RAUTE

Machinery/Finland, January 17, 2019
Preview

Higher sales, lower order intake

Raute announced 2018 sales and EBIT to be higher than previously expected. The company reported 2018 sales at EUR 181m and EBIT at EUR 14.9m. Our respective estimates previously stood at EUR 171m and EUR 15.1m. The higher-than-estimated sales were the result of strong execution throughout the entire delivery chain during the last months of the year. Services sales were also higher than estimated. However, the order book amounted to EUR 95m vs. our estimate of EUR 114m.

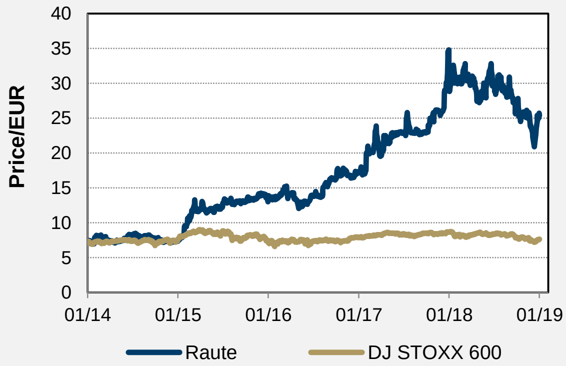
Higher revenue negated by lower margin and order intake

Stronger than expected Q4 project deliveries (EUR 39m vs. EUR 33m in the previous quarter, according to our estimates) pushed the company to book a record quarter. On the other hand, the released figures reflect a lower EBIT margin on project deliveries. We estimate the Q4 project deliveries EBIT margin at below 5%, while previously the business has averaged margins above 6%. It should be noted that the lower margin may be due to possible conservative assumptions by the company regarding the unfinished projects. Whereas Q4 sales came in EUR 10m higher than our expectations, the order intake fell short by EUR 9m (at EUR 28m vs. our estimate of EUR 37m).

We maintain HOLD with a TP of EUR 27.0 (27.5)

All in all, we don't see material changes in the company's operating environment. We continue to expect negative sales and EBIT development for the next couple of years following a very strong investment cycle by Raute's customers. Our estimates for 2019 sales and EBIT remain at EUR 149m and EUR 12m, respectively. We make no significant changes to our longer-term estimates and maintain our HOLD rating, lowering our target price as peer valuation multiples have declined during the recent months. In our view an EBIT level of around EUR 10m and EV/EBIT multiple of 8x remain the relevant yardsticks for long-term over-the-cycle valuation.

Rating: HOLD



Share price, EUR (Last trading day's closing price)	25.40
Target price, EUR	27.0
Latest change in recommendation	21-Oct-18
Latest report on company	01-Nov-18
Research paid by issuer:	YES
No. of shares outstanding, '000's	4,249
No. of shares fully diluted, '000's	4,249
Market cap, EURm	108
Free float, %	-
Exchange rate	-
Reuters code	RAUTE.HE
Bloomberg code	RAUTE:FH
Average daily volume, EURm	0.06
Next interim report	14-Feb-19
Web site	www.raute.com

Analyst: Joonas Ilvonen
E-mail: joonas.ilvonen@evli.com
Telephone: +358 44 430 9071

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	149	12	7.8%	12	2.22	13.1	0.6	6.7	8.1	1.25
2018	181	15	8.2%	15	2.76	9.2	0.4	7.4	5.0	1.35
2019E	149	12	7.7%	11	2.15	11.8	0.5	9.1	6.0	1.35
2020E	122	8	6.8%	8	1.56	16.3	0.6	11.7	8.3	1.30
2021E	126	9	7.0%	9	1.67	15.2	0.5	10.9	7.5	1.30

Market cap, EURm	108	BV per share 2019E, EUR	11.6	CAGR EPS 2018-21, %	-15.5
Net debt 2019E, EURm	-38	Price/book 2019E	2.2	CAGR sales 2018-21, %	-11.4
Enterprise value, EURm	70	Dividend yield 2019E, %	5.3	ROE 2019E, %	19.3
Total assets 2019E, EURm	96	Tax rate 2019E, %	20.0	ROCE 2019E, %	23.4
Goodwill 2019E, EURm	1	Equity ratio 2019E, %	51.5	PEG, P/E 19/CAGR	-1.9

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	25.40	PV of Free Cash Flow	49	Long-term growth, %	2.0	Risk-free interest rate, %	2.25
DCF share value	29.17	PV of Horizon value	41	WACC, %	9.6	Market risk premium, %	5.8
Share price potential, %	14.9	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	2.8
Maximum value	30.6	Marketable securities	38	Minimum WACC, %	9.1	Equity beta coefficient	1.35
Minimum value	27.9	Debt - dividend	-3	Maximum WACC, %	10.1	Target debt ratio, %	20
Horizon value, %	45.8	Value of stock	124	Nr of shares, Mn	4.2	Effective tax rate, %	20

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	181	149	122	126	131	135	139	143	146	149	152	155
Sales growth, %	*22.0*	*-17.8*	*-18.3*	*3.6*	*3.6*	*3.6*	*3.0*	*2.5*	*2.3*	*2.3*	*2.0*	*2.0*
Operating income (EBIT)	15	12	8	9	9	10	10	9	9	10	10	10
EBIT margin, %	*8.2*	*7.7*	*6.8*	*7.0*	*7.2*	*7.4*	*7.2*	*6.5*	*6.5*	*6.5*	*6.5*	*6.5*
+ Depreciation+amort.	3	3	3	3	3	3	3	3	3	3	3	
- Income taxes	-3	-2	-2	-2	-2	-2	-2	-2	-2	-2	-2	
- Change in NWC	0	0	0	0	0	0	0	0	0	0	0	
NWC / Sales, %	*-1.7*	*-1.8*	*-1.9*	*-1.9*	*-1.8*	*-1.8*	*-1.8*	*-1.8*	*-1.8*	*-1.8*	*-1.7*	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-5	-2	-2	-3	-3	-3	-3	-3	-3	-3	-4	-4
Investments / Sales, %	*2.5*	*1.3*	*1.7*	*2.0*	*2.4*	*2.4*	*2.4*	*2.3*	*2.3*	*2.3*	*2.3*	*2.3*
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	10	10	7	7	7	8	8	7	7	7	8	103
= Discounted FCF (DFCF)		9	6	6	5	5	4	4	4	3	3	41
= DFCF min WACC		9	6	6	5	5	5	4	4	3	3	46
= DFCF max WACC		9	6	6	5	5	4	4	3	3	3	37

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1E	2019Q2E	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	35	44	48	55	181	32	36	38	43	149	122	126
EBITDA	3	4	6	4	17	4	4	3	3	15	11	12
EBITDA margin (%)	*9.8*	*8.8*	*12.8*	*7.3*	*9.6*	*13.3*	*11.2*	*8.6*	*7.1*	*9.8*	*9.2*	*9.2*
EBIT	3	3	6	3	15	4	3	3	2	12	8	9
EBIT margin (%)	*7.9*	*7.3*	*11.5*	*6.2*	*8.2*	*10.9*	*9.0*	*6.6*	*5.3*	*7.7*	*6.8*	*7.0*
Net financial items	0	0	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	3	3	6	3	15	3	3	3	2	11	8	9
Tax	-1	-1	-1	-1	-3	-1	-1	-1	0	-2	-2	-2
Tax rate (%)	*22.3*	*24.9*	*21.4*	*17.6*	*21.4*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*
Net profit	2	2	4	3	12	3	3	2	2	9	7	7
EPS	0.54	0.53	1.03	0.66	2.76	0.66	0.60	0.47	0.42	2.15	1.56	1.67
EPS adjusted (diluted no. of shares)	0.54	0.53	1.03	0.66	2.76	0.66	0.60	0.47	0.42	2.15	1.56	1.67
Dividend per share	0.00	0.00	0.00	0.00	1.35	0.00	0.00	0.00	0.00	1.35	1.30	1.30
SALES, EURm												
Project deliveries	25	31	33	39	127	22	23	24	28	98	68	70
Technology services	11	13	14	16	54	10	12	14	15	51	54	56
Total	35	44	48	55	181	32	36	38	43	149	122	126
SALES GROWTH, Y/Y %												
Project deliveries	*-7.2*	*30.4*	*47.8*	*47.0*	*28.7*	*-10.1*	*-23.5*	*-27.4*	*-27.3*	*-23.1*	*-30.4*	*2.5*
Technology services	*5.8*	*12.2*	*0.0*	*16.8*	*8.6*	*-4.2*	*-6.8*	*-1.5*	*-8.5*	*-5.4*	*5.0*	*5.0*
Total	*-3.6*	*24.4*	*29.2*	*36.7*	*22.0*	*-8.3*	*-18.6*	*-19.6*	*-21.8*	*-17.8*	*-18.3*	*3.6*
EBIT, EURm												
Project deliveries	2	2	4	2	10	2	2	1	1	6	5	5
Technology services	1	1	1	2	5	1	1	1	1	5	4	4
Total	3	3	6	3	15	4	3	3	2	12	8	9
EBIT margin, %												
Project deliveries	*6.9*	*6.2*	*12.3*	*4.7*	*7.5*	*10.0*	*7.7*	*5.5*	*3.8*	*6.6*	*6.8*	*7.0*
Technology services	*10.4*	*10.0*	*9.7*	*10.1*	*10.0*	*12.8*	*11.6*	*8.4*	*8.3*	*10.0*	*6.8*	*7.0*
Total	*7.9*	*7.3*	*11.5*	*6.2*	*8.2*	*10.9*	*9.0*	*6.6*	*5.3*	*7.7*	*6.8*	*7.0*

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	94	127	113	149	181	149	122	126
Sales growth (%)	*12.9*	*35.4*	*-11.1*	*31.4*	*22.0*	*-17.8*	*-18.3*	*3.6*
Costs	-89	-116	-102	-134	-164	-134	-111	-114
Reported EBITDA	5	12	11	14	17	15	11	12
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*4.9*	*9.1*	*9.6*	*9.6*	*9.6*	*9.8*	*9.2*	*9.2*
Depreciation	-2	-2	-2	-3	-2	-3	-3	-3
EBITA	3	9	9	12	15	12	8	9
Goodwill amortization / writedown	0	-1	0	0	0	0	0	0
Reported EBIT	3	8	9	12	15	12	8	9
EBIT margin (%)	*2.8*	*6.4*	*7.6*	*7.8*	*8.2*	*7.7*	*6.8*	*7.0*
Net financials	0	0	0	0	0	0	0	0
Pre-tax profit	3	8	9	12	15	11	8	9
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	0	-1	-2	-2	-3	-2	-2	-2
Minority shares	0	0	0	0	0	0	0	0
Net profit	2	7	7	9	12	9	7	7
BALANCE SHEET, EURm								
Assets								
Fixed assets	12	11	12	13	15	14	13	13
% of sales	*13*	*8*	*10*	*9*	*9*	*10*	*11*	*10*
Goodwill	0	0	0	1	1	1	1	1
% of sales	*0*	*0*	*0*	*1*	*1*	*1*	*1*	*1*
Inventory	8	10	10	11	13	11	9	9
% of sales	*8*	*8*	*9*	*7*	*7*	*7*	*7*	*7*
Receivables	28	35	24	30	37	31	25	26
% of sales	*30*	*27*	*22*	*20*	*21*	*21*	*21*	*21*
Liquid funds	4	7	24	31	38	38	40	42
% of sales	*5*	*5*	*21*	*21*	*21*	*26*	*33*	*33*
Total assets	53	62	70	87	105	96	88	91
Liabilities								
Equity	24	30	34	39	46	49	50	52
% of sales	*26*	*23*	*30*	*26*	*25*	*33*	*41*	*41*
Deferred taxes	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Interest bearing debt	3	2	3	1	3	0	0	0
% of sales	*3*	*1*	*3*	*1*	*2*	*0*	*0*	*0*
Non-interest bearing current liabilities	23	28	29	43	53	43	35	37
% of sales	*24*	*22*	*26*	*29*	*29*	*29*	*29*	*29*
Other interest free debt	0	0	1	1	1	1	1	1
% of sales	*0*	*0*	*1*	*1*	*0*	*1*	*1*	*1*
Total liabilities	53	62	70	87	105	96	88	91
CASH FLOW, EURm								
+ EBITDA	5	12	11	14	17	15	11	12
- Net financial items	0	0	0	0	0	0	0	0
- Taxes	-1	-1	0	-3	-3	-2	-2	-2
- Increase in Net Working Capital	-7	-3	12	6	0	0	0	0
+/- Other	2	-1	-2	1	0	0	0	0
= Cash flow from operations	-2	7	21	18	15	12	9	10
- Capex	-1	-2	-3	-7	-5	-2	-2	-3
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	-3	5	18	11	10	10	7	7
+/- Change in interest-bearing debt	-3	-1	2	-2	2	-3	0	0
+/- New issues/buybacks	-1	0	1	0	0	0	0	0
- Paid dividend	-1	-2	-3	-4	-5	-6	-6	-6
+/- Change in loan receivables	0	0	0	1	0	0	0	0
Change in cash	-8	3	17	7	7	1	1	2

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	58	70	123	108	108	108	108
Net debt	-5	-21	-29	-34	-38	-40	-42
Enterprise value	53	50	94	74	70	68	66
Sales	127	113	149	181	149	122	126
EBITDA	12	11	14	17	15	11	12
EBIT	8	9	12	15	12	8	9
Pre-tax	8	9	12	15	11	8	9
Earnings	7	7	9	12	9	7	7
Book value	30	34	39	46	49	50	52
Valuation multiples							
EV/sales	0.4	0.4	0.6	0.4	0.5	0.6	0.5
EV/EBITDA	4.6	4.6	6.6	4.3	4.8	6.1	5.7
EV/EBITA	5.6	5.8	8.1	5.0	6.0	8.3	7.5
EV/EBIT	6.5	5.8	8.1	5.0	6.0	8.3	7.5
EV/operating cash flow	7.1	2.3	5.1	5.1	5.8	7.4	6.7
EV/cash earnings	5.2	5.3	8.0	5.2	5.7	7.2	6.7
P/E	8.6	10.0	13.1	9.2	11.8	16.3	15.2
P/E excl. goodwill	7.2	10.0	13.1	9.2	11.8	16.3	15.2
P/B	2.0	2.1	3.1	2.4	2.2	2.2	2.1
P/sales	0.5	0.6	0.8	0.6	0.7	0.9	0.9
P/CF	7.8	3.3	6.7	7.4	9.1	11.7	10.9
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*6.6*	*9.1*	*8.3*
Target P/E	*0.0*	*0.0*	*0.0*	*9.8*	*12.5*	*17.3*	*16.2*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*2.3*	*2.3*	*2.2*
Per share measures							
Number of shares	4,112	4,206	4,249	4,249	4,249	4,249	4,249
Number of shares (diluted)	4,112	4,206	4,249	4,249	4,249	4,249	4,249
EPS	1.64	1.68	2.22	2.76	2.15	1.56	1.67
EPS excl. goodwill	1.97	1.68	2.22	2.76	2.15	1.56	1.67
Cash EPS	2.49	2.21	2.76	3.35	2.88	2.25	2.33
Operating cash flow per share	1.82	5.05	4.34	3.43	2.81	2.17	2.34
Capital employed per share	6.01	3.23	2.37	2.76	2.59	2.45	2.38
Book value per share	7.22	8.13	9.27	10.78	11.58	11.78	12.15
Book value excl. goodwill	7.22	8.13	9.02	10.53	11.33	11.54	11.91
Dividend per share	0.80	1.00	1.25	1.35	1.35	1.30	1.30
Dividend payout ratio, %	48.8	59.7	56.4	48.9	62.7	83.5	78.0
Dividend yield, %	5.7	6.0	4.3	5.3	5.3	5.1	5.1
Efficiency measures							
ROE	24.9	22.1	25.6	27.5	19.3	13.3	13.9
ROCE	27.8	25.0	29.7	33.1	23.4	16.7	17.4
Financial ratios							
Capex/sales, %	1.9	2.7	4.7	2.5	1.3	1.7	2.0
Capex/depreciation excl. goodwill,%	48.2	131.9	226.6	182.4	63.0	69.3	91.5
Net debt/EBITDA, book-weighted	-0.4	-1.9	-2.1	-2.0	-2.6	-3.5	-3.6
Debt/equity, market-weighted	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity ratio, book-weighted	48.1	49.0	45.3	43.6	51.5	56.6	56.5
Gearing	-0.17	-0.60	-0.74	-0.74	-0.78	-0.79	-0.80
Number of employees, average	624	643	704	704	704	704	704
Sales per employee, EUR	203,970	175,894	211,101	257,528	211,648	172,888	179,112
EBIT per employee, EUR	13,010	13,330	16,477	21,165	16,373	11,748	12,569

COMPANY DESCRIPTION: Raute is a globally operating company that offers project deliveries (production lines and machinery) and technology services (maintenance, spare parts, consulting and modernizations) for the entire production process of veneer, plywood and LVL (laminated veneer lumber).

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Sundholm Göran Wilhelm	500,000	12.700	11.8%
Mandatum Life Unit-Linked	131,396	3.337	3.1%
Laakkonen Mikko Kalervo	119,919	3.046	2.8%
Suominen Pekka	110,429	2.805	2.6%
Siivonen Osku Pekka	104,179	2.646	2.5%
Kirmo Kaisa Marketta	104,021	2.642	2.4%
Suominen Tiina Sini-Maria	100,856	2.562	2.4%
Keskiaho Kaija Leena	84,716	2.152	2.0%
Mustakallio Mika Tapani	83,270	2.115	2.0%
Särkijärvi Anna Riitta	82,489	2.095	1.9%
Ten largest	1,421,275	36.100	33%
Residual	2,827,973	71.831	67%
Total	4,249,248	107.931	100%

EARNINGS CALENDAR	
February 14, 2019	FY 2018 Results
May 03, 2019	Q1 report
July 31, 2019	Q2 report
October 30, 2019	Q3 report
OTHER EVENTS	
April 02, 2019	AGM

COMPANY MISCELLANEOUS	
CEO: Tapani Kiiski	Rautetie 2, FI-15550 Nastola
CFO: Olli-Pekka Vanhanen	Tel: +358 3, 82,911
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

Important Disclosures

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https://research.evli.com/JasperAllModels.action?authParam=key;461&authParam=x;G3rNagWrtf7K&authType=3
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Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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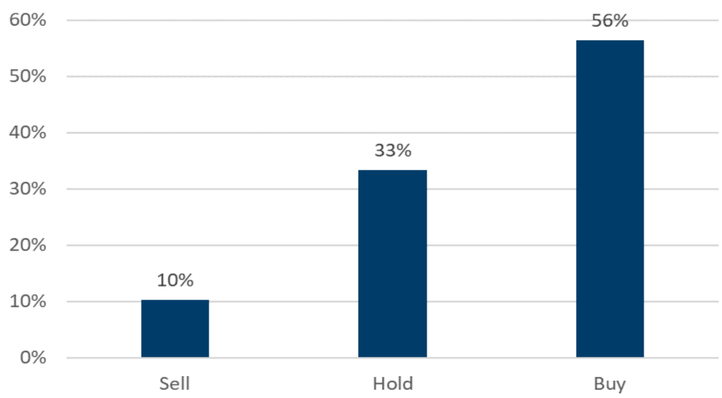

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Name(s) of the analyst(s): Ilvonen

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Contact information

SALES, TRADING AND RESEARCH

Equity Sales

Ari Laine	+358 9 4766 9115
Lauri Ahokanto	+358 9 4766 9117
Niclas Henelius	+358 9 4766 9116

Structured Investments

Heikki Savijoki	+358 9 4766 9726
Aki Lakkisto	+358 9 4766 9123

Evli Investment Solutions

Johannes Asuja	+358 9 4766 9205
Markku Reinikainen	+358 9 4766 9669

Trading

Lauri Vehkaluoto (Head)	+358 9 4766 9130
Pasi Väisänen	+358 9 4766 9120
Antti Kässi	+358 9 4766 9120

Equity Research

Joonas Häyhä	+358 9 4766 9662
Jonas Forslund	+358 9 4766 9314
Joonas Ilvonen	+358 44 430 9071
Jerker Salokivi	+358 9 4766 9149

ETFs and Derivatives

Tobias Björk (Head)	+358 9 4766 9130
Joachim Dannberg	+358 9 4766 9123
Kimmo Lilja	+358 9 4766 9130
Sami Järvinen	+358 9 4766 9110

EVLI BANK PLC

Aleksanterinkatu 19 A
P.O. Box 1081
FIN-00101 Helsinki, FINLAND
Phone +358 9 476 690
Fax +358 9 634 382
Internet www.evli.com
E-mail
firstname.lastname@evli.com

EVLI BANK PLC,
STOCKHOLMSFILIAL
Kungsgatan 27, P.O. Box 16354
SE-111 56 Stockholm
Sverige
stockholm@evli.com
Tel +46 (0)8 407 8000
Fax +46 (0)8 407 8001