

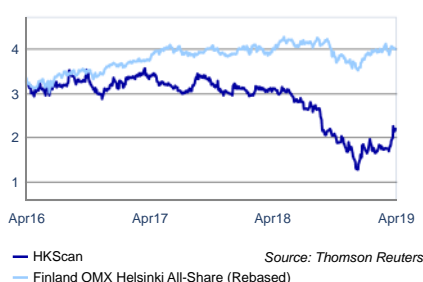
HKScan

Food, Beverages and Ingredients
Finland

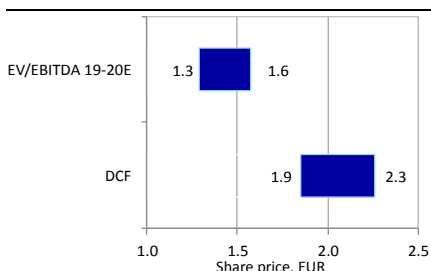
KEY DATA

Stock country	Finland
Bloomberg	HKSAV FH
Reuters	HKSAV.HE
Share price (close)	EUR 2.25
Free Float	53%
Market cap. (bn)	EUR 0.12/EUR 0.12
Website	www.hkscan.com
Next report date	08 May 2019

PERFORMANCE



VALUATION APPROACH



ESTIMATE CHANGES

Year	2019E	2020E	2021E
Sales	0%	0%	0%
EBIT (adj)	0%	0%	0%

Source: Nordea estimates

Nordea Markets - Analysts

Harri Paakkola
AnalystJoni Sandvall
Analyst

Entering a calmer phase

HKScan, one of the leading Nordic meat and food processors, is taking action to restore its fortunes – and cash flow – after a prolonged period of dealing with ramp-up problems at its new state-of-the-art poultry factory. Looking beyond the current challenging financial situation, the new Rauma unit will improve HKScan's market position in the growing poultry segment. We estimate a sales CAGR of 0.9% for 2019-21, and expect the company to reach break-even EBIT in 2020 and EUR 10m in 2021.

Rauma spearheading an operational improvement

The prolonged Rauma ramp-up is in its last phase, although HKScan still expects some additional minor investments. The new poultry unit burdened group profitability by EUR ~60m during 2017-18. With Rauma nearing completion and cost-efficiency measures having recently been announced, however, we anticipate a solid improvement in the Finnish operations for 2019-21 and expect the division to reach positive EBIT in 2020. The Swedish operation has undergone efficiency improvements and the new modernised unit is now fully operational, thus profitability should be bolstered further, although we expect some currency headwinds for 2019. In general, we expect elevated raw material prices and wage inflation to limit the impact of the cost-saving programmes.

Cash flow is the key going forward

The balance sheet is currently stretched, with 2019E net debt/EBITDA of 5.6x (we estimate EUR 45m extra debt and EUR 12m higher EBITDA with IFRS 16 implementation), and we see a possibility that divestments may be required to resolve the situation. The most likely candidate for divestment is the loss-making Danish operation, in our view. In general, the company will now turn its focus to cash flows; we expect free cash flow of EUR 23m for 2021, up from EUR -117m in 2018. With our assumptions, the free cash flow yield will reach ~8% in 2019. Due to its challenging financial position, we do not expect HKScan to pay dividends in the next few years.

Valuation approach

We derive a fair value for HKScan using a combination of peer group and DCF analyses. By equally weighting the two different approaches (DCF and EV/EBITDA), we arrive at a fair value range of EUR 1.6-2.0 per share. We note that the high gearing and low profitability currently are hampering valuation, and there is high uncertainty over what a normalised earnings level will be after the current cost-saving programmes end.

SUMMARY TABLE - KEY FIGURES

EURm	2015	2016	2017	2018	2019E	2020E	2021E
Total revenue	1,917	1,873	1,808	1,715	1,714	1,725	1,758
EBITDA (adj)	86	68	52	9	58	68	76
EBIT (adj)	22	13	-18	-48	-8	2	10
EBIT (adj) margin	1.1%	0.7%	-1.0%	-2.8%	-0.5%	0.1%	0.6%
EPS (adj)	0.23	-0.04	-0.42	-0.96	-0.36	-0.22	-0.10
EPS (adj) growth	-10.3%	-115.6%	1,099.7%	-128.4%	62.6%	38.5%	53.7%
DPS (ord)	0.14	0.16	0.09	0.00	0.00	0.00	0.00
EV/Sales	0.2	0.2	0.2	0.2	0.2	0.2	0.2
EV/EBIT (adj)	15.2	21.9	n.m.	n.m.	n.m.	193.6	38.1
P/E (adj)	16.9	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
P/BV	0.5	0.4	0.5	0.2	0.4	0.4	0.4
Dividend yield (ord)	3.7%	5.0%	2.9%	0.0%	0.0%	0.0%	0.0%
FCF Yield bef acq & disp	7.6%	8.3%	-37.3%	-152.0%	8.2%	13.1%	18.6%
Net debt	144	138	208	335	324	307	284
Net debt/EBITDA	1.9	2.1	7.1	46.5	5.6	4.5	3.7
ROIC after tax	2.8%	1.8%	-2.3%	-5.6%	-1.0%	0.2%	1.6%

Source: Company data and Nordea estimates

Contents

Factors to consider when investing in HKScan	3
Risk factors	6
Valuation	8
Company overview	12
Strategy and financial targets	21
Market overview	23
Peers	30
Estimates	32
Macro outlook	40
Historical financials	41
Reported numbers and forecasts	44
Disclaimer and legal disclosures	47

Factors to consider when investing in HKScan

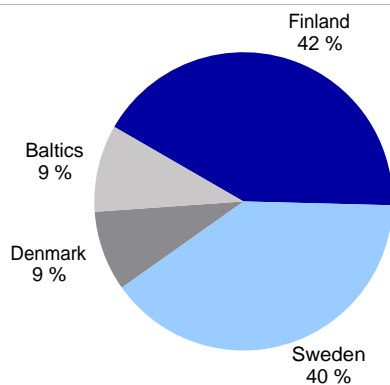
HKScan is one of the leading meat and food companies in Finland and Sweden with operations also in the Baltics and Denmark. In 2018, it had net sales of EUR 1,715m and employed ~7,200 people. The company has faced challenges from the ramp-up of a new factory in Rauma (Finland) and elevated raw material prices in the past few years. It believes, however, that this state-of-the-art poultry factory is the key to improving its market position in the growing poultry segment and also increasing exports.

A leading Nordic food and meat company

HKScan has the largest exposure to the Finnish and Swedish markets

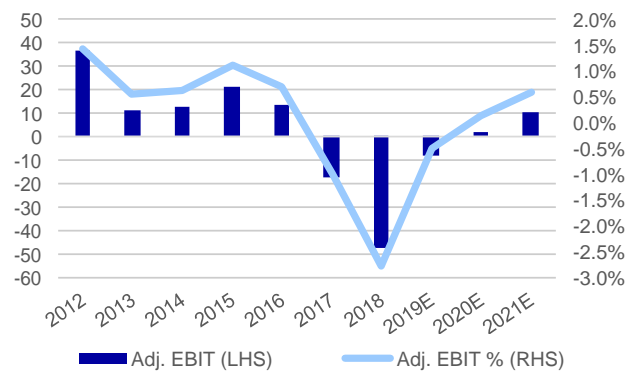
HKScan is a leading food company operating mainly in Finland and Sweden. The company holds number one or two positions in all of its main market areas. Currently, Finland and Sweden constitute ~80% of annual net sales, while the Baltics and Denmark make up the remaining 20% with equal weights. HKScan has also started to export pork to the Chinese market, where demand is high. Though volumes are small, Omega-3 pork exports to world's largest and most demanding pork markets underline the company's ability to develop and deliver high-quality meat products.

NET SALES BREAKDOWN, 2018



Source: Company data

ADJUSTED EBIT AND EBIT MARGIN



Source: Company data

Poultry consumption is growing, at the expense of overall meat consumption, due to concerns over sustainability and dietary issues

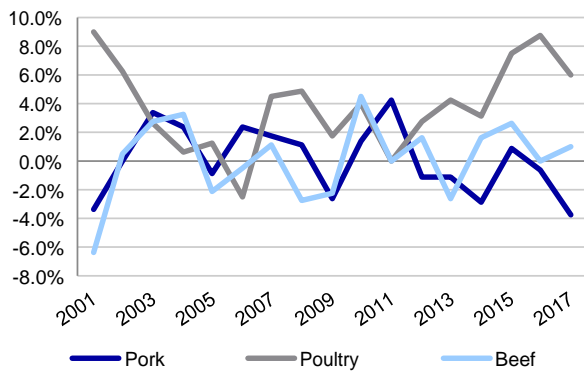
Increased focus on the growing poultry segment

Poultry consumption has increased at mid-single-digit rates annually throughout the Baltic Sea region – Denmark, Finland, Sweden and the Baltic states, according to the company's definition – over the past few years. Overall meat consumption per capita has shown low single-digit growth in the Nordics over the last ten years. We argue that consumers' concerns about sustainability and dietary issues will continue to boost poultry's growth in HKScan's main market areas. In addition, consumers are willing to pay a premium for locally produced meat, as it is seen as a more sustainable option, we think.

Given the growth outlook for different meat types, it is not surprising that the company has defined "leadership in poultry" as one of its strategic must-win battles. Along with the meals category, poultry products offer interesting growth prospects for HKScan and its peers in the Baltic Sea region.

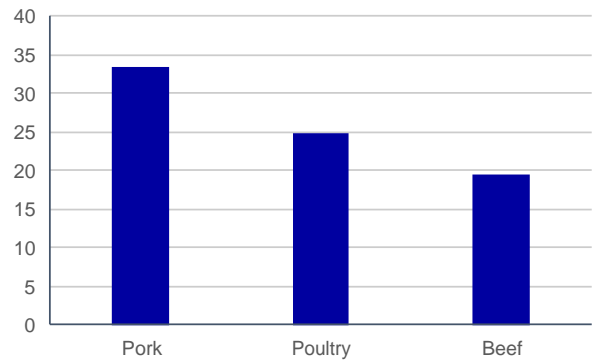
To achieve this strategic goal, the company has invested heavily in a state-of-the-art poultry production unit in Rauma, Finland. The unit started deliveries in Q3 2017 but has faced several challenges since then, and the extra ramp-up costs from Rauma have burdened the company's financials significantly. However, we believe a turnaround is imminent and that the current management will be able to bring the facility's output up to the expected level during 2020.

CHANGE IN MEAT CONSUMPTION PER CAPITA IN FINLAND, Y/Y



Source: Natural Resources Institute Finland

MEAT CONSUMPTION IN FINLAND IN 2017, KG PER CAPITA



Source: Natural Resources Institute Finland

Improving free cash flow is a priority

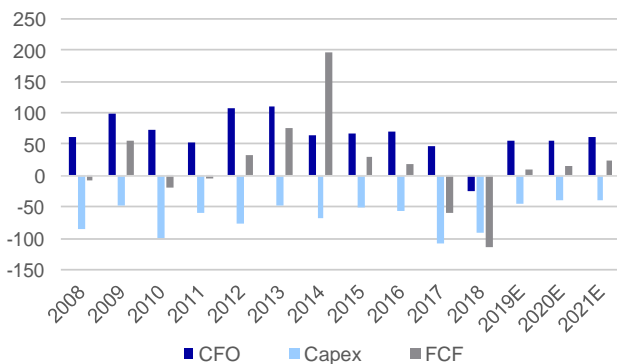
Restoring cash flow is the new CEO's top priority

The newly appointed CEO, Tero Hemmilä, said in his first public appearance that management's biggest task is to turn the company, and especially Rauma, cash flow positive. Up until the Rauma-related capital expenditure, the company was able to generate positive free cash flow and pay dividends. On the positive side, additional costs for Rauma decreased gradually during 2018, with further progress seen in Q4.

In addition to cash flow, management and the board are focusing on profitability and the balance sheet. HKScan expects its improvement programmes and other corrective measures to start bearing fruit in 2019. The company has initiated a review of its strategic targets under the new CEO, and we expect it to clarify these targets at the end of H1 2019. We think the company is aiming to streamline its operations further in order to strengthen its meat industry expertise, profitability and balance sheet.

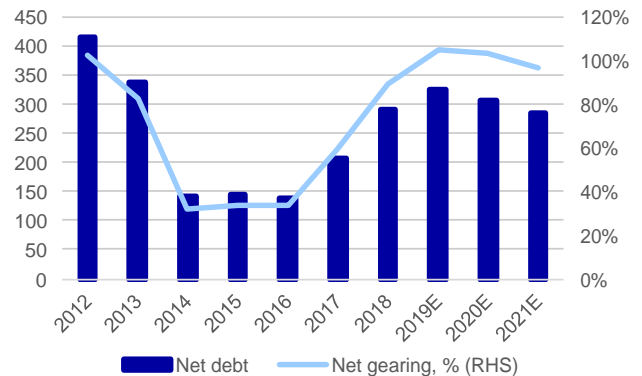
We note that HKScan's debt level is high in relation to its current profitability. The company indicated during Q4 2018 that it is open to all options to address this, and we believe it might consider divesting the loss-making Danish poultry operations. The Danish operations do not carry any goodwill on the balance sheet, which would, in the event of a divestment, limit the impact on the income statement, we note.

CFO, CAPEX AND FCF, EURm



Source: Company data

NET DEBT AND GEARING, EURm AND %



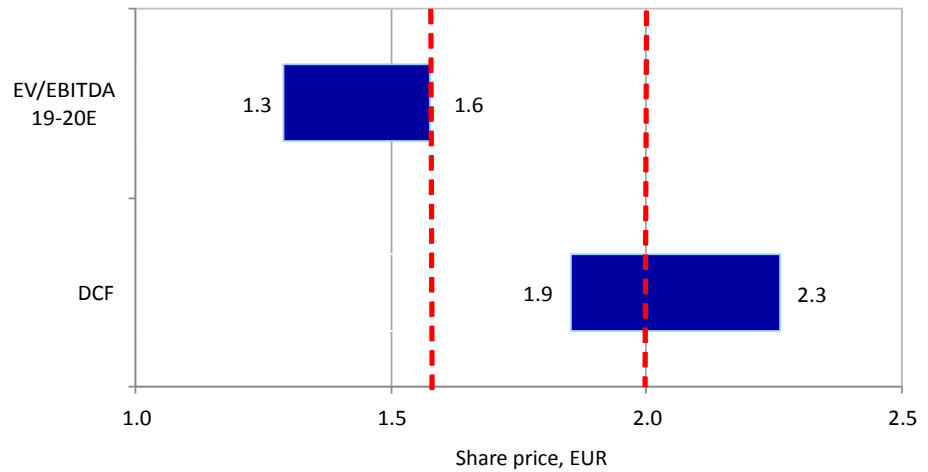
Source: Company data

Valuation conclusion

We use a relative valuation and DCF-based fair value calculation in our analysis. Based on the assumption that the company can deliver revenue growth and an operating profit margin in line with our expectations, we estimate a fair value range of EUR 1.6-2.0 per share based on our two different valuation approaches (DCF and 2019E-20E EV/EBITDA). This valuation range is shown by the red lines in the chart below.

VALUATION APPROACH

Fair value range of EUR 1.6-2.0 per share



Source: Company data and Nordea estimates

Risk factors

In this section, we highlight the main risks we find relevant for HKScan. The list is not exhaustive but sets out our view on some of the key risks for the company, in order of relevance.

A prolonged ramp-up in Rauma may considerably impact the group's financial performance	<p>Short-term risks</p> <p>Ramp-up of the Rauma poultry unit</p> <p>The prolonged ramp-up in Rauma had a EUR 60m negative impact on EBIT in 2017 and 2018. Although additional costs have decreased in recent quarters, we believe potential challenges related to the targeted efficiency improvement of the Rauma unit may have a considerable impact on the group's financial performance.</p>
Covenant breaches could result in defaults on essential parts of loans	<p>Financial covenant breaches</p> <p>The risks related to impairment of assets or breach of financial covenants under finance agreements will likely increase, in our view. Should the company fail to improve its financial performance and strengthen its balance sheet, this would affect the company's financial position and even lead to an equity issue if the situation were to take a turn for the worse.</p> <p>Both of the company's outstanding senior bonds, HKSAV 2019 and HKSAV 2022, have covenants that cap gearing at 130%. Since the bonds constitute EUR ~170m of the total EUR 319m interest-bearing debt, breaches of the covenants could result in default on an essential part of loans. Net gearing was 88.6% in Q4 2018. The gearing limit is tested quarterly.</p>
Potential legal proceedings could result in substantial costs	<p>Legal proceedings</p> <p>The company is (and will likely continue to be) subject to various legal proceedings and investigations that arise occasionally. As a result, it may incur substantial costs that may not be covered by insurance and that could affect the business and the company's reputation. Although management does not expect any such potential legal proceedings to materially affect the company's financial position, litigation is inherently unpredictable and the company may in the future face judgments, or enter into settlements, that could largely impact operational results and cash flow.</p>
Implementing price hikes to protect and improve EBIT margins may be challenging	<p>Long-term risks</p> <p>Increasing raw material prices</p> <p>Other significant risk factors for HKScan include sales and raw material prices, as well as management of global and local meat balances. Increasing raw material prices could result in higher primary production costs. We believe that the dry summer in 2018, resulting in low wheat and oat crop harvests, will push raw material prices up further in H1 2019. As HKScan and other meat-processing companies are positioned in the middle of the value chain, we believe it might be difficult for them to fully implement the necessary product price hikes to protect and improve their EBIT margins.</p>
Shifts in consumer demand could affect profitability...	<p>Customer demand shifts</p> <p>HKScan's key market areas of retail trade are highly centralised, making the company dependent on individual customers. Public discussion related to meat consumption and climate change may also have an impact on demand. As a result, shifts in consumer demand could affect HKScan's profitability.</p>
...as could disease outbreak or food scandals...	<p>Animal disease outbreak</p> <p>In the food industry's raw material supply, the risks of animal diseases, such as African Swine Fever (ASF), or any international or regional food scandals impacting the overall consumption outlook cannot be fully ruled out.</p>
...as well as product safety issues...	<p>Product safety issues</p> <p>As a food manufacturing company, HKScan is exposed to internal and external quality and safety issues throughout the production chain. Product safety issues could dent the company's reputation as a quality producer.</p>

...and foreign competition

Increasing competition from foreign products

HKScan primarily uses domestic meat raw materials, and domestic customers mostly demand domestic meat products. In the event of demand shifts or foreign players entering the market, increased competition could affect the company's profitability. In addition to foreign competitors, local retail chains' own products and brands could intensify competition in the company's home markets.

Valuation

We base our valuation of HKScan on both a multiples valuation and a DCF model. As the company is currently in a turnaround process, we place most emphasis on future, more normalised earnings and hence believe that a DCF model is the most suitable valuation method. We expect the company's recent actions to bear fruit from 2020 onwards and therefore use EV/EBITDA multiples for 2019E-20E. Combining these valuation methods, we arrive at a fair value range of EUR 1.6-2.0 per share.

We expect more normalised earnings after the Rauma ramp-up

Background

HKScan is currently ramping up the new state-of-the-art poultry factory in Rauma, which has taken up more resources and time than initially anticipated. There is already evidence that the efforts to turn around the challenging project are bearing fruit, but due to the weak group profitability in the past few years, we believe it is more relevant to look at a normalised earnings level. We hence use EV/EBITDA valuation multiples for 2019-20 estimates and use a DCF model that assumes normalised long-term cash flows.

It is also notable that HKScan has multiple cost-saving and price increase programmes underway. We expect the cost-saving programme of EUR 40m to be finalised at the end of 2019. In addition, the company has lowered its producer prices, and thus is seeking to reduce its meat raw material prices. If the company is able to deliver cost savings and price increases as planned, we see upside to our estimates.

PEERS' OPERATING METRICS

	Sales growth				EBITDA margin				ROE			
	2018	2019E	2020E	2021E	2018	2019E	2020E	2021E	2018	2019E	2020E	2021E
European peers												
Apetit Oyj	-14.5%	-1.1%	5.4%	3.1%	-0.2%	1.1%	1.7%	1.6%	-6.2%	2.4%	3.7%	3.8%
Atria Oyj	0.2%	0.5%	1.4%	1.9%	2.0%	2.4%	2.8%	2.9%	3.9%	5.0%	5.8%	6.2%
Bell Food Group Ag	15.4%	1.4%	1.6%	3.3%	3.5%	3.6%	3.9%	3.7%	8.6%	7.9%	8.0%	7.4%
Cranswick Plc	2.7%	5.1%	7.1%	5.6%	6.4%	5.8%	6.0%	6.2%	14.5%	13.1%	13.1%	
Fleury Michon Sa	1.2%	1.9%	2.4%		2.8%	3.5%	4.0%		6.9%	7.1%	9.3%	
Societe Ldc Sa	7.6%	6.1%	4.5%	-2.2%	4.6%	4.8%	5.0%	4.9%	11.3%	11.0%	10.9%	
Raisio Oyj	-35.3%	-16.1%	2.9%	3.2%	10.2%	11.7%	12.1%	12.4%	4.5%	8.4%	9.1%	9.4%
Scandi Standard Ab (P)	15.3%	5.9%	3.4%	5.4%	4.2%	5.1%	5.3%	5.6%	13.3%	19.1%	19.1%	18.0%
Ter Beke Nv	33.8%	6.0%	2.9%		3.3%				5.8%			
Average	2.9%	1.1%	3.5%	2.9%	4.1%	4.7%	5.1%	5.3%	7.0%	9.2%	9.9%	9.0%
Median	2.7%	1.9%	2.9%	3.2%	3.5%	4.2%	4.5%	4.9%	6.9%	8.1%	9.2%	7.4%
HKScan (Nordea)	-5.1%	0.1%	0.7%	1.9%	0.5%	3.4%	3.9%	4.3%	-0.2%	-0.1%	0.0%	0.0%
	-7.8pp	-1.7pp	-2.2pp	-1.3pp	-2.9pp	-0.8pp	-0.6pp	-0.6pp	-7.1pp	-8.2pp	-9.2pp	-7.4pp
International peers												
Brf Sa	-9.6%	-3.1%	8.0%	10.5%	-8.6%	5.0%	6.2%	5.7%	-56.4%	3.7%	4.7%	6.9%
Gruppa Cherkizovo Pao	-1.8%				11.2%				21.5%			
Sanderson Farms Inc	-5.0%	8.5%	5.7%	0.1%	0.3%	2.7%	2.9%	2.7%	5.8%	5.1%	7.7%	0.0%
Tyson Foods Inc	3.0%	10.3%	3.0%	1.3%	8.0%	7.6%	7.9%	8.3%	18.7%	15.8%	15.3%	0.0%
Average	-3.3%	5.2%	5.6%	4.0%	2.7%	5.1%	5.6%	5.6%	-2.6%	8.2%	9.2%	2.3%
Median	-3.4%	8.5%	5.7%	1.3%	4.1%	5.0%	6.2%	5.7%	12.2%	5.1%	7.7%	0.0%
HKScan (Nordea)	-5.1%	0.1%	0.7%	1.9%	0.5%	3.4%	3.9%	4.3%	-0.2%	-0.1%	0.0%	0.0%

Source: Thomson Reuters (as of 16 April 2019) and Nordea estimates

EV/EBITDA

2019E-20E EV/EBITDA supports a valuation range of EUR 1.3-1.6 per share

HKScan has historically traded below its peers on forward-looking EV/EBITDA multiples, which we see as justified, since it has, on average, delivered lower EBITDA margins.

The EBITDA margin gap has been wider in recent years, as HKScan has faced challenges with the Rauma factory ramp-up. However, we expect EBITDA margins to start recovering and climb towards 3.9% in 2020 versus the European peer median of 4.5%.

The increase in EBITDA is partly attributable to the new IFRS 16 accounting method. We expect a positive impact of around EUR 12m on group adjusted EBITDA, with around a EUR 11m increase in depreciations, leaving an adjusted EBIT impact of around EUR 1m. Implementation of IFRS 16 will increase liabilities in 2019E owing to long-term rents, and leases will be booked as debt in the balance sheet.

Operational efficiency is set to increase

We expect the EBIT margin for Finland (~42% of group sales) to be around 0.9% for 2020; we still factor in some EUR 3.5m of costs related to the Rauma factory for 2019E, leaving the adjusted EBIT margin at -0.1%. In Sweden, we expect the company to continue to implement measures to improve operational efficiency. If it is able to complete its cost-saving and price increase programmes during 2019, the impact on adjusted EBIT should be material.

We use EV/EBITDA multiples derived from HKScan's European peer group and apply a 10% discount (which is in line with the one-year historical average) to peers' EV/EBITDA median multiple. In addition, we use average our EBITDA estimate for 2019-20 and current net debt (as of the end of Q4 2018). Consequently, we arrive at a 2019E-20E EV/EBITDA valuation range of EUR 1.3-1.6 per share.

HKSCAN: OPERATING METRICS

HKScan	2019E	2020E
Sales	1708	1718
EBITDA adj.	57	67
EPS adj.	-0.37	-0.24
DPS	0.00	0.00
Net debt (as of Q4 2018)		335
Number of shares		54.0

Source: Nordea estimates

HKSCAN: VALUATION MULTIPLES

HKScan	2019-20E
EV/EBITDA	6.5 - 6.8
EV low	405
EV high	421
Discount	10 %
Share price low	1.3
Share price high	1.6

Source: Nordea estimates

DCF model

A discounted cash flow (DCF) model is one of the most common ways to evaluate the intrinsic value of a business and so we also use it to estimate the value of HKScan. A DCF model discounts the value of all future cash flows to their present value using the weighted cost of capital (WACC). The WACC takes into account the expected return for both equity and bond holders of a company. A DCF valuation can be undertaken according to the following steps:

1. Discount a company's free cash flows at WACC to derive the total company's enterprise value (EV).
2. Identify which parts of the total enterprise value are related to debt holders and non-equity claims.
3. Deduct all components that are not related to the equity holders' claim to derive equity value for the company. The equity value is then divided by the number of outstanding shares to achieve a DCF-based share price.

We find DCF to be a good valuation method, since it takes into account the fundamental drivers of a company, such as cost of capital, growth rates, reinvestment rates, etc. The main appeal of a DCF model is that it only takes into account a company's cash flows instead of accounting-based earnings. A disadvantage is that it is relatively sensitive to changes in input values.

Our DCF valuation range for HKScan is EUR 1.9-2.3

Our DCF model is based on the assumption of normalised earnings

In our DCF model, we value HKScan based on the current company structure with the assumption that net sales will grow by 1.4% on average until 2024 and thereafter at a 1.5% pace in perpetuity, meaning organic growth roughly in line with the average inflation rate. We also assume that HKScan will gradually increase its profitability level to an adjusted EBIT margin of 2.5% by 2029. We use a cost of debt of 4.0% in our DCF calculation, as the current level of below 3% is unlikely to persist in the long term. We also assume that the average debt will go down due to higher interest rates in the future and hence we give the company a long-term equity weight of 70% in our DCF model.

WACC COMPONENTS

WACC components	
Risk-free interest rate	1.5%
Market risk premium	5.5%
Forward looking asset beta	n.m.
Debt beta	0.10
Equity beta	2.1-1.9
Cost of equity	13.1-12%
Cost of debt	4.0%
Tax-rate used in WACC	20.0%
Equity weight	70.0%
WACC	10.1-9.3%

Source: Nordea estimates

DCF VALUATION

DCF value	Value	Per share
NPV FCFF	415-437	7.7-8.1
(Net debt)	-335	-6.2
Market value of associates	33	0.6
(Market value of minorities)	-15	-0.3
Surplus values	0	0.0
(Market value preference shares)	0	0.0
Share based adjustments	0	0.0
Other adjustments	0	0.0
Time value	3	0.1
DCF Value	100-123	1.9-2.3

Source: Nordea estimates

DCF ASSUMPTIONS

Averages and assumptions	2019-24	2025-29	2030-34	2035-39	2040-44	2045-49	Sust.
Sales growth, CAGR	1.7 %	1.5%	1.5%	1.5%	1.5%	1.5%	
EBIT-margin, excluding associates	0.8%	2.5%	2.5%	2.5%	2.5%	2.0%	
Capex/depreciation, x	0.6	1.00	1.00	1.00	1.00	1.00	
Capex/sales	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	
NWC/sales	0.8%	1.0%	1.0%	1.0%	1.0%	1.0%	
FCFF, CAGR	16.8%	19.5%	1.5%	1.5%	1.5%	-3.1%	2.0%

Source: Nordea estimates

DCF valuation sensitivity

DCF is highly sensitive to changes in growth and profitability

To highlight the sensitivity of our DCF valuation, we also provide sensitivity matrices modelling variations in revenue growth, margin assumptions and cost of capital. The sensitivities in our WACC are outlined in the following tables.

When we use sensitivities of ± 0.5 pp for WACC, ± 0.5 pp for sales growth and ± 0.5 for EBIT margin change, our DCF model gives us a value range of EUR 0.8-3.6 per share.

WACC VERSUS EBIT MARGIN, EUR PER SHARE

		WACC				
		8.7%	9.2%	9.7%	10.2%	10.7%
EBIT marg. change	+1.0pp	5.4	4.6	3.9	3.3	2.8
	+0.5pp	4.3	3.6	3.0	2.5	2.0
		3.1	2.6	2.1	1.6	1.2
	-0.5pp	2.0	1.5	1.1	0.8	0.5
	-1.0pp	0.9	0.5	0.2	-0.1	-0.3

Source: Nordea estimates

WACC VERSUS SALES GROWTH, EUR PER SHARE

		WACC				
		8.7%	9.2%	9.7%	10.2%	10.7%
Sales gr. change	+1.0pp	3.8	3.1	2.5	2.0	1.6
	+0.5pp	3.4	2.8	2.3	1.8	1.4
		3.1	2.6	2.1	1.6	1.2
	-0.5pp	2.8	2.3	1.9	1.4	1.1
	-1.0pp	2.6	2.1	1.7	1.3	0.9

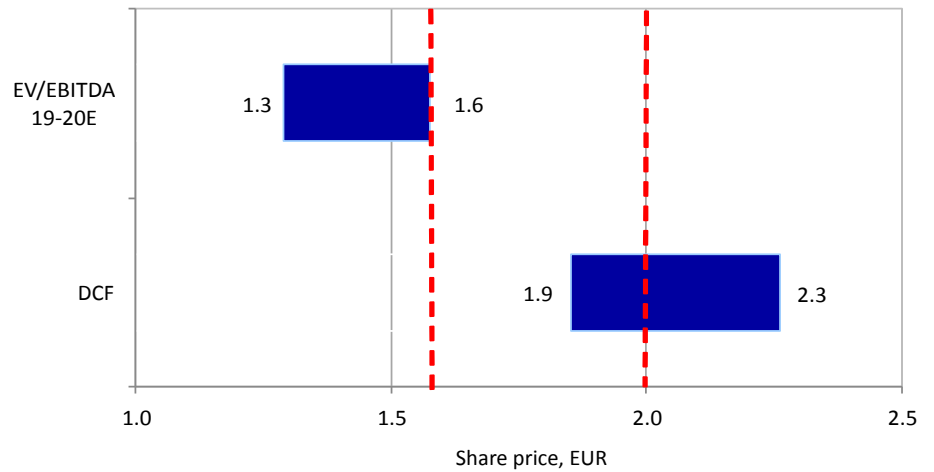
Source: Nordea estimates

Valuation conclusion

We use relative valuation and a DCF-based fair value calculation in our analysis. Based on the assumption that HKScan can deliver revenue growth and an operating profit margin in line with our expectations, we estimate a fair value range of EUR 1.6-2.0 per share based on our two different valuation approaches (DCF and 2019E-20E EV/EBITDA). This valuation range is represented as the red lines in the chart below.

VALUATION APPROACH

Our valuation range for HKScan is EUR 1.6-2.0 per share



Source: Nordea estimates

Company overview

HKScan is a leading Nordic meat and meals company with net sales of EUR 1.7bn in 2018. The company has operations in Finland, Sweden, Denmark as well as the Baltics, and it employs around 7,200 people around the Baltic Rim. Ownership is concentrated, as the meat co-operative LSO Osuuskunta is its largest shareholder with 35% of the shares and 69% of the votes. Around two-thirds of the company's sales come from red meat (mainly pork and beef) and around a third from poultry, a growing category that the company intends to expand.

Nordic meat and meals company

HKScan serves customers in the retail, food service, industrial and export sectors

























HKScan produces, markets and sells high-quality, sustainably produced pork, beef, poultry and lamb products, as well as charcuterie and ready meals, with consumer brands including HK, Scan, Rakvere, Kariniemen, Rose, Pärsons and Tallegg. The company serves customers in the retail, food service, industrial and export sectors. Its home market comprises Finland, Sweden, Denmark and the Baltics. It also exports its products to nearly 50 countries, with China the latest major market opened.

Number one or two player in all of its key market segments

HKScan's product portfolio of strong local brands makes it a leading player in its key markets. Besides its own brands, the company also produces private-label products for larger retail chains. These products typically carry lower gross margins but improve capacity utilisation.

In addition to the Baltic Sea region, HKScan is seeking growth opportunities in China. The company delivered its first batch of pork, 25,000 kg, in April 2018 from the Forssa production unit and plans to ship approximately three million kg of pork during the first year of shipments. The subsequent target is to triple volumes by 2020. In January 2019, the company reported that it had landed a contract with Chinese e-commerce giant Alibaba. HKScan is to deliver its flagship Omega-3 pork products to Alibaba's Hema supermarkets and online store. In addition, the company has ambitions to certify the modernised Kristianstad production unit in Sweden for export to China.

KEY MARKET SEGMENTS AND POSITIONS

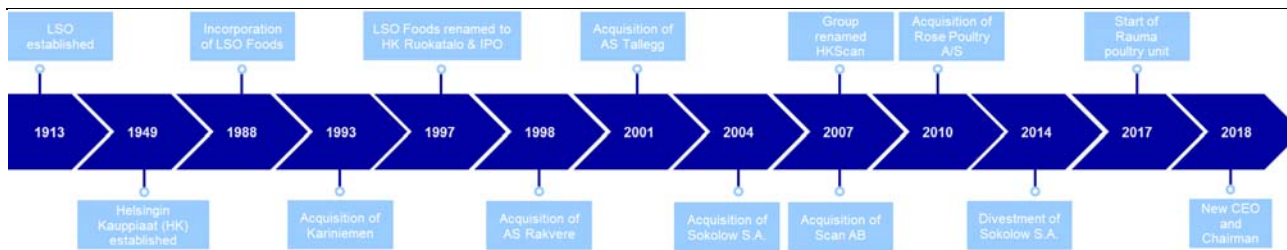
	Net sales 2018, EUR 1,715m	EBIT 2018, EUR -33.9m	Personnel 2018 7,179	Meat types	Main brands	Market position	Main competitors
Sweden	682	8.9	2125	<ul style="list-style-type: none"> Pork Beef Lamb 	  	# 1-2	  DANISH CROWN + importers
Finland	722	-36.1	2879	<ul style="list-style-type: none"> Pork Beef Poultry 	    	# 1-2	   
Denmark	149	-5.9	639	<ul style="list-style-type: none"> Poultry 		# 1-2	  + importers
Baltics	162	-0.8	1536	<ul style="list-style-type: none"> Pork Beef Poultry 	    	# 1	  + local players

Source: Company data

Company history

HKScan has a long history dating back to 1913, when LSO Cooperative (Lounais-Suomen Osuustestastamo) was founded. In 1988, LSO Cooperative incorporated LSO Food, which was renamed HKScan after the acquisition of Scan AB in 2007. The company has been listed in Helsinki since 1997.

COMPANY TIMELINE



Source: Company data

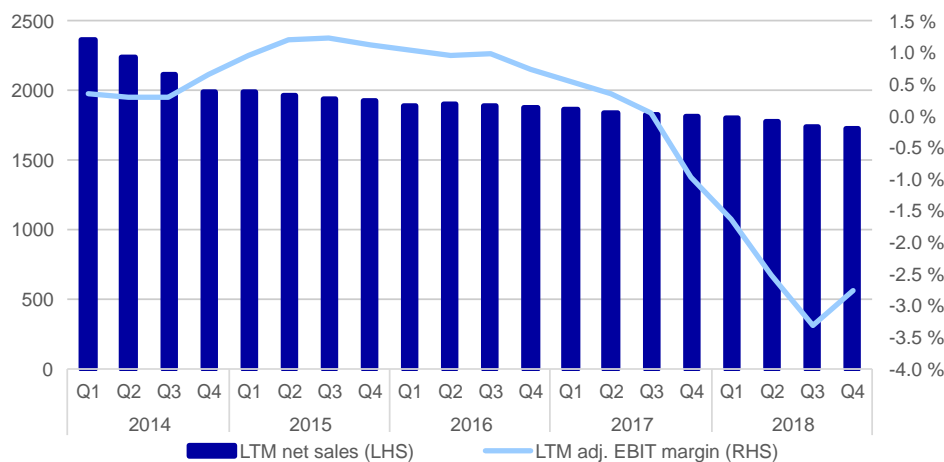
Seasonal business

High reliance on the second half of the year for revenue and operating profit

Demand for HKScan's products follows a seasonal pattern, with increased demand during holidays (especially Christmas) and the summer. Demand during the summer season is sensitive to weather conditions, as a cold summer could lower demand for barbeque products (eg steaks and sausages), whereas a warm summer is likely to increase demand for these. On a general basis, barbeque products have higher margins, as customers are less price conscious regarding products that are consumed less frequently. Meat prices are sensitive to changes in feed prices, meaning that a bad harvest increases costs for meat producers.

Group net sales have declined slightly since the divestment of Sokolow in 2014

LTM GROUP SALES AND PROFITABILITY, EURm AND %



Source: Company data

FINNISH PRODUCTION UNITS



Source: Company data

Finland: Turnaround imminent

In Finland, the company produces and sells all of its products through well-known brands, such as HK, Kariniemen and Via, on top of which it also produces private-label products for customers in the retail, food service, industrial and export sectors.

HKScan currently employs ~2,900 people in Finland and sources meat from ~3,400 domestic farmers. Production units are located in Forssa, Mikkeli, Outokumpu, Paimio, Rauma and Vantaa. The Forssa unit concentrates on pork, Outokumpu and Paimio are similar units focusing on beef, Rauma only has poultry operations, while Vantaa and Mikkeli process and manufacture food and meal products. In addition, Vantaa is the centre for the logistics operations. HKScan's head office is located in Turku.

HKScan has defined "leadership in poultry" as a must-win battle in its latest strategy, and it considers the new poultry facility in Rauma to be the key to achieving this. The new state-of-the-art facility has 20-30% higher capacity, with 200 fewer staff than the old, now terminated, Eura facility, which employed some 500 people. Moreover, the new facility will serve other markets with high-quality poultry products in the future.

In Finland, exports to China are handled by the Forssa unit. Chinese customers utilise all cuts of pork in their cuisine, which could enable more efficient usage of raw material; Nordic customers are not as familiar with the more exotic cuts. HKScan started exports in April 2018 with the aim of shipping roughly three million kilograms of pork during 2018. If the company reaches its 2020 export target of 12 million kilograms, this would present roughly 5% of all Finnish-reared pigs.

NEW RAUMA POULTRY UNIT



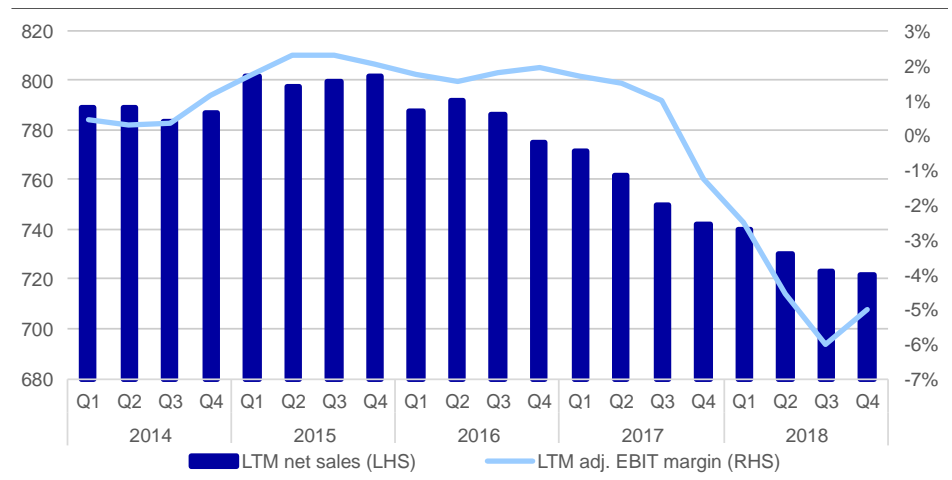
Source: Company data

Net sales in the Finland market segment amounted to EUR 722m (42% of group net sales) in 2018. Comparable EBIT was EUR -36.1m, of which EUR -35.7m was related to ramp-up challenges at the Rauma poultry unit.

Rauma ramp-up is showing promising results

Extra costs related to Rauma amounted to EUR 25m in 2017. Still, the ramp-up is showing promising results, as the negative impact of the Rauma unit on comparable EBIT declined during Q4 to EUR -4.8m from EUR -8.1m in Q3 2018. The new CEO, Tero Hemmilä, says that the completion of the Rauma unit's ongoing ramp-up process continues to be high on the group management's agenda. In the long run, the new facility should substantially improve the company's efficiency and competitiveness.

MARKET SEGMENT FINLAND: LTM SALES AND PROFITABILITY, EURm AND %



Source: Company data

SWEDISH PRODUCTION UNITS



Source: Company data

Sweden: Efficiency measures starting to bear fruit

In Sweden, the company produces, markets and sells pork, beef and lamb products, as well as charcuterie, with strong consumer brands including Scan and Pärsons. Customers are the retail, food service, industrial and export sectors. Moreover, the company employs more than 2,100 people in four different production units: Kristianstad, Skara, Linköping and Halmstad. In addition, HKScan has a sales office in Stockholm. The Kristianstad unit is similar to the Forssa unit in Finland, and focuses on pork. The Linköping unit is comparable to Outokumpu and concentrates on beef and lamb, while the Skara unit processes and manufactures food and meal products for the retail and food service markets. The Halmstad unit manufactures cold cuts and is the smallest of the Swedish units.

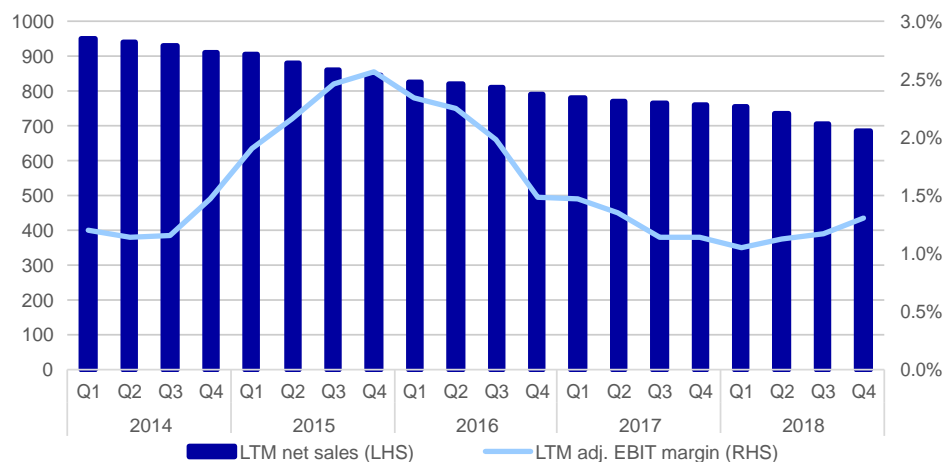
The market segment Sweden has been a fairly steady performer with a positive comparable EBIT contribution in recent years. However, sales have also been decreasing in Sweden; net sales amounted to EUR 682m (40% of group net sales) in 2018 but dropped by 10% from EUR 759m in 2017. The decline was mainly caused by

the weaker SEK as well as the barbecue ban that was implemented due to the hot and dry summer in 2018. Nonetheless, in 2018, comparable EBIT increased slightly from EUR 8.6m to EUR 8.9m as a result of operational efficiency measures and lower administration costs.

HKScan's latest EUR 7m investment in Kristianstad was announced in June 2018 and finalised in January 2019. In addition to efficiency measures, HKScan aims to certify the plant for export to China. After the investment, Kristianstad remains the largest HKScan unit in Sweden with around 700 employees. We note that the certification process for export to China is lengthy, although HKScan is well aware of what is required from its Forssa unit, which might speed things up.

Operational efficiency measures have started to bear fruit in Sweden

MARKET SEGMENT SWEDEN: LTM SALES AND PROFITABILITY, EURm



Source: Company data

DANISH PRODUCTION UNITS



Source: Company data

Denmark: The struggle continues

Business in Denmark is based on producing and selling poultry products under the Rose brand. Customers are the retail, food service, industrial and export sectors. The company employs ~600 people in two production units: Vinderup and Skovsgaard. Of these two units, Vinderup is similar to the Rauma unit and Skovsgaard is fairly small.

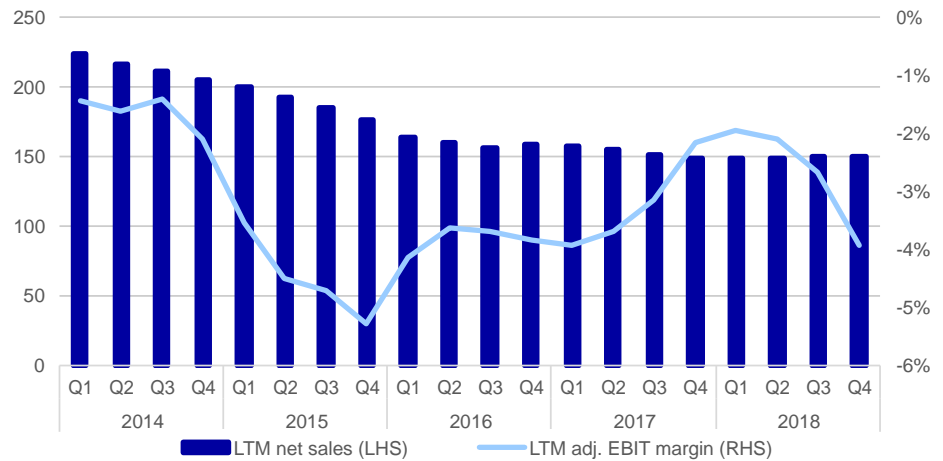
Denmark is the smallest contributor measured by sales. Moreover, it has consistently failed to contribute positive operating profits to the consolidated figures. Despite the developments in operational efficiency, comparable EBIT has been pressured by fierce price competition and unfavourable changes in sales mix. The Danish operations were originally acquired partly for the purpose of serving Swedish customers, but this has not worked as planned, as demand from Swedish customers has been concentrated on domestically produced poultry. Now that HKScan has started exporting poultry products from Finland to Sweden, the future of the Danish operations might come under scrutiny, we think.

Net sales for 2018 came in at EUR 149m (9% of total net sales), improving from EUR 147m in 2017. The marginal increase in net sales was attributable to a boost in export volumes. However, comparable EBIT remained negative, continuing the familiar operational performance in Denmark.

Given the weak operational performance, we believe that this segment could be divested in order to improve group results and compensate for losses stemming from the Finnish Rauma factory ramp-up.

Denmark continues to burden group profitability

MARKET SEGMENT DENMARK: LTM SALES AND PROFITABILITY, EURm AND %



Source: Company data

BALTIC PRODUCTION UNITS



Source: Company data

Baltics: Eroding profitability, focus on Rakvere unit

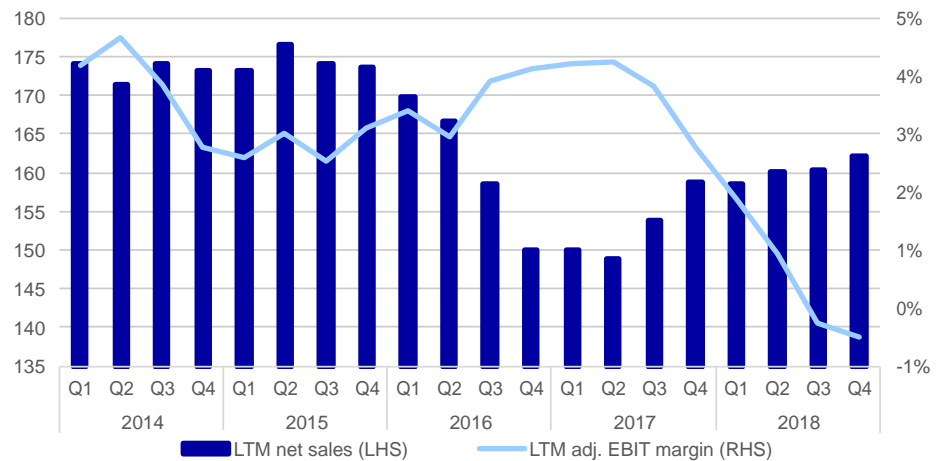
HKScan markets and sells sustainably produced pork, beef and poultry products, as well as charcuterie and ready meals, via its pan-Baltic consumer brands Rakvere and Tallegg, and also Rigas Miesnieks in Latvia and Klaipėdos Maistas in Lithuania. Customers are in the retail, food service, industrial and export sectors. HKScan employs more than 1,500 people in Estonia, Latvia and Lithuania. The production units in Estonia are located in Rakvere and Tabasalu. A third unit is located in Jelgava, Latvia. HKScan has primary production in Estonia, including 27 pig farms and ten poultry farms and a hatchery.

The market segment's contribution to net sales was EUR 162m (9% of group net sales) in 2018. EBIT in the same period was EUR -0.7m. Overall, the operating performance in the Baltics has been in steady decline since Q2 2017 as a result of increasing wages, raw material costs and costs related to a strike at the Rakvere unit in 2018. African swine flu, which hit the region in 2014, affected HKScan's pork production and sales, especially in 2017, while operational expenses remained at previous years' levels.

The company announced in October 2018 that construction work in the Rakvere production unit is in full swing and that the modernised facilities will be operational during the first half of 2019. The rationale for the EUR 8m investment is to increase focus on the more value-adding and expanding meals category. We expect to see a positive contribution from the modernised unit from H2 2019 onwards.

Raw material prices and strikes have burdened the Baltics

MARKET SEGMENT BALTICS: LTM SALES AND PROFITABILITY, EURm AND %









Source: Company data

Board of directors

The company's board of directors elected Reijo Kiskola as its new chairman in November 2018. The extraordinary general meeting held in January 2019 elected Jari Mäkilä, Harri Suutari and Terhi Tuomi as new board members in January 2019. Carl-Peter Thorwid and Ilkka Uusitalo serve as deputy board members. At the AGM on 11 April 2019, Anne Leskelä was elected as a new board member.

BOARD OF DIRECTORS

					
Reijo Kiskola	Per Olof Nyman	Jari Mäkilä	Harri Suutari	Terhi Tuomi	Anne Leskelä
Position	Position	Position	Position	Position	Position
Chairman of the board Acting CEO	Member of the board	Member of the board	Member of the board	Member of the board	Member of the board
Education	Education	Education	Education	Education	Education
N/A	M.Sc., Industrial engineering	Agrologist	B.Sc., English	M.Sc., Economics	M.Sc., Economics
Selected Experience	Selected Experience	Selected Experience	Selected Experience	Selected Experience	Selected Experience
CEO at Arla Oy Long background in Dairy and Meat industry	CEO at Lantmännen CFO at Whirlpool Europe	Chairman of the Supervisory board at LSO co-op	CEO at Componenta Oyj CEO at PKC Group CEO at Ponsse Oyj	CFO at Boreal Plant Breeding Member of the board at LSO co-op	CFO at Nokian Tyres Member of the board at LSO Componenta and Kojamo
Held position since	Held position since	Held position since	Held position since	Held position since	Held position since
2018	2017	2018	2019	2019	2019
Shareholdings	Shareholdings	Shareholdings	Shareholdings	Shareholdings	Shareholdings
2,053	8 386 (nominee-reg.)	7,790	0	0	0
Independence	Independence	Independence	Independence	Independence	Independence
Independent of the Company and of the major sharehold.	Independent of the Company	Independent of major shareholders	Independent of the Company and of the major sharehold.	Independent of the Company	Independent of the Company

Source: Company data

New CEO with previous HKScan experience

Tero Hemmilä, who worked at HKScan and LSO Foods in various executive positions between 1997 and 2010, most recently as SVP of strategy and development, was named as the new CEO in November 2018. Mr Hemmilä assumed his new position in February 2019. Mr Hemmilä was a member of the HKScan board of directors between 2011 and 2016. The group's management team consists of experienced professionals who held various senior positions before joining HKScan.

HKScan's new management team was introduced in April 2019

CEO AND GROUP MANAGEMENT



Tero Hemmilä

Position

CEO

Selected Experience

Commercial director at Yara
Various positions at HKScan

Held position since

2019

Jyrki Paappa

Position as of 8.4.2019

CFO

Selected Experience

CFO at Maintpartner Group and
Raisio Oyj

Held position since

2019

Mika Koskinen

Position

COO

Selected Experience

Senior leadership positions
at Valio

Held position since

2019



Jari Leija

Position as of June 2019

EVP market area Finland

Selected Experience

Senior leadership positions at
HKScan and Atria

Held position since

2019

Sofia Hyléen Toresson

Position

EVP Market area Sweden

Selected Experience

Sales director Retail at Findus
Sverige AB

Held position since

2017

Anne Mere

Position

EVP Market area Baltics

Selected Experience

EVP of HKScan's business
segments

Held position since

2017



Jukka Nikkinen

Position

EVP Market area Denmark & Intern

Selected Experience

SVP and other various positions
at Rautakirja Oy

Held position since

2017

Esa Mäki

Position

EVP meat balance & supply chain

Selected Experience

Senior business leadership positions
at HKScan and Atria

Held position since

2019

Markku Suvanto

Position

EVP Administration

Selected Experience

Head of Legal and member of
Group management team 2012-17

Held position since

2019

Source: Company data

Incentive schemes for key personnel

Remuneration of board members, the CEO and other management at HKScan Group is based on the principles of remuneration approved by the board, and attention is paid to the group's strategic objectives and financial performance. The board decides, based

on the proposals made by the compensation committee, the remuneration principles and remuneration of the president and CEO. The remuneration and terms of employment of the group management team are decided by the board on the basis of a proposal from the president and CEO.

Remuneration of the board of directors

The remuneration of the board members consists of annual fees based on membership of the board and its committees, and in addition members receive an attendance payment for each board or committee meeting. The company has no share-based incentive scheme for board members, neither are the members of the board covered by the company's incentive or pension plans. Board members receive no separate meeting attendance fees for serving on the boards of directors of the group's subsidiaries or associated companies.

The 2018 AGM resolved that the annual remuneration payable to the members of the board will remain unchanged from 2017: EUR 27,625 for board members, EUR 33,875 for the vice chairman of the board and EUR 67,750 for the chairman of the board.

The annual fees are paid in the form of company shares and cash; 20% of the remuneration is in company shares acquired from the market on the board members' behalf, and the rest is paid in cash.

Remuneration of the CEO and group management team

The management incentive scheme consists of a basic salary, fringe benefits and a long- and short-term incentive scheme. The CEO's short-term incentive plan is capped at 60% of his annual basic salary. For other members of the group's management team, the cap for the annual short-term incentive scheme is 50% of the annual basic salary.

The long-term incentive scheme for the CEO and top management team is based on share rewards and partly on cash. The cash portion is intended to cover tax and tax-related costs arising from the reward. The maximum reward value for the CEO is 100% of his annual basic salary. For other members of the group management team, annual pay is capped at 90% of the annual basic salary, but varies according to position.

All long-term schemes include the requirement of continuance of employment or service upon award of payment in order to qualify to receive the potential award. Also, the president and CEO and other members of the group management team should retain at least 50% of all shares awarded until the value of their ownerships correspond to their annual basic salaries.

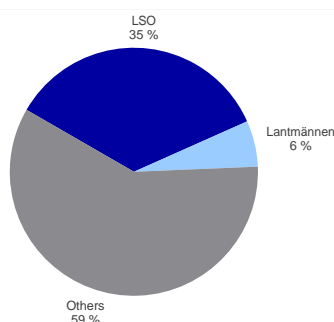
Controlled by two co-operatives

HKScan is controlled by two co-operatives, Finland's LSO and Sweden's Lantmännen.

The company works closely with the contract producers, ie members of the co-ops, with training and advisory services related to the rearing of animals, the planning of feeding, animal healthcare and the design of new production facilities. Through producer services, HKScan uses its expertise to support farming communities and strengthen producers' skills and expertise to promote their business operations.

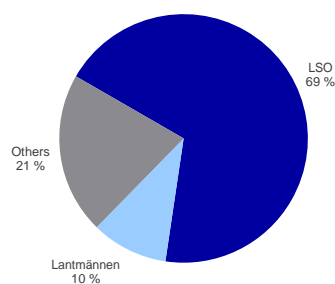
The ownership structure means that the company has long co-operation agreements with contract producers and good control of the whole value chain from farm to fork.

OWNERSHIP, % OF SHARES



Source: Company data (as of 28 February 2019)

OWNERSHIP, % OF VOTES



Source: Company data (as of 28 February 2019)

Major shareholders

The following list shows the 20 largest shareholders and includes nominee-registered holdings. HKScan's second-largest owner Lantmännen's ownership is nominee registered (and thus not visible in the list of owners). At the end of February 2019, some 16.2% of HKScan's share capital was in nominee-registered accounts.

20 LARGEST SHAREHOLDERS

No.	Shareholders	Number of shares	of which nominee registered	% of voting rights	% of shares
1	LSO Osuuskunta	19 193 884	0	69.3	34.9
2	Skandinaviska Enskilda Banken AB	3 723 855	3 058 855	10.4	6.8
3	Pohjola Pankki Plc	2 303 239	2 303 239	1.5	4.2
4	Nordea Life Assurance Finland Ltd.	1 505 000	0	1.0	2.7
5	Nordea Bank ABP	1 431 071	1 431 071	0.9	2.6
6	Elo Pension Company	1 142 830	0	0.7	2.1
7	Apteekkien Eläkekassa	1 081 889	0	0.7	2.0
8	HKScan Corporation	992 348	0	0.6	1.8
9	Danske Bank AS Helsinki Branch	884 571	884 571	0.6	1.6
10	The Central Union of Agricultural Producers and Forest Owners (MTK)	836 414	0	0.5	1.5
11	Petter and Margit Forsström's Foundation	670 500	0	0.4	1.2
12	Hisinger-Jägerskiöld Eva	650 000	0	0.4	1.2
13	Suhonen Jyrki	589 638	0	0.4	1.1
14	Sijoitusrahasto Taaleritehdas Arvo Markka Osake	550 000	0	0.3	1.0
15	K. Hartwall Invest Oy Ab	500 000	0	0.3	0.9
16	The State Pension Fund	500 000	0	0.3	0.9
17	Varma Mutual Pension Insurance Company	496 806	0	0.3	0.9
18	Hallqvist AB	405 000	0	0.3	0.7
19	J & K Hämmäläinen Oy	277 000	0	0.2	0.5
20	Svenska Handelsbanken Ab	238 262	238 262	0.2	0.4
		37 972 307	7 915 998	89.2	69.0
	Other shareholder	17 054 215	333 546	10.8	31.0
	TOTAL	55 026 522	8 249 544	100.0	100.0

Source: Company data (as of 28 February 2019)

Two share classes

HKScan has two share series: the K shares entitle the holder to 20 votes and the A shares to one vote. The K shares are not listed and are held by LSO Osuuskunta (4,735,000 shares) and Lantmännen (665,000 shares).

HKScan's share capital is divided as follows (as of the end of 2018):

- A shares (one vote per share): 49,626,522
- K shares (20 votes per share): 5,400,000
- Total shares: 55,026,522

Strategy and financial targets

HKScan's strategy focuses on the consumer by leading the food value chain from farm to fork. According to the "from farm to fork" principle, the company aims to deliver innovative and sustainably produced premium food products from farms to consumers' dinner tables. However, the recently appointed CEO, Tero Hemmilä, is reviewing the strategy and redefining the company's strategic focus areas. We expect the revised strategy to focus even more on active meat value chain leadership and fundamental industry knowhow. Management has not provided any guidance for 2019 but says that it expects cost-cutting initiatives and other corrective measures to start bearing fruit this year.

From farm to fork

Consumers at the core

HKScan's current vision is to serve the most demanding fork in the world. Its strategy puts consumers at the centre and focuses on five must-win battles:

- **Focus on meat.** The company is investing in new meat concepts, products and sustainability, while also starting to export premium pork meat to Chinese customers.
- **Leadership in poultry.** It believes the state-of-the-art production facility in Rauma is the key to achieving leadership in poultry.
- **Continue growing meals business.** The high-margin ready meals market represents a lucrative growth pocket. The company aims to tap this opportunity by introducing new cross-border products and concentrating production in Rakvere, Estonia.
- **Cooperate with the farming community.** Cooperation with the farming community should ensure innovation and sustainably produced premium food.
- **Drive efficiency and cost competitiveness.** Automation and production network development should drive cost competitiveness, according to the company.

Reorganisation could be on the cards

The current strategy was devised by the former CEO. In his first public appearance, newly appointed CEO Tero Hemmilä, who took the helm in February 2019, expressed his dedication to the current strategy but underlined the need to revise the focus areas. According to Mr Hemmilä, the company needs to recruit more relevant industry experts and focus on efficient utilisation of raw materials, ie different animals. At the Q4 results presentation, Mr Hemmilä also disclosed that the current organisational structure is under review.

Financial targets: Back to black

Operating profit, cash flow and the balance sheet are top priorities in the short term

Mr Hemmilä has flagged that management's focus is on turning HKScan's results positive again. To do this, the company will simplify the structure and assess the processes in its Categories & Concepts function. The goal is to achieve EUR 10m in annual savings from Q4 2019 onwards. The planned actions are part of the company-wide EUR 40m efficiency improvement programme that was introduced in July 2018. The EUR 40m targeted overall annual cost savings are expected to materialise from 2020 onwards. In addition to operating profit, cash flow and the balance sheet are top priorities for the board of directors and group management in the short term.

We find the long-term financial targets ambitious given the company's track record and possible upcoming reorganisation. At the moment, management is paying close attention to net gearing which remained elevated throughout 2018 despite the hybrid bond issuance of EUR 40m.

LONG-TERM FINANCIAL TARGETS AND RESULTS

ITEM	TARGET	2016	2017	2018
EBIT	>4%	0.5 %	-2.2 %	-3.0 %
ROCE	>12%	2.1 %	-6.3 %	-7.4 %
Net gearing	<100%	33.5 %	59.3 %	88.6 %
Payout ratio	>30%	-160.4 %	-11.0 %	0.0 %

Source: Company data

Management expects cost-cutting initiatives and other corrective measures to start bearing fruit in 2019

Guidance for 2019

Management has not provided any numerical guidance for 2019. The company expects global meat consumption to increase over the next few years. In its home markets, HKScan expects consumption growth to be driven by the poultry and meal categories, while it expects demand in other categories to remain stable. Management expects the cost-cutting initiatives and other corrective measures to start bearing fruit in 2019.

Market overview

HKScan's home markets consist of Finland, Sweden, Denmark and the Baltics. In addition, the company exports red meat and poultry products to nearly 50 countries. We believe that a highly concentrated grocery market, a rising share of private labels, and increasing producer prices will keep the company's gross margins under pressure. The less mature retail markets in the Baltics, on the other hand, still offer room for HKScan to introduce more value-added products. Additionally, we believe that poultry should remain the key driver for future growth in HKScan's core markets of Finland and Sweden.

Global trends affecting food producers

Poultry projected to grow faster than the overall meat market

Global meat consumption has shown strong growth for the past three decades, and amounted to some 318 million tonnes in 2016, up from 130 million tonnes in 1980, according to the OECD-FAO Agricultural Outlook 2018-27. Growth projections for different meat types for 2016-27 vary between 1.0% and 1.8% per annum. The OECD expects poultry to grow faster than the overall meat market and to reach 139 million tonnes in 2027, up from 52 million tonnes in 1980. This will primarily be driven by population growth and economic expansion in developing regions, as well as more efficient farming and eco awareness. In general, birds convert feed into protein more efficiently than animals. Overall, poultry and pork are set to account for ~70% of global meat consumption volume growth in the foreseeable future.

Urbanisation, climate change, income growth and new lifestyles are also affecting meat consumption trends in developed countries. For Europe, OECD expects only a 0.2% CAGR in meat consumption for 2016-27, of which poultry accounts for the majority. Health trends are favouring poultry meat over red meat, which is supported by the relative pricing of poultry products. In addition, as people have less time for cooking, convenience is a growing trend, support by digitalisation.

For traditional food processors, these trends are creating opportunities, as the new categories within convenience food and poultry are generally more value-accretive. However, companies have to be able to transform their legacy operations effectively in order to benefit fully from global trends.

Finland: Poultry driving growth

Total meat consumption still on the rise

Of HKScan's four main product categories – pork, lamb, beef and poultry – the latter has been the best performer in terms of demand. Poultry consumption in Finland increased at a CAGR of 4.2% in 2000-17, whereas consumption of pork and beef was flat on average. Total meat consumption in Finland during the period grew at a CAGR of 1.0%. The only negative growth year for poultry was 2006, owing to the bird flu epidemic. Poultry growth has been especially strong since 2015, when the market grew by 8.8%. According to Pellervo Economic Research, poultry has replaced pork in consumers' shopping baskets owing to concerns over sustainability and dietary issues.

Poultry products have replaced pork on consumers' plates to some extent...

Poultry production in Finland has been increasing steadily, in line with poultry consumption, thereby putting pressure on producer prices, which declined in 2013-17 and have remained flat since. Poultry products tend to have higher gross margins than pork and beef products; therefore, they are more resilient to lower producer prices. According to Natural Resources Institute Finland, poultry production increased much in line with previous years in 2018, up by some 5% y/y. We expect poultry prices to increase in line with inflation over the next few years.

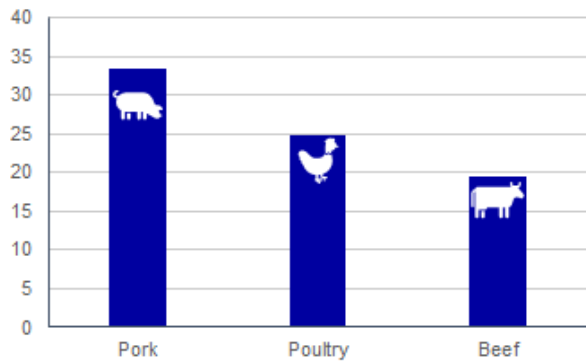
...though pork still represents the biggest portion of total annual meat consumption

The pork industry is the most cyclical of the three main meat types, and producer price data indicates that the cycle has turned after hitting the trough in 2016. Producers cut their production after a lengthy period of contracting prices, leading to increases in producer prices and a reduction in slaughtering volumes. When producers start to scale down their operations, it can lead to a temporary increase in output volumes (as producers send their pigs to slaughter prematurely). The higher supply in the event of this results in short-term price pressure. This partly explains the higher cyclicity of red meat. According to Natural Resources Institute Finland, the decline in Finnish pork production continued in 2018, with production down some 7% y/y.

The Finnish beef industry has been stable, and consumption has been steady over the last ten years. Producer prices for beef moved roughly in line with prices of poultry and pork in 2004-12, but since 2013 prices have been markedly higher. According to Natural Resources Institute Finland, beef production increased slightly in 2018, up by some 1% y/y. We believe that consumers are willing to pay a premium for domestic beef products, supporting Finnish beef prices.

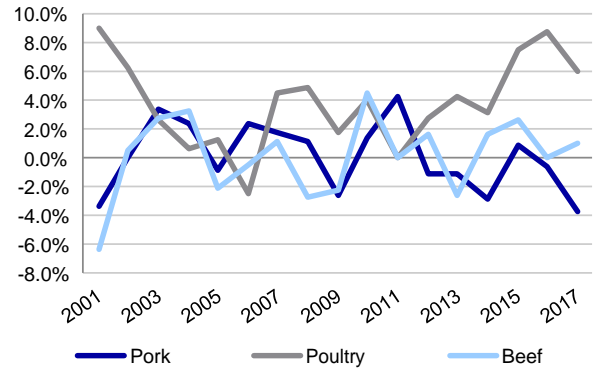
Taken altogether, the average Finn consumed 81 kg of meat during 2017. Total consumption was composed primarily of pork, poultry and beef, the combined consumption of which averaged 78 kg per capita. Of the three main meat types, pork was the most consumed (in terms of kg per capita).

MEAT CONSUMPTION IN FINLAND IN 2017, KG PER CAPITA



Source: Natural Resources Institute Finland

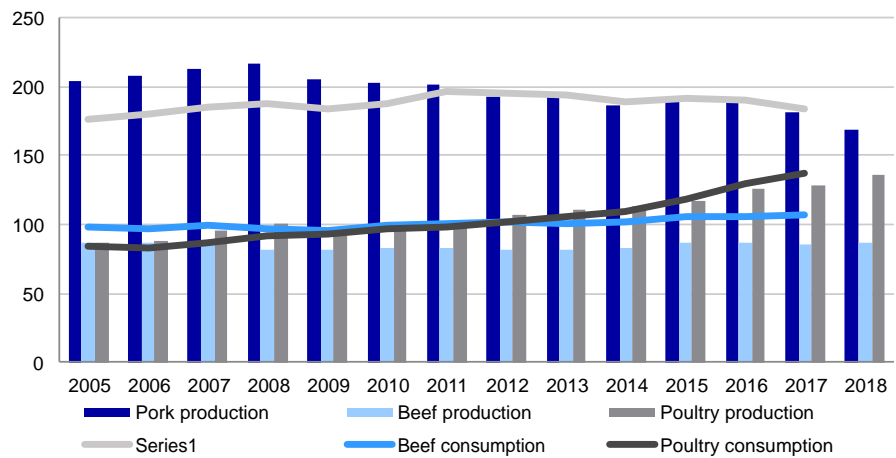
CHANGE IN MEAT CONSUMPTION PER CAPITA IN FINLAND, Y/Y



Source: Natural Resources Institute Finland

TOTAL MEAT PRODUCTION AND CONSUMPTION IN FINLAND, MILLION KG

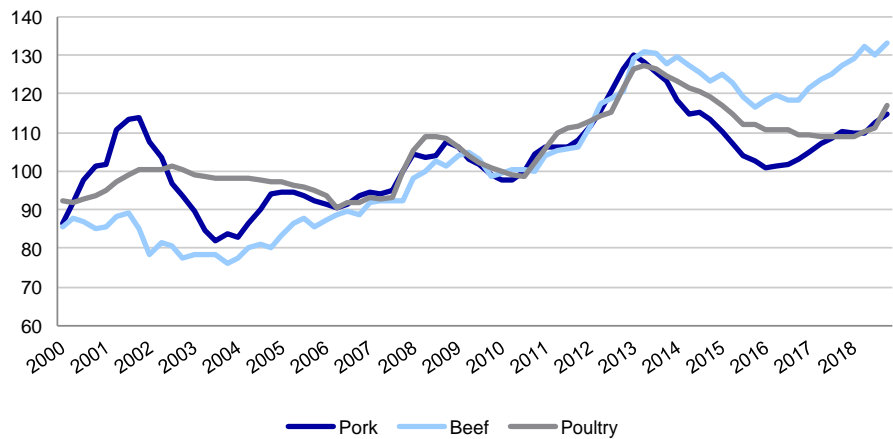
Poultry production trending up, pork gradually downwards



Source: Natural Resources Institute Finland

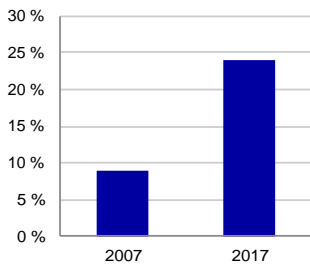
Producer prices edged higher in 2018

QUARTERLY PRODUCER PRICES, INDEX 2010=100



Source: Natural Resources Institute Finland

FINNISH PRIVATE LABELS: SHARE OF GROCERY SALES



Source: Finnish Grocery Trade Association

Private labels' share of grocery sales increased at a CAGR of 10.3% from 2007 to 2017

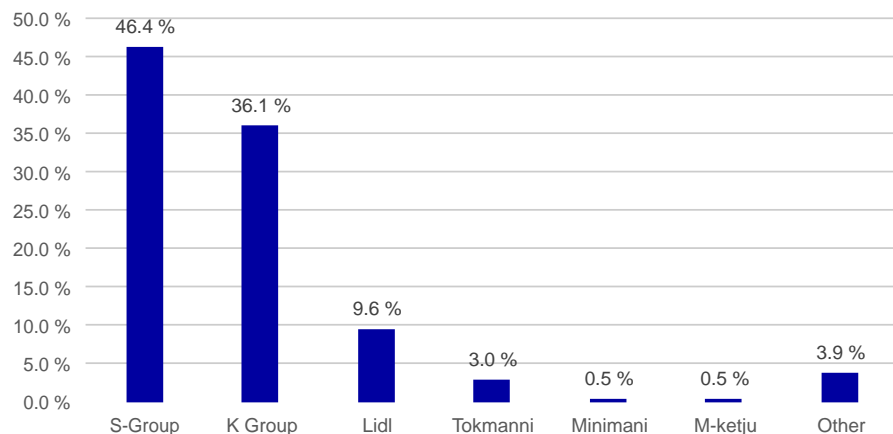
Finnish grocery market highly concentrated

The Finnish grocery market is dominated by S-Group and K Group (Kesko), followed by Lidl. In 2017, S-Group and K Group had a combined market share of 82%; including Lidl, these three players commanded a combined 91% market share.

Procurement for all of the syndicates is handled by five logistics companies, of which SOK (S-Group) and Kesko are the largest. This gives strong negotiating power to the large retail chains, as the market is highly concentrated. For HKScan and the rest of the food processors, this brings longer pass-through times for prices and makes it generally difficult for them to achieve large price increases.

The relatively high share of private labels (eg K Group's Pirkka brand and S-Group's Rainbow brand) puts pressure on the margins of food-processing companies, as the cheaper private labels compete with the name brands of processing companies (including HKScan). In 2017, private labels accounted for 24% of total grocery sales, up from 9% in 2007. The share is still relatively low compared with European countries, where the share of private labels is around 30-40% of total sales. Smaller food-processing companies can benefit from private labels, as they lack marketing power, but private labels typically mean lower margins for larger companies.

FINNISH GROCERY MARKET SHARES IN 2018



Source: Finnish Grocery Trade Association

As in Finland, poultry has led the growth in the total meat consumption and production

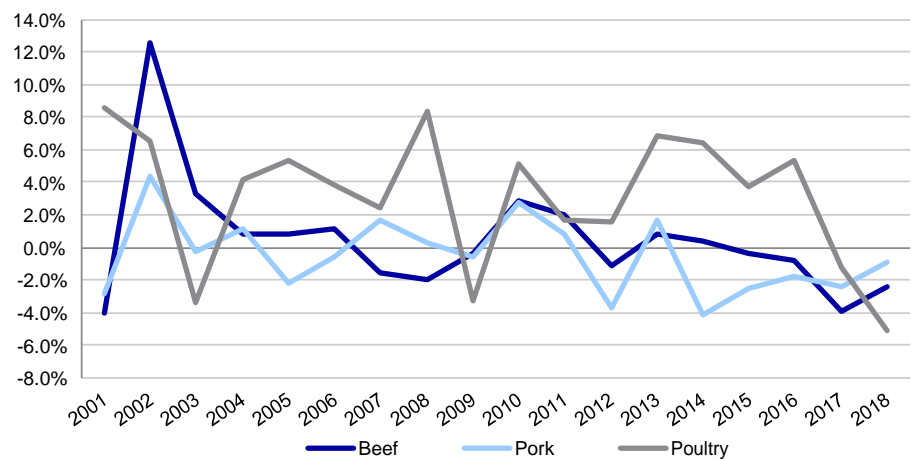
Sweden: Per-capita consumption growth stagnating

In Sweden, meat consumption in general expanded between 2000 and 2017, largely owing to an increase in the population. As in Finland, consumption of poultry increased at the fastest pace of all meat types, at a CAGR of 4.4% in 2000-17. Beef consumption rose at a CAGR of 1.3% and pork at a CAGR of 0.2% over the same period. Meanwhile, the population and total meat consumption in Sweden increased at a CAGR of 0.7%, indicating that the relative consumption of poultry and beef per capita has risen, while pork consumption has declined. The drop in beef figures in 2017 was explained by growing consumer awareness of climate effects related to meat production, we would argue. Poultry consumption in 2017-18 was affected by high levels of campylobacter infections, as a result of errors in a competitor's new cleaning system.

At the same time as consumption of meat has increased, the production of beef and pork has decreased. We anticipate a further increase in domestic poultry production, as all the major poultry companies in the country have invested in poultry production since 2016, boosting the poultry self-sufficiency level, although self-sufficiency was still at a relatively low level of 70% in 2018. Although poultry consumption has been subdued in the past two years after avian diseases, we expect consumption to recover to normalised growth levels of 4-5% per annum in the near term.

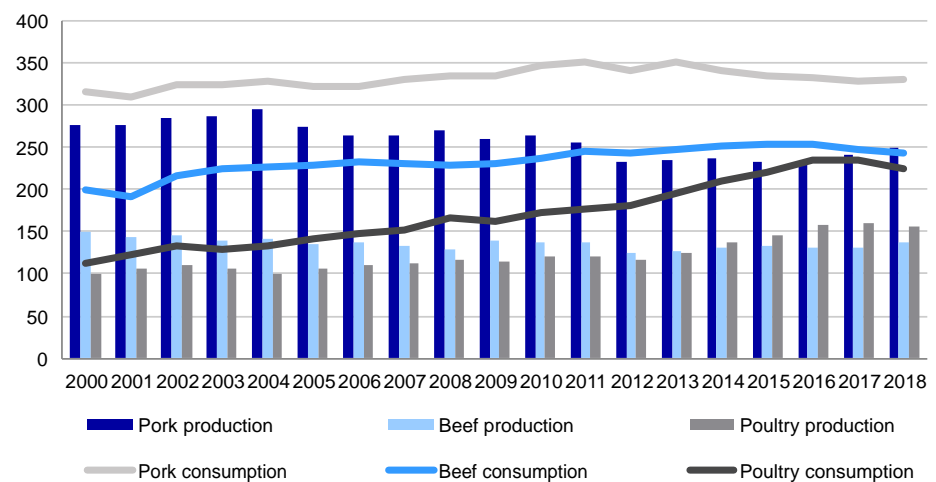
Avian diseases affected the Swedish market in 2016 and 2017

CHANGE IN MEAT CONSUMPTION PER CAPITA IN SWEDEN, Y/Y, %



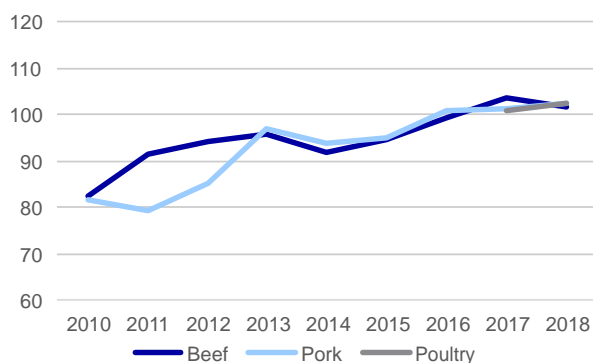
Source: Swedish Board of Agriculture

TOTAL MEAT PRODUCTION AND CONSUMPTION IN SWEDEN, MILLION KG



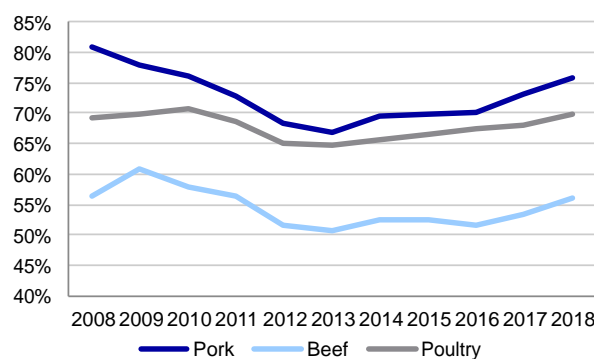
Source: Swedish Board of Agriculture

PRODUCER PRICE INDEX, 2015=100



Source: Swedish Board of Agriculture

SWEDISH MEAT SELF-SUFFICIENCY



Source: Swedish Board of Agriculture

Like Finland, Sweden has a highly concentrated grocery market. The three largest syndicates hold a combined ~86% market share. In addition, the second-largest syndicate, Coop, is also the largest player in the Danish market.

In Sweden, private labels are more common than in Finland. Currently, 25% of ICA's sales and 28% of Axfood's are generated through private labels. Both companies are aiming to increase the share of private-label products in their food product categories and they use mainly domestic meat in their private-label meat products.

SWEDISH GROCERY MARKET IN 2017

Syndicate	Number of stores	Market share %	Sales, SEKbn
ICA	1177	50.4%	132.6
Coop	587	18.2%	48.0
Axfood	798	17.2%	45.3
Bergendahls	172	7.5%	19.8
Lidl	172	4.4%	11.6
Netto	164	2.2%	5.7
TOTAL	3070	100.0%	263.0

Source: DLF, Delfi, HUI

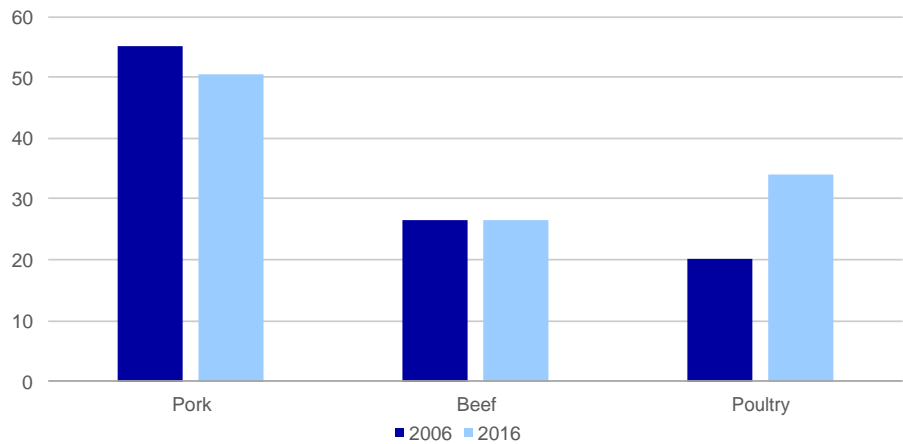
Denmark: Poultry market growing, but not beef and pork

In terms of organic food consumption per capita, Denmark is the world leader. Even though the average Dane consumes less pork and beef annually than in 2006, the popularity of poultry has kept total meat consumption growing. Poultry consumption rose at a CAGR of 5.4% during 2006-16. According to consultancy and market research firm Gira, the total annual consumption of pork, beef and poultry in Denmark increased from 101.6 kg to 111.1 kg per capita during the same ten-year period.

Highly concentrated grocery market, margins under pressure

HKScan's business in Denmark is based on poultry products sold under the Rose brand. Similar to those of Finland and Sweden, Denmark's grocery market is highly concentrated, with the market leaders being Coop and Danske Supermarked. Furthermore, HKScan's branded sales in retail are being constrained by fierce price competition, which has burdened margins together with increased raw material costs and changes in the sales mix.

ANNUAL MEAT CONSUMPTION IN DENMARK, KG PER CAPITA



Source: Gira consultancy and market research

Baltics: A mixed bag

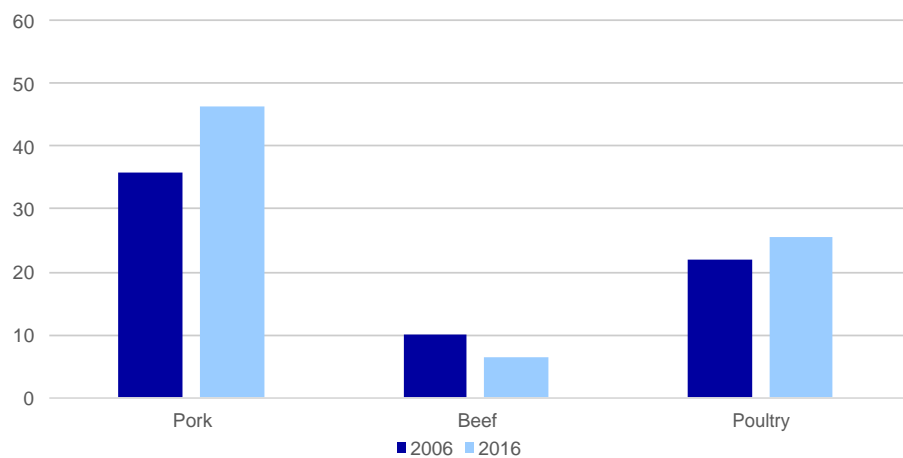
Unlike Nordic consumers, Baltic consumers have shown an increased appetite for pork since 2006. Moreover, consumption of poultry products has grown among the region's consumers. The tendency in the Baltics seems to be towards more affordable meat types, as consumption of beef has been under pressure. According to Gira, annual pork and poultry consumption per capita grew by 29.2% and 16.7%, respectively, during the period 2006-16. Corresponding CAGR figures for the same period were 2.6% (pork) and 1.6% (poultry). Annual per-capita consumption of beef dropped by a whopping 35.6% in the region during 2006-16, albeit from low levels.

Meat consumption in Latvia and Lithuania is set to grow, while Estonia is about to reach the EU average per-capita consumption

We believe that Estonian meat consumption growth is set to slow in the coming years, as it has almost reached the average level in the EU (84.8 kg in 2017). On the other hand, we argue that the average annual meat consumption per capita figures in Latvia and Lithuania, 69.6 kg and 76.7 kg, respectively, reflect the growth opportunities in these markets.

In the Baltics, HKScan currently provides pork, beef and poultry products under local brands such as Rakvere, Tallegg, Rigas Miesnieks and Klapeidos Maistas. The company is also investing in Rakvere's (Estonia) meals unit to better respond to the demand in this growing market segment.

ANNUAL MEAT CONSUMPTION IN THE BALTICS, KG PER CAPITA



Source: Gira consultancy and market research

Pork has led the growth in absolute terms

Producer price trends in the Nordics, Estonia and the EU

Meat producers are greatly impacted by producer prices, especially when a retail sector is highly concentrated and has high pricing power. Large deviations from the EU's average producer prices either decrease or increase imports to Finland and to HKScan's other markets.

The EU-wide pork producer price is highly exposed to exports to China. Exports to the Chinese market peaked during Q2 2016 and then declined until Q4 2017. The trend was reversed in November 2017 and exports are expected to have stabilised during 2018, according to Eurostat. In December 2017, Russia lifted its sanitary ban on EU products. However, the political ban on food products was extended until the end of 2018, including imports of most EU pork products. Producers from the US, Canada and Brazil are also putting EU pork prices under pressure with lower prices and increased production.

Cheaper import meat to continue to put pressure on HKScan's gross margins...

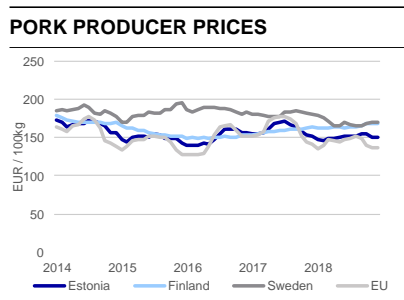
As HKScan sources meat from domestic producers, cheaper import meat from the EU will put pressure on its margins. According to statistics from the EU Commission, the price difference between Finnish and EU pork is at its widest in five years. The declining EU average price has been behind the spread widening.

Finnish beef prices followed EU average prices closely from the beginning of 2015 to April 2018. Since then, Finnish prices have held steady, whereas EU prices have edged slightly lower. Producer prices in Sweden and Estonia have followed the same trend. In Sweden especially, cost pressure has eased notably during the last two years.

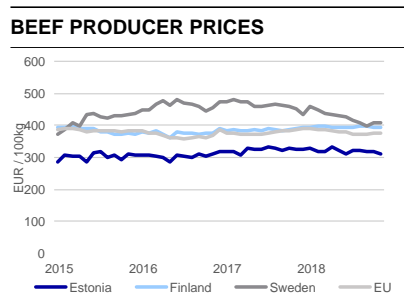
Poultry prices in Denmark, Finland and Sweden have been above the EU average, mainly thanks to customers' demand for domestic products. Price differences compared with the EU average have remained steady during the last five years in all three countries. However, in Finland, producer prices increased roughly 6% during 2018, widening the gap versus the EU average.

...while responsibility, quality and product safety aspects are considered strengths for domestic meat

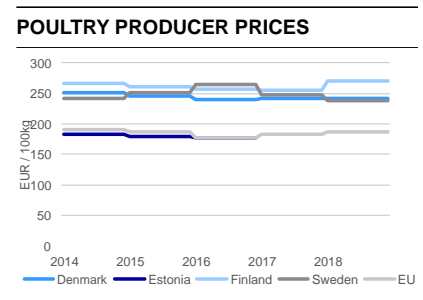
Even though imported meat has become relatively cheaper, HKScan's customers in the Finland, Sweden and Denmark consume mostly domestic products. Product safety, responsibility and quality aspects act as a counterforce to international pricing pressure. For instance, during the barbecue season in 2017, 90% of the meat consumed in Finland was produced by domestic farmers. Moreover, domestic meat's share of total consumption in Sweden has also crept up since 2013 in all three main meat categories (ie pork, beef and poultry). We believe that a growing preference for locally produced meat will offer support for local players such as HKScan in the Nordic region.



Source: EU Commission



Source: EU Commission



Source: EU Commission

Peers

We identify several relevant European meat and consumer goods peers for HKScan. We believe the most relevant peer is Finland's Atria, but we also identify peers from Europe such as France's Fleury Michon, Belgium's Ter Beke and Sweden's Scandi Standard. Beyond Europe, we include Russian meat company Cherkizovo, US-based companies Tyson Foods and Sanderson Farms, and Brazil-based BRF.

Atria is HKScan's closest rival and peer

Overview

HKScan is an established and leading meat and food company in Finland, Sweden, Denmark and the Baltics. Its closest rival and peer is publicly listed Atria, which operates mostly in the same countries and segments as HKScan. Finnish peers **Apetit** and **Raisio** primarily operate in different segments than HKScan, but they are similarly affected by changes in the Nordic economies. In addition, all Finnish peers are similarly affected by changes in raw material prices, as meat prices often reflect crop prices. The rest of the peer group companies have similar structures and exposure but operate in different countries.

Listed European peers

- **Apetit** – Finland-based food company, concentrating on vegetables and oilseeds. It operates mainly in the Finnish market.
- **Atria** – Finland-based food company, concentrating on fresh and consumer-packed meat, convenience food and poultry products, among others. It operates mainly in the same markets as HKScan (Nordic and Baltic countries).
- **Bell Food** – Switzerland-based company primarily engaged in the production and distribution of various meat and meat products.
- **Cranswick** – UK-based food company, engaged in the manufacture and supply of food products to grocery retailers, the food service sector and other food producers in the UK.
- **Fleury Michon** – France-based company that produces meal solutions in the self-service delicatessen and prepared meals segments in France.
- **Raisio** – Finland-based international company specialising in healthy and responsibly produced vegetation-based food and functional food ingredients and raw material exports.
- **Scandi Standard** – Sweden-based company that produces chicken-based food products. Scandi Standard produces and sells fresh and frozen chicken as well as other chicken products through its Kronfagel, Danpo and Den Stolte Hane brands as well as private labels.
- **LDC Groupe** – France-based holding company engaged in food processing. The company has poultry, pork and beef, as well as egg production.
- **Ter Beke** – Belgium-based food company, concentrating on the production and sale of processed meat products and chilled ready meals.

International peers

- **BRF** – Brazil-based multinational company that owns a diverse portfolio of products and is a producer of foods. The company has operations in Latin America, Europe, the Middle East, Africa and Asia.
- **Sanderson Farms** – US-based poultry processing company that is engaged in the production, processing, marketing and distribution of fresh and frozen chicken.
- **Tyson Foods** – US-based, and one of the world's largest food companies, with approximately 122,000 employees. Net sales in 2017 were USD 38,260m, with EBIT of USD 2,931m.

PEER VALUATION

	Country	Price	Mcap	EV	EV/EBITDA				P/E				Div yield %	
		Local	EURm	EURm	2018	2019E	2020E	2021E	2018	2019E	2020E	2021E	2018	2019E
European peers														
Apetit Oyj	Finland	8.6	54	76	58.5	8.4	6.9	6.9		21.4	14.0	13.6	4.7%	5.8%
Atria Oyj	Finland	9.2	175	412	5.6	5.1	4.7	4.5	16.1	12.2	10.1	9.4	5.2%	5.6%
Bell Food Group Ag	UK	293.0	1,620	2,207	8.2	7.9	7.4	7.3	12.6	15.6	14.6	14.0	1.9%	2.1%
Cranswick Plc	United Kingdom	2,896.0	1,738	1,735	12.1	12.2	11.0	9.8	20.2	21.2	19.2	17.2	2.0%	2.1%
Fleury Michon Sa	France	41.5	183	183	3.4	3.1	2.8		11.2	9.6	7.7		3.1%	3.1%
Societe Ldc Sa	France	108.0	1,855	1,855	5.9	5.4	5.1		13.1	11.8	11.2	11.3	1.5%	1.6%
Raisio Oyj	Finland	2.9	484	365	10.3	10.4	9.9	8.5	20.9	20.9	19.5	18.3	5.5%	5.5%
Scandi Standard Ab (Publ)	Sweden	64.5	408	595	10.1	8.6	8.1	7.3	16.3	13.1	11.8	10.8	3.9%	4.3%
Ter Beke Nv	Belgium	134.0	233	357	7.2	5.9	5.8		21.7	13.1	12.0			
Average			750	865	13.5	7.4	6.8	7.4	16.5	15.4	13.3	13.5	3.5%	3.8%
Median			408	412	8.2	7.9	6.9	7.3	16.2	13.1	12.0	13.6	3.5%	3.7%
HKScan (Nordea)		2.2	108	413	42.8	7.4	6.0	5.0	0.0	-0.1	-0.2	-0.4	0.0%	0.0%
International peers														
Brf Sa	Brazil	27.7	5,108	9,262		12.5	10.2	8.7		66.2	66.8	32.1	0.0%	1.0%
Gruppa Cherkizovo Pao	Russia	1,608.0	975	1,728	7.9				7.8					
Sanderson Farms Inc	US	139.5	2,740	2,727	21.2	14.8	11.5	12.5	472.3	62.3	40.7	49.2	0.9%	0.9%
Tyson Foods Inc	US	72.1	23,334	33,586	9.3	8.8	8.5	8.0	12.4	11.9	11.0	9.7	2.1%	2.4%
Average			8,039	11,826	12.8	12.0	10.0	9.7	164.2	46.8	39.5	30.3	1.0%	1.4%
Median			3,924	5,995	9.3	12.5	10.2	8.7	12.4	62.3	40.7	32.1	0.9%	1.0%
HKScan (Nordea)		2.2	108	413	42.8	7.4	6.0	5.0	0	-0.1	-0.2	-0.4	0.0%	0.0%

Data as of market close on 16 April 2019.

Source: Thomson Reuters and Nordea estimates

PEER OPERATING METRICS

	Sales growth				EBITDA margin				ROE			
	2018	2019E	2020E	2021E	2018	2019E	2020E	2021E	2018	2019E	2020E	2021E
European peers												
Apetit Oyj	-14.5%	-1.1%	5.4%	3.1%	-0.2%	1.1%	1.7%	1.6%	-6.2%	2.4%	3.7%	3.8%
Atria Oyj	0.2%	0.5%	1.4%	1.9%	2.0%	2.4%	2.8%	2.9%	3.9%	5.0%	5.8%	6.2%
Bell Food Group Ag	15.4%	1.4%	1.6%	3.3%	3.5%	3.6%	3.9%	3.7%	8.6%	7.9%	8.0%	7.4%
Cranswick Plc	2.7%	5.1%	7.1%	5.6%	6.4%	5.8%	6.0%	6.2%	14.5%	13.1%	13.1%	
Fleury Michon Sa	1.2%	1.9%	2.4%		2.8%	3.5%	4.0%		6.9%	7.1%	9.3%	
Societe Ldc Sa	7.6%	6.1%	4.5%	-2.2%	4.6%	4.8%	5.0%	4.9%	11.3%	11.0%	10.9%	
Raisio Oyj	-35.3%	-16.1%	2.9%	3.2%	10.2%	11.7%	12.1%	12.4%	4.5%	8.4%	9.1%	9.4%
Scandi Standard Ab (Pt)	15.3%	5.9%	3.4%	5.4%	4.2%	5.1%	5.3%	5.6%	13.3%	19.1%	19.1%	18.0%
Ter Beke Nv	33.8%	6.0%	2.9%		3.3%				5.8%			
Average	2.9%	1.1%	3.5%	2.9%	4.1%	4.7%	5.1%	5.3%	7.0%	9.2%	9.9%	9.0%
Median	2.7%	1.9%	2.9%	3.2%	3.5%	4.2%	4.5%	4.9%	6.9%	8.1%	9.2%	7.4%
HKScan (Nordea)	-5.1%	-0.1%	0.6%	1.9%	0.5%	3.4%	3.9%	4.3%	-0.2%	-0.1%	0.0%	0.0%
	-7.8pp	-1.9pp	-2.3pp	-1.3pp	-2.9pp	-0.8pp	-0.6pp	-0.6pp	-7.1pp	-8.2pp	-9.2pp	-7.4pp
International peers												
Brf Sa	-9.6%	-3.1%	8.0%	10.5%	-8.6%	5.0%	6.2%	5.7%	-56.4%	3.7%	4.7%	6.9%
Gruppa Cherkizovo Pao	-1.8%				11.2%				21.5%			
Sanderson Farms Inc	-5.0%	8.5%	5.7%	0.1%	0.3%	2.7%	2.9%	2.7%	5.8%	5.1%	7.7%	0.0%
Tyson Foods Inc	3.0%	10.3%	3.0%	1.3%	8.0%	7.6%	7.9%	8.3%	18.7%	15.8%	15.3%	0.0%
Average	-3.3%	5.2%	5.6%	4.0%	2.7%	5.1%	5.6%	5.6%	-2.6%	8.2%	9.2%	2.3%
Median	-3.4%	8.5%	5.7%	1.3%	4.1%	5.0%	6.2%	5.7%	12.2%	5.1%	7.7%	0.0%
HKScan (Nordea)	-5.1%	-0.1%	0.6%	1.9%	0.5%	3.4%	3.9%	4.3%	-0.2%	-0.1%	0.0%	0.0%

Data as of market close on 16 April 2019.

Source: Thomson Reuters and Nordea estimates

Estimates

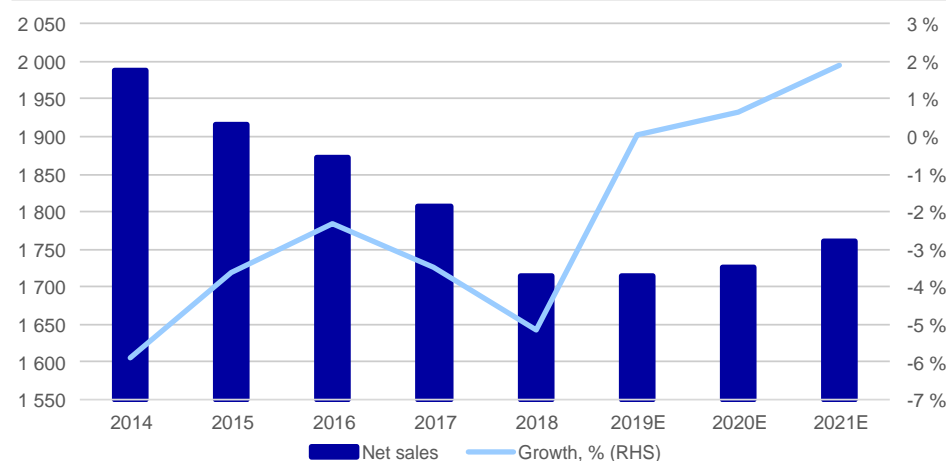
Our estimates reflect the current agricultural headwinds coming from higher raw material prices and also the prolonged ramp-up of the Rauma poultry factory. However, we expect the losses from Rauma to gradually decrease and the unit to break even at the end of 2019. Moreover, we expect the company to mitigate losses arising from Rauma with recently lowered producer prices and a cost-saving programme, which should start to bear fruit from the end of 2019. We forecast a 1% sales CAGR for the period 2019-21 and expect the company to reach EUR 10m in adjusted EBIT by 2021, up from EUR -11.8m (excluding Rauma) in 2018.

We expect sales growth to return to black territory

Sales growth bottoming out

HKScan has not issued any guidance or set any targets for sales growth. As some 40% of group sales are generated from the Swedish market, currency fluctuations can have a big impact on sales growth, we note. We estimate that net sales will remain flat in 2019, mainly due to expected headwinds from the weaker SEK. For 2020-21, we forecast 1-2% growth annually, driven mainly by the expansion of the poultry operations. Our estimates are based on the company's current structure and do not assume any acquisitions or divestments.

NET SALES AND SALES GROWTH



Source: Company data and Nordea estimates

We estimate that the Rauma poultry factory will burden 2019 EBIT by some EUR 3.5m

EBIT margin recovery driven by improvement in Rauma

HKScan's adjusted operating profit was negative in 2017-18, mainly due to prolonged ramp-up issues with the new Rauma poultry factory. The company has indicated a further need for investments in the facility, and we expect Rauma to burden group adjusted EBIT in 2019 by some EUR 3.5m. In addition, we expect to see cost inflation on all fronts during 2019, which the company aims to mitigate with lowered producer prices, as announced at the end of February. The company reduced producer prices for poultry and beef by some 5-10% in Denmark, Finland and Sweden. Producer prices for pork remain intact, and we note that higher feed raw material prices will further burden HKScan's results in the Baltics. HKScan states that the new prices will remain in place until the company's financial position is healthier.

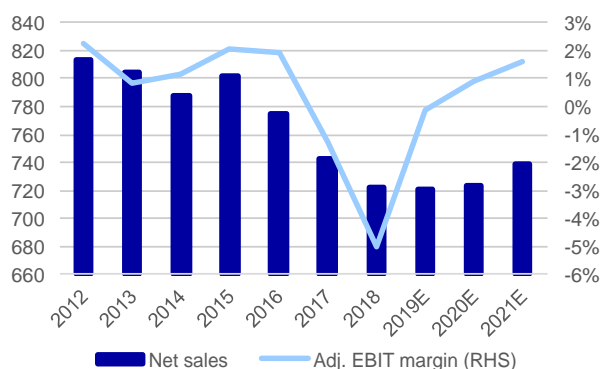
In addition, HKScan's EUR 7m cost-saving programme related to the blue-collar workforce in Finland (statutory negotiations were completed in October 2018) will improve the company's cost structure in 2019, but we remain conservative in our estimates for Finland, as price hikes for retail syndicates might be hard to push through without HKScan losing market share. We estimate adjusted EBIT for Finland (including Rauma ramp-up costs) at EUR -0.8m for 2019 (EUR -36.1m in 2018), gradually increasing to EUR 11.9m in 2021.

In Sweden, we expect the company to increase its operating margin slightly from 1.3% in 2018 to 1.9% in 2021. As in Finland, we expect cost inflation on all fronts, but especially for raw material prices and salaries. The Kristianstad unit, which is the largest of HKScan's units in Sweden, has been operating at a normal production rate since January 2019 after a successful modernisation project, and should add some efficiency to the Swedish operations.

The operations in Denmark have been under intense price pressure, in addition to seeing a decline in exports. We see no easy self-help solution to the situation, and note that the company might either divest the operations in Denmark or streamline them by closing the smaller Skovsgaard unit. We do not expect the Danish operations to break even during the next two years with the current structure.

The operations in the Baltics have been affected by strikes and increased raw material prices. We expect to see a positive impact from the new Rakvere unit from H2 2019 onwards, but simultaneously anticipate headwinds from cost inflation relating to wages and raw material prices.

FINLAND: NET SALES AND ADJ EBIT MARGIN, EURm AND %



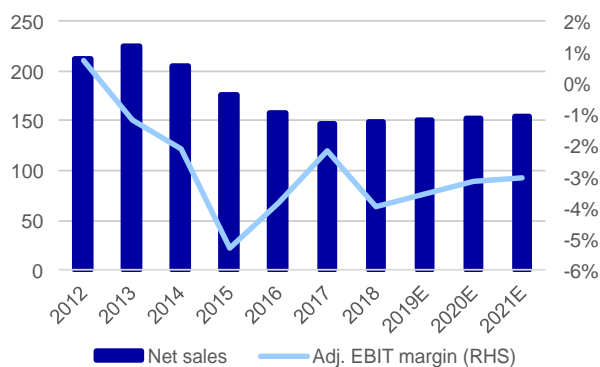
Source: Company data and Nordea estimates

SWEDEN: NET SALES AND ADJ EBIT, EURm AND %



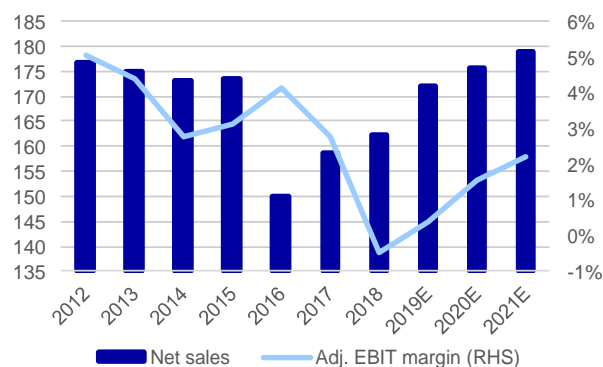
Source: Company data and Nordea estimates

DENMARK: NET SALES AND ADJ EBIT MARGIN, EURm AND %



Source: Company data and Nordea estimates

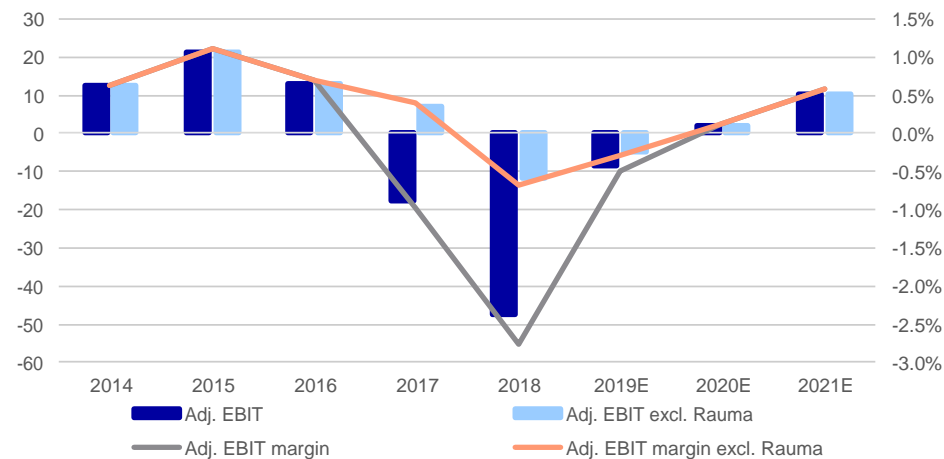
BALTICS: NET SALES AND ADJ EBIT MARGIN, EURm AND %



Source: Company data and Nordea estimates

On a group level, we expect HKScan to reach break-even EBIT during 2020. Our adjusted EBIT estimate for 2021 is EUR 10m, as we expect around EUR 14m in group overhead costs for 2019-21 (these were, on average, EUR 13.6m in 2014-18).

ADJUSTED EBIT AND EBIT MARGIN, EURm AND %



Source: Company data and Nordea estimates

Cost efficiency in focus

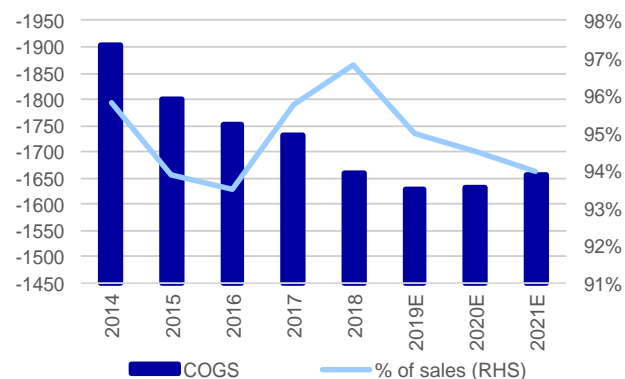
HKScan's investments in its Rauma poultry unit should yield cost benefits when the ramp-up has been completed. The new factory replaced the old Eura poultry factory, and originally the company estimated that the headcount reduction related to the change would not exceed 239 full-time employees (FTE).

Reduced producer prices are supporting cost-savings programmes

The increase in the company's cost of goods sold in 2017-18 was due to increased raw material prices and to a lesser extent wastage from the Rauma unit. We estimate that the cost of goods sold will decrease due to finalisation of the Rauma ramp-up and the company's announcement in February 2019 that it would reduce producer prices by some 5-10% in the poultry and cattle categories.

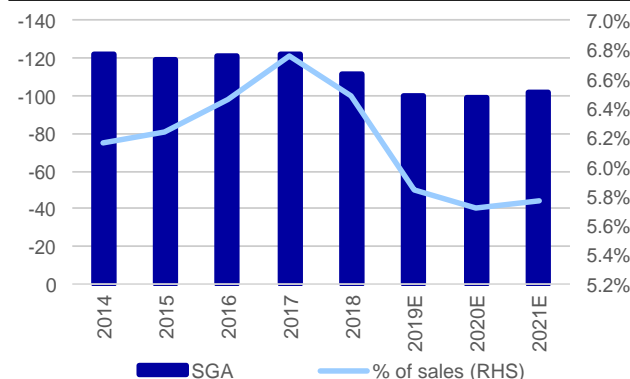
We believe that management is keen to cut management costs, and thus we estimate that selling, general and administration costs will gradually come down to the 5.8% level in 2020. Statutory negotiations are ongoing concerning white-collar employees; we estimate the maximum headcount reduction to be 220 FTEs. The company is seeking EUR 10m in annual savings with the current programme, which is part of the larger EUR 40m cost-saving programme announced in July 2018.

COST OF GOODS SOLD, EURm



Source: Company data and Nordea estimates

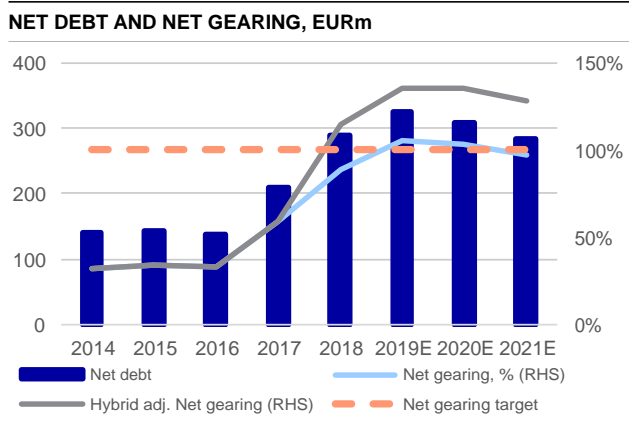
SELLING, GENERAL AND ADMINISTRATION COSTS, EURm



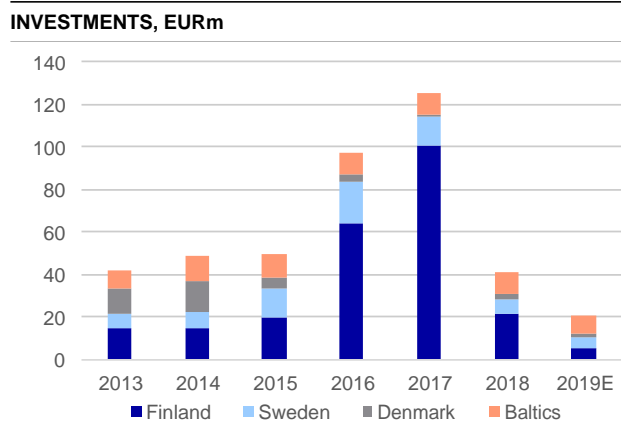
Source: Company data and Nordea estimates

Balance sheet currently stretched

HKScan's balance sheet is currently stretched with net gearing of 88.7% at the end of 2018. When we adjust for the hybrid bond (by transferring the bond from equity to long-term interest-bearing debt), net gearing increases to 115% at the end of 2018. The company has a long-term net gearing target of 100%, and the current IFRS 16 standard increases net gearing to around 102% as of the end of 2018. Net debt has been rising since the launch of the Rauma investment. The original investment was EUR 80m, but according to the company, the total investment will end up at around EUR 120m.



Source: Company data and Nordea estimates

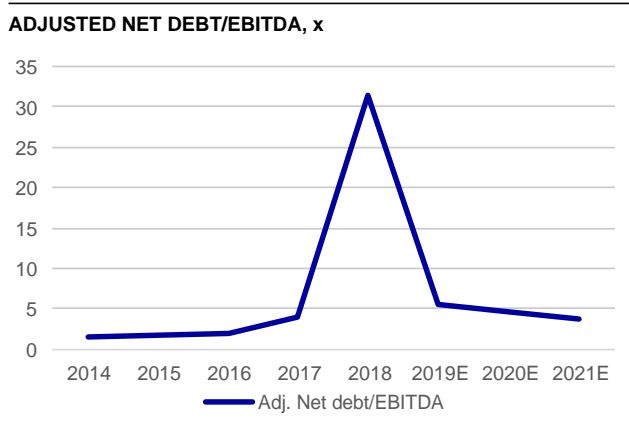


Source: Company data

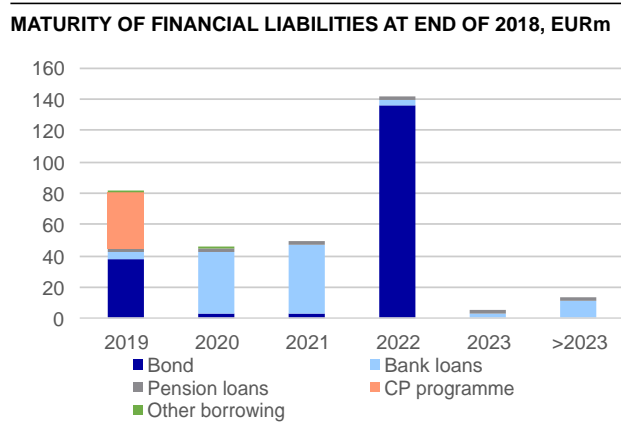
HKScan bonds mature in 2019 and 2022

HKScan has two outstanding bonds. The 2019 bond matures in November and the company will have to refinance some EUR 33.5m that was left over after it used part of the proceeds from the 2022 bond to repay the EUR 100m 2019 bond. The company has committed and undrawn credit facilities and a commercial paper programme to cover this repayment. We note that short-term financing should not be a issue, but a long-term solution might entail the divestment of some operations.

HKScan's adjusted net debt/EBITDA was 31.5x in 2018, and with our 2019-21 estimates, adjusted net debt/EBITDA is 5.7-3.8x. Our estimates for net debt account for the EUR 40m hybrid bond as equity. The first redemption date for the hybrid bond is in 2023, on the fifth anniversary of the issue date.



Source: Company data and Nordea estimates

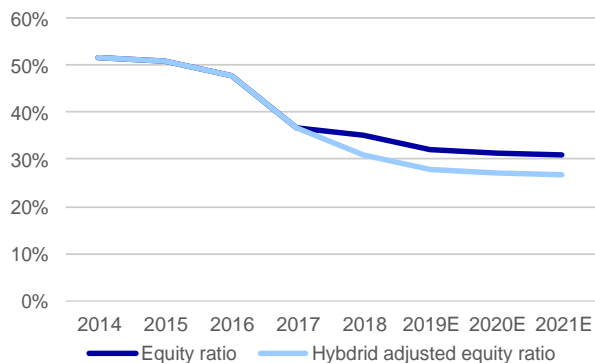


Source: Company data

HKScan has set a long-term target of more than a 12% return on capital employed. The company has not managed to reach this target during the past decade, and the highest ROCE it has achieved was 10% in 2014. We expect it to achieve positive ROCE in 2019.

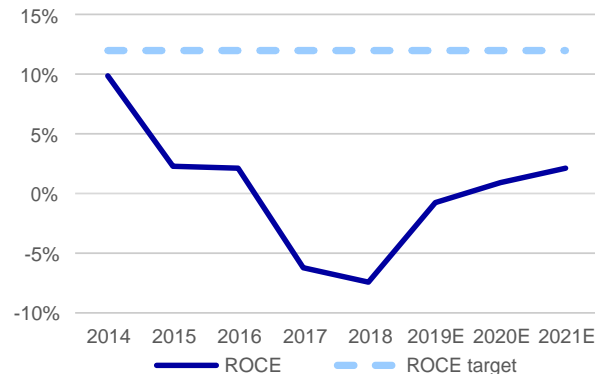
The equity ratio has been subdued since the Rauma investment and is currently (at the end of 2018) around 35%. HKScan has a EUR 40m outstanding hybrid bond, and if we adjust for that, the equity ratio is currently at the 31% level. With our 2019-21 estimates, the equity ratio will drop to around 31%, as we do not expect the company to reach positive net profit to equity until 2021. HKScan's average equity ratio for the past ten years has been 39.9%.

EQUITY RATIO, %



Source: Company data and Nordea estimates

RETURN ON CAPITAL EMPLOYED, %



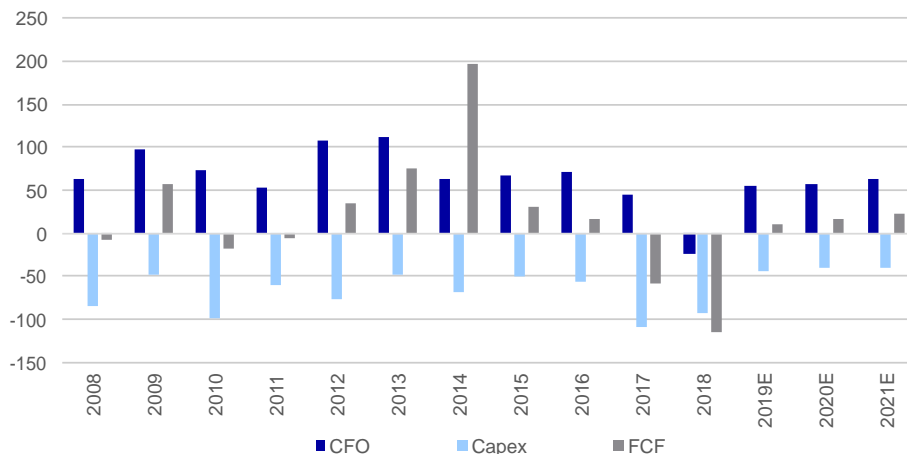
Source: Company data and Nordea estimates

Cash flow

We expect positive cash flows for 2019-21

HKScan's cash flow is the key issue going forward. The Rauma investment, in addition to a weaker operational performance, has weakened cash flow. As the company's debt level is elevated currently, we expect its focus to be on cash flows with reduced capital expenditure. Funds from operations (FFO) have been EUR 61m on average over the past ten years, and were EUR -2m in 2018. We forecast FFO to increase gradually and to reach EUR 59m in 2021. Cash flow from operations (CFO) has been EUR 66m on average in the past ten years and we forecast an average of EUR 58m for the period 2019-21. We estimate that capital expenditure will normalise at the EUR 40m level in 2019-21E, although we expect to see some EUR 5m of extra capex relating to the Rauma investment in 2019. We assume that capex will be 2.3% of revenue during 2020-21, equalling around EUR 40m annually.

CFO, CAPEX AND FCF, EURm



Source: Company data and Nordea estimates

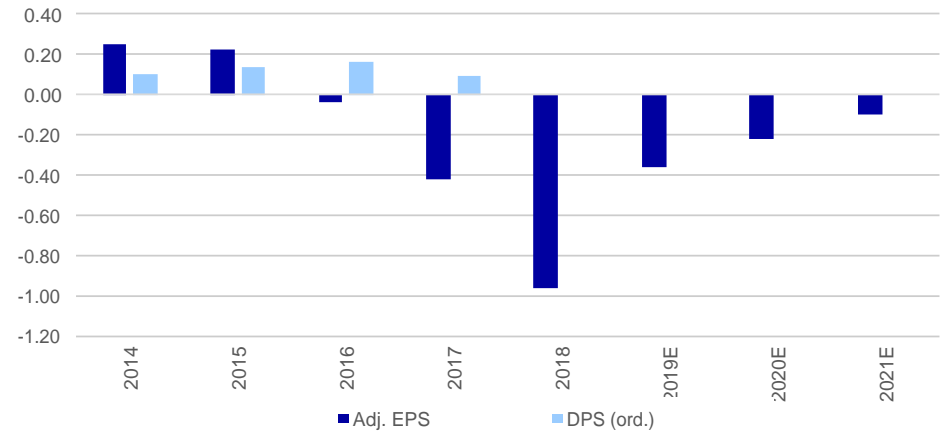
Dividends on hold due to negative EPS

HKScan's EPS has been decreasing since 2014 and reached EUR -1.00 in 2018. Although the company has identified the main problems, we expect a turnaround to take time. The 2017-18 losses stem mostly from the Rauma ramp-up, but we note that adjusted EBIT excluding Rauma costs was EUR 7.2m and EUR -11.8m in 2017 and 2018, respectively. Owing to the difficult market outlook and a slow impact from self-help measures, we expect adjusted EPS to remain negative for 2019-21.

HKScan's dividend policy is to pay out at least 30% of annual earnings. We note that dividend is important especially for HKScan's main owner, LSO, but we do not expect the company to pay any dividends from the 2019-21 results, as we do not expect it to achieve positive EPS until 2022. In addition, we believe that company is looking to strengthen its balance sheet, which supports our view that there will be no dividends during 2019-21. However, if the company divests some parts of its operations, we see a possibility of a small extraordinary dividend, as happened in 2014 when the company divested the Sokolow operations in Poland.

We forecast EPS to remain negative until 2021

EARNINGS PER SHARE AND DIVIDEND PER SHARE, EUR



Source: Company data and Nordea estimates

QUARTERLY DETAILED ESTIMATES AND DIVISIONAL FORECASTS, EURm

Income statement EURm	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119E	Q219E	Q319E	Q419E
Sales	421	460	453	475	411	434	416	455	403	431	426	455
- sales growth	-4%	-5%	-3%	-2%	-2%	-6%	-8%	-4%	-2%	-1%	2%	0%
EBITDA	7	6	16	0	-5	-3	4	11	7	12	16	23
- margin	1.6%	1.4%	3.6%	-0.1%	-1.1%	-0.7%	1.0%	2.4%	1.7%	2.7%	3.7%	5.1%
D&A	-14	-17	-17	-22	-14	-14	-14	-15	-16	-16	-16	-16
EBIT reported	-7	-11	-1	-22	-19	-17	-10	-4	-10	-5	-1	7
Adj. EBIT	-7	-1	3	-12	-18	-17	-10	-2	-10	-5	-1	7
- margin	-1.6%	-0.3%	0.6%	-2.6%	-4.5%	-3.9%	-2.4%	-0.5%	-2.4%	-1.1%	-0.2%	1.5%
Net finance	-2	-2	-3	-4	-3	-3	-3	-3	-3	-3	-3	-4
Associated companies	1	0	0	1	0	0	0	0	0	0	0	0
Adj. PTP	-8	-3	0	-15	-21	-20	-13	-5	-13	-7	-4	4
Taxes	1	1	1	4	4	3	3	-3	3	1	1	-1
Profit before minorities	-7	-2	0	-11	-17	-17	-10	-8	-10	-6	-3	3
Minorities	0	-1	-1	-1	0	0	0	-1	0	0	0	0
Adj. net profit to equity	-7	-3	0	-13	-17	-17	-10	-9	-11	-7	-4	2
EPS, excl. NRI	-0.14	-0.05	-0.01	-0.23	-0.31	-0.31	-0.19	-0.17	-0.20	-0.12	-0.07	0.04
Divisional sales EURm	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119E	Q219E	Q319E	Q419E
Finland	177	190	179	197	174	180	172	196	172	179	172	197
Sweden	171	192	194	203	164	173	163	182	153	169	170	179
Baltics	37	40	42	40	37	42	42	41	40	44	44	43
Denmark	36	38	38	36	36	38	39	36	36	38	40	36
Group eliminations	0	0	0	0	0	0	0	0	0	0	0	0
Total	421	460	453	475	411	434	416	455	403	431	426	455
Divisional adj. EBIT	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119E	Q219E	Q319E	Q419E
Finland	-1.1	0.4	1.0	-9.7	-10.4	-14.1	-9.5	-2.1	-3.7	-2.9	-1.7	7.5
Sweden	-0.6	1.4	3.0	4.8	-1.4	1.8	3.0	5.5	-1.4	2.1	4.4	5.9
Baltics	0.4	1.7	2.8	-0.5	-1.0	0.2	0.9	-0.9	-0.5	0.5	1.3	-0.7
Denmark	-1.1	-0.9	-0.6	-0.6	-0.8	-1.1	-1.5	-2.5	-0.7	-1.0	-1.3	-2.4
Group eliminations	-4.4	-3.9	-3.6	-6.3	-4.8	-3.7	-3.0	-2.1	-3.5	-3.5	-3.5	-3.5
Total	-6.8	-1.3	2.6	-12.3	-18.4	-16.9	-10.1	-2.1	-9.8	-4.7	-0.8	6.9
Divisional sales growth	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119E	Q219E	Q319E	Q419E
Finland	-2%	-5%	-6%	-4%	-1%	-5%	-4%	-1%	-1%	-1%	0%	1%
Sweden	-8%	-5%	-2%	-2%	-4%	-10%	-16%	-10%	-6%	-2%	4%	-2%
Baltics	-1%	-2%	13%	14%	0%	4%	0%	4%	10%	5%	6%	4%
Denmark	-1%	-8%	-7%	-9%	0%	1%	4%	-1%	1%	1%	1%	1%
Group eliminations	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Group sales growth	-4%	-5%	-3%	-2%	-2%	-6%	-8%	-4%	-2%	-1%	2%	0%
Adj. EBIT margin	Q117	Q217	Q317	Q417	Q118	Q218	Q318	Q418	Q119E	Q219E	Q319E	Q419E
Finland	-0.6%	0.2%	0.6%	-4.9%	-6.0%	-7.8%	-5.5%	-1.1%	-2.2%	-1.6%	-1.0%	3.8%
Sweden	-0.4%	0.7%	1.5%	2.4%	-0.9%	1.0%	1.8%	3.0%	-0.9%	1.2%	2.6%	3.3%
Baltics	1.1%	4.2%	6.7%	-1.3%	-2.7%	0.5%	2.1%	-2.2%	-1.3%	1.2%	2.9%	-1.5%
Denmark	-3.1%	-2.4%	-1.6%	-1.7%	-2.2%	-2.9%	-3.8%	-7.0%	-1.8%	-2.5%	-3.4%	-6.6%
Group EBIT margin	-1.6%	-0.3%	0.6%	-2.6%	-4.5%	-3.9%	-2.4%	-0.5%	-2.4%	-1.1%	-0.2%	1.5%

Source: Company data and Nordea estimates

ANNUAL DETAILED ESTIMATES AND DIVISIONAL FORECASTS, EURm

Income statement EURm	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	CAGR
Sales	2,547	2,113	1,989	1,917	1,873	1,808	1,715	1,714	1,725	1,758	1%
- sales growth	2%	-17%	-6%	-4%	-2%	-3%	-5%	0%	1%	2%	
EBITDA	129	74	138	74	65	29	7	58	68	76	119%
- margin	5.1%	3.5%	6.9%	3.9%	3.5%	1.6%	0.4%	3.4%	3.9%	4.3%	
D&A	-86	-62	-83	-65	-55	-70	-57	-66	-66	-66	n.m.
EBIT reported	43	12	56	10	10	-40	-50	-8	2	10	n.m.
Adj. EBIT	37	11	12	22	13	-18	-48	-8	2	10	n.m.
- margin	1.4%	0.5%	0.6%	1.1%	0.7%	-1.0%	-2.8%	-0.5%	0.1%	0.6%	
Net finance	-32	-24	-15	-9	-9	-11	-10	-13	-14	-14	12%
Associated companies	3	19	11	2	0	2	1	2	2	2	13%
Adj. PTP	8	6	8	14	4	-27	-56	-20	-10	-2	n.m.
Taxes	3	3	6	0	-4	7	7	4	2	0	n.m.
Profit before minorities	11	9	14	14	0	-20	-49	-16	-8	-2	n.m.
Minorities	-1	-1	-1	-2	-2	-3	-2	-1	-1	-1	n.m.
Adj. net profit to equity	10	8	14	12	-2	-23	-52	-19	-12	-6	n.m.
EPS, excl. NRI	0.19	0.15	0.25	0.23	-0.04	-0.42	-0.96	-0.36	-0.22	-0.10	n.m.
Divisional sales EURm	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	CAGR
Finland	814	804	787	802	775	742	722	720	724	738	1%
Sweden	1,026	967	911	842	791	759	682	671	674	687	0%
Baltics	177	175	173	174	150	159	162	172	175	179	3%
Denmark	212	226	204	176	158	148	149	150	152	153	1%
Group eliminations	-69	-58	-87	-76	0	0	0	0	0	0	n.m.
Total	2,503	2,113	1,989	1,917	1,874	1,808	1,715	1,714	1,725	1,758	1%
Divisional adj. EBIT	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	CAGR
Finland	18	7	9	16	15	-9	-36	-1	7	12	n.m.
Sweden	2	10	13	22	12	9	9	11	11	13	13%
Baltics	9	8	5	5	6	4	-1	1	3	4	n.m.
Denmark	2	-3	-4	-9	-6	-3	-6	-5	-5	-5	-8%
Group eliminations	-9	-11	-10	-13	-14	-18	-14	-14	-14	-14	n.m.
Total	37	11	12	22	13	-18	-48	-8	2	10	n.m.
Divisional sales growth	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	CAGR
Finland	0%	-1%	-2%	2%	-3%	-4%	-3%	0%	0%	2%	
Sweden	-2%	-6%	-6%	-8%	-6%	-4%	-10%	-2%	0%	2%	
Baltics	2%	-1%	-1%	0%	-14%	6%	2%	6%	2%	2%	
Denmark	-7%	7%	-9%	-14%	-10%	-7%	1%	1%	1%	1%	
Group eliminations	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	
Group sales growth	2%	-17%	-6%	-4%	-2%	-3%	-5%	0%	1%	2%	
Adj. EBIT margin	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E	CAGR
Finland	2.3%	0.9%	1.1%	2.0%	2.0%	-1.3%	-5.0%	-0.1%	0.9%	1.6%	
Sweden	0.1%	1.1%	1.5%	2.6%	1.5%	1.1%	1.3%	1.6%	1.7%	1.9%	
Baltics	5.0%	4.4%	2.8%	3.1%	4.1%	2.8%	-0.5%	0.4%	1.5%	2.2%	
Denmark	0.8%	-1.2%	-2.1%	-5.3%	-3.9%	-2.2%	-4.0%	-3.5%	-3.1%	-3.0%	
Group EBIT margin	1.5%	0.5%	0.6%	1.1%	0.7%	-1.0%	-2.8%	-0.5%	0.1%	0.6%	

Source: Company data and Nordea estimates

Macro outlook

The macroeconomic environment has been favourable in the Nordic countries in recent years, with ~2.5% GDP growth during 2016-17. Although the current outlook is slightly gloomier, we still expect to see modest growth much in line with that of the Euro area in the next few years. Nordic unemployment rates have been falling for the past few years and inflation has been steadily rising across HKScan's main markets. The company has opened export channels for pork to China, where economic growth has been slowing, albeit from high levels. We still expect China to have annual GDP growth in excess of 6% for 2019, but see the rate slowing down to 5.9% in 2020.

Softening outlook for HKScan's main markets

We expect Finnish employment growth to cool in 2019-20

In HKScan's main market areas, Finland and Sweden, the macroeconomic outlook is somewhat cooler now than in recent years. In Finland, employment growth has fuelled consumption growth in the past few years, and we expect this growth to slow in 2019-20. Regardless, we expect increasing wages, which should lend support to domestic consumption. Our forecasts for real GDP growth in Finland for 2019-20 are 1.5% and 1.0% y/y, respectively.

Swedish economic outlook is burdened by housing market concerns

Swedish economic growth has been solid in the past few years. However, the absence of positive wealth effects from the housing market has put a damper on household consumption. We forecast that during 2019-20 savings will increase and income growth will outpace consumption growth. Hence, we expect Sweden's real GDP to grow by a more modest 1.0% and 1.3% y/y in 2019 and 2020, respectively.

Danish private consumption might surprise

Over the past four years, Danish household consumption has increased by just over 2% annually. The marginal propensity to consume decreased after the financial crisis, but the combination of rising employment, real wage growth and historically high wealth might boost private consumption if households decide to spend a larger share of their incomes on consumption. We forecast that Danish real GDP growth will be the highest among the Nordic countries in 2019-20 at 1.7-1.8% annual growth.

Growth in the Baltic economies set to remain above that of the Nordic countries

The Baltic economies have enjoyed fast growth in the past few years, driven by consumption increases thanks to higher wages. We expect growth to level out in 2019-20 owing to slower wage increases, although we believe that it will surpass the growth of the Nordic countries and the Euro area. We forecast 2.9-3.1% real GDP growth for the Baltic economies in 2019-20.

REAL GDP GROWTH, % (Y/Y)

	2016	2017	2018E	2019E	2020E
Finland	2.5	2.8	2.3	1.5	1.0
Sweden	2.4	2.4	2.3	1.0	1.3
Denmark	2.4	2.3	0.9	1.8	1.7
Baltics	2.2	4.3	3.6	3.1	2.9
Eurozone	1.9	2.5	1.8	1.2	1.4
World	3.5	3.3	3.8	3.9	3.8

Source: Nordea Economic Outlook December 2018

CONSUMER PRICES, % (Y/Y)

	2016	2017	2018E	2019E	2020E
Finland	0.4	0.7	1.1	1.2	1.6
Sweden	1.0	1.8	2.0	2.0	2.0
Denmark	0.3	1.1	0.8	1.2	1.5
Baltics	0.5	3.5	2.7	2.3	2.3
Eurozone	0.2	1.5	1.7	1.3	1.6
World	2.9	3.2	3.9	3.6	3.5

Source: Nordea Economic Outlook December 2018

Historical financials

HKScan's net sales peaked in 2012 at EUR 2,500m. Since then, sales have been trending down and amounted to EUR 1,715m in 2018. Profitability has also been sliding with net sales, with the adjusted EBIT margin declining and reaching negative territory in 2017. Even excluding Rauma-related additional costs, the operating profit turned negative in 2018. On the positive side, the negative impact from the Rauma poultry unit has been decreasing since Q2 2018.

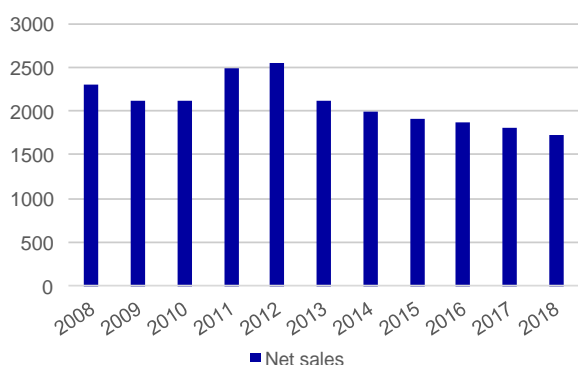
Net sales and profitability

Net sales and profitability have been sliding in the past

The trend in net sales has been negative. Since 2008, net sales have declined at a CAGR of 2.9%. Calculated from peak sales in 2012, the annual CAGR figure has been -6.4%. In 2018, the company accumulated annual sales of EUR 1,715m. The main reasons for the decline are the divestment of the Polish Sokolow unit and decreasing end-customer demand for red meat.

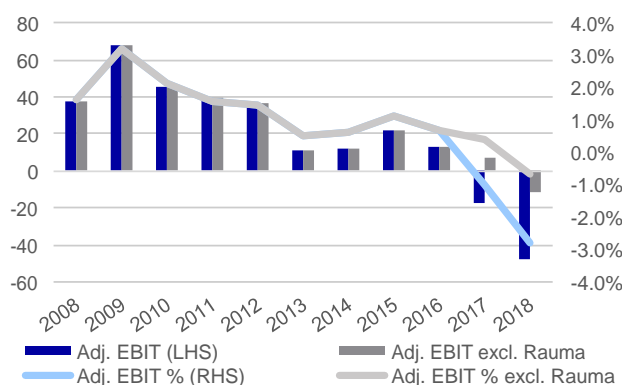
The operating profitability has followed the same trend as net sales, declining gradually over the past ten years. Adjusted EBIT peaked in 2009, at EUR 67.8m. In 2018, the corresponding figure dropped to EUR -47.5m, as it was burdened by the ramp-up of the new Rauma poultry unit. Excluding the negative impact from the Rauma poultry unit, adjusted EBIT was EUR -11.8m. Lost sales and additional costs pushed adjusted EBIT into negative territory in 2017 too.

GROUP NET SALES, EURm



Source: Company data

ADJUSTED EBIT AND EBIT MARGIN, EURm AND %

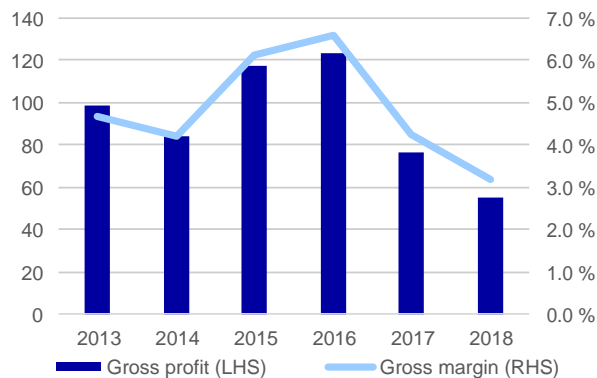


Source: Company data

Gross profit and margin

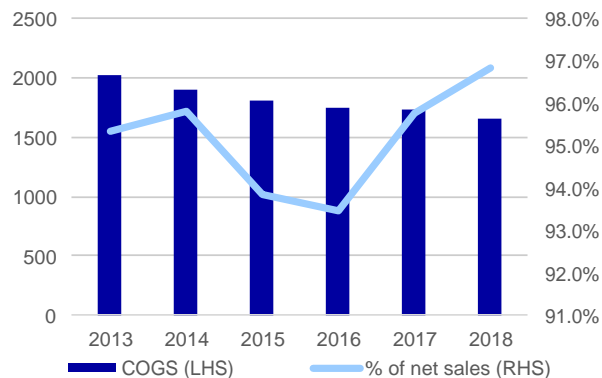
The gross profit in 2018 was EUR 54.8m. The profit has declined by EUR 43.6m over the past five years, corresponding to a CAGR of -11.0%. The company reached a gross profit of EUR 122m in 2016, but since then the results have been trending down. Furthermore, the gross profit margin has fluctuated between 3% and 7% over the past six years. The margin stood at 3.2% in 2018. The main reason for the decreasing gross margin and higher COGS in relation to sales in recent years has been the rising raw material costs. In addition, the Rauma ramp-up has led to increased wastage, thus increasing COGS.

GROSS PROFIT AND PROFIT MARGIN, EURm AND %



Source: Company data

COST OF GOODS SOLD, EURm

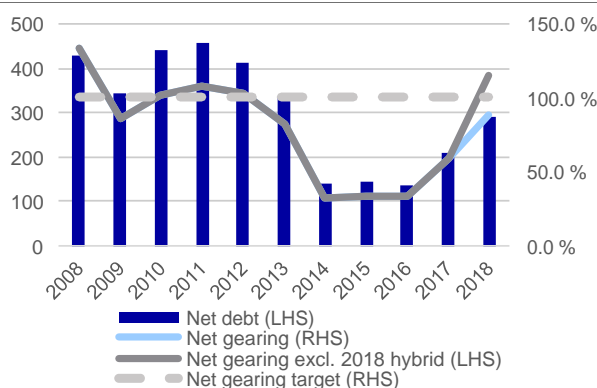


Source: Company data

Solvency

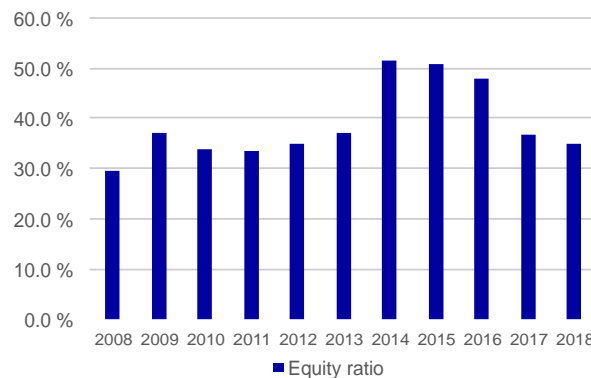
HKScan's net gearing target is 100%. The company achieved this level in 2013 and managed to keep net debt relatively low until 2017. Significant capital investments related to the Rauma poultry factory and subsequent unexpected additional capex needs have led to increased borrowing and consequently higher net debt and a higher gearing ratio. The company issued a EUR 40m hybrid bond in 2018 to alleviate its solvency situation. Including the hybrid capital, net gearing stood at 88.7% at the end of 2018. If we adjust for the hybrid bond (by transferring hybrid bond from equity to long-term interest-bearing debt), the net gearing ratio rises to 115%. Furthermore, the equity ratio has declined notably from 2016 and stood at 35% at the end of 2018.

NET DEBT, NET GEARING AND NET GEARING TARGET, EURm AND %



Source: Company data

EQUITY RATIO, %



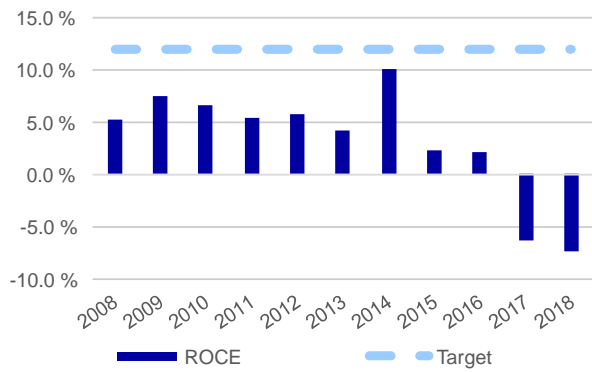
Source: Company data

Return on capital and dividends

HKScan's long-term financial goal is to deliver a 12% return on capital employed annually. The company reached a 10% return in 2014, but subsequent figures have been considerably lower. Moreover, the ROCE figure turned negative in 2017 and remained so in 2018.

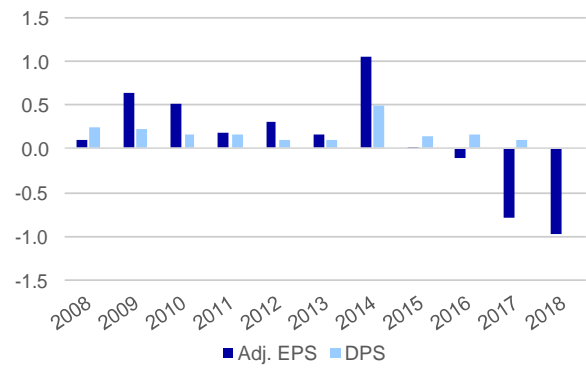
Excluding a one-off divestment gain in 2014, earnings per share have declined gradually since 2009. Despite this, the company was able to pay ordinary annual dividends of EUR 0.09-0.24 up until 2018. Moreover, it paid an extraordinary dividend of EUR 0.39 in 2014. However, the board of directors has proposed a zero dividend in 2019 in order to stabilise the company's solvency.

RETURN ON CAPITAL EMPLOYED, %



Source: Company data

ADJUSTED EPS AND DPS, EUR



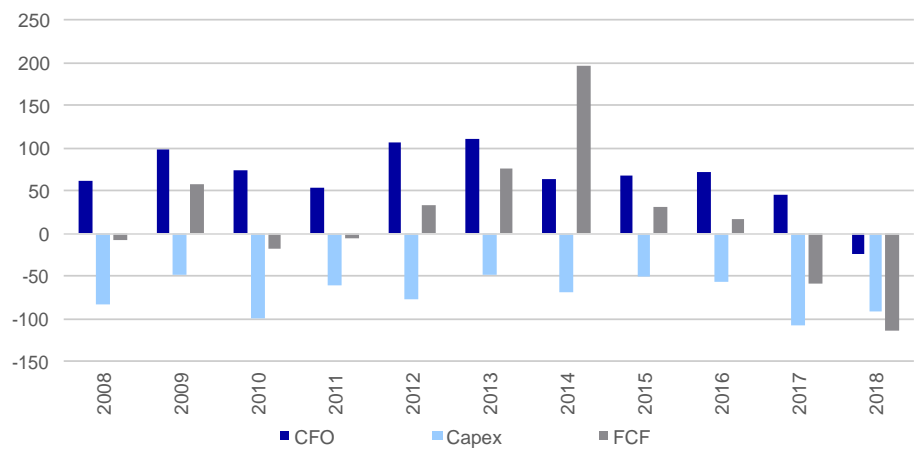
Source: Company data

Operating cash flow, capex and free cash flow

Like other financials, cash flow metrics have been deteriorating in recent years. Negative free cash flow from 2016 onwards reflects capital expenditure related to the Rauma poultry unit. Furthermore, cash flow from operations turned negative in 2018, partly due to delivery problems caused by Rauma. However, in Q4 2018 it was a positive EUR 29.3m.

Regarding liquidity, committed credit facilities at the end of the 2018 stood at EUR 100m and were entirely undrawn. EUR 35.5m of the EUR 200m commercial paper programme had been drawn.

CASH FLOWS, EURm



Source: Company data

Reported numbers and forecasts

INCOME STATEMENT

EURm	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net revenue	2,491	2,547	2,113	1,989	1,917	1,873	1,808	1,715	1,714	1,725	1,758
Revenue growth	17.9%	2.2%	-17.0%	-5.9%	-3.6%	-2.3%	-3.5%	-5.1%	-0.1%	0.6%	1.9%
of which organic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which FX	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	112	129	74	138	74	65	29	7	58	68	76
Depreciation and impairments PPE	-72	-86	-62	-83	-65	-55	-70	-57	-66	-66	-66
EBITA	40	43	12	56	10	10	-40	-50	-8	2	10
Amortisation and impairments	0	0	0	0	0	0	0	0	0	0	0
EBIT	40	43	12	56	10	10	-40	-50	-8	2	10
of which associates	0	0	0	0	0	0	0	0	0	0	0
Associates excluded from EBIT	3	3	19	11	2	0	2	1	2	2	2
Net financials	-31	-32	-24	-15	-9	-9	-11	-10	-13	-14	-14
Changes in value, net	0	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	11	14	7	51	2	1	-49	-58	-20	-10	-2
Reported taxes	1	3	3	6	0	-4	7	7	4	2	0
Net profit from continued operations	12	18	10	57	2	-4	-42	-51	-16	-8	-2
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Minority interests	-2	-1	-1	-1	-2	-2	-3	-2	-1	-1	-1
Net profit to equity	10	17	9	57	0	-5	-45	-54	-19	-12	-6
EPS	0.18	0.30	0.16	1.05	0.01	-0.10	-0.84	-1.00	-0.36	-0.22	-0.10
DPS	0.17	0.10	0.10	0.49	0.14	0.16	0.09	0.00	0.00	0.00	0.00
of which ordinary	0.17	0.10	0.10	0.10	0.14	0.16	0.09	0.00	0.00	0.00	0.00
of which extraordinary	0.00	0.00	0.00	0.39	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Profit margin in percent

EBITDA	4.5%	5.1%	3.5%	6.9%	3.9%	3.5%	1.6%	0.4%	3.4%	3.9%	4.3%
EBITA	1.6%	1.7%	0.6%	2.8%	0.5%	0.5%	-2.2%	-2.9%	-0.5%	0.1%	0.6%
EBIT	1.6%	1.7%	0.6%	2.8%	0.5%	0.5%	-2.2%	-2.9%	-0.5%	0.1%	0.6%

Adjusted earnings

EBITDA (adj)	112	123	73	95	86	68	52	9	58	68	76
EBITA (adj)	40	37	11	12	22	13	-18	-48	-8	2	10
EBIT (adj)	40	37	11	12	22	13	-18	-48	-8	2	10
EPS (adj)	0.18	0.19	0.15	0.25	0.23	-0.04	-0.42	-0.96	-0.36	-0.22	-0.10

Adjusted profit margins in percent

EBITDA (adj)	4.5%	4.8%	3.5%	4.8%	4.5%	3.6%	2.9%	0.5%	3.4%	3.9%	4.3%
EBITA (adj)	1.6%	1.4%	0.5%	0.6%	1.1%	0.7%	-1.0%	-2.8%	-0.5%	0.1%	0.6%
EBIT (adj)	1.6%	1.4%	0.5%	0.6%	1.1%	0.7%	-1.0%	-2.8%	-0.5%	0.1%	0.6%

Performance metrics

CAGR last 5 years											
Net revenue	21.5%	3.9%	-1.6%	-1.3%	-1.9%	-5.5%	-6.6%	-4.1%	-2.9%	-2.1%	-1.3%
EBITDA	9.5%	0.2%	-4.6%	4.2%	-7.5%	-10.4%	-25.7%	-37.2%	-16.1%	-1.9%	3.3%
EBIT	-0.4%	-4.9%	-21.0%	0.1%	-27.5%	-24.5%	n.m.	n.m.	n.m.	-26.1%	0.9%
EPS	-25.2%	-21.0%	5.9%	10.5%	-59.6%	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
DPS	-8.8%	-18.0%	-16.1%	-14.6%	-3.8%	-1.2%	-2.1%	n.m.	n.m.	n.m.	n.m.
Average last 5 years											
Average EBIT margin	2.1%	1.9%	1.7%	1.8%	1.4%	1.2%	0.5%	-0.2%	-0.9%	-1.0%	-1.0%
Average EBITDA margin	5.0%	4.8%	4.7%	5.0%	4.8%	4.6%	3.9%	3.4%	2.6%	2.6%	2.7%

VALUATION RATIOS - ADJUSTED EARNINGS

EURm	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
P/E (adj)	30.7	19.6	24.7	13.0	16.9	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EV/EBITDA (adj)	6.7	4.8	5.6	3.1	3.8	4.2	6.9	42.8	7.4	6.1	5.1
EV/EBITA (adj)	18.9	15.9	36.4	23.5	15.2	21.9	n.m.	n.m.	n.m.	193.6	38.1
EV/EBIT (adj)	18.9	15.9	36.4	23.5	15.2	21.9	n.m.	n.m.	n.m.	193.6	38.1

VALUATION RATIOS - REPORTED EARNINGS

EURm	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
P/E	30.7	12.0	23.6	3.1	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
EV/Sales	0.30	0.23	0.19	0.15	0.17	0.15	0.20	0.23	0.25	0.24	0.22
EV/EBITDA	6.7	4.5	5.6	2.1	4.4	4.5	12.2	54.7	7.4	6.1	5.1
EV/EBITA	18.9	13.5	35.2	5.2	34.1	29.9	n.m.	n.m.	n.m.	193.6	38.1
EV/EBIT	18.9	13.5	35.2	5.2	34.1	29.9	n.m.	n.m.	n.m.	193.6	38.1
Dividend yield (ord.)	3.0%	2.8%	2.7%	3.1%	3.7%	5.0%	2.9%	0.0%	0.0%	0.0%	0.0%
FCF yield	-1.7%	17.2%	37.1%	111.1%	14.8%	9.8%	-34.5%	-148.9%	8.2%	13.1%	18.6%
Payout ratio	92.5%	33.1%	62.8%	46.6%	2518.9%	n.m.	n.m.	0.0%	0.0%	0.0%	0.0%

Source: Company data and Nordea estimates

BALANCE SHEET

EURm	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Intangible assets	178	156	152	144	147	143	137	138	138	138	138
of which R&D	0	0	0	0	0	0	0	0	0	0	0
of which other intangibles	77	77	74	69	69	66	65	66	66	66	66
of which goodwill	101	79	78	75	78	77	72	71	71	71	71
Tangible assets	517	437	412	370	362	402	458	479	458	433	407
Shares associates	43	146	150	36	37	35	35	33	35	36	38
Interest bearing assets	0	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	0	0	0	0	0	0	0	0
Other non-IB non-current assets	52	33	31	41	35	29	36	45	45	45	45
Other non-current assets	0	0	0	0	0	0	0	0	0	0	0
Total non-current assets	789	773	744	591	581	608	666	695	676	652	627
Inventory	190	159	153	125	124	116	112	121	121	119	117
Accounts receivable	226	174	137	122	123	124	124	131	121	121	124
Other current assets	0	0	0	9	0	0	0	0	0	0	0
Cash and bank	48	56	69	16	10	7	51	29	40	57	80
Total current assets	464	389	358	274	257	247	286	282	282	297	321
Assets held for sale	0	0	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	1,253	1,161	1,102	864	837	855	953	977	958	948	948
Shareholders equity	409	395	400	437	412	395	337	311	292	280	274
Of which preferred stocks	0	0	0	0	0	0	0	0	0	0	0
Of which equity part of hybrid debt	0	0	0	0	0	0	0	40	40	40	40
Minority interest	12	9	9	9	14	15	14	15	17	18	19
Total Equity	422	404	409	445	426	410	351	327	308	297	293
Deferred tax	37	28	27	25	20	17	17	17	17	17	17
Long term interest bearing debt	334	287	245	122	117	127	245	287	287	287	287
Pension provisions	1	10	8	16	19	22	28	36	36	36	36
Other long-term provisions	3	0	0	0	0	0	7	7	7	7	7
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0	0
Convertible debt	0	0	0	0	0	0	0	0	0	0	0
Shareholder debt	0	0	0	0	0	0	0	0	0	0	0
Hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Total non-current liabilities	377	321	282	163	157	167	304	350	350	350	350
Short-term provisions	1	0	0	3	0	2	2	1	1	1	1
Accounts payable	283	254	252	216	217	259	281	222	221	223	227
Other current liabilities	0	0	0	0	1	0	1	0	0	0	0
Short term interest bearing debt	171	183	159	36	37	17	14	77	77	77	77
Total current liabilities	454	436	412	256	255	278	298	300	299	300	305
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	1,253	1,161	1,102	864	837	855	953	977	958	948	948
Balance sheet and debt metrics											
Net debt	456	414	336	142	144	138	208	335	324	307	284
Working capital	133	79	37	41	29	-20	-46	30	20	17	14
Invested capital	922	852	781	632	610	589	620	725	696	669	641
Capital employed	799	725	691	609	582	577	655	677	659	648	643
ROE	2.4%	4.1%	2.2%	13.6%	0.1%	-1.3%	-12.4%	-16.7%	-6.5%	-4.2%	-2.0%
ROIC	3.4%	3.3%	1.1%	1.4%	2.8%	1.8%	-2.3%	-5.6%	-1.0%	0.2%	1.6%
ROCE	5.0%	5.9%	1.7%	9.1%	1.6%	1.7%	-6.2%	-7.3%	-1.3%	0.3%	1.6%
Net debt/EBITDA	4.1	3.2	4.6	1.0	1.9	2.1	7.1	46.5	5.6	4.5	3.7
Interest coverage	n.m.	n.m.	0.6	n.m.	n.m.	n.m.	n.m.	n.m.	-0.4	0.3	0.8
Equity ratio	32.7%	34.0%	36.3%	50.5%	49.2%	46.2%	35.3%	31.8%	30.5%	29.5%	28.9%
Net gearing	108.2%	102.5%	82.1%	31.9%	33.9%	33.6%	59.3%	102.5%	105.1%	103.4%	97.0%

Source: Company data and Nordea estimates

CASH FLOW STATEMENT

EURm	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
EBITDA (adj) for associates	112	129	74	138	74	65	29	7	58	68	76
Paid taxes	-6	-2	0	-1	-1	-2	-2	-2	4	2	0
Net financials	-20	-32	-20	-17	-10	-8	-11	-11	-13	-14	-14
Change in provisions	-3	5	-1	10	0	5	13	7	0	0	0
Change in other LT non-IB	-22	13	7	-11	6	6	-1	-13	0	0	0
Cash flow to/from associates	0	0	8	15	1	1	1	4	0	0	0
Dividends paid to minorities	0	0	0	0	0	0	0	0	0	0	0
Other adj to reconcile to cash flow	22	-21	13	-77	-6	-23	-7	10	0	0	0
Funds from operations (FFO)	82	92	81	57	66	44	22	2	45	53	59
Change in NWC	-28	15	30	7	1	27	24	-26	10	3	3
Cash flow from operations (CFO)	54	107	111	63	67	71	46	-25	55	56	63
Capital expenditure	-60	-77	-48	-68	-51	-57	-109	-92	-45	-40	-40
Free cash flow before A&D	-7	30	63	-5	16	14	-63	-117	10	16	23
Proceeds from sale of assets	4	6	12	201	14	2	3	2	0	0	0
Acquisitions	-3	-2	1	0	1	0	2	0	0	0	0
Free cash flow	-5	34	75	196	30	17	-58	-114	10	16	23
Dividends paid	-13	-10	-6	-6	-27	-8	-9	-6	0	0	0
Equity issues / buybacks	0	-8	0	0	0	0	0	0	0	0	0
Net change in debt	-5	-5	-56	-244	-4	-12	116	59	0	0	0
Other financing adjustments	0	0	0	0	0	-1	-5	-1	1	1	1
Other non-cash adjustments	1	-3	0	2	-6	1	1	0	0	0	0
Change in cash	-22	8	13	-52	-7	-3	44	-22	11	16	23

Cash flow metrics

Capex/D&A	83.5%	89.5%	77.5%	82.6%	79.1%	n.m.	n.m.	n.m.	68.2%	61.0%	n.m.
Capex/Sales	-2.4%	-3.0%	-2.3%	-3.4%	-2.7%	-3.0%	-6.0%	-5.4%	-2.6%	-2.3%	-2.3%

Key information

Share price year end (/current)	6	4	4	3	4	3	3	1	2	2	2
Market cap.	310	196	203	176	206	172	169	77	121	121	121
Enterprise value	748	584	412	291	327	290	357	394	427	410	387
Diluted no. of shares, year-end (m)	55.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0	54.0

Source: Company data and Nordea estimates

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