

Investment Analysis

Finnish Companies in Russia
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About the report:

This report provides an overview of the recent financial performance of leading Finnish companies active in Russia. The sample consists of 15 companies, which disclose quarterly financial data, representing aggregate annual sales (2014) in Russia of some EUR 4 billion. All companies are publicly listed with the exception of Posti (Itella). Analyzed performance metrics comprise sales and operating profit (EBIT). In the sample, 9 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 **Lemminkainen**, **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 1.2 billion in annual sales (2014), representing 30% of total sample sales.

Another key sector for Finnish companies is retail & wholesale trade and logistics. Players in retail include **Stockmann** (dept stores, apparel, food) and **Kesko** (DIY, food, sports). **Neste Oil** is one of the leading petroleum retailers in Northwest Russia. **Posti** specializes in logistics solutions e.g. for the fast growing eCommerce sector. In aggregate, the aforementioned businesses generate some EUR 1.2 billion in annual sales (2014), representing 30% 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 4Q2014: Accelerated ruble slide ends rough year

Key takeaways

1. In the fourth quarter, falling oil prices put heavy pressure on the RUR
2. The period saw unprecedented RUR volatility, and significant depreciation of the currency (RUR/EUR avg -25% vs. 4Q2013)
3. Given the current situation and outlook, companies are increasingly taking precautionary measures to reduce risk

Figure 1: Analysis sample details

Note: The analyzed sample was reduced by one company on 8 Dec 2014, when Oriola-KD closed the sale of its Russian operations to CJCS Apteki 36.6 for a cash consideration of EUR 56 million.

Company	Industry	Reporting	Sales	EBIT	Sales (EURm)
		RUS	RUS	RUS	RUS 2014
Atria	Consumer staples	Segment	x	x	99
Fortum	Utilities	Segment	x	x	1,055
Posti	Transportation & logistics	Segment	x	x	172
Lemminkainen	Real estate & construction	Segment	x	x	196
Nordea	Banks	Segment	x	x	274
Sponda	Real estate & construction	Segment	x	x	22
SRV	Real estate & construction	Segment	x	x	57
Stockmann	Retail trade	Segment	x	x	287
YIT	Real estate & construction	Segment	x	x	474
Kesko	Retail trade	Geo area	x		369
Neste Oil	Energy	Geo area	x		355
Nokian Tyres	Consumer durables	Geo area	x		363
Raute	Capital goods	Geo area	x		17
Sanoma	Media	Geo area	x		54
Tikkurila	Other materials	Geo area	x		176
Total					3,970

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

Top line 4Q2014 y/y: Severe FX pain, but record housing sales provides some relief

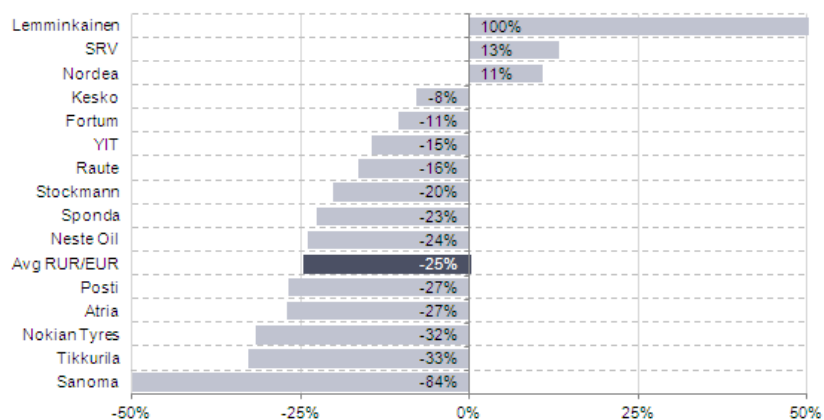
In the last quarter, RUR depreciation y/y was at the highest recorded level in 2014 (avg -25%). Unsurprisingly, this had detrimental effects on EUR denominated sales. However, some sectors, most notably housing and consumer durables, benefitted from the increased economic uncertainty, as (inflation expecting) consumers rushed to spend and invest cash savings.

Lemminkainen and **YIT** saw record apartment sales volumes in 4Q2014. The house builders sold 228 and 1,641 apartments, respectively. However, anticipating tougher times ahead, **YIT** also made public plans to reduce both the workforce (300 persons) and new housing starts.

Kesko, in the form of DIY-concept **K-Rauta**, also appeared to have been a benefactor of the favourable housing demand dynamics. Moreover, sales volumes were supported by new **K-Ruoka** stores in SPb. **SRV** sales expansion mainly derived from development of the large **Okhta Mall** in SPb.

Several companies were able to dampen the negative FX effects

Figure 2: Relative EUR denominated sales development 4Q2014 vs. 4Q2013



Source: Company materials, Capwill analysis

Nordea EUR denominated top line grew, despite lower lending volumes; the bank's RUS lending portfolio is largely USD denominated, and the dollar continued to strengthen. More sombre, net loan losses swelled sizeably in the period. **Fortum** RUR revenue increased on the back of higher power and heat sales volumes. In a bold move, the company also announced plans to expand its hydro portfolio by 60% through restructuring its RUS TGC-1 ownership – a deal linked to Fortum taking a minority position in Fennovoima nuclear project.

Demand for **Neste Oil** petrol, **Posti (Itella)** logistics solutions and **Raute** project deliveries were stable. **Sponda** tenants with USD linked rents struggled to meet obligations, forcing the real estate investor to negotiate temporary rent reductions with several companies.

Reduced consumer purchasing power

Besides FX headwind, consumer product companies **Tikkurila**, **Nokian Renkaat**, and perhaps also **Atria**, felt the impact of the Russian consumer's wallet coming under pressure, due to rising inflation and negative real wage growth. This took the effect of trading down behaviour which adversely affected top line, e.g. through lower ASP and switching to local brands. In contrast, **Stockmann** sales volumes were assisted by consumer's bringing forward planned purchases because of foreseen price hikes in the market.

In the end of December, **Sanoma** divested its 50% stake in Fashion Press, the publisher of e.g. Cosmopolitan and Esquire magazines in Russia. The media house continues to search for buyers for its remaining Russian assets.

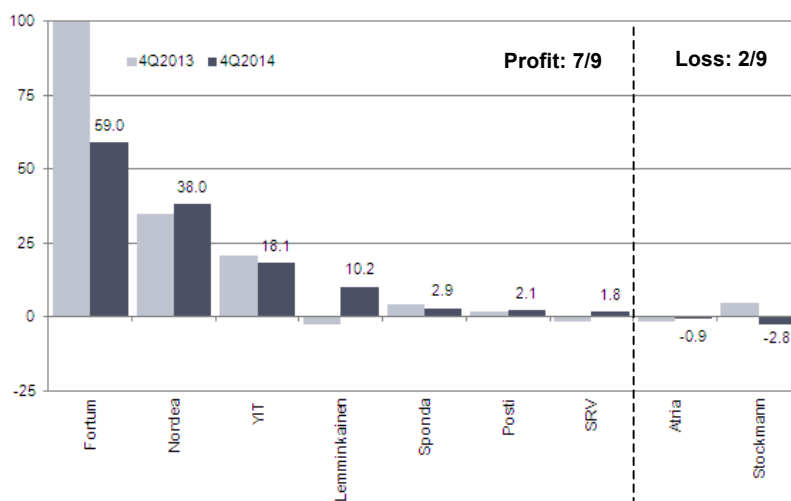
Operating profit 4Q2014 y/y: Better than it seems...

Half of the sample companies reported better operating profit in the period. However, adjusting for **Fortum** nearly EUR 80m (positive) one-off items in the comparable period last year, the company made solid profit progress. Similarly, **YIT** took a EUR 6m one-time charge in 4Q2014 related to restructurings – not accounting for the charge, the company increased operating profit. **Lemminkäinen** improved EBIT considerably, despite writing down asset values to the tune of EUR 4m (P&L effect).

Nordea, with an essentially RUR denominated cost base (combined with a USD lending portfolio), gained from the falling currency, and showed higher profit. Also **SRV** achieved substantial cost savings in Okhta Mall construction due to RUR depreciation, contributing to the developer turning a 4Q2013 loss into profit. **Posti (Itella)** was able to grow profit owing to success in the warehousing business, boosted by the spike in online and offline retail sales arising from the sliding RUR (again, as consumers anticipated price hikes).

Adjusting for one-off effects, 7/9 companies improved performance, and 7/9 were profitable

Figure 3: Operating profit (EBIT), EUR million



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

Source: Company materials, Capwill analysis

While in negative territory, **Atria** managed to improve reported operating profit in the last quarter. In particular, fast rising raw material prices proved difficult to pass on to customers for the food producer.

New conditions, old tricks...

In the rapidly weakening office and retail property investment environment, with vacancy rates on an upward trajectory and rent levels on a downward trajectory, **Sponda** earnings are under pressure. The company has earlier declared intentions to leave the country, but no update with respect to divestment of the Russian property portfolio was provided. **Stockmann** announced heavy-handed measures to cut losses in Russia. Citing the gloomy economic outlook, the retailer will close three department stores in Moscow, and withdraw the Lindex fashion concept altogether.

Figure 4: Data summary

Finnish Companies in Russia			Sales						Operating profit (EBIT)			
Company	RUS reporting	Industry	2013	2014	Delta y/y	4Q2013	4Q2014	Delta y/y	2013	2014	4Q2013	4Q2014
RUR/EUR, eop	Balance sheet	Central Bank of Russia	44.97	68.34	-34.2%	44.97	68.34	-34.2%				
RUR/EUR, avg	Profit & loss	Central Bank of Russia	42.27	50.46	-16.2%	44.27	58.71	-24.6%				
Atria	Segment	Consumer staples	121.5	98.8	-18.7%	30.6	22.3	-27.1%	-3.6	-6.2	-1.9	-0.9
Fortum	Segment	Utilities	1,119.0	1,055.0	-5.7%	314.0	281.0	-10.5%	156.0	161.0	110.0	59.0
Posti	Segment	Transportation & logistics	205.6	172	-16.3%	55.6	40.7	-26.8%	4.3	2.4	1.7	2.1
Lemminkäinen	Segment	Real estate & construction	164.5	196.1	19.2%	40.9	82.0	100.5%	-0.3	19.7	-2.7	10.2
Nordea	Segment	Banks	257.0	274.0	6.6%	65.0	72.0	10.8%	158.0	165.0	35.0	38.0
Sponda	Segment	Real estate & construction	28.6	22.2	-22.4%	6.6	5.1	-22.7%	18.7	13.2	4.1	2.9
SRV	Segment	Real estate & construction	104.7	56.9	-45.7%	15.7	17.8	13.4%	10.0	1.1	-1.7	1.8
Stockmann	Segment	Retail trade	345.7	286.9	-17.0%	102.5	81.9	-20.1%	-6.4	-28.7	4.9	-2.8
YIT	Segment	Real estate & construction	496.0	474.1	-4.4%	151.7	129.7	-14.5%	70.2	49.8	20.5	18.1
Kesko	Geo area	Retail trade	359.0	369.0	2.8%	97.6	90.0	-7.8%				
Neste Oil	Geo area	Energy	361.0	355.0	-1.7%	92.0	70.0	-23.9%				
Nokian Tyres	Geo area	Consumer durables	520.1	363.4	-30.1%	108.4	74.1	-31.6%				
Raute	Geo area	Capital goods	16.3	16.8	3.1%	5.5	4.6	-16.4%				
Sanoma	Geo area	Media	111.8	54.0	-51.7%	30.2	4.7	-84.4%				
Tikkurila	Geo area	Other materials	204.3	175.7	-14.0%	36.2	24.3	-32.9%				
Total			4,415.1	3,969.9	-10.1%	1,152.5	1,000.2	-13.2%	406.9	377.3	169.9	128.4

Note: (1) Atria: EBIT excl. non-recurring charges; (2) Nordea: Domiciled in SWE, but largest shareholder Sampo Group from FIN; (3) Sponda: EBIT excl. fair value gains / losses; (4) SRV: International operations (also incl. EST, but impact estimated to be immaterial); (5) Kesko: RUS operations of K-Rauta, K-Ruoka and Intersport; (6) Sanoma: RUS & CEE

Source: Company reports

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