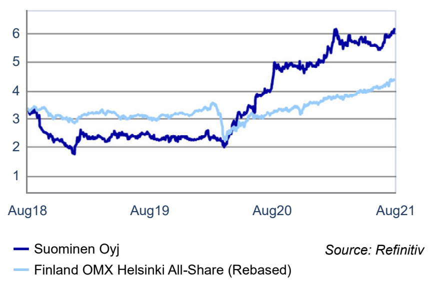
Suominen

Food, Beverages and Ingredients
Finland

KEY DATA

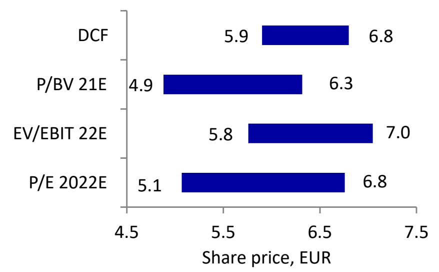
Stock country	Finland
Bloomberg	SUY1V FH
Reuters	SUY1V.HE
Share price (close)	EUR 6.16
Free Float	76%
Market cap. (bn)	EUR 0.36/EUR 0.36
Website	www.suominen.fi
Next report date	13 Aug 2021

PERFORMANCE



Source: Refinitiv

VALUATION APPROACH (EUR/SHARE)



Source: Nordea estimates

ESTIMATE CHANGES

Year	2021E	2022E	2023E
Sales	0%	0%	0%
EBIT (adj)	0%	0%	0%

Source: Nordea estimates

Nordea Markets - Analysts
Harri Taittonen
Director, Materials

Cost impact becoming visible in Q2 earnings

We expect Suominen's earnings in Q2 to reflect continued strong demand and organic growth, and a positive impact from the company's streamlining measures. Cost inflation is likely to become more visible and we expect the EBITDA margin to decline to 12.5% from the record-high of 16.1% in Q1.

Cost impact will become visible in Q2 earnings

Suominen's Q2 earnings are likely to reflect strong demand, albeit easing after an extraordinary boost last year – we forecast organic growth of 5% y/y, down from 12% in Q1. Cost inflation is accelerating and we expect the EBITDA margin to decline from 16.1% in Q1 to 12.5% in Q2. The solid volume development, enhancing pricing power, and streamlining measures are likely to support earnings. Our EBITDA estimate is EUR 15.2m, versus Vara Research consensus of EUR 14.1m and Refinitiv consensus of EUR 13.5m.

Guidance is for EBITDA to be on a par with last year

Management expects 2021 comparable EBITDA to be in line with 2020 (EUR 60.9m) with both Vara and Refinitiv consensus at EBITDA of EUR 60m. Raw material price inflation sped up significantly during Q1, and the earnings impact will become visible after a few months' lag, with normally a few months more needed to pass the cost increases through to product prices. The earnings beat in Q1 provides a buffer against the anticipated cost inflation, and it should underpin the full-year guidance, in our view.

Glatfelter consolidates supply and acquires Jacob Holm

Glatfelter announced on 22 July that it will acquire Jacob Holm, Suominen's key peer in Europe with LTM sales of USD 500m and EBITDA of USD 45m, for USD 308m. Glatfelter values Jacob Holm at 6x LTM EBITDA including synergies of USD 20m, and no further boost from the pandemic (it estimates the pandemic boosted Jacob Holm's EBITDA by USD 10-15m, which equals approximately 3% of sales.)

Fair value range of EUR 5.3-6.6

We estimate a fair value range of EUR 5.3-6.6 per share (unchanged), based on our four valuation approaches (DCF, 2021E P/BV, 2022E EV/EBIT and 2022E P/E). While we find the underlying demand growth outlook stable, we believe the main risks to earnings relate to raw material input cost volatility and the potential effect on the supply/demand balance if suppliers invest excessively in new capacity after the recent demand peak.

SUMMARY TABLE - KEY FIGURES

EURm	2017	2018	2019	2020	2021E	2022E	2023E
Total revenue	426	431	411	459	478	508	526
EBITDA (adj)	34	26	34	61	61	58	59
EBIT (adj)	15	5	8	39	41	38	39
EBIT (adj) margin	3.5%	1.1%	2.0%	8.6%	8.5%	7.4%	7.4%
EPS (adj, EUR)	0.25	-0.03	0.00	0.52	0.57	0.48	0.51
EPS (adj) growth	-16.0%	-111.8%	113.1%	3,268.1%	9.2%	-15.0%	5.1%
DPS (ord, EUR)	0.11	0.00	0.05	0.20	0.20	0.20	0.20
EV/Sales	0.8	0.4	0.5	0.7	0.8	0.7	0.6
EV/EBIT (adj)	22.3	41.2	24.8	8.4	8.9	9.1	8.2
P/E (adj)	17.5	n.m.	n.m.	9.8	10.8	12.8	12.1
P/BV	1.9	0.9	1.0	2.0	2.1	2.0	1.8
Dividend yield (ord)	2.5%	0.0%	2.2%	3.9%	3.2%	3.2%	3.2%
FCF Yield bef A&D, lease	-4.6%	14.7%	14.6%	15.6%	9.1%	9.0%	9.7%
Net debt	81	71	69	37	5	-16	-39
Net debt/EBITDA	2.4	2.8	2.0	0.6	0.1	-0.3	-0.7
ROIC after tax	5.1%	1.6%	2.9%	14.5%	16.0%	15.5%	16.4%

Source: Company data and Nordea estimates

Q2 2021 and full-year estimates

Q2 result likely to reflect strong but steadier demand and impact from cost inflation starting to materialise

Consensus (Refinitiv) Q2 EBITDA is EUR 13.5m

Following the strong Q1 results, we expect Suominen's Q2 earnings to reflect continued strong demand growth, albeit easing from the extraordinary boost last year. Cost inflation is accelerating, and we factor in margins declining from their all-time high in Q1. The solid volume development, enhancing pricing power, and streamlining measures are likely to support margins. Our EBITDA estimate is EUR 15.2m, versus Vara Research consensus of EUR 14.1m and Refinitiv consensus of EUR 13.5m. The solid volume development and streamlining measures are likely to support margins, even though the results are likely to show more of the cost inflation impact stemming from higher pulp and other raw material prices.

Operating margin resilience in focus after its expansion in 2020

Suominen's operating margin jumped to 8.6% in 2020 (from 2.0% in 2019), and reached an all-time high of 11.8% in Q1 2021, boosted by volume growth, which has enhanced efficiency, along with a favourable variable cost environment and reasonably stable pricing. The company has also been able to improve its efficiency through its own streamlining measures.

Looking ahead, the company's ability to maintain its margins in a more inflationary cost environment is crucial for earnings progression. COGS was EUR 389m in 2020, or 85% of sales, and we estimate that raw material purchases accounted for approximately EUR 270m, or 59% of sales. Pulp prices have risen by 60% YTD in Europe, but price momentum seems to be stabilising. Also, the rebound in oil prices is feeding through to prices for downstream products.

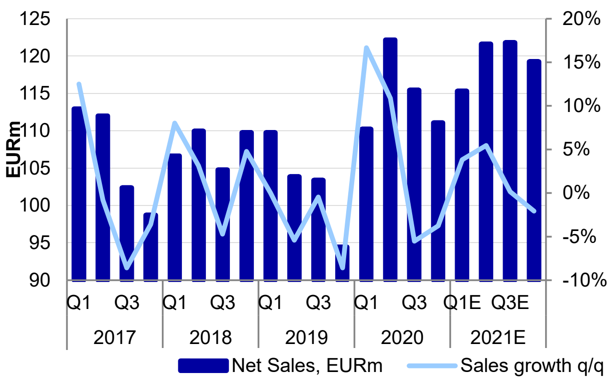
Suominen guides for 2021 EBITDA to be around the 2020 level, which we consider encouraging following the very strong 2020 and given that variable costs are starting to increase at an accelerating rate.

OUR ESTIMATES AND VARA CONSENSUS (DPS/EPS IN EUR)

	Nordea estimates				Consensus estimates				Difference %			
EURm	**Q2 2021E**	**2021E**	**2022E**	**2023E**	**Q2 2021E**	**2021E**	**2022E**	**2023E**	**Q2 2021E**	**2021E**	**2022E**	**2023E**
Sales	122	478	508	526	121	472	490	n.a.	0%	1%	4%	n.a.
EBITDA	15	61	58	59	14	60	57	n.a.	8%	1%	2%	n.a.
EBITDA margin	12%	13%	11%	11%	12%	13%	12%	n.a.	0.9pp	0.0pp	-0.2pp	n.a.
Adj. EBIT	10	41	38	39	9	40	36	n.a.	11%	2%	4%	n.a.
Adj. EBIT margin	8.3%	8.5%	7.4%	7.4%	7.5%	8.5%	7.3%	n.a.	0.8pp	0.1pp	0.1pp	n.a.
Adj. EPS	0.12	0.57	0.48	0.51	0.11	0.56	0.45	n.a.	13%	1%	7%	n.a.
DPS		0.20	0.20	0.20		0.20	0.20	n.a.		0%	0%	n.a.

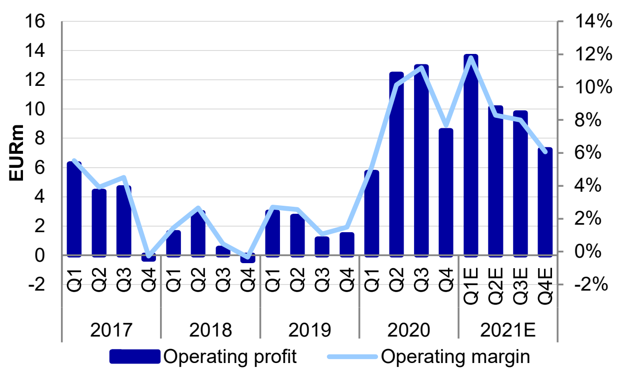
Source: Vara Research and Nordea estimates

QUARTERLY SALES (EURm) AND SALES GROWTH Y/Y (%)



Source: Company data and Nordea estimates

QUARTERLY EBIT (EURm) AND OPERATING MARGIN (%)



Source: Company data and Nordea estimates

OPERATING PROFIT BRIDGE, 2021E-23E (EURm)

Bridge			
	2021E	2022E	2023E
EURm			
Previous EBIT	39.5	40.7	37.6
Volume	6.7	2.9	2.9
Price	15.8	17.3	10.2
Cost inflation	-22.0	-23.6	-11.6
Currency	-1.3	0.3	-0.1
Structural	0.0	0.0	0.0
Savings through efficiencies	2.0	0.0	0.0
Change in EBIT	1.2	-3.1	1.3
Current year EBIT	40.7	37.6	38.9
Change y/y	3%	-8%	4%

Source: Nordea estimates

Reported numbers and forecasts

INCOME STATEMENT

EURm	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Total revenue	**443**	**402**	**444**	**417**	**426**	**431**	**411**	**459**	**478**	**508**	**526**
Revenue growth	-2.5%	-9.4%	10.5%	-6.1%	2.2%	1.2%	-4.6%	11.5%	4.2%	6.2%	3.6%
of which organic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0%	0.0%
of which FX	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.0%	0.0%
EBITDA	34	41	49	44	34	26	34	61	61	58	59
Depreciation and impairments PPE	-17	-16	-18	-18	-19	-21	-26	-21	-20	-20	-20
of which leased assets	0	0	0	0	0	0	0	0	0	0	0
EBITA	17	26	32	26	15	5	8	39	41	38	39
Amortisation and impairments	0	0	0	0	0	0	0	0	0	0	0
EBIT	17	26	32	26	15	5	8	39	41	38	39
of which associates	0	0	0	0	0	0	0	0	0	0	0
Associates excluded from EBIT	0	0	0	0	0	0	0	0	0	0	0
Net financials	-7	-8	-5	-3	-3	-6	-6	-6	1	-2	-1
of which lease interest	0	0	0	0	0	0	0	0	0	0	0
Changes in value, net	0	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	**10**	**18**	**26**	**22**	**12**	**-1**	**2**	**34**	**42**	**36**	**38**
Reported taxes	-8	-8	-9	-7	2	-1	-2	-4	-9	-8	-8
Net profit from continued operations	2	10	17	15	14	-2	0	30	33	28	30
Discontinued operations	-19	-5	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0	0	0	0	0	0
Net profit to equity	-16	5	17	15	14	-2	0	30	33	28	30
EPS, EUR	**-0.33**	**0.10**	**0.34**	**0.30**	**0.25**	**-0.03**	**0.00**	**0.52**	**0.57**	**0.48**	**0.51**
DPS, EUR	0.00	0.01	0.02	0.11	0.11	0.00	0.05	0.20	0.20	0.20	0.20
of which ordinary	0.00	0.01	0.02	0.11	0.11	0.00	0.05	0.20	0.20	0.20	0.20
of which extraordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit margin in percent											
EBITDA	7.6%	10.3%	11.1%	10.6%	8.1%	5.9%	8.2%	13.3%	12.7%	11.4%	11.2%
EBITA	3.9%	6.4%	7.1%	6.1%	3.5%	1.1%	2.0%	8.6%	8.5%	7.4%	7.4%
EBIT	3.9%	6.4%	7.1%	6.1%	3.5%	1.1%	2.0%	8.6%	8.5%	7.4%	7.4%
Adjusted earnings											
EBITDA (adj)	34	41	49	44	34	26	34	61	61	58	59
EBITA (adj)	17	26	32	26	15	5	8	39	41	38	39
EBIT (adj)	17	26	32	26	15	5	8	39	41	38	39
EPS (adj, EUR)	-0.33	0.10	0.34	0.30	0.25	-0.03	0.00	0.52	0.57	0.48	0.51
Adjusted profit margins in percent											
EBITDA (adj)	7.6%	10.3%	11.1%	10.6%	8.1%	5.9%	8.2%	13.3%	12.7%	11.4%	11.2%
EBITA (adj)	3.9%	6.4%	7.1%	6.1%	3.5%	1.1%	2.0%	8.6%	8.5%	7.4%	7.4%
EBIT (adj)	3.9%	6.4%	7.1%	6.1%	3.5%	1.1%	2.0%	8.6%	8.5%	7.4%	7.4%
Performance metrics											
CAGR last 5 years											
Net revenue	n.a.	n.a.	n.a.	n.a.	-1.3%	-0.6%	0.5%	0.7%	2.8%	3.6%	4.0%
EBITDA	n.m.	n.m.	n.m.	n.m.	3.8%	-5.4%	-4.1%	4.3%	6.7%	10.9%	18.2%
EBIT	n.a.	n.a.	n.a.	n.a.	6.3%	-23.3%	-20.7%	4.5%	9.7%	20.2%	53.3%
EPS	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	-47.9%	9.0%	13.6%	13.9%	n.m.
DPS	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	0.0%	14.9%	12.7%	12.7%	n.m.
Average last 5 years											
Average EBIT margin	n.a.	n.a.	n.a.	5.2%	5.4%	4.9%	4.0%	4.3%	4.9%	5.7%	6.9%
Average EBITDA margin	n.a.	n.a.	n.a.	9.1%	9.5%	9.2%	8.8%	9.3%	9.8%	10.4%	11.4%

VALUATION RATIOS - ADJUSTED EARNINGS

EURm	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
P/E (adj)	n.m.	40.1	18.4	13.8	17.5	n.m.	n.m.	9.8	10.8	12.8	12.1
EV/EBITDA (adj)	5.8	5.7	7.0	6.1	9.7	7.4	6.0	5.5	6.0	5.9	5.4
EV/EBITA (adj)	11.3	9.2	10.9	10.5	22.3	41.2	24.8	8.4	8.9	9.1	8.2
EV/EBIT (adj)	11.3	9.2	10.9	10.5	22.3	41.2	24.8	8.4	8.9	9.1	8.2

VALUATION RATIOS - REPORTED EARNINGS

EURm	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
P/E	n.m.	40.1	18.4	13.8	17.5	n.m.	n.m.	9.8	10.8	12.8	12.1
EV/Sales	0.44	0.59	0.78	0.64	0.79	0.44	0.49	0.73	0.76	0.68	0.61
EV/EBITDA	5.8	5.7	7.0	6.1	9.7	7.4	6.0	5.5	6.0	5.9	5.4
EV/EBITA	11.3	9.2	10.9	10.5	22.3	41.2	24.8	8.4	8.9	9.1	8.2
EV/EBIT	11.3	9.2	10.9	10.5	22.3	41.2	24.8	8.4	8.9	9.1	8.2
Dividend yield (ord.)	0.0%	1.2%	1.6%	2.7%	2.5%	0.0%	2.2%	3.9%	3.2%	3.2%	3.2%
FCF yield	-18.3%	5.1%	1.6%	-10.0%	-4.6%	14.7%	14.6%	15.6%	12.3%	9.0%	9.7%
FCF Yield bef A&D, lease adj	-18.3%	14.7%	1.6%	-10.0%	-4.6%	14.7%	14.6%	15.6%	9.1%	9.0%	9.7%
Payout ratio	0.0%	49.5%	29.6%	36.6%	43.6%	0.0%	1,284.7%	38.4%	35.2%	41.4%	39.4%

Source: Company data and Nordea estimates

BALANCE SHEET

EURm	2013	2014	2015	2016	2017	2018	2019	2020	2021E	2022E	2023E
Intangible assets	28	28	29	30	33	37	36	32	28	28	28
of which R&D	0	0	0	0	0	0	0	0	0	0	0
of which other intangibles	12	13	13	14	17	21	20	17	13	13	13
of which goodwill	16	16	16	16	16	16	15	15	15	15	15
Tangible assets	99	89	98	136	137	129	136	122	108	100	94
of which leased assets	0	0	0	0	0	0	14	18	18	18	18
Shares associates	0	0	0	0	0	0	0	0	0	0	0
Interest bearing assets	0	8	8	7	3	3	4	4	4	4	4
Deferred tax assets	6	6	4	3	5	3	2	4	4	4	4
Other non-IB non-current assets	2	1	1	1	1	1	1	1	1	1	1
Other non-current assets	1	3	2	3	2	1	0	0	0	0	0
Total non-current assets	134	134	142	179	180	174	178	164	145	138	131
Inventory	32	32	33	43	44	52	39	35	39	42	43
Accounts receivable	47	52	52	54	58	58	47	51	56	59	61
Short-term leased assets	0	0	0	0	0	0	0	0	0	0	0
Other current assets	8	7	10	11	16	9	8	9	10	10	11
Cash and bank	19	38	56	30	27	28	38	58	75	81	89
Total current assets	105	130	150	137	145	147	132	154	180	192	204
Assets held for sale	0	0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total assets	**239**	**264**	**292**	**316**	**326**	**321**	**310**	**317**	**325**	**330**	**335**
Shareholders equity	79	109	126	143	136	131	132	146	167	184	202
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	0	0	0	0
Minority interest	0	0	0	0	0	0	0	0	0	0	0
Total Equity	79	109	126	143	136	131	132	146	167	184	202
Deferred tax	7	9	11	11	15	12	13	13	13	13	13
Long term interest bearing debt	70	82	94	87	95	81	82	83	68	53	38
Pension provisions	0	1	1	1	1	1	1	1	1	1	1
Other long-term provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term liabilities	0	0	0	0	0	0	2	2	0	0	0
Non-current lease debt	0	0	0	0	0	0	10	15	17	17	17
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	79	92	106	99	111	94	107	114	99	84	69
Short-term provisions	0	0	0	0	0	0	0	0	0	0	0
Accounts payable	57	60	56	65	63	75	53	55	57	61	63
Current lease debt	0	0	0	0	0	0	3	3	0	0	0
Other current liabilities	0	0	0	0	0	0	0	0	0	0	0
Short term interest bearing debt	24	3	3	8	15	21	14	0	0	0	0
Total current liabilities	82	64	60	74	78	96	70	58	58	62	64
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	**239**	**265**	**292**	**316**	**326**	**321**	**310**	**317**	**325**	**330**	**335**
Balance sheet and debt metrics											
Net debt	76	38	34	58	81	71	69	37	5	-16	-39
of which lease debt	0	0	0	0	0	0	13	17	17	17	17
Working capital	29	31	37	42	55	43	41	41	47	50	52
Invested capital	163	165	180	220	235	217	219	204	192	187	182
Capital employed	173	194	223	237	247	232	242	246	253	254	257
ROE	-18.5%	5.3%	14.5%	11.4%	10.4%	-1.3%	0.2%	21.6%	21.1%	16.0%	15.3%
ROIC	7.4%	12.3%	14.4%	10.0%	5.1%	1.6%	2.9%	14.5%	16.0%	15.5%	16.4%
ROCE	9.1%	14.1%	15.2%	11.1%	6.2%	1.9%	3.4%	16.2%	16.3%	14.8%	15.2%
Net debt/EBITDA	2.2	0.9	0.7	1.3	2.4	2.8	2.0	0.6	0.1	-0.3	-0.7
Interest coverage	n.m.	n.m.	n.m.	n.m.	n.m.	0.8	n.m.	n.m.	n.m.	n.m.	n.m.
Equity ratio	32.9%	41.1%	43.1%	45.3%	41.8%	40.7%	42.7%	46.0%	51.5%	55.7%	60.2%
Net gearing	96.7%	35.3%	26.6%	40.7%	59.6%	54.7%	51.9%	25.4%	2.7%	-8.8%	-19.5%

Source: Company data and Nordea estimates

CASH FLOW STATEMENT											
EURm	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021E**	**2022E**	**2023E**
EBITDA (adj) for associates	**34**	**41**	**49**	**44**	**34**	**26**	**34**	**61**	**61**	**58**	**59**
Paid taxes	-8	-8	-9	-7	2	6	-1	-2	-9	-8	-8
Net financials	-7	-8	-5	-3	-3	-5	-5	-4	1	-2	-1
Change in provisions	0	1	0	0	0	0	0	0	0	0	0
Change in other LT non-IB	-1	-2	1	1	-1	3	3	-2	-2	0	0
Cash flow to/from associates	0	0	0	0	0	0	0	0	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	-34	6	-1	0	-3	-3	-2	5	0	0	0
Funds from operations (FFO)	**-16**	**31**	**35**	**35**	**30**	**27**	**28**	**58**	**52**	**48**	**50**
Change in NWC	0	6	-8	-6	-8	6	2	-1	-6	-3	-2
Cash flow from operations (CFO)	**-16**	**37**	**27**	**29**	**22**	**32**	**30**	**57**	**46**	**45**	**48**
Capital expenditure	-6	-8	-22	-50	-34	-15	-11	-11	-13	-13	-13
Free cash flow before A&D	**-22**	**29**	**5**	**-21**	**-12**	**17**	**19**	**46**	**33**	**32**	**35**
Proceeds from sale of assets	0	0	0	0	0	0	0	0	12	0	0
Acquisitions	0	-19	0	0	0	0	0	0	0	0	0
Free cash flow	-22	10	5	-21	-12	17	19	46	44	32	35
Free cash flow bef A&D, lease adj	-22	29	5	-21	-12	17	19	46	33	32	35
Dividends paid	0	0	-3	-5	-6	-6	0	-3	-12	-12	-12
Equity issues / buybacks	0	0	0	0	0	0	0	0	0	0	0
Net change in debt	0	0	0	0	0	-8	-10	-17	-15	-15	-15
Other financing adjustments	0	0	0	0	0	0	0	0	0	0	0
Other non-cash adjustments	26	10	15	0	15	-3	0	-6	0	0	0
Change in cash	4	20	17	-26	-2	1	10	20	17	6	8
Cash flow metrics											
Capex/D&A	33.8%	49.7%	n.m.	n.m.	n.m.	70.6%	41.2%	50.8%	64.4%	64.4%	65.6%
Capex/Sales	1.3%	1.9%	5.0%	11.9%	7.9%	3.4%	2.6%	2.4%	2.7%	2.6%	2.5%
Key information											
Share price year end (/current)	2	4	6	4	4	2	2	5	6	6	6
Market cap.	119	199	312	210	254	118	133	296	359	359	359
Enterprise value	195	238	345	268	335	189	202	333	363	343	320
Diluted no. of shares, year-end (m)	49.6	49.2	50.3	50.8	57.4	57.5	57.5	58.3	58.3	58.3	58.3

Source: Company data and Nordea estimates

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