Koskisen

Company report

8/19/2024

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Inderes corporate customer

This report is a summary translation of the report "Lähestyvää tuloskäännettä on sopivasti hinnassa" published on 8/19/2024 at 7:25 am EEST

inderes.

Impending turnaround is appropriately priced into the stock

We reiterate our Reduce recommendation for Koskisen and revise our target price to EUR 7.50 (previously EUR 7.00). Overall, Koskisen's Q2 report was broadly in line with our expectations and we made only marginal changes to our near-term forecasts after the report, apart from the lowered depreciation forecasts. However, we still think that the stock is fairly correctly priced on a one-year horizon. As a result, we believe Koskisen's expected return is in line with the required return, so we still continue to seek a more stable attractive buying opportunity for the stock.

Weaker performance but in line with expectations

In a seasonally good Q2, Koskisen's revenue of 78 MEUR generated an adjusted EBITDA of 9.3 MEUR. As expected, operating result was significantly lower than in the strong comparison period, but our and consensus forecasts were well in line with the Q2 figures. The Panel Industry was still responsible for earnings, driven by the good margins of birch plywood, although the unit's result dropped significantly year-on-year. The Panel Industry figures were better than we had forecasted driven by volume. In the Sawn Timber Industry, profitability remained at the modest level of the comparison period and was disappointing, as the high price level for softwood logs and the somewhat slower-than-expected ramp-up of the Järvelä investment increased the cost structure. We commented on the result here on Friday.

We kept our operating forecasts almost unchanged, but lower lines benefited from declining depreciation forecasts

Koskisen reiterated its 2024 guidance according to which revenue will grow from last year (2023: 271 MEUR revenue) and the adjusted EBITDA margin will be 8-12%. This reaffirmation of the broad guidance was to be expected. Market commentary was largely in line with peers. In the Sawn Timber Industry, the delayed recovery in construction and still higher log prices indicate that the challengin times will continue well into the next year, which should of course be offset by the progress of the new line in Järvelä and the gradual realization of the efficiency benefits of the investment. In the backbone of the Panel Industry, the birch plywood segment, demand is good and market dynamics are tight due to the supply constraint caused by Russia's military aggression and the new EU measures restricting the circulation of sanctions, making it possible to generate a good result despite the high price level of birch logs. Our adj. EBITDA forecasts for this year and the next few years remain almost unchanged, but the decrease in depreciation forecasts has raised the forecasts for the lower lines. We now expect Koskisen to grow by 9% this year, with adj. EBITDA-% of 10.2%. We predict that Koskisen's result will turn into a fairly clear upswing from Q3, when the comparison figures start to weaken, and that from next year lower interest rates and a return of trust will slowly revive demand in the construction sector, especially in the Sawn Timber Industry. 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) will require acquisitions.

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

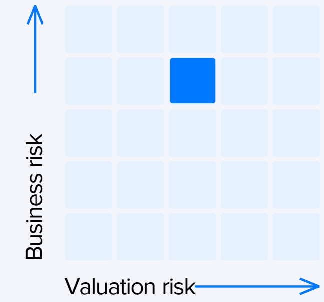
Koskisen's 2024 and 2025 EV/EBITDA ratios that consider the strong balance sheet are 6x and 5x and the P/B ratio (Q2'24 act.) is around 1.2x. We expect the dividend yields for the next few years to be around 4%. The multiples are close to the upper end of the ranges we accept, taking into account the company's estimated return on capital and risk profile. The DCF value is also around the current share price level with our current conservative parameters. In our view, Koskisen's expected return for the year is still in line with the required return over the 12-month horizon. We therefore maintain our cautious stance on the stock, although there could be leverage in the stock in the medium term if the European construction recovery were to surprise positively in the coming years 2025-2026.

Recommendation

Reduce
(was Reduce)

EUR 7.50
(was EUR 7.00)

Share price:
EUR 7.50



Key figures

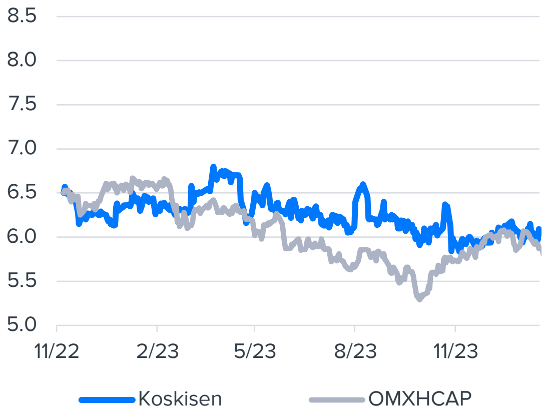
	2023	2024e	2025e	2026e
Revenue	271.2	295.9	334.0	361.3
growth-%	-15%	9%	13%	8%
EBIT adj.	24.4	20.1	25.0	28.5
EBIT-% adj.	9.0 %	6.8 %	7.5 %	7.9 %
Net Income	20.2	14.4	18.5	21.5
EPS (adj.)	0.88	0.63	0.81	0.93
P/E (adj.)	6.8	11.9	9.3	8.0
P/B	0.9	1.1	1.0	1.0
Dividend yield-%	5.0 %	4.3 %	4.3 %	4.3 %
EV/EBIT (adj.)	6.0	9.5	7.6	6.4
EV/EBITDA	4.4	6.3	5.3	4.5
EV/S	0.5	0.6	0.6	0.5

Source: Inderes

Guidance (Unchanged)

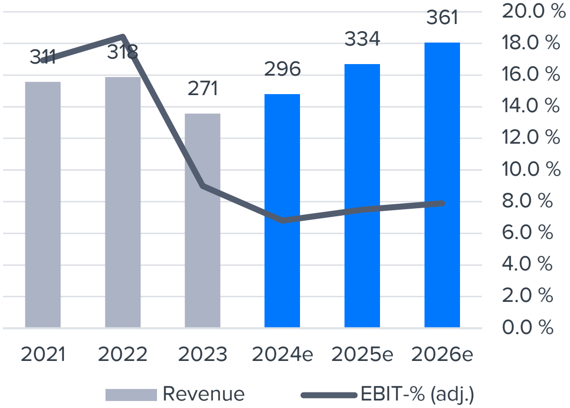
Koskisen Group's revenue for 2024 is expected to grow from the 2023 level. The adjusted EBITDA margin is expected to be 8-12%.

Share price



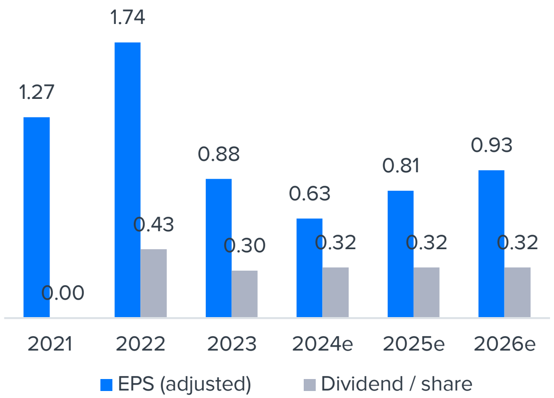
Source: Millistream Market Data AB

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	7.50	7.50	7.50
Number of shares, millions	23.0	23.0	23.0
Market cap	173	173	173
EV	191	190	182
P/E (adj.)	11.9	9.3	8.0
P/E	12.0	9.3	8.0
P/B	1.1	1.0	1.0
P/S	0.6	0.5	0.5
EV/Sales	0.6	0.6	0.5
EV/EBITDA	6.3	5.3	4.5
EV/EBIT (adj.)	9.5	7.6	6.4
Payout ratio (%)	51.1 %	39.7 %	34.3 %
Dividend yield-%	4.3 %	4.3 %	4.3 %

Source: Inderes

Decent numbers under the circumstances in seasonally good Q2

Sawn Timber Industry reached growth in Q2

Koskisen's revenue grew by 5% to 77.8 MEUR in the seasonally good Q2, slightly above our forecast and well in line with consensus expectations. In the Sawn Timber Industry, revenue grew by more than 20% due to a slight increase in prices, additional capacity at the new Järvelä saw line and postponed deliveries from Q1 due to strikes. However, revenue in the Sawn Timber Industry was slightly below our forecast due to a slightly lower than expected increase in the average price, probably as a result of postponed deliveries. In the Panel Industry, revenue fell by 6% on a volume-driven basis, but volumes were still better than we had expected and Panel Industry's revenue exceeded our forecast. The average price in the Panel Industry was broadly in line with our forecasts.

Performance met expectations

Koskisen's adjusted EBITDA was 9.3 MEUR in Q2. The operating result fell by more than 30% from a strong comparison level but was very close to both our and consensus forecasts. In the Sawn Timber Industry, the operating result remained flat year-on-year due to the somewhat slower than expected progress of the new sawmill in Järvelä and high raw material prices. In the Panel Industry, on the other hand, the result was clearly down from the strong comparison figures on a volume-driven basis, but thanks to higher-than-expected volumes, the Panel Industry nevertheless exceeded our forecast and compensated for the underperformance of the Sawn Timber Industry. There were no surprises in the figures for the other operations.

The lower parts of the income statement again showed lower depreciation than we had forecast, but this was neutralized by slightly higher-than-estimated finance costs and taxes. As a result, Koskisen's EPS was in line with our and consensus' forecast of EUR 0.21 per share.

In terms of cash flow, we think the report was quite good given the circumstances, with working capital committed in Q1 due to strikes and seasonality being released in Q2. Thus, despite a clear decrease in the result, cash flow from operating activities at 14 MEUR was at the level of the comparison period. Investments decreased significantly from the high levels of the comparison period (incl. investments in the new saw line in Järvelä) and amounted to approximately 5 MEUR in Q2.

Balance sheet still strong

Koskisen's net gearing at the end of Q2 was 9% (Q2'23: 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 (partly included in the Q2 investments) and an investment of 3 MEUR in the Kore business in Poland.

Estimates	Q2'23	Q2'24	Q2'24e	Q2'24e	Consensus		Difference (%)	2024e
MEUR / EUR	Comparison	Actualized	Inderes	Consensus	Low	High	Act. vs. inderes	Inderes
Revenue	73.9	77.8	75.1	77.4			4%	296
EBITDA (adj.)	13.8	9.3	9.7	9.1			-4%	30.2
EBIT	11.7	6.9	6.7	-			3%	20.1
EPS (reported)	0.43	0.21	0.22	0.21			-5%	14.41
Revenue growth-%	0.0 %	5.3 %	1.6 %	4.8 %			3.7 pp	2.0 %
EBITDA-% (adj.)	18.7 %	12.0 %	12.9 %	11.8 %			-1 pp	10.2 %

Source: Inderes & Koskisen, 3 forecasts (consensus)

Lower line forecasts increased as depreciation forecasts fell

Guidance remained unchanged as expected

Koskisen reiterated its guidance for 2024 according to which revenue will grow from last year (2023: 271 MEUR revenue) and the adjusted EBITDA margin will be 8-12%. In our view, the reiteration of guidance was well expected, and we believe the company will be able to achieve this broad guidance without any problems.

In the Sawn Timber Industry, the delayed recovery in construction and still higher log prices indicate that the lean times will continue well into the next year, which should of course be offset by the progress of the new line in Järvelä and the gradual realization of the efficiency benefits of the investment. In the backbone of the Panel Industry, the birch plywood segment, demand is good, driven by the logistics sector, and market dynamics are tense due to the supply constraint caused by Russia's military aggression and the new EU measures restricting the circulation of sanctions. This will allow at least a stable good result, although the price of birch logs and customers struggling with final product prices may be an obstacle to achieving excellent profitability (i.e. EBITDA-% above 20%).

We also note that at least Q3 is likely to be more fragmented than Q2 in terms of production due to several weeks of holiday shutdowns. Q4 also typically has shutdowns around Christmas.

Forecast changes mainly related to changes in depreciation forecasts

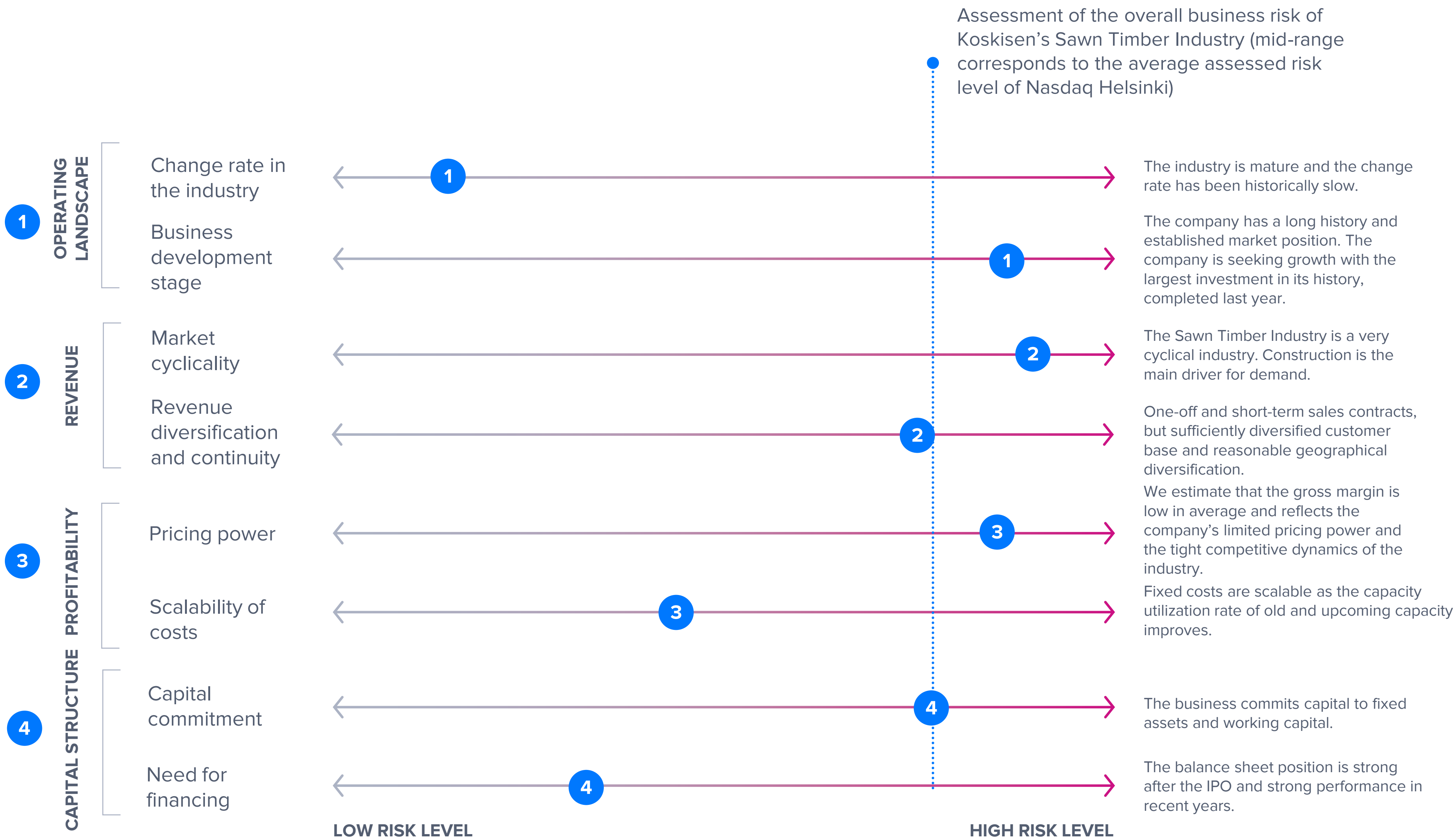
We slightly raised our forecasts in the Panel Industry after the report, related to slightly higher volume and average-price forecasts and the net effect of a small increase in log price forecasts. In the Sawn Timber Industry, we lowered our forecasts slightly due to a slightly slower than expected recovery in construction and high log prices. Our adjusted EBITDA forecasts for the current and next few years were largely unchanged. We also lowered our depreciation forecasts as depreciation has repeatedly been lower than forecast (we had overestimated the increase in depreciation mass caused by the new Järvelä saw line), but this change has no apparent impact on cash flows.

We expect Koskisen to grow by 7% this year and to achieve an adjusted EBITDA margin of 10.2%, 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 Sawn Timber Industry in particular. We remain cautious in our forecasts for improvements in the Panel Industry due to the relatively high profitability already achieved, although there is no end in sight to the war-based supply disruption in the market. Our forecasts are below the company's target (2024e-2027e EBITDA-% 10-12%), and achieving the growth target will also require acquisitions.

Estimate revisions MEUR / EUR	2024e Old	2024e New	Change %	2025e Old	2025e New	Change %	2026e Old	2026e New	Change %
Revenue	291	296	2%	338	334	-1%	357	361	1%
EBITDA	30.1	30.2	0%	35.1	35.9	2%	40.6	40.7	0%
EBIT (exc. NRIs)	18.7	20.1	8%	22.3	25.0	12%	26.9	28.5	6%
EBIT	18.7	20.1	8%	22.3	25.0	12%	26.9	28.5	6%
PTP	16.9	18.1	7%	21.0	23.2	11%	25.5	26.9	5%
EPS (excl. NRIs)	0.59	0.63	7%	0.73	0.81	11%	0.89	0.93	5%
DPS	0.32	0.32	0%	0.32	0.32	0%	0.32	0.32	0%

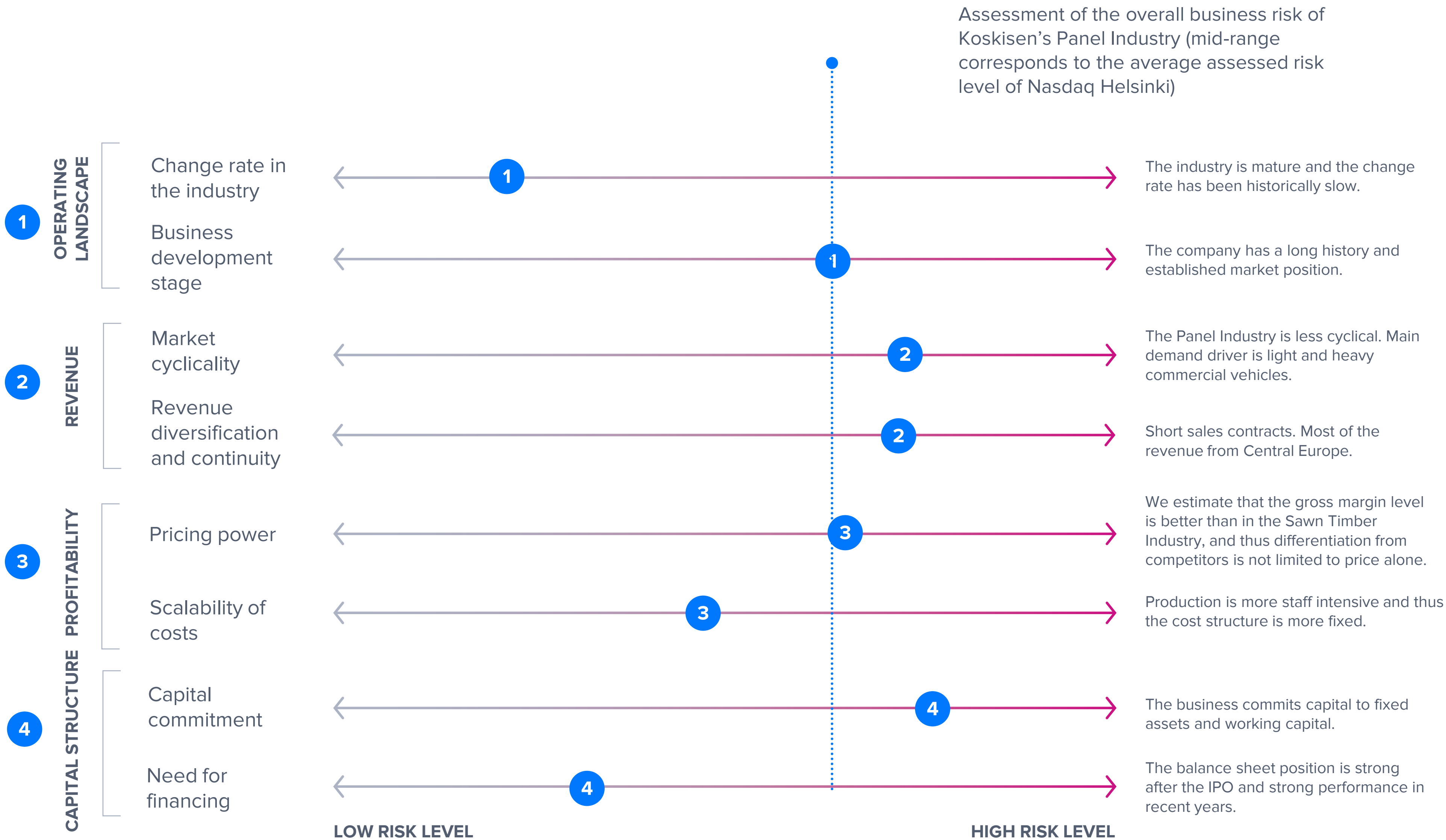
Source: Inderes

Risk profile of Koskisen' Sawn Timber Industry



Source: Inderes

Risk profile of the Koskisen's Panel Industry



Source: Inderes

Price tag neither particularly expensive nor cheap

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 12x and 9x and corresponding EV/EBITDA ratios are around 6x and 5x. As a result, the stock is priced at the upper ends of the valuation ranges we accept, with multiples based on this year's lackluster earnings, and at the midpoint or lower ends, with multiples based on next year's more normalized but still uncertain earnings. As a result, we still see the valuation as neutral, and we also believe that the forecast risks are somewhat balanced in both directions.

The balance sheet-based P/B of 1.2x (Q2'24) 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. So far, we have kept our required return unchanged, although we are aware that there may be some room for a slight reduction in the relatively high required return if interest rates continue to fall. We 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 more robust value creation than our current projections (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 when a better cycle arrives, beyond our target price horizon of more than 12 months, as there are no signs of a rapid recovery in construction. Overall, we believe that the share's risk/reward picture is fairly neutral, as downside risks cannot be ruled out given the still difficult situation in the construction sector and the tight timber market.

DCF value at around the exchange rate

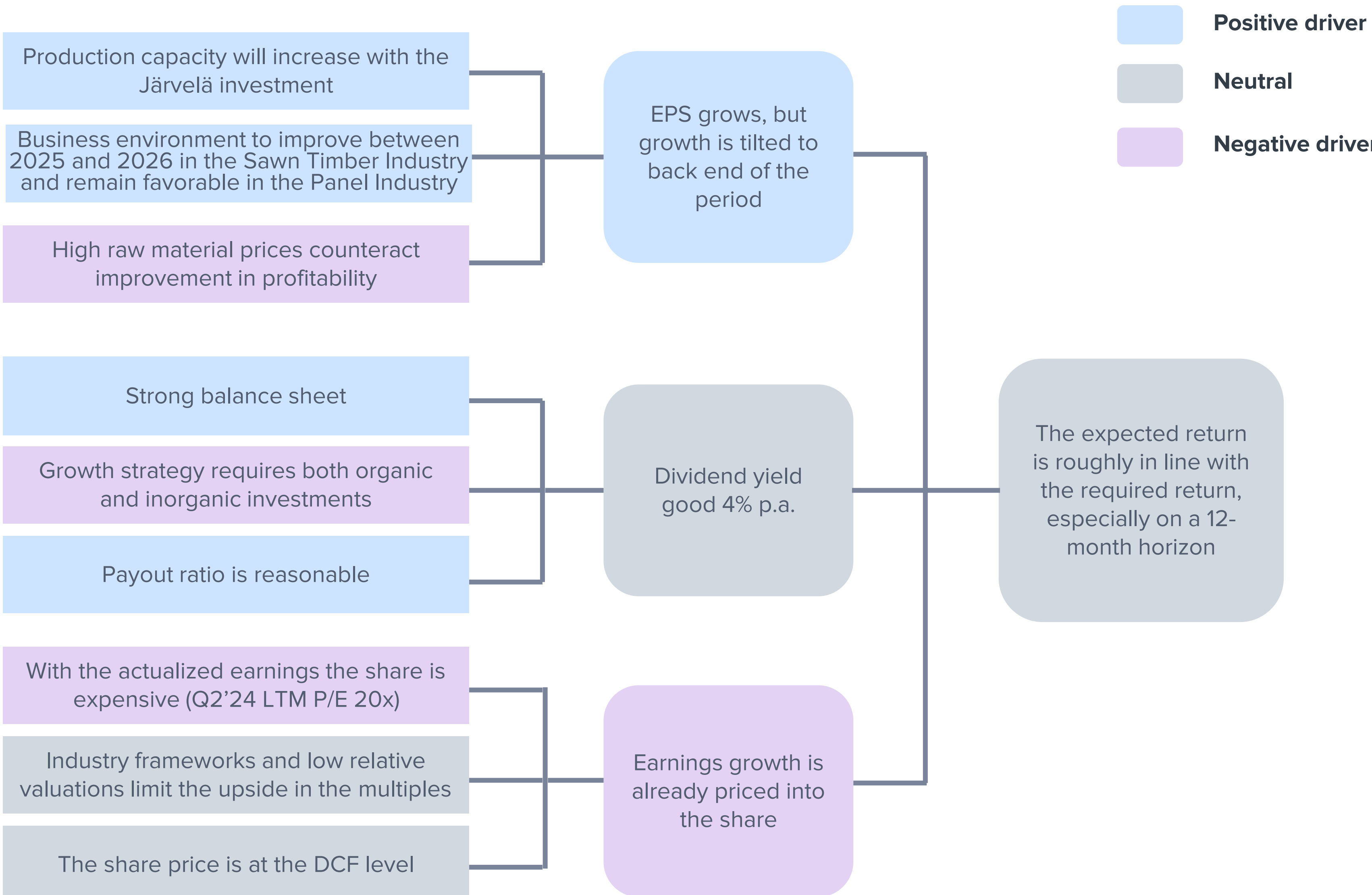
In relative terms, with 2024 and 2025 estimates Koskisen is priced at a discount relative to the loosely connected peer group with high earnings multiples. On a balance sheet basis, valuation is at a premium. The overall picture is therefore ambiguous and, in our view, does not support a strong view 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 around EUR 7.50 per share, which supports our view based on the other methods that the share is still fairly neutrally priced.

Valuation	2024e	2025e	2026e
Share price	7.50	7.50	7.50
Number of shares, millions	23.0	23.0	23.0
Market cap	173	173	173
EV	191	190	182
P/E (adj.)	11.9	9.3	8.0
P/E	12.0	9.3	8.0
P/B	1.1	1.0	1.0
P/S	0.6	0.5	0.5
EV/Sales	0.6	0.6	0.5
EV/EBITDA	6.3	5.3	4.5
EV/EBIT (adj.)	9.5	7.6	6.4
Payout ratio (%)	51.1 %	39.7 %	34.3 %
Dividend yield-%	4.3 %	4.3 %	4.3 %

Source: Inderes

TSR drivers Q2'24 act.-2026e

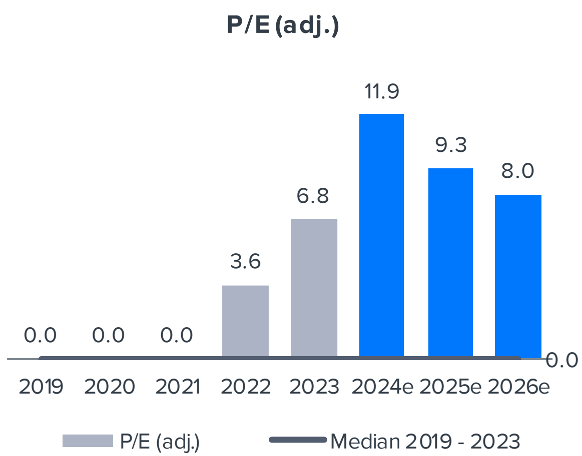


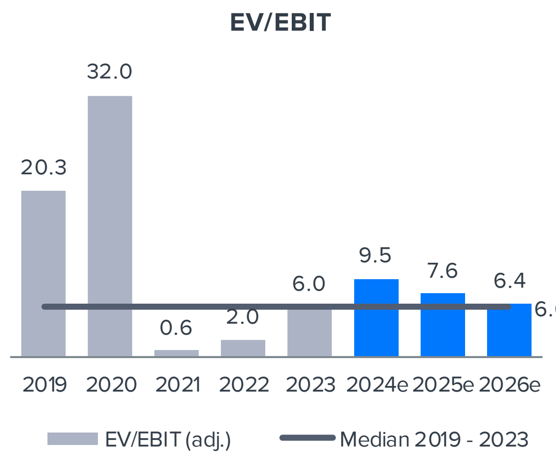
Source: Inderes

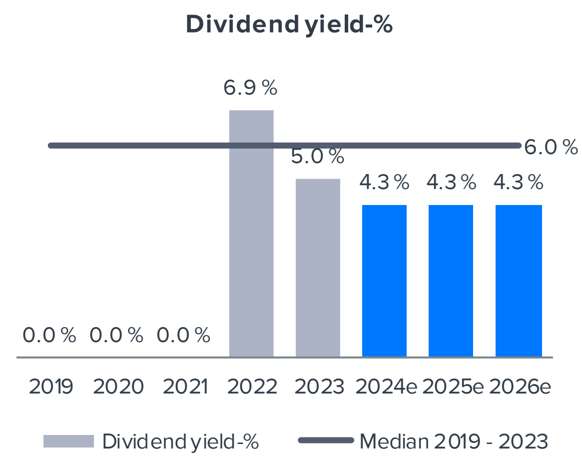
Valuation table

Valuation	2019	2020	2021	2022	2023	2024e	2025e	2026e	2027e
Share price				6.28	6.00	**7.50**	**7.50**	**7.50**	**7.50**
Number of shares, millions				23.0	23.0	**23.0**	**23.0**	**23.0**	**23.0**
Market cap				145	138	**173**	**173**	**173**	**173**
EV				116	146	**191**	**190**	**182**	**170**
P/E (adj.)				3.6	6.8	**11.9**	**9.3**	**8.0**	**7.2**
P/E				3.6	6.8	**12.0**	**9.3**	**8.0**	**7.2**
P/B				1.1	0.9	**1.1**	**1.0**	**1.0**	**0.9**
P/S				0.5	0.5	**0.6**	**0.5**	**0.5**	**0.5**
EV/Sales				0.4	0.5	**0.6**	**0.6**	**0.5**	**0.5**
EV/EBITDA				1.8	4.4	**6.3**	**5.3**	**4.5**	**3.9**
EV/EBIT (adj.)				2.0	6.0	**9.5**	**7.6**	**6.4**	**5.4**
Payout ratio (%)				25.1 %	34.2 %	**51.1 %**	**39.7 %**	**34.3 %**	**33.6 %**
Dividend yield-%				6.9 %	5.0 %	**4.3 %**	**4.3 %**	**4.3 %**	**4.7 %**

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	569	1180			20.2		0.5	0.6					0.5
Boise Cascade	4497	4091	7.1	9.2	5.9	7.1	0.7	0.7	10.4	13.3	6.9	4.6	2.3
West Fraser Timber	6244	5807		25.0	11.2	8.9	1.0	1.0	8492.8	39.4	1.4	1.5	1.0
Canfor	1151	1514			79.3		0.4	0.4					0.4
Stora Enso	8741	11669	46.0	16.7	12.5	9.2	1.2	1.3	58.2	20.5	2.5	2.7	0.8
STEICO	390	545	17.9	11.8	9.2	7.2	1.5	1.5	22.1	15.3	1.5	1.9	1.4
Koskisen (Inderes)	**173**	**191**	**9.5**	**7.6**	**6.3**	**5.3**	**0.6**	**0.6**	**11.9**	**9.3**	**4.3**	**4.3**	**1.1**
Average			**23.7**	**15.7**	**23.0**	**8.1**	**0.9**	**0.9**	**2145.9**	**22.1**	**3.1**	**2.7**	**1.0**
Median			**17.9**	**14.3**	**11.8**	**8.0**	**0.8**	**0.8**	**40.2**	**17.9**	**2.0**	**2.3**	**0.9**
Diff-% to median			***-47%***	***-47%***	***-47%***	***-34%***	***-22%***	***-33%***	***-70%***	***-48%***	***111%***	***86%***	***31%***

Source: Refinitiv / Inderes

Income statement

Income statement	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue	**318**	**73.2**	**73.9**	**55.5**	**68.7**	**271**	**63.7**	**77.8**	**71.7**	**82.7**	**296**	**334**	**361**	**375**
Sawn Timber Industry	166	32.1	29.6	24.9	35.8	122	29.0	47.2	36.1	41.7	154	170	185	190
Panel Industry	152	41.1	44.2	30.6	32.9	149	34.7	30.6	35.6	41.1	142	164	176	185
Other / Eliminations	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**	**9.3**	**6.1**	**9.1**	**30.2**	**35.9**	**40.7**	**44.0**
Depreciation	-8.1	-2.0	-2.1	-2.3	-2.3	-8.6	-2.4	-2.5	-2.6	-2.6	-10.1	-10.9	-12.1	-12.4
EBIT (excl. NRI)	**58.5**	**10.7**	**11.7**	**-1.0**	**3.0**	**24.4**	**3.1**	**6.9**	**3.5**	**6.5**	**20.1**	**25.0**	**28.5**	**31.7**
EBIT	**58.2**	**10.7**	**11.7**	**-1.0**	**3.0**	**24.4**	**3.1**	**6.9**	**3.5**	**6.5**	**20.1**	**25.0**	**28.5**	**31.7**
Sawn Timber Industry (EBITDA)	41.6	1.6	1.6	-1.0	1.0	3.3	0.7	1.6	1.1	2.0	5.3	13.3	17.0	18.3
Panel Industry (EBITDA)	29.3	9.8	12.2	2.6	4.7	29.3	5.3	8.1	5.3	7.3	25.9	23.9	25.0	27.0
Other / Eliminations	-4.3	1.2	-0.1	-0.3	-0.4	0.4	-0.4	-0.3	-0.2	-0.1	-1.0	-1.3	-1.3	-1.3
Depreciation	-8.1	-2.0	-2.1	-2.3	-2.3	-8.6	-2.4	-2.5	-2.6	-2.6	-10.1	-10.9	-12.1	-12.4
Adjustments	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1	0.0	0.0	0.0
Net financial items	-0.4	-0.4	0.6	-0.3	-0.2	-0.3	-0.4	-0.7	-0.5	-0.5	-2.0	-1.8	-1.7	-1.7
PTP	**57.8**	**10.3**	**12.3**	**-1.3**	**2.8**	**24.0**	**2.8**	**6.2**	**3.0**	**6.0**	**18.1**	**23.2**	**26.9**	**30.0**
Taxes	-11.8	-1.5	-2.5	0.4	-0.2	-3.8	-0.5	-1.3	-0.6	-1.2	-3.6	-4.6	-5.4	-6.0
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**	**4.9**	**2.4**	**4.8**	**14.4**	**18.5**	**21.5**	**24.0**
EPS (adj.)	**1.74**	**0.38**	**0.43**	**-0.04**	**0.11**	**0.88**	**0.10**	**0.21**	**0.11**	**0.21**	**0.63**	**0.81**	**0.93**	**1.04**
EPS (rep.)	**1.73**	**0.38**	**0.43**	**-0.04**	**0.11**	**0.88**	**0.10**	**0.21**	**0.11**	**0.21**	**0.63**	**0.81**	**0.93**	**1.04**

Key figures	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e	2026e	2027e
Revenue growth-%	2.1 %	0.0 %	0.0 %	0.0 %	-78.4 %	-14.6 %	-13.0 %	5.3 %	29.3 %	20.5 %	9.1 %	12.9 %	8.2 %	3.9 %
EBITDA-%	20.9 %	17.2 %	18.7 %	2.4 %	7.6 %	12.2 %	8.7 %	12.0 %	8.6 %	11.0 %	10.2 %	10.8 %	11.3 %	11.7 %
Adjusted EBIT-%	18.4 %	14.5 %	15.9 %	-1.7 %	4.4 %	9.0 %	4.9 %	8.9 %	5.0 %	7.9 %	6.8 %	7.5 %	7.9 %	8.4 %
Net earnings-%	12.5 %	12.0 %	13.3 %	-1.8 %	3.8 %	7.4 %	3.5 %	6.3 %	3.4 %	5.8 %	4.9 %	5.6 %	5.9 %	6.4 %

Balance sheet

Assets	2022	2023	2024e	2025e	2026e
Non-current assets	**105**	**130**	**143**	**149**	**153**
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	137	143	146
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**	**141**	**140**	**149**
Inventories	34.2	37.5	38.5	43.4	47.0
Other current assets	9.9	22.9	22.9	22.9	22.9
Receivables	25.5	23.4	29.6	33.4	36.1
Cash and equivalents	84.4	55.8	50.3	40.1	43.4
Balance sheet total	**259**	**269**	**284**	**289**	**302**

Source: Inderes

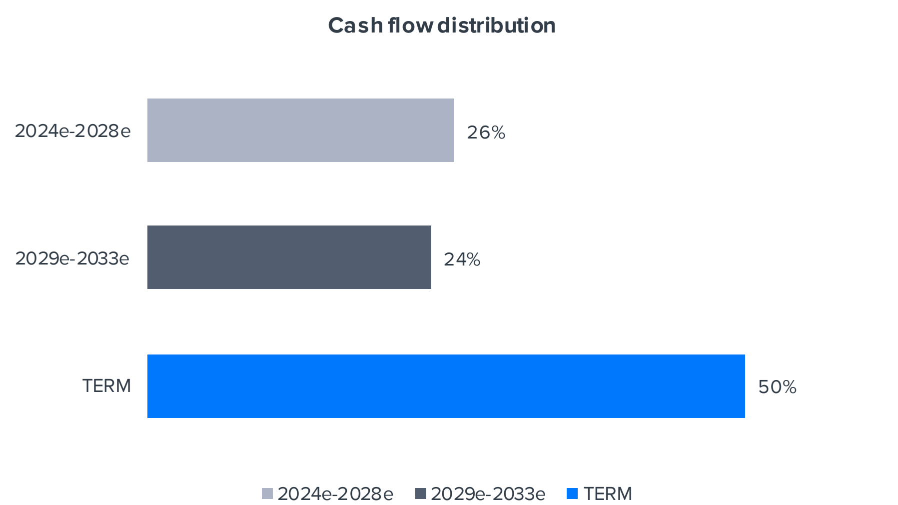
Liabilities & equity	2022	2023	2024e	2025e	2026e
Equity	**136**	**147**	**155**	**166**	**180**
Share capital	1.5	1.5	1.5	1.5	1.5
Retained earnings	60.6	51.5	59.0	70.2	84.3
Hybrid bonds	0.0	0.0	0.0	0.0	0.0
Revaluation reserve	0.0	0.0	0.0	0.0	0.0
Other equity	73.7	94.2	94.2	94.2	94.2
Minorities	0.0	0.0	0.0	0.0	0.0
Non-current liabilities	**56.3**	**64.1**	**70.7**	**60.9**	**56.8**
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	61.7	51.9	47.8
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**	**58.8**	**62.4**	**65.2**
Interest bearing debt	6.5	8.5	6.5	5.5	5.0
Payables	59.1	32.8	35.8	40.4	43.7
Other current liabilities	0.9	16.5	16.5	16.5	16.5
Balance sheet total	**259**	**269**	**284**	**289**	**302**

DCF calculation

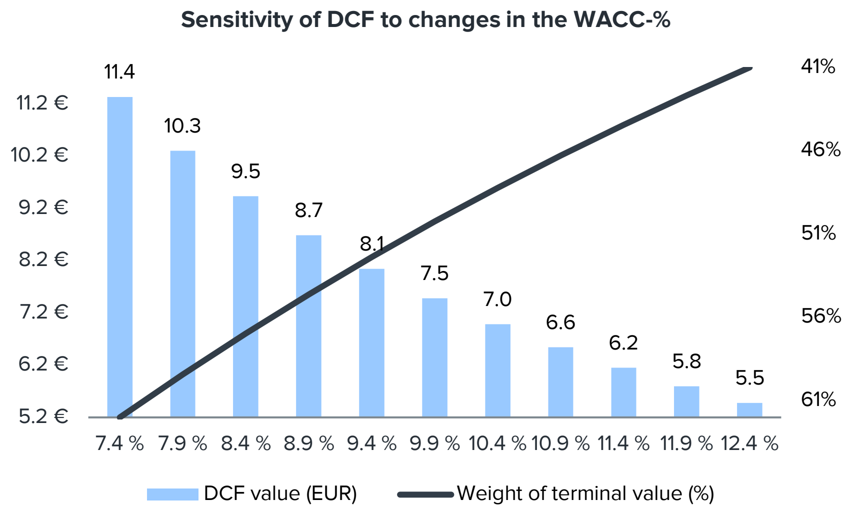
DCF model	2023	2024e	2025e	2026e	2027e	2028e	2029e	2030e	2031e	2032e	2033e	TERM
Revenue growth-%	-14.6 %	9.1 %	12.9 %	8.2 %	3.9 %	3.0 %	2.5 %	2.5 %	2.5 %	2.5 %	2.0 %	2.0 %
EBIT-%	9.0 %	6.8 %	7.5 %	7.9 %	8.4 %	7.5 %	7.0 %	6.5 %	6.0 %	5.5 %	5.5 %	5.5 %
EBIT (operating profit)	**24.4**	**20.1**	**25.0**	**28.5**	**31.7**	**29.0**	**27.7**	**26.4**	**25.0**	**23.5**	**23.9**	
+ Depreciation	8.6	10.1	10.9	12.1	12.4	13.3	13.5	13.6	13.7	13.9	14.0	
- Paid taxes	-1.8	-3.6	-4.6	-5.4	-6.0	-5.6	-5.4	-5.1	-4.9	-4.6	-4.7	
- Tax, financial expenses	-0.1	-0.6	-0.5	-0.5	-0.5	-0.4	-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	0.1	0.1	0.1	0.2	0.2	
- Change in working capital	-24.9	-4.2	-4.2	-3.0	-1.5	-1.2	-1.1	-1.1	-1.1	-1.1	-0.9	
Operating cash flow	**6.2**	**22.0**	**26.8**	**32.0**	**36.2**	**35.3**	**34.6**	**33.7**	**32.6**	**31.5**	**32.2**	
+ 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	-17.4	-15.4	-15.4	-15.4	-15.4	-15.4	-15.4	-15.4	-14.6	
Free operating cash flow	**-27.3**	**-1.4**	**9.4**	**16.6**	**20.8**	**19.9**	**19.2**	**18.3**	**17.2**	**16.1**	**17.6**	
+/- 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	-1.4	9.4	16.6	20.8	19.9	19.2	18.3	17.2	16.1	17.6	228
Discounted FCFF		**-1.4**	**8.2**	**13.3**	**15.1**	**13.2**	**11.6**	**10.0**	**8.6**	**7.3**	**7.3**	**94.3**
Sum of FCFF present value		188	189	181	167	152	139	128	118	109	102	94.3
Enterprise value DCF		**188**										
- Interest bearing debt		-63.7										
+ Cash and cash equivalents		55.8										
-Minorities		0.0										
-Dividend/capital return		-6.9										
Equity value DCF		**173**										
Equity value DCF per share		**7.5**										

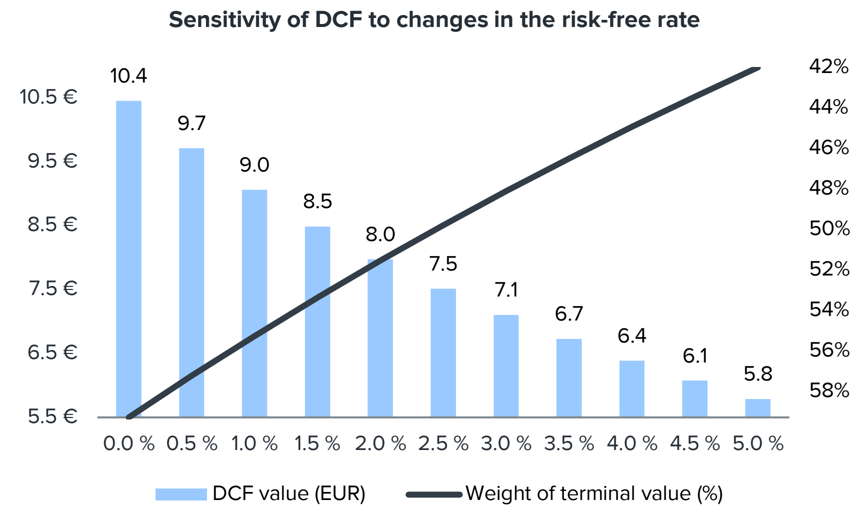
WACC	
Tax-% (WACC)	20.0 %
Target debt ratio (D/(D+E)	17.5 %
Cost of debt	5.0 %
Equity Beta	1.50
Market risk premium	4.75%
Liquidity premium	1.50%
Risk free interest rate	2.5 %
Cost of equity	**11.1 %**
Weighted average cost of capital (WACC)	**9.9 %**

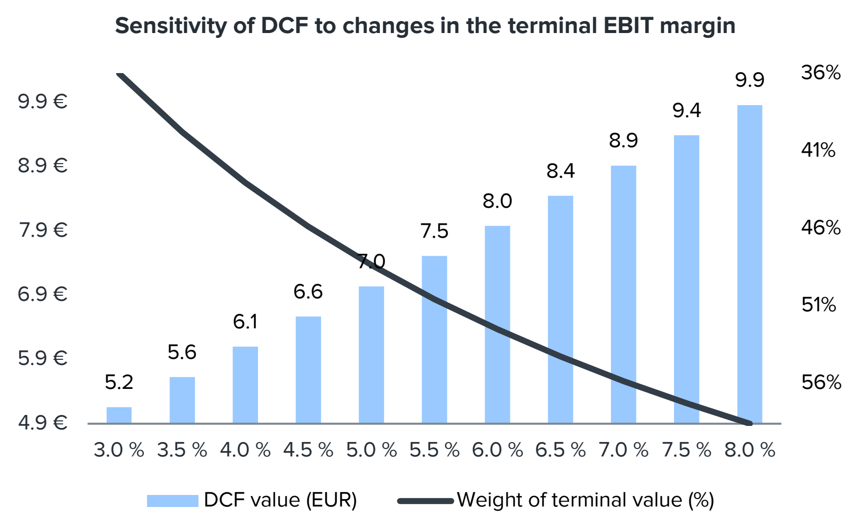
Source: Inderes

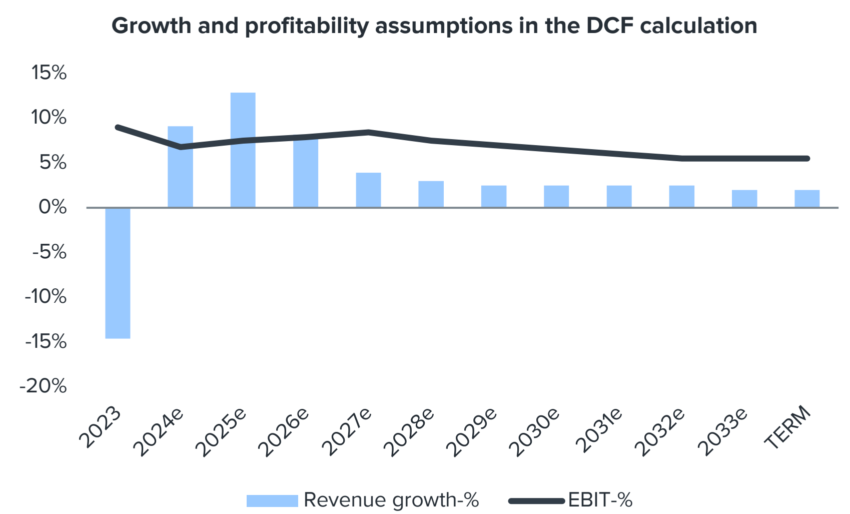


DCF sensitivity calculations and key assumptions in graphs









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

Summary

Income statement	2021	2022	2023	2024e	2025e
Revenue	311.3	317.7	271.2	**295.9**	**334.0**
EBITDA	62.2	66.3	33.0	**30.2**	**35.9**
EBIT	52.7	58.2	24.4	**20.1**	**25.0**
PTP	47.9	57.8	24.0	**18.1**	**23.2**
Net Income	29.2	39.8	20.2	**14.4**	**18.5**
Extraordinary items	0.0	-0.3	0.0	**-0.1**	**0.0**

Balance sheet	2021	2022	2023	2024e	2025e
Balance sheet total	200.3	258.6	269.2	**284.2**	**289.2**
Equity capital	58.8	135.8	147.2	**154.7**	**165.9**
Goodwill	0.0	0.0	0.0	**0.0**	**0.0**
Net debt	34.1	-28.5	7.9	**17.9**	**17.3**

Cash flow	2021	2022	2023	2024e	2025e
EBITDA	62.2	66.3	33.0	**30.2**	**35.9**
Change in working capital	-6.1	12.3	-24.9	**-4.2**	**-4.2**
Operating cash flow	52.7	47.6	6.2	**22.0**	**26.8**
CAPEX	-9.7	-22.0	-33.7	**-23.4**	**-17.4**
Free cash flow	33.0	55.9	-27.3	**-1.4**	**9.4**

Per share data	2021	2022	2023	2024e	2025e
EPS (reported)	1.27	1.73	0.88	**0.63**	**0.81**
EPS (adj.)	1.27	1.74	0.88	**0.63**	**0.81**
OCF / share	2.29	2.07	0.27	**0.95**	**1.16**
FCF / share	1.44	2.43	-1.19	**-0.06**	**0.41**
Book value / share	1.55	5.90	6.40	**6.72**	**7.21**
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%	**9%**	**13%**
EBITDA growth-%		7%	-50%	**-9%**	**19%**
EBIT (adj.) growth-%		11%	-58%	**-17%**	**24%**
EPS (adj.) growth-%		37%	-50%	**-29%**	**28%**
EBITDA-%	20.0 %	20.9 %	12.2 %	**10.2 %**	**10.8 %**
EBIT (adj.)-%	16.9 %	18.4 %	9.0 %	**6.8 %**	**7.5 %**
EBIT-%	16.9 %	18.3 %	9.0 %	**6.8 %**	**7.5 %**
ROE-%	0.0 %	46.4 %	14.3 %	**9.5 %**	**11.6 %**
ROI-%	0.0 %	35.8 %	12.1 %	**9.6 %**	**11.5 %**
Equity ratio	29.4 %	52.5 %	54.7 %	**54.4 %**	**57.4 %**
Gearing	57.9 %	-21.0 %	5.4 %	**11.6 %**	**10.5 %**

Valuation multiples	2021	2022	2023	2024e	2025e
EV/S	0.1	0.4	0.5	**0.6**	**0.6**
EV/EBITDA	0.5	1.8	4.4	**6.3**	**5.3**
EV/EBIT (adj.)	0.6	2.0	6.0	**9.5**	**7.6**
P/E (adj.)	0.0	3.6	6.8	**11.9**	**9.3**
P/B	0.0	1.1	0.9	**1.1**	**1.0**
Dividend-%		6.9 %	5.0 %	**4.3 %**	**4.3 %**

Source: Inderes

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Sell	The 12-month risk-adjusted expected shareholder return of the share is very weak

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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 €	7.60 €
8/19/2024	Reduce	7.50 €	7.50 €

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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