

Good momentum expected to continue

Tokmanni delivered good Q2 earnings. The company focuses on improving profitability in 2019E but will also strengthen its store network in H2 and launch two own brands. Tokmanni reiterated its guidance and expects revenue and EBIT margin to improve from last year. We upgrade to "BUY" with TP of EUR 10.2 (prev. EUR 9.0)

Strong Q2 earnings

Tokmanni delivered strong Q2 earnings. The company's revenue increased by 10.2 % and was EUR 240m vs. EUR 236m/234m Evli/consensus. The sales were boosted by new store openings and the timing of Easter. The company was also able to reduce the dependence of weather during the spring season. The company's gross margin was EUR 84.5m (35.2 %) which was close to our expectation of EUR 83.9m (35.6 %). Gross margin improvement was mainly driven by the structure of sales and reduced waste in groceries. Tokmanni's Q2 EBIT was 18.7m (7.8 %) vs. EUR 15.8m (6.7 %) Evli and 15.0m (6.4 %) consensus. Operational efficiency improvements impacted positively on the company's profitability in Q2.

Focus on profitability improvements

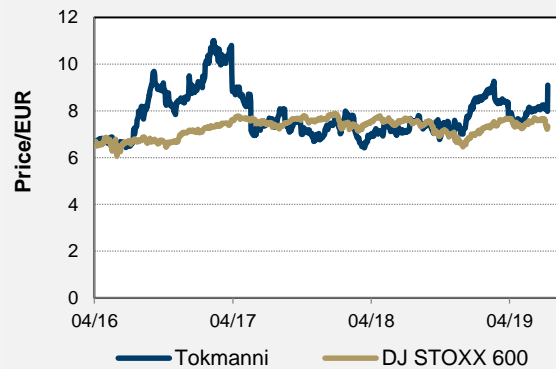
Tokmanni's target in 19E is to improve its profitability through improved gross margin and more efficient operations. The company stated that it will keep its customer promise of low prices thus gross margin improvements are made by increasing the share of own brands and direct import as well as by reducing waste in groceries. The profitability improvements of the company's supply chain are on the right track, although most of the benefits will be seen later in the future.

Upgraded to "BUY" with TP of EUR 10.2 (prev. EUR 9)

Based on the Q2 result, we have raised our 19E-20E estimates and expect 19E revenue of EUR 946m (prev. EUR 936m) and EBIT of EUR 68m (prev. EUR 62m) resulting in EBIT margin of 7.1 %. We expect 20E revenue of EUR 984m and EBIT of EUR 78m (7.9 %). On our estimates, Tokmanni trades at 19E-20E EV/EBIT multiple of 13.4x and 11.4x which translates into ~28 % discount compared to the international discount peers but is valued at par to its Nordic peers. The company also offers attractive dividend yield (~7 %) in 19E-20E. We upgrade to "BUY" with TP of EUR 10.2 (prev. 9.0).

Rating

BUY



Share price, EUR (Last trading day's closing price) 9.10

Target price, EUR 10.2

Latest change in rating 26-Apr-19

Latest report on company 31-Jul-19

Research paid by issuer: YES

No. of shares outstanding, '000's 58,869

No. of shares fully diluted, '000's 58,869

Market cap, EURm 536

Free float, % 100.0

Exchange rate 1.000

Reuters code TOKMAN.HE

Bloomberg code TOKMAN FH

Average daily volume, EURm na.

Next interim report 30-Oct-19

Web site <https://yritys.tokmanni.fi/>

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2017	797	41	5.1%	35	0.48	15.2	0.7	13.0	13.8	0.41
2018	870	52	6.0%	42	0.56	12.8	0.9	4.6	15.3	0.50
2019E	946	68	7.1%	57	0.78	11.7	1.0	5.1	13.4	0.58
2020E	984	78	7.9%	66	0.91	10.0	0.9	4.5	11.4	0.68
2021E	1,014	85	8.4%	74	1.01	9.0	0.9	4.2	10.3	0.71
Market cap, EURm	536			BV per share 2019E, EUR	3.1			CAGR EPS 2018-21, %	21.6	
Net debt 2019E, EURm	371			Price/book 2019E	2.9			CAGR sales 2018-21, %	5.2	
Enterprise value, EURm	907			Dividend yield 2019E, %	6.4			ROE 2019E, %	26.2	
Total assets 2019E, EURm	749			Tax rate 2019E, %	19.7			ROCE 2019E, %	11.4	
Goodwill 2019E, EURm	135			Equity ratio 2019E, %	24.4			PEG, P/E 19/CAGR	2.4	

Strong Q2 earnings

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Tokmanni's target in 19E is to improve its profitability through improved gross margin and more efficient operations. The company stated that it will keep its customer promise of low prices thus gross margin improvements are made by increasing the share of own brands and direct import as well as by reducing waste in groceries. The profitability improvements of the company's supply chain are on the right track, although most of the benefits will be seen later in the future.

New brands and store openings in H2

Tokmanni targets to increase the share of its own brands and the company announced the launch of two new Tokmanni brands in H2. The current share of Tokmanni's own brands (of sales) is ~30.4 %. Online sales increased by 65.5 % in H1 and the trend is expected to continue. However, the revenue from online sales is still marginal. The company will focus on improving the Click & Collect service which is supported by the company's extensive store network. H2 is important for Tokmanni as sales and profitability are normally better than in H1. The company will also open two new stores to Vääksy and Virrat during the autumn. The company's target is to have above 200 stores.

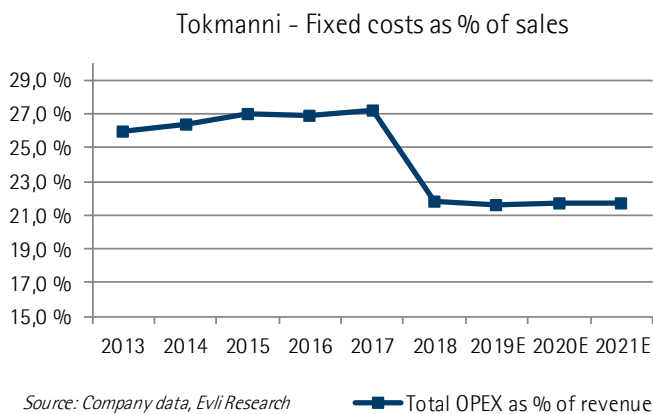
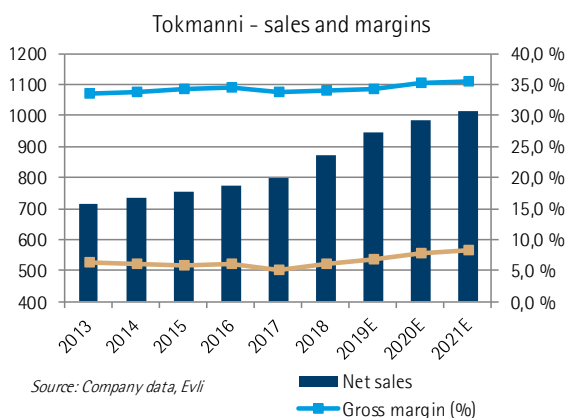
Upgraded to "BUY" with TP of EUR 10.2 (prev. EUR 9)

Tokmanni reiterated its guidance and expects revenue and EBIT margin to grow from 2018. The company's long-term target of EBIT margin is 9 %. Based on the Q2 result, we have raised our 19E-20E estimates and expect 19E revenue of EUR 946m (prev. EUR 936m) and EBIT of EUR 68m (prev. EUR 62m) resulting in EBIT margin of 7.1 %. We expect 20E revenue of EUR 984m and EBIT of EUR 78m (7.9 %). Tokmanni's EBIT margin levels in 19E-20E are at the same level with the company's international discount peers. If Tokmanni is able to remain at the same level with its international peers it is justified that the company also shifts towards the peer group in multiples. On our estimates, Tokmanni trades at 19E-20E EV/EBIT multiple of 13.4x and 11.4x which translates into ~28 % discount compared to the international discount peers and is valued at par to its Nordic peers. The company also offers attractive dividend yield (~7 %) in 19E-20E. Hence, we upgrade to "BUY" with TP of EUR 10.2 (prev. 9.0).

Estimates

Tokmanni	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Key sales assumptions									
Sales space increase, 1000m2 (organic)	11	18	7	8	24	26	17	12	12
# of stores at year-end	145	149	156	162	175	186	193	198	203
LFL growth (%)	0,0%	-0,3%	-0,6%	-0,1%	-1,3%	5,6%	2,7%	1,5%	1,0%
Net sales	712,8	734,3	755,3	775,8	796,5	870,5	945,9	983,9	1013,8
Growth-%	3,3 %	3,0 %	2,9 %	2,7 %	2,7 %	9,3 %	8,7 %	4,0 %	3,0 %
Materials and services (adj.)	-474,6	-486,8	-497,2	-507,9	-528,4	-575,2	-618,9	-637,5	-653,9
Growth-%	-	2,6 %	2,1 %	2,2 %	4,0 %	8,9 %	7,6 %	3,0 %	2,6 %
% of sales	66,6 %	66,3 %	65,8 %	65,5 %	66,3 %	66,1 %	65,4 %	64,8 %	64,5 %
Gross profit (adj.)	238,2	247,5	258,1	267,9	268,1	295,3	327,0	346,3	359,9
Gross margin (%)	33,4 %	33,7 %	34,2 %	34,5 %	33,7 %	33,9 %	34,6 %	35,2 %	35,5 %
Fixed costs (adj.)	-185,1	-193,9	-203,7	-208,5	-217,0	-189,5	-203,4	-211,8	-218,1
Growth-%	-	4,8 %	5,0 %	2,4 %	4,1 %	-12,7 %	7,3 %	4,1 %	3,0 %
% of sales	26,0 %	26,4 %	27,0 %	26,9 %	27,2 %	21,8 %	21,5 %	21,5 %	21,5 %
Other income	3,5	3,6	4,0	3,4	3,8	4,1	4,3	4,3	4,3
Share of profits in associated comp.	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Depreciation and amortization	-12,6	-13,5	-14,8	-15,2	-14,3	-57,5	-60,3	-60,8	-60,9
EBITDA (adj.)	56,7	57,1	58,4	62,8	54,9	109,9	127,9	138,8	146,1
EBITDA margin (%)	8,0 %	7,8 %	7,7 %	8,1 %	6,9 %	12,6 %	13,5 %	14,1 %	14,4 %
EBIT (adj.)	44,1	43,6	43,6	47,7	40,6	52,4	67,6	78,0	85,3
EBIT margin (%)	6,2 %	5,9 %	5,8 %	6,1 %	5,1 %	6,0 %	7,1 %	7,9 %	8,4 %
NRIs in reported gross profit	0,0	1,1	-0,6	0,5	-0,9	0,2	-0,1	0,0	0,0
NRIs in reported fixed costs	-1,1	-1,8	-4,0	1,0	-0,8	1,4	0,2	0,0	0,0
EBIT (reported)	43,0	43,0	39,0	49,2	38,9	54,0	67,7	78,0	85,3
EBIT margin (%)	6,0 %	5,9 %	5,2 %	6,3 %	4,9 %	6,2 %	7,2 %	7,9 %	8,4 %
Net financials	-23,0	-22,2	-20,9	-15,3	-5,9	-10,5	-10,6	-11,6	-11,2
Profit before taxes (reported)	20,1	20,8	18,1	33,9	33,0	43,5	57,1	66,4	74,1
Taxes	-4,8	-4,2	-3,4	-6,8	-6,6	-8,9	-11,2	-13,3	-14,8
Tax rate (%)	23,9 %	20,1 %	18,8 %	20,1 %	20,0 %	20,5 %	19,6 %	20,0 %	20,0 %
Minorities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net income (reported)	15,3	16,6	14,7	27,1	26,4	34,6	45,9	53,1	59,2
Average number of shares (million)	58,9	58,9	58,9	58,9	58,9	58,9	58,9	58,9	58,9
EPS (reported)	0,26	0,28	0,25	0,46	0,45	0,59	0,78	0,90	1,01
Dividend and capital return	-	-	-	0,51	0,41	0,50	0,58	0,68	0,75
Payout ratio (%)				111 %	92 %	85 %	75 %	75 %	75 %

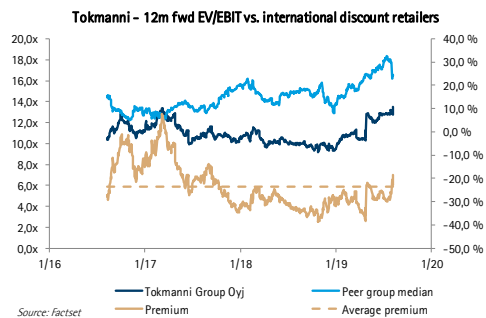
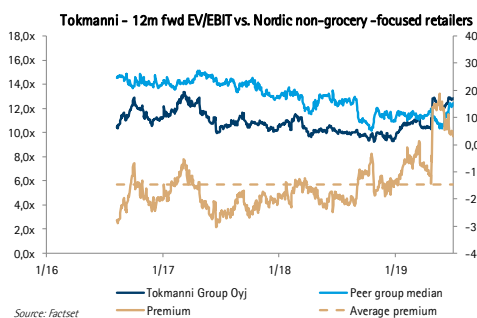
Source: Tokmanni, Evli Research



Valuation

TOKMANNI PEERS	MCAP local FX	EV/EBITDA 19	EV/EBITDA 20	EV/EBITDA 21	EV/EBIT 19	EV/EBIT 20	EV/EBIT 21	EV/FCF 19	EV/FCF 20	EV/FCF 21	P/E 19	P/E 20	P/E 21
Nordic non-grocery focused retailers													
Bygghem Group AB	2001	5,9x	5,4x	4,9x	16,0x	13,3x	11,3x	7,2x	10,7x	7,1x	9,9x	8,1x	7,2x
Clas Ohlson AB Class B	5519	7,7x	6,5x	6,8x	12,5x	10,5x	9,6x	15,6x	10,1x	12,1x	14,9x	13,1x	12,2x
Europris ASA	4137	6,5x	5,9x	5,5x	12,0x	10,3x	9,6x	18,4x	13,6x	11,7x	11,5x	9,6x	9,1x
Stockmann Oyj Abp Class B	148	10,3x	8,1x	6,6x		19,4x	13,0x		87,1x	25,0x			12,8x
Verkkokauppa.com Oy	155	7,3x	6,4x	5,7x	10,2x	8,5x	7,2x	12,6x	11,2x	9,4x	17,3x	14,1x	12,2x
XXL ASA	3637	6,8x	5,9x	5,5x	15,5x	12,8x	11,0x	24,0x	13,1x	10,3x	13,9x	10,8x	9,4x
Nordic grocery focused retailers													
Axfood AB	43365	10,9x	10,7x	10,6x	21,2x	20,9x	20,6x	23,5x	22,4x	21,8x	26,6x	25,8x	25,3x
ICA Gruppen AB	87197	10,5x	10,3x	10,1x	21,5x	21,0x	20,7x	29,0x	27,8x	24,8x	23,3x	22,8x	22,5x
Kesko Oyj Class B	5551	8,6x	8,3x	8,1x	17,5x	16,5x	15,8x	33,4x	22,2x	18,4x	19,6x	19,2x	18,3x
International discount retailers													
B&M European Value Retail SA	3494	11,5x	10,0x	8,7x	14,0x	12,0x	10,4x	23,6x	18,4x	18,5x	16,4x	13,9x	12,2x
Big Lots, Inc.	9445	3,6x	3,4x	3,5x	6,0x	5,8x	6,5x	11,7x	10,7x		6,4x	6,1x	5,9x
Costco Wholesale Corporation	120854	18,6x	17,2x	15,8x	24,6x	22,7x	21,0x	48,2x	44,1x	38,0x	33,7x	32,2x	29,9x
Distribuidora Internacional de Alimentacion S	307	10,3x	8,4x			562,7x							
Dollar General Corporation	35491	14,0x	12,9x	12,0x	17,0x	15,7x	14,6x	27,0x	25,5x	24,1x	21,2x	19,2x	17,5x
Dollar Tree, Inc.	22076	10,7x	9,3x	8,4x	14,7x	12,4x	11,0x	25,3x	20,4x	18,6x	21,2x	19,2x	17,5x
Dollarama Inc.	15860	16,1x	14,8x		20,0x	18,5x		29,7x	26,6x		27,1x	23,3x	21,4x
Pan Pacific International Holdings Corporatio	1100306	17,7x	15,0x	13,9x	23,6x	19,9x	18,1x		63,5x	49,9x	23,6x	22,4x	20,2x
Five Below, Inc.	6276	21,5x	17,3x	14,1x	26,7x	21,4x	17,4x	87,5x	68,3x	44,8x	35,5x	29,7x	24,5x
Ollie's Bargain Outlet Holdings Inc	5118	22,9x	19,4x	16,7x	25,9x	22,0x	18,1x	112,3x	89,3x		37,2x	31,9x	27,0x
Target Corporation	42934	7,9x	7,8x	7,8x	12,2x	11,9x	11,9x	20,6x	21,0x	19,0x	14,1x	13,2x	12,3x
Walmart Inc.	309794	11,2x	10,9x	10,5x	16,8x	16,3x	15,7x	25,1x	22,5x	21,6x	22,4x	21,4x	20,1x
Nordic non-grocery peers median	4137	7,0x	6,2x	5,6x	12,5x	11,6x	10,3x	15,6x	12,1x	11,0x	13,9x	10,8x	10,8x
Nordic grocery focused retailers		10,5x	10,3x	10,1x	21,2x	20,9x	20,6x	29,0x	22,4x	21,8x	23,3x	22,8x	22,5x
Discount retailers median	18968	12,7x	11,9x	11,3x	17,0x	17,4x	15,2x	26,1x	25,5x	22,9x	22,4x	21,4x	20,1x
Tokmanni (Evli est.)	536	7,1x	6,4x	6,0x	13,4x	11,4x	10,3x	19,5x	15,2x	13,4x	11,7x	10,0x	9,0x
<i>Tokmanni premium vs. Nordic non-grocery focused peers</i>		-13%	-17%	-41%	-23%	-45%	-59%	-28%	-25%	-22%	-18%	-7%	-16%
<i>Tokmanni premium vs. Nordic grocery focused peers</i>		-44%	-46%	-47%	-21%	-34%	-32%	-24%	-40%	-41%	-48%	-53%	-55%
<i>Tokmanni premium vs. int. discount peers</i>													
TOKMANNI PEERS													
Nordic non-grocery focused retailers													
Bygghem Group AB	BMAX-SE	6,1%	7,0%	8,4%	4,8%	5,4%	5,9%	7,6%	8,9%	5,9%	13,2%	15,3%	16,2%
Clas Ohlson AB Class B	CLAS.B-SE	6,9%	6,5%	6,4%	5,3%	6,0%	6,4%	21,7%	22,8%	22,5%	19,5%	21,3%	20,8%
Europris ASA	EPR-NO	7,1%	7,6%	7,9%	8,8%	10,0%	10,0%	10,8%	12,4%	12,9%	19,9%	21,3%	21,9%
Stockmann Oyj Abp Class B	STCBV-FI	0,0%	0,0%	2,4%		3,6%	5,1%		2,9%	4,2%	-3,0%	-0,4%	1,5%
Verkkokauppa.com Oy	VERK-FI	6,2%	6,5%	6,6%	2,5%	2,7%	2,8%	19,0%	21,6%	23,1%	23,6%	27,7%	29,9%
XXL ASA	XXL-NO	1,5%	4,8%	5,7%	5,1%	5,6%	5,9%	6,5%	7,3%	7,9%	6,7%	8,1%	8,9%
Nordic grocery focused retailers													
Axfood AB	AXFO-SE	3,4%	3,4%	3,5%	4,5%	4,4%	4,4%	20,1%	20,0%	19,5%	38,9%	38,0%	36,6%
ICA Gruppen AB	ICA-SE	2,7%	2,7%	2,8%	4,3%	4,3%	4,4%	8,6%	8,6%	8,5%	10,9%	10,8%	10,5%
Kesko Oyj Class B	KESKOB-FI	4,4%	4,7%	4,9%	4,3%	4,4%	4,4%	10,0%	10,6%	11,1%	14,4%	14,4%	14,8%
International discount retailers													
B&M European Value Retail SA	BME-GB	2,4%	2,8%	3,2%	7,1%	7,5%	7,8%	13,0%	14,2%	14,0%	18,3%	19,9%	20,4%
Big Lots, Inc.	BIG-US	5,1%	5,2%	5,8%	4,0%	4,0%	3,7%	10,2%	10,1%		20,8%	20,0%	
Costco Wholesale Corporation	COST-US	0,9%	1,0%	1,0%	3,2%	3,2%	3,2%	20,7%	20,6%	21,6%	24,1%	22,4%	21,4%
Distribuidora Internacional de Alimentacion S	DIA-ES	0,0%	0,0%	0,0%	-0,6%	0,0%	0,1%						
Dollar General Corporation	DG-US	0,9%	1,0%	1,1%	8,1%	8,2%	8,2%	16,3%	16,7%	17,6%	23,8%	23,7%	22,7%
Dollar Tree, Inc.	DLTR-US	0,0%	0,0%	0,0%	7,3%	8,0%	8,2%	12,6%	13,9%	14,6%	18,0%	17,9%	16,4%
Dollarama Inc.	DOL-CA	0,4%	0,4%		23,5%	23,9%	23,4%	28,7%	30,4%				
Pan Pacific International Holdings Corporatio	7532-JP	0,5%	0,5%	0,6%	4,8%	4,4%	4,6%	6,7%	7,9%	8,4%	13,3%	12,4%	12,2%
Five Below, Inc.	FIVE-US	0,0%	0,0%	0,0%	11,8%	12,1%	12,2%	18,8%	20,0%	24,2%	24,6%	23,7%	22,5%
Ollie's Bargain Outlet Holdings Inc	OLLI-US	0,0%	0,0%	0,0%	13,3%	13,4%	13,8%	13,9%	15,4%		13,3%	14,1%	13,3%
Target Corporation	TGT-US	3,1%	3,3%	3,4%	5,6%	5,7%	5,6%	15,8%	16,0%	14,7%	26,2%	26,0%	28,4%
Walmart Inc.	WMT-US	2,0%	1,9%	2,1%	4,1%	4,1%	4,1%	14,4%	14,8%	14,7%	18,7%	19,5%	20,5%
Nordic non-grocery peers median		6,2%	6,5%	6,5%	5,1%	5,5%	5,3%	10,8%	10,8%	11,2%	16,4%	18,3%	18,5%
Nordic grocery focused retailers		3,4%	3,4%	3,5%	4,3%	4,4%	4,4%	10,0%	10,6%	11,1%	14,4%	14,4%	14,8%
Discount retailers median		0,7%	0,8%	1,0%	6,4%	6,6%	6,7%	14,4%	15,4%	14,7%	19,7%	19,9%	20,5%
Tokmanni (Evli est.)		6,4%	7,4%	7,8%	7,1%	7,9%	8,4%	11,4%	12,9%	14,0%	26,2%	27,7%	28,1%
TOKMANNI PEERS													
Nordic non-grocery focused retailers													
Bygghem Group AB		82%	51%	69%	3%	2%	2%	3,1x	2,9x	2,5x	30%	31%	32%
Clas Ohlson AB Class B		49%	65%	56%	3%	3%	2%	0,2x	0,0x	-0,1x	46%	45%	47%
Europris ASA		35%	44%	48%	4%	4%	3%	2,3x	2,1x	1,8x	28%	29%	31%
Stockmann Oyj Abp Class B		-44%	9%	26%	4%	4%	4%	8,0x	6,3x	5,1x	44%	44%	44%
Verkkokauppa.com Oy		58%	57%	60%	1%	1%	0%	-1,3x	-1,2x	-1,2x	21%	21%	20%
XXL ASA		28%	45%	54%	3%	3%	3%	3,5x	2,9x	2,6x	39%	40%	41%
Nordic grocery focused retailers													
Axfood AB		46%	48%	48%	3%	3%	3%	1,0x	1,1x	1,1x	23%	24%	24%
ICA Gruppen AB		36%	37%	41%	4%	5%	4%	2,2x	2,1x	2,0x	35%	36%	37%
Kesko Oyj Class B		26%	38%	44%	4%	3%	2%	2,7x	2,6x	2,6x	31%	31%	32%
International discount retailers													
B&M European Value Retail SA		49%	54%	47%	2%	2%	2%	1,4x	1,2x	0,8x	42%	44%	43%
Big Lots, Inc.		31%	32%	na.	5%	4%		0,9x	0,9x	1,1x	26%	27%	
Costco Wholesale Corporation		39%	39%	42%	2%	2%	2%	-0,2x	-0,3x	-0,3x	35%	37%	41%
Distribuidora Internacional de Alimentacion SA		-139%	-32%	na.	3%	3%		8,6x	7,1x				
Dollar General Corporation		52%	50%	50%	3%	3%	3%	0,9x	0,8x	0,7x	40%	42%	45%
Dollar Tree, Inc.		42%	46%	45%	4%	4%	3%	1,4x	0,9x	0,5x	40%	45%	52%
Dollarama Inc.		54%	56%	49%	4%	4%	2%	1,8x	1,8x		-9%	-13%	
Pan Pacific International Holdings Corporation		-53%	24%	28%	3%	3%	2%	4,8x	4,2x	3,8x	28%	30%	32%
Five Below, Inc.		25%	26%	32%	10%	8%	7%	-1,1x	-0,9x	-1,0x	48%	52%	61%
Ollie's Bargain Outlet Holdings Inc		20%	28%	0%	5%	5%		-0,6x	-0,6x	-1,0x	69%	69%	
Target Corporation		39%	37%	41%	4%	4%	4%	1,6x	1,6x	1,7x	27%	28%	27%
Walmart Inc.		45%	48%	49%	2%	2%	2%	1,7x	1,6x	1,5x	32%	32%	31%
Nordic non-grocery peers median		42%	48%	55%	3%	3%	2%	2,7x	2,5x	2,2x	34%	36%	37%
Nordic grocery focused retailers		36%	38%	44%	4%	3%	3%	2,2x	2,1x	2,0x	31%	31%	32%
Discount retailers median		39%	38%	43%	4%	3%	2%	1,4x	1,1x	0,8x	35%	37%	42%
Tokmanni (Evli est.)		36%	42%	45%	6%	6%	6%	2,9x	2,6x	2,3x	24%	27%	29%

Source: Factset, Evli Research



VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	9.10 PV of Free Cash Flow	420 Long-term growth, %	2.0 Risk-free interest rate, %	2.25
DCF share value	9.58 PV of Horizon value	552 WACC, %	7.6 Market risk premium, %	5.8
Share price potential, %	5.3 Unconsolidated equity	0 Spread, %	0.5 Debt risk premium, %	3.3
Maximum value	11.1 Marketable securities	38 Minimum WACC, %	7.1 Equity beta coefficient	0.90
Minimum value	8.3 Debt - dividend	-446 Maximum WACC, %	8.1 Target debt ratio, %	20
Horizon value, %	56.8 Value of stock	564 Nr of shares, Mn	58.9 Effective tax rate, %	25

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	870	946	984	1,014	1,034	1,055	1,076	1,097	1,119	1,142	1,165	1,188
<i>Sales growth, %</i>	<i>9.3</i>	<i>8.7</i>	<i>4.0</i>	<i>3.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>
Operating income (EBIT)	52	68	78	85	78	79	81	82	84	74	76	77
<i>EBIT margin, %</i>	<i>6.0</i>	<i>7.1</i>	<i>7.9</i>	<i>8.4</i>	<i>7.5</i>	<i>7.5</i>	<i>7.5</i>	<i>7.5</i>	<i>7.5</i>	<i>6.5</i>	<i>6.5</i>	<i>6.5</i>
+ Depreciation+amort.	58	60	61	61	61	61	58	59	59	66	65	
- Income taxes	-12	-13	-15	-17	-15	-16	-16	-16	-17	-15	-15	
- Change in NWC	-5	-9	-4	-3	-2	-2	-2	-2	-2	-2	-2	
<i>NWC / Sales, %</i>	<i>10.0</i>	<i>10.2</i>	<i>10.2</i>	<i>10.2</i>	<i>10.2</i>	<i>10.2</i>	<i>10.2</i>	<i>10.2</i>	<i>10.2</i>	<i>10.2</i>	<i>10.2</i>	
+ Change in other liabs	-1	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-299	-60	-61	-61	-62	-62	-62	-62	-62	-61	-64	-65
<i>Investments / Sales, %</i>	<i>34.3</i>	<i>6.3</i>	<i>6.2</i>	<i>6.0</i>	<i>6.0</i>	<i>5.9</i>	<i>5.8</i>	<i>5.6</i>	<i>5.5</i>	<i>5.3</i>	<i>5.5</i>	<i>5.5</i>
- Other items	1	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	-206	46	59	65	59	61	59	61	63	63	60	1,095
= Discounted FCF (DFCF)		44	53	55	46	44	40	38	36	34	30	552
= DFCF min WACC		44	53	55	47	45	41	39	38	35	31	634
= DFCF max WACC		44	53	54	45	43	39	37	35	33	29	485

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1	2019Q2	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	174	218	211	268	870	188	240	231	287	946	984	1,014
EBITDA	12	28	30	41	110	13	34	34	47	128	139	146
<i>EBITDA margin (%)</i>	<i>7.0</i>	<i>12.6</i>	<i>14.1</i>	<i>15.1</i>	<i>12.6</i>	<i>6.8</i>	<i>14.2</i>	<i>14.9</i>	<i>16.3</i>	<i>13.5</i>	<i>14.1</i>	<i>14.4</i>
EBIT	-2	13	16	26	52	-2	19	19	32	68	78	85
<i>EBIT margin (%)</i>	<i>-1.1</i>	<i>6.0</i>	<i>7.4</i>	<i>9.5</i>	<i>6.0</i>	<i>-1.2</i>	<i>7.8</i>	<i>8.4</i>	<i>11.1</i>	<i>7.1</i>	<i>7.9</i>	<i>8.4</i>
Net financial items	-3	-2	-3	-3	-11	-3	-3	-3	-3	-11	-12	-11
Pre-tax profit	-5	11	13	23	42	-5	16	17	29	57	66	74
Tax	1	-2	-2	-5	-9	1	-3	-3	-6	-11	-13	-15
<i>Tax rate (%)</i>	<i>19.1</i>	<i>23.4</i>	<i>18.9</i>	<i>20.0</i>	<i>20.6</i>	<i>21.3</i>	<i>19.3</i>	<i>20.0</i>	<i>20.0</i>	<i>19.7</i>	<i>19.7</i>	<i>19.7</i>
Net profit	-4	8	10	18	33	-4	13	13	23	46	53	59
EPS	-0.06	0.14	0.17	0.31	0.56	-0.06	0.22	0.23	0.39	0.78	0.91	1.01
EPS adjusted (diluted no. of shares)	-0.06	0.14	0.17	0.31	0.56	-0.06	0.22	0.23	0.39	0.78	0.91	1.01
Dividend per share	0.00	0.00	0.00	0.00	0.50	0.00	0.00	0.00	0.00	0.58	0.68	0.71
SALES, EURm												
Group	174	218	211	268	870	188	240	231	287	946	984	1,014
Total	174	218	211	268	870	188	240	231	287	946	984	1,014
SALES GROWTH, Y/Y %												
Group	10.9	11.0	7.8	8.0	9.3	8.3	10.2	9.8	6.8	8.7	4.0	3.0
Total	10.9	11.0	7.8	8.0	9.3	8.3	10.2	9.8	6.8	8.7	4.0	3.0
EBIT, EURm												
Group	-2	13	16	26	52	-2	19	19	32	68	78	85
Total	-2	13	16	26	52	-2	19	19	32	68	78	85
EBIT margin, %												
Group	-1.1	6.0	7.4	9.5	6.0	-1.2	7.8	8.4	11.1	7.1	7.9	8.4
Total	-1.1	6.0	7.4	9.5	6.0	-1.2	7.8	8.4	11.1	7.1	7.9	8.4

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	734	755	776	797	870	946	984	1,014
<i>Sales growth (%)</i>	<i>3.0</i>	<i>2.9</i>	<i>2.7</i>	<i>2.7</i>	<i>9.3</i>	<i>8.7</i>	<i>4.0</i>	<i>3.0</i>
Costs	-677	-697	-713	-742	-760	-818	-845	-868
Reported EBITDA	57	58	63	55	110	128	139	146
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
<i>EBITDA margin (%)</i>	<i>7.8</i>	<i>7.7</i>	<i>8.1</i>	<i>6.9</i>	<i>12.6</i>	<i>13.5</i>	<i>14.1</i>	<i>14.4</i>
Depreciation	-13	-15	-15	-14	-58	-60	-61	-61
EBITA	44	44	48	41	52	68	78	85
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	44	44	48	41	52	68	78	85
<i>EBIT margin (%)</i>	<i>5.9</i>	<i>5.8</i>	<i>6.1</i>	<i>5.1</i>	<i>6.0</i>	<i>7.1</i>	<i>7.9</i>	<i>8.4</i>
Net financials	-22	-21	-15	-6	-11	-11	-12	-11
Pre-tax profit	21	23	33	35	42	57	66	74
Extraordinary items	-2	-5	2	-1	1	0	0	0
Taxes	-4	-3	-7	-7	-9	-11	-13	-15
Minority shares	0	0	0	0	0	0	0	0
Net profit	15	15	27	27	34	46	53	59
BALANCE SHEET, EURm								
Assets								
Fixed assets	93	97	95	94	329	329	329	329
<i>% of sales</i>	<i>13</i>	<i>13</i>	<i>12</i>	<i>12</i>	<i>38</i>	<i>35</i>	<i>33</i>	<i>32</i>
Goodwill	129	129	129	129	135	135	135	135
<i>% of sales</i>	<i>18</i>	<i>17</i>	<i>17</i>	<i>16</i>	<i>15</i>	<i>14</i>	<i>14</i>	<i>13</i>
Inventory	151	160	155	170	191	208	216	223
<i>% of sales</i>	<i>21</i>	<i>21</i>	<i>20</i>	<i>21</i>	<i>22</i>	<i>22</i>	<i>22</i>	<i>22</i>
Receivables	16	16	18	22	22	23	24	25
<i>% of sales</i>	<i>2</i>	<i>2</i>	<i>2</i>	<i>3</i>	<i>3</i>	<i>2</i>	<i>2</i>	<i>2</i>
Liquid funds	52	49	58	43	38	47	49	51
<i>% of sales</i>	<i>7</i>	<i>6</i>	<i>7</i>	<i>5</i>	<i>4</i>	<i>5</i>	<i>5</i>	<i>5</i>
Total assets	446	455	459	462	721	749	760	769
Liabilities								
Equity	33	48	167	163	167	183	202	222
<i>% of sales</i>	<i>5</i>	<i>6</i>	<i>21</i>	<i>20</i>	<i>19</i>	<i>19</i>	<i>21</i>	<i>22</i>
Deferred taxes	6	6	5	5	6	6	6	6
<i>% of sales</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>
Interest bearing debt	306	294	174	177	417	418	405	391
<i>% of sales</i>	<i>42</i>	<i>39</i>	<i>22</i>	<i>22</i>	<i>48</i>	<i>44</i>	<i>41</i>	<i>39</i>
Non-interest bearing current liabilities	84	91	104	107	123	132	138	142
<i>% of sales</i>	<i>11</i>	<i>12</i>	<i>13</i>	<i>13</i>	<i>14</i>	<i>14</i>	<i>14</i>	<i>14</i>
Other interest free debt	18	16	10	11	10	10	10	10
<i>% of sales</i>	<i>2</i>	<i>2</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>
Total liabilities	446	455	459	463	721	749	760	769
CASH FLOW, EURm								
+ EBITDA	57	58	63	55	110	128	139	146
- Net financial items	-22	-21	-15	-6	-11	-11	-12	-11
- Taxes	-4	-3	-7	-7	-10	-11	-13	-15
- Increase in Net Working Capital	-3	-3	17	-14	-5	-9	-4	-3
+/- Other	-2	-5	2	-1	1	0	0	0
= Cash flow from operations	26	27	59	27	86	97	110	117
- Capex	-13	-18	-13	-13	-284	-60	-61	-61
- Acquisitions	0	0	0	0	-15	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	13	8	46	14	-212	37	49	56
+/- Change in interest-bearing debt	-9	-12	-120	3	240	2	-13	-15
+/- New issues/buybacks	1	0	91	-1	-6	0	0	0
- Paid dividend	0	0	0	-30	-24	-29	-34	-40
+/- Change in loan receivables	0	0	-8	-1	-1	0	0	0
Change in cash	5	-3	9	-15	-3	9	2	1

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	0	500	427	423	536	536	536
Net debt	245	116	134	379	371	356	340
Enterprise value	245	616	561	801	907	892	876
Sales	755	776	797	870	946	984	1,014
EBITDA	58	63	55	110	128	139	146
EBIT	44	48	41	52	68	78	85
Pre-tax	23	33	35	42	57	66	74
Earnings	19	26	28	33	46	53	59
Book value	48	167	163	167	183	202	222
Valuation multiples							
EV/sales	0.3	0.8	0.7	0.9	1.0	0.9	0.9
EV/EBITDA	4.2	9.8	10.2	7.3	7.1	6.4	6.0
EV/EBITA	5.6	12.9	13.8	15.3	13.4	11.4	10.3
EV/EBIT	5.6	12.9	13.8	15.3	13.4	11.4	10.3
EV/operating cash flow	5.0	8.9	17.1	8.7	8.6	7.5	6.9
EV/cash earnings	7.2	15.3	13.3	9.0	8.6	7.8	7.3
P/E	0.0	19.5	15.2	12.8	11.7	10.0	9.0
P/E excl. goodwill	0.0	19.5	15.2	12.8	11.7	10.0	9.0
P/B	0.0	3.0	2.6	2.5	2.9	2.7	2.4
P/sales	0.0	0.6	0.5	0.5	0.6	0.5	0.5
P/CF	0.0	7.2	13.0	4.6	5.1	4.5	4.2
Target EV/EBIT	0.0	0.0	0.0	0.0	14.4	12.3	11.0
Target P/E	0.0	0.0	0.0	0.0	13.1	11.3	10.1
Target P/B	0.0	0.0	0.0	0.0	3.3	3.0	2.7
Per share measures							
Number of shares	22,274	58,869	58,869	58,869	58,869	58,869	58,869
Number of shares (diluted)	22,274	58,869	58,869	58,869	58,869	58,869	58,869
EPS	0.87	0.44	0.48	0.56	0.78	0.91	1.01
EPS excl. goodwill	0.87	0.44	0.48	0.56	0.78	0.91	1.01
Cash EPS	1.53	0.69	0.71	1.52	1.80	1.94	2.04
Operating cash flow per share	2.21	1.18	0.56	1.57	1.79	2.03	2.14
Capital employed per share	13.14	4.80	5.04	9.26	9.41	9.48	9.54
Book value per share	2.16	2.83	2.77	2.83	3.11	3.43	3.77
Book value excl. goodwill	-3.61	0.65	0.58	0.55	0.82	1.15	1.48
Dividend per share	0.00	0.51	0.41	0.50	0.58	0.68	0.71
Dividend payout ratio, %	0.0	116.8	86.0	88.9	75.2	74.7	70.0
Dividend yield, %	0.0	6.0	5.7	7.0	6.4	7.4	7.8
Efficiency measures							
ROE	47.5	23.9	17.0	20.1	26.2	27.7	28.1
ROCE	12.9	14.1	12.1	11.3	11.4	12.9	14.0
Financial ratios							
Capex/sales, %	2.4	1.7	1.7	34.3	6.3	6.2	6.0
Capex/depreciation excl. goodwill,%	124.1	86.0	94.4	508.5	99.5	100.3	100.2
Net debt/EBITDA, book-weighted	4.2	1.8	2.4	3.4	2.9	2.6	2.3
Debt/equity, market-weighted	0.0	0.3	0.4	1.0	0.8	0.8	0.7
Equity ratio, book-weighted	10.9	36.3	35.2	23.1	24.4	26.6	28.8
Gearing	5.10	0.70	0.82	2.27	2.03	1.76	1.53
Number of employees, average	0	0	0	0	0	0	0
Sales per employee, EUR	0	0	0	0	0	0	0
EBIT per employee, EUR	0	0	0	0	0	0	0

COMPANY DESCRIPTION:

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Takoa Invest	10,267,688	93.436	17.4%
Keskinäinen Työeläkevakuutusyhtiö Elo	4,750,000	43.225	8.1%
Keskinäinen työeläkevakuutusyhtiö Varma	4,343,252	39.524	7.4%
Sijoitusrahasto Nordea Pro Suomi	2,670,267	24.299	4.5%
OP-Suomi Arvo -sijoitusrahasto	1,870,606	17.023	3.2%
Keskinäinen Eläkevakuutusyhtiö Ilmarinen	1,388,574	12.636	2.4%
Fondita Nordic Small Cap -sijoitusrahasto	863,000	7.853	1.5%
Eläkevakuutusosakeyhtiö Veritas	810,000	7.371	1.4%
OP-Suomi Pienyhtiöt -sijoitusrahasto	802,936	7.307	1.4%
Sijoitusrahasto Nordea Nordic Small Cap	769,128	6.999	1.3%
Ten largest	28,535,451	259.673	48%
Residual	30,333,301	276.033	52%
Total	58,868,752	535.706	100%

EARNINGS CALENDAR

OTHER EVENTS

COMPANY MISCELLANEOUS

CEO: Mika Rautiainen

CFO: Markku Pirskanen

IR: Maarit Mikkonen

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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

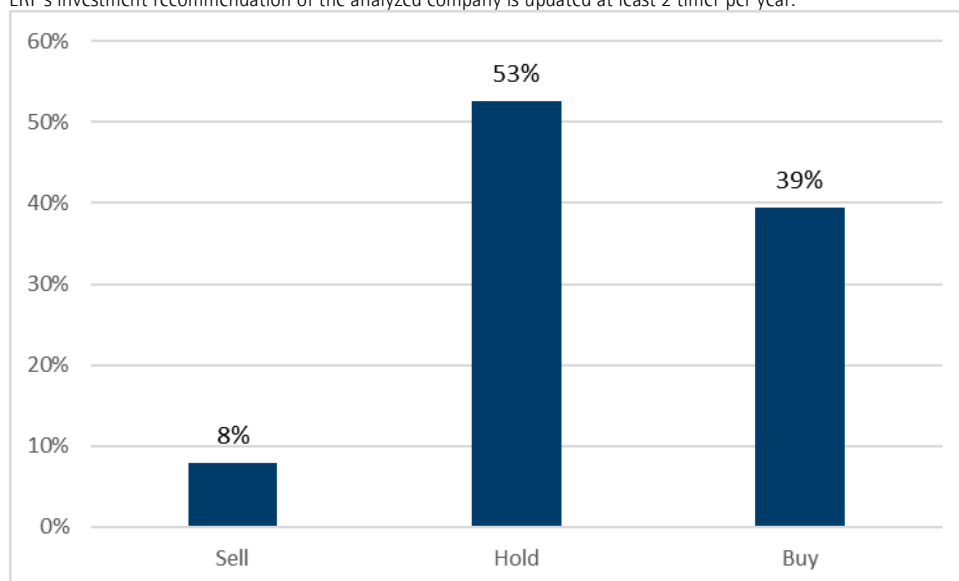
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Investment recommendations are defined as follows:

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

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

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