Koskisen

Company report

5/15/2024

Antti Viljakainen
+358 44 591 2216
antti.viljakainen@inderes.fi

Inderes corporate customer

This report is a summary translation of the report “Kyttäämme vielä selkeämpää ostopaikkaa” published on 5/15/2024 at 8:47 am EEST

Still in search of a more stable opportunity to buy

We reiterate our Reduce recommendation for Koskisen and revise our target price to EUR 7.00 (was EUR 6.75). The Q1 report was broadly in line with our expectations and caused only marginal but positive changes to our forecasts for the near term. We think Koskisen's stock is still fairly correctly priced, especially on a 1-year horizon. We thus believe that the stock's expected return is still in line with the required return, so we continue to seek a more stable opportunity to buy.

Profitability only slightly below our forecasts in a quarter dominated by strikes

In Q1, Koskisen's 64 MEUR revenue generated an adjusted EBITDA of 5.5 MEUR. As expected, operating result was down sharply from the strong comparison period and was slightly below our forecast in a quarter affected by strike-related delivery delays. The Panel industry was still responsible for earnings driven by the good margins of birch plywood, although the unit's result dropped significantly from the comparison period. The Sawn Timber business also fell well short of the comparison figures and the result was slightly lower than forecast, as revenue remained low due to postponed deliveries caused by strikes. In connection with the result, Koskisen presented its updated growth strategy, in which the company envisaged investing in new wood-based products for the circular economy in addition to growing its current businesses. We commented on the result yesterday here.

Only minor estimate changes

Koskisen reiterated its guidance for 2024, according to which revenue will grow from last year and the adjusted EBITDA margin will be 8-12%. Last year, Koskisen generated an adjusted EBITDA of 12.2% with a 271 MEUR revenue. The reiteration of the broad guidance was in line with our expectations at this stage of the year. The market commentary was, in our view, cautiously positive for both businesses, although the still subdued global construction sector does not necessarily indicate a sudden upturn in the market. In addition, according to the company, the delivery backlogs caused by the strikes will be cleared in Q2. We have slightly raised our forecasts for both businesses in the report in relation to pricing and log costs. We have also slightly lowered our forecasts for Other units, mainly related to emission allowances. As a result of these changes, our adjusted EBITDA forecast for the current year was increased by 1% and the respective forecasts for the following years were increased by 0-3%. We now expect Koskisen to grow by 7% this year and to achieve an adjusted EBITDA margin of 10.3%, which is in line with the guidance and would mean a decline in operating result of around 10% for this year. In the coming years, we expect quite prominent earnings growth from Koskisen as the fall in interest rates will gradually revive demand in the construction sector and support margins in both units. Our forecasts are still well below Koskisen's target of over 15% EBITDA-% (2024e-2027e 10-12%) and reaching the growth target (500 MEUR revenue in 2027) would require acquisitions.

Valuation more or less at the right level in our view, and expected return reflects required return

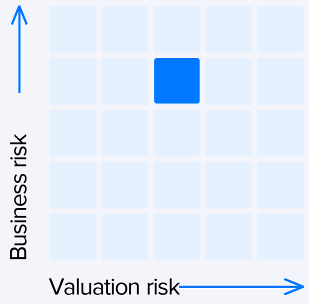
Koskisen's 2024 and 2025 EV/EBITDA ratios that consider the strong balance sheet are around 6x and 5x and the P/B ratio (Q1'24 LTM) is around 1.2x. We expect the dividend yield to be around 4% for the next few years. The multiples are close to the upper end of the ranges (EV/EBITDA 3.5x-6.5x and P/B 0.7x-1.3x) we accept given the company's estimated return on capital and risk profile. The DCF value is also around the current price level, although we lowered our high required return a little bit earlier. In our view, Koskisen's expected return for the year is still in line with the required return. We therefore maintain our cautious stance on the stock, although there could be leverage in the longer term if the recovery in European construction were to surprise positively in the coming years.

Recommendation

Reduce
(previous Reduce)

EUR 7.00
(previous EUR 6.75)

Share price:
EUR 7.60



Key figures

	2023	2024e	2025e	2026e
Revenue	271.2	290.9	338.5	357.3
growth-%	-15%	7%	16%	6%
EBIT adj.	24.4	18.7	22.3	26.9
EBIT-% adj.	9.0 %	6.4 %	6.6 %	7.5 %
Net Income	20.2	13.6	16.8	20.4
EPS (adj.)	0.88	0.59	0.73	0.89

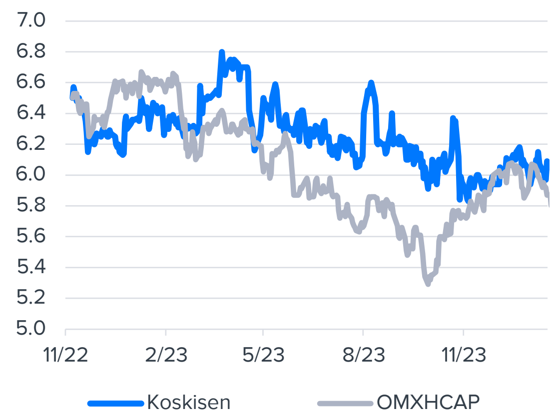
P/E (adj.)	6.8	12.9	10.4	8.6
P/B	0.9	1.1	1.1	1.0
Dividend yield-%	5.0 %	4.2 %	4.2 %	4.2 %
EV/EBIT (adj.)	6.0	10.3	8.5	6.6
EV/EBITDA	4.4	6.4	5.4	4.4
EV/S	0.5	0.7	0.6	0.5

Source: Inderes

Guidance (Unchanged)

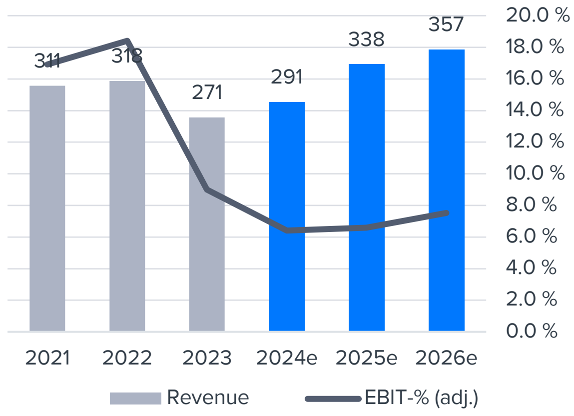
Koskisen Group's revenue for 2024 is expected to grow from the 2023 level. The adjusted EBITDA margin is expected to be 8-12%.

Share price



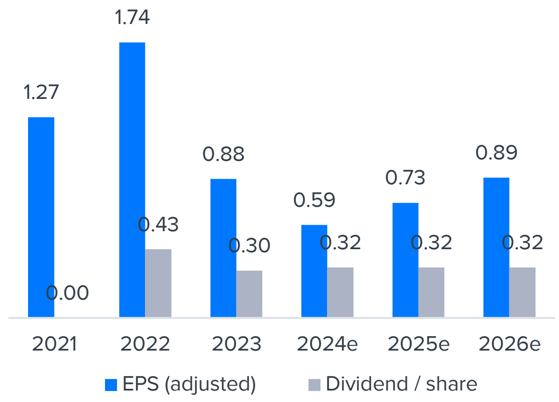
Source: Millistream Market Data AB

Revenue and EBIT-%



Source: Inderes

EPS and dividend



Source: Inderes

Value drivers

- Healthy long-term demand trends
- Increasing exports and finding customers who appreciate customization
- Potential for improvement in the level of profitability
- Business generates value (ROIC>WACC) in a favorable cycle
- War-related supply disruptions help the Panel Industry for the foreseeable future

Risk factors

- Cyclical demand
- Tight competition situation in the sawmill industry.
- Removal of the supply disruptions in the Panel Industry
- Tight timber market in Finland

Valuation	2024e	2025e	2026e
Share price	7.60	7.60	7.60
Number of shares, millions	23.0	23.0	23.0
Market cap	175	175	175
EV	192	190	178
P/E (adj.)	12.9	10.4	8.6
P/E	12.9	10.4	8.6
P/B	1.1	1.1	1.0
P/S	0.6	0.5	0.5
EV/Sales	0.7	0.6	0.5
EV/EBITDA	6.4	5.4	4.4
EV/EBIT (adj.)	10.3	8.5	6.6
Payout ratio (%)	54.3 %	43.9 %	36.1 %
Dividend yield-%	4.2 %	4.2 %	4.2 %

Source: Inderes

Profitability was tolerable in a disrupted quarter

Revenue remained below estimates

Koskisen's revenue decreased 13% in Q1 to 64 MEUR which was quite clearly below our estimate. The earnings miss came mainly from the Sawn Timber Industry, where the port closures due to political strikes in Finland shifted revenue into Q2 even more than we expected. In addition, direct strikes in February and the delayed ramp-up of the new saw line in Järvelä probably weighed on volumes in Q1 (at the end of the quarter, production levels in Järvelä were close to targets). On the other hand, according to our preliminary assessment, the average price in the Sawn Timber Industry seems to have developed slightly better than expected. A more detailed assessment is complicated by the fact that the external reporting does not distinguish between the unit's revenue from non-sawmill products, which probably accounted for a larger share than normal in the strike quarter. The Panel Industry's revenue was close to our forecast, due to slightly higher volumes and a lower average price than we had estimated (possibly related to the chipboard business). In the Panel Industry, the indirect impact of the strikes on deliveries was less pronounced.

Profitability nevertheless in line with expectations

Koskisen's adjusted EBITDA was 5.5 MEUR in Q1. Operating result more than halved from the strong comparison level and was slightly below our forecast. Profitability declined quite as expected in both units. The Sawn Timber Industry underperformed our forecasts in terms of revenue and profitability remained at a sluggish level. The Panel Industry performed slightly better than we expected, but lower volumes and higher birch log prices prevented it from reaching the high comparison figures. In addition, revenue from the sale of emission allowances in Other Activities was significantly lower than in the comparison period and also below our forecast, so that the operating result was qualitatively slightly better than we had estimated.

Depreciation was lower than expected, probably related to the final approvals for the Järvelä sawmill investment in Q1. This turned the slight earnings miss on the operating result into a moderate earnings beat on the bottom line, as there were no surprises on financial costs and taxes. In terms of cash flow, the report was weak as expected, with a clearly negative cash flow in Q1, as the supply disruptions caused by the political strikes tied up capital in inventories. However, we expect the committed working capital to be released in Q2.

Balance sheet still strong

Koskisen's net gearing at the end of Q1 was 5% (Q1'23: net gearing -8 %). A strong balance sheet gives the company a buffer against cyclical risks and creates leeway for implementing the updated growth strategy. We expect that the implementation of the strategy will lead to further major investments in the future, and in addition Koskisen still has an ongoing investment of 15 MEUR in the log yard in Järvelä.

Estimates	Q1'23	Q1'24	Q1'24e	Q1'24e	Consensus		Difference (%)	2024e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	73.2	63.7	68.2				-7%	291
EBITDA (adj.)	12.6	5.5	5.9				-7%	30.1
EBIT	10.7	3.1	2.9				6%	18.7
PTP	10.3	2.8	2.6				6%	16.9
EPS (reported)	8.78	0.10	0.09				11%	0.59
Revenue growth-%	0.0 %	-13.0 %	-6.9 %				-6.1 pp	2.0 %
EBITDA-% (adj.)	17.2 %	8.6 %	8.7 %				-0.1 pp	10.3 %

Source: Inderes

Changes in earnings forecasts remained rather minor

Guidance remained unchanged as expected

Koskisen reiterated its guidance for 2024, according to which revenue will grow from last year and the adjusted EBITDA margin will be 8-12%. Last year, Koskisen generated an adjusted EBITDA of 12.2% with a 271 MEUR revenue. The reiteration of the broad guidance was exactly what we expected at this stage of the year. The market commentary was, in our view, cautiously positive for both businesses, although the still subdued global construction sector does not necessarily indicate a sudden upturn in the market, at least in the Sawn Timber Industry. In the birch plywood market, the situation is more unpredictable due to the war-related supply disruptions. In addition, the delivery backlogs caused by the strikes will be cleared in Q2 according to the company.

We made modest positive forecast changes

Following the report, we have slightly raised our forecasts for both businesses in relation to pricing and log costs. As a result of the changes, the Panel Industry forecasts increased slightly, while those for the Sawn Timber Industry remained unchanged. In Other activities, our forecasts were slightly down, as this year the revenue from the sale of emission allowances will be lower than last year and also below our expectations, due to the fall in the volume and price of allowances. As a net impact of these changes, our adjusted EBITDA forecast for the current year was increased by 1% and the respective forecasts for the following years were increased by 1-3%.

We now expect Koskisen to grow by 7% this year and to achieve an adjusted EBITDA margin of 10.3%, which is in line with the guidance and would mean a decline in operating result of around 10% for this year. In the coming years, we expect prominent earnings growth from Koskisen as the fall in interest rates will gradually revive demand in the construction sector and support margins in both units. Our forecasts are still below target (2024e-2027e EBITDA-% 10-12%) and achieving the growth target will also require acquisitions.

Strategy remains focused on strong growth

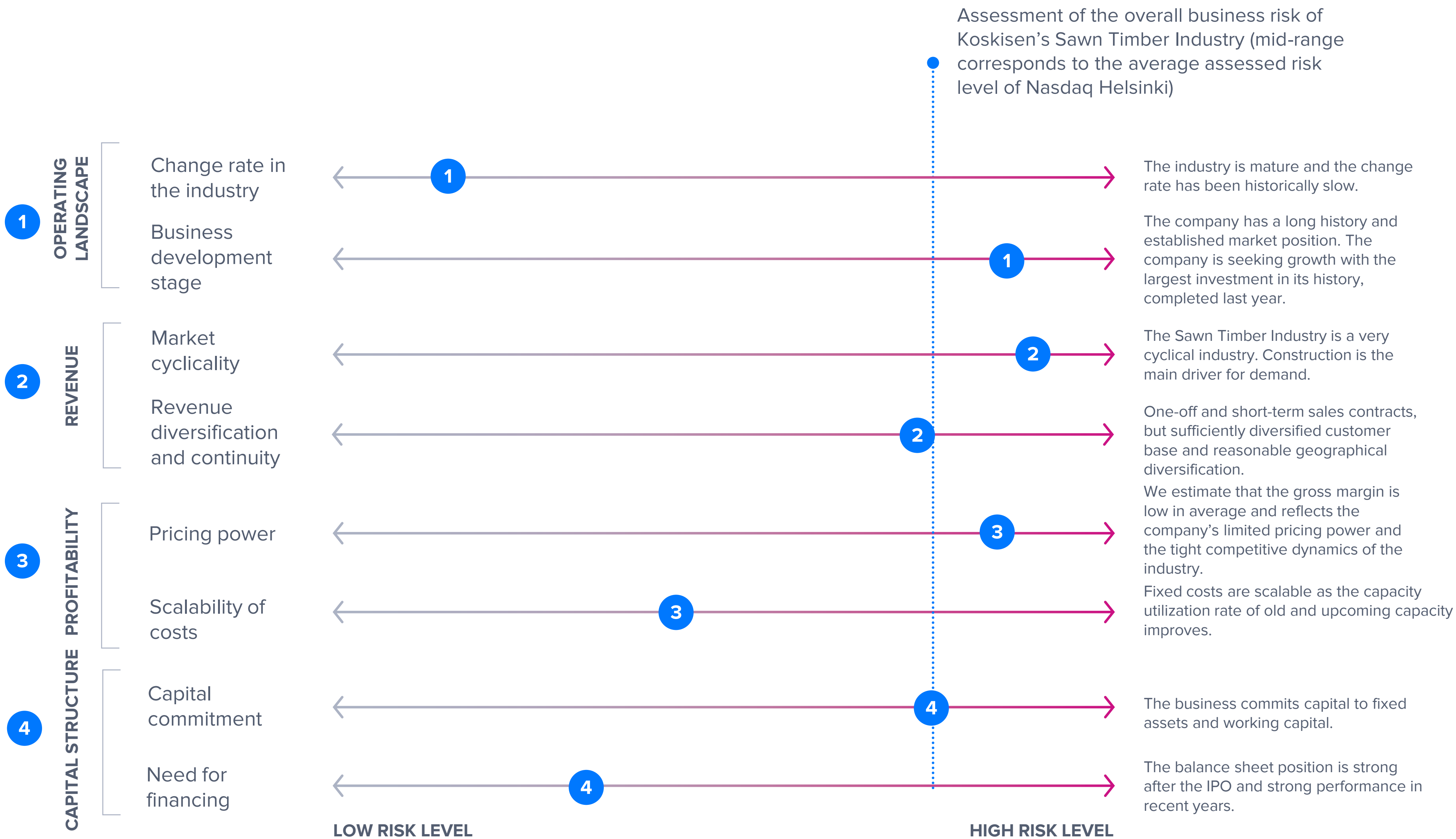
Koskisen updated its strategy in connection with the Q1 report. As expected, the company did not make any significant changes to the big picture as such and also the financial targets remained unchanged (including e.g. revenue of 500 MEUR in 2027 and an EBITDA-% of more than 15% over the cycle).

Koskisen will continue to seek growth well ahead of the market through current products, old and new customers, and major investments. Achieving the 2027 growth target will require M&A arrangements most likely in the core of the group, the Sawn Timber Industry (including wood sourcing), which in turn would also enable profitable growth in the Panel Industry. In addition to M&A, major investments include the planning and consideration of a substantial investment in a new wood product based on the circular economy, although the company has not yet made any concrete commitments in this regard.

Estimate revisions MEUR / EUR	2024e Old	2024e New	Change %	2025e Old	2025e New	Change %	2026e Old	2026e New	Change %
Revenue	294	291	-1%	327	338	4%	341	357	5%
EBITDA	29.6	30.1	1%	35.0	35.1	0%	39.5	40.6	3%
EBIT (exc. NRIs)	17.6	18.7	6%	21.9	22.3	2%	26.1	26.9	3%
EBIT	17.6	18.7	6%	21.9	22.3	2%	26.1	26.9	3%
PTP	15.9	16.9	6%	20.5	21.0	2%	24.7	25.5	3%
EPS (excl. NRIs)	0.55	0.59	6%	0.71	0.73	2%	0.86	0.89	3%
DPS	0.32	0.32	0%	0.32	0.32	0%	0.32	0.32	0%

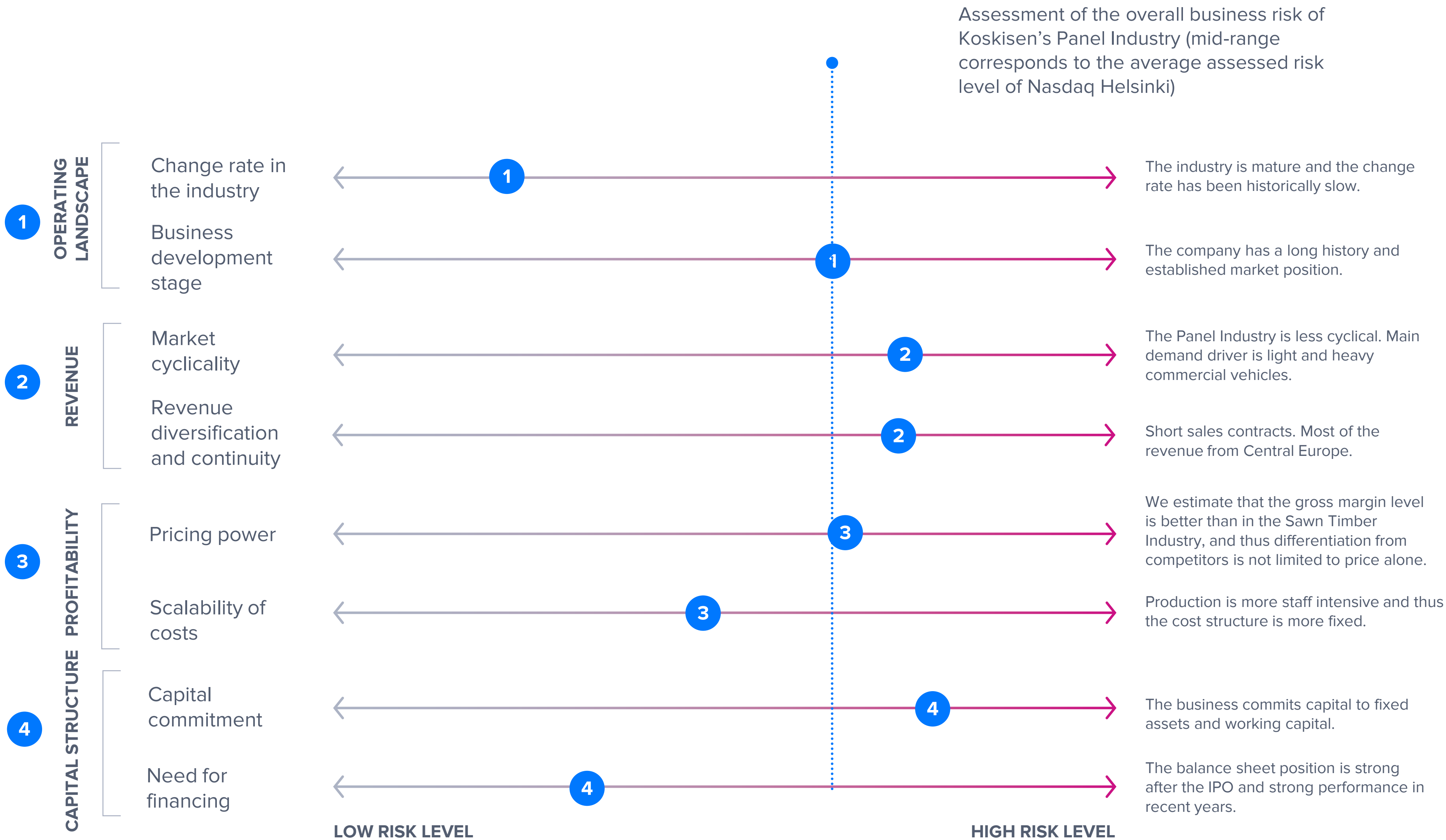
Source: Inderes

Risk profile of Koskisen' Sawn Timber Industry



Source: Inderes

Risk profile of the Koskisen's Panel Industry



Source: Inderes

We see no severe mispricing in the stock

Main focus on earnings multiples

We focus on earnings-based multiples in Koskisen's valuation. We feel acceptable EV/EBITDA ratios for Koskisen are roughly 3.5-6.5x, considering the growth and profitability levels of the business and the risk profile. The acceptable P/E based valuation range is 10x-14x in our opinion. On an annual basis, the multiples may occasionally stretch to a wide range, due to the strong cyclicality of the Sawn Timber Industry.

Valuation picture balanced

With our 2024 and 2025 estimates, Koskisen's P/E ratios are around 13x and 10x and corresponding EV/EBITDA ratios are around 6x and 5x. As a result, the stock is priced at the upper midpoints of the valuation ranges we accept, with multiples based on this year's lackluster earnings, and at the midpoint, with multiples based on next year's more normalized but even more uncertain earnings. As a result, we see the valuation as fairly neutral, and we also believe that the forecast risks are somewhat balanced in both directions.

The balance sheet-based P/B of 1.2x (Q1'24 LTM ACT.) is fairly neutral, as our forecasts for Koskisen's average ROCE and ROE narrowly exceed our estimate of the company's cost of capital, which we believe reflects a reasonable pricing of the stock. We have slightly lowered our high ROE requirements as signs of falling interest rates have increased and the darkest phase of the construction cycle may already be behind us. We continue to believe that the balance sheet value of equity provides certain support for the share, even though balance sheet valuations below the balance sheet value of equity are no exception in the industry. However, a more pronounced increase in the balance sheet valuation would require clearer visibility on the achievement of value creation (i.e. ROCE-% > WACC-%).

Considering this overall picture, we estimate that the expected return, consisting of a slight increase in earnings and a dividend yield of little above 4%, is in line with the required return for the 12 months. The expected return would turn positive if the company outperformed our forecast this year and ended up closer to the upper end of the profitability guidance range. The expected return would turn more clearly positive if Koskisen could raise its profitability to its target of over 15% adj. EBITDA-% (cf. our estimates of adj. EBITDA-%: 10-12%). At best, this will only be possible at the start of a better cycle, i.e. beyond our 12-month target price horizon. Overall, we believe that the valuation picture is fairly neutral, as downside risks cannot be ruled out given the still difficult situation in the construction sector.

DCF value at around the share price

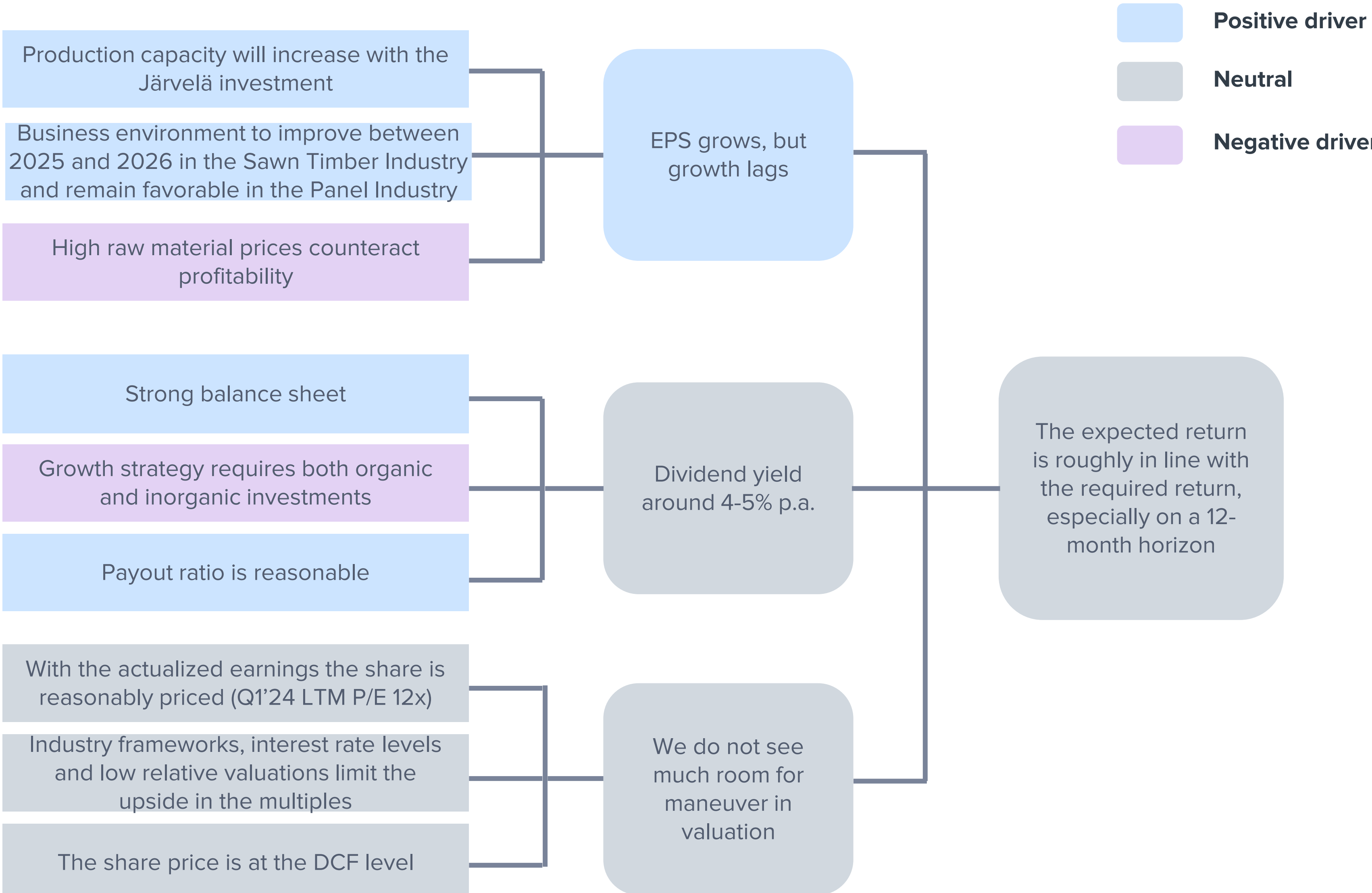
In relative terms, with 2024 and 2025 estimates Koskisen is priced at a discount relative to the loosely connected peer group with high earnings multiples. On a balance sheet basis, valuation is at a premium. The overall picture is therefore ambiguous and, in our view, does not support a strong view in either direction.

We give weight to the DCF model in our valuation despite it being sensitive to the variables of the terminal period. According to our DCF model, the share value is just over EUR 7 per share with a slightly reduced required return, which supports our view based on the other methods that the share is priced quite neutrally.

Valuation	2024e	2025e	2026e
Share price	7.60	7.60	7.60
Number of shares, millions	23.0	23.0	23.0
Market cap	175	175	175
EV	192	190	178
P/E (adj.)	12.9	10.4	8.6
P/E	12.9	10.4	8.6
P/B	1.1	1.1	1.0
P/S	0.6	0.5	0.5
EV/Sales	0.7	0.6	0.5
EV/EBITDA	6.4	5.4	4.4
EV/EBIT (adj.)	10.3	8.5	6.6
Payout ratio (%)	54.3 %	43.9 %	36.1 %
Dividend yield-%	4.2 %	4.2 %	4.2 %

Source: Inderes

TSR drivers Q1'24 TOT-2026e

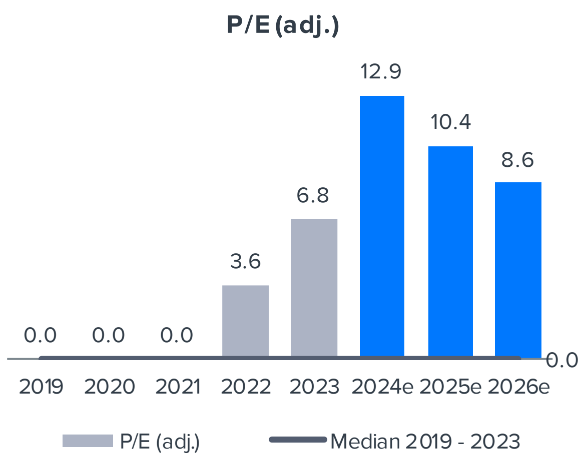


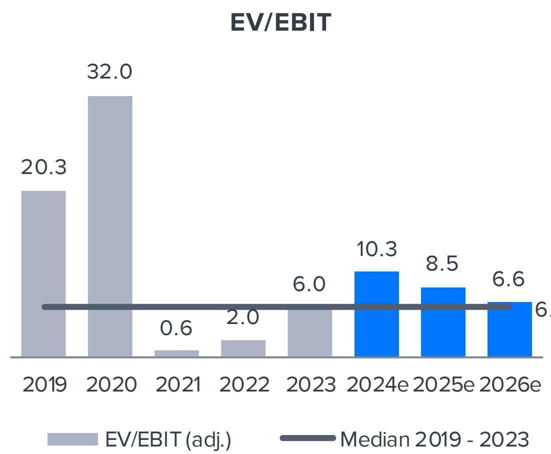
Source: Inderes

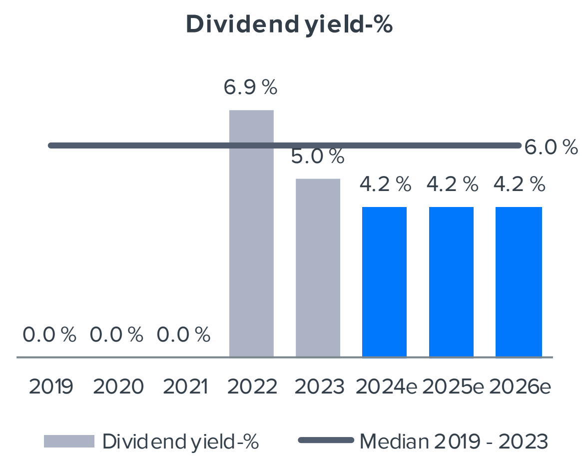
Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price				6.28	6.00	**7.60**	**7.60**	**7.60**	**7.60**
Number of shares, millions				23.0	23.0	**23.0**	**23.0**	**23.0**	**23.0**
Market cap				145	138	**175**	**175**	**175**	**175**
EV				116	146	**192**	**190**	**178**	**162**
P/E (adj.)				3.6	6.8	**12.9**	**10.4**	**8.6**	**7.8**
P/E				3.6	6.8	**12.9**	**10.4**	**8.6**	**7.8**
P/B				1.1	0.9	**1.1**	**1.1**	**1.0**	**0.9**
P/S				0.5	0.5	**0.6**	**0.5**	**0.5**	**0.5**
EV/Sales				0.4	0.5	**0.7**	**0.6**	**0.5**	**0.4**
EV/EBITDA				1.8	4.4	**6.4**	**5.4**	**4.4**	**3.7**
EV/EBIT (adj.)				2.0	6.0	**10.3**	**8.5**	**6.6**	**5.5**
Payout ratio (%)				25.1 %	34.2 %	**54.3 %**	**43.9 %**	**36.1 %**	**36.0 %**
Dividend yield-%				6.9 %	5.0 %	**4.2 %**	**4.2 %**	**4.2 %**	**4.6 %**

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**
Interfor Corp	616	1252			21.0	52.8	0.6	0.6					0.5
Boise Cascade	4941	4558	7.7	9.0	6.5	7.1	0.7	0.7	11.0	12.7	6.4	0.6	2.5
West Fraser Timber	5929	5757		15.5	10.9	6.2	1.0	1.0	7848.3	20.6	1.5	1.6	0.9
Canfor	1190	1499			77.3	12.6	0.4	0.4					0.4
Stora Enso	10371	13272	52.4	20.8	14.2	10.6	1.4	1.4	69.4	27.7	2.1	2.3	0.9
STEICO	531	708	23.3	18.3	11.9	10.2	1.9	1.9	29.7	22.9	1.1	1.3	1.9
Koskisen (Inderes)	**175**	**192**	**10.3**	**8.5**	**6.4**	**5.4**	**0.7**	**0.6**	**12.9**	**10.4**	**4.2**	**4.2**	**1.1**
Average			**27.8**	**15.9**	**23.6**	**16.6**	**1.0**	**1.0**	**1989.6**	**21.0**	**2.8**	**1.4**	**1.2**
Median			**23.3**	**16.9**	**13.0**	**10.4**	**0.8**	**0.8**	**49.5**	**21.7**	**1.8**	**1.4**	**0.9**
Diff-% to median			***-56%***	***-50%***	***-51%***	***-48%***	***-22%***	***-33%***	***-74%***	***-52%***	***131%***	***194%***	***28%***

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	**318**	**73.2**	**73.9**	**55.5**	**68.7**	**271**	**63.7**	**75.1**	**70.6**	**81.5**	**291**	**338**	**357**	**367**
Sawn Timber Industry	166	32.1	29.6	24.9	35.8	122	29.0	38.1	36.1	41.7	145	178	185	189
Panel Industry	152	41.1	44.2	30.6	32.9	149	34.7	37.0	34.6	39.8	146	161	173	177
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Adjustments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	**66.3**	**12.6**	**13.8**	**1.3**	**5.3**	**33.0**	**5.5**	**9.7**	**5.8**	**9.0**	**30.1**	**35.1**	**40.6**	**43.3**
Depreciation	-8.1	-2.0	-2.1	-2.3	-2.3	-8.6	-2.4	-3.0	-3.0	-3.0	-11.4	-12.8	-13.7	-14.1
EBIT (excl. NRI)	**58.5**	**10.7**	**11.7**	**-1.0**	**3.0**	**24.4**	**3.1**	**6.7**	**2.8**	**6.0**	**18.7**	**22.3**	**26.9**	**29.2**
EBIT	**58.2**	**10.7**	**11.7**	**-1.0**	**3.0**	**24.4**	**3.1**	**6.7**	**2.8**	**6.0**	**18.7**	**22.3**	**26.9**	**29.2**
Sawn Timber Industry (EBITDA)	41.6	1.6	1.6	-1.0	1.0	3.3	0.7	2.9	1.4	2.7	7.7	14.3	18.2	19.5
Panel Industry (EBITDA)	29.3	9.8	12.2	2.6	4.7	29.3	5.3	7.0	4.5	6.4	23.3	21.8	23.4	24.8
Other	-4.3	1.2	-0.1	-0.3	-0.4	0.4	-0.4	-0.2	-0.2	-0.1	-0.9	-1.0	-1.0	-1.0
Depreciation	-8.1	-2.0	-2.1	-2.3	-2.3	-8.6	-2.4	-3.0	-3.0	-3.0	-11.4	-12.8	-13.7	-14.1
Adjustments	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net financial items	-0.4	-0.4	0.6	-0.3	-0.2	-0.3	-0.4	-0.4	-0.5	-0.5	-1.8	-1.3	-1.4	-1.3
PTP	**57.8**	**10.3**	**12.3**	**-1.3**	**2.8**	**24.0**	**2.8**	**6.3**	**2.3**	**5.5**	**16.9**	**21.0**	**25.5**	**28.0**
Taxes	-11.8	-1.5	-2.5	0.4	-0.2	-3.8	-0.5	-1.3	-0.5	-1.1	-3.3	-4.2	-5.1	-5.6
Minority interest	-6.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**39.8**	**8.8**	**9.8**	**-1.0**	**2.6**	**20.2**	**2.3**	**5.1**	**1.8**	**4.4**	**13.6**	**16.8**	**20.4**	**22.4**
EPS (adj.)	**1.74**	**0.38**	**0.43**	**-0.04**	**0.11**	**0.88**	**0.10**	**0.22**	**0.08**	**0.19**	**0.59**	**0.73**	**0.89**	**0.97**
EPS (rep.)	**1.73**	**0.38**	**0.43**	**-0.04**	**0.11**	**0.88**	**0.10**	**0.22**	**0.08**	**0.19**	**0.59**	**0.73**	**0.89**	**0.97**

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24e	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	2.1 %	0.0 %	0.0 %	0.0 %	-78.4 %	-14.6 %	-13.0 %	1.6 %	27.4 %	18.7 %	7.3 %	16.3 %	5.6 %	2.6 %
EBITDA-%	20.9 %	17.2 %	18.7 %	2.4 %	7.6 %	12.2 %	8.7 %	12.9 %	8.2 %	11.1 %	10.3 %	10.4 %	11.4 %	11.8 %
Adjusted EBIT-%	18.4 %	14.5 %	15.9 %	-1.7 %	4.4 %	9.0 %	4.9 %	8.9 %	3.9 %	7.4 %	6.4 %	6.6 %	7.5 %	8.0 %
Net earnings-%	12.5 %	12.0 %	13.3 %	-1.8 %	3.8 %	7.4 %	3.5 %	6.7 %	2.6 %	5.4 %	4.7 %	5.0 %	5.7 %	6.1 %

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**105**	**130**	**142**	**144**	**143**
Goodwill	0.0	0.0	0.0	0.0	0.0
Intangible assets	0.9	1.3	1.7	2.1	2.5
Tangible assets	99.0	124	135	137	136
Associated companies	0.0	0.0	0.0	0.0	0.0
Other investments	4.5	4.6	4.6	4.6	4.6
Other non-current assets	0.1	0.0	0.0	0.0	0.0
Deferred tax assets	0.1	0.1	0.1	0.1	0.1
Current assets	**154**	**140**	**139**	**141**	**148**
Inventories	34.2	37.5	37.8	44.0	46.4
Other current assets	9.9	22.9	22.9	22.9	22.9
Receivables	25.5	23.4	29.1	33.8	35.7
Cash and equivalents	84.4	55.8	49.5	40.6	42.9
Balance sheet total	**259**	**269**	**281**	**286**	**291**

Source: Inderes

Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**136**	**147**	**154**	**163**	**176**
Share capital	1.5	1.5	1.5	1.5	1.5
Retained earnings	60.6	51.5	58.1	67.5	80.6
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	73.7	94.2	94.2	94.2	94.2
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**56.3**	**64.1**	**69.0**	**59.4**	**50.4**
Deferred tax liabilities	3.7	5.7	5.7	5.7	5.7
Provisions	0.1	0.2	0.2	0.2	0.2
Interest bearing debt	49.4	55.2	60.0	50.5	41.4
Convertibles	0.0	0.0	0.0	0.0	0.0
Other long term liabilities	3.0	3.1	3.1	3.1	3.1
Current liabilities	**66.5**	**57.8**	**58.0**	**62.8**	**64.0**
Interest bearing debt	6.5	8.5	6.3	5.3	4.3
Payables	59.1	32.8	35.2	40.9	43.2
Other current liabilities	0.9	16.5	16.5	16.5	16.5
Balance sheet total	**259**	**269**	**281**	**286**	**291**

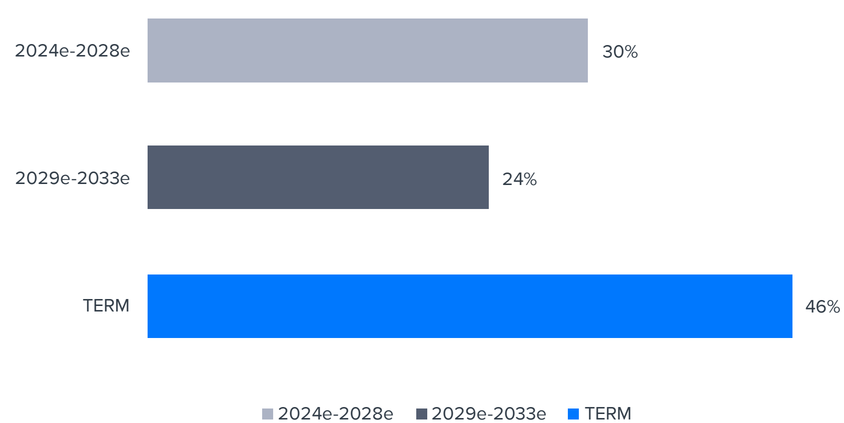
DCF calculation

DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-14.6 %	7.3 %	16.3 %	5.6 %	2.6 %	3.0 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	9.0 %	6.4 %	6.6 %	7.5 %	8.0 %	7.0 %	6.0 %	5.5 %	5.0 %	5.0 %	5.0 %	5.0 %
EBIT (operating profit)	**24.4**	**18.7**	**22.3**	**26.9**	**29.2**	**26.4**	**23.2**	**21.8**	**20.3**	**20.8**	**21.3**	
+ Depreciation	8.6	11.4	12.8	13.7	14.1	14.4	14.4	14.2	13.9	13.7	13.5	
- Paid taxes	-1.8	-3.3	-4.2	-5.1	-5.6	-5.1	-4.5	-4.3	-4.0	-4.1	-4.2	
- Tax, financial expenses	-0.1	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	
+ Tax, financial income	0.0	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	
- Change in working capital	-24.9	-3.6	-5.2	-2.1	-1.0	-1.2	-1.0	-1.1	-1.1	-1.1	-0.9	
Operating cash flow	**6.2**	**22.8**	**25.5**	**33.2**	**36.5**	**34.4**	**32.0**	**30.6**	**29.1**	**29.3**	**29.6**	
+ Change in other long-term liabilities	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
- Gross CAPEX	-33.7	-23.4	-15.4	-12.4	-12.4	-12.4	-12.4	-12.4	-12.4	-12.4	-14.0	
Free operating cash flow	**-27.3**	**-0.6**	**10.1**	**20.8**	**24.1**	**22.0**	**19.6**	**18.2**	**16.7**	**16.9**	**15.6**	
+/- Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FCFF	-27.3	-0.6	10.1	20.8	24.1	22.0	19.6	18.2	16.7	16.9	16.0	207
Discounted FCFF		**-0.6**	**8.7**	**16.2**	**17.1**	**14.2**	**11.5**	**9.7**	**8.1**	**7.5**	**6.5**	**83.5**
Sum of FCFF present value		182	183	174	158	141	127	115	106	97.5	90-0	83.5
Enterprise value DCF		**182**										
- Interest bearing debt		-63.7										
+ Cash and cash equivalents		55.8										
-Minorities		0.0										
-Dividend/capital return		-6.9										
Equity value DCF		**168**										
Equity value DCF per share		**7.3**										

WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	17.5 %
Cost of debt	5.0 %
Equity Beta	1.50
Market risk premium	4.75%
Liquidity premium	1.50%
Risk free interest rate	2.5 %
Cost of equity	**11.1 %**
Weighted average cost of capital (WACC)	**9.9 %**

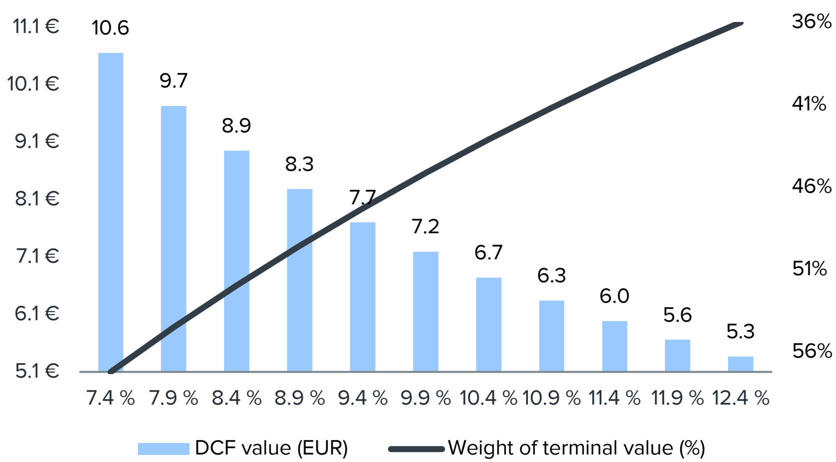
Source: Inderes

Cash flow distribution

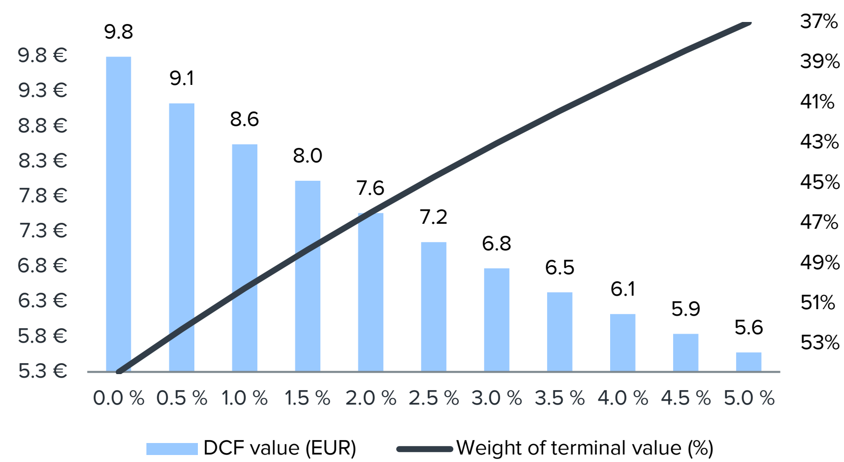


DCF sensitivity calculations and key assumptions in graphs

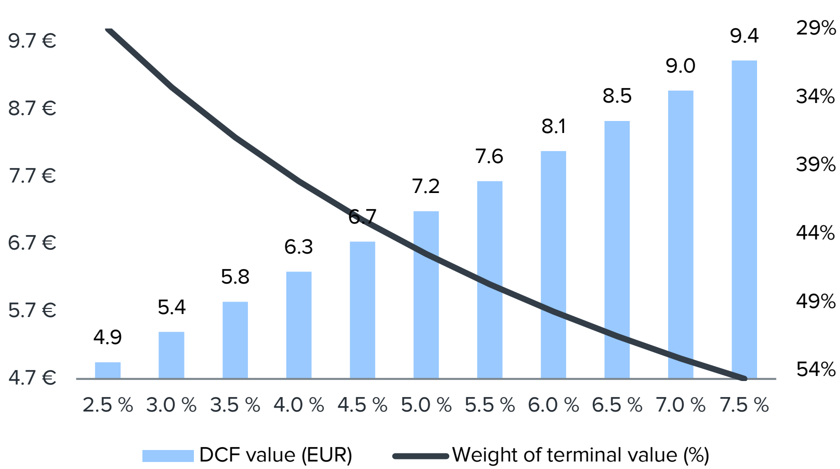
Sensitivity of DCF to changes in the WACC-%



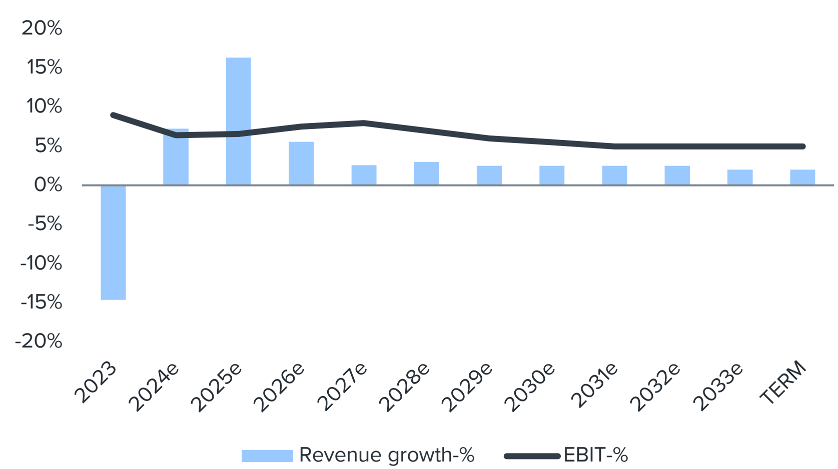
Sensitivity of DCF to changes in the risk-free rate



Sensitivity of DCF to changes in the terminal EBIT margin



Growth and profitability assumptions in the DCF calculation



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	311.3	317.7	271.2	**290.9**	**338.5**
EBITDA	62.2	66.3	33.0	**30.1**	**35.1**
EBIT	52.7	58.2	24.4	**18.7**	**22.3**
PTP	47.9	57.8	24.0	**16.9**	**21.0**
Net Income	29.2	39.8	20.2	**13.6**	**16.8**
Extraordinary items	0.0	-0.3	0.0	**0.0**	**0.0**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	200.3	258.6	269.2	**280.9**	**285.5**
Equity capital	58.8	135.8	147.2	**153.9**	**163.3**
Goodwill	0.0	0.0	0.0	**0.0**	**0.0**
Net debt	34.1	-28.5	7.9	**16.9**	**15.2**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	62.2	66.3	33.0	**30.1**	**35.1**
Change in working capital	-6.1	12.3	-24.9	**-3.6**	**-5.2**
Operating cash flow	52.7	47.6	6.2	**22.8**	**25.5**
CAPEX	-9.7	-22.0	-33.7	**-23.4**	**-15.4**
Free cash flow	33.0	55.9	-27.3	**-0.6**	**10.1**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	0.1	0.4	0.5	**0.7**	**0.6**
EV/EBITDA (adj.)	0.5	1.8	4.4	**6.4**	**5.4**
EV/EBIT (adj.)	0.6	2.0	6.0	**10.3**	**8.5**
P/E (adj.)	0.0	3.6	6.8	**12.9**	**10.4**
P/B	0.0	1.1	0.9	**1.1**	**1.1**
Dividend-%		6.9 %	5.0 %	**4.2 %**	**4.2 %**

Source: Inderes

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	1.27	1.73	0.88	**0.59**	**0.73**
EPS (adj.)	1.27	1.74	0.88	**0.59**	**0.73**
OCF / share	2.29	2.07	0.27	**0.99**	**1.11**
FCF / share	1.44	2.43	-1.19	**-0.03**	**0.44**
Book value / share	1.55	5.90	6.40	**6.68**	**7.09**
Dividend / share	0.00	0.43	0.30	**0.32**	**0.32**

Growth and profitability	2021	2022	2023	2024e	2025e
Revenue growth-%	0%	2%	-15%	**7%**	**16%**
EBITDA growth-%		7%	-50%	**-9%**	**17%**
EBIT (adj.) growth-%		11%	-58%	**-23%**	**19%**
EPS (adj.) growth-%		37%	-50%	**-33%**	**24%**
EBITDA-%	20.0 %	20.9 %	12.2 %	**10.3 %**	**10.4 %**
EBIT (adj.)-%	16.9 %	18.4 %	9.0 %	**6.4 %**	**6.6 %**
EBIT-%	16.9 %	18.3 %	9.0 %	**6.4 %**	**6.6 %**
ROE-%	0.0 %	46.4 %	14.3 %	**9.0 %**	**10.6 %**
ROI-%	0.0 %	35.8 %	12.1 %	**9.0 %**	**10.5 %**
Equity ratio	29.4 %	52.5 %	54.7 %	**54.8 %**	**57.2 %**
Gearing	57.9 %	-21.0 %	5.4 %	**11.0 %**	**9.3 %**

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
2/24/2023	Reduce	6.00 €	6.35 €
3/17/2023	Reduce	6.00 €	6.29 €
Analyst changed			
5/25/2023	Reduce	6.75 €	6.40 €
8/11/2023	Accumulate	6.75 €	6.19 €
8/25/2023	Accumulate	7.50 €	6.40 €
11/20/2023	Accumulate	7.00 €	6.35 €
2/13/2023	Accumulate	6.75 €	6.05 €
2/19/2024	Accumulate	6.75 €	6.18 €
4/12/2024	Reduce	6.75 €	7.18 €
5/15/2024	Reduce	7.00 €	7.00 €

ESG

Core activities are outside the taxonomy classification

Among Koskisen's businesses eligible for taxonomy in 2023 in terms of revenue were forest management and manufacturing of energy efficiency equipment for buildings. Other eligible items in terms of capital expenditure and operating costs included remediation of contaminated sites and land, renovation of existing buildings, electricity generation using photovoltaic technology, production of heat/cool from bioenergy, cogeneration of heat/cool and power from bioenergy, construction, extension and operation of water collection, treatment and supply systems, installation, maintenance and repair of energy efficiency equipment, provision of IT/OT data-driven solutions, and manufacture of other low carbon technologies. Consequently, the sawn timber, plywood and chipboard products, which account for the majority of Koskisen's revenue, are not taxonomically classified.

As a result, the taxonomy rate of Koskisen's revenue, operating costs and investments remains low. Furthermore, the taxonomy rates are unlikely to rise in the coming years if the future taxonomy definitions won't include a much larger share of the company's external sales-generating products. We do not believe that the low taxonomy rate will put immediate upward pressure on, for example, Koskisen's cost or availability of financing, or pose other challenges to the business.

Businesses contain a political element

So far, taxonomy does not cover much of the forest industry's main products and value chain, but we think there is a certain political element to Koskisen's business, as there is a general awareness of the role of forests in climate change mitigation and biodiversity issues in particular. Of course, Koskisen has focused exclusively on so-called long-cycle wood products, which also have significant and widely recognized positive elements in reducing climate emissions from construction. However, regulations and policies, especially those related to forest use, may come from different regulatory frameworks. This is important for Koskisen's business, as wood is by far the company's most important raw material. So far, we do not believe that forest-related regulation has materially undermined Koskisen's long-term business conditions.

The company set emission reduction targets in 2024

Koskisen aims to reduce Scope 1 and Scope 2 emissions by 50% and Scope 3 emissions by 20% by 2027. We consider the targets to be realistic especially since the company's own emissions are quite moderate as the business is not energy intensive. Koskisen's products also bind carbon significantly and over the long term, which is why the carbon handprint of Koskisen's products is positive (i.e. more carbon is bound than the production of the products generates).

We estimate that progress towards the stated climate targets will not result in significant additional direct costs for the company in the short term. In the medium term, the climate targets are likely to require investments or cost investments by the company, at least in the production of the energy needed to manufacture the end products, in the energy efficiency of production, and possibly also in reducing the emission load of logistics.

Taxonomy eligibility	2022	2023
Revenue	-	9.9%
OPEX	-	20.2%
CAPEX	-	6.5%

Taxonomy alignment	2022	2023
Revenue	-	0%
OPEX	-	0%
CAPEX	-	4.0%

Climate		
Climate target	No	No
Target according to the Paris Agreement (1.5 °C warming scenario)	No	No

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Inderes Oyj

Itämerentori 2

FI-00180 Helsinki, Finland

+358 10 219 4690

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