

Steel, Finland

# Outokumpu

## The king of swing

- Higher nickel prices to boost shipments and pricing power
- Strong indications that ferrochrome prices should rise in Q4
- Raised earnings estimates with lower risk attached; BUY

### Attractive long-term outlook for earnings and cash

Outokumpu looks to be in great shape. Given a healthy outlook for the company's stainless markets and very competitive ferrochrome (FeCr) assets, we continue to expect the company to generate attractive profits and dividends over the coming years. Following the recent nickel price rally, sentiment toward the European stainless steel market has recently improved. As we believe sentiment will improve further, we turn much more positive on the company's near- and medium-term earnings prospects. Our target price increases to EUR 11.4 (11) and we reiterate BUY.

### High conviction that earnings will rise substantially in Q4

Despite robust underlying demand for stainless, European base prices have been under pressure lately because of weak summer seasonality and lower nickel/FeCR prices impacting apparent demand. However, the nickel price has risen by 15% in the past month and FeCR spot prices have improved from a low base, so we expect business sentiment and pricing power to improve. We now take a more positive view on the company's Q4 and 2018 earnings prospects.

### A remarkably attractive value story

We now expect Outokumpu's European base prices to rise by EUR 20/t in Q4 and to remain flat in 2018. That slightly more positive outlook results in 2017e and 2018e adjusted EBITDA of EUR 850m and EUR 872m respectively for low P/Es of below 7x and dividend yields of ~5%. With our revised EBITDA forecasts for 2017 and 2018 now ~10% and ~25% above consensus, we expect positive earnings revisions to support the share price over the coming months.

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Company page on Handelsbanken's REON

EURm	2015	2016	2017e	2018e	2019e
Sales	6,384	5,690	6,650	6,822	6,851
Sales growth (%)	-6.7	-10.9	16.9	2.6	0.42
EBITDA adj	196	275	850	872	882
margin (%)	3.1	4.8	12.8	12.8	12.9
EBT	127	-12	541	577	617
EPS rep (EUR)	0.23	0.34	1.06	1.19	1.28
EPS adj (EUR)	-0.51	0.16	1.02	1.19	1.28
Y-o-y growth (%)	n.m	n.m	537	16	8
EPS adj revisions (%)	n.m	n.m	1	15	15
P/E adj (x)	n.m	53.2	7.5	6.4	6.0
P/BV (x)	0.44	1.3	1.1	0.99	0.89
ROE adj (%)	-10.7	2.7	17.1	17.4	16.6
EV/EBITDA (x)	15.7	18.4	5.2	4.6	4.0
EV/sales (x)	0.48	0.89	0.66	0.59	0.52
FCF adj yield (%)	-16.3	4.6	9.4	16.9	20.6
Tot DPS (EUR)	0.00	0.10	0.38	0.42	0.45
Totdiv yield (%)	0	1.2	4.9	5.5	6.0
Net debt/equity (%)	85.7	65.6	45.7	28.7	12.3

Source: Handelsbanken Capital Markets

## Target price change

<b>S</b>	<b>R</b>	<b>A</b>	<b>B</b>
Sell	Reduce	Accumulate	BUY

Company Update Q3 2017 14 August, 2017 06:14 CET

Share price (EUR)	7.63
Market cap (EURm)	3,177
Market cap (EURm)	3,434
No of shares (m)	416
Free float (%)	70.0
Avg daily volume ('000)	3,961
Avg daily value (EURm)	30
Bloomberg	OUT1V FH
Reuters	OUT1V.HE
Next event	Oct 26, 2017: Q3 report
Web address:	<a href="#">Link to company website</a>
IR web address:	<a href="#">Link to IR website</a>

### 12m target return

Target price, inc. div. (EUR)	11.4
Expected total return (%)	49.4
Expected total dividend yield (%)	4.9
DCF value (EUR)	12

### Balance sheet 2016

Net debt (EURm)	1,585
Net debt/equity (%)	65.6
ROE (%)	6.1
ROIC (%)	2.5

Main owners	Votes (%)	Capital (%)
Solidium Oy	24.3	24.3
Keskinainen työeläkevakuutusyhtiö Varma	3.3	3.3

## Absolute and relative performance



Share performance (%)	-1m	-3m	-12m
Absolute:	5.4	5.8	41.6
Absolute EUR:	5.4	5.8	41.6
Relative DJStoxx:	6.9	11.1	25.6
52w range (EUR):	10.05 / 4.90		

Source: FactSet

## What has changed

	HCM	chg	HCM	chg	HCM	chg
EURm	Q3 17e	(%)	2017e	(%)	2018e	(%)
Sales	1,590	0	6,650	0	6,822	0
EBITDA adj	132.7	-3	850.0	1	871.7	9
margin (%)	8	-3	13	0	13	9
EBT	52.7	-7	541.0	1	576.7	14
Net income	47.7	-7	471.0	1	526.7	16
EPS (EUR)	0.11	-7	1.06	1	1.19	15
EPS adj (EUR)	0.11	-7	1.02	1	1.19	15

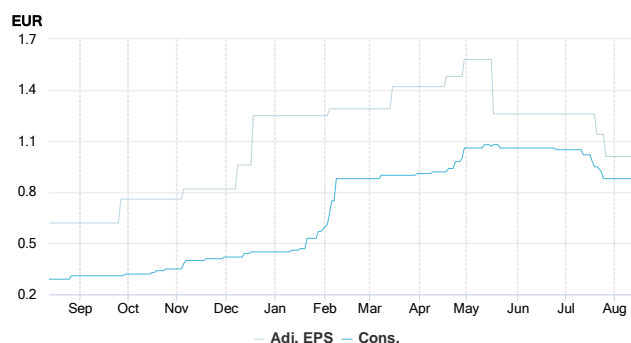
Source: Handelsbanken Capital Markets

## HCM vs. consensus

	Cons	diff	Cons	diff	Cons	diff
EURm	Q3 17e	(%)	2017e	(%)	2018e	(%)
Sales	1,585	0	6,522	2	6,505	5
EBITDA adj	126.5	5	779.5	9	691.0	26
margin (%)	8	0	12	1	11	2
EBT	50.5	4	460.5	17	376.1	53
Net income	44.5	7	366.4	29	304.0	73
EPS (EUR)	0.11	3	0.88	21	0.69	73
EPS adj (EUR)	0.11	3	0.88	17	0.73	63

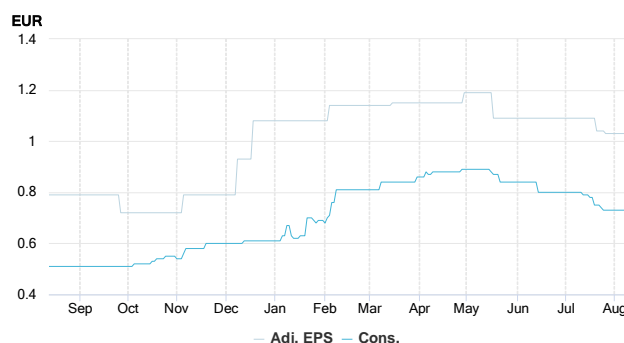
Source: Handelsbanken Capital Markets and FactSet

## EPS 2017 estimate revisions



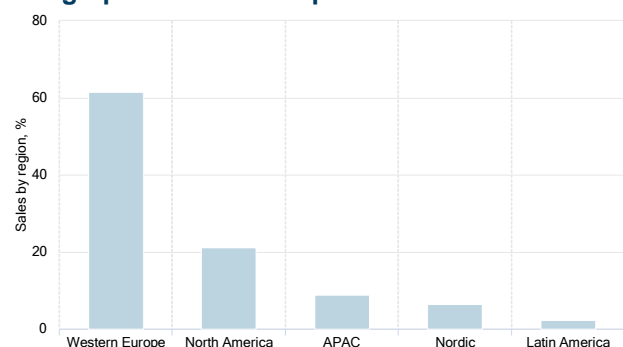
Source: Handelsbanken Capital Markets and FactSet

## EPS 2018 estimate revisions



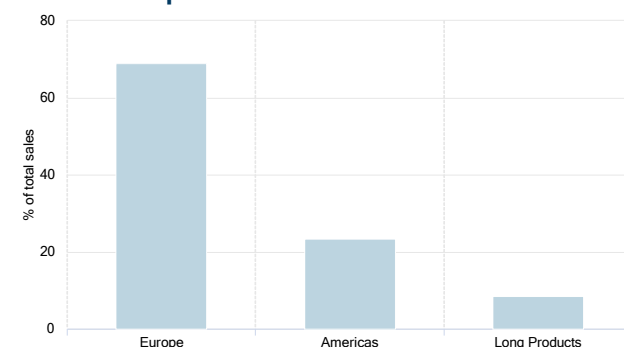
Source: Handelsbanken Capital Markets and FactSet

## Geographical revenue split 2016



Source: Handelsbanken Capital Markets

## Divisional split 2016



Source: Handelsbanken Capital Markets

## Ownership structure

2017-08-11	Votes (%)	Capital (%)
Solidium Oy	24.3	24.3
Keskinainen tyoelakevakuutusyhtio Varma	3.3	3.3
JPMorgan Asset Management Ltd.	3.0	3.0
Keskinainen Elakevakuutusyhtio Ilmarinen	2.3	2.3
The Social Insurance Institution of Finland	2.2	2.2
Total number of shares (m)		416.4
Free float (%)		74.5

Source: FactSet

## Investment case summary

### Robust stainless markets

Due to robust market conditions and improved pricing power, Outokumpu's base prices have stabilised at a healthy level, both the US and Europe.

### Long-term target within reach

Based on market conditions in April 2016, management targets annual EBIT of EUR 500m by 2020, which we find achievable.

### Very attractive valuation multiples

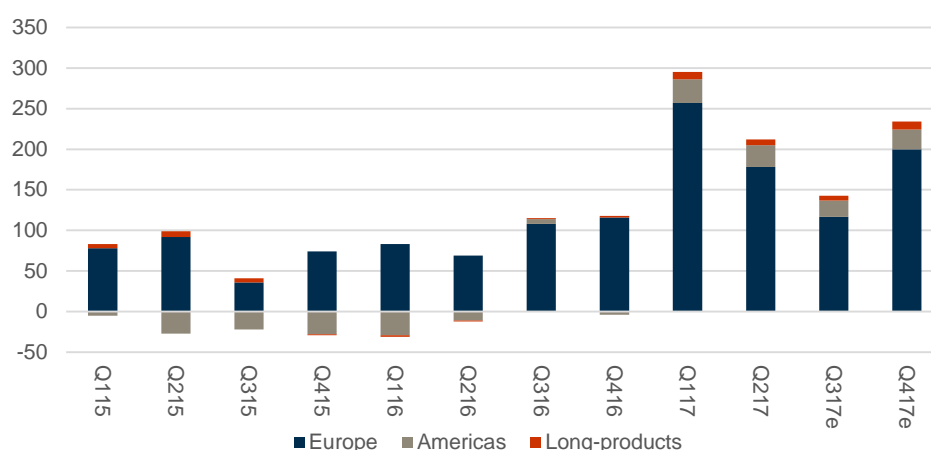
Based on our forecasts for 2018, the stock is valued at a P/E of below 7x. As the company offers good earnings quality and as we base our earnings on prudent assumptions, we argue that current valuation is unwarranted.

Source: Handelsbanken Capital Markets

## From headwind to tailwind

Despite robust underlying demand for stainless for all end segments, European base prices have been under pressure lately because of weak seasonality over the summer and additional pressure from lower nickel/ferrochrome prices impacting apparent demand due to destocking of stainless inventories. However, with the nickel price up 15% over recent months and ferrochrome spot prices also improving from a low base in Europe (and even more so in Asia), we expect sentiment for the European stainless business to improve as the seasonally stronger fourth quarter begins. We therefore take a more positive stance on the company's Q4 and 2018 earnings due to better pricing for stainless steel in Europe. In our slightly revised price scenario, we now expect European base prices to rise by EUR 20/t in Q4 and then remain flat. We now expect the company to deliver EBITDA of EUR 850m and EUR 872m for 2017-18, translating into low P/Es of below 7x and dividend yields of ~5%. Furthermore, as our revised EBITDA forecasts for 2017 and 2018 are 10% and 25% above consensus, we also foresee positive earnings revisions to support the share price in the months ahead.

**Figure 1: Quarterly adjusted EBITDA**



Source: Handelsbanken Capital Markets, Outokumpu

The European business holds the key

With about 60% of this year's EBITDA coming from Outokumpu's European operations, the European division is by far the most important profit generator for the company and it will very much determine the group's earnings for the next few years. Besides the stainless steel operations, the European division also includes the important ferrochrome operations, which are fully integrated into the company's key stainless plant in Tornio.

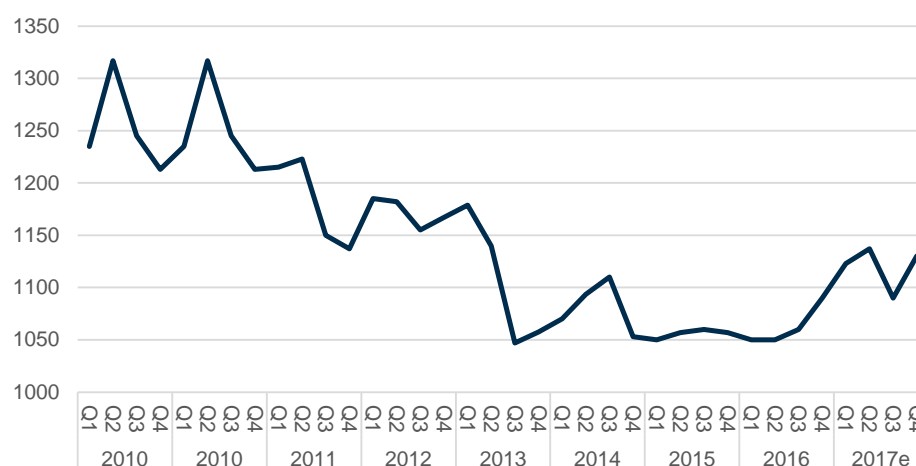
The business model is very responsive to changes in prices and volumes

As with most basic resources companies, Outokumpu's business model is very sensitive to changes in volumes and prices. Based on our 2018 volume assumption of 1.8mt of European stainless steel and 440kt of ferrochrome (FeCR content of 52.5%), a EUR 50/t change in the base price (about 5%) moves EBIT by EUR 90m while a USD 10/lb price change in the ferrochrome price (about 9%) moves EBIT by more than EUR 40m.

**Table 1: Static sensitivity table, EURm**

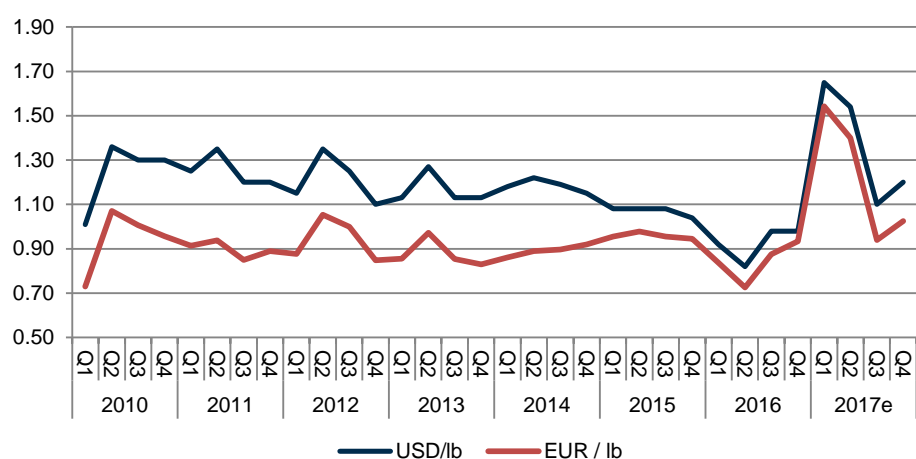
	Price / volume change	Current level	%	Impact on EBIT
European base price EUR / t	50	1100	5%	90
Ferrochrome USD / lb	0.1	1.1	9%	43
USD / EUR	0.1	1.17	9%	70
European stainless steel volumes (t)	100	1800	6%	40
Ferrochrome volumes (t)	20	440	5%	16

Source: Handelsbanken Capital Markets

**Figure 2: European base prices per quarter EUR/t**

We expect European base prices to rise again in Q4

Source: Handelsbanken Capital Markets, Outokumpu, CRU

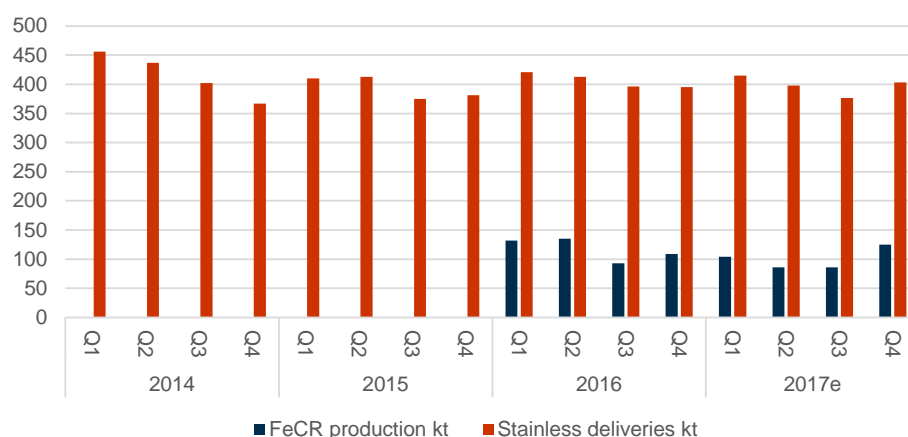
**Figure 3: European FeCr prices (quarterly contract prices)**

We also expect European FeCR prices to move higher in Q4

Source: Handelsbanken Capital Markets, CRU

**Figure 4: Europe: Shipments of stainless and FeCR production**

Temporarily weak FeCR volumes should turn more normal in Q4



Source: Handelsbanken Capital Markets, Outokumpu

The major earnings increase in Q1 2017 was explained by a very favourable price performance by both ferrochrome, which by USD 0.67/lb q-o-q, and European stainless, which saw base prices rise by more than EUR 30/t q-o-q.

Strong prices, good operations and large inventory gains in Q1

It must also be stressed that the company enjoyed strong operations in Q1, with high capacity utilisation for its important ferrochrome operations. Moreover, the company also booked raw material inventory gains (included in the company's definition of adjusted earnings) of EUR 33m, which boosted earnings further in Q1.

For Q2, the stainless base price continued to rise, by EUR10/t q-o-q, while the ferrochrome price fell by USD0.1/lb q-o-q. Negatively, the company experienced production issues at its FeCr operations due to technical problems when restarting its biggest ferrochrome furnace in Tornio following a planned maintenance stop. That led to a low capacity utilisation for the ferrochrome operations of only 65% in Q2. In addition, market sentiment for both stainless and ferrochrome turned much worse at the end of Q2, impacting Outokumpu's deliveries negatively.

Very weak FeCR volumes in Q2 combined with inventory losses

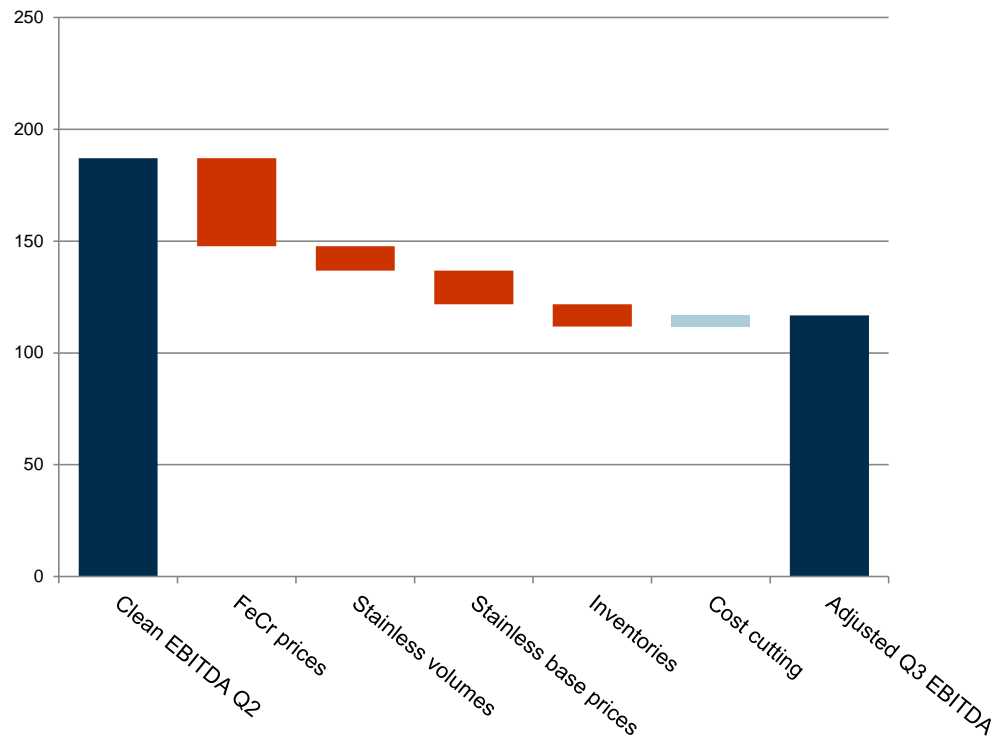
In contrast to Q1, the company also booked negative raw material inventory effects to the tune of EUR 10m in Q2, which also explains why adjusted EBITDA fell to EUR 199m in Q2. However, when analysing the situation and the outlook for the European business, it must be stressed that underlying demand at the end of Q2 was healthy. Weaker sentiment toward the end of Q2 was due to a much lower price for nickel and other commodities, such as ferrochrome and molybdenum (included in the stainless product) impacting the inventory cycle.

The price movements of those stainless steel ingredients directly impact the price of stainless steel products in Europe with a delay of about one month through the alloy surcharge mechanism. Needless to say, it prompts much speculative behaviour in the market, especially among distributors, and heavily impacts the inventory cycle.

Lower FeCR prices, weak seasonality and low FeCR volumes in Q3

As Outokumpu's ferrochrome operations are unlikely to be fully up and running until the latter part of Q3, the quarterly European ferrochrome price fell by USD 0.44/lb (to USD 1.1/lb) in Q3, the European base price should fall by about EUR 40/t q-o-q in Q3 and management guides for new raw material inventory losses, Q3 earnings are set to be relative weak: we forecast adjusted group EBITDA of EUR 133m.

**Figure 5: European adjusted EBITDA components, Q2 to Q3e (EURm)**



Source: Handelsbanken Capital Markets

As the company guides for significantly lower underlying EBITDA in Q3 from Q2 and as sell-side consensus expects Q3 EBITDA of about EUR 130m, relatively weak quarterly earnings should already be fully discounted into the share price.

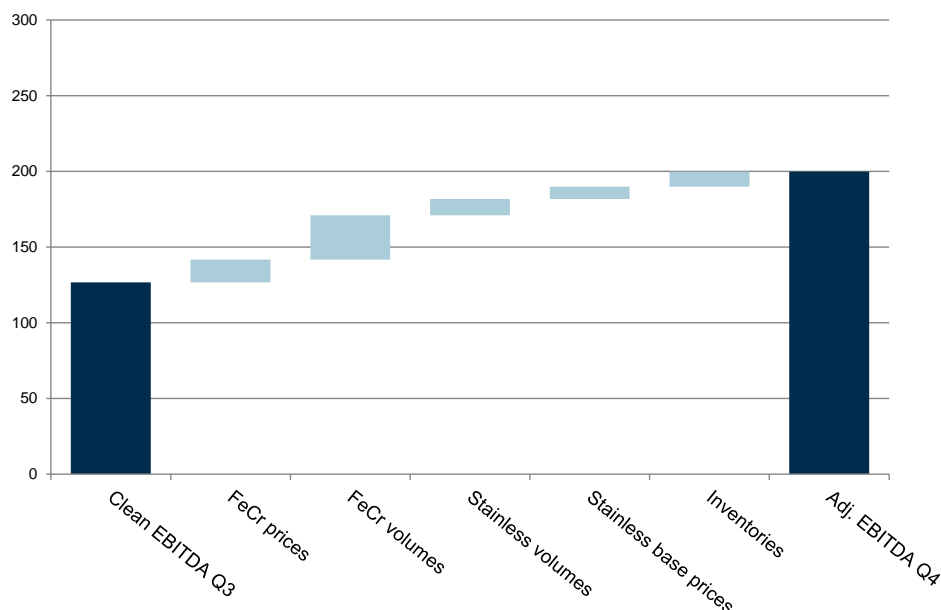
Support from all major moving parts in Q4

Much more importantly, when looking into the seasonally much stronger Q4 period, all of the major earnings components that were negative in Q2 and Q3 will become positives, leading to a meaningful uplift earnings for Q4:

- A EUR 20/t increase in European base prices for stainless
- An USD 0.1/lb increase in the European contract price for ferrochrome
- A 7% rise in European stainless shipments in Q4 from Q3
- Ferrochrome volume of about 125,000t in Q4, from about 85,000t in Q3

Thus, we foresee the company posting adjusted Q4 EBITDA of EUR 224m. As sell-side consensus expects modest Q4 EBITDA of EUR 143m, we believe that Outokumpu's near-term earnings will positively surprise the market.

**Figure 6: European adjusted EBITDA components, Q3e to Q4e (EURm)**



Source: Handelsbanken Capital Markets

We expect the biggest earnings change to come from FeCR volumes

A number of observations over the past week make us more confident about higher earnings in Q4 materialising; we slightly raise our Q4 forecasts.

Higher transaction prices in September should imply better apparent demand

With nickel prices rising by 15% over the past month in USD terms, the European transaction price for stainless will increase from September. That should imply better demand from distributors, who have been hesitant to buy stainless since June as transaction prices gradually declined by EUR 500-600/t between June and August.

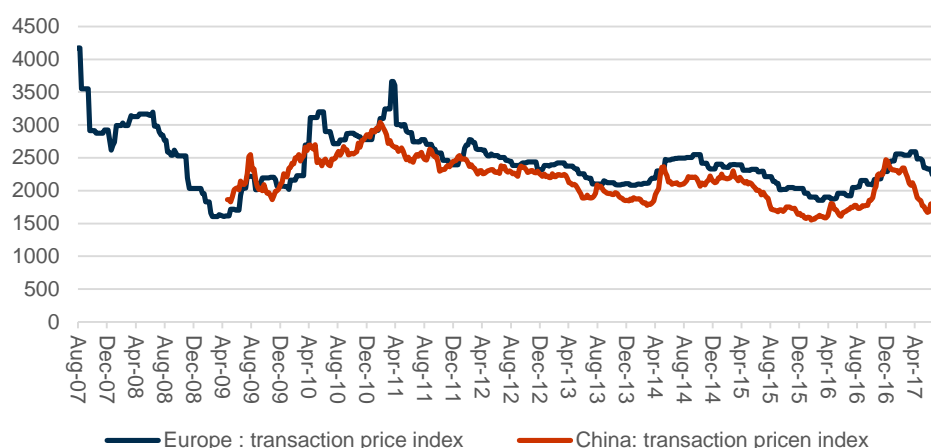
**Figure 7: Nickel price per tonne**



Source: Handelsbanken Capital Markets, Factset

Chinese stainless prices have been on the rise lately

We also note that Asian prices, which are more responsive than European prices, have risen substantially over the past few week. That should also help to buoy European market sentiment.

**Figure 8: Transaction prices (stainless 304 grade), USD/t**

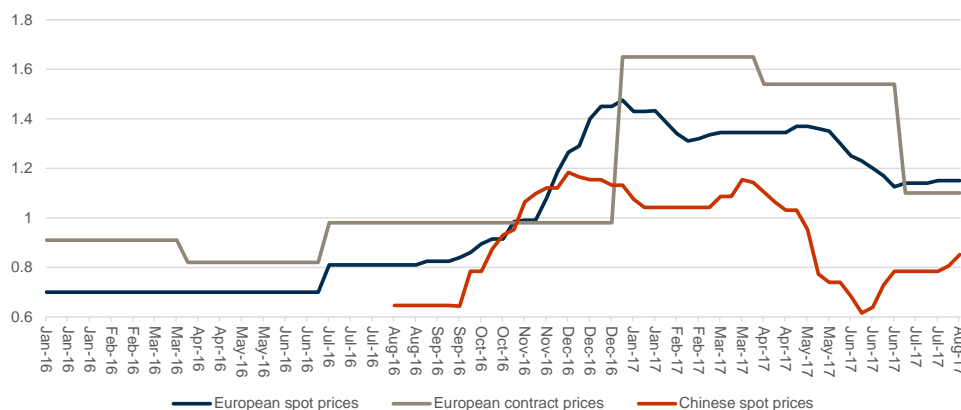
Source: Handelsbanken Capital Markets, Bloomberg

Better sentiment  
should lead to higher  
base prices

Although announcements of higher base prices in Europe have not been made yet, we expect such announcements to be made over the coming weeks. With a much better demand outlook, we expect Outokumpu successfully raise its prices by about EUR 20/t over the next few weeks.

Higher spot prices  
bode well for higher  
FeCR contract prices

Chinese spot prices for ferrochrome have risen, which should buoy sentiment for the European ferrochrome market. Moreover, as European spot prices for ferrochrome (USD 1.10-USD 1.20/lb) are currently above quarterly contract prices, we argue that the quarterly contract price should rise in Q4. For Q4, we continue to assume a European contract price of USD 1.2/lb but argue that the risk to that estimate is likely to be skewed to the upside.

**Figure 9: Chinese FeCR spot prices, contract and spot prices in EU, USD/lb**

Source: Handelsbanken Capital Markets, Metal Bulletin, Outokumpu

High cost inflation in  
the FeCR industry

Recent evidence suggests that the long-term outlook for ferrochrome has turned more positive. Alongside its Q2 report, South Africa's Merafe, which is one of the world's largest producers of ferrochrome, said it experienced 9% cost inflation y-o-y in H1 due to higher costs for labour, electricity and higher royalties. With South Africa producing about 30% of the world's ferrochrome, we find such observations interesting and positive from Outokumpu's perspective.

It should be stressed that Outokumpu's ferrochrome business is located in Finland and we do not expect Outokumpu to experience significant cost inflation; Merafe's higher inflation can be explained by factors that only impact South African metal companies, in our view.



Lower H2  
production of FeCR  
at Glencore

Furthermore, Glencore, Merafe's majority owner, guided for ferrochrome production in H2 of 750kt, which is 10% lower than in H1. Glencore, which is also the largest trader of ferrochrome, said in its H1 report that it had decided to take additional maintenance days in H2 due to lower prices.

2018e EBITDA rises  
by almost 10%, as we  
have turn more  
positive on prices

As we expect Outokumpu to end 2017 in a stronger fashion, we also expect higher stainless base prices and stainless volumes to spill over into 2018. We also now take a more positive view on earnings for Europe next year due to better pricing. We expect the European base price to rise by about EUR 20/t and then remain flat in 2018. Previously, we had not expected a price rise in Q4 and expected a modest base price fall in 2018. Those movements explain why 2017e EBITDA slightly increases but 2018e EBITDA rises by nearly 10%.

Given a healthy balance sheet and our revised 2017-18 forecasts translating into exceptionally low multiples, it is obvious to us that the market expects a sharp deterioration in Outokumpu's earnings in 2018.

We expect very  
attractive earnings  
and dividends in  
2018-19

We disagree and believe that the company is in great shape. With a healthy outlook for the company's stainless markets and very competitive ferrochrome (FeCr) assets, we expect Outokumpu to continue to generate strong profit over the coming years, which should translate into generous dividends.

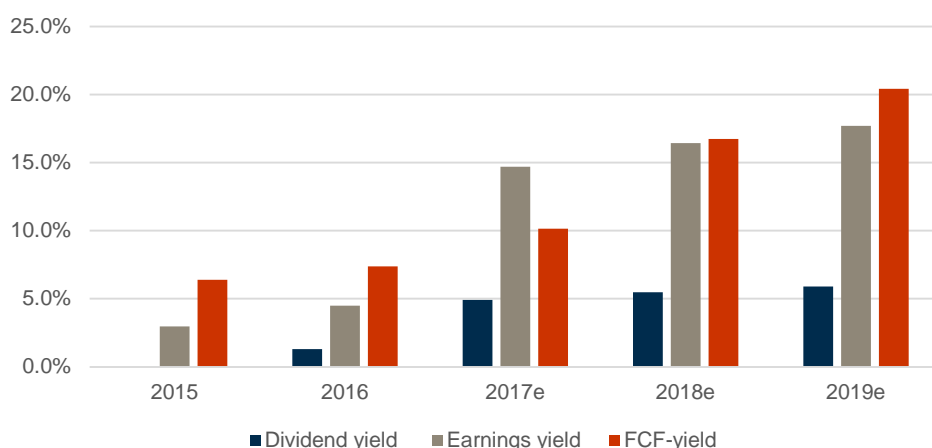
**Table 2: Earnings, cash flow, equity and NIBD**

	2013	2014	2015	2016	2017e	2018e	2019e
EBITDA	-164	108	530	355	875	872	882
Paid tax	-4	-8	-41	0	-5	-10	-10
Net fin	-101	-126	-107	-94	-115	-75	-45
Change in NWC	297	-50	223	307	-187	-50	-3
Change in provisions	0	0	-130	-94	-93	-25	0
Other / Adjustments	6	-51	-511	-157	0	0	0
Net investments	-183	-144	-151	-156	-175	-175	-170
Acquisitions	-111	0	0	0	0	0	0
Divestments	186	-20	390	75	25	0	0
FCF	-74	-290	205	236	325	536	654
Cash distribution	0	0	0	0	-42	-157	-176
Net cash flows	-74	-290	205	236	284	379	478
Net profit	-997	-435	95	144	471	527	567
Conversion of cash	n m	n m	n m	n m	0.7	1.0	1.2
NIBD	3,873	2,383	1,996	1,585	1,301	922	444
Equity	1,887	2,132	2,329	2,416	2,845	3,215	3,606
Gearing	205%	112%	86%	66%	46%	29%	12%

Source: Handelsbanken Capital Markets

**Figure 10: Earnings, cash and dividend yields**

2018e and 2019e free  
cash flow yields of  
15% and 20%



Source: Handelsbanken Capital Markets

We expect the company to generate adjusted EBITDA of EUR 850m and EUR 882m for 2018 and 2019 respectively, which we see translating into DPS of EUR 0.42 and EUR 0.45 and attractive dividend yields of 5.5% and 5.9%.

**Table 3: Quarterly divisional estimates and delivery assumptions**

Key figures by quarter (EURm)	Q115	Q215	Q315	Q415	Q116	Q216	Q316	Q416	Q117	Q217	Q317e	Q417e
<b>Deliveries (t)</b>												
Europe	410	413	375	381	421	413	396	395	415	398	376	403
Americas	133	117	139	144	161	177	185	167	182	186	194	175
Long-products	52	62	58	42	50	70	59	65	75	68	63	69
Others & eliminations	25	24	-2	7	-22	-31	-32	-31	-33	-27	-30	-30
<b>Group</b>	<b>620</b>	<b>616</b>	<b>570</b>	<b>574</b>	<b>610</b>	<b>629</b>	<b>608</b>	<b>596</b>	<b>639</b>	<b>625</b>	<b>603</b>	<b>617</b>
<b>Sales</b>												
Europe	1,163	1,140	1,019	995	987	958	946	1,033	1,225	1,147	1,091	1,168
Americas	337	284	301	292	301	311	372	342	416	409	389	351
Long-products	149	159	142	100	100	133	119	134	173	160	150	165
Others & eliminations	119	111	25	48	-2	-23	-18	-3	-57	-57	-40	-40
<b>Group</b>	<b>1,768</b>	<b>1,694</b>	<b>1,487</b>	<b>1,435</b>	<b>1,386</b>	<b>1,379</b>	<b>1,419</b>	<b>1,506</b>	<b>1,757</b>	<b>1,659</b>	<b>1,590</b>	<b>1,644</b>
<b>Adjusted EBITDA</b>												
Europe	78	92	36	74	83	69	108	116	257	178	117	200
Americas	-5	-27	-22	-28	-29	-11	6	-4	29	27	20	24
Long-products	5	7	5	-1	-2	-1	1	2	9	7	6	10
Others & eliminations	-1	-15	-6	5	-14	-7	-5	-16	-1	-12	-10	-10
<b>Group</b>	<b>77</b>	<b>57</b>	<b>13</b>	<b>50</b>	<b>38</b>	<b>50</b>	<b>110</b>	<b>98</b>	<b>294</b>	<b>200</b>	<b>133</b>	<b>224</b>
Reported EO's	-12	-2	-10	358	8	11	31	30	15	10	0	0
Reported EBITDA	65	55	3	408	46	61	141	128	309	210	133	224
D&A	-80	-81	-80	-61	-58	-56	-56	-56	-55	-54	-55	-55
Reported EBIT	-15	-26	-77	347	-12	5	85	72	254	156	78	169

Source: Handelsbanken Capital Markets

**Table 4: Annual divisional estimates and delivery assumptions**

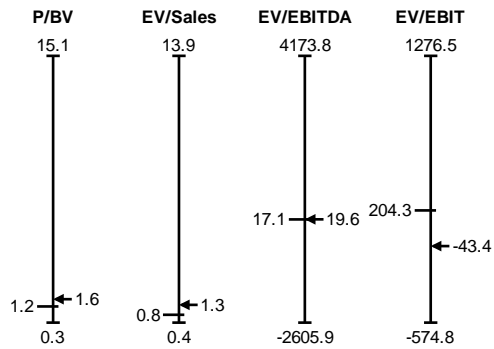
	2015	2016	2017e	2018e	2019e	Delta 2017e	Delta 2018e
Deliveries (t)							
Europe	1,577	1,625	1,592	1,608	1,608	-33	16
Americas	509	690	738	767	767	48	30
Long-products	197	244	274	291	300	30	16
Others & eliminations	105	-116	-120	-120	-120		
<b>Group</b>	<b>2,388</b>	<b>2,443</b>	<b>2,484</b>	<b>2,546</b>	<b>2,555</b>	<b>41</b>	<b>62</b>
Sales							
Europe	4,317	3,924	4,631	4,663	4,663	707	32
Americas	1,214	1,326	1,564	1,611	1,619	238	47
Long-products	550	486	648	698	719	162	50
Others & eliminations	303	-46	-194	-150	-150		
<b>Group</b>	<b>6,384</b>	<b>5,690</b>	<b>6,650</b>	<b>6,822</b>	<b>6,851</b>	<b>960</b>	<b>172</b>
Adjusted EBITDA							
Europe	280	376	752	765	770	376	13
Americas	-82	-38	100	103	111	138	3
Long-products	16	0	32	38	36	32	6
Others & eliminations	-17	-42	-33	-35	-35	9	-2
<b>Group</b>	<b>197</b>	<b>296</b>	<b>851</b>	<b>872</b>	<b>882</b>	<b>555</b>	<b>21</b>
<b>Whereof FeCr operations</b>	<b>242</b>	<b>172</b>	<b>262</b>	<b>256</b>	<b>256</b>		
D&A	-302	-252	-219	-220	-220		
<b>Underlying EBIT</b>	<b>-105</b>	<b>44</b>	<b>632</b>	<b>652</b>	<b>662</b>	<b>588</b>	<b>20</b>

Source: Handelsbanken Capital Markets

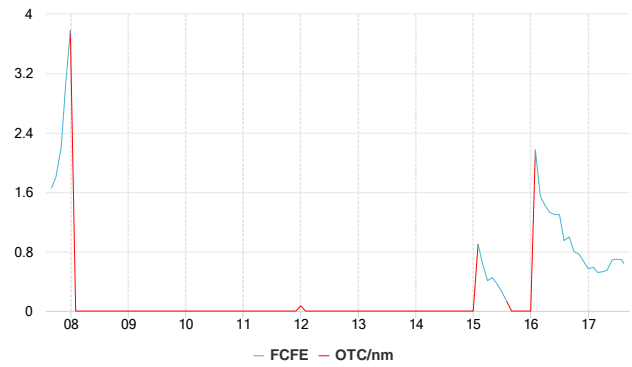
We base our 2018 estimates on largely unchanged European base prices and 85% capacity utilisation for FeCR operations

## Valuation charts

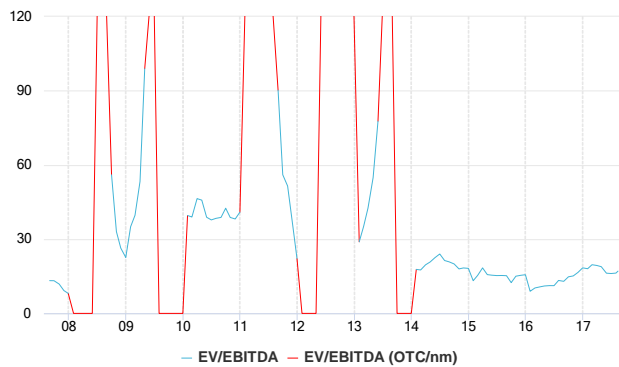
### Current vs. high/low/median, 10 years



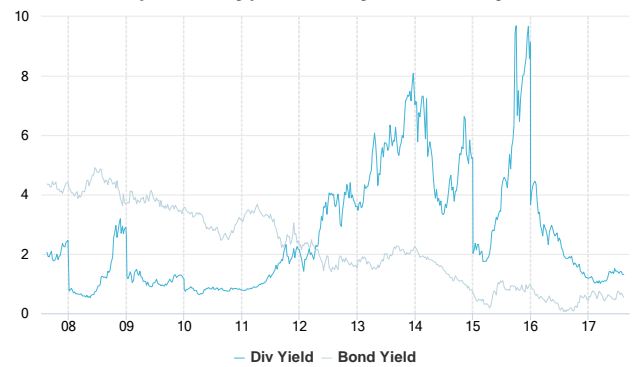
### FCFE yield %



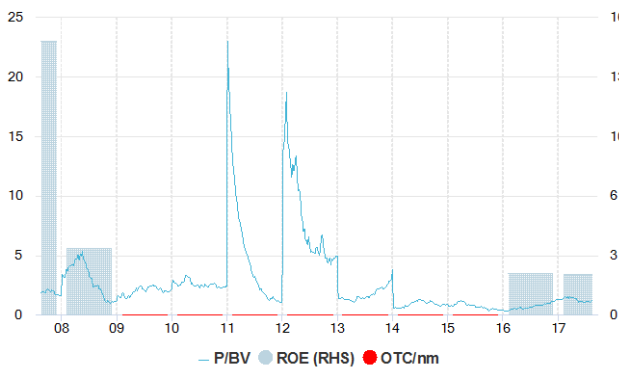
### EV/EBITDA x



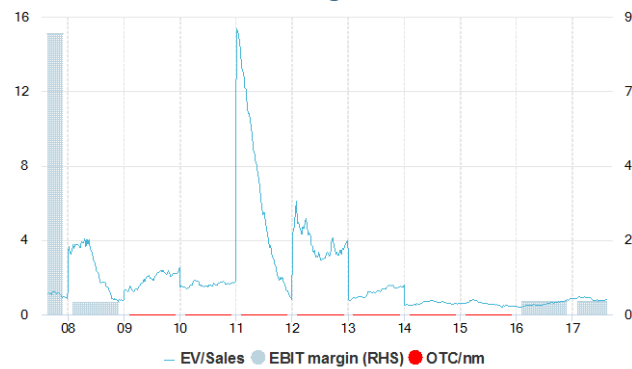
### Dividend (ordinary) and 10-year bond yield %



### P/BV x and ROE %



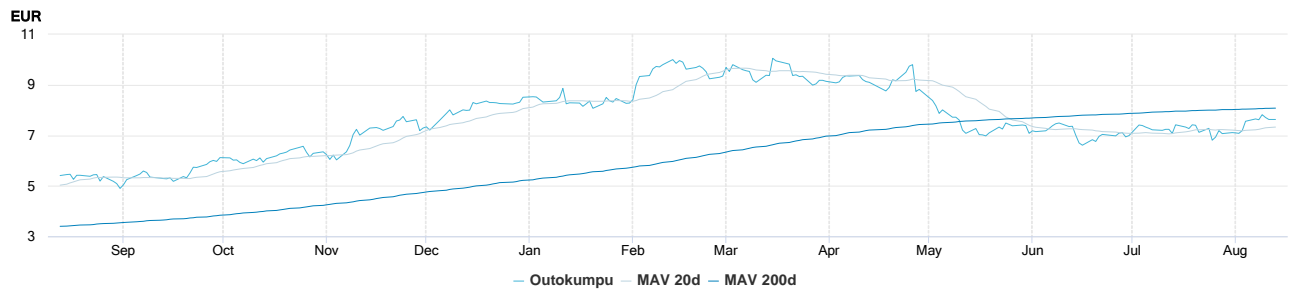
### EV/sales x and EBIT margin %



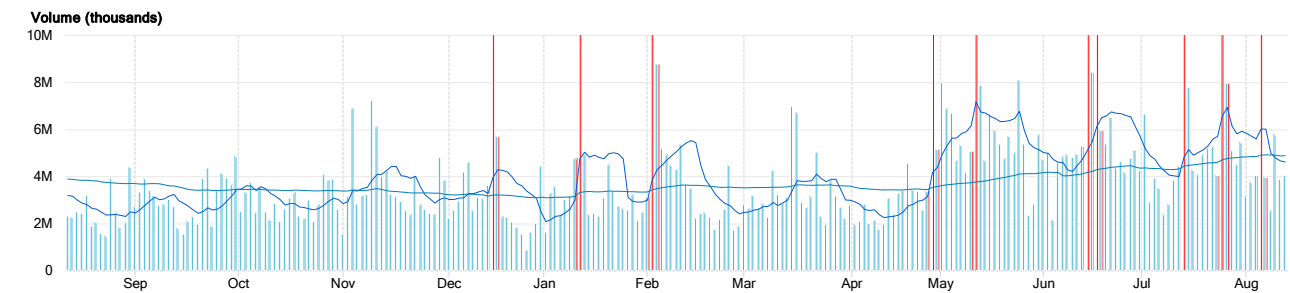
Source: Handelsbanken Capital Markets and company fundamentals

## Technical indicators, six months

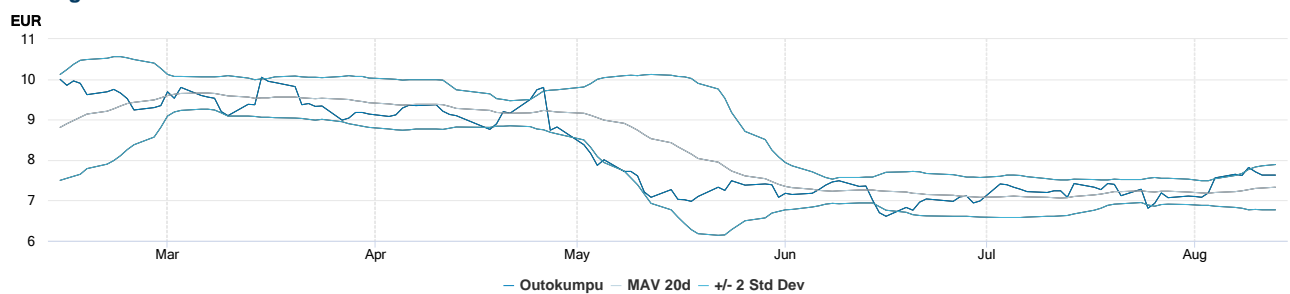
### Share price - 20d/200d MAV



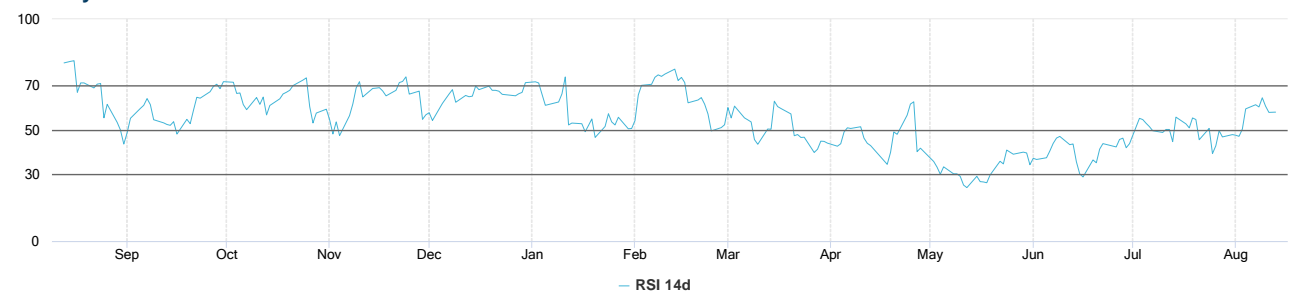
### Volume - 1 year



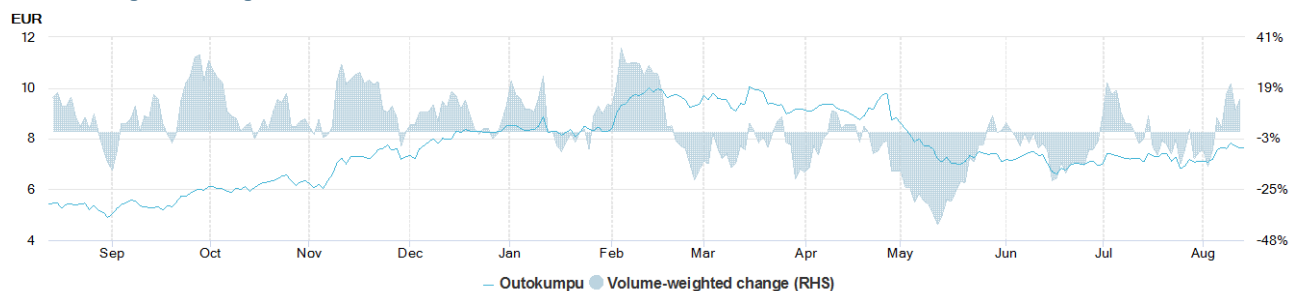
### Bollinger band - 6m



### RSI - 1 year



### Volume-weighted change



Source: FactSet

Note: RSI compares the magnitude of recent share price gains with the magnitude of recent share price losses. Rule-of-thumb: RSI>70 => overbought. RSI<30 oversold. VWC is the volume weighted relation between [close-open] and [high-low] and indicates the momentum of the price change.

## Momentum

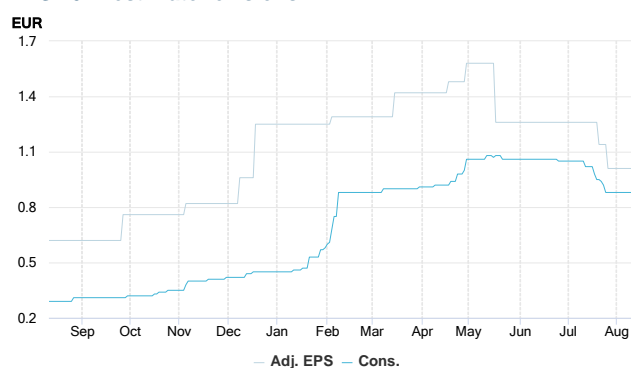
### Share price and recommendation



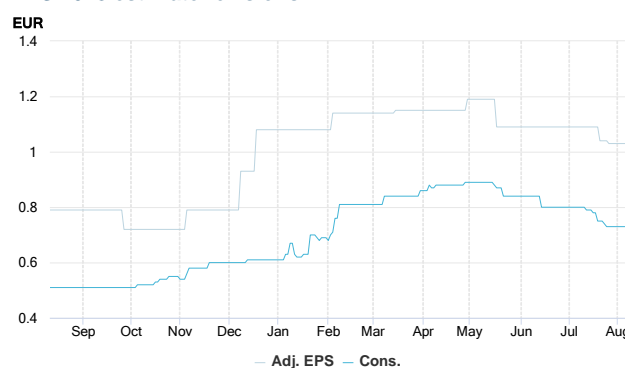
### Target and share price



### EPS 2017 estimate revisions



### EPS 2018 estimate revisions



Source: Handelsbanken Capital Markets and FactSet

### Opportunities

- High global demand growth
- Production shut-downs in China
- Trade protectionism
- Nickel price increases impacting the inventory cycle

Source: Handelsbanken Capital Markets

### Risks

- Lower global demand
- Supply growth in China
- Lower Nickel price impacting the inventory cycle

Source: Handelsbanken Capital Markets

## Valuation data

EUR	2012	2013	2014	2015	2016	2017e	2018e	2019e
Share price year-end/current	6.9	3.55	4.77	2.73	8.5	7.6	7.6	7.6
Share price high	18.8	7.5	7.5	8.2	8.6	10.5	-	-
Share price low	5.5	3.03	3.36	1.98	2.06	6.5	-	-
Market cap (m)	14,416	7,384	1,987	1,138	3,541	3,177	3,177	3,177
Net debt (m)	3,785	3,873	2,383	1,996	1,585	1,301	922.4	444.0
MV associates (m)	80.0	66.0	78.0	63.0	67.0	67.0	67.0	67.0
MV minorities (m)	26.4	4.0	-	-	-	-	-	-
EV (m)	18,147	11,195	4,292	3,071	5,059	4,411	4,032	3,554
P/E reported (x)	n.m	n.m	n.m	11.9	25.2	7.2	6.4	6.0
P/E adj (x)	n.m	n.m	n.m	n.m	53.2	7.5	6.4	6.0
P/CEPS (x)	n.m	n.m	n.m	3.5	9.6	4.9	4.5	4.3
P/BV (x)	4.93	3.91	0.93	0.44	1.33	1.11	0.99	0.89
ROE adj (%)	-15.4	-15.4	-15.8	-11.1	2.7	17.1	17.4	16.6
Pre-tax ROIC (%)	-7.1	-8.2	-4.7	5.2	2.5	16.1	15.7	16.2
EV/sales (x)	4.0	1.7	0.6	0.5	0.9	0.7	0.6	0.5
EV/EBITDA (x)	>99	n.m	18.2	15.7	18.4	5.2	4.6	4.0
EV/EBIT (x)	n.m	n.m	n.m	n.m	>99	7.0	6.2	5.4
EBIT adj margin (%)	-4.1	-6.4	-1.3	-1.7	0.40	9.5	9.6	9.7
EBITDA adj margin (%)	3.3	-1.3	3.4	3.1	4.8	12.8	12.8	12.9
FCF adj yield (%)	-0.25	-2.0	-13.6	-16.3	4.6	9.4	16.9	20.6
Tot div yield (%)	0	0	0	0	1.2	4.9	5.5	6.0
Payout ratio (%)	0	0	0	0	29.6	35.5	35.5	35.6

Source: Handelsbanken Capital Markets

## Peer group valuation

	CCY	Price (Sh. curr.)	Mcap (EURm)	-1m	-3m	Perf. (%)
						-12m
<b>Acerinox</b>	EUR	10.7	2,957	-9.4	-12.3	-10.0
AK Steel Holding	USD	5.1	1,364	-17.2	-10.8	-4.3
Aperam	USD	49.3	3,405	3.0	3.0	15.1
ArcelorMittal	USD	25.8	22,369	10.3	9.5	35.5
Klöckner	EUR	9.3	929	-4.1	-5.7	-26.9
<b>Outokumpu</b>	EUR	7.6	3,177	5.4	5.8	41.6
POSCO	KRW	317,000	20,497	2.9	17.2	47.1
<b>SSAB</b>	SEK	39.4	4,224	-3.5	6.2	51.3
ThyssenKrupp*	EUR	25.7	14,545	-2.9	15.4	20.5
United States Steel	USD	23.2	3,431	3.8	13.5	2.1
Voestalpine*	EUR	42.4	7,471	1.0	9.3	38.4
<b>Average</b>				<b>-1.0</b>	<b>4.6</b>	<b>19.1</b>
<b>Median</b>				<b>1.0</b>	<b>6.2</b>	<b>20.5</b>
<b>Average excl. Acerinox</b>				<b>-0.1</b>	<b>6.3</b>	<b>22.0</b>
<b>Median excl. Acerinox</b>				<b>2.0</b>	<b>7.7</b>	<b>28.0</b>

Source: Handelsbanken Capital Markets and FactSet

## DCF model assumptions

EURm	2016	2017e	2018e	2019e	2020e	2021e	2026e	2031e	2036e
Sales	5,690	6,650	6,822	6,851	6,859	6,866	n.m	-	n.m
EBITDA - Reported	355.0	875.0	871.7	881.9	886.9	886.9	0.0	0.0	0.0
EBITA2 - Reported (=EBITA bef gw amort) (use: IS)	103.0	656.0	651.7	661.9	666.9	666.9	0.0	0.0	0.0
Sales CAGR (%)	-10.9	16.9	2.6	0.4	0.1	0.1	0.0	0.0	0.0
EBITDA growth (%)	40.3	209.1	2.6	1.2	0.6	0.0	n.m	n.m	n.m
EBITA growth (%)	n.m	>900	3.3	1.6	0.8	0.0	n.m	n.m	n.m
EBITDA margin (%)	4.8	12.8	12.8	12.9	12.9	12.9	n.m	n.m	n.m
EBITA margin (%)	0.40	9.5	9.6	9.7	9.7	9.7	7.0	7.0	7.0
Capex/sales (%)	2.7	2.6	2.6	2.5	2.5	2.5	3.0	3.0	3.0
Capex/depreciation (x)	0.62	0.80	0.80	0.77	0.77	0.77	1.0	1.0	1.0
Networking cap/sales (%)	7.8	9.5	10.0	10.0	10.0	10.0	14.0	14.0	14.0

WACC assumptions (%)	Calculation of DCF (EURm)	DCF checkpoints (%)
Risk-free interest rate 2.0	NPV FCFF 6,549	5y hist sales growth 2.6
Equity market risk premium 4.5	ND inc off-BS & Hybrids (EUR) 1,585	5y exp sales growth 3.8
Equity beta (x) 1.3	Market value Preferred stock 0.0	Sustainable growth 0
Implicit asset beta (x) 0.78	Market value Associates 67	Sust EBITDA margin 4.8
Cost of equity 7.9	Market value Minorities 0.0	Sust EBITA margin 7.0
Pre-tax cost of debt 5.0	Surplus values 0.0	Sust after-tax ROIC 9.7
Equity weight 80.0	Other adjustments 0.0	Terminal value/DCF 21.6
WACC 7.1	DCF value 6,616	Implicit equity weight 80.5
	DCF value/share (EUR) 12.1	Share price potential to DCF value 58.4

Source: Handelsbanken Capital Markets

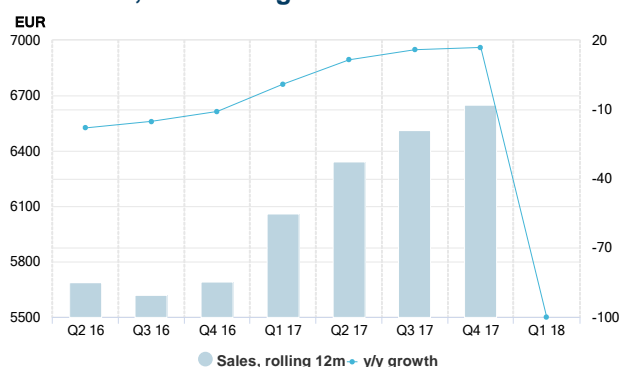
## P&amp;L accounts – quarterly data

EURm	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17e	Q4 17e	Q1 18e
<b>P&amp;L</b>								
Sales	1,379	1,419	1,506	1,757	1,659	1,590	1,644	0.0
Total op expenses	-1,317	-1,323	-1,355	-1,448	-1,451	-1,457	-1,419	n.m
EBITDA	62.0	96.0	151.0	309.0	208.0	132.7	225.2	0.0
Depreciation & impairment	-56.0	-56.0	-82.0	-55.0	-54.0	-55.0	-55.0	0.0
EBIT	6.0	40.0	69.0	254.0	154.0	77.7	170.2	0.0
Net financials	-28.0	-29.0	-29.0	-32.0	-32.0	-25.0	-26.0	0.0
Associated income	0.0	0.0	5.0	-	-	-	-	-
EBT	-22.0	11.0	45.0	222.0	122.0	52.7	144.2	0.0
Reported tax	1.0	0.0	149.0	-41.0	-19.0	-5.0	-5.0	0.0
tax rate (%)	4.5	0	<-200	18.5	15.6	9.5	3.5	0
Net income	-21.0	11.0	194.0	181.0	103.0	47.7	139.2	0.0
<b>Growth (%)</b>								
Sales	-18.6	-4.6	4.9	26.8	20.3	12.0	9.2	n.m
Total expenses	-19.6	-10.8	31.8	8.1	10.2	10.1	4.7	-100.0
EBITDA	12.7	>900	-62.9	571.7	235.5	38.3	49.2	n.m
EBIT	n.m	n.m	-80.1	n.m	>900	94.3	146.7	n.m
EBT	n.m	n.m	-87.2	n.m	n.m	379.4	220.5	n.m
Net income	n.m	n.m	-38.2	n.m	n.m	334.0	-28.2	n.m
<b>of sales (%)</b>								
EBITDA margin	4.5	6.8	10.0	17.6	12.5	8.4	13.7	n.m
EBIT margin	0.44	2.8	4.6	14.5	9.3	4.9	10.4	n.m
EBT margin	-1.6	0.78	3.0	12.6	7.4	3.3	8.8	n.m
Net margin	-1.5	0.78	12.9	10.3	6.2	3.0	8.5	n.m
<b>Adjusted values</b>								
Total adjustments to net inc	11.0	31.0	30.0	0.0	0.0	0.0	20.0	-
EBITDA	51.0	65.0	121.0	309.0	208.0	132.7	200.2	0.0
margin (%)	3.7	4.6	8.0	17.6	12.5	8.4	12.2	n.m
EBITA	-5.0	9.0	39.0	254.0	154.0	77.7	145.2	0.0
margin (%)	-0.36	0.63	2.6	14.5	9.3	4.9	8.8	n.m
EBIT	-5.0	9.0	39.0	254.0	154.0	77.7	145.2	0.0
margin (%)	-0.36	0.63	2.6	14.5	9.3	4.9	8.8	n.m
EBT	-33.0	-20.0	15.0	222.0	122.0	52.7	119.2	0.0
Net income	-32.0	-20.0	164.0	181.0	103.0	47.7	119.2	0.0

Source: Handelsbanken Capital Markets

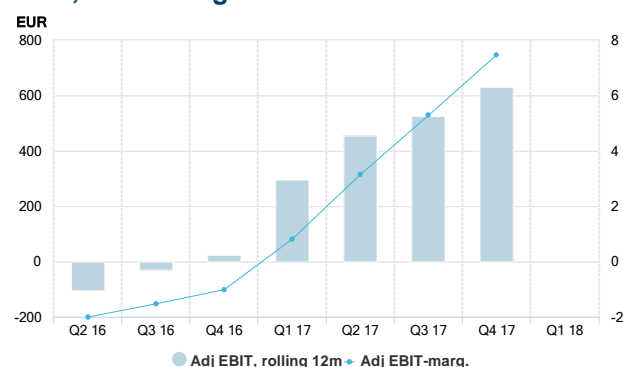


## Revenues, 12m rolling



Source: Handelsbanken Capital Markets

## EBIT, 12m rolling



Source: Handelsbanken Capital Markets

## Business areas – quarterly data

EURm	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17e	Q4 17e	Q1 18e
<b>Sales</b>								
Europe	958.0	946.0	1,033	1,225	1,147	1,091	1,168	0.0
Americas	311.0	372.0	342.0	416.0	409.0	388.5	350.7	0.0
Long Products	133.0	119.0	134.0	173.0	160.0	150.1	165.4	0.0
Other	-23.0	-18.0	-3.0	-57.0	-57.0	-40.0	-40.0	0.0
<b>Total</b>	<b>1,379</b>	<b>1,419</b>	<b>1,506</b>	<b>1,757</b>	<b>1,659</b>	<b>1,590</b>	<b>1,644</b>	<b>0</b>
<b>Y-o-y sales growth (%)</b>								
Europe	-16.0	-7.2	3.8	24.1	19.7	15.3	13.1	n.m
Americas	9.5	23.6	17.1	38.2	31.5	4.4	2.5	n.m
Long Products	-16.4	-16.2	34.0	73.0	20.3	26.1	23.4	n.m
Other	-121	-172	-106	>900	148	122	>900	n.m
<b>Total</b>	<b>-18.6</b>	<b>-4.6</b>	<b>4.9</b>	<b>26.8</b>	<b>20.3</b>	<b>12.0</b>	<b>9.2</b>	<b>n.m</b>
<b>Underlying EBITDA</b>								
Europe	69.0	108.0	116.0	257.0	178.0	116.7	199.8	0.0
Americas	-11.0	6.0	-4.0	29.0	27.0	20.0	24.5	0.0
Long Products	-	-	-	9.0	7.0	6.0	9.9	0.0
Other	-7.0	-5.0	-16.0	-1.0	-12.0	-10.0	-10.0	0.0
<b>Total</b>	<b>50.0</b>	<b>110</b>	<b>98.0</b>	<b>294</b>	<b>200</b>	<b>133</b>	<b>224</b>	<b>0</b>
<b>Underlying EBITDA margin (%)</b>								
Europe	7.2	11.4	11.2	21.0	15.5	10.7	17.1	n.m
Americas	-3.5	1.6	-1.2	7.0	6.6	5.1	7.0	n.m
Long Products	0	0	0	5.2	4.4	4.0	6.0	n.m
Other	30.4	27.8	533	1.8	21.1	25.0	25.0	n.m
<b>Total</b>	<b>3.6</b>	<b>7.8</b>	<b>6.5</b>	<b>16.7</b>	<b>12.1</b>	<b>8.4</b>	<b>13.6</b>	<b>n.m</b>

Source: Handelsbanken Capital Markets

**P&L accounts – annual data**

EURm	2012	2013	2014	2015	2016	2017e	2018e	2019e
<b>Income statement</b>								
Sales	4,538	6,745	6,844	6,384	5,690	6,650	6,822	6,851
Total op expenses	-4,587	-6,909	-6,736	-5,854	-5,335	-5,775	-5,951	-5,969
EBITDA	-49.0	-164.4	108.0	530.0	355.0	875.0	871.7	881.9
Depreciation & impairment	-336.0	-346.0	-351.0	-302.0	-252.0	-219.0	-220.0	-220.0
EBITA	-385.0	-510.4	-243.0	228.0	103.0	656.0	651.7	661.9
<b>EBIT</b>	<b>-385</b>	<b>-510</b>	<b>-243</b>	<b>228</b>	<b>103</b>	<b>656</b>	<b>652</b>	<b>662</b>
change	-	-37.0	-	-	-	-	-	-
Net interest expenses	-66.0	-197.0	-140.0	-126.0	-105.0	-115.0	-75.0	-45.0
Net financials	-139.0	-310.0	-223.0	-150.0	-120.0	-115.0	-75.0	-45.0
Associated income	-	-2.0	7.0	49.0	5.0	-	-	-
Paid tax	-1.0	-4.0	-	-	-	-5.0	-10.0	-10.0
Deferred tax	-	-7.0	26.0	-	-	-65.0	-40.0	-40.0
Reported tax	-12.0	-11.0	8.0	-41.0	156.0	-70.0	-50.0	-50.0
tax rate (%)	-2.3	-1.3	1.7	32.3	>999	12.9	8.7	8.1
Discontinued ops	-	-170.0	11.0	-	-	-	-	-
Minorities	-	6.0	5.0	9.0	-	-	-	-
<b>Net income</b>	<b>-536.0</b>	<b>-997.4</b>	<b>-435.0</b>	<b>95.0</b>	<b>144.0</b>	<b>471.0</b>	<b>526.7</b>	<b>566.9</b>
<b>Growth (%)</b>								
Sales	-9.4	48.6	1.5	-6.7	-10.9	16.9	2.6	0.4
Total expenses	-7.8	50.6	-2.5	-13.1	-8.9	8.2	3.0	0.3
EBITDA	n.m	n.m	n.m	390.7	-33.0	146.5	-0.4	1.2
EBIT	n.m	n.m	n.m	n.m	-54.8	536.9	-0.7	1.6
EBT	n.m	n.m	n.m	n.m	n.m	n.m	6.6	7.0
Net income	n.m	n.m	n.m	n.m	51.6	227.1	11.8	7.6
<b>of sales (%)</b>								
EBITDA margin	-1.1	-2.4	1.6	8.3	6.2	13.2	12.8	12.9
EBIT margin	-8.5	-7.6	-3.6	3.6	1.8	9.9	9.6	9.7
EBT margin	-11.5	-12.2	-6.7	2.0	-0.21	8.1	8.5	9.0
Net margin	-11.8	-14.9	-6.4	1.3	2.5	7.1	7.7	8.3
<b>Profitability (%)</b>								
ROE reported	-21.5	-34.4	-22.2	4.3	6.1	17.9	17.4	16.6
ROE adj	-15.6	-22.3	-15.0	-10.7	2.7	17.1	17.4	16.6
ROCE	n.m	n.m	n.m	n.m	0.52	14.6	14.7	14.2
Pre-tax ROIC	-7.1	-8.2	-4.7	5.2	2.5	16.1	15.7	16.2
After tax ROIC	-7.2	-8.2	-4.7	5.2	2.5	16.0	15.5	15.9
Sales/capital invested (x)	0.84	1.1	1.3	1.4	1.4	1.6	1.6	1.7
Sales/total assets (x)	0.61	0.73	0.90	1.0	0.96	1.1	1.1	1.1
<b>Adjusted values</b>								
Total adjustments to net inc	-147.3	-291.0	-144.0	334.0	80.0	20.0	-	-
EBITDA	150.0	-87.4	236.0	196.0	275.0	850.0	871.7	881.9
margin (%)	3.3	-1.3	3.4	3.1	4.8	12.8	12.8	12.9
EBITA	-186.0	-433.4	-88.0	-106.0	23.0	631.0	651.7	661.9
margin (%)	-4.1	-6.4	-1.3	-1.7	0.40	9.5	9.6	9.7
EBIT	-186.0	-433.4	-88.0	-106.0	23.0	631.0	651.7	661.9
margin (%)	-4.1	-6.4	-1.3	-1.7	0.40	9.5	9.6	9.7
EBT	-325.0	-696.4	-304.0	-207.0	-92.0	516.0	576.7	616.9
<b>Net income</b>	<b>-388.7</b>	<b>-706.4</b>	<b>-291.0</b>	<b>-239.0</b>	<b>64.0</b>	<b>451.0</b>	<b>526.7</b>	<b>566.9</b>

Source: Handelsbanken Capital Markets

**Business areas – annual data**

EURm	2012	2013	2014	2015	2016	2017e	2018e	2019e
<b>Sales</b>								
Europe	-	-	4,686	4,317	3,924	4,631	4,663	4,663
Americas	-	-	1,291	1,214	1,326	1,564	1,611	1,619
Long Products	-	-	652	550	486	648	698	719
Other	-	-	215	303	-46	-194	-150	-150
<b>Total</b>	<b>4,538</b>	<b>6,745</b>	<b>6,844</b>	<b>6,384</b>	<b>5,690</b>	<b>6,650</b>	<b>6,822</b>	<b>6,851</b>
<b>Sales growth (%)</b>								
Europe	n.m	n.m	n.m	-8	-9	18	1	0
Americas	n.m	n.m	n.m	-6	9	18	3	0
Long Products	n.m	n.m	n.m	-16	-12	33	8	3
Other	n.m	n.m	n.m	41	-115	322	-23	0
<b>Total</b>	<b>-9.4</b>	<b>48.6</b>	<b>1.5</b>	<b>-6.7</b>	<b>-10.9</b>	<b>16.9</b>	<b>2.6</b>	<b>0.42</b>
<b>Underlying EBITDA</b>								
Europe	-	-	251	280	376	752	765	770
Americas	-	-	-16	-82	-38	100	103	111
Long Products	-	-	39	16	-	32	38	36
Other	-	-	-42	-17	-42	-33	-35	-35
<b>Total</b>	<b>-</b>	<b>-</b>	<b>232</b>	<b>197</b>	<b>296</b>	<b>851</b>	<b>872</b>	<b>882</b>
<b>Underlying EBITDA margin (%)</b>								
Europe	n.m	n.m	5.4	6.5	9.6	16.2	16.4	16.5
Americas	n.m	n.m	-1.2	-6.8	-2.9	6.4	6.4	6.9
Long Products	n.m	n.m	6.0	2.9	0	4.9	5.5	5.0
Other	n.m	n.m	-19.5	-5.6	91.3	17.0	23.3	23.3
<b>Total</b>	<b>0</b>	<b>0</b>	<b>3.4</b>	<b>3.1</b>	<b>5.2</b>	<b>12.8</b>	<b>12.8</b>	<b>12.9</b>

Source: Handelsbanken Capital Markets

**Forecast balance sheet – annual data**

EURm	2013	2014	2015	2016	2017e	2018e	2019e
Accounts receivable	855	749	686	687	798	819	822
Inventory	1,216	1,527	1,251	1,232	1,230	1,296	1,302
Other current assets	2,200	40	53	117	133	136	137
Cash & other interest-bearing	607	191	186	204	188	267	745
<b>Current assets</b>	<b>4,878</b>	<b>2,507</b>	<b>2,176</b>	<b>2,240</b>	<b>2,349</b>	<b>2,518</b>	<b>3,006</b>
Goodwill	470	467	400	406	406	406	406
Other intangible	100	100	98	98	98	98	98
Tangible assets	3,254	3,138	3,005	2,874	2,805	2,760	2,710
Shares associates	66	78	63	67	67	67	67
Oth non-IB fixed assets	55	92	91	251	251	251	251
Other financial assets	-	29	41	54	54	54	54
<b>Total assets</b>	<b>8,823</b>	<b>6,411</b>	<b>5,874</b>	<b>5,990</b>	<b>6,030</b>	<b>6,154</b>	<b>6,592</b>
Equity	1,887	2,132	2,329	2,416	2,845	3,215	3,606
Minorities	4	n.m	n.m	n.m	n.m	n.m	n.m
Shareholder equity	1,891	2,132	2,329	2,416	2,845	3,215	3,606
Pension provisions	317	372	369	356	356	356	356
Deferred tax liabilities	204	31	16	22	87	127	167
Convertible debt	-	-	250	250	250	250	250
LT interest-bearing debt	3,270	1,662	1,057	779	479	179	179
ST interest-bearing debt	893	569	547	458	458	458	458
Provisions	-	198	113	118	25	-	-
Trade payables	1,200	1,447	1,193	1,591	1,530	1,569	1,576
Other current liabilities	1,048	n.m	n.m	n.m	n.m	n.m	n.m
<b>Current liabilities</b>	<b>3,141</b>	<b>2,016</b>	<b>1,740</b>	<b>2,049</b>	<b>1,988</b>	<b>2,027</b>	<b>2,034</b>
<b>Total equity &amp; liabilities</b>	<b>8,823</b>	<b>6,411</b>	<b>5,874</b>	<b>5,990</b>	<b>6,030</b>	<b>6,154</b>	<b>6,592</b>
Net interest bearing debt	3,873	2,383	1,996	1,585	1,301	922	444

Source: Handelsbanken Capital Markets

## Forecast cash flow

EURm	2012	2013	2014	2015	2016	2017e	2018e	2019e
<b>EBIT before associates</b>	<b>-385.0</b>	<b>-510.4</b>	<b>-243.0</b>	<b>228.0</b>	<b>103.0</b>	<b>656.0</b>	<b>651.7</b>	<b>661.9</b>
+ Net financials	-69.0	-101.0	-126.0	-107.0	-94.0	-115.0	-75.0	-45.0
- Paid tax	-1.0	-4.0	-8.0	-41.0	-	-5.0	-10.0	-10.0
- Chg in NWC	394.0	297.0	-50.0	223.0	307.0	-186.8	-50.5	-2.9
+ Depreciation/impairment	336.0	346.0	352.0	304.0	252.0	219.0	220.0	220.0
+ Other adjustment	-9.0	6.4	-51.0	-641.0	-250.6	-93.0	-25.0	n.m
<b>Cash flow from operations (CFFO)</b>	<b>266.0</b>	<b>34.0</b>	<b>-126.0</b>	<b>-34.0</b>	<b>317.4</b>	<b>475.2</b>	<b>711.2</b>	<b>824.0</b>
- Net recurring capex	-302.0	-183.0	-144.0	-151.0	-156.0	-175.0	-175.0	-170.0
<b>FCF bef Acq. &amp; Div. (FCF)</b>	<b>-36.0</b>	<b>-149.0</b>	<b>-270.0</b>	<b>-185.0</b>	<b>161.4</b>	<b>300.2</b>	<b>536.2</b>	<b>654.0</b>
- Acquisitions	-915.0	-111.0	-	-	-	-	-	-
+ Divestments	22.0	186.0	-20.0	390.0	75.0	25.0	-	-
<b>FCF to equity (FCFE)</b>	<b>-929.0</b>	<b>-74.0</b>	<b>-290.0</b>	<b>205.0</b>	<b>236.4</b>	<b>325.2</b>	<b>536.2</b>	<b>654.0</b>
- Paid dividends to shareholders	n.m	n.m	n.m	n.m	n.m	-41.6	-157.1	-175.7
+ New share issue	972.0	n.m	640.0	n.m	n.m	n.m	n.m	n.m
Other adjustments	-1,862	-14.0	1,140	182.0	174.6	-	-	-
<b>NET cash flow/change in NIBD</b>	<b>-1,819</b>	<b>-88.0</b>	<b>1,490</b>	<b>387.0</b>	<b>411.0</b>	<b>283.6</b>	<b>379.1</b>	<b>478.3</b>
Funds from operations (FFO)	-128.0	-263.0	-76.0	-257.0	10.4	662.0	761.7	826.9
Cash flow from operations (CFFO)	266.0	34.0	-126.0	-34.0	317.4	475.2	711.2	824.0
FCF bef Acquisitions & Divestments (FCF)	-36.0	-149.0	-270.0	-185.0	161.4	300.2	536.2	654.0
FCF to equity (FCFE)	-929.0	-74.0	-290.0	205.0	236.4	325.2	536.2	654.0

Source: Handelsbanken Capital Markets

## Financial ratios – annual data

%	2012	2013	2014	2015	2016	2017e	2018e	2019e
Equity/total assets	30.5	21.4	33.3	39.6	40.3	47.2	52.2	54.7
Net debt/equity	128	205	112	85.7	65.6	45.7	28.7	12.3
Net debt/EBITDA (x)	n.m	n.m	22.1	3.8	4.5	1.5	1.1	0.5
Net cash flow/capex	<-200	-48.1	>500	256	263	162	217	281
EBITDA net interest cover (x)	n.m	n.m	0.8	4.2	3.4	7.6	11.6	19.6
EBIT net interest cover (x)	n.m	n.m	n.m	1.8	1.0	5.7	8.7	14.7
FCFF/total debt	0.79	-1.1	-5.5	-3.5	13.9	26.7	48.3	55.3
Total debt/capital	58.6	70.3	55.0	48.8	43.3	35.2	27.9	25.6
Short-term debt/capital	10.7	14.0	12.0	12.0	10.8	10.4	10.3	9.4
Long-term debt/capital	41.7	51.3	35.1	23.2	18.3	10.9	4.0	3.7
Inventory/sales	50.9	18.0	22.3	19.6	21.7	18.5	19.0	19.0
Receivables/sales	54.7	45.3	11.5	11.6	14.1	14.0	14.0	14.0
Accounts payable/sales	51.6	33.3	24.0	20.5	30.0	23.4	23.0	23.0
Working capital/sales	54.0	30.0	12.7	12.5	7.8	9.5	10.0	10.0
Current ratio	161	155	124	125	109	118	124	148
Quick ratio	87.1	117	48.6	53.2	49.2	56.3	60.3	83.8

Source: Handelsbanken Capital Markets

## Per share data

m	2012	2013	2014	2015	2016	2017e	2018e	2019e
No of shares, year-end	2,077	2,077	416.4	416.4	416.4	450.0	450.0	450.0
No of shares, average	2,077	2,077	416.4	450.0	450.0	450.0	450.0	450.0
EPS reported (EUR)	-0.26	-0.48	-1.04	0.23	0.34	1.06	1.19	1.28
Y-o-y growth (%)	n.m	n.m	n.m	n.m	47.6	215.1	11.6	7.5
EPS adj (EUR)	-0.19	-0.34	-0.70	-0.51	0.16	1.02	1.19	1.28
Y-o-y growth (%)	n.m	n.m	n.m	n.m	n.m	537.5	16.5	7.5
Cash earnings (EUR)	-0.10	-0.23	-0.24	0.79	0.89	1.55	1.68	1.77
DPS - ordinary (EUR)	-	-	-	-	0.10	0.38	0.42	0.45
Payout ratio (%)	0.0	0.0	0.0	0.0	29.6	35.5	35.5	35.6
Tot cash payout ratio (%)	0.0	0.0	0.0	0.0	0.0	9.4	31.8	33.0
Book value (EUR)	1.41	0.91	5.1	6.2	6.4	6.9	7.7	8.6
Y-o-y growth (%)	-87.6	-35.5	463.6	21.0	3.4	7.4	11.9	11.3
Net debt (EUR)	1.82	1.86	5.7	4.79	3.81	2.89	2.05	0.99
NAV (EUR)	1.11	0.63	3.76	5.00	5.2	5.8	6.6	7.4

Source: Handelsbanken Capital Markets

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### Ratings: definitions and allocations

HCM rating	R <sub>TP</sub> is expected to be <sup>1</sup>	HCM Universe <sup>2</sup>	IB services <sup>3</sup>
<b>Buy</b>	above 20%	21%	13%
<b>Accumulate</b>	+5% to +20%	54%	14%
<b>Reduce</b>	-15% to +5%	24%	24%
<b>Sell</b>	below -15%	1%	0%

<sup>1</sup> R<sub>TP</sub> is defined as the expected share price appreciation or depreciation including dividends over the next 12 months

<sup>2</sup> Percentage of companies under coverage within each recommendation

<sup>3</sup> Percentage of companies within each recommendation for which investment banking services have been provided in the past 12 months

Source: Handelsbanken Capital Markets, as per 14/8 2017

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Aug 13, 2017:

On 2016-01-08 the recommendation Reduce, which was set on 2015-05-12 at the share price of EUR 5.23, was changed to the current recommendation Buy at a share price of EUR 2.40.

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## Company overview

EURm	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017e	2018e	2019e
<b>P&amp;L</b>																			
Sales	5,324	5,558	5,922	5,122	5,552	6,154	6,913	5,474	2,611	4,229	5,009	4,538	6,745	6,844	6,384	5,690	6,650	6,822	6,851
growth (%)	44	4	7	-14	8	11	12	-21	-52	62	18	-9	49	1	-7	-11	17	3	0.4
EBITDA	410	540	540	719	299	1,045	793	118	-209	169	35	-49	-164	108	530	355	875	872	882
margin (%)	7.7	9.7	9.1	14.0	5.4	17.0	11.5	2.1	-8.0	4.0	0.70	-1.1	-2.4	1.6	8.3	6.2	13.2	12.8	12.9
EBITA	202	297	258	488	105	841	609	-43	-438	-83	-260	-385	-510	-243	228	103	656	652	662
margin (%)	3.8	5.3	4.4	9.5	1.9	13.7	8.8	-0.79	-16.8	-2.0	-5.2	-8.5	-7.6	-3.6	3.6	1.8	9.9	9.6	9.7
EBIT	183	267	214	468	83	824	589	-63	-438	-83	-260	-385	-510	-243	228	103	656	652	662
margin (%)	3.4	4.8	3.6	9.1	1.5	13.4	8.5	-1.2	-16.8	-2.0	-5.2	-8.5	-7.6	-3.6	3.6	1.8	9.9	9.6	9.7
Net income	74	166	111	383	-335	961	639	-189	-333	-124	-181	-536	-997	-435	95	144	471	527	567
growth (%)	n.m	124	-33.1	245	n.m	n.m	-33.5	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	51.6	227	11.8	7.6
Adj net income	74	166	111	383	132	279	432	-49	-318	-111	-285	-389	-706	-291	-239	64	451	527	567
growth (%)	n.m	124	-33.1	245	-65.6	112	54.5	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	605	16.8	7.6
<b>Balance sheet</b>																			
Tangible assets	-	3,088	2,668	2,743	2,125	2,069	1,980	2,027	2,099	2,054	2,005	3,697	3,254	3,138	3,005	2,874	2,805	2,760	2,710
Goodwill	-	-	-	-	-	-	-	-	482	483	448	529	470	467	400	406	406	406	406
Current assets	-	2,604	2,567	3,250	2,498	3,400	2,925	2,276	1,693	2,432	2,333	5,014	4,878	2,507	2,176	2,240	2,349	2,518	3,006
Cash	-	195	231	211	212	320	86	371	150	199	168	222	607	191	186	204	188	267	745
Total assets	-	6,327	6,397	7,077	5,507	6,414	5,910	5,341	4,850	5,634	5,246	9,671	8,823	6,411	5,874	5,990	6,030	6,154	6,592
Equity	-	1,906	2,048	2,468	2,047	3,054	3,323	2,794	2,451	2,374	2,070	2,926	1,887	2,132	2,329	2,416	2,845	3,215	3,606
Minority	-	-	-	-	15	17	13	1	-	2	14	26	4	-	-	-	-	-	-
LT int bearing debt	-	1,493	1,777	1,971	1,707	1,360	992	1,218	1,039	1,529	1,197	2,974	3,270	1,662	1,057	779	479	179	179
ST int bearing debt	-	-	986	1,103	501	632	464	581	697	964	1,061	763	893	569	547	458	458	458	458
Current liab	-	2,425	2,017	2,153	1,413	1,640	1,191	1,018	1,178	1,549	1,798	3,106	3,141	2,016	1,740	2,049	1,988	2,027	2,034
Total liabilities	-	6,327	6,397	7,077	5,507	6,414	5,910	5,341	4,850	5,634	5,246	9,671	8,823	6,411	5,874	5,990	6,030	6,154	6,592
Net int bearing debt	-	1,107	2,481	2,873	1,844	1,366	971	1,128	1,406	1,979	1,966	3,785	3,873	2,383	1,996	1,585	1,301	922	444
<b>Cash flow</b>																			
CFFO	299	441	194	-128	459	-35	676	656	198	-497	338	266	34	-126	-34	317	475	711	824
Capex	-	-924	-486	-368	-182	-145	-143	-291	-215	-147	-114	-302	-183	-144	-151	-156	-175	-175	-170
Free cash flow	299	-483	-292	-496	277	-180	533	365	-17	-644	224	-36	-149	-270	-185	161	300	536	654
Acquisitions	-	-1,118	-56	-	-36	-1	-54	-204	-	-	-	-915	-111	-	-	-	-	-	-
Divestments	7	73	390	145	779	347	1	49	-	-	-	22	186	-20	390	75	25	-	-
FCF to equity	306	-1,528	42	-351	1,020	166	480	210	-17	-644	224	-929	-74	-290	205	236	325	536	654
<b>Ratios (%)</b>																			
Pre-tax ROIC	0	0	6.8	9.8	2.3	20.2	13.9	-1.0	-11.3	-2.0	-6.2	-7.1	-8.2	-4.7	5.2	2.5	16.1	15.7	16.2
ROE reported	n.m	n.m	5.6	17.0	0.18	23.7	20.6	-3.6	-12.7	-5.1	-8.1	-21.5	-34.4	-22.2	4.3	6.1	17.9	17.4	16.6
ROCE	n.m	n.m	5.1	8.7	4.2	17.4	11.5	0.42	n.m	n.m	n.m	n.m	n.m	n.m	n.m	0.52	14.6	14.7	14.2
Capex to sales	0	16.6	8.2	7.2	3.3	2.4	2.1	5.3	8.2	3.5	2.3	6.7	2.7	2.1	2.4	2.7	2.6	2.6	2.5
NWC to sales	0	-0.29	22.0	38.8	24.7	33.7	30.6	26.8	40.7	39.0	28.5	54.0	30.0	12.7	12.5	7.8	9.5	10.0	10.0
Sales/assets (EURx)	n.m	1.76	0.93	0.76	0.88	1.03	1.12	0.97	0.51	0.81	0.92	0.61	0.73	0.90	1.04	0.96	1.11	1.12	1.08
Sales/IC (x)	n.m	3.64	1.55	1.03	1.20	1.48	1.58	1.33	0.67	1.03	1.19	0.84	1.08	1.33	1.44	1.37	1.63	1.65	1.67
Net debt/equity	n.m	56.9	119.1	114.6	89.4	44.5	29.1	40.4	57.4	83.3	94.3	128.2	204.8	111.8	85.7	65.6	45.7	28.7	12.3
Equity/total assets	n.m	30.8	32.6	35.4	37.4	47.9	56.4	52.3	50.5	42.2	39.7	30.5	21.4	33.3	39.6	40.3	47.2	52.2	54.7
<b>Share data(EUR)</b>																			
Avg no shares (m)	125	149	176	181	181	181	181	180	180	182	182	2,077	2,077	416	416	416	416	416	416
c change (%)	0.1	19	18	3	0.0	-0.1	-0.2	-0.3	0.0	1	0.0	1,042	0.0	-80	0.0	0.0	0.0	0.0	0.0
Dilutive no shares (m)	-	-	-	-	-	-	1.0	-	-	-	-	-	-	-	33.7	33.7	33.7	33.7	33.7
Avg diluted shares (m)	125	149	176	181	181	181	182	180	180	182	182	2,077	2,077	416	450	450	450	450	450
c change (%)	0.1	19.4	17.9	3.3	0.0	-0.1	0.4	-0.9	0.0	1.0	0.0	1,042	0.0	-80.0	8.1	0.0	0.0	0.0	0.0
Share price YE	24.5	19.0	24.6	30.1	28.7	67.9	48.5	18.9	30.3	31.8	11.6	6.9	3.6	4.8	2.7	8.5	7.6	7.6	7.6
Market cap(m)	3,058	3,275	4,400	5,453	5,204	12,285	5,246	3,412	5,464	5,778	2,115	14,416	7,384	1,987	1,138	3,541	3,177	3,177	3,177
EV (m)	3,058	4,422	6,661	8,073	7,013	13,621	6,198	4,488	6,718	7,611	3,990	18,147	11,195	4,292	3,071	5,059	4,411	4,032	3,554
Net debt/share	0	6.4	13.9	15.9	10.2	7.5	8.9	6.3	7.8	10.9	10.8	1.8	1.9	5.7	4.8	3.8	2.9	2.0	1.0
EPS reported	0.59	1.12	0.63	2.11	-1.85	5.3	3.52	-1.05	-1.85	-0.68	-0.99	-0.26	-0.48	-1.04	0.23	0.34	1.06	1.19	1.28
growth (%)	n.m	88	-43	234	n.m	n.m	-34	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	48	215	12	8
EPS adj	0.59	1.12	0.63	2.11	0.73	1.54	2.38	-0.27	-1.77	-0.61	-1.57	-0.19	-0.34	-0.70	-0.51	0.16	1.02	1.19	1.28
growth (%)	n.m	88	-43	234	-66	112	54	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	537	16	8
BVPS	n.m	11.1	11.5	13.6	11.3	16.9	30.5	15.5	13.6	13.0	11.4	1.41	0.91	5.1	6.2	6.4	6.9	7.7	8.6
DPS - Ordinary	0.61	0.40	0.20	0.50	0.45	1.10	1.20	0.50	0.35	0.25	-	-	-	-	-	0.10	0.38	0.42	0.45
Total cash distr./share	0.80	0.61	0.40	0.20	0.50	0.45	1.10	1.20	0.50	0.35	0.25	0.00	0.00	0.00	0.00	0.00	0.10	0.38	0.42
<b>Valuation (x)</b>																			
P/E reported	41.3	17.0	39.0	14.2	n.m	12.8	13.8	n.m	n.m	n.m	n.m	n.m	n.m	n.m	11.9	25.2	7.2	6.4	6.0
P/E adjusted	41.3	17.0	39.0	14.2	39.5	44.0	20.4	n.m	n.m	n.m	n.m	n.m	n.m	n.m	n.m	53.2	7.5	6.4	6.0
P/CEPS	10.2	6.4	9.6	9.8	23.8	15.0	10.3	48.3	n.m	41.9	17.8	n.m	n.m	n.m	3.5	9.6	4.9	4.5	4.3
EV/EBITDA	7.5	8.2	12.3	11.2	16.4	13.0	8.0	22.4	n.m	40.9	21.4	>99	n.m	18.2	15.7	18.4	5.2	4.6	4.0
EV/sales	0.57	0.80	1.1	1.6	1.3	2.2	0.90	0.82	2.6	1.8	0.80	4.0	1.7	0.63	0.48	0.89	0.66	0.59	0.52
EBIT margin (%)	3.8	5.3	4.4	9.5	1.9	13.7	8.8	-0.79	-16.8	-2.0	-5.2	-8.5	-7.6	-3.6	3.6	1.8	9.9	9.6	9.7
P/sales	0.57	0.51	0.73	1.1	0.94	2.0	1.3	0.62	2.1	1.4	0.42	3.2	1.1	0.29	0.19	0.67	0.52	0.50	0.50
P/BV	n.m	1.7	2.1	2.2	2.5	4.0	1.6	1.2	2.2	2.4	1.0	4.9	3.9	0.9	0.4	1.3	1.1	1.0	0.9
ROE reported (%)	n.m	n.m	5.6	17.0	0.18	23.7	20.6	-3.6	-12.7	-5.1	-8.1	-21.5	-34.4	-22.2	4.3	6.1	17.9	17.4	16.6
FCF adj yield (EUR%)	9.8	-14.7	-6.6	-9.1															