26 November 2021

Commissioned research: Atria – CMD event did offer additional information about costs and growth outlook

Marketing material commissioned by Atria

Atria hosted its annual CMD event yesterday. Presentations concentrated on Atria Finland and Sweden segments. The company is proceeding according to its 2020-25 strategy and aims to improve its performance with investments into poultry, expansion in convenience food and strengthening food service. Poultry remains the key growth driver with expected 2.3% average volume growth in 2020-30 in Finland. The company has been able to find new export channels to mitigate lower export to China and sees good opportunities within these markets. The EUR 155m poultry investment to Finland should be operational in 2024, while the EUR 30m Swedish restructuring investment should be finalised by the end of 2023. Sibylla operations have recovered from COVID-19 slump, while the company is aiming to increase its footprint in fast food market. In short term, mounting cost inflation will have impact on Atria's profitability, while the company aims to mitigate cost increases through operational efficiency and price increases. In 2022, Atria expects costs to be EUR 40-50m above 2021 level. We have a fair value range of EUR 12.6-15.5 per Atria share.

Short term cost pressure could be high

Atria expects short term cost pressure from Q4 onwards. When comparing to 2021 level, the company expects cost to be EUR 40-50m higher in 2022. Main cost increases relates to weak harvest, which increases meat raw material prices. In addition, high packaging material prices, increasing energy prices, increased logistic costs and global bottlenecks within global logistics chain are increasing costs. The company is hedging its electricity in rolling 12-month basis. We have been anticipating above EUR 40m cost increases in 2022 and model a 9% adjusted EBIT decline in 2022E. We expect the company to mitigate good part of the price increase with sales price increases and continued operational improvements. However, H1 2022 will most likely be a tough period when thinking profitability as there is lag between cost increases and sales price increases.

Atria's 2021 adjusted EBIT guidance of EUR 47-54m indicates EUR 8-15m adjusted EBIT for Q4 (EUR 15.1m in Q4 2020). The biggest uncertainty relates to export volumes and price level. We model EUR 11.8m adjusted EBIT for Q4 (EUR 50.5m in 2021E).

Atria aims to grow in Finland with poultry

Finland is the main market for Atria. Although underlying retail operations have performed well during COVID-19, there has been slight hiccup with export sales due to lower price level in the Chinese market. Export business is a crucial part of Atria Finland operations. Atria is exporting to 36 countries around 45 million kilos of meet on annual basis (~25% of meat processed by Atria in

2020), while main export markets are China, South-Korea-Japan, Sweden, Norway and Germany. In 2021, due to declined price level in China, the company has been forced to seek new export channels for its pork.

The main growth for upcoming years is expected to come from poultry. Consumption of poultry has historically grown with around 4% annual pace, while the company expects the growth to be around 2.3% annually in 2020-30. The EUR 155m poultry investment is proceeding in schedule and within the budget despite increased raw material prices due to fixed contracts. The investment should increase Atria Finland poultry capacity by around 40%. The investment project is expected to be finalised by the end of 2023, while ramp-up could take until H2 2024.

Timetable for the poultry investment

	2021		2022		2023		2024	
	H1	H2	H1	H2	H1	H2	H1	H2
Planning	X	X						
Excavation		X						
Building		X	X	X	X	X		
Machine instalments					X	X	X	
Ramp-up						X	X	X

Source: Company data and Nordea

Poultry investment has reached building phase in Nurmo, Finland

Source: Company data

Atria Sweden aims to improve profitability – Sibylla expected to grow fast
Atria Sweden has struggled since 2017 with low profitability, while the company aims to improve its operational performance in the country. Poultry is an important factor behind turnaround, while the company aims to expand in convenience food and fast food. The company has launched EUR 30m investment project, where it will close its Malmö operations by shifting production lines to Sköllersta, Sweden, and Moheda, Denmark. In addition, Sköllersta factory will be modernised and

the company is building a new modern logistics centre to the factory which will serve as the main logistic centre for Atria's Swedish operations. Atria aims to reach EUR 3.5m costs savings from investment (Atria Sweden adjusted EBIT was EUR 0.8m in 2020). New facility should be operational by the end of 2023.

After the divestment of Atria Russia retail operations, Sibylla has been accounted under Atria Sweden. Sibylla has been expanding rapidly during past years and has currently around 8,500 points-of-sales.

Source: Company data

Euromonitor is expecting fast food market to grow 23% in 2019-24 in Sibylla's international markets, while the growth is expected to be +43% in the service trade (e.g. gas stations) during the same period. Atria will continue its international expansion and is aiming to create new channels and concepts within Sibylla.

SUMMARY TABLE - KEY FIGURES

EURm	2018	2019	2020	2021E	2022E	2023E
Total revenue	1,439	1,451	1,504	1,532	1,568	1,598
EBITDA (adj)	74	87	96	108	103	111
EBIT (adj)	28	33	40	50	46	54
EBIT (adj) margin	2.0%	2.3%	2.6%	3.3%	2.9%	3.4%
EPS (adj, EUR)	0.59	0.60	0.91	0.97	1.13	1.35
EPS (adj) growth	-32.5%	2.6%	51.8%	6.4%	16.6%	18.9%
DPS (ord, EUR)	0.40	0.42	0.50	0.50	0.50	0.50
EV/Sales	0.3	0.4	0.3	0.3	0.3	0.4
EV/EBIT (adj)	14.9	15.7	12.3	9.6	12.0	10.7
P/E (adj)	11.2	16.7	10.8	11.6	9.9	8.3
P/BV	0.4	0.7	0.7	0.7	0.7	0.7
Dividend yield (ord)	6.1%	4.2%	5.1%	4.5%	4.5%	4.5%
FCF Yield bef A&D, lease adj	1.5%	14.0%	18.9%	6.8%	-14.3%	-2.8%
Net debt	222	223	190	151	211	234
Net debt/EBITDA	3.0	2.6	2.0	2.4	2.0	2.1
ROIC after tax	3.3%	3.8%	4.8%	6.6%	5.7%	6.1%

Source: Company data and Nordea estimates

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Nordea analyst: Joni Sandvall

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