



Author

For more information, please contact

Wilhelm Lindholm

Managing Director
+7 926 0398489
wilhelm.lindholm@capwill.com

About the report:

This report provides an overview of the recent financial performance of leading Finnish companies active in Russia. The sample consists of 16 companies, which disclose quarterly financial data, representing aggregate annual sales (2013) in Russia of some EUR 5.5 billion. All companies are publicly listed with the exception of Itella. Analyzed performance metrics comprise sales and operating profit (EBIT). In the sample, 10 companies disclose both top line and profitability data (segment reporting), whereas 6 companies only disclose top line data (geographic area reporting).

Key "Finnish" sectors:

Real estate & construction is traditionally an important sector for Finnish companies in Russia. In addition to sector companies **Lemminkäinen**, **YIT**, **SRV** and **Sponda**, also **Tikkurila** (paints) and **Kesko** (through DIY chain **K-Rauta**), are heavily exposed to the sector. In aggregate, the aforementioned businesses generate some EUR 1.3 billion in annual sales (2013), representing 25% of total sample sales.

Another key sector for Finnish companies is retail & wholesale trade and logistics. Players in retail include **Stockmann** (dep't stores, apparel, food) and **Kesko** (DIY, food, sports), whereas **Oriola-KD** operates both a retail and wholesale business in pharma trade. **Neste Oil** is one of the leading petroleum retailers in Northwest Russia. **Itella** specializes in logistics solutions e.g. for the fast growing eCommerce sector. In aggregate, the aforementioned businesses generate some EUR 2.3 billion in annual sales (2013), representing 43% of total sample sales. In addition to the companies covered in this report, Finnish S-Group (not listed) has an app. EUR 300 million food retail business in St. Petersburg.

Quarterly Performance Review 1H2014: Difficult, but not impossible

Key takeaways

1. First half of the year (1H2014) was a struggle for most Finnish companies operating in Russia
2. With a few exceptions, both comparable sales and profit, measured in EUR, declined during the period
3. Not surprisingly, the significant depreciation of RUR vs. EUR (-15% vs. 1H2013) was a key factor for the weak performance

Company	Industry	Reporting	Sales	EBIT	Sales (EURm)
		RUS	RUS	RUS	RUS 2013
Atria	Consumer staples	Segment	x	x	122
Fortum	Utilities	Segment	x	x	1,119
Itella	Transportation	Segment	x	x	239
Lemminkäinen	Real estate & construction	Segment	x	x	165
Nordea	Banks	Segment	x	x	280
Oriola-KD	Healthcare & pharma	Segment	x	x	979
Sponda	Real estate & construction	Segment	x	x	29
SRV	Real estate & construction	Segment	x	x	105
Stockmann	Retail trade	Segment	x	x	346
YIT	Real estate & construction	Segment	x	x	496
Kesko	Retail trade	Geo area	x		359
Neste Oil	Energy	Geo area	x		361
Nokian Tyres	Consumer durables	Geo area	x		520
Raute	Capital goods	Geo area	x		16
Sanoma	Media	Geo area	x		112
Tikkurila	Other materials	Geo area	x		204
Total					5,431

Note: (1) Nordea: Domiciled in SWE, but largest shareholder Sampo Group from FIN; (2) Sponda: EBIT excl. fair value gains / losses; (3) SRV: International operations (also incl. EST, but impact estimated to be immaterial); (4) Kesko: RUS operations of K-Rauta, K-Ruoka and Intersport; (5) Sanoma: RUS & CEE

Source: Company materials

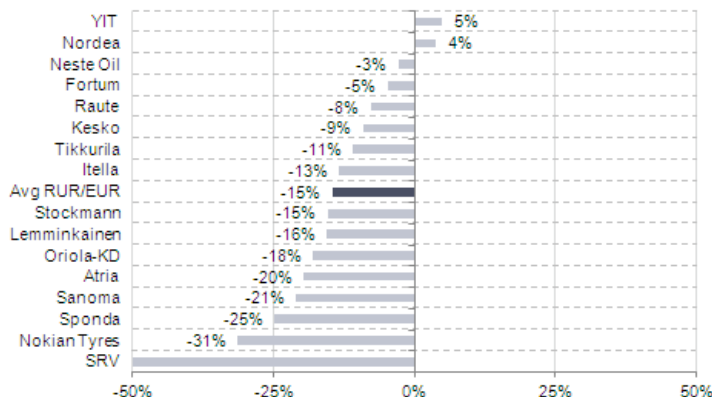
Figure 1: Analysis sample details

Rouble slide took its toll on topline: sales in EUR directly affected by the unfavourable FX development

Despite the challenging conditions, two companies in the sample (**YIT**, **Nordea**) were able to increase comparable sales in EUR terms during first half of the year. Also, some companies managed to, at least partly, offset the 15% depreciation of RUR vs. EUR with higher volumes or prices. In addition to the FX effect, weakened consumer sentiment and events in Ukraine were cited as factors negatively affecting top line.

YIT sales benefited from the strong demand for housing during the first months of the year, as consumers transferred liquid assets to fixed property due to weakening RUR and Ukraine events. In 2Q2014, volumes largely returned to “business as usual”. All in all, on the back of the robust first quarter, YIT sales 1H2014 at constant FX rates grew by 24% (5% in EUR). **Nordea** had a solid first half year, with stable business volumes and margins.

YIT sales at constant FX rates grew by 24% (5% in EUR)...



Note: (1) Kesko: Incl. K-Ruoka 4 new stores in 2013 in SPb increase 28%

Source: Company materials

Figure 2: Relative EUR denominated sales development 1H2014 vs. 1H2013

...but otherwise sales development mostly in negative territory

Neste Oil was able to increase volumes slightly by new product launches (Futura branded fuels), while **Fortum** power and heat sales were in line with the corresponding period last year.

Kesko opened K-Ruoka 4 stores in SPb during 2013. The company’s other business in Russia consists of K-Rauta and Intersport. Including the new K-Ruoka stores, sales 1H2014 were up 28% (in EUR). However, comparable sales, counting only K-Rauta and Intersport, declined 9% (in EUR).

Tikkurila suffered from slightly lower volumes in addition to the FX headwind. However, the company carried out price increases in the beginning of the year, which partly helped to offset the negative effects. **Itella**, **Stockmann** and **Lemminkäinen** top line declined broadly in line with RUR depreciation.

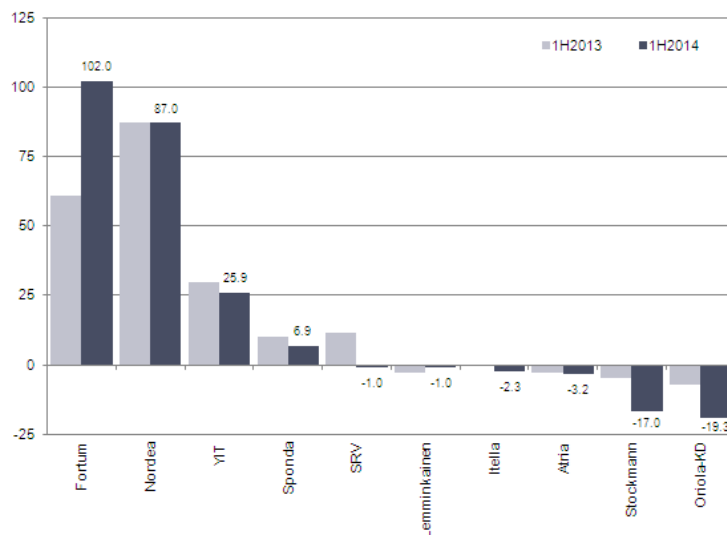
Oriola-KD, **Atria**, **Sponda** and **Nokian Tyres** sales fell even measured in constant FX terms. Oriola-KD is facing a tough competitive environment. Atria numbers were affected by discontinuation of primary production at the end of last year. Sponda rent income 1H2014 declined compared to last year due to higher vacancy rate in Ducat II business center, and divestment of two properties in SPb in Jul 2013. Nokian Tyres sales mix was weaker, with a higher share of “B segment” products sold, indicating trading down by consumers.

SRV sales were significantly lower vs. 2013, as the first half numbers last year included the sale of 55% stake in Okhta Mall shopping centre, as well as the construction volume of the final phase of Pearl Plaza shopping centre.

Show me the profit!

Only **Fortum** was able to increase operating profit. **Lemminkäinen** also saw positive development, but in the form of decreasing operating losses. **Nordea** operating profit was on par with the level last year, while EBIT for rest of the companies declined.

A couple of heavy hitters...



Note: (1) Sponda: EBIT excl. fair value gains / losses

Source: Company materials

Figure 3: Operating profit (EBIT), EUR million

...but except Fortum not much improvement

Fortum continued the strong performance improvement due to new power generation capacity receiving guaranteed payments under government capacity supply agreements and improved efficiency. **Nordea** had a good 2Q2014 with operating profit up 21% vs. last year, which compensated for the slight decline in the first quarter, ending the first half year flat y-o-y.

In the real estate sector, **YIT** operating profit declined despite higher sales. The main reasons were more modest housing price development and higher share of lower-margin projects in comparison with last year. **Sponda** operating profit was negatively affected by higher vacancy rate and maintenance costs in Ducat II business center, whereas **SRV** considerably lower EBIT mainly was a function of the high base in 1H2013 (see above). On the positive side, **Lemminkäinen** managed to decrease operating losses and is taking steps in the right direction, e.g. by decreasing activity in low-margin building construction contracting.

Some serious measures required

Stockmann and **Oriola-KD** face a multitude of operational challenges. Stockmann has a "strategic review" on group level on-going (to be announced during the autumn), which will likely result in changes in the Russian operations. Oriola-KD has initiated efficiency measures, both in the pharma wholesale trade and pharma retail segments. The company will also by the end of the year move to a new logistics centre outside Moscow, which hopefully will improve the company's competitiveness.

Figure 4: Data summary

Finnish Companies in Russia			Sales					Operating profit (EBIT)				
Company	RUS reporting	Industry	2012	2013	Y-o-Y	1H2013	1H2014	Y-o-Y	2012	2013	1H2013	1H2014
RUR/EUR, eop	Balance sheet		40.33	45.32	-11.0%	42.85	46.38	-7.6%				
RUR/EUR, avg	Profit & loss		39.93	42.37	-5.8%	40.85	47.85	-14.6%				
Atria	Segment	Consumer staples	126.3	121.5	-3.8%	58.9	47.3	-19.7%	-8.6	-3.6	-2.8	-3.2
Fortum	Segment	Utilities	1,030.0	1,119.0	8.6%	595.0	567.0	-4.7%	68.0	156.0	61.0	102.0
Itella	Segment	Transportation	239.4	238.6	-0.3%	97.1	84.2	-13.3%	n/a	n/a	-0.2	-2.3
Lemminkäinen	Segment	Real estate & construction	146.0	165.4	13.3%	59.3	50.1	-15.5%	n/a	-0.3	-3.1	-1.0
Nordea	Segment	Banks	234.0	260.0	11.1%	129.0	134.0	3.9%	120.0	161.0	87.0	87.0
Oriola-KD	Segment	Healthcare & pharma	952.7	978.8	2.7%	466.2	382.1	-18.0%	-2.3	-8.3	-7.0	-19.3
Sponda	Segment	Real estate & construction	28.7	28.6	-0.3%	15.3	11.5	-24.8%	19.3	18.7	10.0	6.9
SRV	Segment	Real estate & construction	73.1	104.7	43.2%	73.9	26.6	-64.0%	-3.2	10.0	11.5	-1.0
Stockmann	Segment	Retail trade	371.8	345.7	-7.0%	172.0	145.5	-15.4%	0.8	-6.4	-5.0	-17.0
YIT	Segment	Real estate & construction	463.0	496.0	7.1%	215.0	225.4	4.8%	n/a	70.2	29.5	25.9
Kesko	Geo area	Retail trade	311.9	359.0	15.1%	138.6	126.0	-9.1%				
Neste Oil	Geo area	Energy	361.0	361.0	0.0%	174.0	169.0	-2.9%				
Nokian Tyres	Geo area	Consumer durables	563.0	520.1	-7.6%	336.4	230.9	-31.4%				
Raute	Geo area	Capital goods	14.5	16.3	12.4%	6.4	5.9	-7.8%				
Sanoma	Geo area	Media	111.8	111.8	0.0%	55.3	43.7	-21.0%				
Tikkurila	Geo area	Other materials	216.4	204.3	-5.6%	102.8	91.6	-10.9%				
Total			5,244	5,431	3.6%	2,695	2,341	-13.2%	194.0	397.3	180.9	178.0

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Source: Company reports

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Contact us

Capwill LLC
Advisory | Investments
www.capwill.com

Wilhelm Lindholm
+7 926 0398489
wilhelm.lindholm@capwill.com