</i>	<i>13</i>
Total liabilities	459	274	222	161	501	573	723	801
<b>CASH FLOW, SEKm</b>								
+ EBITDA	0	-68	-8	-6	-5	-8	26	142
- Net financial items	2	-6	-2	-4	11	-14	-14	-12
- Taxes	-4	6	-1	0	0	0	2	-10
- Increase in Net Working Capital	29	-23	-2	9	12	2	-3	-12
+/- Other	-17	19	0	0	0	0	-5	0
= Cash flow from operations	10	-71	-12	-1	18	-20	7	108
- Capex	-39	-28	-46	-19	-389	-93	-168	-123
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	0	-126	-77	-19	-371	-113	-161	-15
+/- Change in interest-bearing debt	-1	18	0	0	129	23	79	42
+/- New issues/buybacks	85	16	71	0	244	85	85	0
- Paid dividend	0	0	0	0	0	0	0	0
+/- Change in loan receivables	-4	-11	-4	6	1	0	0	0
Change in cash	80	-103	-10	-14	3	-6	2	27

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	55	192	126	211	203	203	203
Net debt	63	54	68	194	223	300	315
Enterprise value	118	246	194	405	426	503	518
Sales	113	101	122	104	65	100	281
EBITDA	-68	-8	-6	-5	-8	26	142
EBIT	-157	-103	-65	-48	-21	2	59
Pre-tax	-163	-105	-69	-37	-35	-12	47
Earnings	-165	-125	-69	-37	-35	-14	37
Book value	169	115	45	252	301	372	409
<b>Valuation multiples</b>							
EV/sales	1.0	2.4	1.6	3.9	6.5	5.0	1.8
EV/EBITDA	-1.7	-32.0	-34.0	-73.7	-51.7	19.3	3.6
EV/EBITA	-0.8	-2.4	-3.0	-8.4	-20.2	211.8	8.8
EV/EBIT	-0.8	-2.4	-3.0	-8.4	-20.2	211.8	8.8
EV/operating cash flow	-1.7	-21.0	51.5	60.6	-66.7	22.2	4.4
EV/cash earnings	-1.8	-24.7	-19.0	72.7	-19.3	34.5	4.3
P/E	-0.3	-1.5	-1.8	-5.6	-5.8	-14.2	5.5
P/E excl. goodwill	-0.3	-1.5	-1.8	-5.6	-5.8	-14.2	5.5
P/B	0.3	1.7	2.8	0.8	0.7	0.5	0.5
P/sales	0.5	1.9	1.0	2.0	3.1	2.0	0.7
P/CF	-0.8	-16.3	33.5	31.6	-31.6	8.9	1.7
Target EV/EBIT	0.0	0.0	0.0	0.0	-20.6	215.0	9.0
Target P/E	0.0	0.0	0.0	0.0	-7.2	-17.4	5.7
Target P/B	0.0	0.0	0.0	0.0	0.7	0.6	0.5
<b>Per share measures</b>							
Number of shares	8,991	15,280	15,280	35,148	35,148	35,148	35,148
Number of shares (diluted)	8,991	15,280	15,280	35,148	41,736	41,187	35,148
EPS	-18.35	-8.18	-4.53	-1.06	-0.99	-0.40	1.05
EPS excl. goodwill	-17.91	-8.18	-4.53	-1.06	-0.99	-0.40	1.05
Cash EPS	-7.50	-0.65	-0.67	0.16	-0.63	0.41	3.42
Operating cash flow per share	-7.93	-0.77	0.25	0.19	-0.18	0.64	3.35
Capital employed per share	25.81	11.04	7.40	12.68	14.91	19.10	20.57
Book value per share	18.75	7.50	2.97	7.16	8.57	10.57	11.62
Book value excl. goodwill	18.75	7.50	2.97	7.16	8.57	10.57	11.62
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend payout ratio, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend yield, %	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Efficiency measures</b>							
ROE	-67.8	-88.3	-86.6	-25.2	-12.6	-4.2	9.4
ROCE	-49.3	-45.8	-39.6	-9.9	-4.2	0.4	8.1
<b>Financial ratios</b>							
Capex/sales, %	24.4	45.2	15.2	373.8	142.1	167.8	43.7
Capex/depreciation excl. goodwill,%	27.8	47.9	31.5	905.3	726.6	707.4	147.6
Net debt/EBITDA, book-weighted	-0.9	-7.0	-11.9	-35.3	-27.0	11.5	2.2
Debt/equity, market-weighted	1.5	0.4	0.7	1.0	1.2	1.5	1.8
Equity ratio, book-weighted	61.6	51.6	28.3	50.2	52.6	51.4	51.0
Gearing	0.38	0.47	1.49	0.77	0.74	0.81	0.77
Number of employees, average	0	0	0	0	0	0	0
Sales per employee, SEK	0	0	0	0	0	0	0
EBIT per employee, SEK	0	0	0	0	0	0	0

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

## INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	SEKm	%
Handelsbanken GCFI Swedish Treaty	6,674,000	38.592	19.0%
Nordea Bank Abp	4,845,710	28.020	13.8%
Joensuun Kauppa ja Kone	3,832,808	22.163	10.9%
Aktia Bank Abp	1,030,000	5.956	2.9%
Handelsbanken Finland Standard Client A/C	1,007,000	5.823	2.9%
Ålandsbanken Ab	742,685	4.295	2.1%
Försäkringbolaget Avanza Pension	629,109	3.638	1.8%
Lago Kapital	532,924	3.082	1.5%
WIP Hakkapeliitat Sijoitusrahasto	360,000	2.082	1.0%
Oy Q&A Consulting Ab	350,000	2.024	1.0%
Ten largest	20,004,236	115.673	57%
Residual	15,143,549	87.566	43%
Total	35,147,785	203.239	100%

## EARNINGS CALENDAR

August 16, 2019 Q2 report  
November 07, 2019 Q3 report

## OTHER EVENTS

May 09, 2019 AGM

## COMPANY MISCELLANEOUS

CEO: Saira Miettinen-Lähde Birger Jarlsgatan 41 A 3 fl., SE-11145 Stockholm  
CFO: Marcus Ahlström Tel: +46 8 611 66 45  
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

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

Recommendation	Percentage
Sell	8%
Hold	53%
Buy	39%

The graph above shows the distribution of ERP's recommendations of companies under coverage in 1st of February 2019. If recommendation is not given, it is not mentioned here.

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

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