

## Q3 traffic close to expectations

Finnair will report its Q3 result on next week's Tuesday. The company's traffic data in Q3 was slightly above our estimates but did not provide any major surprises. Q3 ASK growth was 10% while RPK growth was 12% (Finnair's 2019E guidance for capacity growth is 11-12% while revenue is expected to be slightly below capacity growth). With the share price correction, our rating is now "BUY" (prev. HOLD) while our target price remains unchanged at EUR 7.4 ahead of Q3.

### No surprises with Q3 traffic data

Finnair's Q3'19 ASK grew by 10% while we expected ASK growth of 9%. ASK increased especially in North America as a result of the new Los Angeles route which was opened in March 2019 and additional flights to San Francisco. ASK growth in Asia was mainly due to additional frequencies to Hong Kong and Osaka. Finnair's RPK growth was 12% in July-September vs. our expectation of 10%. Revenue increased especially in the European and North American routes where RPK growth beat ASK growth. Passenger Load Factor increased in all the other market areas except in Asia where PLF declined by 2.3%. Global uncertainty in world trade and the softening of demand and price pressures have lowered expectations for cargo especially in the Asian market. The Q3 traffic data did not provide any major surprises thus we have kept our estimates intact.

### Ease in jet fuel prices during Q3

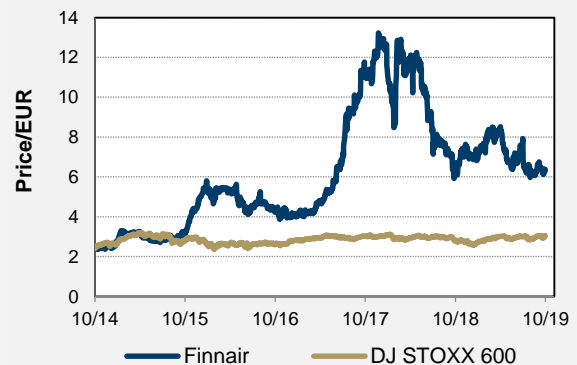
Jet fuel prices have eased during Q3'19. In Q3, the average spot price of jet fuel in USD declined by 4% from Q2. On a y/y basis, the average Q3 USD price was down by 13%. Similarly, the average spot price in EUR moved down by 3 % q/q and by 9% on a y/y basis.

### "BUY" (prev. HOLD) with TP of EUR 7.4

We have kept our Q3'2019E estimates intact after Q3 traffic information. We expect Finnair's Q3'19E revenue to be EUR 889m while we expect Q3'19E EBIT of EUR 135m resulting in EBIT margin of 15.2%. We expect Finnair's 2019E total sales to be EUR 3104m (8.9% y/y) while we expect EBIT of EUR 181m. With the share price correction, our rating is now "BUY" (prev. "HOLD") while our target price remains unchanged at EUR 7.4.

## Rating

BUY



Share price, EUR (Last trading day's closing price) 6.37

Target price, EUR 7.4

Latest change in rating 13-Nov-17

Latest report on company 18-Jul-19

Research paid by issuer: YES

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

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

Market cap, EURm 816

Free float, % 44.0

Exchange rate EUR/USD 1.170

Reuters code FIA1S.HE

Bloomberg code FIA1S.FH

Average daily volume, EURm na.

Next interim report 22-Oct-19

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BUY HOLD SELL

## KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2017	2,568.4	170.4	6.6%	134.6	0.88	14.6	0.5	8.2	8.2	0.30
2018	2,849.7	218.4	7.7%	185.3	0.40	17.7	0.6	7.4	20.4	0.27
2019E	3,103.8	180.9	5.8%	-81.2	0.45	14.3	0.5	8.6	-9.9	0.30
2020E	3,200.8	199.5	6.2%	28.2	0.52	12.4	0.5	8.5	3.5	0.35
2021E	3,328.0	236.2	7.1%	147.0	0.70	9.1	0.5	7.3	18.0	0.40
Market cap, EURm		816	Gearing 2019E, %			78.2	CAGR EPS 2018-21, %			20.7
Net debt 2019E, EURm		735	Price/book 2019E			0.9	CAGR sales 2018-21, %			5.3
Enterprise value, EURm		1,552	Dividend yield 2019E, %			4.7	ROE 2019E, %			6.1
Total assets 2019E, EURm		4,115	Tax rate 2019E, %			19.8	ROCE 2019E, %			6.5
Goodwill 2019E, EURm		0	Equity ratio 2019E, %			25.0	PEG, P/E 19/CAGR			0.5

**Operating model**

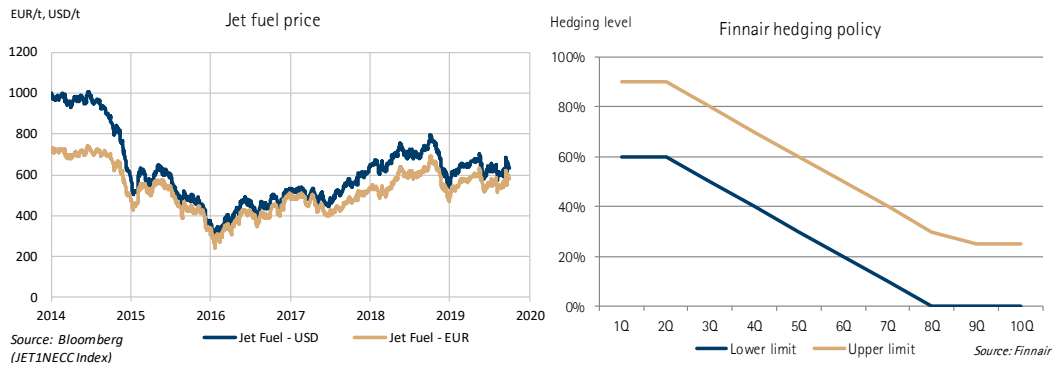
Finnair updated its guidance for FY19E with the Q2 report. The company expects 2019E capacity growth of 11-12% in 2019E (14.8% in 2018) which is higher than the previous guidance of 10% which was given last April. This is mainly impacted by the new route to Beijing's Daxing International Airport which will be opened in early November. Revenue growth is expected to be slightly below capacity growth in 2019E. The company expects EBIT margin to be between 4.5%-6.0% in 2019E. We expect capacity growth of 11% and total revenue growth of 9% for 2019E while our estimate for 2019E EBIT margin is 5.8%.

FINNAIR EURm	2015 FY	2016 FY	2017 FY	2018 Q1	2018 Q2	2018 Q3	2018 Q4	2018 FY	2019E Q1	2019E Q2	2019E Q3	2019E Q4	2019E FY
<b>Passenger transportation</b>													
Passenger revenue	1766	1816	2021	485	577	652	531	2244	517	645	719	573	2455
<i>y/y change</i>	<i>7,7%</i>	<i>2,8%</i>	<i>11,3%</i>	<i>14,6%</i>	<i>13,4%</i>	<i>9,1%</i>	<i>8,0%</i>	<i>11,1%</i>	<i>6,7%</i>	<i>11,8%</i>	<i>10,3%</i>	<i>8,0%</i>	<i>9,4%</i>
Passengers (thousands)	10294	10866	11905	3018	3456	3653	3155	13281	3148	3910	4088	3451	14597
<i>y/y change</i>	<i>7%</i>	<i>6%</i>	<i>10%</i>	<i>16%</i>	<i>13%</i>	<i>12%</i>	<i>7%</i>	<i>12%</i>	<i>4%</i>	<i>13%</i>	<i>12%</i>	<i>9%</i>	<i>10%</i>
ASK (mkm)	31 836	33 914	36 922	9 666	10 718	11 528	10 473	42 386	10 670	12 308	12 624	11 457	47 059
<i>y/y change</i>	<i>3%</i>	<i>7%</i>	<i>9%</i>	<i>19%</i>	<i>18%</i>	<i>14%</i>	<i>9%</i>	<i>14,8%</i>	<i>10%</i>	<i>14,8%</i>	<i>10%</i>	<i>9%</i>	<i>11%</i>
RPK (mkm)	25 592	27 065	30 749	8 016	8 847	9 743	8 055	34 660	8 356	10 152	10 879	8 812	38 200
<i>y/y change</i>	<i>3%</i>	<i>6%</i>	<i>14%</i>	<i>21%</i>	<i>16%</i>	<i>11%</i>	<i>4%</i>	<i>13%</i>	<i>4%</i>	<i>14,8%</i>	<i>12%</i>	<i>9%</i>	<i>10%</i>
Load factor (RPK/ASK), PLF	80,4%	79,8%	83,3%	82,9%	82,5%	84,5%	76,9%	81,8%	78,3%	82,5%	86,2%	76,9%	81,2%
<i>y/y change</i>	<i>0,2%-p</i>	<i>-0,6%-p</i>	<i>3,5%-p</i>	<i>1,5%-p</i>	<i>-1,2%-p</i>	<i>-2,7%-p</i>	<i>-3,4%-p</i>	<i>-1,5%-p</i>	<i>-4,6%-p</i>	<i>-0,1%-p</i>	<i>1,7%-p</i>	<i>0,0%-p</i>	<i>-0,6%-p</i>
<b>Total revenue</b>	<b>2255</b>	<b>2317</b>	<b>2569</b>	<b>641</b>	<b>718</b>	<b>807</b>	<b>683</b>	<b>2850</b>	<b>673</b>	<b>793</b>	<b>889</b>	<b>748</b>	<b>3104</b>
<i>YoY change</i>	<i>-1%</i>	<i>3%</i>	<i>11%</i>	<i>16%</i>	<i>13%</i>	<i>10%</i>	<i>6%</i>	<i>11%</i>	<i>5%</i>	<i>10%</i>	<i>10%</i>	<i>9%</i>	<i>9%</i>
Other income	85	76	77	20	18	18	19	74	15	13	18	18	64
<b>Staff costs</b>	<b>-353</b>	<b>-363</b>	<b>-423</b>	<b>-123</b>	<b>-133</b>	<b>-124</b>	<b>-119</b>	<b>-500</b>	<b>-130</b>	<b>-137</b>	<b>-131</b>	<b>-136</b>	<b>-533</b>
<i>y/y change</i>	<i>2%</i>	<i>3%</i>	<i>17%</i>	<i>36%</i>	<i>24%</i>	<i>10%</i>	<i>5%</i>	<i>18%</i>	<i>5%</i>	<i>3%</i>	<i>5%</i>	<i>14%</i>	<i>7%</i>
<i>% of revenue</i>	<i>16%</i>	<i>16%</i>	<i>16%</i>	<i>19%</i>	<i>18%</i>	<i>15%</i>	<i>17%</i>	<i>18%</i>	<i>19%</i>	<i>17%</i>	<i>15%</i>	<i>18%</i>	<i>17%</i>
<b>Fuel</b>	<b>-596</b>	<b>-492</b>	<b>-472</b>	<b>-127</b>	<b>-145</b>	<b>-163</b>	<b>-145</b>	<b>-581</b>	<b>-145</b>	<b>-181</b>	<b>-187</b>	<b>-170</b>	<b>-683</b>
<i>y/y change</i>	<i>-10%</i>	<i>-17%</i>	<i>-4%</i>	<i>14%</i>	<i>27%</i>	<i>31%</i>	<i>19%</i>	<i>23%</i>	<i>14%</i>	<i>24%</i>	<i>15%</i>	<i>17%</i>	<i>18%</i>
<i>% of revenue</i>	<i>26%</i>	<i>21%</i>	<i>18%</i>	<i>20%</i>	<i>20%</i>	<i>20%</i>	<i>21%</i>	<i>20%</i>	<i>22%</i>	<i>23%</i>	<i>21%</i>	<i>23%</i>	<i>22%</i>
<b>Other OPEX</b>	<b>-1160</b>	<b>-1268</b>	<b>-1314</b>	<b>-324</b>	<b>-327</b>	<b>-346</b>	<b>-334</b>	<b>-1330</b>	<b>-353</b>	<b>-363</b>	<b>-377</b>	<b>-367</b>	<b>-1460</b>
<i>y/y change</i>	<i>3%</i>	<i>9%</i>	<i>4%</i>	<i>0%</i>	<i>0%</i>	<i>6%</i>	<i>-1%</i>	<i>1%</i>	<i>9%</i>	<i>11%</i>	<i>9%</i>	<i>10%</i>	<i>10%</i>
<i>% of revenue</i>	<i>51%</i>	<i>55%</i>	<i>51%</i>	<i>50%</i>	<i>46%</i>	<i>43%</i>	<i>49%</i>	<i>47%</i>	<i>52%</i>	<i>46%</i>	<i>42%</i>	<i>49%</i>	<i>47%</i>
<b>Comparable EBITDA</b>	<b>132</b>	<b>161</b>	<b>300</b>	<b>87</b>	<b>131</b>	<b>191</b>	<b>104</b>	<b>513</b>	<b>60</b>	<b>126</b>	<b>213</b>	<b>92</b>	<b>492</b>
Depreciation	-108	-106	-129	-72	-72	-73	-78	-294	-76	-79	-78	-78	-311
<b>Comparable EBIT</b>	<b>24</b>	<b>55</b>	<b>171</b>	<b>15</b>	<b>59</b>	<b>118</b>	<b>26</b>	<b>218</b>	<b>-16</b>	<b>47</b>	<b>135</b>	<b>14</b>	<b>181</b>
<i>Comp. EBIT-%</i>	<i>1,0%</i>	<i>2,4%</i>	<i>6,6%</i>	<i>2,3%</i>	<i>8,2%</i>	<i>14,6%</i>	<i>3,9%</i>	<i>7,7%</i>	<i>-2,4%</i>	<i>5,9%</i>	<i>15,2%</i>	<i>1,9%</i>	<i>5,8%</i>
IAC & fair value changes	98	61	54	2	-8	-3	47	38	0	0	0	0	0
EBIT	122	116	225	17	51	116	73	256	-16	47	135	14	181

Sources: Finnair, Evli estimates

**Fuel spot price development and hedging**

Finnair hedges its fuel purchases for 24 months forward on a rolling basis, with the degree of hedging decreasing towards the end of the hedging period. The higher and lower limits of the degree of hedging are 90% and 60% for the following six months.



**Valuation**

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

FINNAIR PEER GROUP	MCAP local FX	EV/EBITDA			EV/EBIT			P/E			P/B		
		19	20	21	19	20	21	19	20	21	19	20	21
<b>Primary European peers</b>													
SAS AB	5398	6,2x	5,0x	4,2x	23,7x	12,8x	9,8x	23,1x	6,1x	4,1x	1,1x	0,9x	0,7x
International Consolidated Airlines Group	10223	3,4x	3,1x	2,8x	5,6x	5,0x	4,5x	5,3x	4,9x	4,5x	1,6x	1,3x	1,1x
Air France-KLM SA	4369	2,7x	2,5x	2,3x	9,6x	8,2x	6,9x	8,7x	6,4x	5,2x	1,9x	1,6x	1,2x
Deutsche Lufthansa AG	7173	3,3x	3,0x	2,8x	7,3x	6,3x	5,7x	5,6x	4,4x	3,9x	0,7x	0,6x	0,6x
Norwegian Air Shuttle ASA	4622	10,0x	8,1x	6,9x	179,3x	29,5x	20,0x			8,2x	1,5x	1,7x	1,2x
<b>Other European peers</b>													
Aegean Airlines SA	567	0,8x	1,3x		1,8x	2,9x		9,3x	8,5x	8,2x	1,9x	1,8x	1,6x
easyJet plc	5007	5,6x	5,5x	4,9x	11,3x	10,9x	9,4x	14,6x	13,4x	11,5x	1,5x	1,4x	1,3x
Ryanair Holdings Plc	13572	8,8x	7,6x	6,7x	15,6x	12,6x	11,1x	16,8x	12,8x	11,1x	2,5x	2,1x	1,9x
Wizz Air Holdings Plc	2840	3,9x	3,2x	2,3x	7,6x	6,0x	4,3x	16,5x	13,6x	11,3x	2,8x	2,3x	1,8x
<b>North American peers</b>													
American Airlines Group, Inc.	12588	6,5x	6,0x	5,5x	10,1x	9,4x	8,3x	5,7x	5,2x	4,7x	9,2x	4,2x	2,9x
Delta Air Lines, Inc.	34691	4,9x	4,7x	4,5x	6,9x	6,9x	6,4x	7,7x	7,6x	6,9x	2,3x	1,9x	1,5x
JetBlue Airways Corporation	5077	4,7x	4,0x	3,7x	7,6x	6,4x	5,7x	9,0x	7,3x	6,2x	1,0x	0,8x	0,7x
Southwest Airlines Co.	29112	6,8x	5,9x	5,4x	9,7x	8,2x	7,5x	12,8x	10,6x	9,5x	2,5x	2,1x	1,8x
Spirit Airlines, Inc.	2525	5,6x	5,5x	4,8x	8,1x	8,3x	6,9x	7,7x	7,5x	6,3x	1,1x	1,0x	0,8x
WestJet	3531	5,1x	4,5x		15,8x	13,3x		17,5x	15,5x	10,3x			
<b>Primary European peers median</b>		<b>3,4x</b>	<b>3,1x</b>	<b>2,8x</b>	<b>9,6x</b>	<b>8,2x</b>	<b>6,9x</b>	<b>7,2x</b>	<b>5,5x</b>	<b>4,5x</b>	<b>1,5x</b>	<b>1,3x</b>	<b>1,1x</b>
<b>Finnair (Evli est)*</b>		<b>3,2x</b>	<b>3,2x</b>	<b>3,0x</b>	<b>8,6x</b>	<b>8,5x</b>	<b>7,3x</b>	<b>14,3x</b>	<b>12,4x</b>	<b>9,1x</b>	<b>0,9x</b>	<b>0,8x</b>	<b>0,8x</b>
<i>Finnair discount/premium to primary peer group median*</i>		-8 %	6 %	6 %	-11 %	3 %	6 %	99 %	124 %	102 %	-42 %	-35 %	-29 %

FINNAIR PEER GROUP	Ticker	Div yield			EBIT-%			ROCE-%			ROE-%		
		19	20	21	19	20	21	19	20	21	19	20	21
<b>Primary European peers</b>													
SAS AB	SAS-SE	0,0%	0,0%	0,0%	1,8%	4,2%	5,2%	4,1%	9,5%	11,0%	4,6%	14,3%	16,5%
International Consolidated Airlines Group	IAG-GB	5,3%	5,5%	6,2%	12,6%	13,0%	13,3%	15,6%	15,9%	16,1%	29,4%	26,1%	25,1%
Air France-KLM SA	AF-FR	0,1%	0,5%	0,7%	4,3%	4,7%	5,3%	6,9%	7,5%	8,1%	22,0%	24,4%	23,9%
Deutsche Lufthansa AG	LHA-DE	4,8%	5,4%	6,2%	5,6%	6,2%	6,8%	8,6%	9,4%	10,0%	12,5%	14,4%	14,6%
Norwegian Air Shuttle ASA	NAS-NO	0,0%	0,3%	0,7%	0,8%	5,0%	7,1%	0,6%	3,5%	5,0%	-71,1%	-10,2%	15,0%
<b>Other European peers</b>													
Aegean Airlines SA	AEGN-GR	6,6%	6,3%	6,9%	8,4%	8,9%	9,4%	10,9%	12,0%	13,1%	20,7%	20,7%	19,8%
easyJet plc	EZJ-GB	3,5%	3,8%	4,5%	7,3%	7,5%	8,1%	8,4%	8,4%	9,1%	10,1%	10,4%	11,2%
Ryanair Holdings Plc	RY4C-IE	0,7%	0,7%	0,8%	11,2%	13,5%	13,7%	9,8%	11,6%	12,0%	14,9%	16,8%	16,7%
Wizz Air Holdings Plc	WIZZ-GB	0,0%	0,0%	0,0%	14,6%	15,3%	15,8%	11,4%	11,8%	12,2%	17,1%	16,7%	15,5%
<b>North American peers</b>													
American Airlines Group, Inc.	AAL-US	1,4%	1,4%	1,4%	8,0%	8,0%	8,3%	8,4%	8,5%	9,3%	161,9%	79,4%	62,2%
Delta Air Lines, Inc.	DAL-US	2,9%	3,2%	3,4%	13,9%	12,8%	13,0%	14,8%	13,6%	13,4%	29,7%	24,6%	22,1%
JetBlue Airways Corporation	JBLU-US	0,0%	0,0%	0,0%	10,2%	11,4%	12,1%	9,3%	10,2%	10,6%	10,6%	11,4%	11,4%
Southwest Airlines Co.	LUV-US	1,3%	1,4%	1,5%	13,3%	14,3%	14,5%	16,6%	18,1%	18,8%	19,5%	20,1%	19,2%
Spirit Airlines, Inc.	SAVE-US	0,0%	0,0%	0,0%	12,9%	11,7%	12,2%	9,3%	8,6%	9,1%	14,9%	13,1%	13,3%
WestJet	WJA-CA	1,8%	1,8%	1,8%	5,9%	6,5%	7,9%						
<b>Primary European peers median</b>		<b>0,1%</b>	<b>0,5%</b>	<b>0,7%</b>	<b>4,3%</b>	<b>5,0%</b>	<b>6,8%</b>	<b>6,9 %</b>	<b>9,4 %</b>	<b>10,0 %</b>	<b>12,5%</b>	<b>14,4%</b>	<b>16,5%</b>
<b>Finnair (Evli est)*</b>	FIA1S-FI	<b>4,7%</b>	<b>5,5%</b>	<b>6,3%</b>	<b>5,8%</b>	<b>6,2%</b>	<b>7,1%</b>	<b>6,5 %</b>	<b>6,8 %</b>	<b>7,6 %</b>	<b>6,1%</b>	<b>6,9%</b>	<b>9,1%</b>

Source: Factset, Evli Research

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

## INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	641.1	718.2	806.9	683.5	2,849.7	673.0	793.4	889.2	748.2	3,103.8	3,200.8	3,328.0
EBITDA	86.6	130.5	191.4	104.1	512.6	59.9	125.9	213.4	92.4	491.6	501.3	582.6
<i>EBITDA margin (%)</i>	<i>13.5</i>	<i>18.2</i>	<i>23.7</i>	<i>15.2</i>	<i>18.0</i>	<i>8.9</i>	<i>15.9</i>	<i>24.0</i>	<i>12.4</i>	<i>15.8</i>	<i>15.7</i>	<i>17.5</i>
EBIT	14.6	59.1	118.2	26.5	218.4	-16.1	47.2	135.4	14.4	180.9	199.5	236.2
<i>EBIT margin (%)</i>	<i>2.3</i>	<i>8.2</i>	<i>14.6</i>	<i>3.9</i>	<i>7.7</i>	<i>-2.4</i>	<i>5.9</i>	<i>15.2</i>	<i>1.9</i>	<i>5.8</i>	<i>6.2</i>	<i>7.1</i>
Net financial items	-0.1	-70.1	-27.8	-31.0	-129.0	-31.0	-8.8	-27.0	-27.0	-93.8	-101.2	-107.9
Pre-tax profit	14.5	-11.0	90.4	-4.5	89.4	-47.1	38.4	108.4	-12.6	87.1	98.3	128.3
Tax	-3.3	3.9	-17.6	-8.6	-25.6	9.7	-7.8	-21.7	2.5	-17.3	-19.7	-25.7
<i>Tax rate (%)</i>	<i>22.8</i>	<i>35.5</i>	<i>19.5</i>	<i>-191.1</i>	<i>28.6</i>	<i>20.6</i>	<i>20.3</i>	<i>20.0</i>	<i>20.0</i>	<i>19.8</i>	<i>20.0</i>	<i>20.0</i>
Net profit	8.1	-10.2	69.7	-16.2	51.2	-40.6	27.4	83.5	-13.3	57.0	66.1	90.0
EPS	0.06	-0.08	0.54	-0.13	0.40	-0.32	0.21	0.65	-0.10	0.45	0.52	0.70
EPS adjusted (diluted no. of shares)	0.06	-0.08	0.54	-0.13	0.40	-0.32	0.21	0.65	-0.10	0.45	0.52	0.70
Dividend per share	0.00	0.00	0.00	0.00	0.27	0.00	0.00	0.00	0.00	0.30	0.35	0.40
<b>SALES, EURm</b>												
Group total	641.1	718.2	806.9	683.5	2,849.7	673.0	793.4	889.2	748.2	3,103.8	3,200.8	3,328.0
Total	641.1	718.2	806.9	683.5	2,849.7	673.0	793.4	889.2	748.2	3,103.8	3,200.8	3,328.0
<b>SALES GROWTH, Y/Y %</b>												
Group total	15.6	13.4	9.7	5.9	11.0	5.0	10.5	10.2	9.5	8.9	3.1	4.0
Total	15.6	13.4	9.7	5.9	11.0	5.0	10.5	10.2	9.5	8.9	3.1	4.0
<b>EBIT, EURm</b>												
Group total	14.6	59.1	118.2	26.5	218.4	-16.1	47.2	135.4	14.4	180.9	199.5	236.2
Total	14.6	59.1	118.2	26.5	218.4	-16.1	47.2	135.4	14.4	180.9	199.5	236.2
<b>EBIT margin, %</b>												
Group total	2.3	8.2	14.6	3.9	7.7	-2.4	5.9	15.2	1.9	5.8	6.2	7.1
Total	2.3	8.2	14.6	3.9	7.7	-2.4	5.9	15.2	1.9	5.8	6.2	7.1

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	2,284.5	2,254.5	2,316.8	2,568.4	2,849.7	3,103.8	3,200.8	3,328.0
<i>Sales growth (%)</i>	-4.8	-1.3	2.8	10.9	11.0	8.9	3.1	4.0
EBITDA	97.8	131.8	161.0	299.6	512.6	491.6	501.3	582.6
<i>EBITDA margin (%)</i>	4.3	5.8	6.9	11.7	18.0	15.8	15.7	17.5
Depreciation	-134.3	-108.1	-105.8	-129.2	-294.2	-183.5	-192.0	-234.4
EBITA	-36.5	23.7	55.2	170.4	218.4	180.9	199.5	236.2
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	-36.5	23.7	55.2	170.4	218.4	180.9	199.5	236.2
<i>EBIT margin (%)</i>	-1.6	1.1	2.4	6.6	7.7	5.8	6.2	7.1
Reported EBIT	-36.5	12.4	53.8	169.5	218.3	180.9	199.5	236.2
<i>EBIT margin (reported) (%)</i>	-1.6	0.6	2.3	6.6	7.7	5.8	6.2	7.1
Net financials	-26.6	-8.3	-10.5	-13.7	-129.0	-93.8	-101.2	-107.9
Pre-tax profit	-63.1	15.4	44.7	156.7	89.4	87.1	98.3	128.3
Taxes	12.6	-3.1	-8.9	-31.3	-25.6	-17.3	-19.7	-25.7
Minority shares	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	-50.7	-17.8	19.4	111.9	51.1	57.0	66.1	90.0
Cash NRIs	0.0	-11.3	-1.4	-0.9	-0.1	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET, EURm</b>								
Assets								
Fixed assets	1,053	957	1,189	1,446	1,547	1,813	1,961	2,017
Goodwill	0	0	0	0	0	0	0	0
Right of use assets	0	0	0	0	999	784	800	832
Inventory	15	12	15	17	121	131	136	141
Receivables	358	364	512	460	210	224	229	236
Liquid funds	426	708	814	965	1,067	1,162	1,199	1,246
Total assets	1,885	2,050	2,529	2,887	3,944	4,115	4,325	4,472
Liabilities								
Shareholder's equity	514	727	857	1,016	918	940	968	1,013
Minority interest	1	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	0	0	0	0	1,159	784	800	832
Deferred taxes	0	0	33	74	48	48	48	48
Interest bearing debt	428	346	718	719	615	1,114	1,270	1,328
Non-interest bearing current liabilities	601	682	519	566	285	311	320	333
Other interest-free debt	246	201	339	428	811	811	811	811
Total liabilities	1,885	2,050	2,529	2,887	3,944	4,115	4,325	4,472
<b>CASH FLOW, EURm</b>								
+ EBITDA	98	132	161	300	513	492	501	583
- Net financial items	-27	-8	-10	-14	-129	-94	-101	-108
- Taxes	0	0	33	-1	-52	-17	-20	-26
- Increase in Net Working Capital	-33	43	56	57	50	1	0	1
+/- Other	-33	-2	-28	29	-91	-13	-13	-13
= Cash flow from operations	5	164	211	371	291	369	368	437
- Capex	-146	-81	-486	-394	-320	-450	-340	-290
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	268	448	153	157	214	0	0	0
= Free cash flow	126	531	-122	135	185	-81	28	147
+/- New issues/buybacks	143	231	110	60	-110	0	0	0
- Paid dividend	0	0	0	-13	-38	-35	-38	-45
+/- Other	-46	-480	117	-30	66	211	47	-55
Change in cash	223	282	105	151	103	95	36	48

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	694	516	1,643	908	816	816	816
Net debt (excl. convertibles)	-362	-96	-246	707	735	872	914
Enterprise value	332	420	1,397	1,615	1,552	1,688	1,730
Sales	2,255	2,317	2,568	2,850	3,104	3,201	3,328
EBITDA	132	161	300	513	492	501	583
EBIT	24	55	170	218	181	200	236
Pre-tax	15	45	157	89	87	98	128
Earnings	-6	21	113	51	57	66	90
Equity book value (excl. minorities)	727	857	1,016	918	940	968	1,013
<b>Valuation multiples</b>							
EV/sales	0.1	0.2	0.5	0.6	0.5	0.5	0.5
EV/EBITDA	2.5	2.6	4.7	3.2	3.2	3.4	3.0
EV/EBITA	14.0	7.6	8.2	7.4	8.6	8.5	7.3
EV/EBIT	14.0	7.6	8.2	7.4	8.6	8.5	7.3
EV/OCF	2.0	2.0	3.8	5.6	4.2	4.6	4.0
EV/FCFF	1.5	-1.4	6.6	9.3	-260.5	15.5	7.4
P/FCFE	1.3	-4.2	12.2	4.9	-10.1	28.9	5.6
P/E	-107.2	24.9	14.6	17.7	14.3	12.4	9.1
P/B	1.0	0.6	1.6	1.0	0.9	0.8	0.8
Target EV/EBITDA	0.0	0.0	0.0	0.0	3.4	3.6	3.2
Target EV/EBIT	0.0	0.0	0.0	0.0	9.3	9.1	7.9
Target EV/FCF	0.0	0.0	0.0	0.0	-20.7	64.5	12.7
Target P/B	0.0	0.0	0.0	0.0	1.0	1.0	0.9
Target P/E	0.0	0.0	0.0	0.0	16.6	14.4	10.5
<b>Per share measures</b>							
Number of shares	128,136	128,136	128,136	128,136	128,136	128,136	128,136
Number of shares (diluted)	128,136	128,136	128,136	128,136	128,136	128,136	128,136
EPS	-0.05	0.16	0.88	0.40	0.45	0.52	0.70
Operating cash flow per share	1.28	1.65	2.90	2.27	2.88	2.87	3.41
Free cash flow per share	4.15	-0.95	1.05	1.45	-0.63	0.22	1.15
Book value per share	5.68	6.69	7.93	7.17	7.34	7.55	7.91
Dividend per share	0.00	0.10	0.30	0.27	0.30	0.35	0.40
Dividend payout ratio, %	0.0	61.7	34.1	68.6	67.4	67.9	56.9
Dividend yield, %	0.0	2.5	2.3	3.9	4.7	5.5	6.3
FCF yield, %	76.5	-23.5	8.2	20.4	-9.9	3.5	18.0
<b>Efficiency measures</b>							
ROE	-1.0	2.6	12.0	5.3	6.1	6.9	9.1
ROCE	2.4	4.2	10.3	9.9	6.5	6.8	7.6
<b>Financial ratios</b>							
Inventories as % of sales	0.5	0.6	0.7	4.2	4.2	4.2	4.2
Receivables as % of sales	16.2	22.1	17.9	7.4	7.2	7.2	7.1
Non-interest bearing liabilities as % of sales	30.3	22.4	22.0	10.0	10.0	10.0	10.0
NWC/sales, %	-21.6	-12.7	-18.7	-26.3	-24.1	-23.4	-22.5
Operative CAPEX/sales, %	3.6	21.0	15.3	11.2	14.5	10.6	8.7
CAPEX/sales (incl. acquisitions), %	3.6	21.0	15.3	11.2	14.5	10.6	8.7
FCFF/EBITDA	1.6	-1.8	0.7	0.3	0.0	0.2	0.4
Net debt/EBITDA, book-weighted	-2.7	-0.6	-0.8	1.4	1.5	1.7	1.6
Debt/equity, market-weighted	0.5	1.4	0.4	0.7	1.4	1.6	1.6
Equity ratio, book-weighted	40.6	37.8	39.1	25.4	25.0	24.4	24.7
Gearing, %	-49.8	-11.2	-24.2	77.0	78.2	90.1	90.2

OWNERSHIP STRUCTURE	SHARES	EURm	%
Prime Minister's Office	71,515,426	455.553	55.8%
The Local Government Pensions Institution	6,250,875	39.818	4.9%
Ilmarinen Mutual Pension Insurance Company	2,823,846	17.988	2.2%
Varma Mutual Pension Insurance Company	2,744,025	17.479	2.1%
Tiiviste-Group Oy	2,150,000	13.695	1.7%
The State Pension Fund	1,700,000	10.829	1.3%
Oy Etra Invest Ab	1,000,000	6.370	0.8%
Veritas Pension Insurance Company Ltd.	830,028	5.287	0.6%
Laakkonen Mikko Kalervo	740,000	4.714	0.6%
Evli Finland Select Investment Fund	675,000	4.300	0.5%
Ten largest	90,429,200	576.034	71%
Residual	37,706,915	240.193	29%
Total	128,136,115	816.227	100%

EARNINGS CALENDAR	
October 22, 2019	Q3 report

COMPANY MISCELLANEOUS	
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CFO: Mika Stirkinen	Tel: +358 9 818 2780
IR: Mari Reponen	

## DEFINITIONS

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



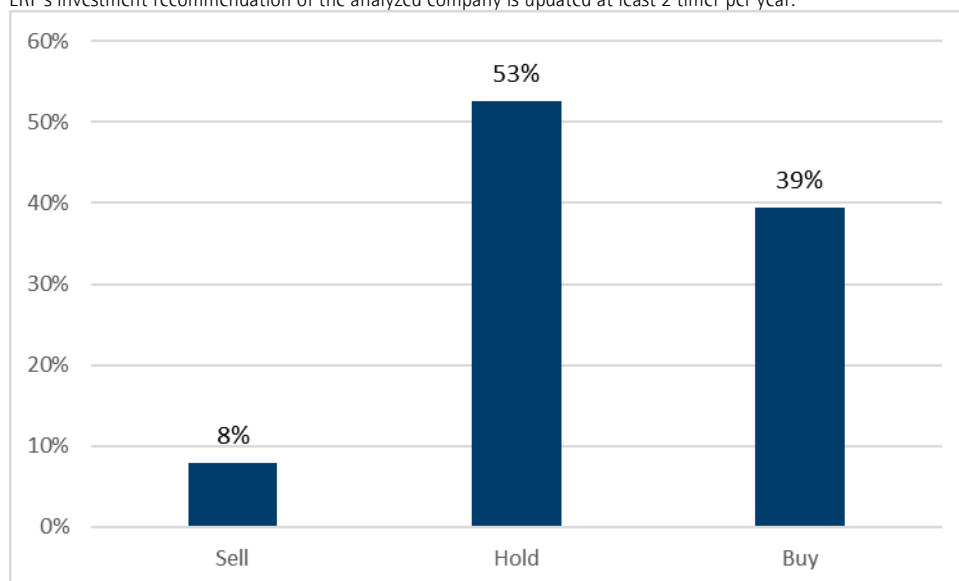
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Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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

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