HKFoods

Initiation of coverage

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Pauli Lohi
+358 45 134 7790
pauli.lohi@inderes.fi

Inderes corporate customer

This report is a summary translation of the report “Kotipesä kuntoon” published on 6/3/2024 at 7:02 am EEST

Fixing the home base

Focusing on Finnish business operations will enable HKFoods to reduce the debt burden in its balance sheet and support the company's investment capacity. The profitability of continuing operations has been on a clearly improving trend since 2023, but we would still like to see more evidence about the turnaround to deem it sustainable. Arranging the financial position also still involves challenges that may delay the start of dividend payments for a few years. We initiate coverage with a Reduce recommendation and a EUR 0.65 target price.

A large Finnish meat and food company

HKFoods is a large meat and food company, currently focusing mainly on Finland, and with several well-known consumer brands. Retail is the company's most important distribution channel, in addition to which products are sold to the foodservice channel, to industrial customers and export, e.g. to the Far East and Europe. As typical for the industry, HKFoods has a strong integration with local primary production, which supports visibility to the availability and price of raw materials. The company aims to grow into a comprehensive food company and potential growth segments include poultry, ready meals and various ready or semi-ready meal components.

Investments and efficiency measures could enable a sustainable profitability increase

The company has long suffered from a negative spiral with high debt, low investment capacity and profitability challenges. The exit from the Baltic, Swedish and Danish businesses in 2022-24 has helped reduce the debt burden and increase efficiency-enhancing investments in Finland after decades of under-investment. In 2023-24, the company has implemented savings measures and efficiency investments aimed at an annual efficiency improvement of 12 MEUR and invested in growth in semi-ready foodservice products. Profitability has recovered after the inflation challenges of 2022. We forecast that 2024 adjusted EBIT will already be 20.0 MEUR (2023 continuing operations: 11.6 MEUR). In addition to internal improvement, the profit growth is supported by the accounting-technical growth of the bacon business in Poland following the divestments in Sweden and Denmark. However, in our opinion, the sustainability of the earnings turnaround is still uncertain considering historical challenges and the tight competitive situation in the market.

High financial costs and balance sheet risk weigh on the scale

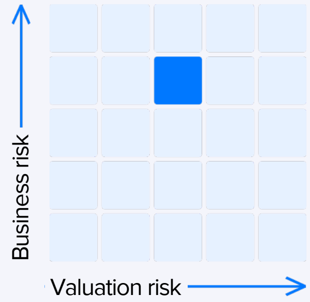
Although debt is declining both in absolute terms (2024e: net debt of 147 MEUR and hybrid loan 26 MEUR) and relative to EBITDA (net debt/EBITDA 2024e: 2.9x), we feel the company's financial position is still subject to uncertainty. The refinancing of the 90 MEUR bond by March 2025 will at least increase financing costs. HKFoods has announced its intention to redeem a 26 MEUR hybrid loan in fall 2024, which we anticipate will extend to 2026, assuming that the company will not utilize equity-linked solutions such as a share issue, a new hybrid or treasury shares (9% of the share capital). If the profitability turnaround proves sustainable and the result improves in the coming years, as we forecast, earnings-based valuation multiples would be reasonable (2024-25: 11.5x and 8.7x). However, there is no real upside in the multiples with our current forecasts, as the 2024e EV/EBIT ratios of domestic food companies with moderate growth and higher returns on capital are around 10-11x. The purchase settlememnts of the divestments and likely improving profitability support cash flows, but so far the company cannot afford to pay dividends and a significant share of the free cash flow is spent on financing costs.

Recommendation

Reduce

EUR 0.65

Share price:
0.70



Key figures

	2023	2024e	2025e	2026e
Revenue	1163.2	1000.5	1051.0	1072.0
growth-%	-37%	-14%	5%	2%
EBIT adj.	14.9	20.0	24.7	25.7
EBIT-% adj.	1.3 %	2.0 %	2.4 %	2.4 %
Net Income	-21.6	-5.0	2.9	6.6
EPS (adj.)	-0.25	-0.05	0.03	0.07

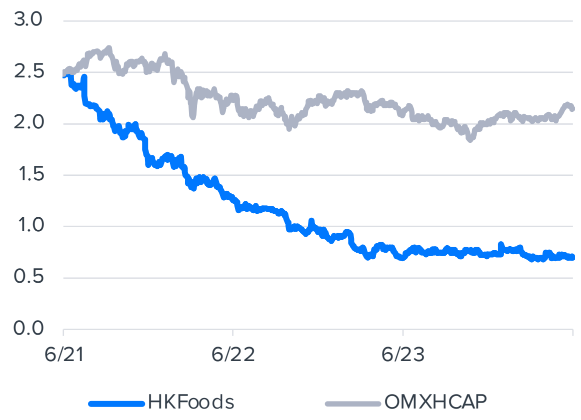
P/E (adj.)	neg.	neg.	21.7	9.5
P/B	0.5	0.4	0.4	0.4
Dividend yield-%	0.0 %	0.0 %	0.0 %	4.0 %
EV/EBIT (adj.)	26.0	11.5	8.7	8.1
EV/EBITDA	7.3	4.6	3.6	3.5
EV/S	0.3	0.2	0.2	0.2

Source: Inderes

Guidance

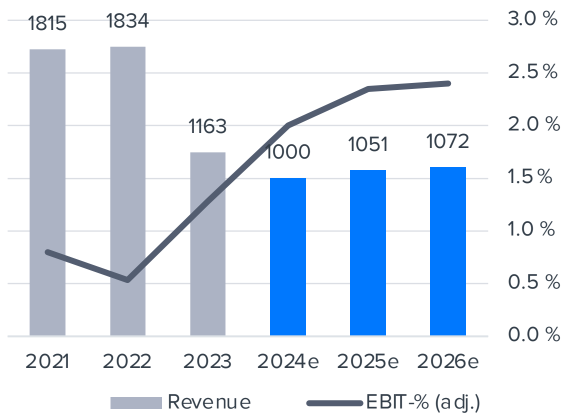
HKFoods expects the comparable operating result of the Group's continuing operations to improve from 2023.

Share price



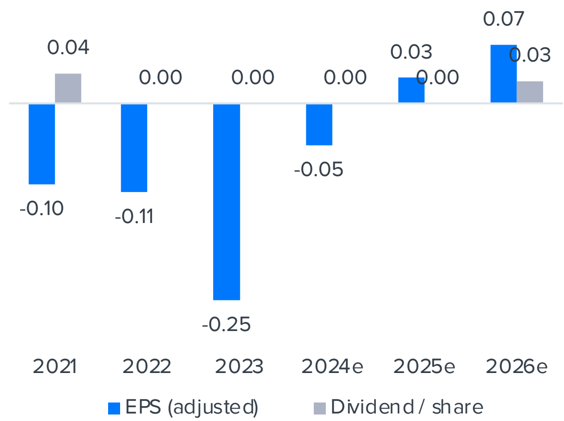
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Strong commercial position in Finland through scale and well-known brands
- Investments in poultry and other growing segments such as ready meals
- Focus on Finland allows concentration of investments and strengthening of industrial efficiency
- Balance sheet strengthened through divestments

Risk factors

- Long-term decline in red meat consumption
- Fierce competition in the food sector and strong bargaining power of retailers limit profitability
- Changes in consumer demand and cost environment may affect profitability
- Animal diseases may impact export licenses
- Debt levels remain high relative to earnings levels

Valuation	2024e	2025e	2026e
Share price	0.70	0.70	0.70
Number of shares, millions	89.9	89.9	89.9
Market cap	63	63	63
EV	231	214	207
P/E (adj.)	neg.	21.7	9.5
P/E	neg.	21.7	9.5
P/B	0.4	0.4	0.4
P/S	0.1	0.1	0.1
EV/Sales	0.2	0.2	0.2
EV/EBITDA	4.6	3.6	3.5
EV/EBIT (adj.)	11.5	8.7	8.1
Payout ratio (%)	0.0 %	0.0 %	38.2 %
Dividend yield-%	0.0 %	0.0 %	4.0 %

Source: Inderes

Contents

HKFoods in brief

Summary and key figures

HKFoods is a leading Finnish meat and food company with a production chain that is highly integrated with domestic primary production.

1913
Year of establishment

933 MEUR (+7% vs. 2022)
Revenue 2023[1]

11.6 MEUR (1.2% of revenue)
Adjusted EBIT 2023[1]

2,946
Headcount 2023 (FTE)[1]

15.9 MEUR (2022: 17.3 MEUR)
Gross investment 2023[1]

208 MEUR
Net debt March 31, 2024
In addition, a 26 MEUR hybrid loan

Going forward, the company will focus on Finnish operations and improving efficiency

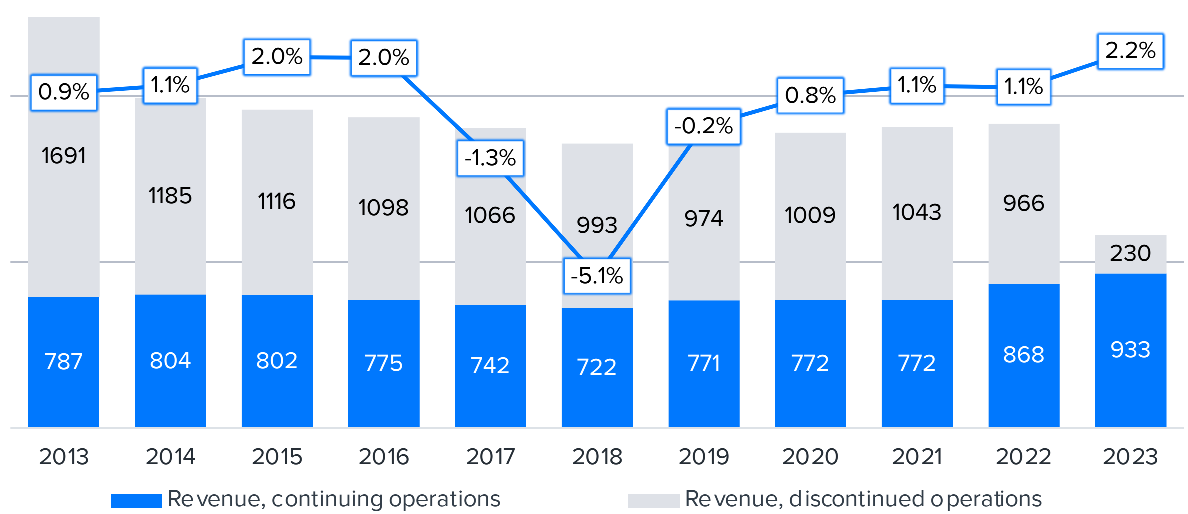
Acquisition-driven growth (1998-2010)

- 1997: HK Ruokatalo is listed on the stock exchange
- 1998: HK acquires majority stake in AS Rakvere Lihakombinaat in the Baltics
- 2002-2006: Acquisition of Polish Sokolow from the Warsaw Stock Exchange together with Danish Crown
- 2006-2007: HK Ruokatalo acquired the shares of Scan AB and the merged company is called HKScan
- 2010: Acquisition of the Danish poultry business

Divestment of international operations (2014-2024)

- 2014: The company sells its stake in Poland-based Sokolow
- 2018: New expensive poultry plant in Rauma, whose poor production processes weigh heavily on profitability
- Limited financial resources combined with low profitability forces the company to focus on Finnish operations
- 2022: The company reaches an agreement to divest Baltic businesses (completed in August 2023)
- 2023: The company reaches an agreement to divest Swedish businesses (completed in March 2024)
- 2024: The company reaches an agreement to divest Danish businesses (expected to be completed during 2024)
- 2024: HKScan changes its name to HKFoods

Development of revenue and adjusted EBIT margin, MEUR



1) In current operations (Finland)

Company description and business model 1/4

Back to the roots

HKFoods is a large meat and food company, currently operating mainly in Finland. The company's background is in the industrial and commercial activities of Finnish cooperative-based meat producers. The company grew through a series of M&A transaction in the 20th century as the meat industry moved from local units to national production chains. The company has been listed on the Nasdaq Helsinki since 1997. After the IPO, the company expanded through acquisitions to the Baltics, Poland and Sweden around the turn of the millennium, and most recently to Denmark in 2010.

However, profitability challenges and balance sheet debt later led the company to divest its operations outside Finland and focus its investments in Finland. The divestiture of the Baltic operations was completed in August 2023, the divestiture of the Swedish operations was completed in March 2024, and the divestiture of the Danish operations is expected to be completed during 2024, subject to regulatory approval, which we believe is likely. The distribution of limited financial resources across several market areas has in history limited the company's investment capacity and over time also weakened the efficiency of operations. The divestments are aimed at increasing investments and strengthening profitability in the Finnish market.

Strong market position in Finnish retail

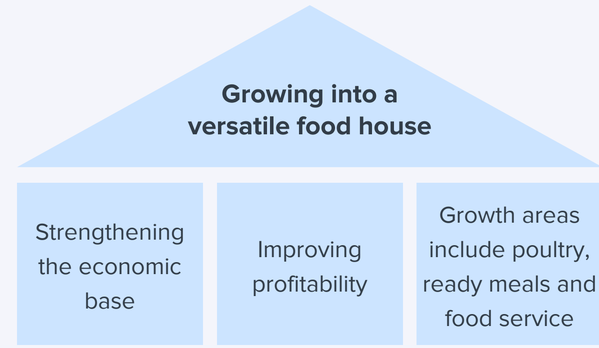
HKFoods has a strong market position in Finland thanks to a diverse product range, well-known consumer brands and extensive industrial operations. Retail is the primary channel for the company's products, including both higher margin branded sales and lower margin private label sales. Products are also sold to the food service channel, industry and exported abroad (export share varies between 5-8%). The company's largest consumer brand in Finland is the traditional HK brand, which is used to sell red meat, meat products and ready meals. Poultry products are sold under the Kariniemen brand. The Via brand is used to sell premium ready meals.

Aiming to grow into a versatile food house

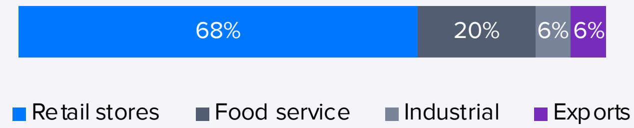
The company aims to be a versatile food house with a broad product portfolio that meets consumers' needs. For example, poultry, ready meals and various ready or semi-ready meal components are categories of interest to the company from a growth perspective. However, demand for red meat in Finland has been declining moderately in recent years, partly due to inflation and a shift to proteins perceived as healthier or more environmentally friendly, such as poultry and plant-based products.

As part of diversifying its food portfolio, HKFoods has entered into strategic partnerships with smaller Finnish food companies, including Kivikylä, Tamminen, Boltsi and Mäkitalon Maistuvat. HKFoods is also a co-owner in these companies. Kivikylä, Tamminen and Boltsi are consolidated in HKFood's financial statements as HKFoods has control of the companies through board work, although its ownership in these companies is only 49%. Kivikylä and Tamminen operate on an entrepreneurial basis, but Boltsi's operations, such as production and distribution, are fully integrated into HKFoods' operations. The partnerships will allow HKFoods to grow with a broader product line and brand portfolio. Partners, in turn, benefit through procurement collaboration and other operational synergies.

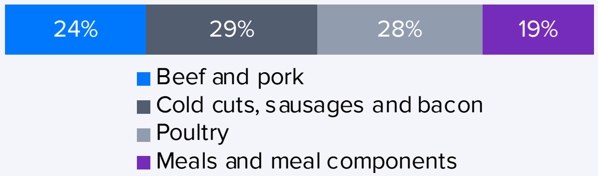
Key elements of the strategy



Sales channels[1]



Product categories[1]



1) Share of revenue Q1'2024 (continuing operations)

Company description and business model 2/4

Meat balance sheet management as a business prerequisite

The meat processing business aims to maximize the value of all parts of farmed animals. The meat balance sheet is managed by planning production and sales months in advance by animal and carcass. The aim is to sell as much of the meat produced as possible on the domestic market, as the export of meat from Finland to other countries is largely a low-margin or loss-making activity. Changes in domestic consumer behavior sometimes affect domestic demand for different parts of the carcass, which can lead to a need to balance the meat balance with loss-making exports. In Finland, the export of low-value parts such as pig heads, hooves and pigtails to the Far East is a typical HKFoods activity and helps the company to improve the overall carcass yield. High-quality beef cuts, for example, are also exported to foreign restaurants in Europe with healthy margins. However, we estimate that a large proportion of exports are quite low margin.

Production chain closely linked to primary production

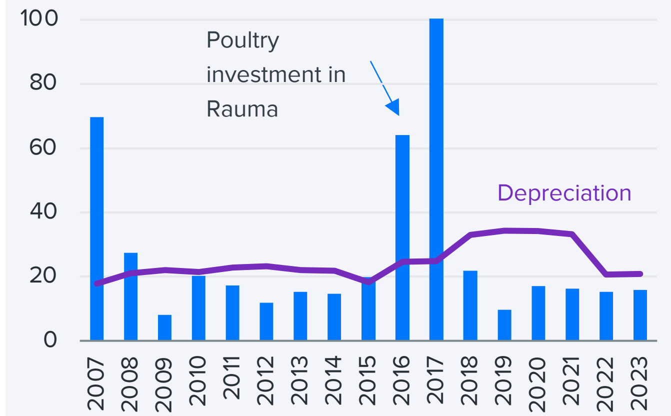
HKFoods' operations in Finland are strongly linked to primary production. The company purchases live animals from its contracted producers and is responsible for the slaughtering and cutting operations. Contracted growers agree to meet agreed upon sustainability and quality standards. In 2023, HKFoods' network of producers included up to 2,083 Finnish meat farmers. Typically, the price paid to producers for meat fluctuates constantly according to market conditions, although domestic price fluctuations are more moderate than in countries such as Denmark and Germany, which are key players in the EU meat trade. A dedicated network of contract producers gives HKFoods visibility into meat availability and raw material cost levels. The company may also occasionally enter into longer term purchase agreements with individual producers to provide them with visibility into the business to allow for investment.

In Finland, the meat industry that cuts into primary production is mainly concentrated in three companies, the other two being Atria and Snellman. In addition, Kivikylä has its own pig supply. Other food companies that use meat purchase their meat from these above-mentioned companies or from abroad. About 80% of the meat consumed in Finland is domestic. The share of domestic meat in the retail selection is very high, while the role of foreign meat is relatively more important in the food service channel.

Industrial processes require investment to improve efficiency

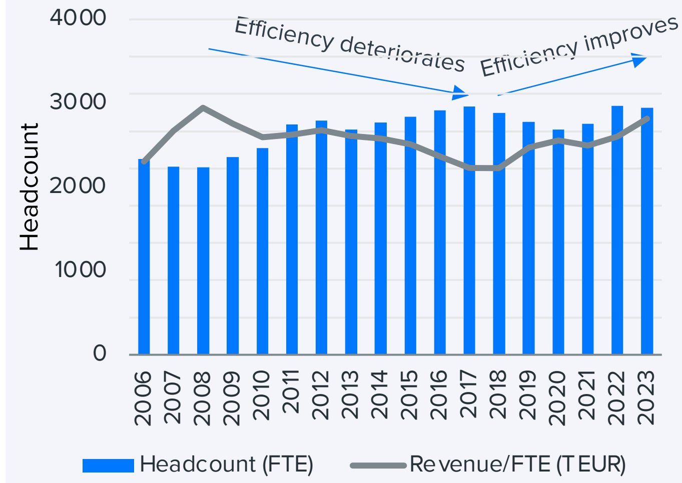
The meat industry is a competitive and relatively low margin industry where efficient meat processing operations and scale are key to competitiveness. In Finland, HKFoods has concentrated its meat processing activities in large units throughout the country. However, the company's challenging financial situation has historically limited the ability to invest to improve the efficiency of operations. In most years, the level of investment in Finland has been below the level of depreciation (e.g. 2009-2014 and 2018-2023). In 2015-17, the company made a significant growth investment in a new poultry plant in Rauma. HKFoods has invested an average of 16 MEUR in fixed assets in its Finnish operations in 2018-2023, while depreciation in 2023, for example, is 21 MEUR (excluding lease depreciation).

Investments (MEUR)[1]



1) Investments in the Finnish business excluding the purchase of the Vantaa site in 2020 (38 MEUR) and the leaseback of the Vantaa unit (71 MEUR).
Excludes IFRS 16 investments and depreciation. The depreciation rate decreased in 2022 with the sale and leaseback of the Vantaa property.

Development of staff numbers[2]



2) Includes personnel working in Finland, i.e., in addition to Finland also the resources of the Group administration.

Company description and business model 3/4

We expect that HKFoods will seek to increase annual investments in its Finnish operations in the coming years to improve production efficiency. The company continually strives to enhance efficiency, for example by improving meat yields and reducing the need for manual labor in production and logistics. For the period 2023-24, the company has identified major efficiency improvement measures with a total savings target of around 12 MEUR. Approximately half of these savings were achieved in 2023, mainly through restructuring and streamlining of operations both at group administration and at the Rauma and Eura units. The efficiency measures planned for 2024 include investments of approximately 10 MEUR in production equipment at the Forssa and Rauma mills. The divestitures of the Swedish and Danish businesses will further reduce the group's administrative expenses during 2024.

HKFoods' production facilities

HKFoods operates several production facilities in Finland. Production facilities are mainly specialized in certain activities and products, but there is some overlap. For example, there may be scope for further efficiencies in the slaughter of cattle and pigs through concentration, which should be considered particularly if consumption of these types of meat continues to decline. The issues associated with concentrating slaughter activities are complex, as they may, for example, increase transport distances for farm animals or require significant investment. HKFoods owns most of the factory properties it operates, but the Vantaa unit was sold to a real estate investor in 2021 and leased back to HKFoods for 20 years.

HKFoods' **Vantaa** unit produces, e.g., meals, meat products and ground meat. In addition, all of HKFoods' logistics to the retail stores are centralized in Vantaa. The location of the logistics center is favorable to the concentration of the Finnish population, which supports transportation efficiency and minimizes transportation emissions.

Forssa is home to a pig slaughterhouse and a cutting and packing facility. In addition, the unit's packaging capacity is also used to package poultry meat. An investment of 5 MEUR was made in the automation of packaging operations in 2023-24, aiming at annual savings of around 2 MEUR.

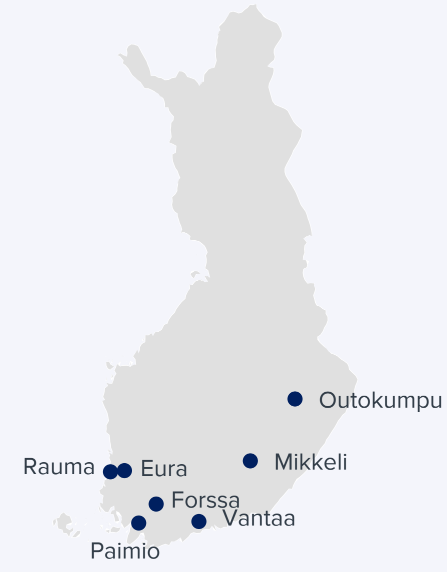
Rauma has a poultry slaughterhouse and a cutting and packing facility. The new plant was built in 2017-18 with an investment that ultimately far exceeded the original cost estimate (80 MEUR). The factory's production lines operated inefficiently in the early years, which had a significant negative impact on profitability in 2018-2019. A further investment of around 6 MEUR was made in the equipment shortly after 2020 to upgrade the production lines of the new plant. Since then, productivity has clearly improved. Approximately 5 MEUR has been invested in the automation of the Rauma cutting plant, which is expected to generate annual savings of around 3 MEUR from H2'2024.

Outokumpu is home to a cattle slaughterhouse and cutting plant.

Cattle and sows are slaughtered in **Paimio**. Having two cattle slaughterhouses reduces transportation distances, but also creates overlaps in operations.

The **Mikkeli** food factory produces hamburgers, nuggets and other meal components as well as meat products.

HKFoods' Finnish production sites on a map



Map: Microsoft and OpenStreetMap

Company description and business model 4/4

The **Eura** plant has been underused for a long time. HKFoods' strategic partners Kivikylä and Mäkitalo operate a pizza line and a salad line at the factory. HKFoods has decided to invest around 8 MEUR in the production of ready-to-eat products and an instant freezing packaging line at the Eura plant, which will enable it to meet the needs of food service customers in particular.

The bacon factory in Swinoujscie, **Poland**, is expected to remain part of HKFoods' factory portfolio, although divestments of other foreign operations have been agreed. The factory supplies most of its products to the Finnish and Swedish markets using raw materials imported from Finland and Sweden. Despite the lengthy logistics chain, the business is profitable The plant has also invested in growth to produce more processed products, such as cured bacon crumbs for salads. The plant also serves the Polish and Baltic markets, typically using Polish or other EU sourced raw materials. The revenue of HKScan Poland in 2021-22 was 69 MEUR and 80 MEUR and EBIT was 4.1 MEUR and 3.1 MEUR. The company's external revenue was previously reported as part of the Swedish business, but as of the 2023 financial statements as part of Finland.

Honkajoki takes care of production side streams

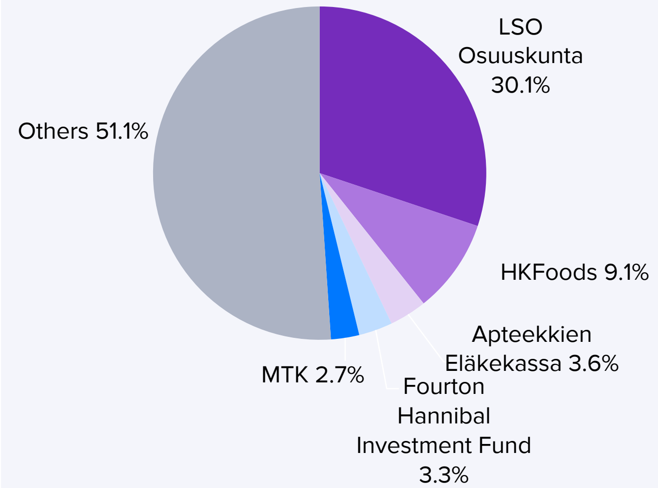
Animal by-products from slaughterhouses and meat-cutting plants are sold to Honkajoki Oy, which is jointly owned by HKFoods and Atria (HKFoods owns 50%). Honkajoki processes by-products into various raw materials for beneficial uses such as the energy, cosmetics, fertilizer and feed industries. Honkajoki is an important part of the production chain for HKFoods as it ensures efficient use of materials. Honkajoki's revenue and EBIT are not consolidated in the HKFoods Group, but HKFoods' share of the profit is reported in the associated companies line. In 2023, Honkajoki's revenue was 60 MEUR, EBIT 4.8 MEUR and HKFoods' share of the company's profit for the financial year was 1.9 MEUR (2022: 4.9). EBIT was exceptionally high in 2022, when high energy prices supported the selling prices of fatty biofuel feedstocks. In 2017-2020, HKFood's share of Honkajoki's profit for the financial year averaged 0.8 MEUR, which means that the result has clearly fluctuated with the market situation.

Ownership and decision-making power in the hands of producers

HKFood's Board of Directors consists of 8 members, 3 of whom represent LSO Osuuskunta, the company's largest shareholder. Reijo Kiskola, who is independent of significant shareholders, has been Chairman of the Board since 2018. HKFoods' management team consists of 5 people. Juha Ruohola, the company's CEO, took up his position in March 2023 and has been responsible for, e.g., HKFoods' Baltic, Polish and foreign trade operations since joining the company in 2019.

HKFoods has two series of shares, A and K, with A shares carrying one vote per share and K shares carrying twenty votes per share. LSO Osuuskunta, HKFoods' largest shareholder, holds 30.1% of all shares and its shares carry 59.4% of the voting rights at general meetings. HKFoods holds 9.1% of its own shares, the majority of which were acquired from Lantmännen in connection with the sale of its Swedish operations. Other major shareholders include Apteekkien Eläkekassa (3.6%), Fourton Hannibal Investment Fund (3.3%) and MTK (2.7%).

Ownership of shares[2]



4/ 30/2024

Brands and products

	Brand	Share of retail revenue[1]	Essence of the brand	Product categories	Product examples
	HK	~ 45%	Good taste, high quality, domesticity and tradition	Pork, beef, sausages, cold cuts, bacon, ready meals and meal components	
	KARINIEMEN KOTITILOILTA PER. 1966	~ 25 %	Good taste, high quality, sustainability and domesticity	Poultry products such as meat, nuggets, sausages and cold cuts	
	FRESH · AUTHENTIC · TASTY via	< 5 %	Deliciousness, freshness and authenticity	Ready meals, pizzas and soups	
Strategic partnerships[2]	Boltsi	< 1 %	Great taste without meat and additives	Oat-based "meatballs"	
Strategic partnerships[2]	KIVIKYLÄN	< 20%	Authenticity, tradition, craftsmanship	E.g., sausages, meatballs, cold cuts, fresh meat and snack products	
Strategic partnerships[2]	TAMMINEN	< 10 %	Tradition and high quality	Meat, cold cuts and processed minced meat products	
Strategic partnerships[2]	MÄKITALON FARMI	~ 1%	Fresh raw materials, ease of use	Ready-to-eat salads	

1) Inderes' estimate of the distribution of HKFoods' brand sales between different brands.
2) HKFoods' ownership in strategic partner companies 49% (except for Mäkitalon Maistuvat Oy, which is only ~25%). The partners' revenues are consolidated in the Group's financial statements as HKFoods controls the partner companies through its board work

Meat product value chain

Primary production	Processing	Wholesalers	Retail and HoReCa
• Meat producers • Poultry producers • Other producers	HKFOODS Danish Crown ATRIA Hyvä ruoka – parempi mieli. Saarioinen Snellman Fodelia	K Inex Partners KESPRO coop Trading MEIRA NOVA Snabbgross	S-RYHMÄ K LIDL Scandic NoHo NORDIC HOSPITALITY PARTNERS Food & Co. ICA RESTEL coop

Primary production and processing are partially integrated

Weak bargaining power → ← **Strong bargaining power**

The logos below are examples of companies operating in different parts of the value chain

Historical development and economic situation 1/4

Finland's revenue growth has been low for a long time

Revenue growth in Finnish businesses has been relatively moderate over the long term. Over the past ten years (2014-2023), revenue has grown by an average of 1.8% p.a. However, the increase in the period is concentrated in 2022-2023, when grocery store food inflation totals 19% over two years (source: PTY). Without the price-led rise in 2022-2023, revenue has effectively stagnated. Acquisitions have not had a significant impact on Finnish revenue over the past decade.

The decline in revenue in 2016-2018 is explained by, e.g., production challenges at the new poultry unit in Rauma, but also by a decline in red meat sales due to discount campaigns in stores, reduced availability of beef and a generally fierce competitive situation in processed meat products. Revenue rebounded strongly in 2019, remained stable during the COVID pandemic, and rose roughly in line with food inflation in 2022-2023.

Poultry and more processed products on the rise

Over the past five years, growth has been driven by volume growth in poultry and more processed products such as ready meals and meal components. Consumer demand for pork and beef has been on the decline in Finland. With rising inflation (2022-23), consumer demand has shifted from beef to pork and processed meats. Food service sales fell sharply during the COVID pandemic, but then grew rapidly until early 2023, after which the trend has stabilized.

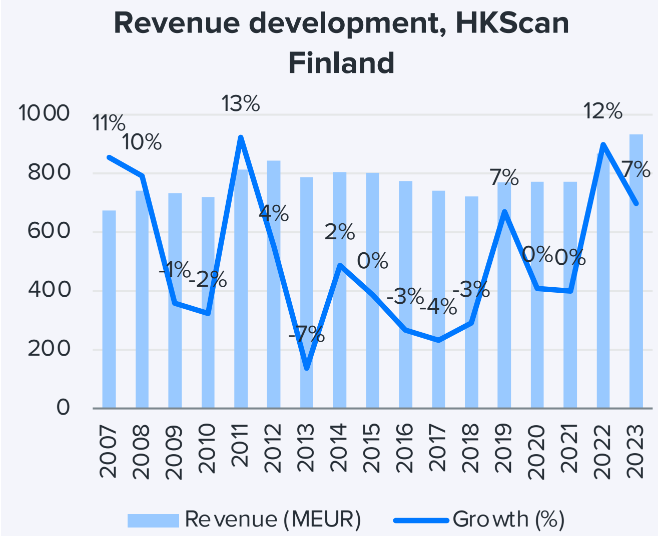
Performance clearly recovered from a weak starting point

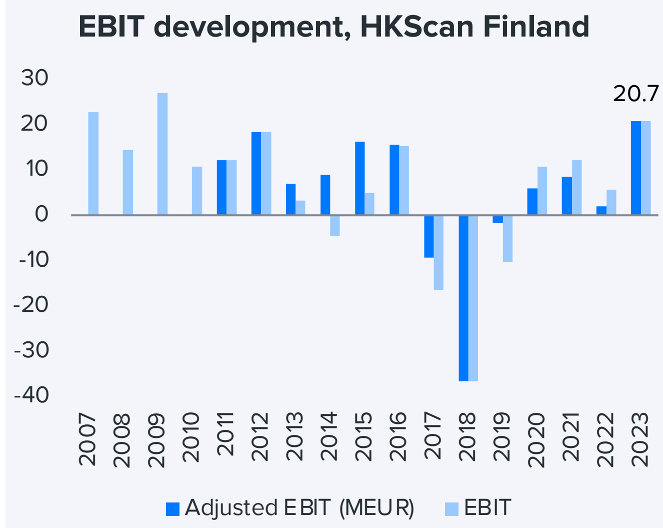
The profitability of the Finnish operations has historically been volatile and the overall profrits in the 2010s were rather weak (2010-2019 adjusted EBIT total ~41 MEUR). The biggest setbacks came in 2017-2018, when the company experienced major production difficulties with the new poultry plant built in Rauma. The Rauma plant's slaughtering production lines were upgraded in 2020, which helped to improve efficiency. In 2021-22, profit levels were impacted by factors such as the COVID pandemic, cost inflation, and market shocks from the war in Ukraine. In 2023, the earnings level improved significantly, partly as a result of the efficiency measures implemented. Sales prices could also be increased to reflect the higher cost level much better than in 2022.

HKFoods' gross margin has historically been quite low, ranging from 3.2% to 6.8% at Group level in 2018-23, and 7.0% for the Finnish business in 2023. Competitors such as Atria had gross margins ranging from 9.6% to 11.2% over the same period, which is significantly higher, although cost structures may vary slightly by country and segment. However, HKFoods' gross margin has improved in recent years, and the company reported in early 2024 that commercial success and efficiency measures are supporting profitability

Improving operational efficiency remains a priority

HKFoods' high level of debt has limited its ability to make efficiency-enhancing investments in the recent past. After the poultry investment in 2017-18, HKFoods' production investments in its Finnish operations are lower than depreciation, resulting in a decrease in depreciation (Finland and group admin) from 35.5 MEUR in 2020 to 30.8 MEUR in 2023.





Historical development and economic situation 2/4

However, the divestments outside Finland will allow HKscan to concentrate development investments in Finland and reduce the group's administrative cost base. HKFoods has presented a series of efficiency measures for 2023-2024 with a total savings target of around 12 MEUR. Efficiency measures were taken in both group administration and production. On the production side, the efficiency plan has also included investments in, for example, the automation of cutting operations at the Rauma poultry plant and packaging operations in Forssa. About half of the targeted savings have been achieved by the end of 2023, including headcount reductions in group administration and in the Rauma and Eura production units.

Indebtedness has been elevated in the company's history

HKFoods has a history of using significant debt financing to fund acquisition-driven growth and investments. The divestment of the Polish meat giant Sokolow brought the debt to a healthy level, and at the end of 2014 the company's net gearing was only 31.8%, with net debt of 142 MEUR. The large investment in 2015-17 in the new Rauma poultry unit and the decline in operating performance related to the unit's start-up difficulties led to another significant increase in debt. At the end of 2018, the net gearing ratio had increased to 89% and net debt to 289 MEUR. In 2019, the company strengthened its balance sheet through a share issue that raised gross proceeds of 72 MEUR, while the number of shares increased by 83%.

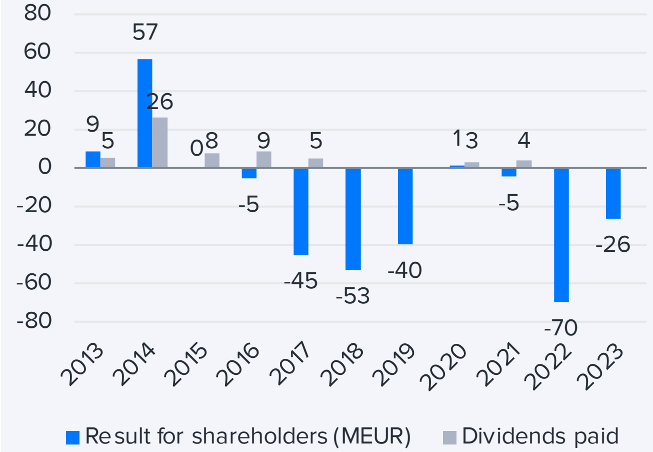
Following the share issue, the company's gearing remained fairly high, although the net gearing ratio itself remained below 100% in 2020-21, in line with the company's target. The balance sheet was lightened in 2021 with the sale of the company's factory and logistics property in Vantaa. HKFoods received a purchase price of 77 MEUR and continued to lease the sold premises, which resulted in an increase in lease liabilities of almost the same amount as the sale price. Weak operating profitability and working capital commitments amid the war in Ukraine and rising costs inflated debt, pushing the group's net gearing back to 124% in 2022.

Divestments as a solution to reduce debt

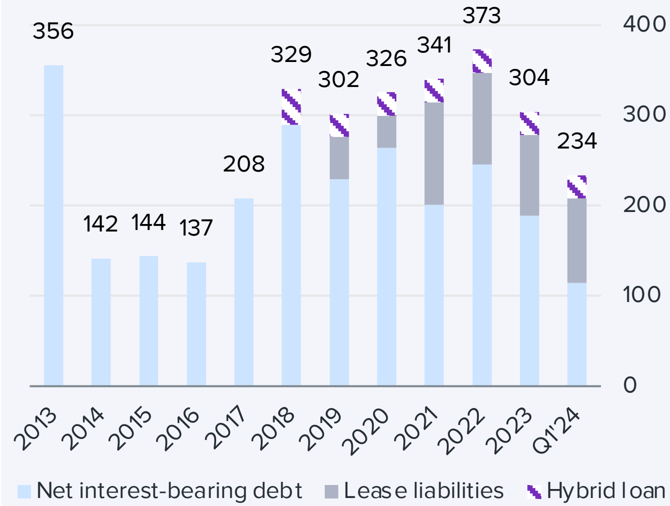
With debt again reaching unsustainable levels, HKFoods began divesting its operations outside of Finland from 2022. The sale of the Baltic businesses to the Estonian AS Maag Group was agreed in December 2022 and completed in August 2023. Revenue of the Baltic operations in 2022 totaled 196 MEUR, and adjusted EBIT fluctuated on both sides of zero in 2020-2022. The fixed sale price for the divestment was 70 MEUR, of which 15 MEUR will be paid later (2024-2025). HKFoods will also receive an additional purchase price of up to 20 MEUR in 2025-2027, the final amount of which will depend on the development of the buyer and the performance of the divested business. In our view, the transaction price was good given the poor performance of the business sold.

The sale of the Swedish operations to the Swedish company Lantmännen ek för was announced in December 2023 and closed in March 2024. Revenue of the Swedish businesses in 2022 was 745 MEUR and adjusted EBIT averaged around 20 MEUR in 2020-2022. According to our calculations, the unencumbered purchase price of the sale was approximately 129 MEUR, including 60 MEUR in cash, 50 MEUR in the repayment of debt, 13 MEUR in the transfer of lease obligations and 5-6 MEUR in HKFoods shares (7.5 million shares).

Net profit and dividend (including discontinued operations)



Net interest-bearing debt (MEUR)[1]



1) The hybrid loan is classified as equity, but from the shareholders' point of view it is comparable to other interest-bearing liabilities.

Historical development and economic situation 3/4

In addition to the 129 MEUR items mentioned above, Lantmännen also assumed the 50 MEUR factoring liabilities of the Swedish operations. In our view, the transaction price of the Swedish divestment was quite low relative to the earnings level (EV/EBIT below 10x, regardless of whether factoring debt is included as part of the transaction price).

The sale of the Danish business to the Dutch Plukon Food Group, the last in the pipeline, is expected to close during 2024. We believe that the transaction is likely to proceed as the buyer does not already have very significant sales to the Danish retail and food service channels. The net-debt-free purchase price of the Danish businesses is around 45 MEUR. The company's revenue in 2023 totaled 230 MEUR and adjusted EBIT n 2021-2023 was in the range of 0-3 MEUR. The poultry business was uncompetitive and increasing profitability would have required significant investments from HKFoods, so we believe the sale was a logical decision given the company's financial position. The sale price of the divestment is significantly lower than the price at which HKFoods acquired the business in 2010 (a net-debt-free purchase price of 71 MEUR). HKFoods' total adjusted EBIT from Denmark in 2011-23 was -34 MEUR.

Debt remains high after divestments

Following the completion of the divestments in Sweden and the Baltics, HKFoods' net debt decreased to 208 MEUR in March 2024 (115 MEUR excluding lease liabilities). In addition, the company has a 26 MEUR hybrid loan on its balance sheet (interest rate 16% p.a. from the end of 2023, previously 8% p.a.). Net gearing fell to 94% (Q1'23: 140%, target: less than 100%).

The net debt to EBITDA ratio remains high. To the key figure describing the ratio of net debt to EBITDA reported by the company (Q1'24: 2.5x) includes EBITDA from discontinued operations for the last 12 months (including Sweden and the Baltics). Including only the EBITDA for Finland and Denmark, we estimate that the ratio of net debt to EBITDA would be around 3.5x. If the Danish divestment had already taken place, the net debt to EBITDA ratio would have fallen to 3.1x.

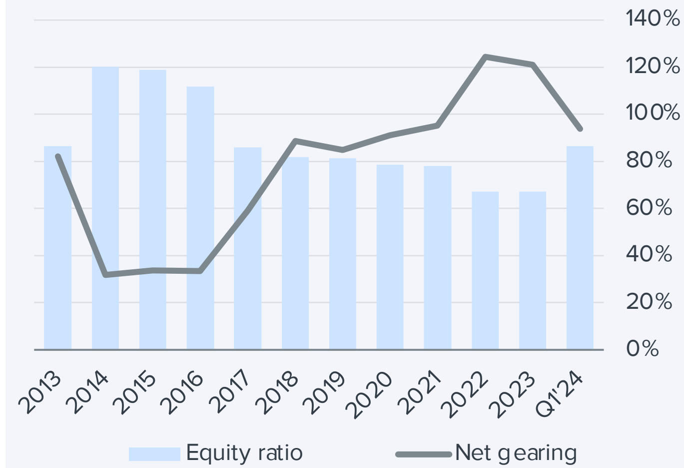
The leverage ratios meet the covenants on the company's loans. The bank loan and bond covenants require the net gearing ratio to be kept below 125-130%. The covenant limit for net debt to EBITDA is 4.5x. In addition, the covenants of the bank loans and standby credit require the company to maintain a minimum liquidity of 15 MEUR.

HKFoods still has trade receivables related to the divestments in the Baltics and Denmark totaling up to 80 MEUR in 2024-2027, of which 45 MEUR is a fixed purchase price related to the sale of the Danish businesses, 15 MEUR is a fixed purchase price related to the Baltic businesses and up to 20 MEUR is an additional purchase price related to the Baltic businesses (book value 10.5 MEUR).

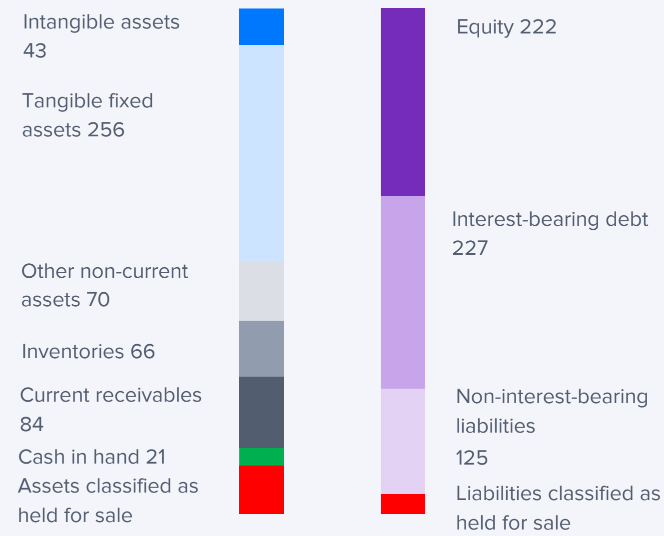
Hybrid redemption may be delayed

If the divestment of the Danish businesses is completed during 2024, we forecast that the group's net debt would decrease to EUR 148 million at the end of 2024 (EUR 54 million excluding IFRS 16 lease liabilities), resulting in a net debt/EBITDA ratio of 3.0x. We also assume that the hybrid loan will not be repaid during 2024, although the company has stated its intention to redeem the hybrid loan. We have set out our predictions in more detail on pages 22-25.

Equity ratio and net gearing



Balance sheet at the end of Q1 2024 (MEUR)



Balance sheet total 598 MEUR

Historical development and economic situation 4/4

Debt refinancing a near-term challenge

HKFoods' 90 MEUR bond will expire on March 24, 2025, which may prove challenging to refinance if the market doubts the company's ability of a sustainable earnings turnaround. The refinancing will at least increase financing costs The current interest rate on the loan is only 5% (fixed). In the current interest rate environment, the interest rate on a potential new financing solution would be significantly higher than the existing loan.

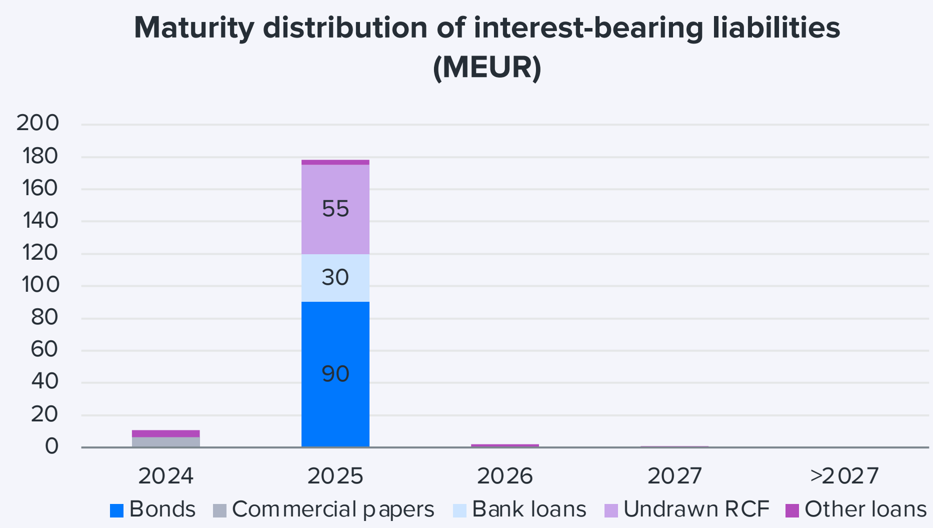
On May 31, 2024, HKFoods announced a repurchase offer for its 90 MEUR bond with a premium to the nominal value and market value of the loan. At the same time, the company aims to issue new secured bonds and thus extend the maturity profile of its debts. The offer and the issuance of new bonds are conditional on the acceptance of the collateral arrangement by the majority of the holders of the current bond.

Working capital has improved recently

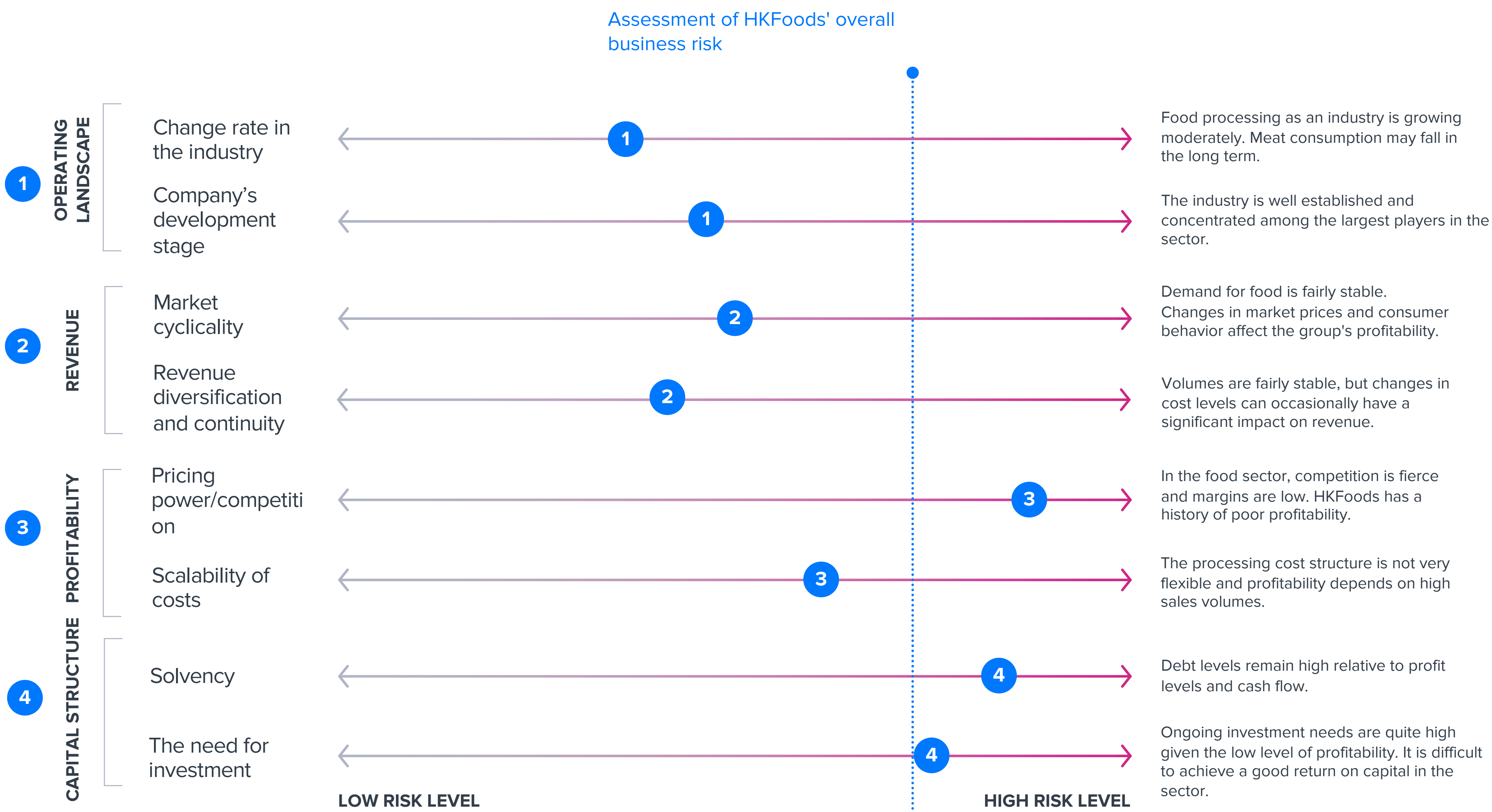
Due to the impact of cost inflation, HKFoods' balance sheet (including discontinued operations) had almost 21 MEUR more committed to working capital in 2022 than in the previous year. Cost leveling and a reduction of the company's inventories reversed the trend in 2023, when working capital of 6 MEUR (including discontinued operations) was released. The release of working capital continued in Q1'2024..

Working capital financed by factoring

Like many food companies, HKFoods uses factoring as part of its business. A significant portion of HKFoods' trade receivables relates to products supplied to well-established Finnish distributors such as Kesko and the S Group. The solvency of these customers is better than HKFoods' and therefore the financial risk is lower, so it makes sense to sell receivables to factoring financiers. The exact amount of factoring financing is not publicly disclosed. The factoring liabilities of the Swedish operations amounted to around 50 MEUR at the time of the sale, which may give an indication of the size of HKFoods' factoring financing in Finland. We have not included factoring in our debt calculations.



Risk profile of the business model



Source: Inderes

Investment profile

1. **Concentrating investment in Finland allows for greater efficiency**

2. **Overall market growth is slow, but HKFoods invests in growing sub-segments**

3. **Thin margins vulnerable to changes in business environment**

4. **Balance sheet remains leveraged and financial charges are high relative to operating income**

5. **Improving earnings outlook and divestments enable debt reduction**

Potential

- Strong commercial position in Finland through scale and well-known brands
- Investments in poultry and other growing segments such as ready meals
- Focus on Finland allows concentration of investments and strengthening of industrial efficiency
- Sales of operations outside Finland enables debt reduction

Risks

- Long-term decline in red meat consumption
- Fierce competition in the food sector and strong bargaining power of retailers limit profitability
- Changes in consumer demand and cost environment may affect profitability
- Animal diseases may impact export licenses
- Debt levels remain high relative to earnings levels
- A strong role for producers in the company's decision-making may involve trade-offs between the interests of investors and other stakeholders

Market and competitive environment 1/3

Approximately 4 BNEUR food retail target market

The total market share of HKFoods' main product groups in the grocery trade was 4.0 BNEUR in 2023. We have identified beef, pork, poultry, sausages and cold cuts, other meat products, ready meals, pizzas and savory pies as the main product groups of HKFoods. The definition excludes some less relevant target markets for HKFoods, such as fish products, which the company produces through Jokisen Eväät, a company acquired in 2021. The foodservice channel is also excluded from the definition.

In food retail, HKFoods' target market is divided into several different categories. Sausages, cold cuts and other processed meat products represent a target market of up to 1.3 BNEUR. In addition, fresh red meat sales represent a market of just over 0.5 BNEUR and poultry sales are just under 0.5 BNEUR in Finland. Ready-to-eat meals also represent a significant market segment of around 1.2 BNEUR. The pizza and pies segment is just under 0.5 BNEUR.

Foodservice channel just under a fifth of the grocery market

We estimate the size of the foodservice market in Finland relevant to HKFoods to be around 600-700 MEUR, or around 15-18% of the retail market. The aggregate revenue of foodservice wholesalers in Finland is about 17% of the value of food sales in the grocery trade, which supports our estimate. Our estimate is also in line with the main competitor Atria's estimate of the market size for meat and meat products in the Finnish foodservice channel (~600 MEUR).

Much of the growth in the target market in recent years has come from price increases

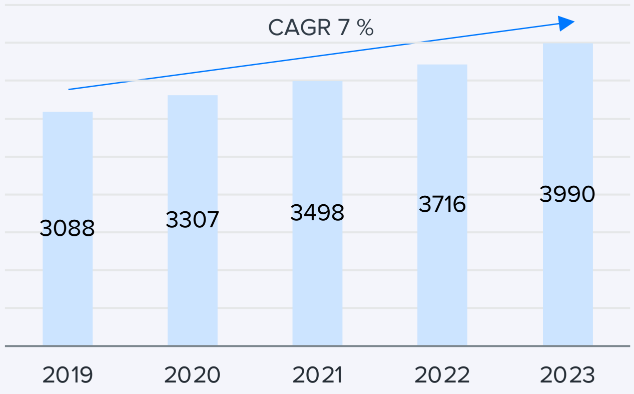
In terms of revenue of major product groups in the grocery market, HKFoods' target market grew by an average of 6.6% p.a. between 2019-23, according to PTY statistics. As much as 5.3 percentage points of the increase is due to price increases. Price increases were particularly strong in 2022 and 2023, when prices rose at an annual rate of about 9-10%.

In terms of volume growth, the most significant growth segments in Finnish retail in recent years (2020-23) have been prepared foods (6% p.a.) and poultry (2.5% p.a.). In contrast, pork sales have declined by an average of 4% p.a. over the same period, and beef consumption has remained stable overall, albeit with occasional significant year-to-year fluctuations.

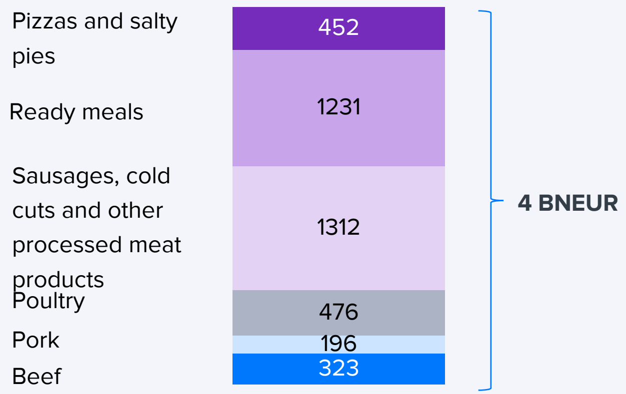
Export markets are very large

The global market for meat and processed meat products is huge, with around 365 million tons of meat produced in 2023, according to the FAO. Of this, about 41 million tons were consumed in a country other than the one in which the meat was produced. Meat consumption is expected to grow at a moderate pace. Most of the growth in consumption will come from emerging markets. In countries with a high standard of living, meat consumption is expected to remain stable or even decrease slightly. A large proportion of HKFoods' exports go to countries with a high standard of living, such as EU countries and Japan. In these markets, the competitiveness of HKFoods' export meat is based, at least in part, on its high quality and freedom from antibiotics. China, for example, is also an important export market for HKFoods, although much more price-driven.

Market size in HKScan's main product groups in the grocery channel (MEUR)[1]



Market breakdown by product group (MEUR, 2023)[2]



Source: Finnish Grocery Trade Association (PTY)

Market and competitive environment 2/3

Changing eating habits have favored poultry

Statistics show that the consumption of poultry meat in Finland has been increasing for a long time. In 2022, the average Finn ate 28 kg of poultry meat, up from 13 kg in 2000. Pork and beef consumption, on the other hand, has fallen. By 2022, the average consumption of pork in Finland has fallen by 21% from its peak level in 2011. In turn, beef consumption in Finland turned into a slight decline in 2018 and is down 12% from its peak. However, the negative trend of a few years does not yet allow the conclusion that there is a significant downward trend in beef consumption. Most of the decline in beef consumption to date occurred during the 2022 inflation spike.

We estimate that actual changes in consumption patterns are due to health reasons, inflation, and increased focus on sustainability issues related to animal protein, among other factors. Poultry meat is lower in fat and has a healthier reputation compared to red meat. Producer meat prices increased significantly in 2022-2023, but there are no significant differences between meat types to explain recent changes in consumption patterns. However, the generally higher price level of beef makes it more sensitive to changes in consumer purchasing power than other meats.

Total meat consumption is not increasing, but the long-term trend is fairly stable

Estimates of meat consumption trends have varied slightly in recent years. In 2021, the Natural Resources Institute of Finland estimated that total meat consumption per person in Finland (including poultry meat) will decrease by about 1-2% during the current decade, which would mean that the annual change would be very small. At the European level as a whole, meat consumption per consumer is also projected to fall by only around 1% between 2021-2031[1]. It will be interesting to see how permanent the impact of the sharp decline in meat consumption caused by the inflation spike in 2022-2023 will be, or whether consumption will rebound as consumer purchasing power strengthens.

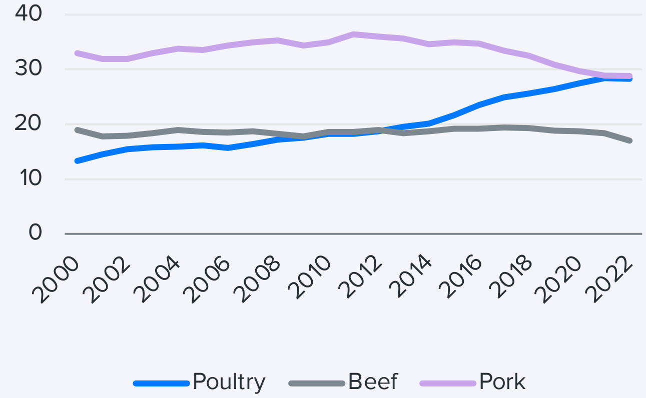
So far, taking climate into account has not had a significant impact on meat consumption, and the growth trend of alternative plant proteins has not been linear. Growth in demand for plant-based protein products in Finland slowed and at least partially reversed in 2021-2023. In the long term, however, we expect plant-based or alternative proteins to replace animal proteins, but the change will be slow. Despite the decline in meat consumption, HKFoods' target market can grow through higher value-added products such as ready meals and other processed products. We therefore expect the target market to develop broadly in line with the rest of the traditional food industry in the medium term, i.e., roughly in line with the development of Finland's GDP.

Retail concentrated in the hands of big players

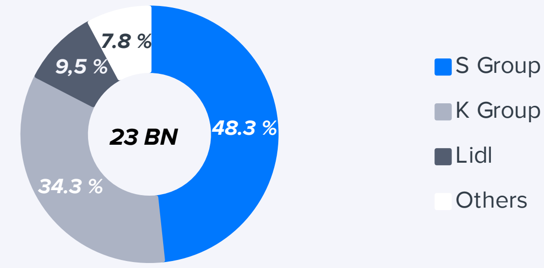
One of the challenges of the Finnish grocery market is the high concentration of the grocery trade in the hands of a few large players. In 2023, grocery sales in Finland totaled approximately 23 BNEUR, of which S Group's market share was 48% and K Group's 34%.

1) Source: EU Agricultural Outlook 2021 and Eurostat

Meat consumption in Finland (kg/person)



Market shares of the Finnish grocery trade in 2023



Source: Statistics Finland and Jordbruksverket

Market and competitive environment 3/3

Lidl is the third largest player with a market share of just under 10%, and the three largest players have a combined market share of 92%. The bargaining power of the large retail chains to the food industry is strong, which limits the bargaining and pricing power of HKFoods and other players. In this setting, HKFoods aims to emphasize the competitive advantage of brands and the importance of quality domestic products in retail assortments.

Private label share of food purchases has increased

In addition to the bargaining power of the large retail chains, HKFoods' pricing power hampered by private label products (e.g. in Finland: Pirkka, K-menu, Kotimaista and Coop). According to PTY statistics, private labels accounted for 24% of the value of sales in the Finnish grocery trade in 2022. However, the statistics do not yet give a fully up-to-date picture of recent developments, as weakening consumer purchasing power has further increased the share of private labels in 2022-2023. Private label agreements bring good volume to the industry, but their margins are lower than branded products. HKFoods does not disclose the split between private label and branded sales.

Investment capacity has limited growth relative to the market

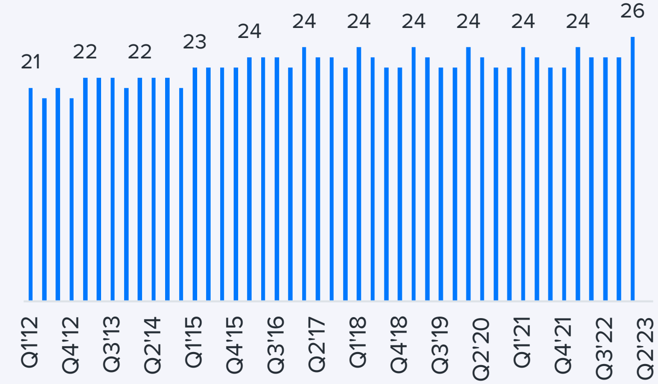
HKFoods' revenue in Finland has grown by an average of 5.0% during 2020-23, which is slower than the company's target segments in Finland (6.6%). At the same time, the main competitor Atria has, according to its own reporting, managed to increase its share of production in Finland. We believe that HKFoods' tight financial position and low investment capacity have limited its growth opportunities in recent years. However, in the first quarter of 2024, the company reported commercial successes and above-market growth, so the situation seems to be improving, at least in the short term. A stronger balance sheet and improved investment capacity could support the company's competitive position in the long term.

We assess HKFoods' competitive strengths as a large and well-known brand in Finland compared to smaller domestic processed meat producers or imported meat. However, we do not see any significant competitive advantages compared to the main Finnish competitors. The rise in meat prices on the international markets and the resulting decline in imports has helped HKFoods in recent years, which relies on close relationships with local meat producers. At the same time, operators using imported raw materials have suffered. However, the relative balance of prices may change over time.

Competitive but stable market environment

HKFoods' main competitors in Finland are Atria, Snellman and Saarioinen. Competition in the meat processing industry is fierce, but we do not expect the competitive environment to change significantly in the near future. The low-margin and traditional sector does not really attract foreign operators to invest in local production in Finland. In the coming years, we expect the Nordic meat processing industry to become even more concentrated among the largest players in the sector.

Private label share of food purchases in Finland (%)



Source: Finnish Grocery Trade Association (PTY)

1) Source: PLMA

Strategy and financial targets

Aiming to grow into a diversified food house

HKFoods' long-term strategic goal is to become a diversified food company. In the short term, the strategy has focused on strengthening the financial base and improving the profitability of the core business, where success is also a prerequisite for advancing the longer-term strategy.

Divestments support the financial position

The company's financial position has weakened in 2020-2022, partly due to profitability challenges, which has led to the need to prioritize deleveraging in the short term. The company has implemented significant deleveraging divestments in recent years, including the sale of its Baltic and Swedish operations in 2023-2024 and the sale of its Danish operations, which is expected to close in 2024. At the end of Q1 2024, the company's net gearing was only 94%, below the target level of 100% (2022: 124 %). We estimate that the debt capacity will be sufficient to gradually reduce the current level of debt, assuming that the improvement in the profitability of Finnish companies in 2023-2024 proves to be sustainable. The balance sheet also allows for at least moderate replacement and efficiency investments, but the conditions for major growth projects or acquisitions are currently poor.

Focus on improving profitability

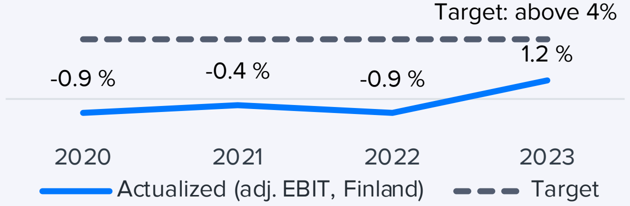
HKFoods has historically faced significant profitability challenges in its Finnish operations. In 2017-2019, adjusted EBIT in Finland turned negative due to ramp-up challenges at the new poultry plant in Rauma. Since then, profitability has recovered through investments in improvements and efficiency measures, although the trend has not been linear and the effects of efficiency measures have at times been temporary. For the period 2023-2024, separate efficiency measures have been proposed with a combined savings target of around 12 MEUR. Roughly half of the measures have already been completed in 2023 and half are expected to be completed between 2024 and H1'2025. The divestments in Sweden and Denmark are expected to provide further opportunities to improve the group's administrative cost structure. Improving profitability depends in part on the ability to invest. We believe that concentrating operations and investments in Finland supports opportunities to improve profitability. Achieving the 4% EBIT margin target is still far from being realized (2023 adj. EBIT: 1.2%), and given the competitive situation in the industry and the historical profitability of the businesses, we consider the target challenging. Similarly, we consider the 12% ROCE target to be very difficult to achieve (2023: 3.0 %).

Growth from poultry and increasing processing rates

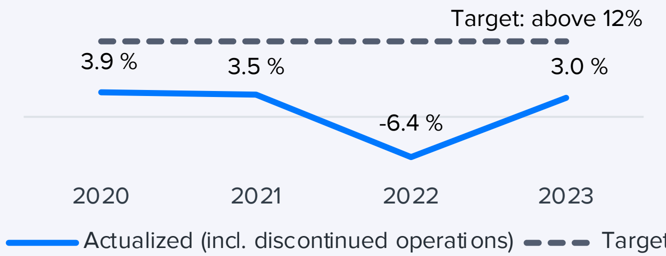
HKFoods aims to be a diversified food house with a product portfolio that offers consumers solutions for different food occasions. The company's main growth segments are poultry, ready meals and various ready or semi-ready meal components. In March 2024, the company announced that it would invest 8 MEUR in a line for ready-to-use products at the Eura plant to meet the needs of foodservice customers in particular. The aim is to reduce meat exports with low profitability,, for example by adjusting production to better meet domestic demand. We expect the company to grow in line with the moderate average growth of the food market (around 2% p.a. over the long term). Growth will come mainly from higher processing levels.

Financial targets

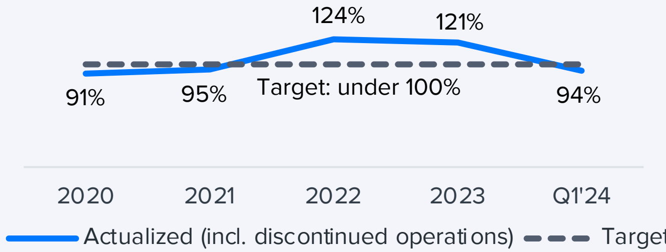
EBIT-%



Return on capital employed (ROCE)



Net gearing



Payout ratio

Target: above 30 %

No dividends have been paid in recent years due to low earnings and a difficult financial situation.

Estimates 1/5

Rapid rise in price levels is over

HKFoods does not provide numerical guidance on revenue growth. Growth in continuing operations rose high in 2022-23, especially due to cost inflation and the subsequent increase in sales prices, but at market level, price increases have stopped at the beginning of 2024. We, therefore, estimate that HKFoods' organic revenue growth will decline to 3% in 2024-25 and further to 2% in 2026. The organic growth we forecast broadly corresponds to the growth rate of the market. In the short term, growth will be generated by small volume growth and in the big picture by the product mix improving toward products with higher added value and degree of processing. Barring any major changes in consumer purchasing power or industry cost levels, overall market growth in euro terms is likely to remain at a few percent for the next few years. HKFoods has recently described consumer demand in fairly positive terms, but we understand that demand for beef cuts, for example, remains weak due to consumers' lower purchasing power.

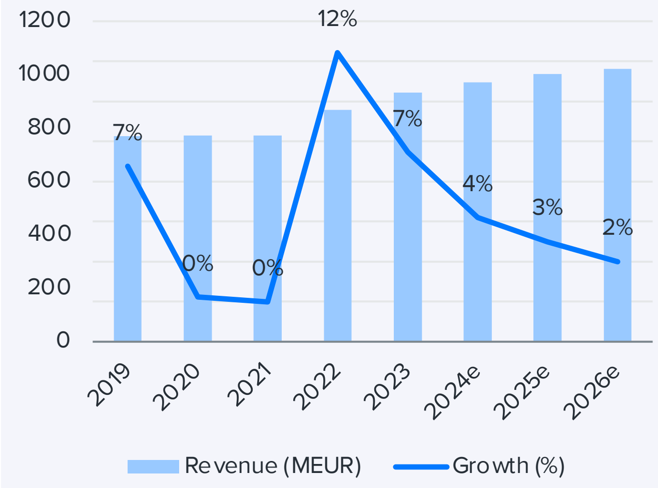
Increasing the degree of processing supports growth

HKFoods' total sales volume has not increased significantly over the past decade, as, e.g., red meat consumption has declined moderately. In contrast, poultry consumption, ready meals and various more processed and prepared food materials are growing segments. The company's focus on Finland and improved investment capacity could also support the growth of ongoing operations through more competitive industrial activities. The new ready-to-eat product line in Eura, which is being developed specifically for the foodservice channel, will be implemented during 2024 and new products from this line are expected to be sold from Q1'2025 which could support sales volumes. This 8 MEUR investment will partly replace products that were previously outsourced.

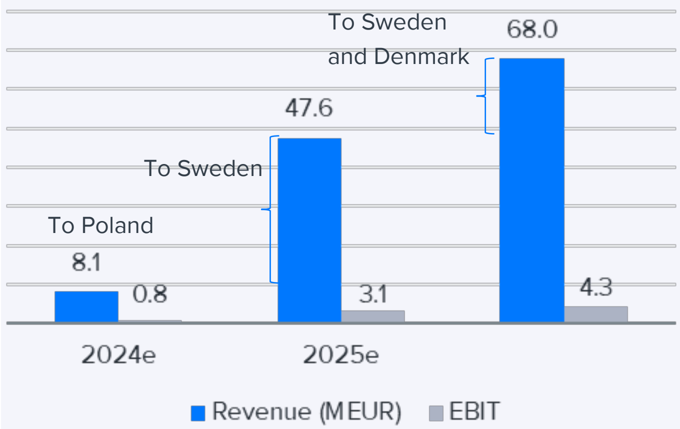
Polish revenue being reported as part of Finland has a significant effect of the figures for the next few years

The external revenue of the Polish bacon business was previously recorded as part of the Swedish business, but since the financial statements of 2023, external revenue has been recorded in the Finnish figures. However, the majority of sales in Poland have been internal revenue, mainly to Sweden, but also to Denmark. After completion of the divestment of Swedish operations, the external sales will increase, external sales will increase significantly from the end of March 2024, as we expect deliveries to Sweden will continue as normal. We estimate that this will increase annual revenue by approximately 53 MEUR, of which approximately 40 MEUR in 2024 and the remaining 13 MEUR in Q1 in 2025. Once the divestment of the Danish businesses is completed by the end of 2024, we estimate the increase in Poland's external revenue would increase revenue by some 7 MEUR in the 2025 figures. The profitability of the Polish company is higher than that of the group. We estimate that the growth in external revenue to Sweden and Denmark will support EBIT by some 3.5 MEUR, of which 2.3 MEUR in 2024.

Revenue development[1]



Effect of external revenue from Poland on 2022 figures



Source: Inderes' estimate

1) Only includes continuing operations (HKFoods Finland) Organic growth adjusted for changes related to the reporting of Polish revenue.

Estimates 2/5

Improving efficiency should support profitability

Gross margin from continuing operations was 7.0% of revenue in 2023 and gross margin trend was positive in Q1'2024. We expect the margin to improve in 2024-2025, thanks to, e.g., production efficiency measures and investments. In addition, HKFoods reports in early 2024 that commercial successes in Finland and a reduction in exports will support margin improvement through sales mix. Of course, economic conditions can change from time to time, but at least for now, the outlook is fairly positive. We also estimate that the increase in Polish external revenue will increase the Group's margin. We estimate a gross margin of 7.3-7.4% for 2024-25.

The adjusted EBIT of the group's only remaining business area, HKFoods Finland, is forecast to grow to 27.9 MEUR during 2024 (2023: 20.5 MEUR). The earnings improvement is mainly due to the increase in the gross margin, of which 2.3 MEUR is related to the increase in external revenue recorded from Poland, i.e. the comparable EBIT growth we forecast is 5.1 MEUR in 2024 (in Q1 alone, adjusted EBIT improved by 2.9 MEUR y/y). In 2025, Finland's adjusted EBIT will continue to grow to 31.7 MEUR in our forecasts, which will be affected by, e.g., the efficiency investments to be completed in 2024 and the additional earnings contribution of 1.2 MEUR from Poland.

We expect that HKFoods will continue to reduce headcount in group administration as the company shrinks in size following the divestments in Sweden and Denmark. We estimate the comparable costs for group administration to decrease to 7.9 MEUR in 2024 and 7.0 MEUR in 2025 (2023: 8.9 MEUR). HKFoods Group's adjusted EBIT would thus increase to 20.0 MEUR in 2024 and 24.7 MEUR in 2025 (2023: 11.6 MEUR). HKFoods expects an improvement in adjusted EBIT in 2024 compared to 2023, which seems likely based on our forecasts. Our forecasts assume that HKFoods' demand and cost environment will remain stable.

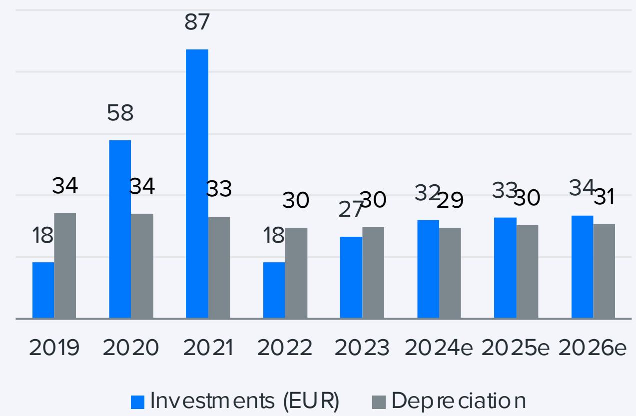
There is significant uncertainty in the forecasting of the earnings level, as the company's historical profitability has been weak and the ongoing major change in the group structure makes it difficult to assess the comparability of figures. On the other hand, the company's result has recently developed positively and increasing production investments could clearly improve the company's competitiveness in the long term compared to the weak starting level.

Investments may slightly exceed depreciation

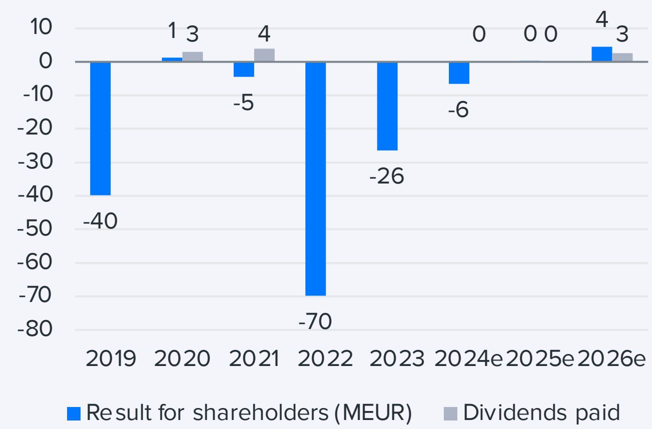
HKFoods seems to be increasing its production investments. We expect the investment level to increase to 32 MEUR in 2024 (2023: 27 MEUR), including an increase in the capitalization of leases. The investments in 2024 include, for example, a production line investment of approximately 8 MEUR for the production of ready-to-use products in the Eura unit, the remainder of the 5 MEUR investment in the Forssa packaging plant and the remainder of the aroud 5 MEUR automation investment in the Rauma poultry cutting plant.

We estimate that investments related to the capitalization of lease liabilities will develop exactly in line with the depreciation rate (2024-26: ~ 9 MEUR p.a.). We expect other depreciation and amortization to increase moderately compared to the 2023 level (21 MEUR).

Investments and depreciation[1,2]



Net profit and dividend[3]



1) Includes lease depreciation and increases in right-of-use assets. Investments for 2020-2021 include the purchase of land for the facility in Vantaa (2020: 38 MEUR) and leaseback (2021: 71 MEUR).
2) In continuing operations.

Estimates 3/5

Financial expenses fall slightly from high level

We estimate the annual rolling level of financing costs after the Swedish divestment to be roughly 11.5 MEUR. Debt will continue to decline as the divestment of the Danish businesses is completed in 2024, reducing financing costs. On the other hand, HKFoods' 90 MEUR bond matures in 2025 and we estimate that renewing the bond would mean an interest rate increase to an estimated 9% (interest rate of the current bond is 5%), which would increase the rolling level of financing costs by up to around 3 MEUR.

We forecast net financing expenses of 14.5 MEUR in 2024, still impacted by high financing costs in Q1, including liabilities from the Swedish business and factoring liability costs. We expect net financing expenses to decrease to 12.0 MEUR in 2025, which corresponds to an average net cost of 8.7 % of the average level of net debt (including IFRS 16 debt). The cost of the hybrid loan (4.1 MEUR p.a.) is not included in the interest cost, but we assume that this cost will be present until September 2026.

Tax forecasting is challenging

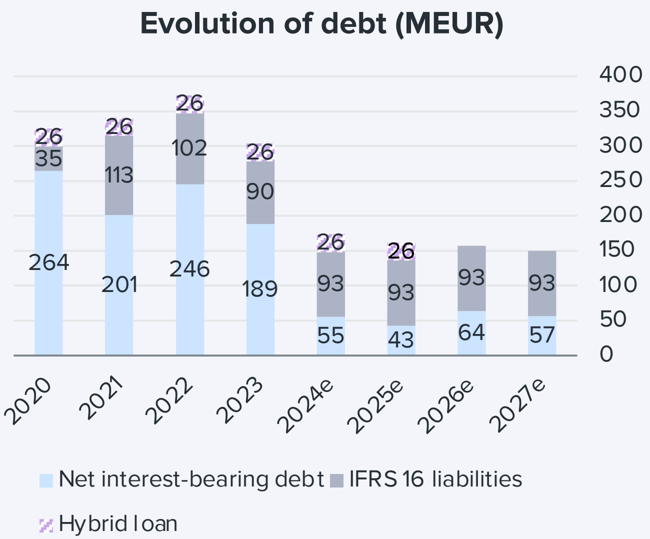
Predicting the level of tax is somewhat difficult for HKFoods as the group comprises several companies with varying levels of shareholdings, some of which may have positive results and thus incur tax charges even though the group's results are still loss making. The concentration of business activities mainly in Finland from 2024 onwards will facilitate the netting of results, which should result in lower tax costs. We have estimated a tax cost of 4 MEUR for 2024-25 (2023: 6.6 MEUR). We have assumed a long-term tax rate of 20% from 2026. If the result turns positive, HKFoods will be able to use its past losses to reduce future tax payments.

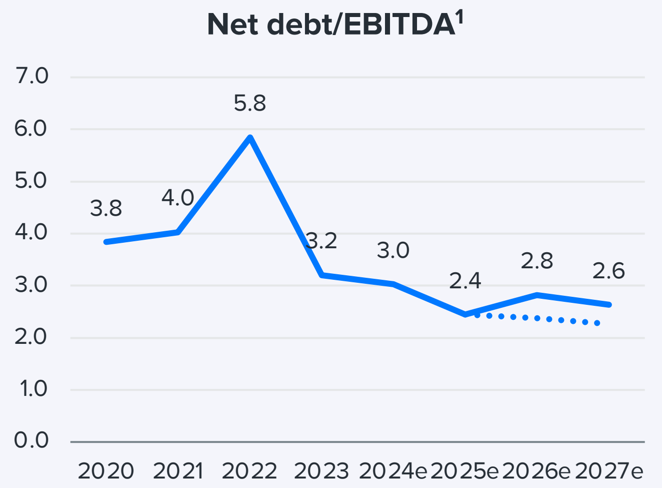
Net result could turn positive in the coming years

Net income to shareholders improves in our forecasts, turning positive in 2025. In addition to operational earnings growth, the result is supported by a slight decrease in financial expenses and the planned repayment of the hybrid loan in 2026 (only 1 MEUR impact on the result in 2026, but full 4 MEUR impact from 2027 onwards). We expect the company to be able to continue to pay dividends after the redemption of the hybrid loan. Assuming that the hybrid is not yet redeemed in 2024-2025, dividend payment could resume from the 2026 result. We forecast a dividend of EUR 0.03 per share in 2026 (2.5 MEUR in total). We expect the dividend to increase to EUR 0.04-0.05 for 2027-2028. Even earlier dividend payments could be possible, but due to the uncertainty surrounding the financial position, we do not consider this likely.

Cash consideration for divestments likely to be paid until 2027

We have assumed that the divestment of the Danish businesses will be completed during 2024, as estimated by HKFoods, resulting in a purchase price of 44 MEUR during 2024. In addition, there is still a consideration related to the sale of the Baltic businesses. The fixed receivables related to the Baltics amount to 15 MEUR, of which 5 MEUR will be paid in August 2024 and 10 MEUR in August 2025. The additional purchase price will be up to 20 MEUR and will be paid over the period 2025-2027.





1) Years 2019-2023 include results from discontinued operations. 2024-27 include only the result of continuing operations.

Estimates 4/5

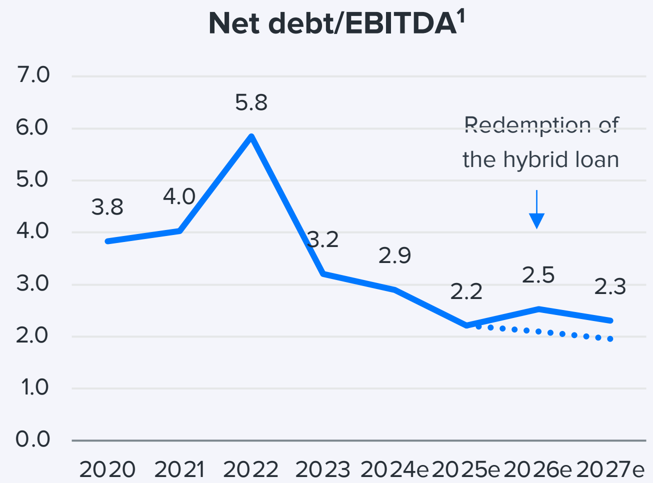
We have assumed that HKFoods will receive 10.5 MEUR as additional purchase price (corresponding to the last reported book value of the receivable as of March 31, 2024) and that the payments will be spread evenly over the years 2025-2027 (3.5 MEUR per year). Of course, the purchase price payments will help reduce debt in the coming years.

Equity solutions may need to be used in financing arrangements

HKFoods has signaled its intention to redeem its 25.9 MEUR hybrid loan by fall 2024. The interest rate on the hybrid loan has increased from the original 8% to 16% in September 2023, as the company's financial position has not allowed it to repay the loan. Based on our current projections, net debt to EBITDA would be 2.9x at the end of 2024, or 3.4x if the hybrid is redeemed. We estimate that redemption will not be possible during 2024. The company will also need to refinance the 90 MEUR bond by March 2025 and, in practice, a suitable refinancing solution should be found in 2024. The redemption of the hybrid would reduce equity on the balance sheet and increase gearing from the perspective of debt investors, which would have a negative impact on the refinancing options and terms of the 90 MEUR bond. Refinancing the bond itself can also prove challenging even if the hybrid is not yet redeemed. A share issue, an offer of treasury shares held by the company or a new, cheaper hybrid loan could, if necessary, be possible solutions as part of the company's financing arrangements to replace the hybrid loan or, on the other hand, to strengthen equity to support access to debt financing.

Earnings improvement could allow debt reduction through internal cash flow

We have not included the use of equity-based financing in our projections, but have assumed that HKFoods will be able to refinance the 90 MEUR bond and reduce debt through internal cash flow over time. This would require a significant and sustained improvement in profitability levels compared to previous years, of which we have seen the first promising signs in 2023 and early 2024. We have therefore assumed that the hybrid loan will be redeemed in 2026, resulting in a net debt/EBITDA ratio of 2.5x at the end of 2026 (2.1x without redemption). Atria, for example, had a ratio of 2.7x at the end of 2023, which does not seem particularly problematic for financiers who are confident in the company's sustainable performance. A sustained improvement in HKFoods' earnings would also support the availability of cheaper financing solutions and could enable the redemption of the expensive hybrid. If earnings continue to be as volatile as they have been in the past, the company may have to rely on expensive debt for several years to come, leaving it with little ability to pay dividends.



1) 2022-2023 figures are calculated including full year EBITDA of discontinued operations. The dashed line represents a scenario in which the hybrid loan is not redeemed at all.

Estimates 5/5

Detailed estimates

MEUR	*2018*	*2019*	*2020*	*2021*	*2022*	*2023*	*2024e*	*2025e*	*2026e*
Revenue	***1,715***	***1,744***	***1,781***	***1,815***	***1,834***	***1,163***	***1,000***	***1,051***	***1,072***
-growth	-5.1 %	1.7 %	2.1 %	1.9 %	1.0 %	-36.6 %	-14.0 %	5.0 %	2.0 %
HKScan Finland	722	771	772	772	868	933	1,000	1,051	1,072
-growth	-2.7 %	6.7 %	0.2 %	0.0 %	12.4 %	7.5 %	7.2 %	5.0 %	2.0 %
-of which organic growth					12.4 %	6.5 %	3.0 %	3.0 %	2.0 %
-of which growth related to the change in reporting of the Polish subsidiary						0.9 %	4.2 %	2.0 %	0.0 %
Gross profit	***55***	***74***	***117***	***110***	***97***	***79***	***73***	***78***	***79***
-% of revenue	3.2 %	4.2 %	6.6 %	6.1 %	5.3 %	6.8 %	7.3 %	7.4 %	7.4 %
Fixed costs (excl. depreciation)	-37	-17	-39	-32	-42	-26	-23	-21	-21
EBITDA	***18***	***57***	***78***	***78***	***56***	***53***	***51***	***57***	***58***
-% of revenue	1.0 %	3.3 %	4.4 %	4.3 %	3.0 %	4.5 %	5.0 %	5.4 %	5.4 %
Depreciation and amortization	-67	-80	-57	-60	-46	-35	-31	-32	-33
EBIT	-49	-23	21	18	10	17	20	25	26
-% of revenue	-2.9 %	-1.3 %	1.2 %	1.0 %	0.6 %	1.5 %	2.0 %	2.4 %	2.4 %
Adjusted EBIT	***-48***	***-2***	***17***	***15***	***10***	***15***	***20***	***25***	***26***
-% of revenue	-2.8 %	-0.1 %	1.0 %	0.8 %	0.5 %	1.3 %	2.0 %	2.4 %	2.4 %
HKScan Finland	-37	-2	6	9	4	21	28	32	33
-% of revenue	-5.1 %	-0.2 %	0.8 %	1.1 %	0.4 %	2.2 %	2.8 %	3.0 %	3.1 %
Group administration	-14	-12	-13	-12	-12	-9	-8	-7	-7
Net financing expenses	-10	-12	-11	-15	-16	-28	-15	-12	-11
PTP	-59	-35	12	7	-1	-9	7	14	17
Taxes	7	-3	-8	-8	-4	-7	-4	-4	-3
Profit/loss for the period	***-51***	***-38***	***5***	***-1***	***-5***	***-16***	***3***	***10***	***13***
Minority interest	-2	-2	-4	-3	-4	-4	-4	-4	-4
Interest on hybrid loans	-1	-2	-2	-2	-2	-2	-4	-4	-3
Shareholders' share of net profit	***-54***	***-42***	***-1***	***-7***	***-11***	***-22***	***-5***	***3***	***7***
Total dividends paid for the year	0	0	3	4	0	0	0	0	3
Investments	41	43	91	121	46	27	32	33	33
Net debt	289	276	300	315	347	278	147	130	148
Net debt/EBITDA		4.8x	3.8x	4.0x	5.8x	3.2x	2.9x	2.2x	2.5x

Group-level figures for 2018-2023 include operations that have subsequently been classified as discontinued.

Valuation (1/3)

Investment profile

Potential for a defensive dividend company

HKFoods has potential to become a defensive dividend company in the long-term, albeit with a moderate return on capital. The consumption of red meat will decline slowl yand the consumption of poultry and further processed foods will increase, but in the long term, the market does not offer significant growth. Moderate growth can still be achieved, e.g., by investing in certain growth segments, like poultry and ready meals. The meat and food industries in general are fiercely competed and capital-intensive industries where it is difficult to achieve a sustainable ROCE above the required return.

More evidence is needed on the profitability turnaround

Despite recent positive performance and ongoing efficiency measures, there is still some uncertainty about the sustainability of the earnings turnaround. The market's confidence in the earnings turnaround requires evidence over a longer period of time. In history, HKFoods' profitability has been very low and varied between the years due, e.g., to changes in the cost environment and production challenges. HKFoods' industrial competitiveness has been weakish in history, which could change by concentrating investments and business focus on Finland, which is about to materialize in 2023-24.

Balance sheet position increases investments' risk level

The amount of debt in the balance sheet has been reduced by divestments, both in absolute terms and relative to EBITDA, but there are still uncertainties in the financial position. The ratio of net debt to EBITDA at the end of 2024 is still highish in our forecasts at 2.9x. We do not expect the company to be able to redeem the hybrid loan in 2024-25 without equity-linked financing solutions, which could mean that an expensive hybrid loan will continue to weigh on cash flow in the next few years. The refinancing of the 90 MEUR bond maturing in March 2025 may also prove challenging and costly in a negative scenario, which increases the stock's risk level.

Valuation

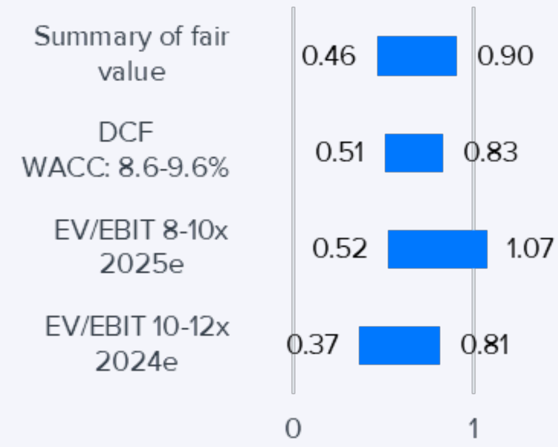
Summary

As a summary of three different valuation methods, we determine the fair value of HKFoods's share to be EUR 0.46-0.90 per share. The estimate is based on the DCF calculation and the application of current valuation multiples to our forecasts for 2024-25. The relatively wide scale of the fair value range can be explained mainly by the company's high debt burden (net debt and hybrid bond represent 75% of the estimated EV at the end of 2024) and partly also by uncertainty related to the earnings turnaround and financial position (high 9.1% WACC for the industry in the DCF calculation).

Earnings-based valuation multiples have decreased to reasonable levels

HKFoods' earnings-based valuation multiples have been very high in recent years due to a high debt burden and weak profitability. Especially, the divestments in the Baltic States and Denmark freed up hidden value in the balance sheet, as compared to the weak performance levels of the businesses in those countries, the deal prices seemed favorable to HKFoods. The improvement of earnings in the Finnish businesses has also reduced earnings-based valuation multiples. EV/EBIT is now 11.5x with 2024 forecasts and 8.7x with 2025 forecasts.

Summary of valuation methods



Factors supporting the valuation of HKFoods:

- Positive development in profitability
- Potential to become a stable dividend company

Factors negatively affecting KHFoods' valuation:

- Low return on capital in a competitive market
- Historical profitability challenges
- High debt

Source: Inderes

Valuation (2/3)

However, we do not find these valuation levels particularly advantageous, as other Finnish food companies with moderate growth profiles are also valued at EV/EBIT factors of roughly 10-11x for 2024. We argue that HKFoods' fair valuation multiples are a tad below the other domestic peers for the time being, considering the uncertainty associated with the company's earnings turnaround, the weak ROCE profile and the risk level associated with the financial position. Long-term evidence of a permanent improvement in the performance level and a strengthening of the balance sheet are possible drivers that could raise the company's fair value profile to the level of the peer companies.

Of the other earnings-based valuation multiples, HKFoods' P/E ratio is very high, as financial costs weigh significantly on the result. This could be eased if the expensive hybrid loan of 26 MEUR with a 16% interest rate is redeemed in the coming years (we forecast the redemption will take place in 2026). 2024-25e EV/EBITDA ratios 4.6x and 3.6x are below the level of domestic peers. However, we do not consider the EV/EBITDA ratio to be the best possible tool, as it does not consider the efficiency of companies' capital use. In our view, KHFoods' high depreciation mass and investment level relative to EBITDA and high financing costs justifiably push the EV/EBITDA ratios down.

Peer group

We have selected both Finnish food companies and international meat and food companies as our peer group. However, we have excluded two very large US meat companies from the peer group, Tyson Foods and Hormel Foods, whose long-term return on capital figures have been clearly stronger than HKFoods' and also Atria's figures. Regardless of the delimitation, we do feel that the valuation multiples of the peer group should not be directly applied to HKFoods. We feel a fair valuation level that is slightly lower than for the peer group is justifiable for HKFoods, e.g., with the centralized ownership structure, the risks related to the financial position and the historically modest ROCE.

Balance sheet valuation is low due to historically weak return on capital

HKFoods' balance sheet-based valuation level is still low in absolute terms (2024e: 0.4x) and also the lowest in the peer group (Atria: 0.7x). However, we believe there is a strong argument for a low balance sheet-based valuation through historically weak ROCE (2010-23 ROCE on average: 1.6%). ROE has also suffered, in addition to weak operational results, from, e.g., high financing costs. There could be upside in the balance sheet-based valuation if, as we expect, HKFoods could raise ROCE to ~7% in 2025-26 and, with the redemption of the hybrid, the ROE would also rise to 6.8% in 2027. HKFoods' balance sheet does not contain any significant intangible rights that limits the risk of equity write-downs. However, so far, high financing costs push the result into red in our 2024 forecasts (net income to shareholders -5 MEUR), which slightly depresses the short-term development of equity.

Valuation	2024e	2025e	2026e
Share price	0.70	0.70	0.70
Number of shares, millions	89.9	89.9	89.9
Market cap	63	63	63
EV	231	214	207
P/E (adj.)	neg.	21.7	9.5
P/E	neg.	21.7	9.5
P/B	0.4	0.4	0.4
P/S	0.1	0.1	0.1
EV/Sales	0.2	0.2	0.2
EV/EBITDA	4.6	3.6	3.5
EV/EBIT (adj.)	11.5	8.7	8.1
Payout ratio (%)	0.0 %	0.0 %	38.2 %
Dividend yield-%	0.0 %	0.0 %	4.0 %

Source: Inderes

Valuation (3/3)

Dividend income will remain at zero or low in the coming years

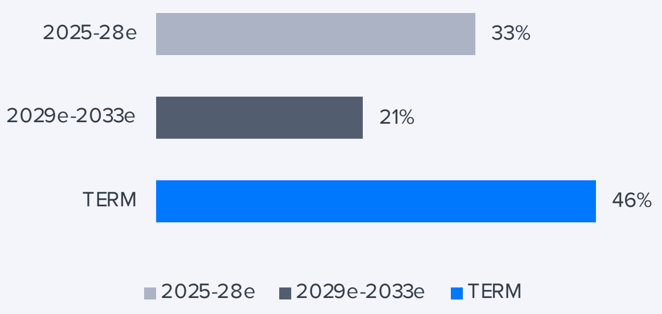
We consider dividend yield to be a significant driver for the valuation of HKFoods' investment profile. For the time being, the debt on the balance sheet does not allow dividend payments. We believe that it would be sensible to redeem the expensive hybrid loan before dividend is paid again, so that the company's long-standing financing challenges are put under control and financing costs pushed lower. Therefore, we estimate that the company will pay dividends not until the financial year of 2026 (paid in spring 2027). Of the equities that interest the same investors, we forecast that Atria's dividend yield for 2024 will be 6.7%. Reaching that level over medium term would require a significant improvement in HKFoods' earnings level.

Valuation with the DCF method

According to our valuation model based on our cash flow forecasts, HKFoods' equity value is 59 MEUR, or EUR 0.65 per share. The model assumes that the operating result will improve to 2.4% in 2025-31 and decrease from 2032 to 1.8%, which also clearly exceeds the average of HKFoods' Finnish businesses in the last five years (2019-23: adj. EBIT 0.9% excluding Group expenses). Our long-term revenue growth forecast is 2% per year

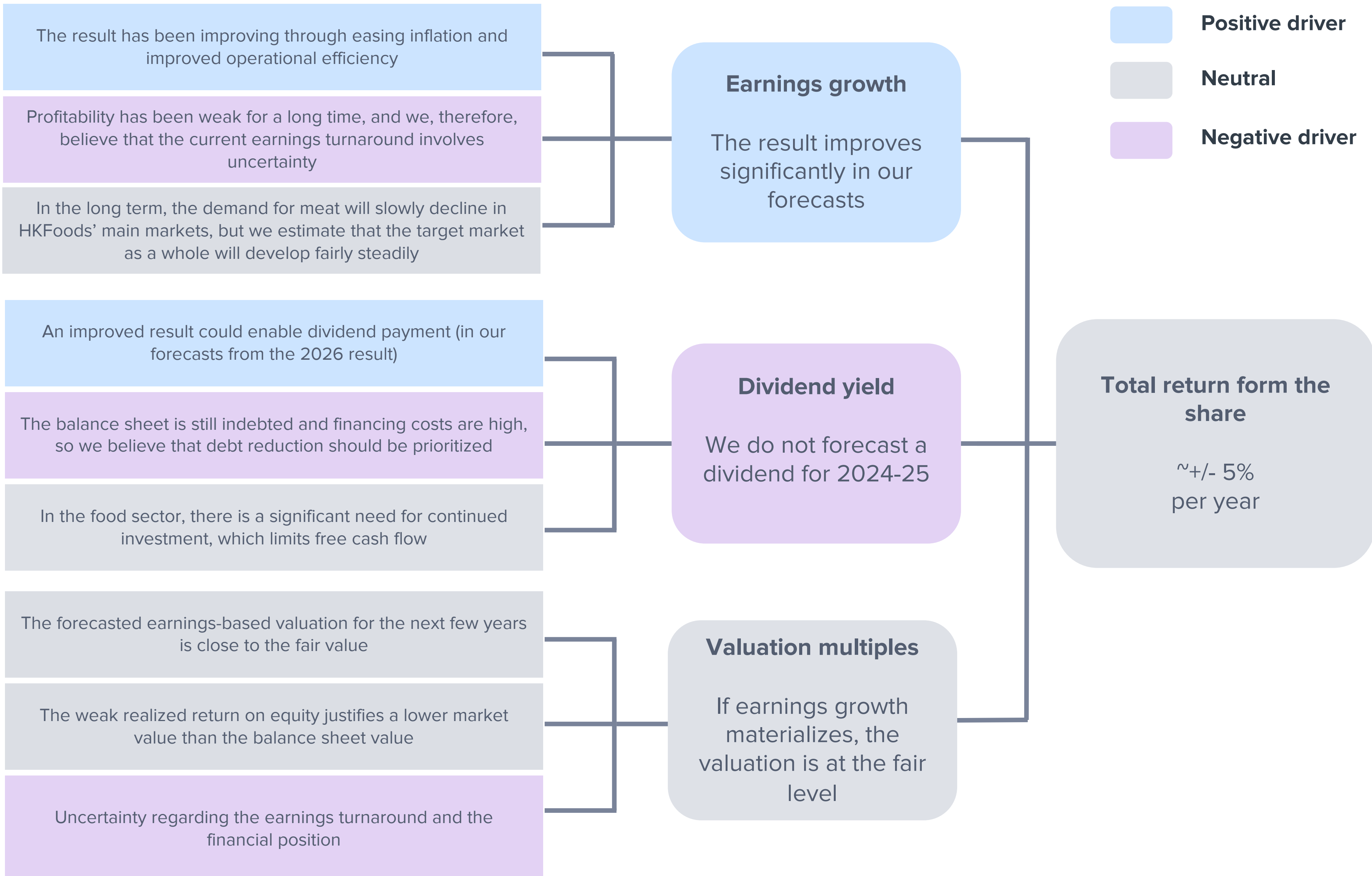
We have used a 9.9% cost of equity (CoE) and a 9.1% weighted average cost of capital (WACC) in the calculation. We consider the risk level of HKFoods' business to be higher than that of the industry due to the historically weak profitability and the challenging financial position so far, so applying a cost of capital above the industry average is justified in our view. We have used WACC levels of 7.6-8.0% in the valuation of other Finnish food companies operating in established business.

DCF: Cash flow distribution by period



The share of cash flow in 2025-28e will increase by deal price payments from the divestment of the Baltic businesses.

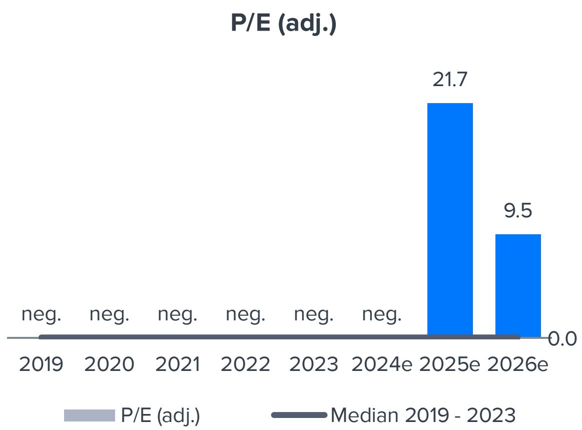
Shareholder return drivers

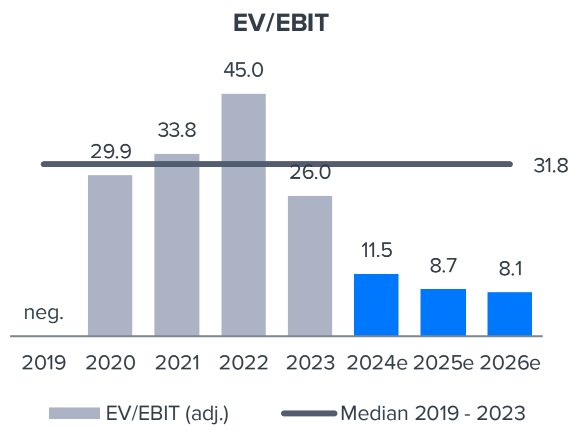


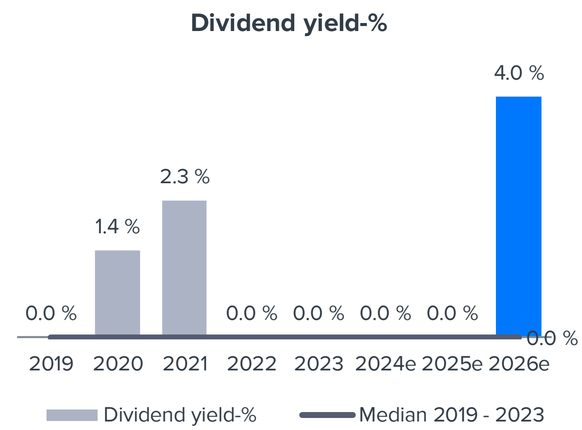
Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price	2.76	1.96	1.66	0.87	0.89	**0.70**	**0.70**	**0.70**	**0.70**
Number of shares, millions	99.0	97.0	97.1	97.3	97.4	**89.9**	**89.9**	**89.9**	**89.9**
Market cap	273	190	161	85	87	**63**	**63**	**63**	**63**
EV	529	508	490	441	387	**231**	**214**	**207**	**197**
P/E (adj.)	neg.	neg.	neg.	neg.	neg.	**neg.**	**21.7**	**9.5**	**5.4**
P/E	neg.	neg.	neg.	neg.	neg.	**neg.**	**21.7**	**9.5**	**5.4**
P/B	0.8	0.7	0.6	0.4	0.5	**0.4**	**0.4**	**0.4**	**0.4**
P/S	0.2	0.1	0.1	0.0	0.1	**0.1**	**0.1**	**0.1**	**0.1**
EV/Sales	0.3	0.3	0.3	0.2	0.3	**0.2**	**0.2**	**0.2**	**0.2**
EV/EBITDA	9.3	6.5	6.3	7.9	7.3	**4.6**	**3.6**	**3.5**	**3.3**
EV/EBIT (adj.)	neg.	29.9	33.8	45.0	26.0	**11.5**	**8.7**	**8.1**	**7.5**
Payout ratio (%)	0.0 %	neg.	neg.	0.0 %	0.0 %	**0.0 %**	**0.0 %**	**38.2 %**	**28.7 %**
Dividend yield-%	0.0 %	1.4 %	2.3 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**	**4.0 %**	**5.3 %**

Source: Inderes







Peer group valuation

Peer group valuation	Market cap	EV	EV/EBIT		EV/EBITDA		EV/S		P/E		Dividend yield-%		P/B
Company	**MEUR**	**MEUR**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**	**2025e**	**2024e**
Atria	274	599	11.8	10.1	5.3	4.8	0.3	0.3	10.4	8.0	6.6	7.1	0.7
Apetit	88	82	10.2	11.7	5.9	5.9	0.5	0.5	12.3	13.5	5.4	5.4	0.8
Raisio	312	247	10.7	9.3	7.5	6.6	1.1	1.0	16.5	15.0	6.9	7.1	1.2
Hilton Foods	941	1379	11.5	11.1	7.2	7.0	0.3	0.3	15.2	14.2	3.9	4.1	2.4
Scandi Standard	446	596	13.2	12.2	7.3	7.0	0.5	0.5	16.3	14.5	3.6	4.1	1.9
Cranswick	2817	2937	14.0	13.1	9.8	9.2	1.0	0.9	19.0	17.8	2.0	2.1	2.6
Societe LDC	2778	2397	6.5	6.7	3.9	4.0	0.4	0.4	9.8	9.9	1.9	1.9	1.3
Bell Foods	1826	2645	15.2	15.0	7.4	7.1	0.6	0.6	12.6	12.8	2.5	2.5	1.1
Orior	412	530	15.6	14.5	8.5	8.0	0.8	0.8	16.2	14.9	4.1	4.2	4.3
Prima Meat Packers	700	804			5.7	5.3	0.3	0.3	15.0	14.0	2.8	2.8	1.0
NH Foods	2907	3821			8.0	7.4	0.5	0.5	16.7	14.8	2.3	2.7	1.0
HKFoods (Inderes)	**63**	**231**	**11.5**	**8.7**	**4.6**	**3.6**	**0.2**	**0.2**	**-13.3**	**21.7**	**0.0**	**0.0**	**0.3**
Average			**12.1**	**11.5**	**6.9**	**6.6**	**0.6**	**0.5**	**14.5**	**13.6**	**3.8**	**4.0**	**1.7**
Median			**11.8**	**11.7**	**7.3**	**7.0**	**0.5**	**0.5**	**15.2**	**14.2**	**3.6**	**4.1**	**1.2**
Diff-% to median			***-3%***	***-26%***	***-38%***	***-48%***	***-54%***	***-58%***	***-188%***	***52%***	***-100%***	***-100%***	***-71%***

Source: Refinitiv / Inderes

Income statement

Income statement	2021	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	**1815**	**1834**	**279**	**293**	**289**	**302**	**1163**	**229**	**252**	**251**	**268**	**1000**	**1051**	**1072**	**1093**
Finland	772	868	218	234	231	250	933	229	252	251	268	1000	1051	1072	1093
Denmark	173	220	61.4	59.1	57.5	52.2	230	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**78.1**	**56.0**	**9.3**	**14.1**	**17.2**	**12.2**	**52.8**	**8.9**	**13.4**	**15.9**	**12.3**	**50.5**	**58.7**	**58.7**	**59.9**
Depreciation	-60.2	-45.8	-8.4	-8.7	-9.0	-9.2	-35.3	-7.7	-7.7	-7.7	-7.6	-30.7	-34.0	-33.0	-33.7
EBIT (excl. NRI)	**14.5**	**9.8**	**-0.8**	**5.2**	**7.7**	**2.8**	**14.9**	**1.4**	**5.7**	**8.2**	**4.7**	**20.0**	**24.7**	**25.7**	**26.2**
EBIT	**17.9**	**10.2**	**0.9**	**5.4**	**8.2**	**3.0**	**17.5**	**1.2**	**5.7**	**8.2**	**4.7**	**19.8**	**24.7**	**25.7**	**26.2**
Finland	12.1	5.6	0.5	6.2	7.6	6.3	20.6	3.4	7.6	9.8	7.1	27.9	31.7	32.7	33.4
Denmark	0.0	1.4	1.2	1.1	1.1	-0.1	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Group administration	5.8	3.2	-0.8	-1.9	-0.5	-3.2	-6.4	-2.2	-1.9	-1.6	-2.4	-8.1	-7.0	-7.0	-7.1
Share of profits in assoc. compan.	3.4	5.4	1.0	0.3	0.3	-0.2	1.3	0.1	0.3	0.6	0.4	1.4	1.4	1.5	1.5
Net financial items	-14.7	-16.3	-6.7	-7.0	-7.1	-6.9	-27.7	-4.9	-3.5	-3.2	-2.9	-14.5	-12.0	-11.0	-9.0
PTP	**6.6**	**-0.7**	**-4.8**	**-1.3**	**1.4**	**-4.1**	**-8.9**	**-3.7**	**2.5**	**5.6**	**2.3**	**6.7**	**14.1**	**16.2**	**18.7**
Taxes	-7.8	-4.0	0.0	-2.0	-1.3	-3.3	-6.6	-0.1	-0.6	-1.6	-1.7	-4.0	-3.5	-2.9	-3.4
Minority interest	-3.2	-3.7	-0.4	-1.1	-0.9	-1.6	-4.0	-0.1	-0.8	-0.5	-2.1	-3.5	-3.5	-3.5	-3.5
Net profit	**-4.4**	**-8.4**	**-5.2**	**-4.4**	**-0.8**	**-9.0**	**-19.5**	**-3.9**	**1.1**	**3.5**	**-1.5**	**-0.8**	**7.1**	**9.7**	**11.8**
Interest on hybrid loan	-2.1	-2.1	-0.5	-0.5	-0.5	-0.5	-2.1	-1.0	-1.0	-1.0	-1.0	-4.2	-4.2	-3.1	0.0
EPS (adj.)	**-0.10**	**-0.11**	**-0.08**	**-0.05**	**-0.02**	**-0.10**	**-0.25**	**-0.05**	**0.00**	**0.03**	**-0.03**	**-0.05**	**0.03**	**0.07**	**0.13**
EPS (rep.)	**-0.07**	**-0.11**	**-0.06**	**-0.05**	**-0.01**	**-0.10**	**-0.22**	**-0.05**	**0.00**	**0.03**	**-0.03**	**-0.06**	**0.03**	**0.07**	**0.13**

Key figures	2021	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	1.9 %	1.0 %	0.0 %	0.0 %	0.0 %	-83.5 %	-36.6 %	-18.1 %	-14.1 %	-12.9 %	-11.1 %	-14.0 %	5.0 %	2.0 %	2.0 %
Adjusted EBIT growth-%		-32.4 %				-71.4 %	52.0 %	-275.0 %	9.0 %	6.8 %	68.5 %	34.3 %	23.4 %	4.2 %	2.0 %
EBITDA-%	4.3 %	3.1 %	3.3 %	4.8 %	6.0 %	4.0 %	4.5 %	3.9 %	5.3 %	6.3 %	4.6 %	5.0 %	5.6 %	5.5 %	5.5 %
Adjusted EBIT-%	0.8 %	0.5 %	-0.3 %	1.8 %	2.7 %	0.9 %	1.3 %	0.6 %	2.3 %	3.3 %	1.8 %	2.0 %	2.4 %	2.4 %	2.4 %
Net earnings-%	-0.4 %	-0.6 %	-2.1 %	-1.7 %	-0.5 %	-3.2 %	-1.9 %	-2.2 %	0.0 %	1.0 %	-0.9 %	-0.5 %	0.3 %	0.6 %	1.1 %

Source: Inderes

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**679**	**651**	**371**	**358**	**356**
Goodwill	46.8	27.8	27.8	27.8	27.8
Intangible assets	67.0	16.2	15.9	15.3	16.3
Tangible assets	379	285	257	258	258
Associated companies	41.1	24.3	24.0	24.0	24.0
Other investments	102	246	0.0	0.0	0.0
Other non-current assets	12.2	26.2	21.2	7.7	4.2
Deferred tax assets	31.8	25.1	25.1	25.1	25.1
Current assets	**297**	**201**	**184**	**162**	**166**
Inventories	124	75.2	60.0	63.1	65.4
Other current assets	0.0	0.0	0.0	0.0	0.0
Receivables	156	97.3	74.0	77.8	79.3
Cash and equivalents	17.2	28.7	50.0	21.0	21.4
Balance sheet total	**976**	**852**	**555**	**519**	**522**

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**286**	**238**	**211**	**214**	**195**
Share capital	0.0	0.0	0.0	0.0	0.0
Retained earnings	0.0	0.0	-26.7	-23.7	-17.1
Hybrid bonds	25.9	25.9	25.9	25.9	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	235	185	185	185	185
Minorities	24.6	26.9	26.9	26.9	26.9
Non-current liabilities	**417**	**434**	**25.7**	**142**	**159**
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.0
Interest bearing debt	334	289	19.7	136	153
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	82.7	145	6.0	6.0	6.0
Current liabilities	**274**	**179**	**318**	**163**	**168**
Interest bearing debt	30.6	17.9	177	15.1	17.0
Payables	243	162	141	148	151
Other current liabilities	0.0	0.0	0.0	0.0	0.0
Balance sheet total	**976**	**852**	**555**	**519**	**522**

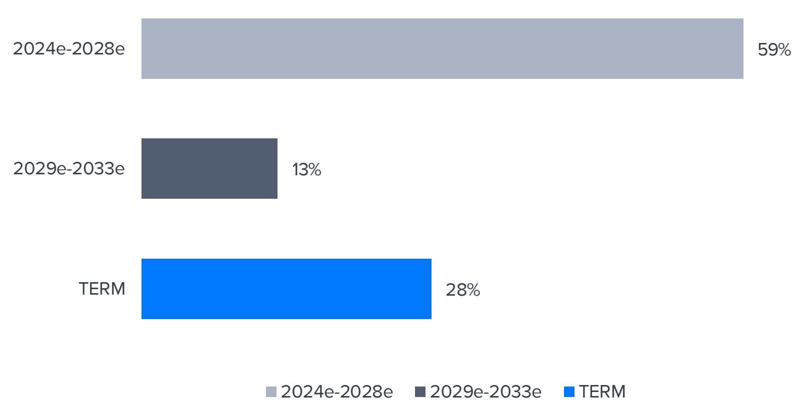
DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-36.6 %	-14.0 %	5.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
EBIT-%	1.5 %	2.0 %	2.4 %	2.4 %	2.4 %	2.4 %	2.4 %	2.4 %	2.4 %	1.8 %	1.8 %	1.8 %
EBIT (operating profit)	**17.5**	**19.8**	**24.7**	**25.7**	**26.2**	**26.8**	**27.3**	**27.8**	**28.4**	**21.7**	**22.2**	
+ Depreciation	35.3	30.7	34.0	33.0	33.7	34.1	34.4	34.8	35.2	35.6	35.7	
- Paid taxes	0.1	-4.0	-3.5	-2.9	-3.4	-3.8	-4.0	-4.1	-4.6	-3.3	-3.5	
- Tax, financial expenses	-5.5	-2.9	-3.3	-2.2	-1.8	-1.6	-1.5	-1.4	-1.1	-1.0	-1.0	
+ Tax, financial income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Change in working capital	25.1	18.0	0.4	-0.9	-1.0	-1.0	-1.0	-1.1	-1.1	0.0	0.0	
Operating cash flow	**72.5**	**61.6**	**52.3**	**52.7**	**53.7**	**54.5**	**55.2**	**56.0**	**56.8**	**53.0**	**53.5**	
+ Change in other long-term liabilities	62.6	-139.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-29.9	249	-20.7	-31.4	-31.8	-35.7	-36.1	-36.5	-36.9	-37.3	-37.3	
Free operating cash flow	**105**	**171**	**31.6**	**21.3**	**22.0**	**18.8**	**19.1**	**19.5**	**19.9**	**15.7**	**16.2**	
+/- Other	-6.9	-27.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	98.3	143	31.6	21.3	22.0	18.8	19.1	19.5	19.9	15.7	16.2	233
Discounted FCFF		**136**	**27.5**	**17.0**	**16.1**	**12.6**	**11.8**	**11.0**	**10.3**	**7.4**	**7.0**	**101**
Sum of FCFF present value		358	222	194	177	161	148	137	126	115	108	101
Enterprise value DCF		**358**										
- Interest bearing debt		-332.8										
+ Cash and cash equivalents		28.7										
-Minorities		-9.2										
-Dividend/capital return		0.0										
Equity value DCF		**59.0**										
Equity value DCF per share		**0.66**										

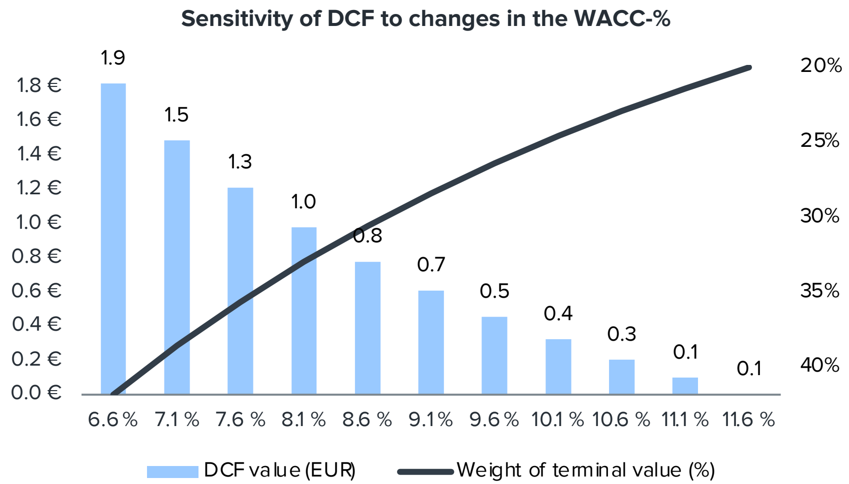
WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E))	15.0 %
Cost of debt	6.0 %
Equity Beta	1.55
Market risk premium	4.75%
Liquidity premium	0.00%
Risk free interest rate	2.5 %
Cost of equity	**9.9 %**
Weighted average cost of capital (WACC)	**9.1 %**

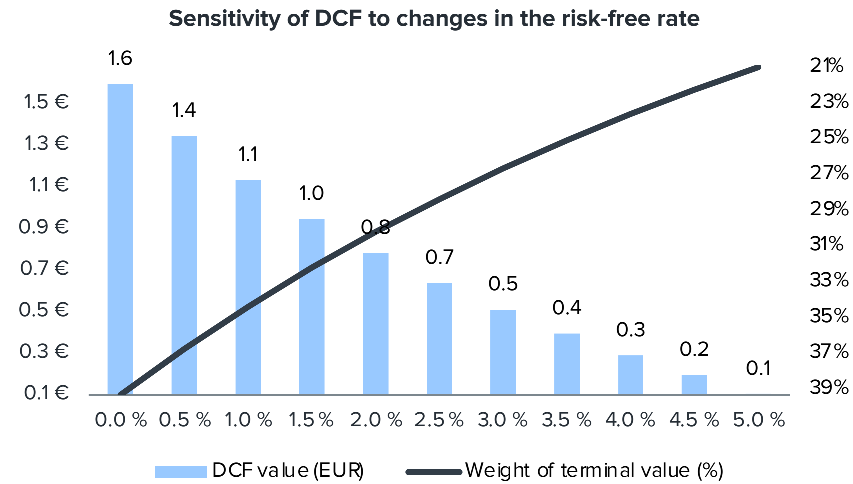
Source: Inderes

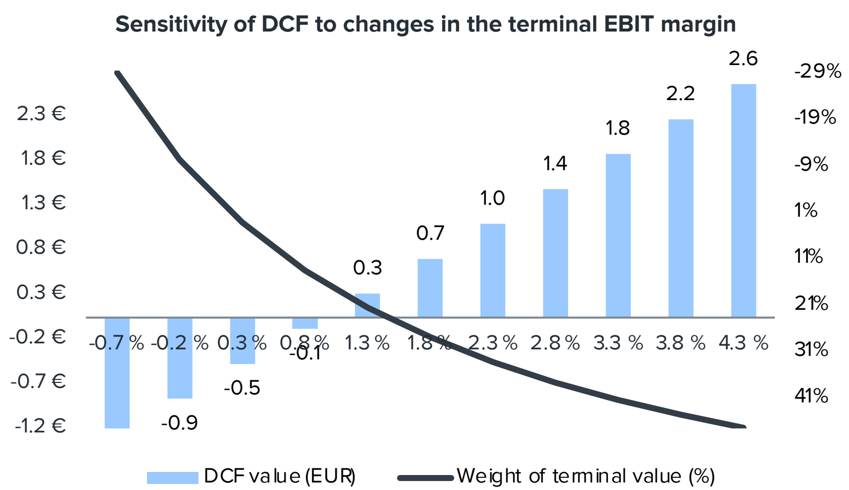
Cash flow distribution

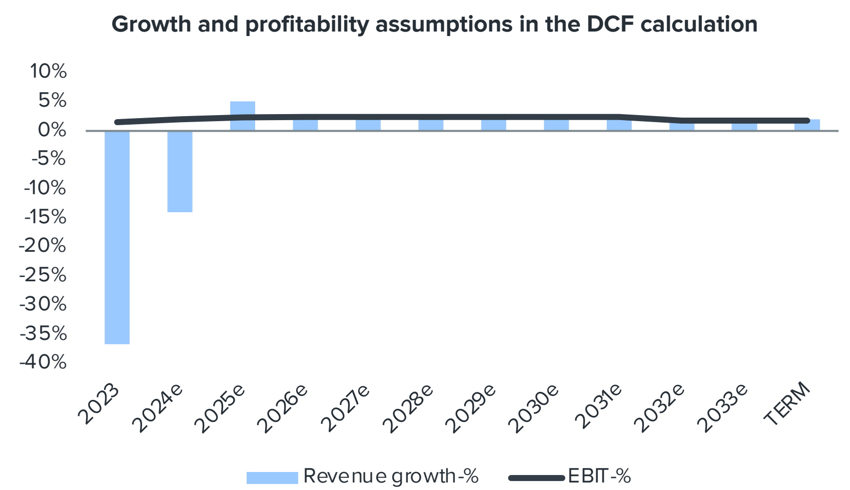


DCF sensitivity calculations and key assumptions in graphs









Source: Inderes. Note that the weight of the terminal value (%) is shown on an inverse scale for clarity.

Summary

Income statement	2021	2022	2023	2024e	2025e
Revenue	1815.4	1833.8	1163.2	**1000.5**	**1051.0**
EBITDA	78.1	56.0	52.8	**50.5**	**58.7**
EBIT	17.9	10.2	17.5	**19.8**	**24.7**
PTP	6.6	-0.7	-8.9	**6.7**	**14.1**
Net Income	-6.5	-71.6	-28.5	**-26.7**	**2.9**
Extraordinary items	3.4	0.4	2.6	**-0.2**	**0.0**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	985.6	976.0	851.7	**555.0**	**519.4**
Equity capital	330.3	285.5	238.0	**211.3**	**214.3**
Goodwill	71.3	46.8	27.8	**27.8**	**27.8**
Net debt	314.7	347.3	278.2	**146.5**	**129.9**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	78.1	56.0	52.8	**50.5**	**58.7**
Change in working capital	-12.4	-13.5	25.1	**18.0**	**0.4**
Operating cash flow	59.5	39.7	72.5	**61.6**	**52.3**
CAPEX	-58.5	-41.1	-29.9	**248.6**	**-20.7**
Free cash flow	-4.5	-43.3	98.3	**143.2**	**31.6**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	0.3	0.2	0.3	**0.2**	**0.2**
EV/EBITDA	6.3	7.9	7.3	**4.6**	**3.6**
EV/EBIT (adj.)	33.8	45.0	26.0	**11.5**	**8.7**
P/E (adj.)	neg.	neg.	neg.	**neg.**	**21.7**
P/B	0.5	0.3	0.4	**0.3**	**0.3**
Dividend-%	2.3 %	0.0 %	0.0 %	**0.0 %**	**0.0 %**

Source: Inderes

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	-0.07	-0.11	-0.22	**-0.06**	**0.03**
EPS (adj.)	-0.10	-0.11	-0.25	**-0.05**	**0.03**
OCF / share	0.61	0.41	0.74	**0.69**	**0.58**
FCF / share	-0.05	-0.45	1.01	**1.59**	**0.35**
Book value / share	3.17	2.68	2.17	**2.05**	**2.08**
Dividend / share	0.04	0.00	0.00	**0.00**	**0.00**

Growth and profitability	2021	2022	2023	2024e	2025e
Revenue growth-%	2%	1%	-37%	**-14%**	**5%**
EBITDA growth-%	0%	-28%	-6%	**-4%**	**16%**
EBIT (adj.) growth-%	-15%	-32%	52%	**34%**	**23%**
EPS (adj.) growth-%	87%	10%	122%	**-79%**	**-162%**
EBITDA-%	4.3 %	3.1 %	4.5 %	**5.0 %**	**5.6 %**
EBIT (adj.)-%	0.8 %	0.5 %	1.3 %	**2.0 %**	**2.4 %**
EBIT-%	1.0 %	0.6 %	1.5 %	**2.0 %**	**2.4 %**
ROE-%	-2.1 %	-3.7 %	-9.1 %	**-2.5 %**	**1.6 %**
ROI-%	3.2 %	2.4 %	3.2 %	**4.5 %**	**6.8 %**
Equity ratio	33.5 %	29.3 %	27.9 %	**38.1 %**	**41.3 %**
Gearing	95.3 %	121.6 %	116.9 %	**69.3 %**	**60.6 %**

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Date	Recommendation	Target	Share price
6/1/2024	Reduce	0.70 €	0.70 €

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Inderes Oyj
Itämerentori 2
FI-00180 Helsinki, Finland
+358 10 219 4690

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