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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 Itella Russia (Posti). 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 **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 1.2 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. **Itella Russia** (Posti Group) 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 1Q2015: Purchasing power erosion concerns

Key takeaways

1. Prices of goods rose broadly during the first quarter, but particularly in food category (CPI peaked 03/2015 at 17% y/y)
2. On a period avg basis, rouble depreciated most since start of crises in Ukraine last year (RUR/EUR avg -32% vs. 1Q2014)
3. The companies are settling in for what seems to be an extended period of economic and political uncertainty

Figure 1: Analysis sample details

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	Segment	x	x	172
Lemminkäinen	Real estate & construction	Segment	x	x	196
Nordea	Financial services	Segment	x	x	274
Sponda	Real estate	Segment	x	x	22
SRV	Real estate & construction	Segment	x	x	57
Stockmann	Retail	Segment	x	x	287
YIT	Real estate & construction	Segment	x	x	474
Kesko	Retail	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	Consumer durables	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 1Q2015 y/y: Currency effect still a major concern, but trend seems to be reversing

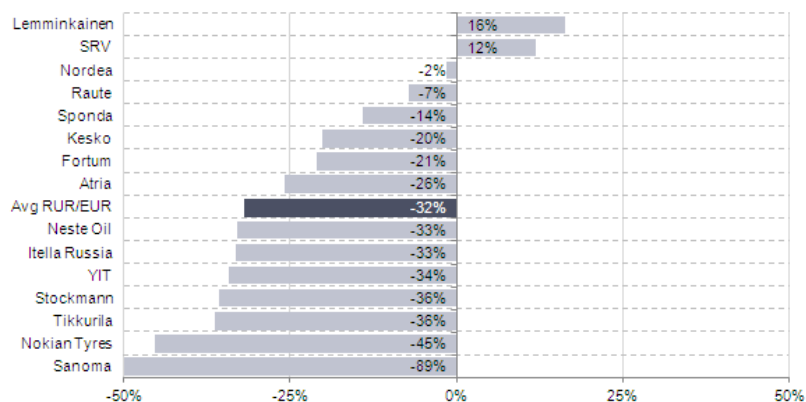
With an average first quarter RUR/EUR rate of 70.4 vs. 47.9 last year, it is hardly a surprise that euro denominated sales contracted considerably. However, the rouble has since rebounded strongly; from the start of April trading has been in the 55.0-60.0 range. Company top lines, especially in consumer sectors, were also negatively affected by purchasing power reduction, caused by the weaker currency, higher prices and stalling wages.

Demand for **Lemminkäinen** apartments in the comfort class segment in SPb remained brisk, reflecting a continued consumer willingness to shift assets to fixed property: sales volumes were over 60% higher in the period. Despite this, the company decided to cut exposure to Russia by withdrawing from its developer role in a large joint project (2,000 apartments) with Lipsanen & Co. In contrast to Lemminkäinen, **YIT** did not reach (and exceed) apartment sales volumes witnessed in 1Q2014. The developer saw demand slowing, particularly in the second half of the quarter as rouble began to gain ground.

SRV revenue grew on the back of scheduled construction activity related to Okhta Mall and Daily shopping center development projects in SPb and Msk region, respectively. **Nordea** performance was steady, and the high loan losses recorded in the previous quarter decreased significantly. The bank also, citing concerns over the economy, announced scaling down its retail operations to focus on the core corporate segment (retail part only app. 7% of EUR 7bn total Russian loan book). **Raute**, on its part, observed customers finding it increasingly difficult to secure financing for equipment investments.

With such extraordinary FX dynamics, growing EUR sales proved challenging...

Figure 2: Relative EUR denominated sales development 1Q2015 vs. 1Q2014



Source: Company materials, Capwill analysis

...and consumer businesses were under particular pressure

The substantial rouble depreciation adversely affected **Sponda** tenants ability to pay USD denominated rent (resulting in rent reductions). On the positive side, the dollar rose against the euro, offsetting some of the negative effects. **Fortum** power sales volumes were up, while heat sales volumes, due to a warmer winter, were slightly down. Preparations for restructuring its TGC-1 ownership (announced 12/2014) continued, but no specific updates provided.

Sales volumes were depressed in the consumer businesses of **Tikkurila**, **Nokian Tyres**, **Atria**, **Itella Russia** and **Neste Oil** (petrol retail). The first two also observed trading down behaviour (lower ASP). Some managed to hike prices and thereby partly protect the top line (Atria particularly).

Department store operator **Stockmann** was a direct victim of purchasing power erosion. Fellow retailer **Kesko**, focusing on food and DIY segments, fared somewhat better. **Sanoma** announced 04/2015 the sale of its remaining media assets (incl. The Moscow Times and Vedomosti), thus completing the withdrawal from Russia.

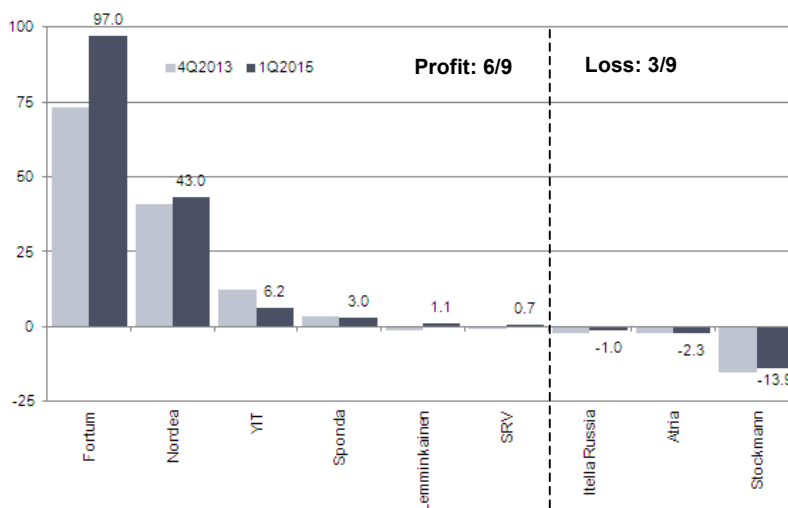
Operating profit 1Q2015 y/y: Aggregate increase

Even disregarding **Fortum** EUR 24m EBIT expansion, aggregate operating profit of the sample companies exceeded last year's result. Fortum's impressive numbers were, to some extent, explained by the release of a EUR 29m provision. Simultaneously, however, the company also had to record new (bad debt) provisions. Likewise boosting profit, **Nordea** continued to gain from dollar appreciation (the banks loans mostly in USD; costs in RUR).

YIT profitability was burdened by a sub-optimal sales portfolio in SPb in relation to current market preferences (focus on small apartments). Additionally, the share of EUR-denominated-non-project-related costs of revenue increased. **Lemminkäinen** reported that the strong sales performance was mostly related to apartments that will be completed (and thus reflected in the P&L) in the end of the year.

Several profit improvements, and loss reductions...

Figure 3: Operating profit (EBIT), EUR million



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

Source: Company materials, Capwill analysis

Because of a decline in market rents, **Sponda** took a EUR 9m write-down on fair values of its properties. The total book value of the property portfolio, which the company has announced is for sale, currently stands at EUR 215m. No comments as to development of the sales process were provided.

Despite the cyclical nature of **SRV** commercial property development business, EBIT remained in black. Reversing the loss from first quarter last year, the company disclosed that the progress was primarily due to better earnings of associated companies and JVs, as well as FX effects.

...but work remains to crawl out of negative territory

Encouragingly, both **Itella Russia** and **Stockmann** reduced losses. Itella Russia achieved both hedging and warehousing efficiency gains. Stockmann still has a rocky way ahead, but maybe the bottom has been seen? **Atria** kept struggling with food sector sharply rising raw material prices.

Figure 4: Data summary

Finnish Companies in Russia			Sales						Operating profit (EBIT)			
Company	RUS reporting	Industry	2013	2014	Delta y/y	1Q2014	1Q2015	Delta y/y	2013	2014	1Q2014	1Q2015
RUR/EUR, eop	Balance sheet	Source: CBR	44.97	68.34	-34.2%	49.05	63.37	-22.6%				
RUR/EUR, avg	Profit & loss	Source: CBR	42.27	50.46	-16.2%	47.91	70.37	-31.9%				
Atria	Segment	Consumer staples	121.5	98.8	-18.7%	21.3	15.8	-25.8%	-3.6	-6.2	-2.2	-2.3
Fortum	Segment	Utilities	1,119.0	1,055.0	-5.7%	333.0	263.0	-21.0%	156.0	161.0	73.0	97.0
Itella Russia	Segment	Transportation	205.6	172	-16.3%	41.5	27.7	-33.3%	4.3	2.4	-2.2	-1.0
Lemminkäinen	Segment	Real estate & construction	164.5	196.1	19.2%	16.0	18.6	16.3%	-0.3	19.7	-1.4	1.1
Nordea	Segment	Financial services	257.0	274.0	6.6%	64.0	63.0	-1.6%	158.0	165.0	41.0	43.0
Sponda	Segment	Real estate	28.6	22.2	-22.4%	5.7	4.9	-14.0%	0	13.2	3.5	3.0
SRV	Segment	Real estate & construction	104.7	56.9	-45.7%	14.2	15.9	12.0%	10.0	1.1	-0.6	0.7
Stockmann	Segment	Retail	345.7	286.9	-17.0%	65.4	42.1	-35.6%	-6.4	-35.8	-15.1	-13.9
YIT	Segment	Real estate & construction	496.0	474.1	-4.4%	108.5	71.3	-34.3%	70.2	55.8	12.2	6.2
Kesko	Geo area	Retail	359.0	369.0	2.8%	79.0	63.0	-20.3%				
Neste Oil	Geo area	Energy	361.0	355.0	-1.7%	79.0	53.0	-32.9%				
Nokian Tyres	Geo area	Consumer durables	520.1	363.4	-30.1%	140.7	76.8	-45.4%				
Raute	Geo area	Industrials	16.3	16.8	3.1%	2.8	2.6	-7.1%				
Sanoma	Geo area	Media	111.8	54.0	-51.7%	22.0	2.5	-88.6%				
Tikkurila	Geo area	Consumer durables	204.3	175.7	-14.0%	31.9	20.3	-36.4%				
Total			4,415.1	3,969.9	-10.1%	1,025.0	740.5	-27.8%	388.2	376.2	108.2	133.8

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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