

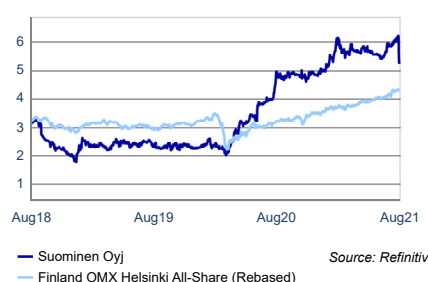
Suominen

Food, Beverages and Ingredients
Finland

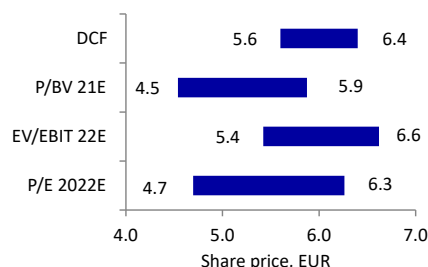
KEY DATA

Stock country	Finland
Bloomberg	SUY1V.FH
Reuters	SUY1V.HE
Share price (close)	EUR 5.27
Free Float	76%
Market cap. (bn)	EUR 0.31/EUR 0.31
Website	www.suominen.fi
Next report date	28 Oct 2021

PERFORMANCE



VALUATION APPROACH



ESTIMATE CHANGES

Year	2021E	2022E	2023E
Sales	-6%	-6%	-6%
EBIT (adj)	-20%	-7%	-6%

Source: Nordea estimates

Nordea Markets - Analysts

Harri Taittonen
Director, Materials

H2 to be affected by destocking and high costs

Suominen reported higher-than-expected earnings in Q2 and provided an explanation for the lowered outlook that the company issued on 12 August. Management expects the market imbalance to be at its worst in Q3, but demand should start to recover towards the end of the year. We lower our EBITDA estimates by 14% for 2021 and by 6% for 2022, assuming a tough Q3 2021 with EBITDA of EUR 9m followed by some recovery in Q4.

Solid earnings despite deceleration in demand

Suominen's Q2 earnings exceeded expectations, even though the market started to decelerate towards the end of the quarter. Comparable EBITDA of EUR 15.3m exceeded Vara Research consensus by 11%, with sales of EUR 114m (5% below consensus). Cash flow from operations deteriorated sharply in Q2, down to EUR 1m (EUR 16m in Q1), as working capital absorbed EUR 10m in the quarter. Investments remained in line with Q1, which took free cash flow to EUR -4m, down from EUR 14m in Q1. Because a dividend was paid out in the quarter (EUR 11.5m), net debt increased to EUR 36m (from EUR 20m at end of Q1 and EUR 57m a year ago).

Guidance downgrade implies slow demand and high costs in H2

Suominen lowered its guidance on 12 August, the day before the release of its Q2 earnings. Suominen expects 2021 comparable EBITDA to decrease versus the 2020 level of EUR 60.9m (pre-Q2 consensus EBITDA is EUR 60m for 2021E). Management said this is due to a short-term slowdown in nonwovens demand, especially in North America, and volatility in input and transport costs. Previously, the company had guided for unchanged EBITDA in 2021. The guidance suggests H2 EBITDA will decline markedly from EUR 34m in H1, down to EUR ~20m or lower.

EBITDA down by 14% for 2021E, down by 6% for 2022E

We lower our EBITDA estimates by 14% for this year and by 6% for 2022, assuming a tough Q3 2021 with EBITDA of EUR 9m, followed by some recovery in Q4. We believe cost increases will likely start to push up sales prices on a lag of three to six months. The biggest unknown is the timing for a normalisation of demand, which management currently expects to start in Q4. We estimate a fair value range of EUR 5.1-6.3 (5.3-6.6) per share, based on a combination of our four valuation approaches (DCF, 2021E P/BV, 2022E EV/EBIT and 2022E P/E).

SUMMARY TABLE - KEY FIGURES

EURm	2017	2018	2019	2020	2021E	2022E	2023E
Total revenue	426	431	411	459	450	478	495
EBITDA (adj)	34	26	34	61	53	55	56
EBIT (adj)	15	5	8	39	32	35	36
EBIT (adj) margin	3.5%	1.1%	2.0%	8.6%	7.2%	7.3%	7.4%
EPS (adj, EUR)	0.25	-0.03	0.00	0.52	0.44	0.45	0.47
EPS (adj) growth	-16.0%	-111.8%	113.1%	3,268.1%	-16.3%	2.7%	6.0%
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	0.7	0.6	0.6
EV/EBIT (adj)	22.3	41.2	24.8	8.4	10.0	8.7	7.8
P/E (adj)	17.5	n.m.	n.m.	9.8	12.1	11.8	11.1
P/BV	1.9	0.9	1.0	2.0	2.0	1.8	1.7
Dividend yield (ord)	2.5%	0.0%	2.2%	3.9%	3.8%	3.8%	3.8%
FCF Yield bef A&D, lease	-4.6%	14.7%	14.6%	15.6%	6.6%	9.9%	10.6%
Net debt	81	71	69	37	17	-2	-23
Net debt/EBITDA	2.4	2.8	2.0	0.6	0.3	0.0	-0.4
ROIC after tax	5.1%	1.6%	2.9%	14.5%	12.7%	14.3%	15.3%

Source: Company data and Nordea estimates

Q2 2021 and full-year estimates

The Q2 result exceeded expectations, even though the market started to decelerate towards the end of the quarter

Earnings beat in Q2; EBITDA margin resilient to higher raw material costs

Suominen reported robust earnings for Q2 2021 – comparable EBITDA of EUR 15.3m exceeded Vara Research consensus by 11%. Sales of EUR 114m were 5% below consensus. The negative impact of currencies on net sales was EUR 6.5m, which implies organic growth declined slightly, -1% y/y. This is a notable difference to the rapid growth we have seen since the start of the pandemic; organic growth was 12% in 2020 and that growth level continued in Q1 2021. Sales prices increased from a year ago, but the positive impact from price appreciation did not fully offset the decline in volumes from the extraordinary levels achieved in Q2 2020.

The Q2 EBITDA margin of 13.4% (down from 16.1% in Q1 and 14.7% a year ago) was surprisingly resilient to the steep cost inflation seen in H1. According to Suominen, higher sales prices and improved raw material efficiency both supported margins.

Cash flow deteriorated from the strong Q1

Cash flow from operations deteriorated sharply in Q2, down to EUR 1m (EUR 16m in Q1), as working capital absorbed EUR 10m during the quarter. Investments remained at the same level as in Q1 (EUR 5m), which lowered free cash flow to EUR -4m, down from EUR 14m in Q1. As a dividend was paid out during the quarter (EUR 11.5m), net debt increased to EUR 36m (from EUR 20m at the end of Q1 and EUR 57m a year ago).

Guidance for 2021 lowered due to a slowdown in demand and high costs

Suominen lowered its guidance on 12 August, one day before the release of its Q2 earnings report. Suominen expects 2021 comparable EBITDA to decrease from the 2020 level of EUR 60.9m (pre-Q2 consensus EBITDA for 2021E was EUR 60m). Management said this is due to a short-term slowdown in nonwovens demand, especially in North America, as well as volatility in input and transport costs. Previously the company had guided for unchanged EBITDA in 2021. The new guidance suggests that H2 EBITDA will decline markedly from the EUR 34m level seen in H1, down to EUR ~20m or lower.

Suominen experienced a sudden deceleration of demand towards the end of Q2, especially among its North American customer base. In combination with extraordinary stockpiling throughout the entire supply chain, this created an imbalance of inventories, which also impacted Suominen's orders. Management expects demand for Suominen's products to recover once the temporary imbalance in the nonwovens market has cleared. It currently assumes that the recovery will start in Q4. In the longer term, management expects end-use demand for wipes to remain above pre-COVID levels, once the current deceleration period comes to an end.

Destocking and higher raw material prices will dent Q3

Suominen's EBITDA margin jumped to 13.3% in 2020 (from 8.2% in 2019), boosted by volume growth, enhanced raw material efficiency, a favourable variable cost environment, and reasonably stable pricing. The company has also been able to improve efficiency through its own streamlining measures.

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

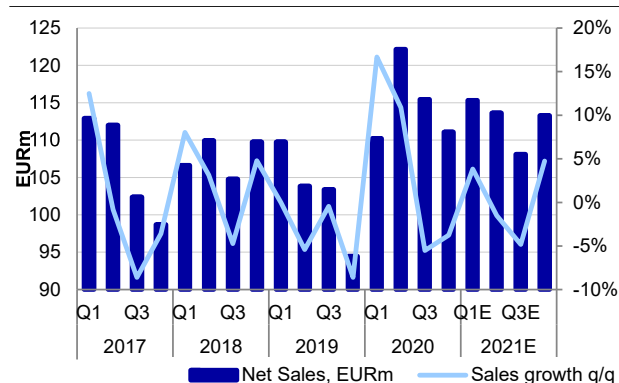
We lower our EBITDA estimates by 14% for 2021 and by 6% for 2022, assuming a tough Q3 2021 with EBITDA of EUR 9m and some recovery in Q4. We believe cost increases are likely to start pushing up sales prices with a lag of three to six months. The main issue is the timing of normalisation in demand, which management currently foresees to start during Q4.

Q2 2021 RESULTS VS EXPECTATIONS

	Actual	NDA est.	Deviation	Consensus	Deviation	Actual	Actual
EURm	Q2 2021	Q2 2021E	vs. actual	Q2 2021E	vs. actual	Q1 2021	Q2 2020
Sales	113.6	121.6	-8.0 -7%	120.3	-6.7 -6%	115.3 -2%	122.2 -7%
Comparable EBITDA	15.3	13.6	1.7 12%	13.8	1.5 11%	18.5 -17%	18.0 -15%
EBITDA margin	13.5%	11.2%	2.3pp	11.5%	2.0pp	16.0% -2.6pp	14.7% -1.3pp
Operating profit	10.3	8.5	1.8 21%	8.8	1.5 17%	13.6 -24%	12.4 -17%
Adj. EBIT margin	9.1%	7.0%	2.1pp	7.3%	1.8pp	11.8% -2.7pp	10.1% -1.1pp
EPS	0.11	0.10	0.01 7%	0.11	0.00 0%	0.24 -53%	0.14 -24%

Source: Vara Research and Nordea estimates

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



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	450	478	495
Revenue growth	-2.5%	-9.4%	10.5%	-6.1%	2.2%	1.2%	-4.6%	11.5%	-1.9%	6.2%	3.5%
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	53	55	56
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	32	35	36
Amortisation and impairments	0	0	0	0	0	0	0	0	0	0	0
EBIT	17	26	32	26	15	5	8	39	32	35	36
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	0	-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	33	33	35
Reported taxes	-8	-8	-9	-7	2	-1	-2	-4	-7	-7	-8
Net profit from continued operations	2	10	17	15	14	-2	0	30	25	26	28
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	25	26	28
EPS, EUR	-0.33	0.10	0.34	0.30	0.25	-0.03	0.00	0.52	0.44	0.45	0.47
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%	11.7%	11.5%	11.4%
EBITA	3.9%	6.4%	7.1%	6.1%	3.5%	1.1%	2.0%	8.6%	7.2%	7.3%	7.4%
EBIT	3.9%	6.4%	7.1%	6.1%	3.5%	1.1%	2.0%	8.6%	7.2%	7.3%	7.4%

Adjusted earnings

EBITDA (adj)	34	41	49	44	34	26	34	61	53	55	56
EBITA (adj)	17	26	32	26	15	5	8	39	32	35	36
EBIT (adj)	17	26	32	26	15	5	8	39	32	35	36
EPS (adj, EUR)	-0.33	0.10	0.34	0.30	0.25	-0.03	0.00	0.52	0.44	0.45	0.47

Adjusted profit margins in percent

EBITDA (adj)	7.6%	10.3%	11.1%	10.6%	8.1%	5.9%	8.2%	13.3%	11.7%	11.5%	11.4%
EBITA (adj)	3.9%	6.4%	7.1%	6.1%	3.5%	1.1%	2.0%	8.6%	7.2%	7.3%	7.4%
EBIT (adj)	3.9%	6.4%	7.1%	6.1%	3.5%	1.1%	2.0%	8.6%	7.2%	7.3%	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%	1.6%	2.3%	2.8%
EBITDA	n.m.	n.m.	n.m.	n.m.	3.8%	-5.4%	-4.1%	4.3%	3.5%	9.9%	17.1%
EBIT	n.a.	n.a.	n.a.	n.a.	6.3%	-23.3%	-20.7%	4.5%	4.8%	18.4%	51.3%
EPS	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	-47.9%	9.0%	7.7%	12.1%	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%	4.6%	5.4%	6.6%
Average EBITDA margin	n.a.	n.a.	n.a.	9.1%	9.5%	9.2%	8.8%	9.3%	9.5%	10.2%	11.3%

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	12.1	11.8	11.1
EV/EBITDA (adj)	5.8	5.7	7.0	6.1	9.7	7.4	6.0	5.5	6.2	5.6	5.0
EV/EBITA (adj)	11.3	9.2	10.9	10.5	22.3	41.2	24.8	8.4	10.0	8.7	7.8
EV/EBIT (adj)	11.3	9.2	10.9	10.5	22.3	41.2	24.8	8.4	10.0	8.7	7.8

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	12.1	11.8	11.1
EV/Sales	0.44	0.59	0.78	0.64	0.79	0.44	0.49	0.73	0.72	0.64	0.57
EV/EBITDA	5.8	5.7	7.0	6.1	9.7	7.4	6.0	5.5	6.2	5.6	5.0
EV/EBITA	11.3	9.2	10.9	10.5	22.3	41.2	24.8	8.4	10.0	8.7	7.8
EV/EBIT	11.3	9.2	10.9	10.5	22.3	41.2	24.8	8.4	10.0	8.7	7.8
Dividend yield (ord.)	0.0%	1.2%	1.6%	2.7%	2.5%	0.0%	2.2%	3.9%	3.8%	3.8%	3.8%
FCF yield	-18.3%	5.1%	1.6%	-10.0%	-4.6%	14.7%	14.6%	15.6%	10.3%	9.9%	10.6%
FCF Yield bef A&D, lease adj	-18.3%	14.7%	1.6%	-10.0%	-4.6%	14.7%	14.6%	15.6%	6.6%	9.9%	10.6%
Payout ratio	0.0%	49.5%	29.6%	36.6%	43.6%	0.0%	1,284.7%	38.4%	45.9%	44.7%	42.2%

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	109	102	95
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	146	139	132
Inventory	32	32	33	43	44	52	39	35	39	42	43
Accounts receivable	47	52	52	54	58	58	47	51	52	56	58
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	9	10	10
Cash and bank	19	38	56	30	27	28	38	58	63	67	73
Total current assets	105	130	150	137	145	147	132	154	164	174	184
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	310	312	316
Shareholders equity	79	109	126	143	136	131	132	146	156	170	186
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	156	170	186
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	54	57	59
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	55	58	60
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	310	312	316
Balance sheet and debt metrics											
Net debt	76	38	34	58	81	71	69	37	17	-2	-23
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	46	49	51
Invested capital	163	165	180	220	235	217	219	204	192	188	183
Capital employed	173	194	223	237	247	232	242	246	241	240	241
ROE	-18.5%	5.3%	14.5%	11.4%	10.4%	-1.3%	0.2%	21.6%	16.8%	16.0%	15.5%
ROIC	7.4%	12.3%	14.4%	10.0%	5.1%	1.6%	2.9%	14.5%	12.7%	14.3%	15.3%
ROCE	9.1%	14.1%	15.2%	11.1%	6.2%	1.9%	3.4%	16.2%	13.3%	14.5%	15.1%
Net debt/EBITDA	2.2	0.9	0.7	1.3	2.4	2.8	2.0	0.6	0.3	0.0	-0.4
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%	50.2%	54.4%	58.9%
Net gearing	96.7%	35.3%	26.6%	40.7%	59.6%	54.7%	51.9%	25.4%	10.9%	-1.0%	-12.2%

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	53	55	56
Paid taxes	-8	-8	-9	-7	2	6	-1	-2	-7	-7	-8
Net financials	-7	-8	-5	-3	-3	-5	-5	-4	0	-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	-4	0	0
Funds from operations (FFO)	-16	31	35	35	30	27	28	58	40	46	48
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	34	43	46
Capital expenditure	-6	-8	-22	-50	-34	-15	-11	-11	-14	-13	-13
Free cash flow before A&D	-22	29	5	-21	-12	17	19	46	20	30	33
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	32	30	33
Free cash flow bef A&D, lease adj	-22	29	5	-21	-12	17	19	46	20	30	33
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	5	4	6
Cash flow metrics											
Capex/D&A	33.8%	49.7%	n.m.	n.m.	n.m.	70.6%	41.2%	50.8%	69.7%	64.7%	66.0%
Capex/Sales	1.3%	1.9%	5.0%	11.9%	7.9%	3.4%	2.6%	2.4%	3.1%	2.7%	2.7%
Key information											
Share price year end (/current)	2	4	6	4	4	2	2	5	5	5	5
Market cap.	119	199	312	210	254	118	133	296	307	307	307
Enterprise value	195	238	345	268	335	189	202	333	324	305	284
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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