Ready for earnings gains

Aspo's results have seen ups and downs in recent years, but the stabilized environment and recent investments should now drive major earnings gains after a still soft H1'24.

Demand has stabilized while footprint has expanded

Aspo's three business segments have all advanced in their strategic steps in recent years even if the respective market conditions of ESL Shipping and Telko did cause some volatility in their earnings. The dry bulk cargo market of ESL especially, and the chemicals distribution market of Telko to a lesser extent, saw major headwinds last year after a period of very high demand. The markets now seem to have stabilized around the summer of 2024 so that earnings can again grow on an organic basis. All three segments have also recently made some significant investments in new shipping capacity (ESL) and M&A (Telko and Leipurin). In our view the relatively stable market conditions, coupled with the capacity and Western geographical footprint expansions, now provide an excellent base for some earnings gains already this year as H2'24 doesn't face very challenging comparison figures.

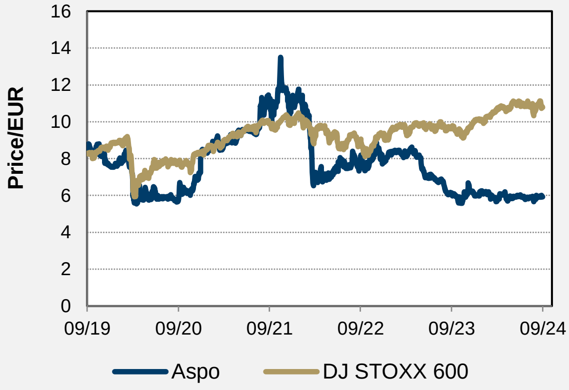
H2'24 and FY'25 face quite low comparison figures

H1'24 results were still burdened by somewhat extraordinary conditions in the case of ESL (political strikes in Finland and very severe ice conditions) while Telko's M&A led to significant acquisitions related costs. H2'24 should be largely free of similar costs, in addition to which ESL's demand should have already improved. We thus expect Aspo H2'24 EBITA to improve by some EUR 7m y/y mostly thanks to ESL. Comparison figures for FY'25 aren't still that high due to the soft H1'24 while ESL continues to receive new capacity and Telko as well as Leipurin have had more time to integrate their latest acquisitions. We therefore estimate further earnings gains of some EUR 15m y/y for next year stemming from all segments but largely from Telko as it has acquired some EUR 7.5m of EBIT this year.

FY'25 EBITA gains turn valuation multiples attractive

We estimate FY'25 EBITA at EUR ca. 49m, on which Aspo is valued below 8x. On our FY'24 estimates the multiple is almost 11x, which can be seen as a rather neutral level. We view the current valuation attractive as earnings continue to have strong drivers towards next year. We retain our EUR 7.0 TP and BUY rating.

Rating **BUY**



Share price, EUR (Last trading day's closing price)	5.92
Target price, EUR	7.0
Latest change in recommendation	02-Nov-23
Latest report on company	15-Aug-24
Research paid by issuer:	YES
No. of shares outstanding, '000's	31,420
No. of shares fully diluted, '000's	31,420
Market cap, EURm	186
Free float, %	-
Exchange rate EUR/SEK	-
Reuters code	ASPO.HE
Bloomberg code	ASPO FH
Average daily volume, EURm	0.1
Next interim report	29-Oct-24
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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2022	560.7	38.3	6.8%	16.5	0.98	8.4	0.7	10.8	6.4	0.46
2023	536.4	25.9	4.8%	-1.1	0.52	11.6	0.7	13.7	-0.6	0.47
2024E	601.4	24.1	4.0%	17.9	0.33	17.8	0.6	14.4	9.6	0.35
2025E	670.0	46.3	6.9%	14.8	0.91	6.5	0.5	7.4	8.0	0.40
2026E	686.0	52.7	7.7%	37.0	1.08	5.5	0.5	6.1	19.9	0.45

Market cap, EURm	186	Gearing 2024E, %	119.0	CAGR EPS 2023-26, %	27.8
Net debt 2024E, EURm	162	Price/book 2024E	1.4	CAGR sales 2023-26, %	8.5
Enterprise value, EURm	348	Dividend yield 2024E, %	5.9	ROE 2024E, %	7.6
Total assets 2024E, EURm	413	Tax rate 2024E, %	15.2	ROCE 2024E, %	7.3
Goodwill 2024E, EURm	52	Equity ratio 2024E, %	33.0	PEG, P/E 24/CAGR	0.3

Investment summary

Aspo includes three business segments which it actively supports to grow and create value

Aspo has three independent segments for which it is an active long-term owner. The segments operate in different industries with slightly different geographic exposures, yet the Baltic Rim is a very important market area for all three. There are differences in terms of value chain positioning, but the three are all B2B businesses and play an important role in their customers' logistics. In our view Aspo's ownership role will gain even more importance now that the segments are investing in new shipping capacity and looking for additional scale through M&A in the coming years. The segments' further development could ultimately lead to e.g. a demerger or divestments. The segments now have clear goals for organic and inorganic growth, and their increased business model resilience should drive value creation.

ESL's performance has historically been relatively stable, and is likely to become even more so

ESL Shipping is a leading dry bulk carrier in the Baltic Sea region and has shown relatively strong and stable performance in the past. The business model and fleet structure of ESL has undergone major changes since before and after the pandemic, all of them in our view in the right direction from the perspective of earnings resiliency, yet its freight rates and volumes were volatile in the past few years and thus performance is only now stabilizing again. The carrier has divested its two Supramax vessels and continues to receive new green Coasters, which further help earnings rebound going forward. Key customer industries' cargo demand is already recovering at some rate, and although there's still uncertainty around the improvement pace the long-term outlook for ESL's niche market appears very favorable as a lot of existing capacity is ageing while demand growth will be driven by major green industrial investments particularly in Northern Sweden but also to some extent in Finland. ESL is likely to respond to this growth in demand by ordering a set of new Handysize vessels in the coming years.

Telko is a third-party specialty chemicals distributor with significant organic and inorganic earnings growth levers

Telko distributes plastics raw materials, chemicals and lubricants on behalf of its principals to a wide range of customer industries. The value proposition is to offer a logistically efficient distribution service, coupled with technical product expertise, so that a long tail of low-volume customers can be best served. Telko has been able to shift its focus more towards value-added products, and the business' low capital-intensity has shown high returns on capital even with relatively modest margins, however the past years' exit from Russia and decline in raw materials prices caused some temporary headwinds. In our view Telko now has potential for great profitability improvement as raw materials prices have stabilized, and may even be increasing, while the company has lately acquired M&A targets at attractive valuations to the tune of some 40% of its trailing revenue (with pre-synergy earnings margins already higher than its own). Long-term earnings growth prospects are significant as organic volume CAGR of around 5% is topped with a similar amount of inorganic growth while margins still have some 200bps upside.

Leipurin is a third-party distributor focused on bakery products but with a growing presence in the food industry

Leipurin distributes bakery, as well as food industry, ingredients on behalf of its principals to a set of customers operating in the baking and food sectors. The business model and value proposition of Leipurin are quite analogous to those of Telko; one major challenge for Leipurin has historically been the fact that the baking industry doesn't exhibit much volume growth in mature markets, in addition to which margins can be rather slim in certain bulk product categories. Leipurin has, just like Telko, shifted its focus more towards value-added products and has also in the past few years shown solid profitability gains from the previous subpar levels. In our view the rather steep gains have been the result of own internal measures and two acquisitions in Sweden. In our view Leipurin is now the most stable segment of the three.

Financial performance was volatile in the past few years, but there are many reasons to expect more resilient earnings growth from now on

ESL and Telko have shown periods of impressive earnings, however the last few years' volatile market conditions led to large variations. The nature of the two businesses remains such that earnings will still show some cyclicality, but in our view especially ESL's results should be a lot more stable going forward now that the fleet structure is changing and recent big demand shocks are behind. Aspo's targets imply some 300bps EBITA margin gain in the coming years, and while the curve's actual steepness is yet to be seen we believe all three segments will continue to improve by at least some rate due to organic and inorganic growth measures.

Valuation remains quite low; we rate the shares BUY with a TP of EUR 7.0

Aspo trades below 8x EV/EBITA on our FY'25 estimates, and while we estimate significant y/y earnings gain of some EUR 15m for next year we believe the drivers are solid due to the rebound of ESL and synergistic growth achieved by Telko and Leipurin. We retain our BUY rating and EUR 7.0 TP as H2'24 EBITA should already show some meaningful improvement y/y.

Company overview

Aspo background

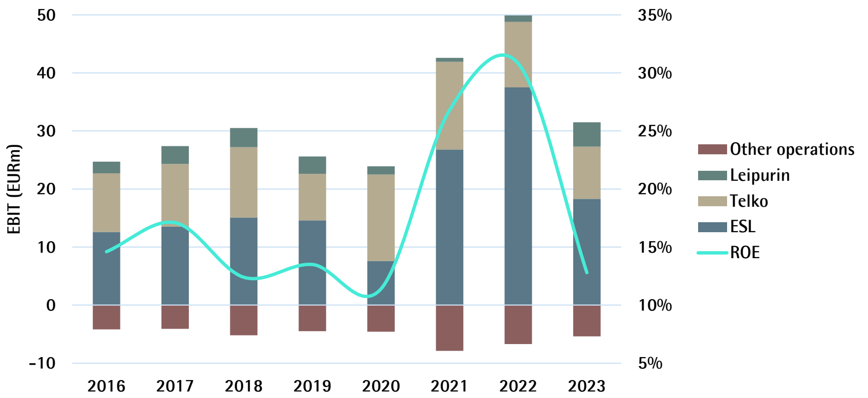
Aspo includes three independent business-to-business segments, the operations of which mostly focus on regions around the Baltic Sea. The three segments are quite different but can be seen to share a common denominator in that they all provide services related to logistics solutions, ranging from maritime cargo to raw materials wholesale distribution. Yet the businesses share no notable operational synergies between them and hence Aspo may be best seen as a kind of holding company or a conglomerate (Aspo has a vision to form two separate companies, namely Infra and Compounder, so that capex focus would shift more towards the latter). Aspo continues to be characterized by family ownership and representatives of the two key shareholding families serve in board directorship roles.

The company was established in 1929 as coke demand was surging in Helsinki due to the increasing prevalence of modern central heating systems, and the fuel supply needed its own logistics. Aspo was then established to import coke for housing associations' central heating systems, and the operations gradually expanded from storage into transportation, shipping as well as chemicals distribution.

The cooperative entered the oil trade, in addition to business in the Soviet Union in the 1950s. Aspo had developed into a conglomerate by the 1970s, including chemicals and electronics operations. Aspo then floated its shares in 1981 and the company structure continued to evolve over the course of the 1980s and 1990s. The entity demerged into two separate listed companies, namely Aspocomp (electronics) and Aspo (Chemicals, Shipping and Systems), in 1999. Another milestone was the 2008 acquisition of Kauko-Telko Oy: the transaction entailed some restructuring as Aspo sold Autotank, a gas station solutions provider, and organized itself around four businesses. Today three of these segments remain under Aspo's ownership: ESL Shipping (dry bulk shipping), Telko (chemicals and plastics distribution) and Leipurin (bakery raw materials distribution). The fourth, namely Kauko (mobile and energy solutions), was sold in late 2022 as it had been a part of Telko for a while but no longer had strategic relevance.

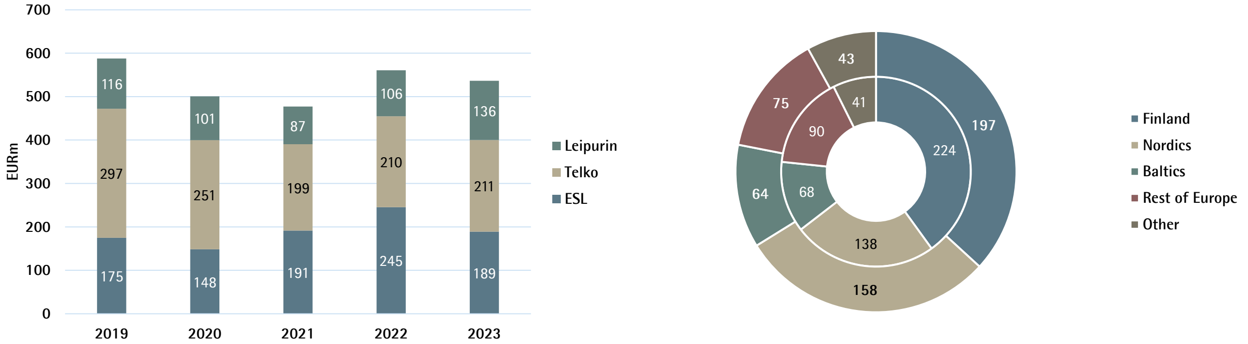
The dry bulk shipping business still contributes a substantial share of Aspo's value but Telko and Leipurin have also advanced in terms of strategic development and importance. Aspo did not actually invest any large amounts of money in the years 2019-23, but it did commit itself to and now is investing significant amounts in ESL's new capacity while it remains highly committed to both Telko and Leipurin. The asset-backed nature of ESL helps Aspo access financing not only for the new vessels but also for M&A purposes (as seen in the commitment for Telko's inorganic growth as well as the Kobia acquisition by Leipurin).

Figure 1: Aspo group profitability development



Source: Aspo

Figure 2: Aspo segmental and geographical revenue (continued operations)



Source: Aspo

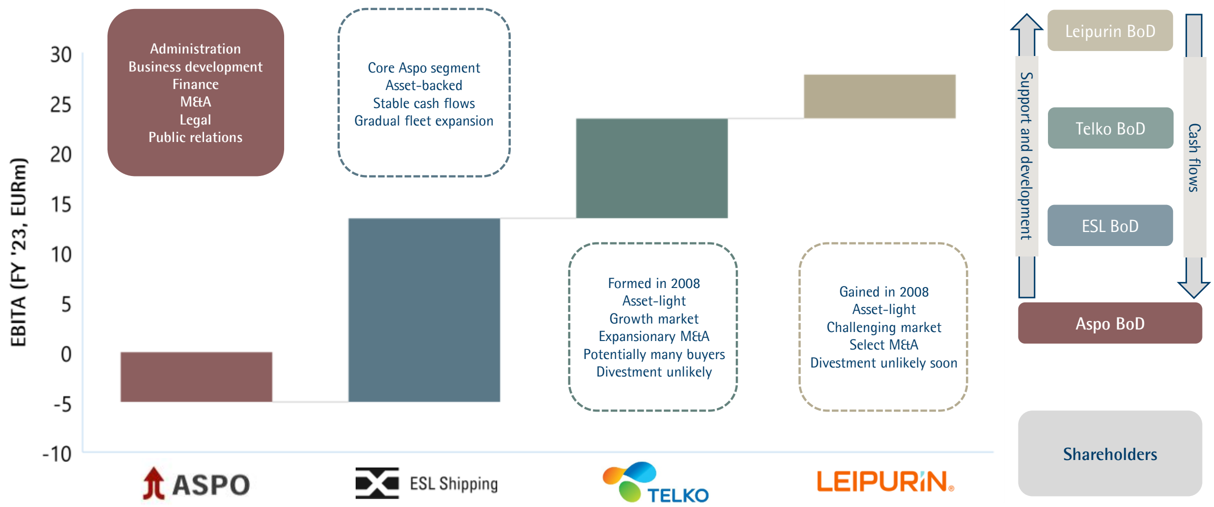
Note: Outer ring FY'23 vs inner ring FY'22

Aspo's segments are present in countries around the Baltic Rim as well as in France, the Benelux countries, China and certain Central Asian countries in the case of Telko. This geographical focus area is unlikely to change much, however it could expand a bit more if Telko were to acquire additional targets located in Western or Southern Europe. Finland has long been clearly the single largest country exposure, however other Nordic countries have recently been catching up especially due to the Kobia acquisition by Leipurin (which added some EUR 50m in revenue for FY'23) while Telko has recently acquired a Swedish target called Swed Handling Ab; Sweden will become Aspo's largest country in terms of revenue by the year 2025.

Aspo company structure

Aspo does not have to consider any restrictive timetable frameworks for evaluating its investments. The company wholly-owns its two less capital-intensive business segments (Telko and Leipurin) while it has sold a minority stake in ESL but remains responsible also for its financing and capital allocation decisions. All the group companies are domiciled in Finland, but the same cannot be said for their respective subsidiaries. The distribution across various countries creates a structure which helps to lower Aspo's average tax rate, in addition to the fact that Aspo can hold different businesses at varying stages of strategic development. Aspo companies are also not ring-fenced, which further improves group financial flexibility.

Figure 3: Aspo corporate roles and structure



Source: Aspo

ESL Shipping represents an asset-backed business where the vessels can be used as collateral for group-level debt facilities. In our view this type of support makes ESL Aspo's cornerstone and therefore the least likely subsidiary to be sold. Telko and Leipurin are both, in contrast to ESL, asset-light subsidiaries and active in B2B trade businesses. Both companies have presence around the Baltic Rim and did manage to build up profitable businesses in countries like Russia, from which market both companies have since then exited.

Figure 4: Aspo segments' financial profile comparison

	Capital needs	Debt capacity and availability	Earnings profile
ESL Shipping	• Invested capital tied mostly in vessels (lifespan of 25 years per vessel) • Newbuild vessels, as well as older ones' maintenance, facilitate high capex needs	• Debt financing highly available as vessels can be used as collateral due to their high cash flow generation • Underlying assets can be sold off	• High margins • Medium return on invested capital and high return on (leveraged) equity
Telko	• Invested capital tied in working capital, mostly inventories • No significant capex requirements apart from potential M&A transactions	• Consistent profitability and resilient demand can improve debt capacity	• Medium margins • High returns on invested capital and equity
Leipurin	• Invested capital tied in working capital, mostly inventories • No significant capex requirements apart from potential M&A transactions	• Consistent profitability and resilient demand can improve debt capacity	• Low to medium margins depending on segment • High returns on invested capital and equity

Source: Aspo

Aspo has a portfolio vision to form two separate companies called Infra and Compounder, the former of which would encompass ESL Shipping while the latter would include both Telko and Leipurin, by the year 2029. The aim is to shift capex focus towards Aspo Compounder by supporting their organic growth with acquisitions. Telko and Leipurin have somewhat similar business profiles while ESL Shipping is quite different in comparison to the two especially due to its balance sheet heavy asset-backed nature.

Aspo strategy and M&A

Aspo aims to help its subsidiaries' long-term growth plans by providing them with strategic tools to build lasting customer relationships. The businesses involve demanding B2B customer relationships, where the services such as administration, business development and M&A, finance, IT, legal and public relations provided by Aspo might come in handy.

Telko and Leipurin have been solid investments despite the exit from Russia

Aspo is an active long-term owner for its current segments, which now include the logistics (ESL Shipping) and trade (Telko & Leipurin) clusters. These represent three distinct businesses, but they have a common denominator in that they are all specialized industrial or wholesale service providers. The B2B nature of Aspo has been, in our view, one of the investment story's key aspects. Aspo's ownership role likewise includes the potential to evaluate options for acquiring, divesting or listing separate segments. The last such major transaction was the 2008 acquisition of Kauko-Telko Oy for an EV of EUR 76m, through which Aspo gained its current segments besides ESL Shipping (namely Leipurin and Telko, where Kauko was included over the years 2019-22 until it was sold). Aspo considered listing Leipurin as a separate entity in 2014 but the Crimean crisis led to the abortion of the process. We estimate the current combined value of Telko and Leipurin at a bit above EUR 200m, and although both companies have made further acquisitions under Aspo's ownership (in addition to some divestments) the total investment cost for Aspo is still well below their current value despite the fact the profitable Russian operations had to be exited at modest valuations. We estimate Aspo's initial 2008 investment to have yielded an annualized return of around 10% since, considering the generated cash flows and current enterprise values.

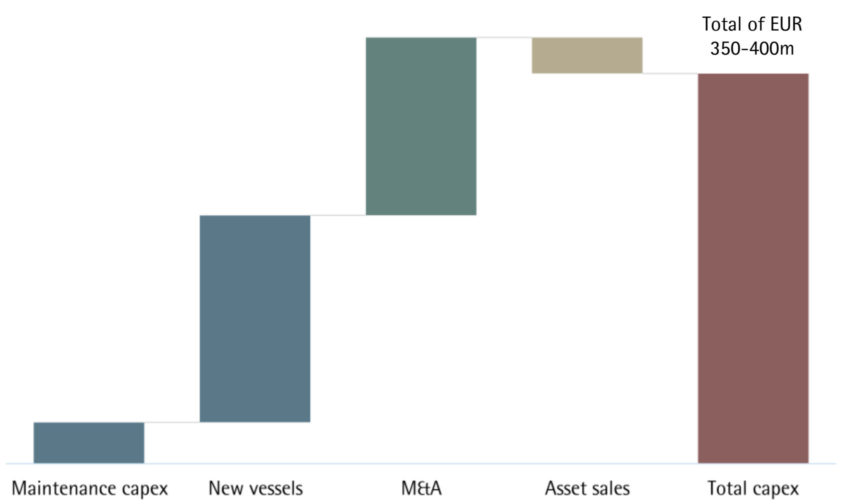
Figure 5: Aspo's recent capital allocation decisions

	Cash sources	Cash uses
Aspo	• Debt refinancing • Hybrid bond • Divestment of Kauko	• Segmental capex • Dividends
ESL Shipping	• Investment pool for hybrid coaster vessels • 21.43% minority stake sale • Supramax vessels' divestment	• Investments in 12 hybrid coaster vessels • Investment plans for green Handysize vessels
Telko	• Exits from Russia and Belarus	• Acquisitions of Mentum, Johan Steenks, Eltrex, Optimol, Greenfluid, Swed Handling and Polyma (more than EUR 100m of combined revenue for an EV of approximately EUR 75m, or less than 0.75x EV/S)
Leipurin	• Divestment of Vulganus and the bakery equipment trading business • Sale and leaseback of 4 warehouse properties in Sweden and Lithuania • Exits from Russia and Kazakhstan	• Acquisitions of Kobia and Kebelco

Source: Aspo

Aspo has plans to spend around EUR 350-400m in capital expenditure over the years 2024-28 as ESL looks to invest in new green Handysize vessels while Telko in particular aims to grow through acquisitions. The majority of the capex sum is to be financed by operative cash flow, but some more debt will also be needed (for which Aspo is now well-positioned as its balance sheet has lately strengthened). In our view the upcoming vessel investments of ESL may require close to EUR 200m while Telko might acquire at least EUR 100m worth of new M&A targets. ESG considerations feature in a prominent role in Aspo's updated strategy and are also integrated into the company's acquisition process.

Figure 6: Aspo potential capex allocation for 2024-28, illustration

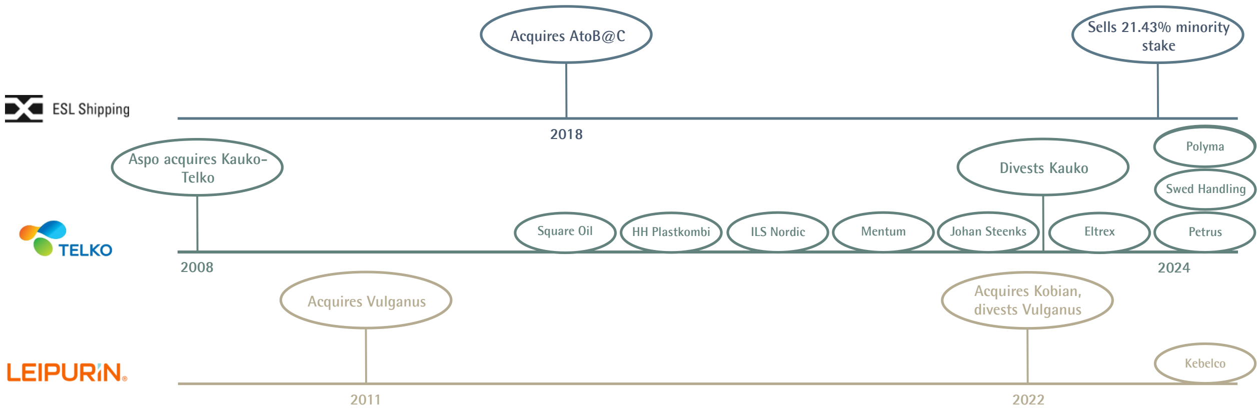


Source: Aspo

Aspo has more organic growth potential, but strategy puts a lot of focus on investments

Aspo's compounder profile emphasis implies, in our opinion, commitment to long-term holding periods without any definite exit plans, and it also gives somewhat less explicit focus on dividends. Profitability remains a priority, but the latest strategy update also puts more weight on growth. All three segments still seek organic growth, however in the case of ESL the shipping capacity is already quite close to being fully utilized and hence the dry bulk carrier will have hard time achieving additional significant organic growth without new vessel investments. Meanwhile organic growth plays an important role for Leipurin as the company still has some way to go until the 5% EBIT margin target is met. Telko's Western growth prospects are solid as favorable industry tailwinds still support organic growth, in addition to which acquisitions remain high on the management agenda. Aspo and Telko are now bound to be a bit more active in M&A than in the past few years. The third-party specialty chemicals distribution market in which Telko operates has plenty of consolidation potential, but we note Telko is only one out of countless such platforms. Some of the most active acquirers include the largest listed global players, in addition to which there are many private equity-backed platform companies constantly looking for add-ons, however such companies may not that often compete for the same deals with Telko.

Figure 7: Timeline of Aspo M&A transactions



Source: Aspo

Telko is arguably the most liquid segment, yet a sale is unlikely as there's a commitment to M&A

Telko remains a core long-term holding for Aspo and there is commitment to participate in the consolidation of the fragmented plastics and chemicals distribution markets, as reflected by Aspo's new compounder strategy. Telko is not a very large distributor in the global context, but nevertheless large enough to consider many different targets near its current areas of geographic reach. The relevant specialty chemicals distribution market counts a handful of leading multi-billion euro players, each of which should be able to snap up Telko with relative ease. In this sense Telko seems to be the segment which Aspo could most rapidly exit should it want to, but in our view such a move appears unlikely given the most recent strategy update and the latest acquisitions. Telko maintained a pretty steady pace of M&A for a while as it acquired one target, on average of around EUR 10m in revenue, every year in 2020-23. Telko has more recently accelerated its acquisition pace as it announced three separate acquisitions in H1'24 with a combined revenue of some EUR 85m. We believe Telko may not be able to maintain quite such a rapid acquisition pace going forward, however it could acquire slightly larger targets or close similar-sized deals more frequently than it did before.

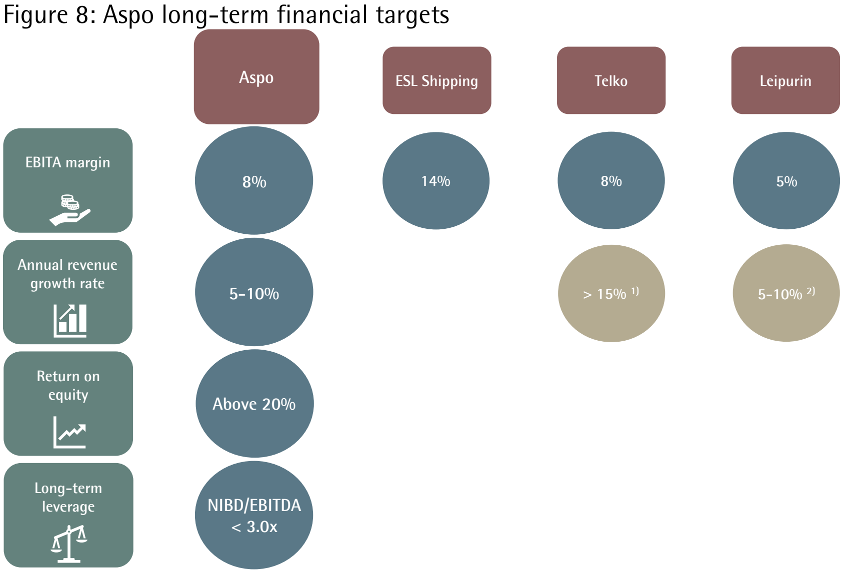
Leipurin has gained in terms of top line and profitability through its acquisition of Kobia in 2022 and in fact was the one segment where positive profitability development continued also in 2023. Leipurin remains the only segment not to have touched its long-term relative profitability target, but its operating margin has already improved to around 4% and thus is no more that far from the 5% level. We believe the acquisition of Kebelco will also help Leipurin closer to its targeted profitability level as the target already has relatively high margins and in our view also better growth prospects than are available in the traditional bakery-product distribution business.

Aspo financial targets

M&A is to boost especially Telko's growth

Aspo revised its long-term financial targets upwards in late 2021. Aspo aimed to achieve its previous long-term targets by 2023, and as Aspo was already to a large extent performing around those old targets the upgrade did not amount to any major surprise. Aspo raised its EBIT margin target from 6% to 8% and the upgrade was driven by ESL and Telko, both of which raised their profitability targets by 200bps. Aspo did not make changes to these profitability targets in its 2024 CMD (apart from changing Telko's relevant earnings metric to EBITA to reflect its acquisition focus). The current targets are not associated with any time schedule, but ESL's 14% EBIT margin target can be hard to achieve in a weaker dry bulk market situation. Aspo also introduced an annual revenue growth target of 5-10% in 2021 and later in 2024 defined it to be a minimum growth pace; in our view the upper end of the range requires inorganic actions in the form of add-on M&A. In our opinion the annual top line growth target is most relevant from the perspective of Telko, which should be able to achieve some 4-5% annual organic growth rate in the long run; Telko also aims to be a lot more active in the M&A market, and we would expect the company to multiply its recent historical acquisition pace (roughly one EUR 10m revenue acquisition per year, or some 5% of Telko revenue, in the years 2020-23) going forward to some EUR 30m or around 10% of revenue every year. Such acquisitions tend to be valued around 0.5-0.6x EV/S and hence Telko may be expected to spend some EUR 15-20m per year on inorganic growth. We estimate an organic CAGR of about 4-5% to be a relevant long-term target for Leipurin, based on market growth estimates presented by peers such as Orkla (Food Ingredients) and Tate & Lyle as well as bakery companies like Aryzta, however we note such market growth rates are more realistic for value-added and functional ingredients as opposed to commodity categories such as baking flours. We also believe the foodservice business has a lot more growth potential in all the countries where Leipurin has established a presence. Leipurin may in addition be expected to add a similar 4-5% annually to revenue through M&A so that its long-term 5-10% CAGR would be quite equally split between organic and inorganic growth.

Figure 8: Aspo long-term financial targets



1) Our estimate based on roughly 5% organic growth and 10% achieved through annual inorganic expansion
2) We assume growth to be roughly equally split between organic and inorganic rates
Source: Aspo, Evli Research

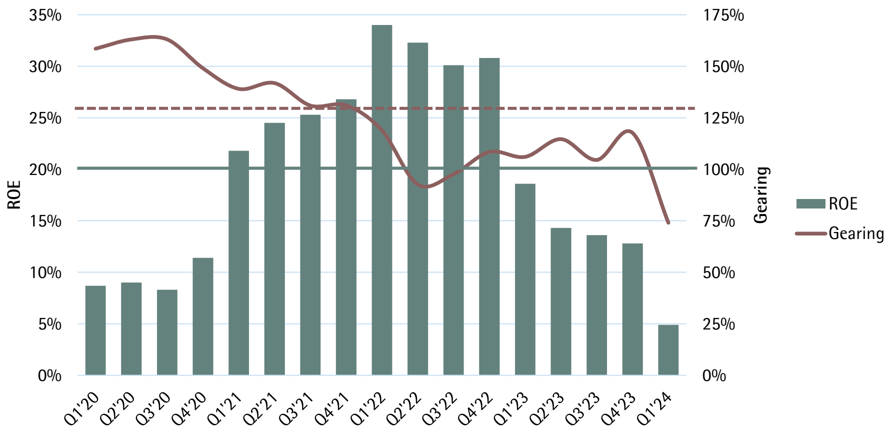
Profitability targets remain relevant over the cycle

In our opinion the long-term profitability margin targets continue to be highly relevant for all three segments even though their profitability levels remained well below that potential in 2023. ESL and Telko have lately suffered from weaker market conditions (but have reached their targets previously), whereas Leipurin is still only beginning to realize its long-term potential in part thanks to the acquisition of Kobia. The divestment of Kauko and Leipurin's Vulganus branded machine business will for their part help Aspo to achieve the 8% EBITA margin target considering the low profitability level of the two.

Relatively solid balance sheet gives some financial flexibility amid upcoming investments

Aspo's balance sheet has undergone a period of moderate deleveraging in the past few years thanks to low capex levels in the wake of ESL's major investments as well as high profitability and cash flow. The absolute debt level peaked at some EUR 200m in terms of net interest-bearing debt in FY'19, whereas the figure is now closer to EUR 150m. Aspo's gearing ratio has consequently declined from well above 130% to around 100%. The period of FY '19-23 didn't include any big capex figures related to large investment projects, however Aspo is again committing funds to ESL's fleet expansion in addition to looking for Telko acquisition targets. It's still unclear how much of Aspo's own money such projects may require as ESL has many financing levers to pull, including vessel investment pools and further equity raising through minority stakes. In our view Aspo could again increase its leverage a bit (by up to EUR 50m roughly speaking) should it be able to find particularly attractive acquisition targets for Telko.

Figure 9: Aspo return on equity and gearing



Source: Aspo

Profitability potential intact, but performance is sensitive to ESL's market conditions

Aspo's return on equity averaged some 21% in the past four years, so the long-term target of above 20% ROE is highly relevant but its achievement also requires relatively favorable market conditions. We estimate ESL to have achieved above 20% return on capital employed in 2022, while Telko also reached double-digit returns. The returns of Leipurin have so far remained a lot lower than that (no higher than in the mid single-digits), but the acquisition of Kobia and other measures such as the divestment of Vulganus are likely to help that figure catch up. We note ESL's performance plays a crucial part in determining Aspo's ROE and hence the achievement of the long-term 20% target may require at least moderately favorable shipping market conditions.

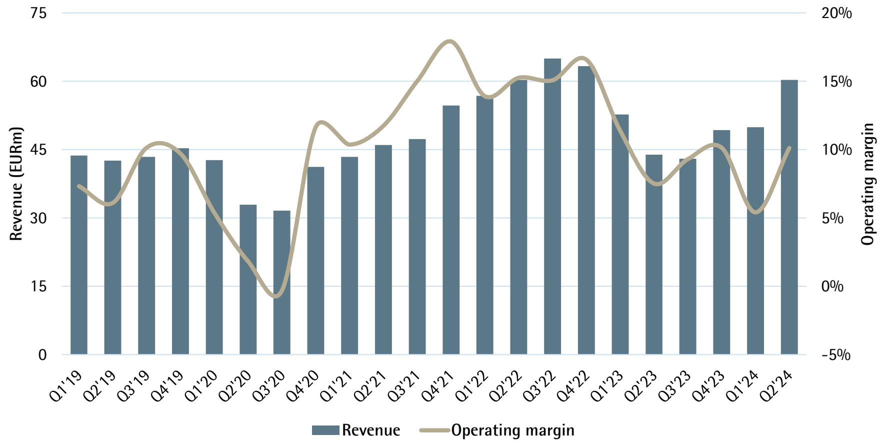
Aspo aims to pay no more than 50% of its earnings as dividends, made in equal-sized biannual installments, to such an extent that the policy does not compromise long-term strategic investments into its subsidiaries. The aim is to increase annual distributions gradually. Aspo has historically been generous in terms of dividend distributions and we do not expect this principle to change too much from a long-term perspective, however the company's current significant investment plans may limit dividend distributions in the coming years.

ESL Shipping

ESL Shipping overview

ESL Shipping is a Helsinki-based dry bulk carrier operating a fleet of 42 vessels mostly around the Baltic Sea region. The ships are relatively small, all within the range between 4,000 and 26,000 in terms of deadweight tonnage (DWT), excluding the two 56,000 DWT Supramax-class vessels which the company has recently sold. All ESL vessels are ice-strengthened and have relatively shallow drafts. The fleet serves industrial customers' cargo needs around the year, even under difficult weather, mostly in sectors such as steel, energy and mining but also increasingly including the forest industry. Dry bulk and breakbulk shipments of commodities like iron ore, fertilizers, grain, limestone and dry biofuels as well as steel products and sawn timber make up the vast majority of ESL's business, in which capacity it serves its industrial customers mostly through long-term partnerships, or so called Industrial Contracts of Affreightment.

Figure 10: ESL Shipping quarterly revenue and relative profitability



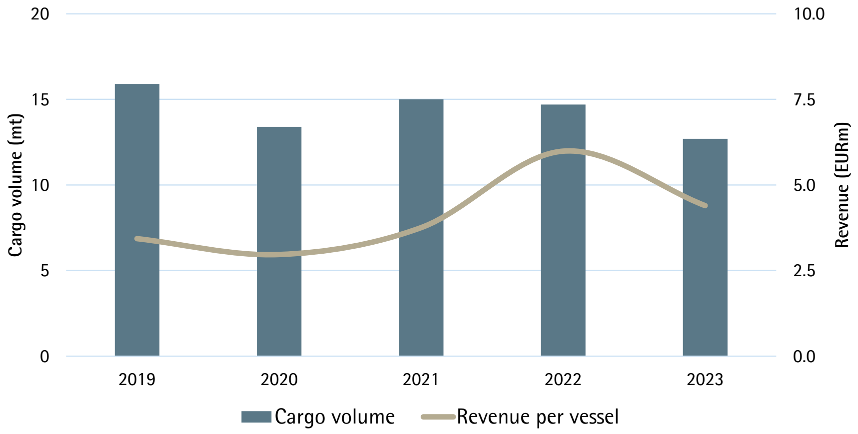
Source: Aspo

Ship-to-ship operations at sea, or transshipments, constitute a highly profitable operation where one vessel, equipped with a side-mounted crane, either loads or unloads another larger one unable to make a Baltic Sea port call in full cargo mode due to its ocean-carrier size. ESL's fleet can perform such operations even in challenging conditions. Ship-to-ship operations are mainly performed by Handysize vessels at 3-4 main locations in the Baltic Sea. Project cargoes include shipments of large discrete components such as long windmill blades, while Arctic shipments cover dry bulk as well as project cargo business along Arctic sea routes, especially the Canadian Arctic. ESL's 1A ice-class Supramax-vessels Arkadia and Kumpula regularly traded in Arctic areas, however in our view such shipments never played a very large role in ESL's strategy and the activity has now been abandoned as the company divested its two largest vessels.

ESL Shipping business model and strategy

ESL Shipping operates a fleet of 42 dry bulk cargo vessels, of which it wholly owns 23 ships (71% of DWT), minority owns 2 (3%) and time charters the remaining 17 (26%). The fleet has a deadweight tonnage of some 337,000 tonnes and the vessels have been specifically designed to carry dry cargo in icy sea environments. Dry bulk cargo refers to raw materials and semi-manufactures shipped in high volumes; the articles do not require any special treatment during the voyage. Major dry bulk articles include iron ore, grain, and coal. More minor dry bulk categories, in the global context, include e.g. steel and forest industry products.

Figure 11: ESL Shipping cargo volume and revenue per vessel



Source: Aspo

Sustainable recycled dry bulk cargo to drive volumes

ESL used to derive significant cargo volumes from coal transport, but such shipments' importance has already diminished and will continue to do so. The company has managed to navigate its way around the decreasing coal demand trend by expanding to cargo types such as biofuels, fertilizers, and timber. ESL no more provides any breakdown of its cargo volumes by article type, but the company's energy coal shipments declined from 32% of total 2011 cargo volume to 17% in 2015. We believe energy coal shipments' relative share has declined further since; we also reckon absolute energy coal volumes have continued to decline a bit, and although the level might have remained flat in 2021 it should nevertheless fall more long-term. Energy coal now amounts to some 5% of volumes. Meanwhile coking coal, as used by the Nordic steel industry, volumes have held up so far, however ESL expects such steel raw materials' importance to fade in the long-term. ESL expects to replace these diminishing raw material volumes by shipping more scrap metals for steel industry production purposes, thereby supporting sustainable recycling goals. In our view the overall long-term steel industry demand outlook appears pretty much flat (apart from the gain in demand attributable to the green transition investments of steel producers such as SSAB and H2 Green Steel), and ESL's main demand growth drivers outside green steel are to be found within renewables, in other words forest industry products (excluding paper) and dry biomass. The Baltic operations will also continue to benefit from strong demand for loading and unloading (ship-to-ship).

Table 1: ESL Shipping long-term cargo volume outlooks by category

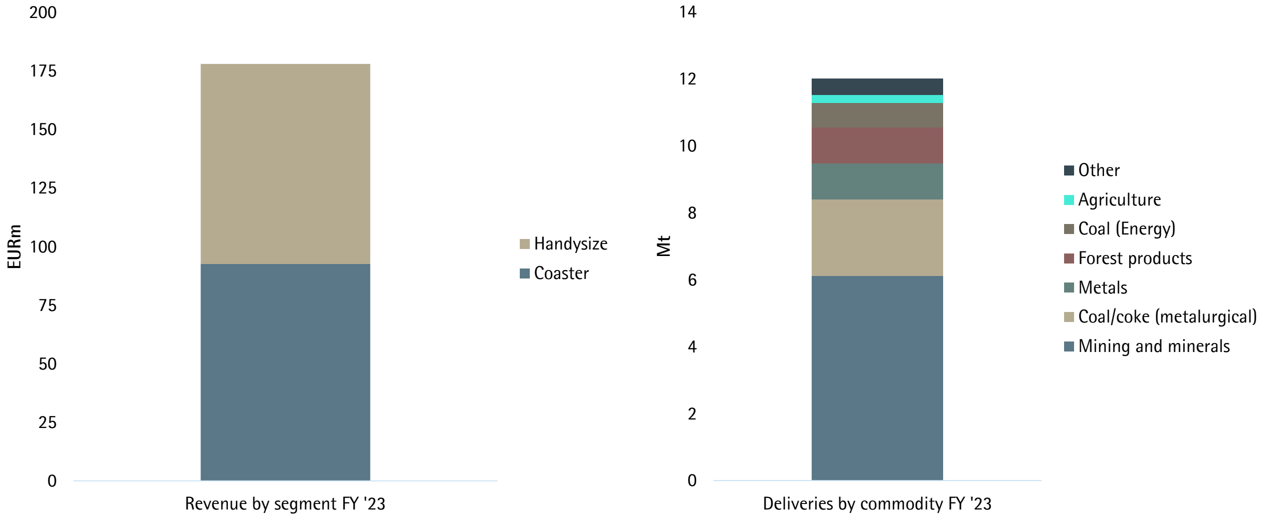
Industry and type of cargo	Long-term volume outlook
Steel raw materials	
Steel products	
Scrap metals for steel industry	
Forest industry excluding paper	
Dry biomass	
Energy Coal	
Loading and unloading at sea	
Food chain	

Source: ESL Shipping

ESL operates a rather specialized dry bulk fleet

ESL transports dry bulk cargo for customer industries such as steel and energy. These are some of the most important sectors for the wider dry bulk shipping market, however ESL's own positioning is rather different from a typical dry bulk carrier. ESL's fleet of ice-strengthened, relatively small shallow-draft vessels operates for the most part in the Baltic Rim and the company aims to be the leading regional maritime logistics service provider. ESL has formed long-term relationships with many different industrial customers and its specialized fleet makes the company a critical part of the regional port infrastructure. The majority of ESL's fleet, in terms of DWT, comes equipped with separate cranes to perform loading and unloading services for ships at sea. The cranes, coupled with the fleet's other nimble features, help connect the Baltic Sea region's industrial logistics with other parts of the world as the largest global bulk carriers tend to have drafts too deep to enter the shallow local ports. A typical dry cargo ship, even in the Baltic Sea, is a lot larger than a standard ESL vessel. ESL avoids direct participation in this high-volume market.

Figure 12: ESL Shipping revenue by vessel and cargo breakdown



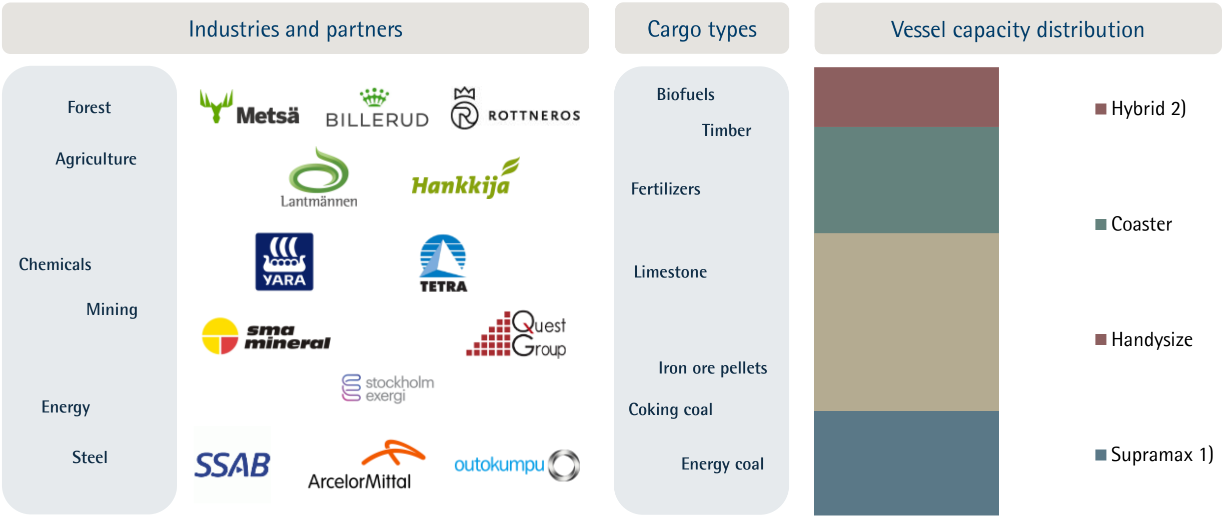
Source: ESL Shipping

ESL ships raw materials such as iron ore, coal, and limestone for the Nordic steel industry; the major customer SSAB used to source certain raw materials like iron ore pellets, metallurgical coal, scrap, and alloys from Russia, among other geographies, but the Russian imports have now been replaced. ESL also ships for some other large steel manufacturers such as ArcelorMittal. Forest industry products play an increasingly important role in driving ESL's cargo volumes and in our view most capacity expansion seen of late, including the AtoB@C acquisition and the twelve small hybrid vessels, address this specific market's growth. ESL has been participating in the biofuels market since 2015, when the company signed a biofuel shipping agreement with Fortum Värme (nowadays known as Stockholm Exergi). We note forest products don't make up a very large share of total cargo tonnage (only approximately 10% in 2023), however they contribute a lot more than that in terms of revenue and earnings.

Many key partners have plans for fossil-free supply chains

ESL customers include, besides the steelmaker SSAB (which we estimate constitutes somewhere between a quarter and third of annual revenue), the energy utility Stockholm Exergi and the chemicals manufacturer Yara. SSAB is the most significant customer account, however ESL does not disclose any specific revenue shares. Food chain customers, which are served with both smaller and larger vessels, include e.g. Lantmännen. Such customers' cargo flows comprise e.g. grain and poultry products. We note at least SSAB, Yara and Lantmännen have significant and concrete plans towards fossil-free supply chains in their respective businesses. ESL has aimed to keep about 20% of its capacity, in practice the Supramax vessels, outside long-term agreements and so maintain the ability to respond to changing market conditions; the Supramaxes represented a driver of earnings upside potential for ESL, however the two vessels have now been sold. ESL still aims to reserve a certain portion of its capacity for spot traffic as it often makes sense from the perspective of logistical route optimization.

Figure 13: ESL Shipping customer industries, cargo types and vessel capacity distribution by ship size class



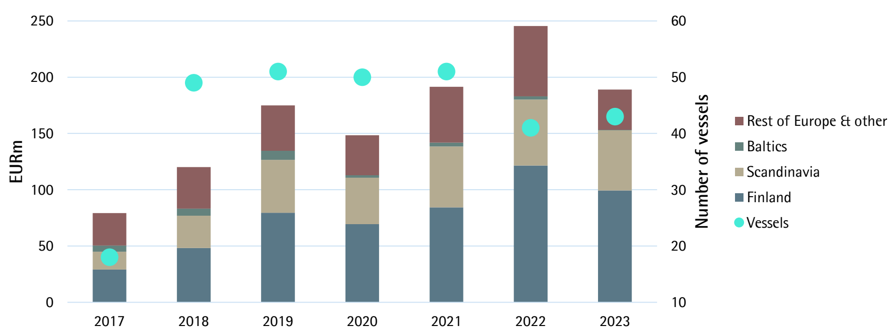
1) ESL divested its two Supramax vessels in Q2'24
2) Hybrid coaster capacity to be added gradually beginning in Q4'23; a new vessel follows every 3 months until mid-2026
Source: ESL Shipping

The Baltic Rim represents a geographic niche focus area for ESL

ESL ships most of its cargo volumes around the Baltic Rim and these flows are to a large extent based on well-established customer relationships; previously some three-quarters of the business was conducted through Industrial Contracts of Affreightment but the share has now risen closer to 100% since the two Supramax vessels, which were operated outside such contracts, have now been divested. The long-term contract nature of the business helps keep the fleet's utilization rate at a high level and makes ESL's financial performance somewhat more stable than those of its global peers, but ESL is by no means immune to prominent economic cycles. ESL's volumes were hit already before the pandemic in late 2019 when demand from the most important customer, SSAB, proved to be lower than expected. Volumes declined by 16% in 2020 even when the 2019 figures were still relatively soft considering the 2018 capacity increases. Tonnage volumes have again continued to improve since late 2020, but it should be noted such volumes are not always the most meaningful metric due to the ongoing gradual tilt towards relatively lightweight biofuels (in comparison to steel industry shipments). Neither do the volumes reflect ESL's highly profitable loading and unloading operations, and hence we would expect top line growth to surpass volume growth from here on.

The acquisition of AtoB@C for an EV of EUR 30m in 2018 expanded ESL's small vessel fleet by 30 units, each of them within the 4,000-5,000 DWT range. Six of these vessels are wholly-owned, two are 49% owned, and the remaining 22 are time-chartered. The acquisition's contribution was some EUR 80m in annual revenue and 5 million tonnes in cargo volumes. The acquisition improved ESL's ability to provide biofuel shipments for the Nordic energy industry, where coal shipments are being phased out in a gradual fashion. AtoB@C generated EUR 3.2m in 2017 operating profit and Aspo's expectation was to realize about EUR 2m in cost synergies by 2020. We understand the target has been met and hence AtoB@C now has an annual EBIT potential well above EUR 5m.

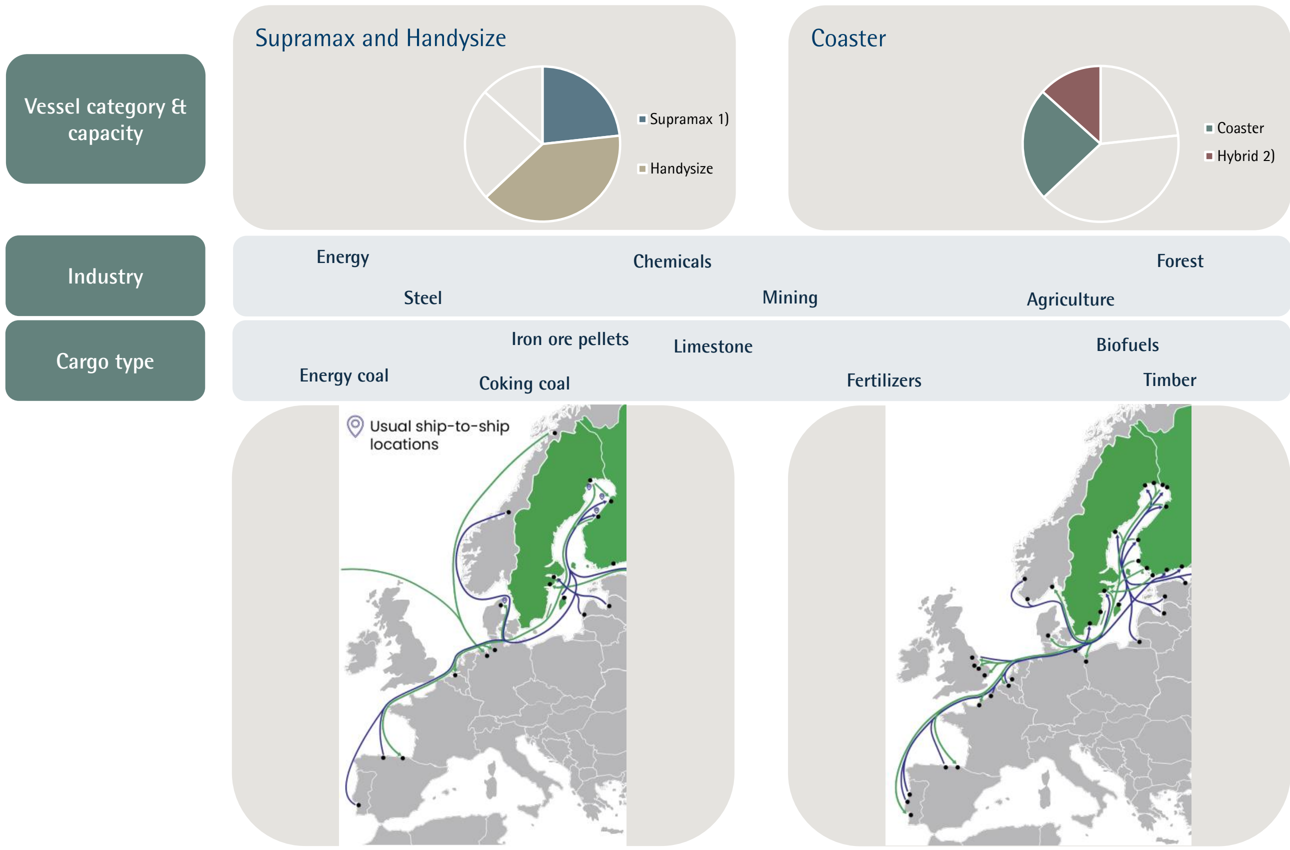
Figure 14: ESL Shipping geographical revenue breakdown



Source: ESL Shipping

ESL has over the years done contract mix optimization from a logistical point of view. Handysize and coaster ships, the most important types of vessels, focus on routes around the Baltic Rim, but some routes extend to the UK and Benelux coasts and even all the way down to the Iberian Peninsula.

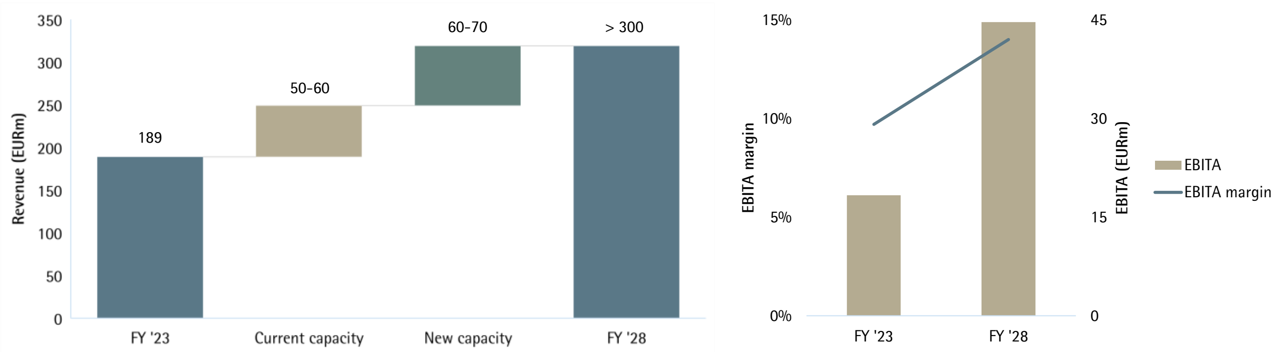
Figure 15: ESL Shipping fleet operating routes



1) ESL divested its two Supramax vessels in Q2'24
2) Hybrid coaster capacity to be added gradually beginning in Q4'23; a new vessel follows every 3 months until mid-2026
Source: Aspo, ESL Shipping

ESL's long-term strategic focus rests on low-carbon industrial cargo flows. Many of ESL's most important customers, including e.g. SSAB, Stockholm Exergi and Yara, have made resource-efficiency a core aspect of their offering. ESL's fleet is already relatively green and will continue to tilt more towards carbon-efficient vessels as the company is receiving its new hybrid Coasters and plans to invest in several new Handysize-class ships in the coming years.

Figure 16: ESL Shipping illustrative potential based on 2028 financial targets



Source: Aspo
Note: Current capacity includes green coasters, new capacity includes fossil-free handies

ESL Shipping current fleet

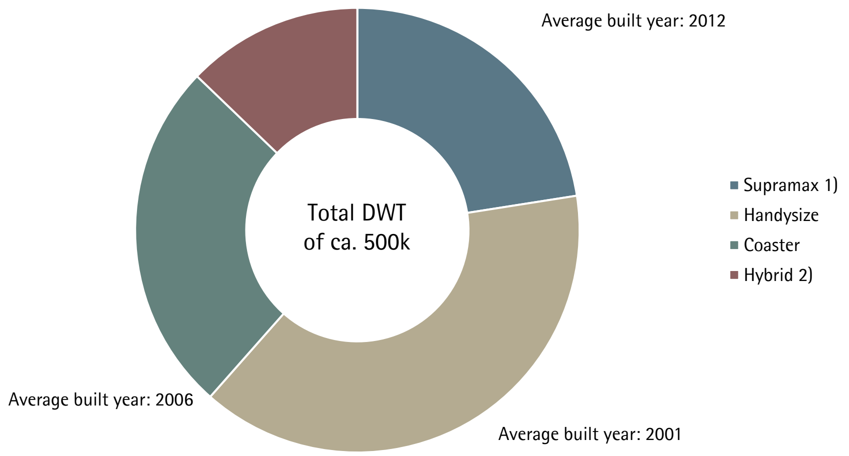
ESL's ice-strengthened fleet remained stable in size during the early 2010s, when the number of vessels averaged 15. The fleet grew a lot in 2018 as the company received its new-built LNG-powered vessels and acquired AtoB@C.

Source: ESL Shipping

ESL wholly owns 23 vessels (including some through AtoB@C) while the remaining twenty or so vessels are to a large extent attributable to AtoB@C. The AtoB@C fleet is for the most part operated through time-charter contracts, which usually have a one-year term but ESL may also consider doing up to three-year contracts in the future. Global dry bulk cargoes are for the most part shipped aboard vessels a grade or two larger than the Supramax classification, meaning even the largest ESL ships (currently Handysize vessels) are of modest size in this wider shipping context. The average ESL vessel size is now well below 10,000 DWT in capacity, whereas most peers average many times that (often more than 100,000 DWT as their fleets tend to be tilted towards Capesize vessels). Handysize vessels make up the majority of ESL's capacity now that the Supramaxes have been divested, and they are on average a few years older than the Coaster vessels. The average age of ESL's fleet, as of 2024, is about 20 years (weighted by tonnage, excluding the divested Supramax vessels) and will decrease a bit going forward as the company continues to receive new green Coaster vessels. A typical ESL vessel needs to be docked for maintenance twice every five years.

The two Supramax vessels, which together amounted to around 25% of ESL's total cargo shipping capacity, represented basically all spot business and hence their pricing was also sensitive to changes in the Baltic Dry Index. The vessels, M/S Arkadia and M/S Kumpula, are 56,000 DWT sister ships and were delivered by a Vietnamese shipyard in 2012 and for which ESL paid around a total of EUR 60m. The ships were well-positioned to sail Arctic routes as they are the only ice-strengthened Supramax-class dry bulk carriers in the world. The Supramaxes operated for the most part outside the Baltic Sea, in practice routes such as the one between Germany and Canada in addition to the Northern Sea Route (the Russian Arctic route open from July to November in a typical year).

Figure 17: ESL Shipping fleet age by vessel size class

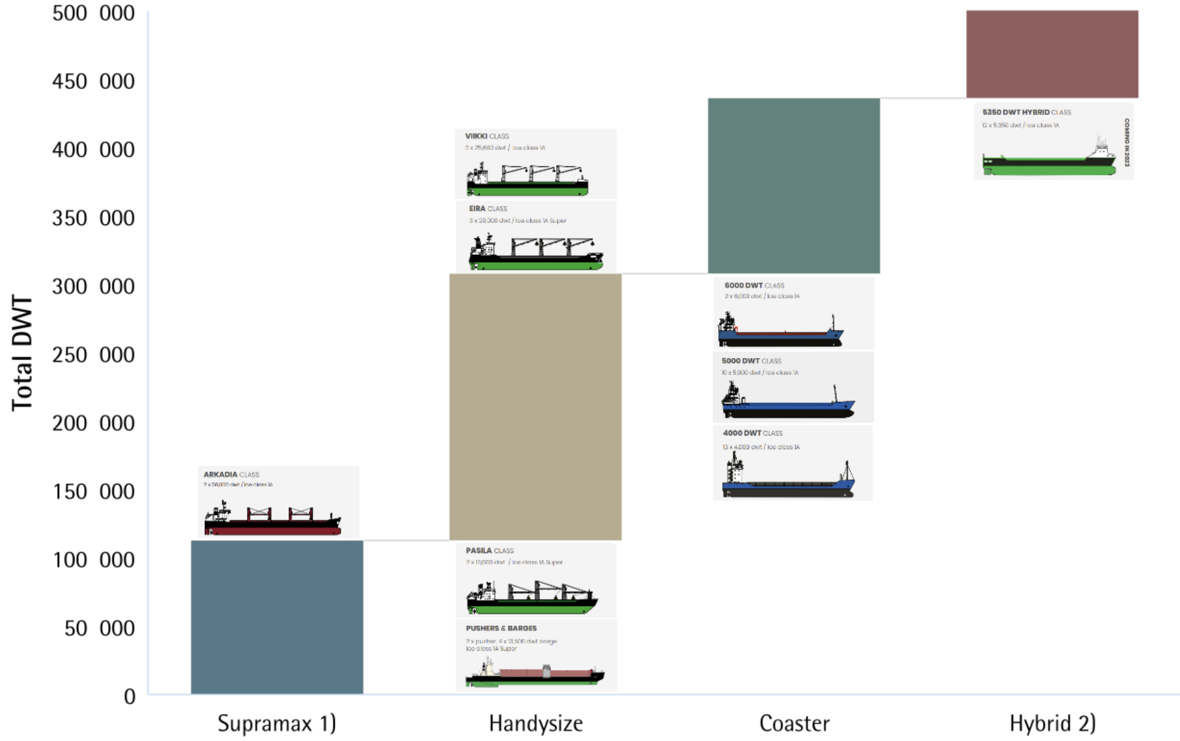


1) ESL divested its two Supramax vessels in Q2'24
2) Hybrid coaster capacity to be added gradually beginning in Q4'23; a new vessel follows every 3 months until mid-2026
Source: ESL Shipping

ESL has two liquefied natural gas (LNG) powered vessels which the company commissioned to better serve the steelmaker SSAB and their raw material shipment needs around the Baltic Rim as well as the North Sea. ESL placed the order in late 2015 and the vessels were delivered from the Jinling shipyard in Nanjing, China in 2018. The vessels replaced ESL's older vessels which used to cover SSAB's inbound shipments, and according to ESL the old vessels found new work elsewhere. ESL's total cargo capacity therefore grew by the respective sister ships' (M/S Haaga and M/S Viikki) combined amount, in other words by some 50,000 DWT. The vessels' total combined cost was some EUR 60m (they made ESL eligible for EUR 5.9m in EU subsidies thanks to the ships' environmental impact). We estimate the vessels contribute a combined 2.5-3.0 million tonnes to ESL's annual cargo volumes and have an annual operating profit potential of some EUR 3m each.

ESL's capacity is now entirely tilted to the smaller vessel classes as well as longer term relationships and contracts, and the average vessel size is to decrease further in the coming years as the company receives its new green coasters.

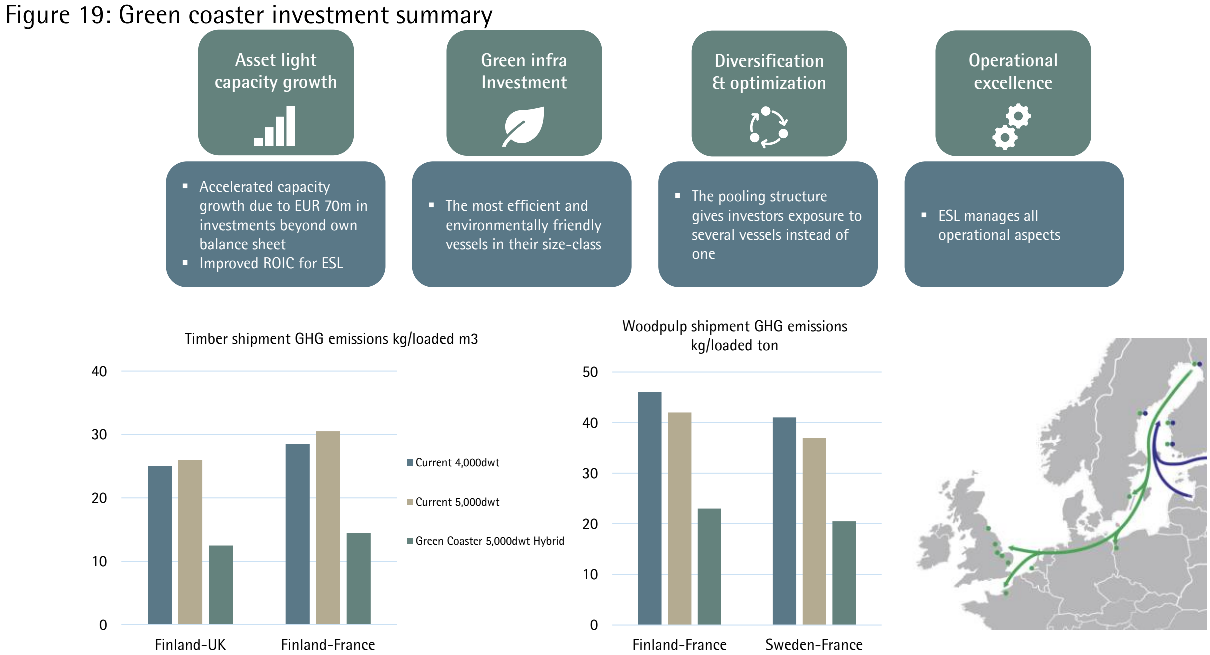
Figure 18: ESL Shipping current fleet structure and changes



1) ESL divested its two Supramax vessels in Q2'24
2) Hybrid coaster capacity to be added gradually beginning in Q4'23; a new vessel follows every 3 months until mid-2026
Source: ESL Shipping

All ESL vessels have been registered in Finland (AtoB@C vessels have mostly Mediterranean registry ports) and consequently the fleet accounts for around 20% of the entire Finnish merchant navy's transportation capacity. A ship can be re-domiciled from one country to another within just a few days.

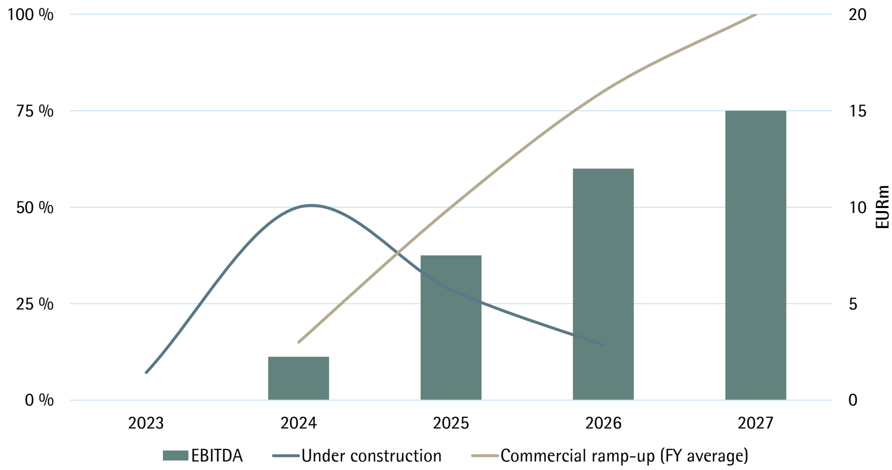
Figure 19: Green coaster investment summary



Source: Aspo, ESL Shipping, The Research Council of Norway

The six new-built battery hybrid vessels, worth a combined EUR 70m, will be delivered from Q4'23 onwards. All six ships will be operational by 2027 and will for the most part sail around the Baltic Sea as well as the North Sea. Each vessel has a capacity of 5,350 DWT, in other words the ships are similar in size compared to the AtoB@C vessels. ESL will also receive another six vessels to be owned by the pooling vehicle. The green coasters will be employed with at least e.g. Metsä Group and Outokumpu (we believe they could also be used for cargoes of companies like Yara) on their outbound shipping routes from the Kemi-Tornio region to the continental European markets.

Figure 20: Green coasters' illustrative commercial and financial potential



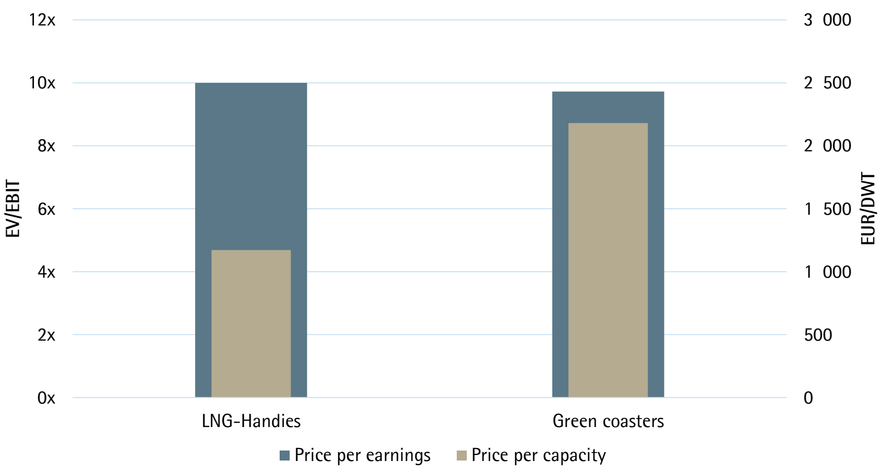
Source: Aspo
Note: Construction phase curve based on the EUR 70m assets owned by ESL, while EBITDA also includes the company's share from the pooling structure

We note the 12 green coasters will have a significantly larger positive contribution on ESL's earnings in the coming years than their total capacity might suggest: the new vessels will add only some 20% to current capacity whereas we estimate their EUR 15m EBITDA (net figure for ESL which leaves out the share held by the pooling vehicle) potential to represent a gain of roughly 30% on the pre-existing fleet's current earnings levels. In our view the relatively high profitability potential reflects the vessels' employment in e.g. forest industry shipments, which can carry high freight rates relative to their tonnage. We believe the earnings generated by the six vessels owned by the pooling structure are divided roughly 50/50 between ESL and the pool entity. This would imply the total gross EBITDA of the 12 vessels would amount to around EUR 20m, which would mean an EV/EBITDA of 7x on the EUR 140m total construction cost (or some 10x EV/EBIT assuming an asset lifespan of 25 years, which would be in line with e.g. the previous LNG-powered vessel investment). The green coasters can therefore achieve similar earnings yields relative to the larger Handysize vessels, despite the investment being about 85% more expensive in relation to the purchased total DWT capacity, thanks to their operative efficiency. Aspo and ESL were also lucky in that they placed the green coaster orders in September 2021 as the prices for newbuilds had not yet increased that much.

ESL Shipping future fleet investments

ESL began to receive its new green coasters in early 2024; the inaugural delivery of a vessel will be followed by a new one every three months until mid-2026. The hybrid vessels will generate nearly 50% less CO_2-emissions than current vessels; we note ESL aims to halve its CO_2 emissions by 2030, which basically implies it also plans to invest in and receive several new hybrid Handysize vessels by the end of the decade as Aspo sees ESL's addressable market should roughly double over the next 10 years. We believe Aspo might be looking to increase ESL's capacity by around 30-50% in terms of DWT (on top of the current capacity level excluding the Supramaxes) in the coming years, including the already commissioned green coasters. The new Handysize vessels might cost more than EUR 150m in total, and based on the latest two major investment projects of ESL we would then expect them to yield roughly EUR 15m in annual EBIT; newbuild prices are still higher than they were a few years ago, but on the other hand the new vessels should be able to achieve relatively high freight rates, capacity utilization and operative efficiency.

Figure 21: ESL Shipping's latest fleet investments' cost and earnings profile



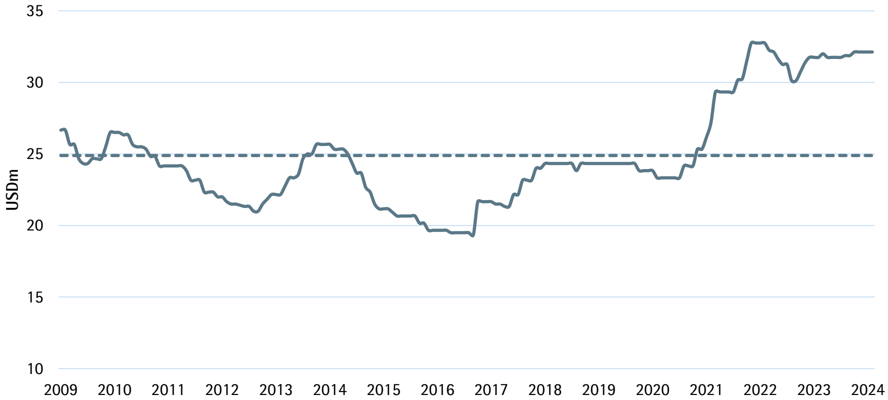
Source: Evli Research

Industrial investment plans around the Bothnian Bay underpin growth potential

Aspo and ESL have initiated a program according to which investments will be made in new green shipping capacity to support their industrial customers' growth ambitions in the Baltic Sea region. ESL's addressable market around the Baltic Sea will be considerably enlarged by the green transition as many local as well as international players have already committed themselves to or are contemplating investing in low-carbon growth initiatives especially around the Bothnian Bay region; Northern Sweden will receive many large investments, while on the Finnish side of the sea the whole coastal region has identified potential not only in terms of fossil-free steel production but also sectors such as rare earth minerals related to electric vehicle batteries. In sum the planned investments around the region amount to hundreds of billions of euros over the next decade or so, and even though not all the announced projects will materialize the investments in total are still likely to be in the tens of billions of euros over the coming years. ESL's new capacity will impose significant funding needs, which are to be addressed through measures such as pooling of vessels, divestment of the two Supramax vessels as well as a possible equity injection in ESL by a minority shareholder. We believe Aspo and ESL are looking to commission maybe around a handful of new Handysize vessels, which might cost about EUR 30m each.

The wide-scale industrial investment plans around the Baltic Sea region for their part encourage additional shipping capacity to enter the market. Although dry bulk shipping supply is likely to follow in response to higher demand, we believe ESL's position should remain relatively favorable as it has a long history of operations and industrial relationships especially around the Bothnian Bay region and is a forerunner in terms of environmentally friendly shipping capacity highly suitable to the area's particular conditions.

Figure 22: Newbuild Handysize vessels' price development



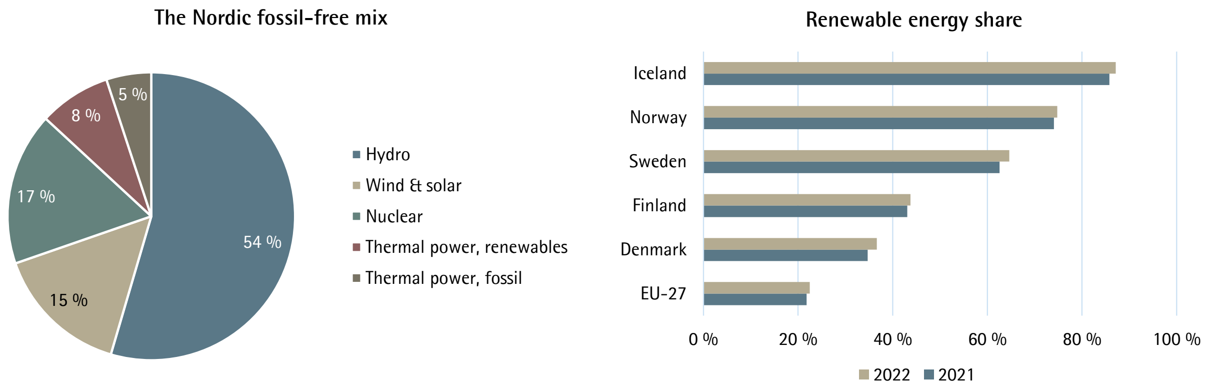
Source: Simpson, Spence & Young
Note: Calculated as the average of prices in South Korea, Japan and China

Northern Sweden already has a very competitive energy mix and prices due to its hydropower assets

The Baltic Rim is set to see a significant increase in seaborne cargo traffic in the coming years, especially driven by outbound flows from certain regions in Northern Sweden. More than SEK 1,000bn is to be invested in Northern Sweden over the next 20 years, underpinned by factors such as the green shift and to a large extent manifest in the form of fossil-free steel production capacity but also batteries for electric vehicles, which require rare earth minerals the area has. Outbound freight deliveries will double, according to estimates by the local authorities, since products such as car batteries and green steel will be largely exported. The region attracts large industrial investments especially thanks to its excellent availability of renewable electricity. Northern Sweden has a particularly competitive energy production system and prices, according to SSAB, thanks to its abundant hydro (some 45% of Swedish electricity generation) and wind power resources. Sweden's 65% (in 2022) is by far the largest share of renewable energy, as a percentage of total energy consumption, in the EU (where the average was 22.5% in 2022) and only pales in comparison to the respective 87% and 75% rates of Iceland and Norway (which both enjoy extraordinarily advantageous geographies from the perspective of renewable energy generation as they have substantial hydropower assets as well as plenty of geothermal energy in the case of Iceland). Sweden has one of the lowest levels of electricity prices in Europe and Northern Sweden has the lowest prices within Sweden due to its proximity to the energy production sites. Forest bioenergy is another plentiful resource since 70% of Northern Sweden's land area is covered by forest. We believe ESL to be in an excellent position to capture a significant share of the increased cargo traffic around the Baltic Rim as its most important customer, SSAB, is the largest single name investing in new capacity. The Port of Luleå will see a significant increase in traffic as the region is to receive investments in fossil-free steel production not only from SSAB (which partners with the mining company LKAB) but also from H2 Green Steel. We note the Swedish state holds many keys for the investment plans as it controls not only LKAB (which owns 16% voting share in SSAB) but also the energy company Vattenfall (which has an advanced position towards fossil-free energy production mix).

The Swedish state-owned mining company LKAB has discovered more than a million tonnes of rare earth minerals in Kiruna, Northern Sweden. The deposit can turn out to be an important enabler of Europe's green transition as it seems to be the largest of its kind on the continent. Europe has not so far produced any of its own rare earth metals but has instead relied on imports from China, from where some 98% of rare earths used in the EU in 2021 were imported. The size of the Kiruna find can be described significant but is only a fraction of the 120-million-tonne reserves found around the globe, however European demand for rare earths is expected to increase fivefold by 2030 (according to the European Commission). The LKAB deposits may not reach the market before 10-15 years' time as permitting processes take time due to environmental risk evaluations. LKAB's find would also have to extract rare earths from the mineral apatite whereas most current production involves the minerals monazite and bastnaesite, meaning there's still a gap in understanding how to mine and process the new discovery. The project's de-risking efforts would also have to address how to efficiently produce from the find's relatively low level of rare-earth concentration.

Figure 23: The fossil-free mix and renewable energy shares in the Nordics



Source: SSAB, the European Environment Agency

The Luleå region is a particular hot spot for green industrial investments

Regardless of the eventual fate of the potential Kiruna investment, LKAB will invest in Luleå facilities for rare earths refining capacity. LKAB is already the largest iron ore producer in Europe and announced its long-term plans to replace iron ore pellets with fossil-free sponge iron (direct reduced iron) back in 2020. The company is to invest some SEK 400bn over a period of approximately 15-20 years. There is also a company called Hybrit, a joint venture between Vattenfall, LKAB and SSAB which aims to produce fossil-free steel in Gällivare. Hybrit has already delivered such steel to Volvo the truck-maker in trial-run terms before the planned full commercial production in 2026. Hybrit has its pilot plant in Luleå, within the SSAB plant. It should also be noted that SSAB's investments in Luleå (already confirmed) and Raahe (likely to be decided later) will transform the plants to fossil-free steel production in the coming years. Meanwhile H2 Green Steel, a Swedish steel producer, is raising more than EUR 5bn in funds for its iron, steel and hydrogen plant in Boden. The direct reduced iron (DRI) plant is expected to be powered by hydrogen plants running on renewable electricity, while the company aims to start production at the end of 2025 and ramp up in 2026. It aims to produce five million tonnes of fossil-free steel by 2030.

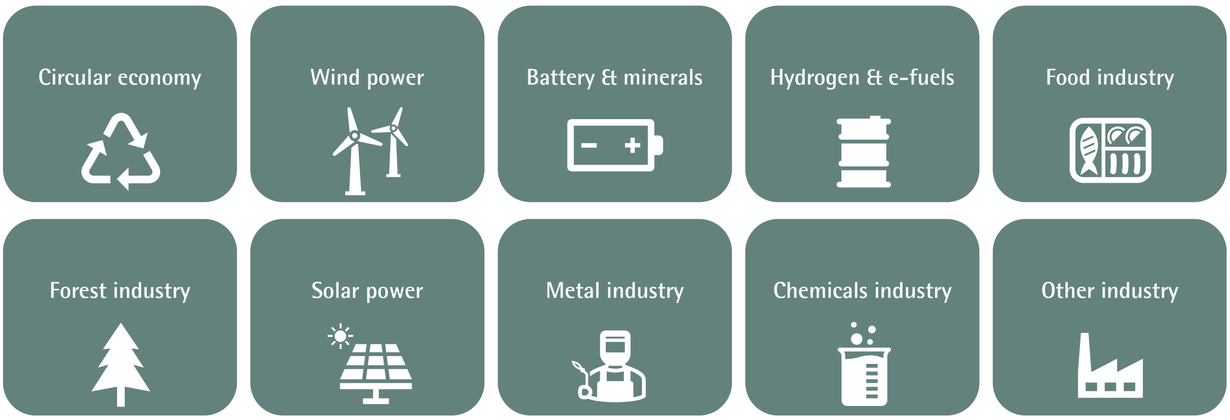
Project Malmporten will enable the Port of Luleå to dispatch three to four times as much cargo as today thanks to deeper fairways and a new deep harbor which will be able to receive larger vessels carrying full cargo. The Port of Umeå is also undergoing major investment projects, including more robust quays able to service larger vessels, a new ferry terminal with a connecting combi terminal, a new transshipment area and new railway tracks. A larger port area will be better equipped to handle increasing demands for timber, paper and special cargoes transport.

A lot of potential green investments in Finland hinge on the kinds of industrial projects that would necessitate additional renewable energy capacity

There is a pipeline of green investments worth around EUR 270bn which Finland could receive over the next decade or so, according to data compiled by EK (the Confederation of Finnish Industries), including a variety of sectors such as offshore wind power and energy transmission capacity. We note the potential projects are tilted towards onshore and offshore wind power as they make up more than 70% of the total investment value. There are more than 500 potential investment projects in total and they could create more than 20,000 new jobs. At least some EUR 19bn of the total pipeline has been confirmed to materialize while a vast majority of the projects are still being reviewed and planned. In our view the Finnish energy system and infrastructure is already quite competitive compared to many other European countries (in fact Finnish spot market electricity prices were the lowest in Europe in the summer of 2024), and so there's no urgent need to add that much renewable electricity generation capacity unless demand grows through significant additions to the industrial manufacturing base. From this perspective certain big industrial investment projects such as fossil-free steel production plants are crucial linchpins which should be greenlighted first before the further possible additions to Finnish renewable electricity capacity may materialize. No fossil-free steel production plants have been so far confirmed to be built in Finland, whereas Sweden is already confirmed to receive at least three such investments (all around the northernmost part of the country in the county of Norrbotten) plus the Oxelösund conversion south of Stockholm. We find Finland will add at least one battery materials production plant, while a few more may still be confirmed although there's competition stemming from e.g. the United States through the Inflation Reduction Act. We expect Finland to receive quite significant amounts of green investment in the coming years, however the level is likely to remain relatively modest compared to Sweden where the government-backed coalition of SSAB, LKAB and Vattenfall has been instrumental in bringing many investments to fruition.

The regions around the western coast of Finland could receive up to some EUR 40bn worth of industrial investments over the next decade, whereas the relevant existing industrial base in the area generated roughly EUR 50bn in revenue in 2021 (EUR 21bn was exported in 2019). Investments in the local wind power industry comprise approximately EUR 20bn of the total sum (of which EUR 15bn offshore and EUR 4bn onshore). There still remains uncertainty around how much of the offshore wind power potential will eventually materialize, however hydrogen investments should contribute EUR 5bn while the forest industry will add EUR 4bn. Battery and mineral projects amount to EUR 3bn, and overall the green industrial transformation will emphasize the role local ports (which total 22 along the coast) play in shipping relevant cargo flows to-and-fro. The initial wave of investments, to be realized over the course of the 2020s, will focus on energy production needs whereas the focus may turn to more value-added industrial production in the 2030s. Especially the latter types of industrial production investments would cause permanently higher levels of overseas cargo traffic as a major share of the manufacturing output would be exported. Certain types of investments, including those in wind power and other forms of renewable energy production, would not directly affect ESL's long-term sustainable cargo flow potential, but would rather improve the local industrial base's competitiveness, as for example operational wind and solar power plants do not generate any dry bulk shipments. ESL, on the other hand, can to some extent participate in the construction activity of such plants as some of its vessels are able to transport large pieces like long windmill blades.

Figure 24: Industry sectors likely to receive significant investments along the western coast of Finland



Source: Turku Chamber of Commerce

Finland may also receive numerous green hydrogen investments. The production plants can produce fossil-free hydrogen through electrolysis of water using renewable electricity in the process, which can be found well available especially in the region of Ostrobothnia due to its existing and growing wind power infrastructure. The resulting hydrogen can be further refined into ammonia through the Haber-Bosch process, and the ammonia itself is mostly used in the manufacturing of fertilizers but can also be used as ship fuel. Another use is in the manufacturing of fossil-free steel. One relevant example is Yara, which has plans for green ammonia production to such an extent that it has established a separate unit called Yara Clean Ammonia and evaluates its possible IPO. The new business is to focus on the clean ammonia segments for shipping fuel, power production and ammonia as hydrogen carrier, whereas Yara itself will retain the business of clean fertilizer for food. There is already an operational renewable hydrogen plant in Herøya, Norway which produces hydrogen and ammonia from which low-carbon footprint fertilizers are made. The company has already delivered such fertilizers.

Metsä Group's Kemi bioproduct mill, an investment worth EUR 2.0bn, started up as planned in Q3'23 and will be able to produce 1.5 million tonnes of softwood and hardwood pulp per year, as well as many other bioproducts, and hence is to add a meaningful contribution to outbound cargo traffic from the Bothnian Bay.

Kokkola is one location in Finland confirmed to receive some significant green industrial investments

The coastal city of Kokkola's industrial area has been confirmed to receive at least a total of EUR 2.3bn attributable to seven different investments over the coming years, not including the potential EUR 2.5bn Plug Power green hydrogen plant, while the relatively near coastal city of Raahe should at some point receive a EUR 2bn fossil-free steel production plant investment from SSAB as well as a potential EUR 4.5bn from OX2 for an offshore wind power park (in addition to which OX2 also plans similar-sized offshore wind farms along the coast in places such as Korsnäs and Pietarsaari). The Ostrobothnia region in particular is set to emerge as an area with a significant concentration of green industrial investments, underpinned by the already strong local infrastructure of onshore wind farms which is set to be complemented by major new offshore wind power developments in addition to some smaller solar power constructions. Kokkola is also to receive an investment from Keliber, a company aiming to develop an operation to produce battery-grade lithium hydroxide, an essential component in lithium-ion batteries. The relatively significant project costs EUR 588m and is underpinned by factors like growing demand for lithium due to its use in EV batteries as well as the project's relative efficiency in terms of low CO2 emissions. The factory should begin production in 2025. Flexens has prepared an investment of EUR 500m for a green hydrogen plant in Kokkola, which is to further refine the hydrogen into (liquid) ammonia and ship it overseas to be used in fertilizers. The plant should be operational by 2027. There are at least three other potential green hydrogen plants to be built in Finland (for Green North Energy); none of the respective sites in Naantali, Kemi and Pori have so far been confirmed, but each of them would cost some EUR 600m and the resulting green ammonia could be used as e.g. ship fuel or in the production of fertilizers. There is additionally a more speculative investment project by Plug Power, which may invest in a green hydrogen plant to be located in Kokkola, and the site would further refine the hydrogen into ammonia. Plug Power is to reach a final decision on the investment in 2025-26.

The cities of Kotka and Hamina as well as Vaasa are set to receive battery material plants as certain Chinese producers are planning to expand their manufacturing footprint outside their domestic market, whereas Finnish Battery Chemicals may facilitate an investment of EUR 2.5-4bn for a battery cell production plant in Kotka. Another large potential investment project is by Blastr Green Steel, which is planning a fossil-free steel production plant to be located in Inkoo, Finland. The plant would have an annual production capacity of 2.5 million tonnes but we believe the investment is somewhat unlikely to actually happen.

Table 2: Select industrial investment projects around the Baltic Sea region

Location	Industry	Company/asset	Investment	Value	Status	Schedule
Kemi, FI	Forest	Metsä Group	Bioproduct mill, mostly pulp but also other products	EUR 2bn	Completed	Start in Q3'23
Luleå, SE	Metals & mining	LKAB	Rare earths refining capacity		Confirmed	
Luleå, SE	Utilities	Port of Luleå	Deeper fairways and a new deep harbour	SEK 2.7bn	Confirmed	RFI submitted
Narva, EE	Metals & mining	Silmet (NPM)	Rare earths processing facility (magnet factory)	EUR 100m	Confirmed	Ready in '25
Gällivare, SE	Metals & mining	Hybrit	Fossil-free steel production demonstration plant	SEK 20bn+	Confirmed	
Kokkola, FI	Metals & mining	Keliber	Battery-grade lithium hydroxide production plant	EUR 588m	Confirmed	Ready in '25
Luleå, SE	Chemicals	Fertiberia	Green ammonia and fertilizer plant	EUR 1bn+	Confirmed	Start by '26
Umeå, SE	Utilities	Port of Umeå	More robust quays, new terminal and railway tracks	SEK 1.4bn	Confirmed	Ready in '26
Kokkola, FI	Chemicals	Flexens	Green hydrogen plant for ammonia production	EUR 500m	Confirmed	Start by '27
Oxelösund, SE	Metals & mining	SSAB	Plant conversion to fossil-free steel production	SEK 6.2bn	Confirmed	Ready in Q4'26
Boden, SE	Metals & mining	H2 Green Steel	Fossil-free steel production plant	EUR 5bn+	Confirmed	Start in '25-26
Luleå, SE	Metals & mining	SSAB	Fossil-free steel production plant	EUR 4.5bn	Confirmed	Start in late '28
Boden, SE	Utilities	Swedish Transport Admin	Double track railway line between Boden and Luleå	SEK 5bn	Highly likely	Construction start '29
Kokkola, FI	Metals & mining	Umicore	Extension of cobalt refinery plant	EUR 1bn	Highly likely	
Raahe, FI	Metals & mining	SSAB	Fossil-free steel production plant	EUR 2bn+	Highly likely	Start either '28 or '30
Hamina, FI	Metals & mining	CNGR Finland	Battery material plant	EUR 500m	Highly likely	Start in '26-27
Naantali, FI	Chemicals	Green North Energy	Green hydrogen plant for ammonia production	EUR 600m	Likely	Start in '27
Kemi, FI	Chemicals	Green North Energy	Green hydrogen plant for ammonia production	EUR 600m	Likely	Start in '30 (earliest)
Pori, FI	Chemicals	Green North Energy	Green hydrogen plant for ammonia production	EUR 600m	Likely	Start in '30 (earliest)
Oulu, FI	Energy	Oulun Energia	Hydrogen plant for methane or methanol production	EUR 300m	Likely	Ready by '28 (earliest)
Simo, FI	Energy	Myrsky Energia (eTehdas)	Hydrogen plant for methane or methanol production	EUR 1bn	Likely	Ready by '30 (earliest)
Vaasa, FI	Metals & mining	GigaVaasa (Shanshan)	Battery material production plant	EUR 1.3bn	Likely	Start in '26
Kokkola, FI	Energy	Vanadis Fuels	Hydrogen plant for e-methanol synthesis	EUR 1.5bn	Under review	Decision in '25
Kotka, FI	Metals & mining	Finnish Battery Chemicals	Battery cell production plant	EUR 2.5-4bn	Under review	
Inkoo, FI	Metals & mining	Blastr Green Steel	Fossil-free steel production plant	EUR 4bn	Under review	Decision in '25

Source: Evli Research

Our review finds that at least the regions of Kokkola and Kemi in Finland as well as Luleå (and Boden some distance inland from there) in Sweden, all around the Bothnian Bay, have already been confirmed to receive some major investments. The developments look promising especially around the regions of Luleå and Boden as fossil-free steel production plant investments have already been confirmed, in addition to which the local transport infrastructure will also be upgraded with port and railway projects.

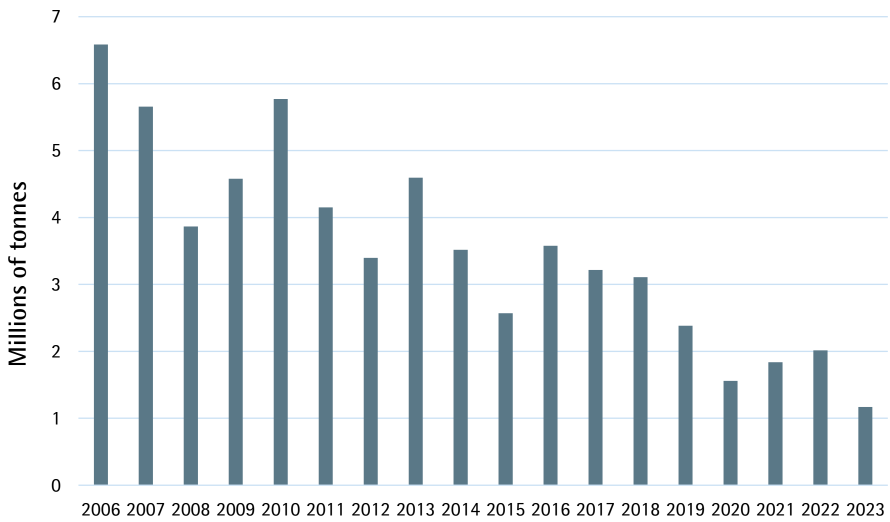
The Finnish western coast already has a rather dense network of ports as the approximately 800-kilometer-long coastline accommodates 22 ports, or one for roughly every 35 kilometers of coastline. This implies the typical port tends to be quite small, which in ESL's case is more of an opportunity than a challenge as it operates primarily relatively small vessels. We are not aware of any significant Finnish harbor dredging projects and do not therefore believe the Finnish port infrastructure in its current form would pose any meaningful bottlenecks which would affect either the viability of potential investment projects or ESL's ability to handle relevant customer cargoes along the coastline.

ESL Shipping markets and competition

The Nordic steel industry constitutes some of ESL's most important customers. Steel manufacturing plants do not allow for much production downtime as the sites have to be run at high utilization rates. This means steel production rates do not vary all that much over different economic cycles, or at least production varies less than steel prices. The steelmaker SSAB, for instance, operates five blast furnaces in the Nordic region: one in Luleå and two in Oxelösund and Raahe each. SSAB can idle two of these active furnaces in response to soft market demand. SSAB instituted such a stoppage at its Raahe steelworks in Q4'19 and it lasted several weeks. ESL's Q4'19 cargo volume declined by more than 10% y/y to 4.0 million tonnes. Worldwide steel demand continued to grow through the pandemic in the years 2019-21, driven especially by Chinese strength. Chinese steel demand, however, only remained rather flat over the following years of 2021-23 while many other regions saw some increases, including Europe where demand rebounded sharply after the initial pandemic-induced slump.

The energy industry is another important customer base for ESL. The fleet transports coal as well as biofuels for power and heat plants along the Finnish coast. Coal shipments are declining; the 2023 shutdown of the Hanasaari power plant was decided long ago and Finland is abandoning coal-use altogether by the end of this decade. Legislation will in the future forbid coal-use in electricity as well as heat generation, however six still-operational plants remain along the Finnish coastline. Finnish hard coal consumption has declined for some fifteen years and is now below 2m tonnes per year. The annual rate of decline has averaged around 12% during the past decade.

Figure 25: Finnish hard coal consumption



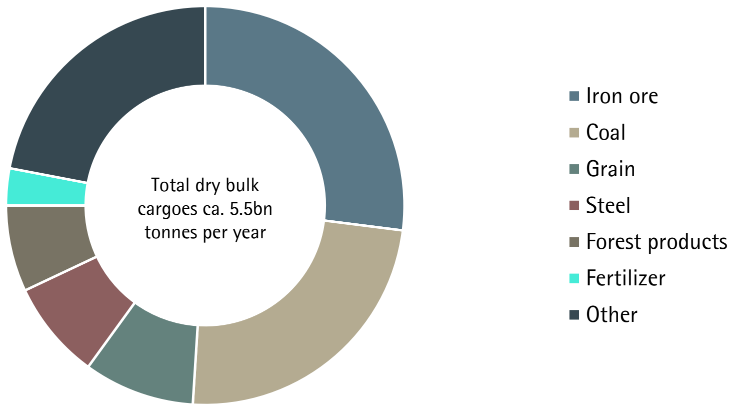
Source: Statistics Finland

Alternative energy sources such as biofuels continue to replace coal in ever greater numbers. More biofuels are likely to be transported across the Baltic Sea when greenfield bioenergy plants are commissioned, but also when existing coal plants are converted into biofuel plants. Dry bulk carriers are set to benefit from the trend since biomass such as woodchips require a lot more shipping capacity than coal for the same energy content on a pound for pound basis. Coal has about seven times the energy content density of woodchips, which means that woodchips take volume-wise seven times the space coal requires to produce an equivalent amount of energy. Meanwhile wood pellets pack a much higher level of energy density compared to woodchips, yet still fall almost 50% short that of coal. The large volume requirements support the dry bulk shipping business.

Small vessels best address urban areas' needs

Biofuel-run energy plants require numerous small inbound shipments, as opposed to large and infrequent flows, because wood pellets are challenging to store in large quantities due to e.g. carbon monoxide emissions and spontaneous combustion issues. Smaller vessels, those way below the Supramax class, are best positioned to deliver such continuous pellet flows. Road transport to urban locations, such as the Salmisaari power plant in Helsinki, is problematic since it requires close and plentiful supplies. The numerous trucks would also congest nearby traffic, but roads and railways can act as a competitive alternative in less urban locations. This happens to apply in the case of the Pietarsaari Power Station (Alholmens Kraft, the largest biomass cogeneration power station in the world), which sources its wood-based fuels from nearby pulp mills, sawmills, and forests. Stockholm Exergi utilizes both trains and ships for its inbound deliveries, while the Naantali multifuel power plant can source up to 40% of its fuel needs from nearby woods.

Figure 26: Global dry bulk cargo volume distribution

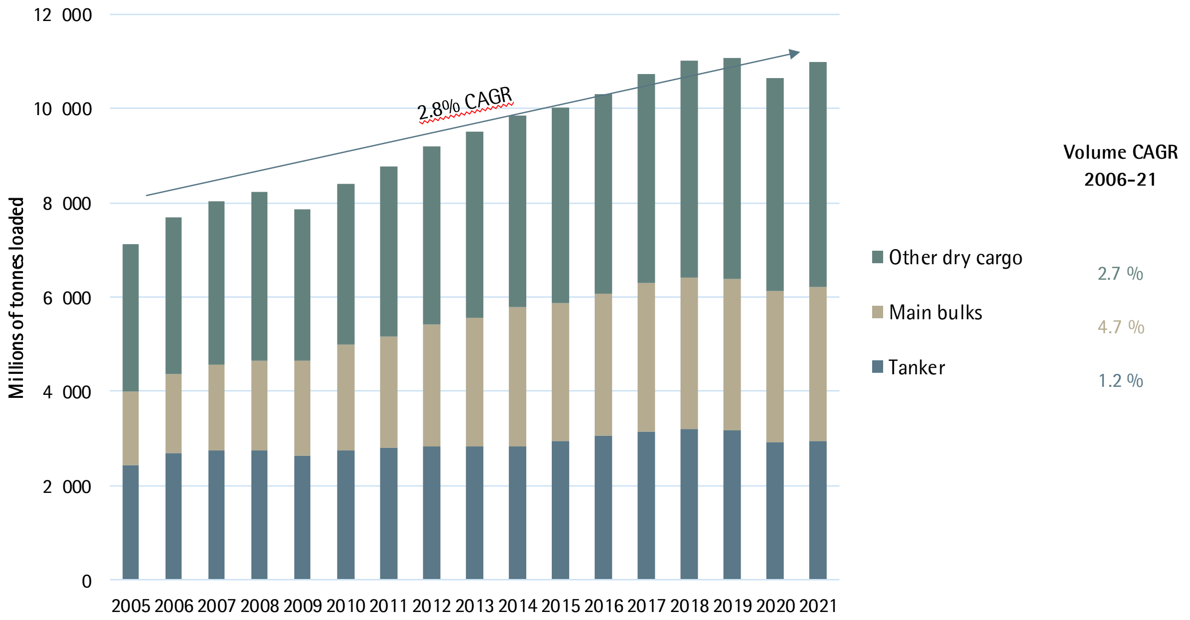


Source: Clarksons

Main bulks include iron ore, coal, and grain, which according to Clarksons make up about 60% of the worldwide dry bulk cargo trade, in total some 5.5bn tonnes every year. Such shipping articles volumes have grown at around a CAGR of 4-5% over the long run and we would expect them to continue to trend at similar rates going forward.

Global shipping markets remained oversupplied for many years before the pandemic. This was to some extent true in the case of dry bulk carriers but even more so for oil and gas tankers as well as container ships. Container and dry bulk freight rates have since surged to record highs from their 2020 lows, while tanker rates have remained soft due to low global fuel demand and high vessel capacity supply. We note dry bulk newbuild orderbook reached historic lows already before the pandemic; the supply-demand balance was improving also thanks to a significant increase in the number of scrapped vessels.

Figure 27: International seaborne trade volumes (millions of tonnes loaded)

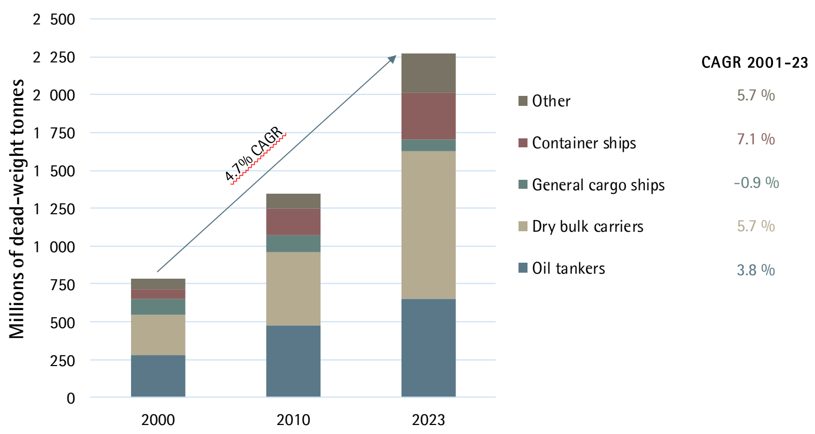


Source: Review of Maritime Transport

Freight rates back at moderate levels after the recent years' peaks

Dry bulk freight rates continued to shoot up during 2021 across the vessel size spectrum after their initial rebound from the pandemic lows in the latter half of 2020; pricing environment tightened to record levels due to the combination of low fleet growth and strong demand for many commodities. Port congestion caused delays, which also supported freight rates. Demand remained relatively robust in 2022-23 (although there was some softening especially within categories driven by Chinese demand), but the active supply of vessels increased and port congestion eased. The fading of these bottlenecks caused rates to decline. Long-term freight rate outlook, however, isn't too bad as the newbuild orderbook only amounts to some 8% of the existing fleet capacity, according to Danish Ship Finance, which is an all-time low figure. Dry bulk demand continues to grow while new-build orders remain low at least in the short run; excessive supply is hence unlikely to develop at least for quite some time because it takes two to three years to build a new ship. In our view the most significant risks in the short and medium term therefore relate to demand growth, where China in particular plays an important role.

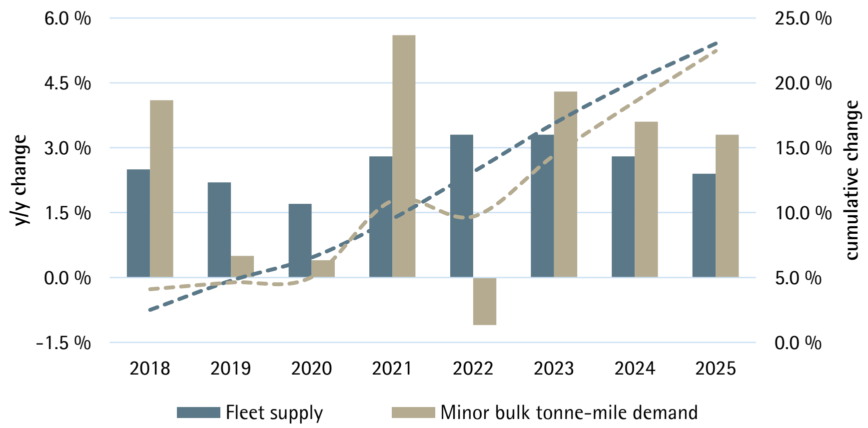
Figure 28: Global shipping trade capacity development



Source: Review of Maritime Transport

Handysize supply and demand have developed pretty much in lockstep over the recent years as supply growth has on average only slightly outpaced that of demand, whereas demand is seen to grow faster than supply by a percentage point or two in 2024-25. Steeper environmental regulations place increasing costs on many older types of vessels. The International Maritime Organization (IMO) has stipulated regulations to concern the permissible amounts of ballast water, nitrogen, and sulfur. The IMO 2020 standards have now been effective for a few years: the low-sulfur fuel standard adds to fuel costs either directly or indirectly. The increased operating costs have a negative effect on global shipping capacity. Handysize vessels, as well as those belonging to the Handymax/Supramax class, account for a large part of the seaborne trade in rare earth materials as such vessels transport over 90% of the volumes in lithium, cobalt, and nickel.

Figure 29: Handysize fleet supply (dwt) and minor bulk demand (bn tonne miles)

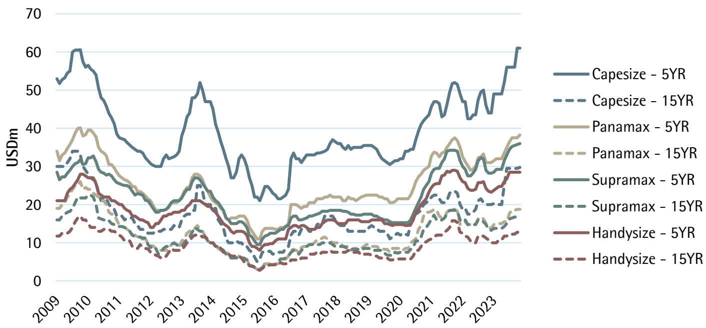


Source: Clarksons Research January 2024

We find dry bulk vessel second-hand prices to have held up quite well after 2022 (and have actually more or less returned to previous peak price levels) despite the considerable softening in freight rates since then as capacity growth outlook seems limited, global fleet continues to age, and there are also expectations for a rebound in earnings. Inflation has been an additional factor as it has lifted new build prices by some 50% from the levels seen before 2021. The current high vessel prices reflect the global market outlook and its rather favorable supply and demand characteristics, whereas market developments in the Baltic Sea region are more important from ESL's point of view. In our opinion the long-term outlook for the Baltic Rim shouldn't be any worse due to the industrial investment plans around the Bothnian Bay, while local dry bulk shipping capacity levels are to stay quite stable.

Table 3, Figure 30: Major dry bulk cargo vessel categories and their second-hand price development

Classification	Min DWT	Max DWT	Typical length	Approximate second-hand price 1)
Capesize	100,000		~300m	USD 61m
Panamax	65,000	99,999	200-290m	USD 38m
Handymax (Supramax)	40,000	64,999	150-200m	USD 36m
Handysize	10,000	39,999	130-150m	USD 29m

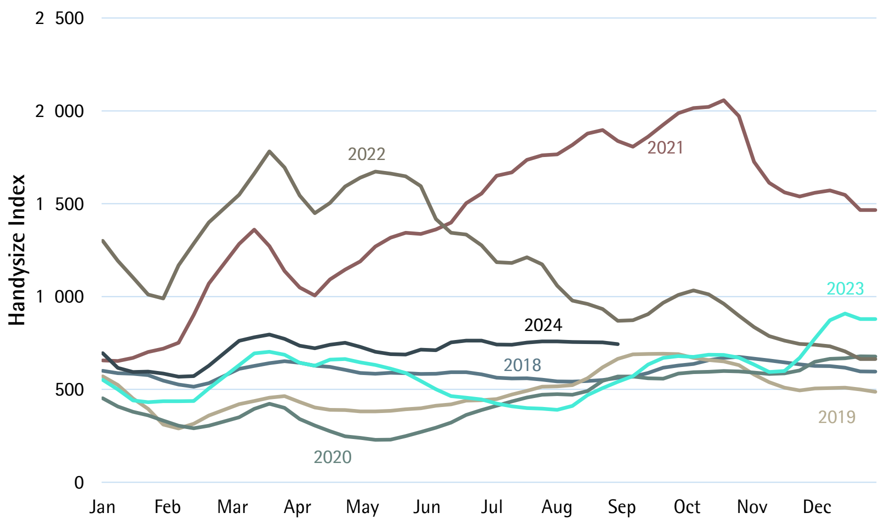


1) The price of a five-year-old vessel (Jul 2024)
Source: Danish Ship Finance; VesselsValue; Simpson, Spence & Young

The Baltic Dry Index measures global demand for dry cargo shipping capacity. The index is often volatile as vessel supply remains very inelastic, at least in the short-term because even vessel lay-up involves relatively high costs, while many dry bulk customers operate in such mature and cyclical markets where demand tends not to grow much faster than GDP. The index measures the average dry bulk cargo ship charter rates in size categories ranging from the Supramax class up to the Capesize class; the calculation includes the shipping rates for some 20 routes across the globe.

The Baltic Dry Index, and its relevant sub-indices such as the Handysize Index, began to show significant gains in 2021 as many industries and sectors important to the dry bulk trade generated a lot of cargo demand and hence drove up spot market freight rates. The busy market environment also caused challenges such as port congestion. The demand burst has since dissipated and spot market rates have returned to their pre-pandemic levels. In H1'24 the Handysize Index indicated the market was normalizing after the recent few years' highs and lows, and remained quite stable over the summer months.

Figure 31: The Baltic Handysize Index weekly development, 2018-2024



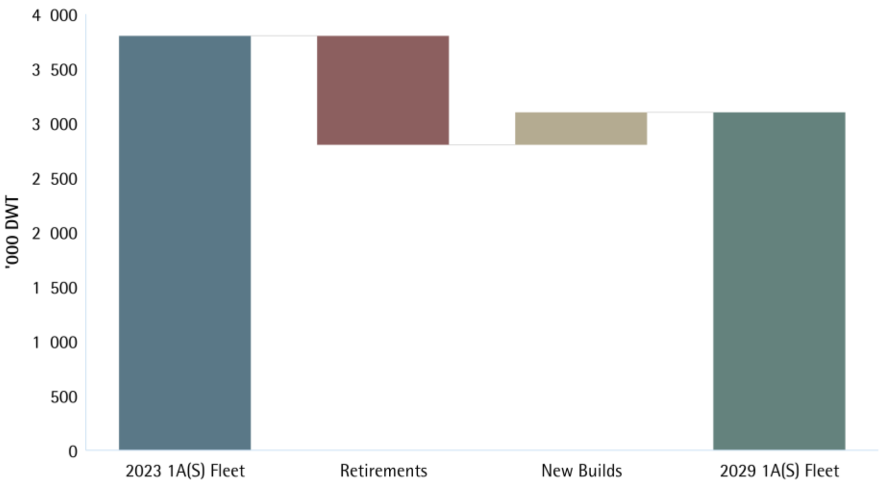
Source: Bloomberg

The standard Baltic Dry Index has limited significance for ESL since only some 20% of the carrier's capacity, in other words the two Supramaxes, used to represent the kinds of vessels which operate in global spot markets and are large enough to be included in the index. The Handysize sub-index represents a vessel class where ESL remains very much present, however even in that case the relevance is somewhat limited by the fact that ESL operates with longer term contracts. Most of the dry cargo ships which operate in the Baltic Sea are significantly larger than ESL's vessels; the large ocean carriers represent a source of revenue for ESL as it provides the ships with loading and unloading services at sea.

The Baltic Sea is a busy shipping market but also has some unique requirements

The Baltic Sea hosts some 2,000 ships at any given time, while somewhere between 3,500 and 5,000 vessels navigate the sea each month. More than 40% of these ships are general cargo vessels and they tend to stay within the Baltic Rim or in Northern Europe. Up to one billion tonnes of cargo traffic, or some 15% of global volume, is handled in the Baltic Sea each year. The activity level makes the Baltic Sea one of the busiest maritime regions in the world. The local ports' shallowness and the sea's occasional ice cover place special demands on vessels. Ice-strengthening is a rare vessel feature in the global context and the requirement makes the Baltic shipping market somewhat more immune to competition. ESL and the Baltic dry cargo market have indeed fared a more stable performance than the global market, while Northern Sweden and the Bothnian Bay region represent a growth opportunity for ESL's business as the area attracts many industrial investments in the coming years.

Figure 32: Bothnian Bay IA(S) dry bulk fleet (2,500 – 40,000 DWT) capacity outlook



Source: Shipbroker market data and ESL estimates

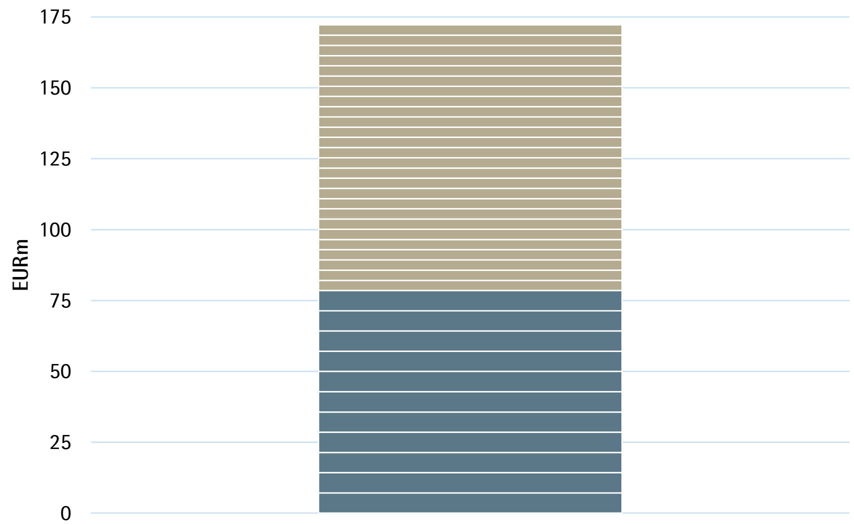
ESL estimates competing ice-classed dry bulk fleet capacity around the Bothnian Bay may decline by 20-40% within the next 5 years or so as vessels reach 25 years of age, the age profile being most challenging within the small coaster type of ships. It's still unclear how much vessel capacity may eventually be retired in the coming years, however in any case the balance of dry bulk vessel demand and supply seems quite favorable assuming that the major industrial investments in Northern Sweden will drive the cargo market enough to double it in size. Shipyards will remain busy for now so that more capacity can't be added before 2027.

ESL Shipping financials

ESL's annual cargo volumes have varied around 13-15 million tonnes in recent years; we note low-weight cargo like biofuels generate higher revenues per tonne cargo and hence it may not be that useful to track physical cargo volume development as ESL's fleet and shipments continue to tilt towards such relatively lightweight volumes going forward. ESL's profitability tends to be skewed towards H2 and especially Q4 as key customer industries and their activity levels exhibit certain seasonal patterns, especially the energy industry as it accumulates stocks of fuel for the upcoming winter season. The loading and unloading services are significantly more profitable than ESL's overall operations but also more sensitive to business cycle variations as they are more linked to the large carrier shipments which arrive in the Baltic Rim from the major oceans of the world.

We note ESL's Coaster vessels (26 in total) generated almost 20% more revenue than the Handysize category (11 vessels in total) in FY'23 despite the fact that the latter segment's total DWT capacity was some 50% larger; an average Handysize vessel consequently generated only twice the amount of revenue compared to an average Coaster even though Handysize vessels tend to have roughly 3.5x the DWT capacity of Coasters. The Coaster segment therefore generated some 80% higher revenue per every DWT (in our view there should not be very large differences in capacity utilization rates as most vessels should be operational around 90% of calendar days). This reflects the way individual vessels' revenue (and profitability) is not always a simple function of physical cargo tonnage.

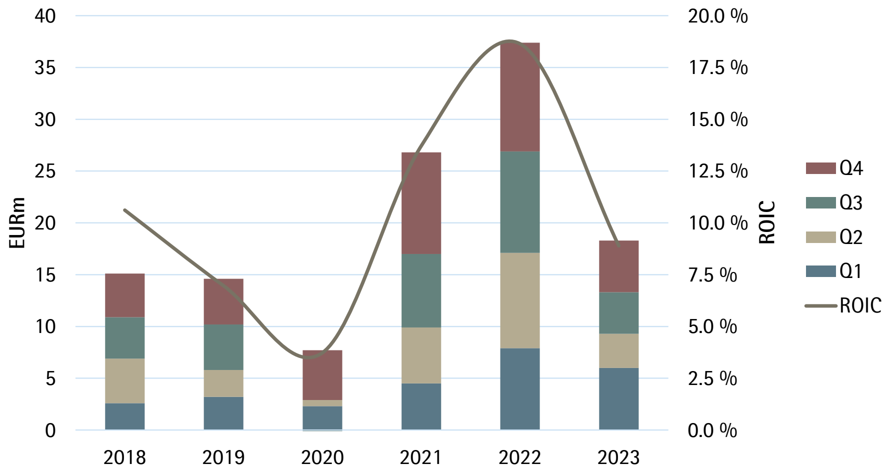
Figure 33: ESL Shipping Handysize and Coaster segment revenue (FY'23)



Source: Aspo
Note: Blue blocks represent Handysize vessels and beige Coasters, assuming segmental revenue distributed evenly among vessels

ESL's revenue and EBIT are driven not only by transportation volumes as the specific cargo type and distance also matter. In our view e.g. forest industry shipments (such as those to be shipped from Metsä Group's Kemi mill to continental Europe by the new green coasters) are relatively more profitable from this perspective.

Figure 34: ESL Shipping quarterly EBIT and annual return on invested capital



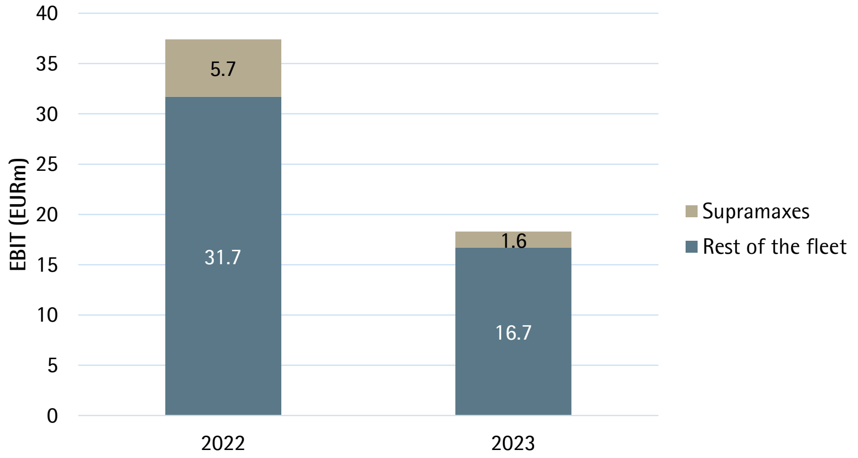
Source: Aspo, Evli Research
Note: Estimated ROIC

The Supramaxes contributed a lot of earnings especially in 2022 (EUR 5.7m in terms of EBIT) as spot rates for the vessels increased sharply from the bottom levels seen in 2020, however the relevant freight rates have since fallen back to low levels. The vessels have provided cyclical upside potential for ESL's earnings; their sale thus limits earnings upside but also renders ESL's profitability levels a lot more stable than before. The two vessels contributed an EBIT of only EUR 1.6m in FY'23; in our view the vessels' earnings were again trending up after the decline, however ESL also received a price which reflected expectations of an improving EBIT.

The Supramax earnings were somewhat more volatile than those of smaller vessels

The two Supramax vessels will no longer be contributing earnings after their sale in Q2'24; we would have expected them to add some EUR 2-3m to FY'24 EBIT based on their reported earnings levels in the past two years. The Supramaxes previously made up some 25% of ESL's capacity, but even in the strong year of 2022 they made up only some 15% of EBIT; the share declined to less than 9% in 2023 as spot market rates fell. The Supramaxes' EBIT fell by more than 70% y/y in FY'23, while that of the rest of the fleet declined by some 47%. The Supramax divestment will therefore somewhat help reduce ESL's earnings volatility going forward, however the existing fleet's capacity utilization rate (dependent on many cyclical albeit different industries) and contracted freight rates can still vary a lot.

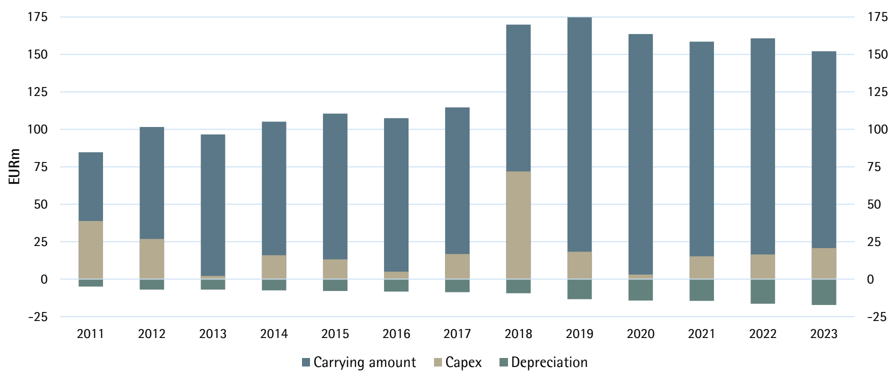
Figure 35: ESL Shipping EBIT contribution by vessel type



Source: Aspo

We estimate ESL's long-term 14% EBIT margin target to imply roughly 15% return on invested capital, which would be more than enough to compensate for the risks and also to push Aspo around its targeted ROE of above 20%. Operating costs have remained relatively stable despite inflation, however AtoB@C time charter costs increased in 2022 due to cost issues.

Figure 36: ESL Shipping vessels' book carrying amount development

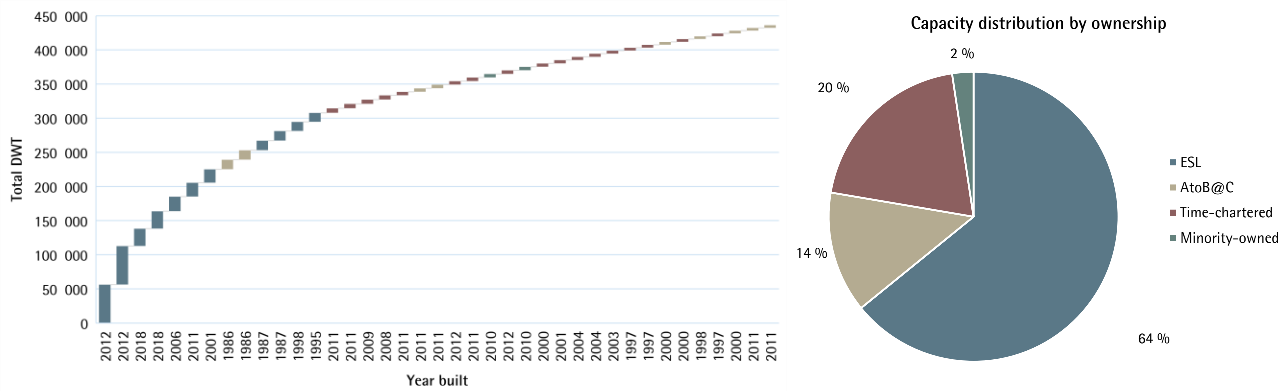


Source: Aspo

ESL invested more than EUR 100m in growth capex in FY '17-19; the company didn't add to its fleet in the following four years, however ESL is now expanding its asset pool as it receives new green coasters. Six of these small hybrid vessels, a total investment worth some EUR 70m, will be placed in its own balance sheet while another six will be owned by external investors through a pooling structure.

The average age of ESL's fleet (weighted by DWT) is, as of 2024, some 20 years as a typical vessel was built around 2005. We find there are not very large differences in fleet age from the perspective of individual vessel ownership, however ESL's Handysize vessels are on average a few years older than both the sold Supramaxes and Coasters. The new green Handysize vessels in which ESL is likely to invest in the coming years will thus partly replace some of the company's ageing capacity. ESL's maintenance capital expenditures have historically averaged about 5% of annual revenue, which would imply a level of roughly EUR 10m going forward given the current fleet structure. The level is likely to increase gradually in the future as ESL's fleet grows.

Figure 37: ESL Shipping vessel capacity distribution by age and ownership

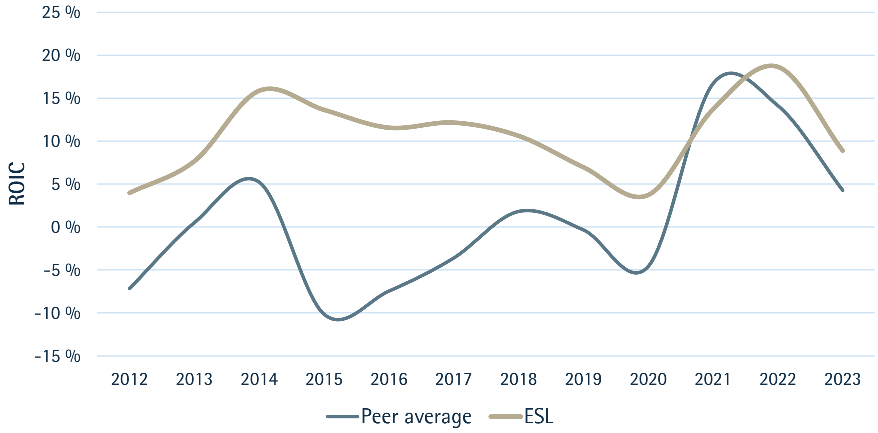


Source: ESL Shipping
Note: ESL divested its two largest vessels, the Supramaxes, in Q2'24

ESL has delivered clearly superior financial performance relative to its peers

We calculate ESL to have averaged a ROIC of 12% in the past decade or so, whereas its listed peers did around 0%. We find the peer group average topped ESL's figure only in FY'21 as the surge in spot market rates following the initial shock of the pandemic manifested itself faster for the carriers operating in global markets, however that year already proved to be the general market peak whereas ESL's profitability continued to trend upwards also in FY'22. There is some amount of correlation between the profitability levels of ESL and its peers although the former's level has often remained quite a bit higher than that of the latter. ESL's EBIT also remained in the black throughout all the fiscal years while none of the peers, excluding Algoma Central, managed to remain consistently profitable. Algoma Central was the only exception among the peers as it stayed profitable over all the years albeit with a rather modest average ROIC of some 5% (according to FactSet). A large part of Algoma Central's fleet operates in the Great Lakes region of North America, although the company also has some exposure to global ocean markets as well as product tankers. The company's largest segment has 18 Canadian dry bulk carriers (many relatively small like those of ESL) serving industrial sectors such as iron and steel producers, cement and building material producers and agricultural product distributors. Algoma Central's operations are tilted towards long-term Contracts of Affreightment business.

Figure 38: ESL Shipping and peers' return on invested capital



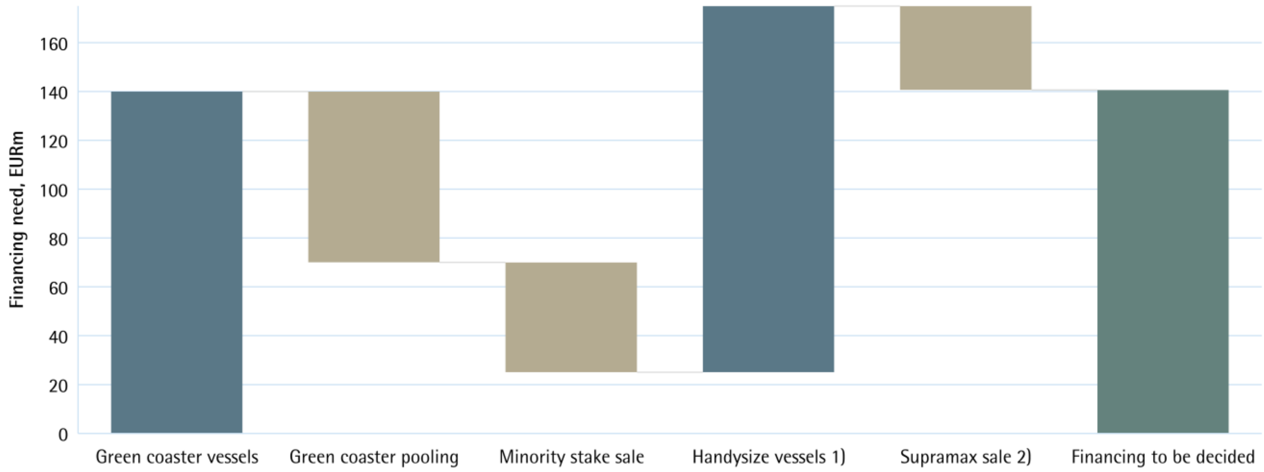
Source: Evli Research, FactSet

ESL has received an equity injection of EUR 45m from an evergreen Finnish infrastructure fund and the pension insurance company Varma. The minority investment gives the investors an ownership stake of 21.43% in ESL Shipping at a pre-money equity valuation of EUR 165m. According to Aspo the investment implies an enterprise value of some EUR 300m for ESL, in other words around EUR 135m of Aspo group-level debt was attributable to the company. In our view the EUR 300m valuation wasn't low, considering the current market environment left ESL's FY'23 EBIT very modest at EUR 18.3m, in other words an EV/EBIT multiple of some 16x. In our opinion the valuation was quite neutral relative to the long-term sustained annual EBIT of ESL, which we see around EUR 30m and thus implying roughly 10x EV/EBIT multiple.

The financing of new Handysize vessels would require many levers

In our view ESL plans to invest in several new Handysize vessels over the coming years, which requires considerable financing as such an investment project may cost at least EUR 150m (depending on the exact number of vessels but also on technological aspects); in such case the vessels might then contribute about EUR 15m to annual EBIT, assuming they were all owned by ESL although in reality it's likely at least some of the vessels will belong to a pooling structure. The potential financing options include, in addition to a new investment pool (in a similar vein to that for the green coasters), the sale of the two Supramax vessels (for which ESL paid a combined EUR 60m in 2011-12) as well as additional injections of equity in the form of minority investment. We note five-year-old Supramax vessels have been trading at around EUR 25m second-hand prices for a while now, in other words significantly higher than the pre-pandemic price levels of around EUR 15m. ESL's Supramaxes were older than those reference price vessels, but they also have cranes and are ice-strengthened. Meanwhile 15-year-old Supramaxes have been priced around EUR 12m; we would have on this basis expected ESL's Supramaxes to be worth north of EUR 15m each, and they were eventually sold at some EUR 17m each. The price ESL received was thus rather high relative to the vessels' latest EBIT levels, some 21.5x on FY'23 EBIT, but only 6x on the very strong FY'22 EBIT. We consider the price to have been quite neutral as it was largely in line with the general market levels; absolute prices were slightly higher in the past couple of years although lower relative to the then prevailing elevated earnings levels.

Figure 39: Illustrative summary of ESL's new capacity investments and financing decisions needed



1) Assuming five new vessels at a cost of EUR 30m each
2) The two Supramax vessels were received new in 2012 for a combined price of EUR 60m and sold for USD 37.1m in Q2'24
Source: Aspo, Evli Research

We estimate Aspo and ESL still have well more than EUR 100m in future potential investment needs left to finance, in terms of net cash requirement after measures such as the sale of Supramax vessels, assuming a decision is reached to commission at least five new Handysize vessels. We would expect at least some amount of further pooling arrangements to be used, and another minority stake sale is also quite likely (similar in size compared to the initial one). Aspo could itself commit up to some EUR 50m through increased indebtedness while still staying in line with its long-term gearing target. Such an amount should then be enough to plug the funding gap assuming the new Handysize capacity is owned and pooled in similar proportions as the green coasters (fifty-fifty). In our opinion Aspo and ESL might be financially stretched to come up with the funds and arrangements needed for an investment in many more than a handful of Handysize vessels, unless the majority of them would then be pooled (or should ESL receive even larger outside equity injections).

ESL Shipping estimates and valuation

Pandemic-induced softness was still visible in early 2021 figures (although spot market rates and hence the profitability of Supramax vessels had already improved considerably) as freight rates hadn't yet increased that much while volumes were only picking up after the slump, however the rebound was sharp and ESL achieved some 17% EBIT margins in H2'21. Absolute profitability continued to gain y/y in H2'22 when ESL enjoyed an EBIT of EUR 20.4m. Q1'23 was still relatively strong, but earnings declined markedly for the rest of that year due to lower volumes in many important industries. We estimate ESL's profitability to improve from the dip seen in 2023 especially as key industry volumes stabilize and the carrier begins to receive its green coasters at a rate of one new vessel per every quarter until mid-2026.

Table 4: ESL Shipping estimates

ESL Shipping	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e
Cargo volume (mt)	14.7	3.3	3.0	3.1	3.3	12.7	3.1	3.2	3.2	3.4	12.9	13.3
Revenue	245.4	52.7	43.9	43.0	49.3	188.9	49.9	60.3	56.2	57.7	224.1	231.9
growth-%	*28 %*	*-7 %*	*-27 %*	*-34 %*	*-22 %*	*-23 %*	*-5 %*	*37 %*	*31 %*	*17 %*	*19 %*	*3 %*
Adjusted EBITA	**37.6**	**6.0**	**3.3**	**4.1**	**5.0**	**18.4**	**2.7**	**6.1**	**6.3**	**9.3**	**24.4**	**28.9**
Adjusted EBITA margin	15.3 %	11.4 %	7.5 %	9.5 %	10.1 %	9.7 %	5.4 %	10.1 %	11.2 %	16.1 %	10.9 %	12.5 %

Source: Evli Research

ESL has been able to optimize its route network over the past few years and should be able to again improve towards its targeted 14% EBIT margin in the coming years as it receives the new green coaster vessels. We estimate the EUR 15m EBITDA potential of the 12 green coaster vessels translates to some EUR 10m in EBIT, which would mean ESL's EBIT is headed well above EUR 30m in the next three years.

Table 5: ESL Shipping peer group valuations

	MCAP	EV/EBITDA			EV/EBIT			P/B		
ESL PEER GROUP	MEUR	23	24	25	23	24	25	23	24	25
Algoma Central	388	5.3x	5.4x	4.9x						
Diana Shipping	245	6.1x	5.7x	3.6x		8.9x	4.7x		0.5x	0.5x
Seanergy Maritime Hldgs	167	7.1x	3.8x	3.8x	16.8x	5.6x	5.5x	0.9x	0.8x	0.7x
Genco Shipping & Trading	644	8.4x	4.7x	5.0x	23.9x	8.0x	9.4x	0.8x	0.8x	0.8x
Golden Ocean Group	2072	10.0x	7.0x	6.3x	17.5x	9.7x	8.4x	1.2x	1.2x	1.1x
2020 Bulkers	255	8.8x	6.9x	6.9x	11.5x	7.1x	8.1x	1.8x	1.8x	1.8x
Pangaea Logistics	263	7.3x	5.8x	5.0x	12.9x	9.7x	7.8x			
Safe Bulkers	445	5.7x	5.0x	5.5x	8.6x	7.0x	8.4x	0.7x	0.6x	0.6x
EuroDry	50	11.3x	5.3x	3.8x	116.2x	10.2x	5.6x	0.5x	0.5x	0.4x
Belships	389	5.8x	7.0x	5.4x	8.1x	9.8x	7.3x	1.5x	1.5x	1.4x
Star Bulk Carriers	2205	8.3x	4.7x	4.1x	13.1x	6.2x	5.2x	1.1x	0.9x	0.9x
Peer Group Average	648	**7.7x**	**5.6x**	**4.9x**	**25.4x**	**8.2x**	**7.0x**	**1.1x**	**0.9x**	**0.9x**
Peer Group Median	388	**7.3x**	**5.4x**	**5.0x**	**13.1x**	**8.4x**	**7.5x**	**1.0x**	**0.8x**	**0.8x**

Source: FactSet

The peers tend to operate dry bulk vessels a lot larger than those of ESL, and their shipments are also often more tilted towards heavier cargoes such as iron ore and coal (and thus dependent on Chinese demand), whereas ESL transports quite a lot of forest industry products like pulp and timber which are relatively minor articles in the global dry bulk trade. In our opinion Algoma Central, a Canadian shipping company, is a highly relevant peer for ESL as a significant part of its earnings derives from shipping dry bulk cargoes with relatively small vessels around the the Great Lakes region as opposed to the world's oceans.

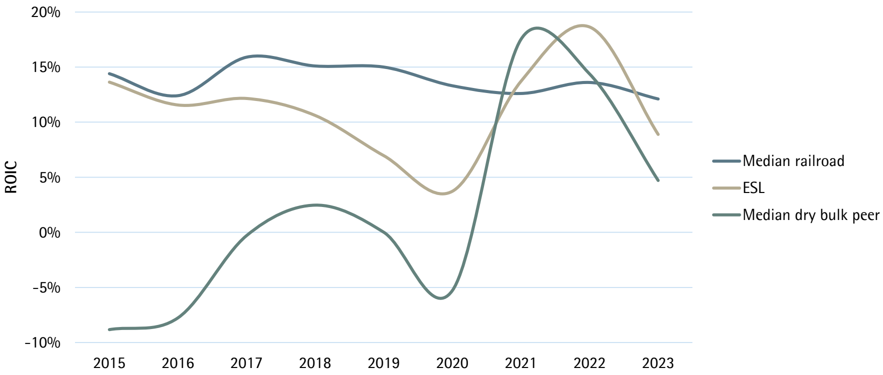
Table 6: Railroad company valuations

	MCAP	EV/EBITDA			EV/EBIT			P/B		
RAILROAD PEER GROUP	MEUR	23	24	25	23	24	25	23	24	25
Canadian National Railway	66816	15.2x	14.0x	12.8x	19.4x	17.9x	16.2x	5.2x	5.3x	5.2x
Canadian Pacific Kansas City	71507	18.5x	17.6x	15.4x	24.4x	23.0x	19.6x	2.5x	2.3x	2.2x
CSX	59270	12.2x	11.5x	10.9x	15.8x	14.9x	14.0x	5.6x	5.1x	4.9x
Norfolk Southern	52580	13.2x	13.6x	12.4x	17.7x	18.1x	16.1x	4.5x	4.2x	4.0x
Union Pacific	138527	15.8x	15.1x	13.9x	20.1x	19.0x	17.3x	10.7x	8.9x	8.0x
Peer Group Average	77740	**15.0x**	**14.4x**	**13.1x**	**19.5x**	**18.6x**	**16.6x**	**5.7x**	**5.2x**	**4.9x**
Peer Group Median	66816	**15.2x**	**14.0x**	**12.8x**	**19.4x**	**18.1x**	**16.2x**	**5.2x**	**5.1x**	**4.9x**

Source: FactSet

In our view railroad company valuations may also serve as a benchmark for ESL's valuation as e.g. the cargo transport mix of Canadian Pacific Kansas City in 2023 was 34% bulk (of which the majority was grain) and 47% industrial merchandise including energy, chemicals, plastics, metals, minerals and forest products while 19% was intermodal containers. Union Pacific and Canadian National Railway as well as the other two listed peers (CSX and Norfolk Southern) have recently had quite similar revenue mixes. North American railroad companies thus tend to transport rather similar cargoes compared to ESL. All the five also have rather leveraged balance sheets with their ratios of net debt to EBITDA at around 2-3x.

Figure 40: Railroad company ROIC comparison



Source: Company data, FactSet

The five railroad companies tend to generate remarkably stable levels of ROIC at a significantly higher rate (around 13-14%) than the dry bulk shipping peers of ESL. The railroad companies have therefore averaged ROIC a couple of percentage points higher than ESL and have exhibited less earnings volatility. Their earnings multiples are more than twice of typical dry bulk carriers, a level which in our view is warranted by their strong earnings track record. We wouldn't argue ESL deserves similarly high earnings multiples even if it has historically outperformed its peer group (and may continue to improve its earnings quality in the future when all the new green Coasters have been received) since its financial performance hasn't been quite as impressive, in addition to the fact that it is a lot smaller company and operates in a different market (in terms of industry, business model and geography).

Table 7: ESL Shipping precedent M&A transactions

Target	Seller	Acquirer	Completed date	EV (EURm)	Equity Value (EURm)	Net Debt (EURm)	EV/S [1]	EV/EBITDA [1]	EV/EBIT [1]
Eagle Bulk Shipping	Eagle Ventures	Star Bulk Carriers	Pending	858	499	359	2.1x	8.5x	27.1x
Grindrod Shipping		Taylor Maritime	Dec-22	570	482	88	1.0x	2.3x	3.0x
Navios Maritime Acquisition	Navios Maritime Hldg	Navios Maritime Partn	Oct-21	913	47	866	3.0x	5.6x	6.3x
Diamond S Shipping	WL Ross & Co	International Seaways	Jul-21	857	347	510	1.7x	5.7x	16.5x
International Seaways	Overseas Shipholding	Overseas Shipholding	Dec-16	303	302	0	0.7x	1.1x	1.5x
Western Bulk Chartering	Bulk Invest	Kistefos	Feb-16	43	15	29	0.1x	6.4x	6.5x
Baltic Trading Limited	Centerbridge Partners	Genco Shipping	Jul-15	240	86	154	5.7x	39.1x	
Golden Ocean		Golden Ocean	Mar-15	703	384	319	2.9x	6.6x	9.3x
Pangaea Logistics Solutions	Cartesian Capital	Quartet Merger	Oct-14	256			0.9x	11.5x	16.6x
OceanFreight		DryShips	Nov-11	178	81	97	2.6x		
Eitzen Bulk Shipping	Jason Shipping	Navieras Ultragas	Jun-10	88	101	-13	0.3x	5.3x	5.4x
Average				**455**	**234**	**241**	**1.9x**	**9.2x**	**10.2x**
Median				**303**	**202**	**125**	**1.7x**	**6.0x**	**6.5x**

1) Multiples based on latest reported full fiscal year
Source: Mergermarket

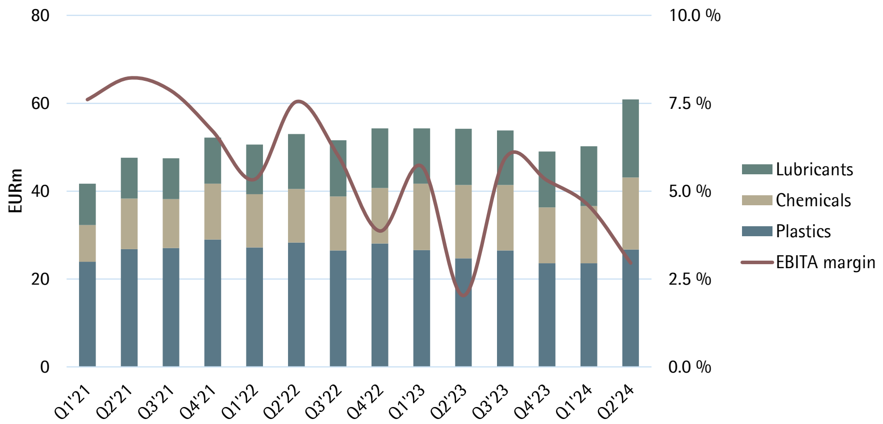
We identify a sample of 11 dry bulk shipping M&A transactions, which are mostly relevant to ESL in terms of size as a typical target has been valued around EUR 300m. There is, however, quite a lot of variation in terms of earnings-based valuation multiples as the targets' relative profitability levels vary, but the EV/EBITDA multiples tend to stay well below 10x while the average EV/EBIT valuation lands a bit above 10x.

Telko

Telko overview

The business can be described as a type of technical wholesale trade, and it involves a heavy emphasis on logistical considerations as well as product technical expertise. Telko has in the recent past focused on efficiency and profitability rather than growth. The select measures have included e.g. customer account rationalization.

Figure 41: Telko quarterly revenue by product group and relative profitability



Source: Aspo

Telko now operates in 17 countries and is ready for focused growth, on both organic and inorganic basis, as it has divested its Russian operations and closed a number of acquisitions in 2024.

Telko business model and strategy

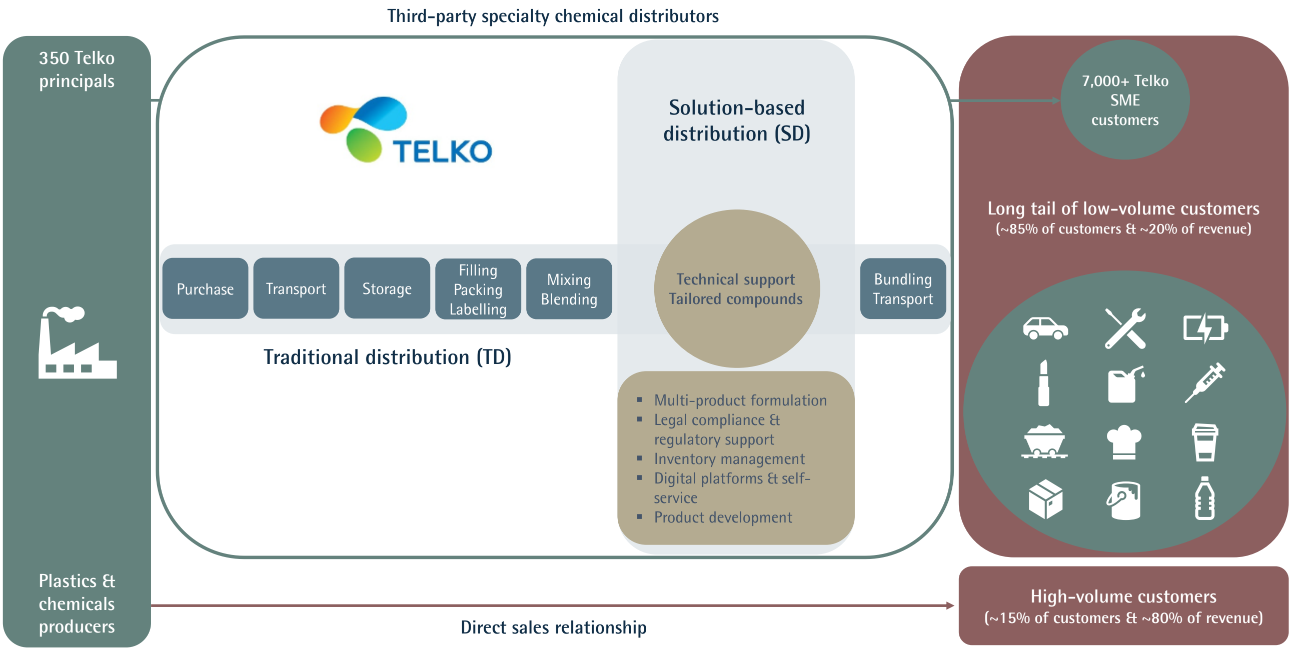
Telko links larger chemical manufacturers with smaller customers

Telko acts as an intermediary between its 350 principals and 7,000 customers. The company has established itself in both traditional distribution (TD) and solution-based distribution (SD). The former refers to basic logistical services such as the purchase, transport, storage, packing, blending, and bundling of materials. Meanwhile the latter type of distribution also involves more value-adding services like technical support, including sampling and return, as well as vendor-managed inventory (tailored compounds) offering. Telko's customer base includes certain global consumer brands, however sales for the most part stem from a wide range of SME customers. A typical Telko SME account spends no more than EUR 40,000 on Telko-supplied plastics and chemicals on an annual basis. Most chemical manufacturers tend not to find the direct service of such modest-sized accounts worthwhile, and these customers also often want a wide variety of specialty chemicals and look to order them in relatively small quantities. It follows that Telko's success is based on managing efficient logistics and offering a wide-ranging specialty chemicals inventory for a long tail of customers. Telko's operations now span 23 local offices in 17 countries and include around 45 warehouses, while the product catalogue comprises some 6,000 chemicals and 3,000 plastics items.

Telko continues to add focus towards specialty chemicals and plastics

Telko owns only a limited share of its warehouse and distribution infrastructure. The company still supplies bulk volume chemicals and plastics but continues to place increasing focus on more demanding products as well as value-adding services. Commodity chemicals are easier to distribute and hence the principals themselves often manage their distribution. Specialty chemicals and plastics thus tend to be more profitable to distribute (we estimate gross margins can be as high as 25% for such categories), not to mention the fact that macroeconomic conditions often play a lesser role in determining the associated volumes. Customers are also less susceptible to switching suppliers when it comes to higher margin products, especially in the case of customized proprietary formulations. The flip side is that it can be expensive to develop a specific material solution together with a customer. A specialty chemical distributor such as Telko then needs to secure the input chemicals' eventual provision early on and usually carry higher inventory levels because the users' volume demand is often not that easy to anticipate. Customers often own the formulations, and contractual restrictions can limit the sale of a specific formulation beyond the proprietary customer account.

Figure 42: Telko's value chain positioning



Source: Evli Research

Competitiveness is based on efficient logistics and technical knowledge

Cost-effective and reliable logistics is perhaps the most important consideration principals look for in their third-party chemical distribution partnerships (where centralized regional warehousing is often the correct approach), in addition to a wide distribution network. Meanwhile customers often want cost-competitive provision of technical know-how and tailor-made deliveries. Such customer requirements tend to necessitate a wide product offering, in other words a large principal network. A diverse offering makes Telko better able to provide the correct chemicals from multiple suppliers at the right time and to reach a position from which it can suggest new compounds for improving the customers' processes as well as product quality (including the development of new products). This kind of solution-based distribution, built on proprietary formulation expertise, can to some extent create entrenchment with customers (especially within SMEs) and allow companies like Telko to act as one-stop shops. Such expertise can drive organic growth through both principal and customer relationships, while it also helps in terms of pricing power. An increasing number of products also improves the distributor's cost effectiveness. Certain areas of the chemical distribution business require an operating license, however specialty chemicals are usually not of hazardous nature.

Table 8: Telko's product groups and customer industries

Plastics	Chemicals	Lubricants
• Wide range of plastic raw materials and additives for various applications and industries	• Broad portfolio of chemicals for different industry segments, such as paints and coatings, personal care and food	• Industrial, marine and automotive lubricants, own production of car chemicals
• **Masterbatches & Additives** o Often used to modify surface properties and create e.g. anti-block, slip and anti-slip, and anti-static features o Also used to add color to plastic materials • **Volume Plastics** o Includes polyolefins such as low-density polyethylene (LDPE), linear low-density polyethylene (LLDPE), high-density polyethylene (HDPE) and polypropylene (PP) o The plastics are used as e.g. sheets and foams in different applications across industries • **Technical Plastics** o A wide range of engineering and technical plastics for various purposes in e.g. electronic devices, home appliances, healthcare products, and packaging	• **Binders** o Various binders such as polymer binders, silicates, acrylates, epoxy, epoxidized soybean oil, castor oil, natural gypsum and cement for use in e.g. concrete, dry mortar mixtures, and paints and coatings • **Fragrances** o Thousands of fragrances for e.g. cosmetics, household and cleaning products, and industrial chemistry • **Solvents** o Various alcohols, such as isopropanol and ethanols, as well as amines (like acetates), glycols and ketones • **Pigments & Fillers** o Common industrial fillers such as colloidal minerals, titanium dioxide and talcum o Glass spheres and specialty fillers used in plastic and paint as well as composites materials	• **Cleaners & Corrosion** o Grease removers and other cleaning agents as well as corrosion prevention chemicals • **Greases** o Includes e.g. calcium, barium and aluminium complex greases, NLGI, and Molybdenum Disulfide for use in machinery equipment • **Metalworking fluids** o Fluids for aluminium, steel and other metal compositions • **Mould oils** o A range of biodegradable mould oils that protect the mould surface from rust • **Gear oils** o Telko supplies Castrol Gear oils that help protect against the harmful effects of friction

Automotive	Construction	Energy & Electronics	Home & Personal Care	Lubricants	Medical & Pharma	Mining & Metal	Nutrition	Packaging, Paper & Printing
- Automotive oils and chemicals - Plastics for automotive parts	- Chemical solutions - Plastics for construction industry parts - PVC and Cable	- Chemical solutions - Lubricants for energy sector - Plastics for E&E sector - Plastics for mobile devices	- Chemicals and solutions - Plastics solutions	- Lubricants for machinery and metalwork - Industrial oils - High performance lubricants - Industrial greases - Marine oils	- Chemicals and solutions - Plastic solutions	- Lubricants for mining equipment - Chemicals for mining industry - Chemicals for metal industry	- Chemicals for feed - Chemicals for food - Lubricants for food	- Plastic packaging - Chemicals for paper industry - Bulk and speciality chemicals for printing

Source: Telko

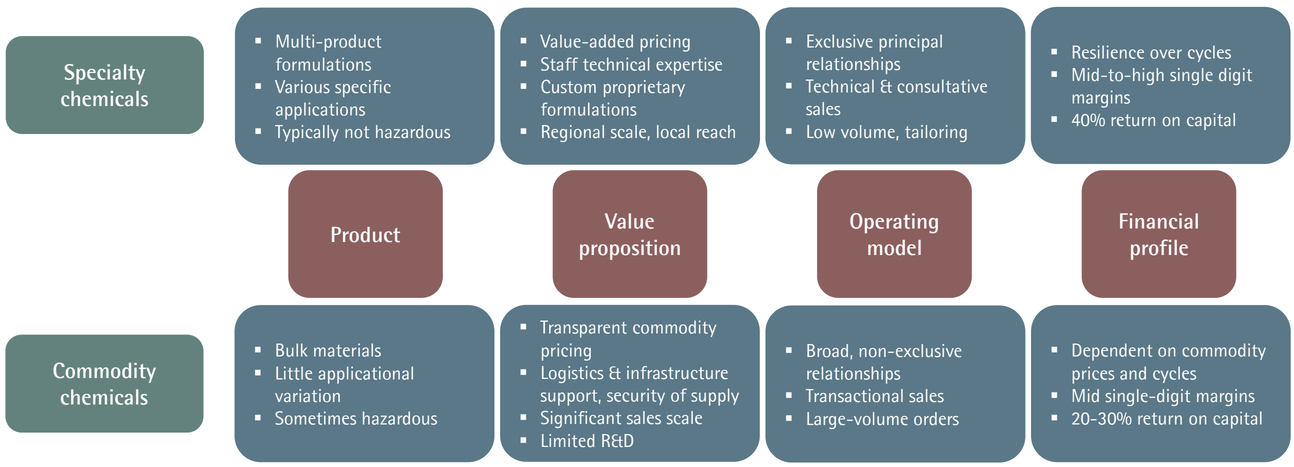
Specialty chemicals prices are relatively stable but still do vary

The pricing of (commodity) chemicals and plastic raw materials is done through negotiations between Telko's principals and customers; Telko earns a margin over the agreed upon price. Commodity chemicals are typically sold in bulk and distributed in large volumes, and their pricing is mainly driven by raw materials prices, whereas specialty chemicals' pricing is partially based on value-added services and therefore the associated margins tend to be higher and more stable (value-based pricing specific to a customer). Technical marketing and formulation development are arguably the most important aspects of specialty chemicals distribution, in contrast to commodity chemicals distribution where the value proposition derives mostly from logistical support. Oil is the main input for products supplied by Telko, while other important raw materials include ether and propene. Such raw materials as well as commodity chemicals prices are often volatile, and while specialty chemicals prices do follow those categories' movements they are not nearly as sensitive to changes.

Telko's geographic focus now rests on Western markets

Telko's principals also value wide geographic end-market exposure and access to new regions. Telko's principals and thus product offering also vary from country to country and hence success in one jurisdiction may not always be extended into another. Telko operates with an asset-light business model and does not typically own the warehouses which comprise its distribution network, meaning expansion to new geographic areas is not that expensive.

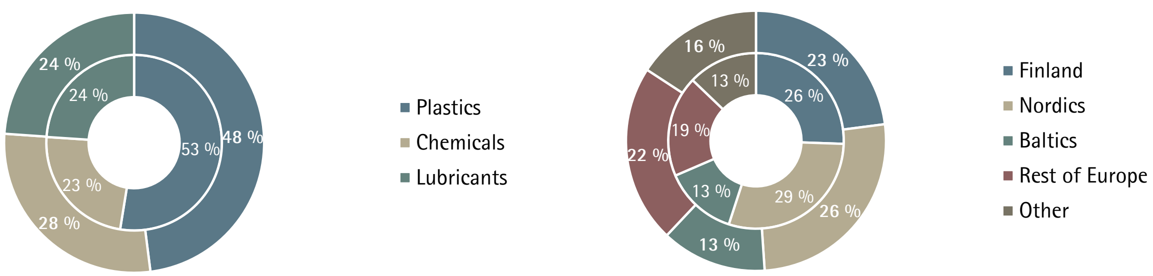
Figure 43: Key differences between specialty and commodity chemicals distribution



Source: Azelis, Brenntag, Evli Research

Telko discloses its top line for plastics, chemicals, and lubricants sales on a quarterly basis. Telko's chemicals business grew markedly in FY'23 due to the acquisition of Eltrex in Poland, whereas its lubricants operations are to see significant growth in FY'24 thanks to the Optimol & Greenfluid acquisition in France and the Benelux countries. The acquisition of Swed Handling is to double Telko's revenue in chemicals and in Sweden, making chemicals almost as large a product group as plastics (after the acquisition of Polyma) and Sweden its biggest country by 2025.

Figure 44: Telko product and geographical revenue split (FY'23 vs y/y)



Source: Aspo
Note: Outer ring FY'23 vs inner ring FY'22

Telko most often signs its principal agreements with a three-year term, however the actual relationships tend to be longer than that. It's rare for Telko to lose a principal, who in general focus on manufacturing chemicals and sell directly only to large customers. Principals often employ distributors to extend their own sales and marketing functions. We note the 10 largest principals generate some 40% of revenue for the big listed-peer Azelis, and in our view the situation should be quite similar for Telko. Principals often prefer to hand over their small customers to third-party distributors, but they seldom grant exclusive distribution rights. Principals however like to exert control over who distributes their products, and they may also compete with players such as Telko when a given customer grows large enough so that it turns worthwhile for the principal to bypass Telko and serve the account on its own. Chemicals producers' potential consolidation also poses some risks for Telko because it could lose a principal following a merger between two manufacturers.

Telko's regional inventories facilitate rapid delivery times; the customer delivery target time is 1-3 working days from its local warehouses. A major part of the company's otherwise light balance sheet is tied to inventories, and a recent improvement in inventory turnover speed is one of the factors which have contributed to Telko's profitability gains. Telko relies on centralized sourcing of raw materials; supply chain management measures remain high on the agenda, especially actions related to rationalization.

Proprietary expertise can be the most significant organic growth driver

Telko's organic growth prospects can be divided between those driven by principal relationships and those stemming from customer needs. Formula-based distribution, built on top of the company's technical expertise to serve individual customer requirements, can generate growth from both sources so long as the ability is backed up by efficient logistical capabilities. Tailored compounds create customer lock-in opportunities, while they can also drive volumes for the very suppliers whose products the formulations happen to contain. Relevant formula expertise makes it possible to address growth opportunities within the existing principal and customer relationships as well as new ones. Specialty players like Telko are often best informed on current local market trends and can even help manufacturers develop new products in response to customer needs (Azelis says 77% of specialty chemicals principals claim a distributor to be a very important development partner in product formulation). Telko can also derive additional insights from the development of a given new proprietary formulation, tailored for a specific customer, even if it is contractually restricted from selling it to other customers. It typically takes between one and two weeks to develop a new formulation, however it can take much longer than that for a particularly complex formulation.

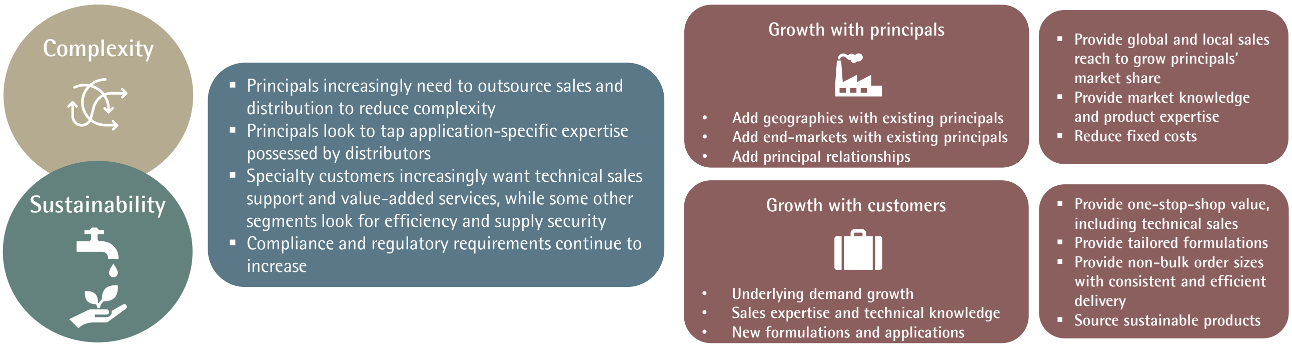
Specialty distributors are more than just a channel through which principals look to dump their long tail volumes

Increasing complexity and elevated demands for sustainability are some of the major business themes which give rise to certain secular trends underpinning growth opportunities with principals and customers alike. These trends include the principals' need to reduce logistics and marketing complexity by increasingly outsourcing sales and distribution activities to third-party distributors, especially when it comes to smaller customers. Principals are often large chemical producers who need to focus on maintaining the product competitiveness and efficiency of their manufacturing operations while also managing their most important direct sales relationships with relatively few high-volume customers (which generate a disproportionate share of revenue while each of them have very different requirements for their end-products). Meanwhile individual distributors may have very application-specific niche expertise (in the form of multi-product formulations) stemming from their integrated position between the large principals and various smaller customers who have different and often evolving needs. Specialty chemicals principals tend to value such niche market knowledge more highly than absolute scale (as it not only helps drive incremental volumes but can also be viewed a way to outsource customer support), whereas commodity principals may be more interested in their distributors' size and market positions. Meanwhile many commodity chemical customers do not need technical support that much but rather value low-cost service and reliable product supply.

The granular nature of end-markets is the fundamental business challenge a distributor tries to solve

Complexity, especially in the form of increasing manufacturing specialization and lengthening of supply chains, also leads to higher customer demands for technical as well as regulatory support. Customers' end-products often require complex formulations comprising of many different and rather standard chemicals from various large manufacturers, while the end-products themselves may be more niche solutions targeted to address highly specific functional needs. The end-markets' very granular landscape is the fundamental value driver of any third-party distributor's business as it presents opportunities for the supply of value-added services but can also pose certain challenges of economic nature since all complex formulations may not be able to sustain high enough volumes to make them particularly attractive from a financial point of view. We further note how even a highly successful formulation may not be able to move the distributor's needle all that much as it is still only one of thousands in the portfolio. Many customers' limited size also calls for distributors' support services to address increasing compliance and regulatory requirements.

Figure 45: Major themes and trends driving distributors' organic growth opportunities



Source: Evli Research

Telko acts as Castrol's Finnish representative and so maintains a constant supply of chemicals for Castrol's customers such as Bilia. Another similar solution-based distribution agreement is the one with Volvo, under which the principal has outsourced its Nordic chemicals, lubricants, and metal working fluids supply chain to Telko. Telko is also the exclusive supplier of AkzoNobel's asphalt chemicals in the Nordic countries.

Kauko was sold in late 2022 to Signal Partners, a Finnish company with a focus on solutions and services related to mobility, information networks and their planning and maintenance. Kauko had 22 employees and revenue of some EUR 13m in 2021, so it didn't represent very significant strategic interest for Telko.

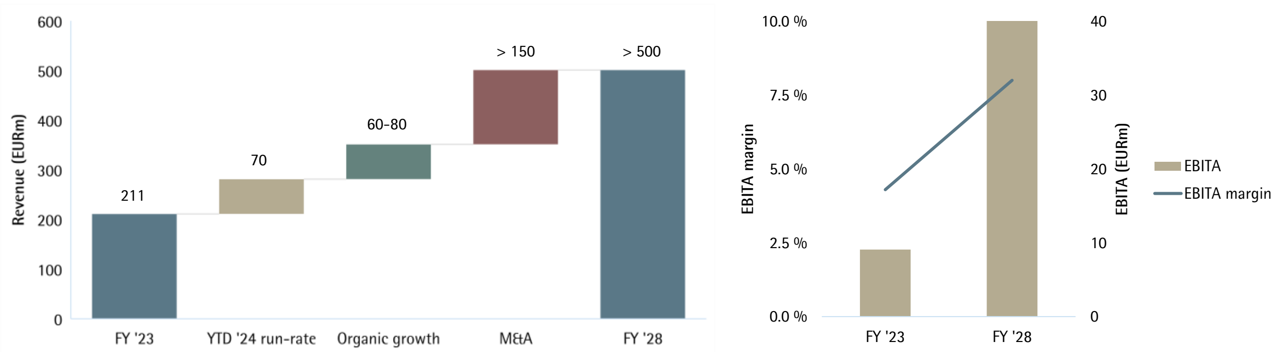
Future acquisitions may require some EUR 100m in capital

Acquisitions remain high on the agenda as the third-party chemical distribution market is still very fragmented worldwide. The industry comprises more than 10,000 companies and global drivers such as increasing regulation are likely to hasten the pace of consolidation as smaller companies' resources can become too strained. That said, even somewhat small players can reach high profitability levels with correct product focus and value chain positioning. In our opinion the company focuses on targets with revenues in the ballpark of a few ten million euros, while any valuation may not be very much more than 0.5-0.7x in terms of EV/S multiple (assuming the target's EBIT margin is roughly in the 5% ballpark). Telko's profitability is already rather strong by industry standards, meaning every relevant acquisition target may not be expected to be instantly accretive to margins; we however note the acquisition targets announced in 2024 have been highly profitable in terms of EBIT margin (almost 9% as a combined entity). Telko's revenue target for 2028 implies it might add roughly EUR 150m more through acquisitions in the coming years, which could require some EUR 100m in capital assuming an average EV/S multiple of 0.7x.

The acquisition of ILS Nordic AB in late 2020, for a total consideration of some EUR 5.6m in cash, expanded Telko's lubricants offering and added some EUR 10m in top line. The acquisition was accretive in relative profitability terms, which only goes to show how even very small third-party distributors can achieve competitive profitability levels with proper strategic positioning. Telko gained a new geography for its Castrol principal relationship through the acquisition (we note the later Mentum acquisition likewise expanded on the Castrol relationship by adding a distribution channel in the Baltics).

The Mentum (for an EV of EUR 1.5m and sales of EUR 10m), Johan Steenks (for an EV of EUR 2m and sales of EUR 5m) and Eltrex (sales of EUR 8m and EBIT of almost EUR 1m) acquisitions by Telko in our view well represent the blueprint for further such deals as the targets were all small but niche-focused players with high levels of technical expertise. In this sense direct cost synergies are often not major acquisition value drivers, however operational leverage can be an important source of value creation when the relatively small local operations get scaled up as their principals' products can be sold to a widened customer base. Value can be created through different kinds of commercial, operational and supplier synergies as well as the capability to provide increased safety and compliance standards.

Figure 46: Telko illustrative potential based on 2028 financial targets



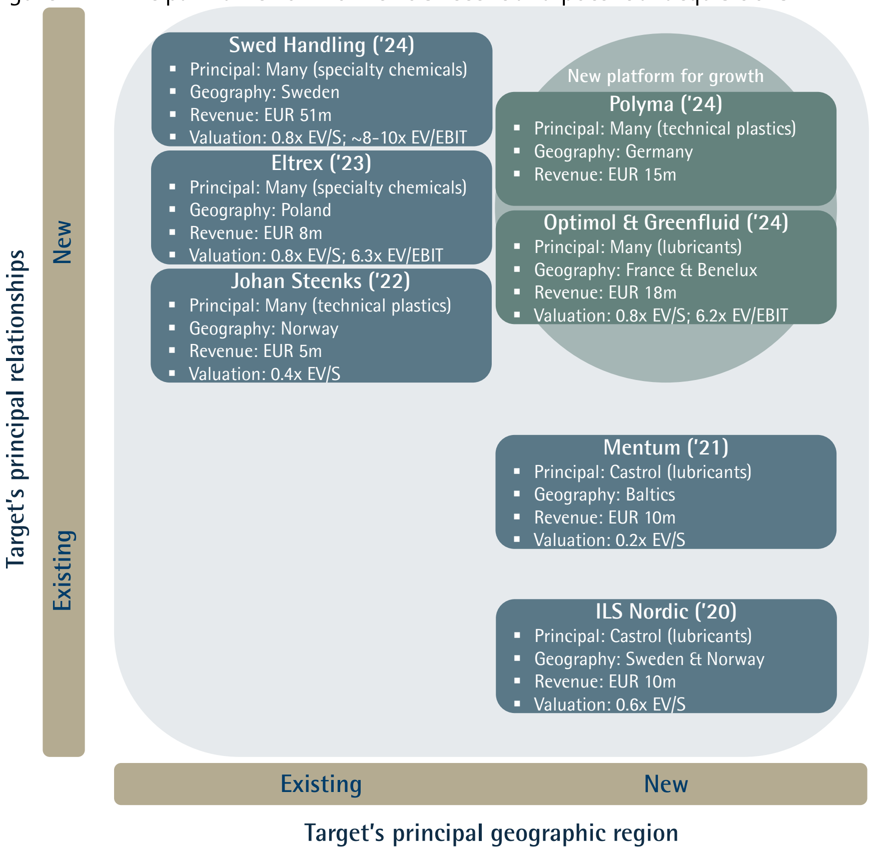
Source: Aspo
Note: YTD '24 run-rate includes Optimol, Greenfluid and Swed Handling, organic growth rate assumed at 4-5%

The Optimol & Greenfluid, Swed Handling and Polyma acquisitions will add some EUR 85m in revenue going forward; the acquired businesses had higher operating margins than Telko even before their acquisition, close to an EBIT margin of 9% as a combined entity. They should hence add some EUR 7.5m to Telko's earnings, excluding any of their synergy potential.

Principal relationships are the key consideration in the selection of M&A targets; Telko may want to consider acquiring such local companies which serve already existing principal relationships in regions which are new to Telko (either completely or within the existing relationship), as was the case in the Mentum and ILS Nordic acquisitions. New principal relationships can also act as the key rationale for an acquisition so long as they don't conflict with existing relationships; in such cases Telko can widen its local product offering, which makes its portfolio more competitive from a customer point of view. This was the logic in the cases of Eltrex and Johan Steenks. Many customers prefer to do business with one-stop shop distributors, while principals often want to simplify their third-party distribution networks. In this sense the distributor's role involves managing complexity both ways.

Telko now looks for acquisitions in both Northern and Continental Europe. We believe the company mostly focuses on pursuing smaller acquisitions (around EUR 10m in revenue) more or less similar in logic compared to the five latest ones, however somewhat larger deals (perhaps around EUR 50m in revenue) are also possible. Such a relatively large acquisition could involve a target which operates in a Western or Southern European jurisdiction new to Telko and gives the company access to additional principal relationships. We understand Telko is willing to consider targets present in countries like Germany, Italy and Romania (where the company already has some presence), but its screening process is not limited to these countries. Telko recently acquired a new local platform present in France and the Benelux countries, in addition to another acquisition in Germany, and hence it is likely to particularly focus on targets around these jurisdictions. The company looks for well-performing businesses and refrains from turnaround cases, while new product areas remain a possibility.

Figure 47: Principal framework for Telko's recent and potential acquisitions



Source: Evli Research

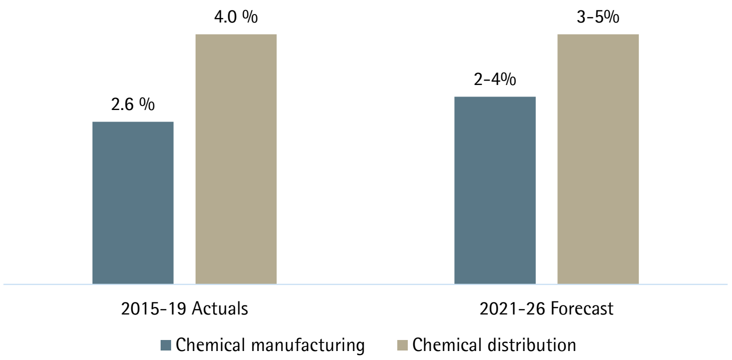
The four largest industry players (namely Azelis, IMCD, Brenntag and Univar) each made on average 3-4 acquisitions per year during the past decade or so. These acquisitions occurred across the Americas, EMEA and Asia-Pacific regions in quite equal numbers, however more recently there has been some trending towards Asia-Pacific as principals want better access to growth markets. All the big distributors made large acquisitions, such with revenue above EUR 200m, but the majority of them were either small or medium-sized companies generating revenue in the range of EUR 5-50m.

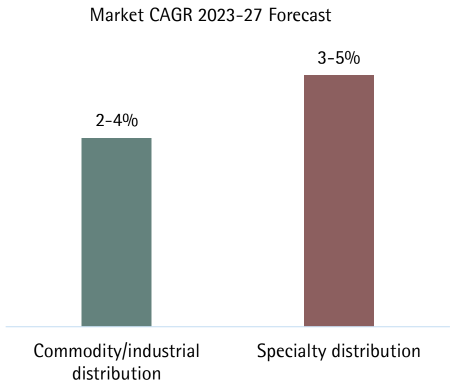
Telko markets and competition

Third-party chemicals distribution CAGR can be expected to surpass overall market growth

The global third-party chemicals distribution market remained well below EUR 300bn before the pandemic but has since grown to more than EUR 400bn, yet despite the double-digit growth seen in recent years the distribution market still amounts to only a fraction of the total global chemicals market as chemical producers continue to sell significant portions of their own output directly by themselves. The chemical manufacturers outsource the remainder of their long-tail of sales prospects to third-parties such as agents, traders and specialist chemical distributors. This relatively low current penetration level in our view continues to underpin rather robust growth prospects for specialty chemicals distributors as chemical principals still need to manage business complexity but also to tap market-specific expertise possessed by various distributors. In our view a long-term CAGR of some 4-5% remains a reasonable growth estimate for many specialty chemicals distributors, and such a projection would be in line with the recent historical growth figures that e.g. BCG has estimated for the specialty chemicals distribution market. The overall third-party chemicals distribution market can be expected to grow a couple of percentage points faster than GDP or the chemical industry in general (which BASF expects to grow at a CAGR of 2.9% in the years 2023-30, driven by increased production in China), while specialty chemicals distribution growth can be expected to outstrip that for commodity chemicals. BCG, however, sees a potentially softer period of growth in the short-term as the specialty chemicals distribution market grew at a high double-digit CAGR in the inflationary period immediately after the initial shock of the pandemic. Chemical manufacturers continue to increase their share of outsourced sales by employing more distributors, yet the outsourcing penetration rate may now grow a little slower than was previously expected especially in Europe.

Figure 48: Global chemical manufacturing and distribution market growth rates



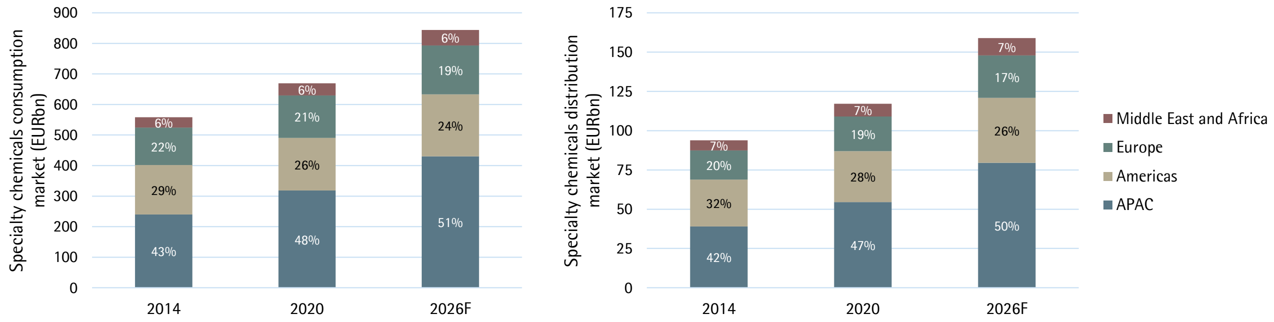


Source: BCG

Third-party chemicals distribution markets still have solid growth potential across various geographies

The relevant global specialty chemicals consumption market is now well north of EUR 700bn, of which more than EUR 500bn the manufacturers still distribute by their own means. Meanwhile the third-party distribution market for specialty chemicals is nearing EUR 250bn. The consumption end-market has historically grown at a CAGR of around 3-4% and should continue to grow at similar rates in the coming years, according to data by Azelis. The corresponding growth rates for third-party distribution are similarly around 100bps higher as outsourced distribution continues to gain more traction among specialty chemicals manufacturers. The underlying Asia-Pacific end-market is clearly the largest region, grows at a CAGR of some 5% whereas the local third-party distribution market grows roughly 100bps faster than that. We find there are no very large differences between the third-party distribution penetration rates between the regions, but note Middle East and Africa is the most advanced region in this sense as the local third-party distribution market already accounts for more than 20% of the total end-market. The distribution penetration rate is lowest in Europe, at around 16%, which in our view reflects the region's relative geographic density; the American penetration rate is some 300bps higher partly due to longer distances. The American markets are somewhat larger than Europe, however there are no major differences between growth rates. The distribution market has historically grown around 1.5x that of global GDP and is expected to do so also in the future.

Figure 49: Specialty chemicals consumption end-markets and third-party distribution rates

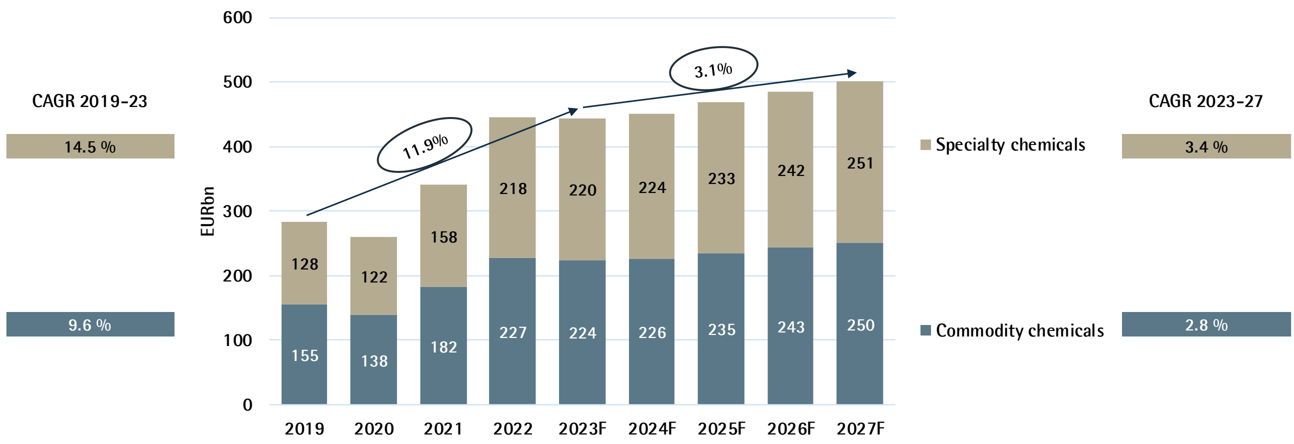


Source: Azelis

Specialty chemicals distribution is seen to grow faster than commodity chemicals regardless of the prevailing cycle phase

Specialty chemicals distribution has historically grown faster than commodity chemicals and is likely to do so also in the future at an annual rate of some 100bps higher than that seen for the bulkier product categories, according to Azelis and BCG. In our view the robust 5% growth rate is underpinned by the specialty distributors' capability to add value for many customers by their multi-product formulation expertise, as well as the fact that smaller customers appreciate the distributors' warehousing capacity. Specialty chemical distributors can also benefit from exposure to certain already large and fast-growing life science segments such as food and animal nutrition, personal care and pharma. The global third-party chemical distribution market grew again by another 31% y/y in 2022, according to BCG, as distributors passed on higher prices which resulted from both tight product availability and volatility due to supply chain disruptions; over 80% of the extraordinarily high market growth was attributable to price increases, and the portion was even higher than that for some commodity distributors. The commodity chemicals distribution market grew by 25% in 2022, compared to the 38% rate for specialty chemicals, and hence underlying commodity chemicals volume growth was rather subdued. Both markets had already bounced by roughly 31% in 2021. BCG also estimates the commodity chemicals distribution market will remain slightly smaller in 2023-24 than it was in 2022, whereas the specialty chemicals market is expected to expand also in 2023-24 albeit at a rather negligible rate. BCG estimates the growth rates to normalize again by 2025, when both markets are expected to grow by 4%. BCG therefore sees specialty chemicals distribution surpassing commodity chemicals soon in terms of absolute market size even though it was almost 20% smaller as recently as 2019.

Figure 50: Global third-party chemical distribution market size

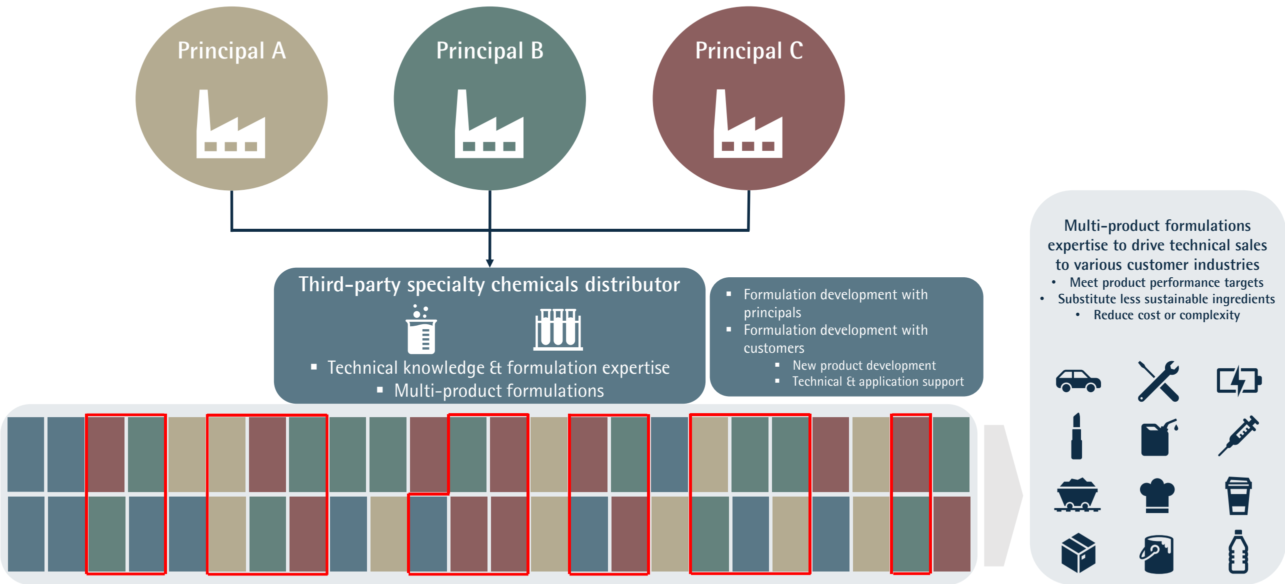


Source: IHS, VCI, Oxford Economics, BCG

Chemicals distributors' value proposition includes logistics and increasingly technical market knowledge

Third-party distribution is likely to compel those chemical producers who want to widen their geographical reach in a cost-efficient way. Chemicals companies often directly serve only their largest customer accounts (according to Azelis some 15% of a typical manufacturer's customer accounts generate roughly 80% of revenue, while the remaining 85% of customers who make up only 20% of revenue are better handled through third-parties), and third-party distribution can be especially attractive for those Western chemicals producers who want to increase their presence in developing markets without tying up too many corporate resources. Chemical manufacturers who want to better reach small customers, or certain ones that are otherwise difficult to serve economically, might also consider third-party distribution thanks to its logistical value proposition; chemical plants can face production challenges that prevent them from running small batches or processing smaller orders. Leading specialty distributors also often have deep market understanding and their service need not be confined to the traditional downstream leg; distributors can also work upstream by helping specialty chemicals manufacturers source materials that are required in production only on an infrequent basis or in small quantities. Upstream distribution is quite common since chemicals producers' largest customers are often other chemicals producers and here distributors can help simplify procurement. Distributors can also provide additional services, including technical support and tailored compounds, for different customer segments. A distributor can therefore act as a one-stop shop, which can be a crucial consideration for those customers who need several products in relatively small quantities. Technical expertise and multi-product formulations hence often form the core of a third-party distributor's value proposition. We also note that, according to a survey by BCG, many principals (especially commodity chemical manufacturers but also specialty-focused ones) increasingly look to diversify their distributor portfolio. The rationale from a specialty principal's perspective is to harness the specific niche expertise of various distributors, which is often application-specific expertise accumulated over many years. Meanwhile commodity principals look to target different customer segments within a variety of different markets (to an extent to balance out market instabilities and fluctuations across regions) but also to promote competitive pricing as well as service quality.

Figure 51: Third-party specialty chemical distributors' expertise and value proposition



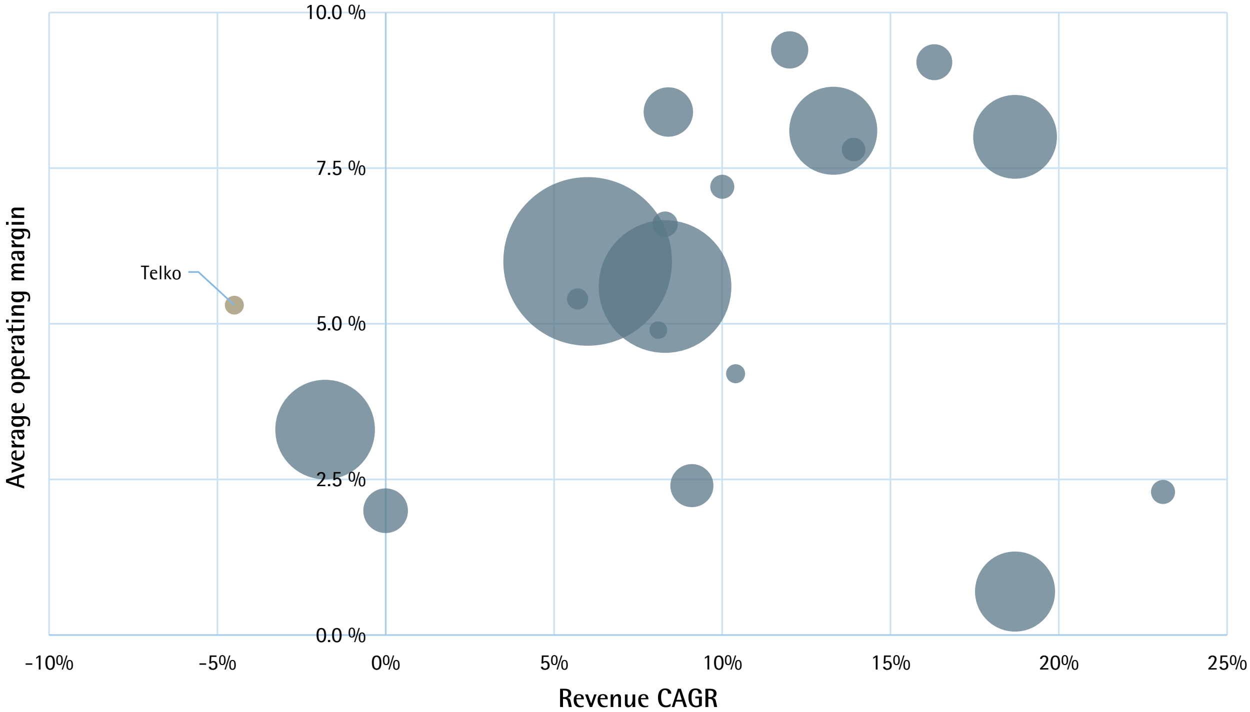
Source: Evli Research

Larger size is not the only lever to improve a distributor's competitiveness and in fact there seems to be no direct link between size and profitability. Scale matters to the extent it can help distributors cover many regions, and some manufacturers may seek such partnerships if it gets them a wide coverage in an efficient way. We however note that especially within specialty chemicals principals look more for product expertise and market knowledge than distributor size and market position, whereas scale is more important from the perspective of commodity chemicals.

Telko has posted average industry margins but lagged in terms of growth

The 20 chemical distributors in our sample averaged ca. 11% revenue CAGR and 5.5% EBIT margin for the latest available five fiscal years, whereas Telko performed close to the average level in terms of profitability but lagged considerably in growth terms especially due to the Russian exit. We however note Telko's top line performance would have remained only roughly flat even with the Russian operations included. We also note many of the largest distributors are very active on the M&A front and hence the 11% growth CAGR figure includes a significant inorganic component (as not too many large chemical distributors should be able to achieve organic growth at much above 5% over the long run). Telko previously targeted 6% long-term operating margin but upgraded its target to 8% in late 2021, which wasn't very surprising at the time. The sustained achievement of the 8% level would make Telko one of the best performing distributors. According to ICIS, a chemicals trade publication, Telko was the 96th largest distributor worldwide in 2023. The year 2023 was somewhat challenging for many players as their revenue often decreased by at least a couple of percentage points as deflation hit pricing levels.

Figure 52: Telko and other select large chemical distributors' revenue growth and profitability



Source: FactSet, ICIS
Note: Bubble size indicates 2023 revenue (USD), revenue CAGR and average operating margin for the latest five available fiscal years

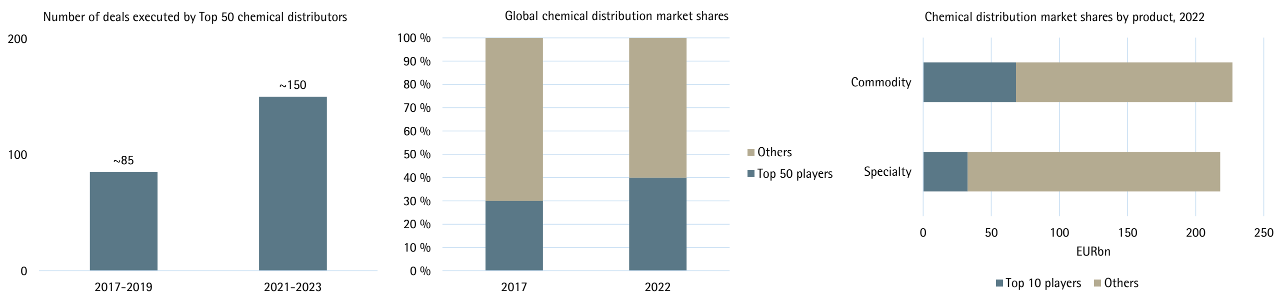
The market's consolidation pace has increased in recent years

The global distribution market has been consolidating for a while, albeit beginning from a very fragmented base, but the pace of consolidation has accelerated in recent years as the 50 largest players gained some 10 percentage points of market share as a group in the past five years or so. Organic growth rates have recently been high as the industry grew at double-digit rates especially in 2021-22 (driven by inflation), however the large players' market share grab was also boosted by increased amounts of M&A as their total number of closed deals grew by some 75% in the years 2021-23 compared to 2017-19. The specialty chemicals distribution market, however, is still a lot more fragmented than that of industrial commodity chemicals as the top 10 players of the former control around 15% of their market compared to the 30% figure for the latter. The specialty market would thus theoretically have more additional room to consolidate than the commodity market, but in our opinion it is likely to remain relatively fragmented since its value proposition is not so much about logistical efficiency as it is about product technical expertise.

Azelis and Brenntag remain active, while IMCD has clearly accelerated its acquisition efforts in recent years

The global third-party specialty chemicals distribution market is still quite fragmented and features a high number of small local players, while the top four distributors (namely Brenntag, Univar, Azelis and IMCD) together account for some 10% of the total market and aim to gain share by both organic growth and inorganic expansion since distributors' larger size allows principals to better manage complexity by the consolidation of their distribution networks. IMCD, for example, completed a total of 20 acquisitions in the years 2021-22 for a combined revenue of close to EUR 500m, and added another 13 acquisitions in 2023 (for a combined 345 employees and an annual revenue of EUR 375m). IMCD closed an additional 6 acquisitions, and signed 3, in the first three months of 2024 for a combined revenue of some EUR 235m and about 355 employees. The acquisition pace of IMCD translates to around 5-10% of its revenue, and in our view it can be hard to sustainably accelerate the pace much further than that, although we note Azelis averaged some EUR 500m in acquired annual revenue in 2021-23 (which equates to around 13% of its revenue).

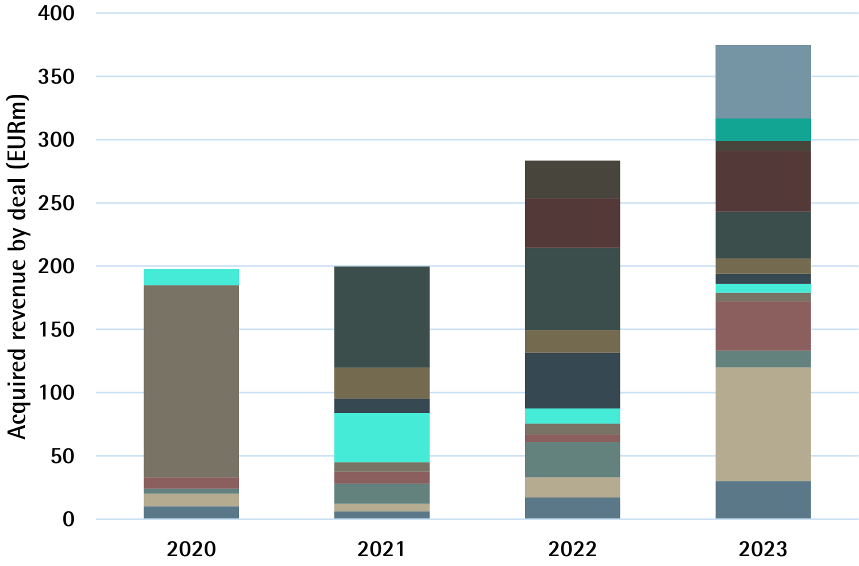
Figure 53: Illustration of consolidation in the chemical distribution market



Source: Brenntag

We note larger companies like Azelis, IMCD and Brenntag have considerably more resources than Telko to focus on sourcing M&A deals, however those advantages may not always be that useful in e.g. such transactions driven by succession issues where the owner would not personally prefer to sell to certain specific players due to their shared business history. The largest names may also already have so significant local presences in some countries that additional acquisitions there could lead to negative synergies. Some of the largest non-listed specialty-chemicals focused distributors include names like Caldic, Barentz, Stockmeier and Biesterfeld, all of which also appear to be quite active on the M&A front (e.g. Barentz completed 7 acquisitions in 2022 alone, which contributed 22% y/y growth in addition to an organic growth rate of 20%).

Figure 54: IMCD acquisition summary, deals closed in 2020-23

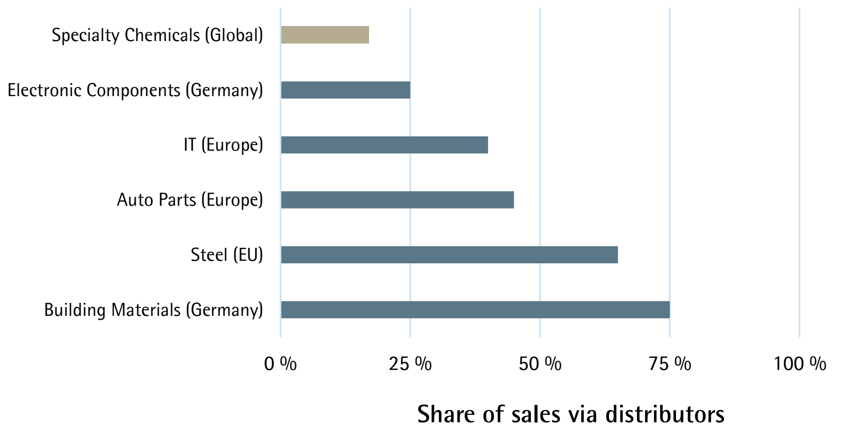


Source: IMCD

The overall market still has room to grow through increasing penetration rates

Third-party specialty chemicals distribution still has a relatively low market penetration rate compared to many other industries. According to estimates by BCG and Azelis, specialty chemicals' third-party distribution share is only around 18% worldwide in 2023, whereas several other industries have already reached many times that share. Products such as building materials, steel and auto parts are rather straightforward to sell, whereas the specialty chemicals sales process requires deep technical expertise as well as breadth in terms of product portfolio. The 18% specialty chemicals outsourcing estimate is nonetheless above the 10-12% outsourced distribution share for the overall chemical industry. According to BCG there is not that much variation in third-party specialty chemicals distribution rates across the major geographies, however the North American market has been more advanced than Europe due to longer distances and the fact that the local distributors have already consolidated themselves into a smaller set of more competent players. Meanwhile third-party specialty chemicals distributors tend to have higher penetration rates in more fragmented product categories where there are many small manufacturers which provide a wide offering for many small customers. It is easier for distributors to create value in such segments, which include coatings and adhesives, construction, and cleaning products. Specialty distributors' market penetration rate can reach as high as 80% in segments like laboratory chemicals where customers include extremely small university labs who need a wide variety of chemical products delivered on a regular basis. The situation is very different in segments such as complex active pharmaceutical ingredients; the pharmaceutical industry is quite consolidated and so chemical manufacturers can often serve large drug manufacturers without the help of any middlemen. In many other specialty chemicals product applications, by contrast, customer requirements are increasingly becoming more varied, which creates complexity particularly within the long tail of small customers and hence gives principals further reasons to outsource some of their product distribution.

Figure 55: Third-party distribution share for select industries

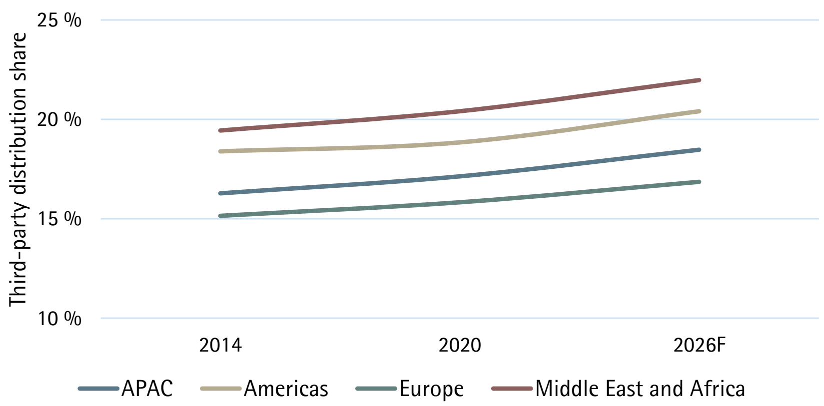


Source: Azelis, BCG

In our opinion third-party specialty chemicals distribution is a middleman business robust to threats of digital disruption

Third-party chemicals distributors have so far committed only limited amounts of investment into digitalization and software, but this is an issue unlikely to expose the industry to any major threat of disruption because the distributors' value proposition resides to a large extent in logistics and perhaps even more so in technical expertise. The business involves complex materials handling requirements, technical expertise as well as services like after-sale support, safety and regulatory requirements, and documentation. In our opinion these considerations mean the existing distributors have already established the playing field and any potential digital advances are likely to stem from their own efforts. Logistical services like repacking from large bulk quantities into more manageable, less-than-truckload deliveries represent the core of most distributors' business and help connect large chemical manufacturers with many small customers. Better software could in the future provide additional efficiency gains for such warehousing and bundling services, not to mention further reduce complexity for customers. These two factors would represent positive contributions to profitability margins, while on the negative side increased transparency could undermine distributors' pricing power. The potential elevation in competition would, on the other hand, naturally cut costs for customers and improve the overall functioning of the supply chain. For example, BCG sees successful online platforms are likely to be built around specific segments or value chains, such as food ingredients, coatings, or water chemicals. Any single global platform is unlikely to emerge. Digital disruption does not seem a major threat for specialty chemicals distribution as the business requires very specific product technical as well as regulatory expertise, which in practice manifest themselves through principal relationship-based region-product contract combinations.

Figure 56: Third-party specialty chemical distribution penetration by geography



Source: Azelis

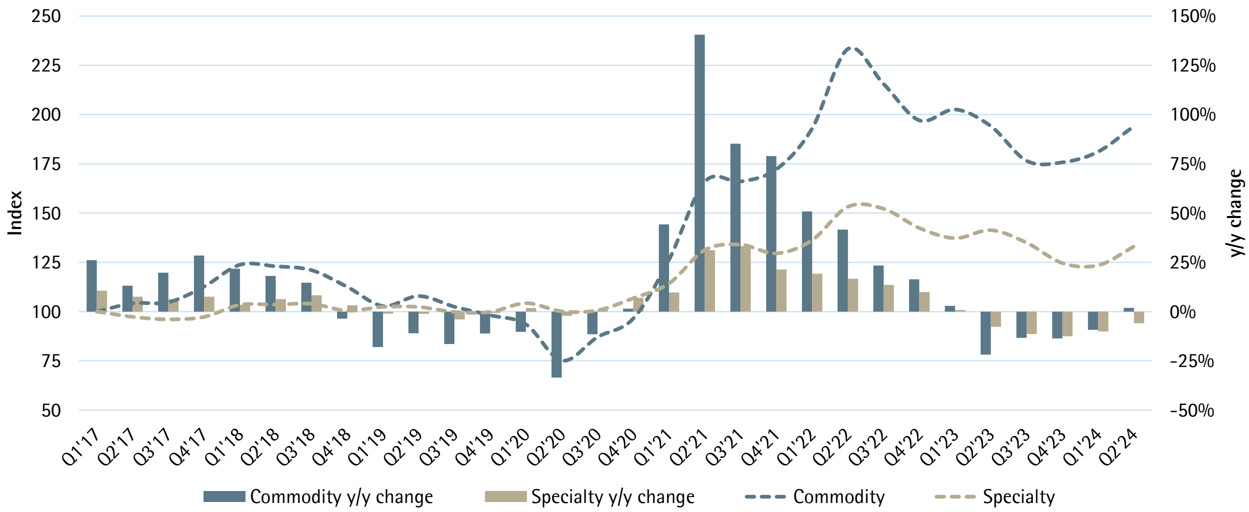
Specialty chemicals distributors can serve many different industries, each with various demand drivers, and so their growth prospects could vary a lot depending on differences in customer mix. In our view a well-diversified customer account mix should nevertheless often lead to a long-term organic growth potential of around 3-5%.

Table 9: Customer industry trends and characteristics

Industry	Demand trends and characteristics
Automotive	o Improved automotive life-cycle, weight and cost efficiency o Car electrification drives changes in body parts material requirements as well as in oils and chemicals o Emissions and efficiency regulations drive innovation
Construction	o Price-sensitive demand o Conservative but consistent trend underpins sustainable products
Energy & Electronics	o Increased use of recycling and recycled materials
Home & Personal Care	o Biodegradable and renewable feedstocks are increasingly important o Product performance a key priority and drives innovation o Independent consumer brands drive growth in many different regions
Lubricants	o Technical industrial demands o Emissions and efficiency regulations drive innovation o Drive towards sustainable components
Medical & Pharma	o High regulatory demands o Many iterations of development, testing and approvals are needed for new products (which means high willingness to pay for value-added services) o Generics market grows faster than that for branded new products
Nutrition	o Health regulations, wellness, immunity and functional foods gain focus o Trend towards natural and plant-based foods o Animal feeds look to reduce reliance on antibiotics; market driven by large companies and regulated products
Packaging, Paper & Printing	o Technical industrial demands o Focus on increasing performance

Source: Azelis

Figure 57: Select commodity and specialty chemicals' price development



Source: Nexant, BASF
Note: Commodity index composed of benzene, caustic soda, ethylene, polypropylene, PVC, styrene, and toluene prices in Western Europe

Specialty chemicals prices are not quite as volatile as commodity chemicals prices

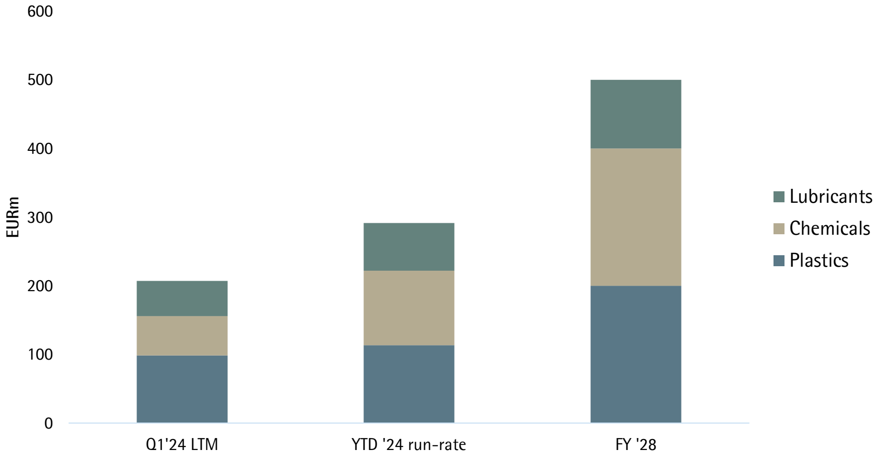
Commodity chemicals and plastics prices are very volatile as their supply is continuous and hence doesn't respond sensitively to changes in demand. We however note that specialty chemicals distributors' revenue isn't quite that sensitive to price changes since they often focus on distributing tailored compounds and source only limited amounts of commodity chemicals, but neither are they immune to price swings as both Azelis and IMCD saw their FY'23 revenue decrease on an organic basis (in addition to softening profitability) after it had increased a lot the previous year as specialty chemicals manufacturers like BASF experienced significant sales price volatility over the past few years; Germany is a central manufacturing location for many types of chemicals and its energy markets were one of the most affected by the Russian war in Ukraine. Specialty chemicals prices are nonetheless a lot less volatile than those of commodity chemicals as their manufacturers' volumes are more sensitive to changes in demand. We note chemicals prices are still quite significantly above their pre-pandemic levels even if they have corrected meaningfully downwards after the peaks seen around the middle of 2022, however many prices seem to have stabilized in early 2024. Some prices have started to increase again after a deflationary 2023.

Telko financials

Telko reports revenue for the plastics, chemicals, and lubricants businesses each quarter, in addition to comments on prices and volumes. Telko doesn't disclose any exact profitability levels for its product groups, but the lubricants business has the highest margins which is also reflected in the acquisition of Optimol and Greenfluid (12% EBIT margins). Telko's customer end-markets include around ten loosely defined industries such as automotive, construction, personal care, mining, and nutrition (food production, packaging and animal feed). The industries exhibit varying levels of demand volatility as e.g. the construction sector can be very cyclical while personal care is less so. Telko's organic growth rate is determined by volume development as well as price changes, and both variables can move quickly. Prices have been unstable in the recent past, but we would expect them to continue to stabilize as high inflation appears to recede further.

In our view Telko targets roughly 5% annual organic volume growth rates, on top of which it probably expects to see price increases of around a couple of percentage points. We would expect modest price increases to be feasible over the long-term as the sales mix continues to tilt towards specialty products, however we note general market conditions and pricing levels are likely to mostly determine price changes in the short-term. Telko's 2028 revenue targets also imply an annual inorganic CAGR of some 10%, which translates to roughly EUR 150m in total acquired revenue (acquired at a price of around EUR 100m assuming an average EV/S multiple of 0.7x).

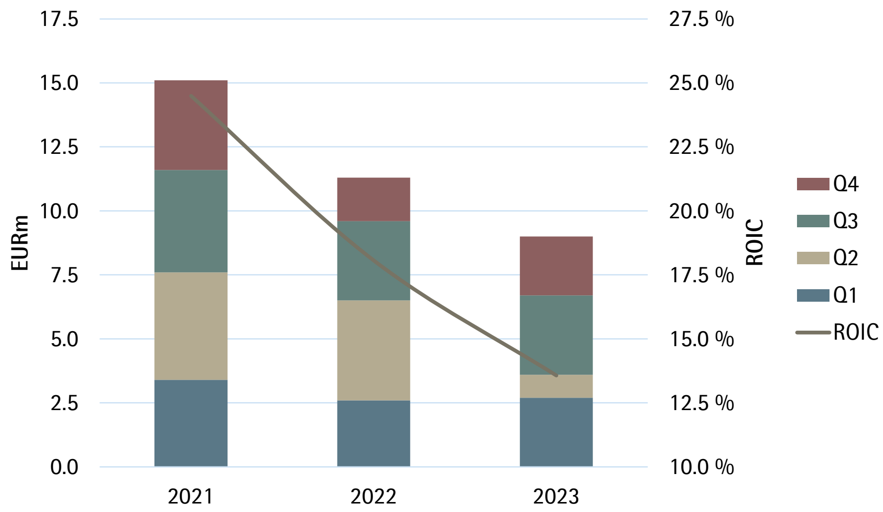
Figure 58: Telko current revenue by product group and 2028 targets



Source: Aspo
Note: YTD '24 run-rate includes the acquisitions of Optimol, Greenfluid, Swed Handling and Polyma

Telko's three key peers (namely Azelis, Brenntag and IMCD) average gross margins of around 23-25%, which are very high figures in the sector context and stem from their favorable product mix (in the case of Azelis and IMCD) and logistical efficiency (Brenntag).

Figure 59: Telko quarterly EBIT and annual return on invested capital



Source: Aspo, Evli Research
Note: Estimated ROIC

Telko has achieved very good levels of ROIC

Telko averaged slightly below 5% EBIT margin in FY '22-23, which we estimate resulted in a ROIC of somewhat above 15% over the period, in other words a very decent result from a cost of capital perspective as it clearly exceeds WACC. Telko managed to achieve an annual EBIT of EUR 15m in FY '20-21, or some 6-7% EBIT margin, which we estimate resulted in around 25% ROIC. Telko's largest peer Brenntag, by comparison, has averaged a ROCE of 17% since 2010. We estimate Telko's targeted 8% EBIT margin would produce a ROIC of roughly 25%, compared to the average ROIC of 18% we estimate Telko to have achieved in the period FY '19-23 (we estimate Azelis and IMCD to have averaged around 20% during the same period).

Telko's EBITA benefits from advancing prices whereas falling prices hurt profitability due to the inventory effect. FY'23 profitability saw some such pricing headwinds as prices had risen quite high during the previous two years. Telko's product mix varies from one country to another and hence there are naturally some regional profitability differences, but these are by and large mix-driven and in the case of Telko not often that large.

We expect Telko's profitability to remain around 6% in terms of operating margin, compared to the long-term target level of 8%, in the short-term as the market environment continues to stabilize after a period characterized by high inflation. Price levels have mostly stabilized or are even slightly declining, whereas volume outlook is somewhat challenging when demand remains on the soft side in H1'24.

We estimate Telko net working capital position at around EUR 45m, or some 15-20% of revenue (compared to e.g. the slightly above 13% ratios for peers Azelis and Brenntag and 17% for IMCD). The vast majority of the figure is tied to inventories, while accounts receivable is somewhat smaller than that. Accounts payable is not quite as large as accounts receivable. Telko's annual depreciation expenses amount to some EUR 1-2m, while capital expenditures are usually slightly lower than that. From 2024 onwards amortizations are to be more significant at around EUR 2m.

Telko estimates and valuation

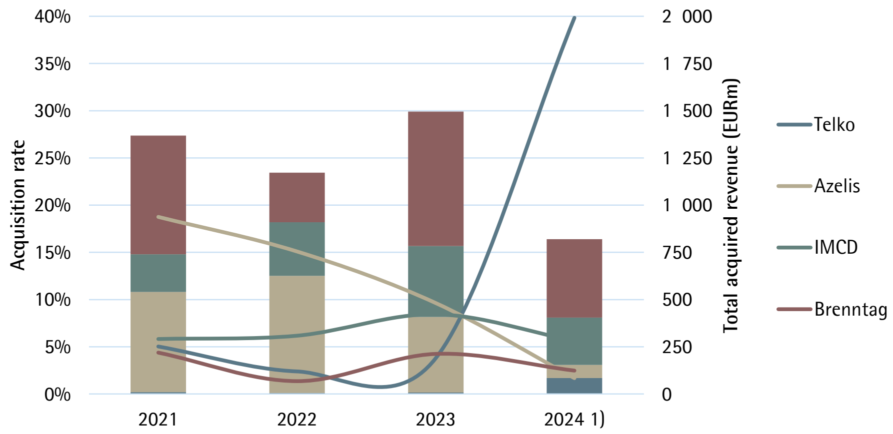
Telko, as well as other similar chemicals distributors, received a considerable tailwind in 2021-22 thanks to temporary supply chain challenges and rapid inflation, which initially manifested as improved pricing power and higher margins but was later to some extent undone by the following period of deflation.

Azelis and IMCD have very similar rates of revenue per employee, not only on group level but also within the different geographic regions; Americas has higher productivity than EMEA, and Azelis' Americas business is more focused on North America, while the two companies' EMEA operations generate basically the same amount of revenue per employee. From this perspective Telko should have some more potential, as its revenue per employee is currently around EUR 0.7m while the EMEA operations of Azelis and IMCD generate a bit above EUR 1.0m each.

We expect Telko to have a reasonable chance to grow at an organic annual growth rate of around 4-5%, mostly due to volume growth while pricing could provide some upside over the long-term (there are likely to be periods of both inflation and deflation as the relevant raw material prices remain sensitive to changes in demand). We estimate Telko's EBITA margin to stabilize and marginally improve towards 6% and above, and in the long-term closer to the targeted 8% level as pricing outlook now appears to have solidified after both inflationary and deflationary periods in the past few years.

Telko's recently announced acquisitions include four different companies (Optimol, Greenfluid, Swed Handling and Polyma), which respectively operate in France and the Benelux countries as well as in Sweden and Germany. The first two focus on lubricants while Swed Handling distributes chemicals and Polyma plastics; together the acquisitions are to add some EUR 85m in revenue to Telko's FY'25 figures, according to their FY'23 financials and management projections. The acquisitions together add some 40% to Telko's revenue, and although Telko may have raised its M&A activity levels to a permanently higher level we believe a rate of 5-10% would be a more realistic long-term sustainable pace as it roughly matches those of peers Azelis and IMCD. We believe that in the case of Azelis and IMCD their already large size limits their M&A expansion rate (as can be seen with Brenntag as it would find hard to do much more than 2-5%), whereas Telko's considerably smaller size would in theory enable it to maintain perhaps a high double-digit rate for the foreseeable future; in our view practical considerations such as integration efforts also limit Telko's acquisition rate, not to mention the fact that M&A requires capital.

Figure 60: Telko and peers' acquisition rates in recent years



Source: Company data
Note: Acquisition rate defined as the amount of revenue acquired in a given year divided by the acquirer's reported revenue that year
1) Deals announced by the end of Q2'24

Telko's long-term EBITA margin target of 8% is realistic in the sense that the company has achieved it previously on a quarterly basis, however in our view the market conditions also need to be favorable or at least quite stable as declining prices curb profitability potential through the inventory effect. Telko also has some systematic measures, most importantly of commercial excellence kind such as product portfolio development (including new organic commercial opportunities) and pricing, which should help it towards the targeted profitability level. The three acquisitions Telko announced in 2024 also had a combined pre-synergy EBIT margin of almost 9%, which further supports earnings margins going forward. We note that the acquisitions Telko announced in H1'24 had a total negative impact of EUR 2.5m on adjusted EBITA (the figure includes such project-specific costs as they are a part of Telko's long-term growth strategy).

Table 10: Telko estimates

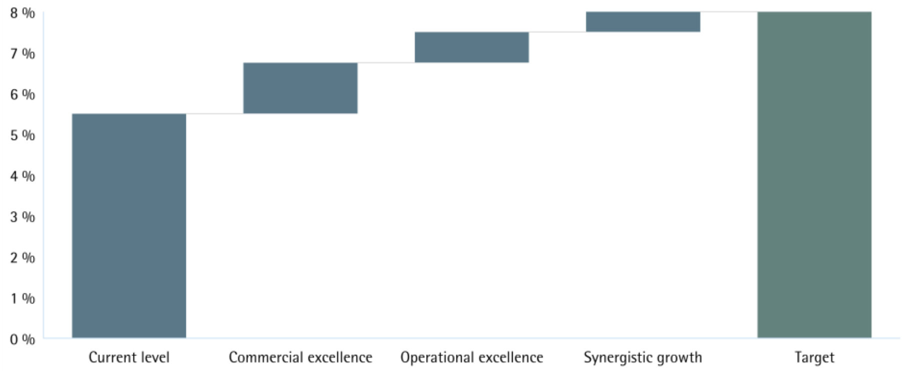
Telko	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e
Revenue	209.3	54.3	54.2	53.8	49.0	211.3	50.2	60.9	65.1	66.4	242.6	292.6
growth-%	*5 %*	*7 %*	*2 %*	*4 %*	*-10 %*	*1 %*	*-8 %*	*12 %*	*21 %*	*36 %*	*15 %*	*21 %*
Plastics	110.1	26.6	24.7	26.5	23.6	101.4	23.6	26.7	26.6	26.2	103.1	113.3
Chemicals	49.2	15.1	16.7	14.9	12.7	59.4	13.0	16.4	20.7	22.3	72.4	99.4
Lubricants	50.2	12.6	12.8	12.4	12.7	50.5	13.6	17.8	17.8	17.9	67.1	79.9
Adjusted EBITA	**12.0**	**2.8**	**1.1**	**3.2**	**2.6**	**9.7**	**2.3**	**1.8**	**3.2**	**3.2**	**10.5**	**19.1**
Adjusted EBITA margin	5.7 %	5.2 %	2.0 %	5.9 %	5.3 %	4.6 %	4.6 %	3.0 %	4.8 %	4.8 %	4.3 %	6.5 %

Source: Evli Research

The two full-line distributors, Brenntag and Univar, have roughly similar gross margins (around 23%) in comparison to the two specialty-focused distributors, Azelis and IMCD, despite the fact that they derive only around a third of revenue from the higher margin specialty products distribution. In our view these relatively high bulk chemical gross margins stem from their considerable size, as both Brenntag and Univar generate revenue many times that of Azelis and IMCD, which supports their negotiating and purchasing power. Azelis and IMCD, however, achieve EBIT margins some 250-300bps above those of the two full-liners, despite their smaller size, which in our view reflects the relatively high fixed cost base Brenntag and Univar maintain as they own their warehouse and distribution infrastructure (Azelis and IMCD outsource such logistical activities and focus purely on product expertise). Telko's own absolute size is small compared to these four industry-leading players, but in our opinion they together comprise the key Telko peers as

Telko's own business model can be described as a hybrid between the full-liners and specialty distributors.

Figure 61: Telko illustrative path towards targeted profitability margin



Source: Telko

Telko's peer Univar was acquired by Apollo private equity funds in 2023 in a USD 5.7bn public-to-private transaction (after preliminary discussions with Brenntag ended). The deal valued Univar at around 8x EV/EBITDA and 10x EV/EBIT, which we find to have been a somewhat low, or at least not very demanding, level in comparison to certain relevant public and private benchmark transactions (likely because Univar's focus hasn't been as much on specialty chemicals as that of e.g. Azelis and IMCD while its growth and profitability figures slightly lagged those of commodity chemicals-focused peer Brenntag). Univar itself acquired Nexeo Solutions in 2019 for an EV of USD 1.8bn; the transaction valued the target at some 9x EV/EBITDA and 14x EV/EBIT.

Table 11: Telko public precedent M&A transactions

Target	Acquirer	Completion date	Payment type	Deal Value (EURm)	Equity Value (EURm)	Net Debt (EURm)	EV/S 1)	EV/EBITDA 1)	EV/EBIT 1)
Univar	Apollo & ADIA	Aug-23	Cash	7 435	5 307	2 128	0.7x	7.9x	9.6x
Uni-Select	LKQ Corp	Aug-23	Cash	1 723	1 436	288	1.1x	11.5x	17.3x
Core-Mark Holding	Performance Food	Sep-21	Cash & Stock	2 228	1 786	443	0.2x	15.7x	26.6x
Ahlsell	CVC Capital Partners	Mar-19	Cash	2 532	1 747	785	1.1x	11.7x	14.7x
Nexeo Solutions	Univar	Mar-19	Cash & Stock	1 580	887	693	0.5x	9.0x	14.3x
Essendant	Staples	Feb-19	Cash	792	368	424	0.2x	9.2x	16.0x
MWI Veterinary Supply	AmerisourceBergen	Feb-15	Cash	2 139	2 075	64	0.8x	19.1x	21.0x
Brightpoint	Ingram Micro	Oct-12	Cash	711	494	217	0.2x	8.6x	16.5x
Average				2 393	1 762	630	0.6x	11.6x	17.0x
Median				1 931	1 592	433	0.6x	10.4x	16.2x

1) Multiples based on trailing twelve months' financials
Source: FactSet, Bloomberg

Univar, IMCD and Azelis are all very active acquirers of third-party chemical distribution businesses, however Brenntag, the largest global chemical distributor, is the most active of them all at least when measured by absolute amounts invested in M&A. Brenntag's individual acquisitions tend to be minuscule relative to its own massive size, however its deals would still be significant in the context of Telko as a typical target of Brenntag was valued at some EUR 30m and generated roughly EUR 50m in annual revenue. From this perspective the two don't seem to often compete for the same targets as Telko's recent acquisitions have tended to be about a fifth of those in size. The acquisition targets of Azelis also tend to be some EUR 50m in terms of revenue, whereas IMCD does on average targets of about EUR 25m (of which some are only around EUR 5-10m). We estimate IMCD to have often paid around 0.8x EV/S for its relatively small acquisitions in recent years.

Table 12: Select acquisitions by Brenntag

Target	Target country	Seller	Completion date	EV (EURm)	EV/S [1)]	EV/EBITDA [1)]
JM Swank	IA, USA	Platinum Equity Advisors	Aug-21	258	0.6x	
Neuto Chemical	Taiwan	Various shareholders	Jun-20	27	1.0x	
Desbro Group (Chemical distribution)	Kenya; UAE	Desbro Group	Jul-19	30	0.4x	6.4x
Alphamin	Belgium	KeBeK Private Equity	Aug-18	30	0.7x	
Quimitecnica.com	Portugal	Various shareholders	May-18	34	0.9x	
Raj Petro Specialities	India	Nanavati family	May-18	92	0.6x	10.8x
Greene's Energy (Pipeline & chemicals services)	TX, USA	Greene's Energy Group	Feb-17	10	0.7x	10.3x
EPChem International (Distribution business)	Singapore	EPChem International	Dec-16	24	0.5x	
Mayes County Petroleum Products	OK, USA	Various shareholders	Oct-16	14	0.4x	6.2x
Warren Chem	South Africa	Various shareholders	Jun-16	24	0.9x	7.2x
ACU PHARMA und CHEMIE	Germany	Various shareholders	Mar-16	11	2.3x	5.8x
Lubrication Services	OK, USA	TEPPCO Partners	Apr-13	32	0.3x	5.6x
G.S. Robins and Company	MO, USA	Various shareholders	May-11	30	0.4x	6.3x
Average				**47**	**0.8x**	**7.3x**
Median				**30**	**0.6x**	**6.4x**

1) Multiples based on latest reported full fiscal year
Source: FactSet, Mergermarket

Brenntag has paid on average, based on the available data for our sample, a bit above 7x EV/EBITDA and roughly 0.8x EV/S for its acquisitions in the past decade or so. Brenntag says it spent some EUR 3.5bn over the years 2010-23 as it acquired more than 100 targets, or 7 per year on average, with a combined revenue of EUR 5.5bn. Brenntag reports it paid an average pre-synergy EBITDA multiple of roughly 8x for its acquisitions. Brenntag's financial 2026 targets include EUR 400-500m in annual M&A spend, which translates to roughly 2-3% of its annual revenue, and the company says it has an extensive pipeline of more than 400 targets.

We have identified a sample of 21 relevant private precedent M&A transactions with available data on valuation multiples. The sample deals averaged an EV/EBITDA multiple of 9x and an EV/EBIT of around 12x, while EV/S multiples were often around 0.6-0.7x. We note the arguably most relevant private equity deals involving the largest players Univar, Azelis and Brenntag were all valued around 9-10x EV/EBITDA in the years 2006-07 (indeed Azelis, Brenntag, IMCD and Univar have all been owned by private equity funds at some points in their lives). Some of these large players have also acknowledged there was a lot of competition for M&A targets in recent years, however deal valuation levels may now be moderating.

Table 13: Telko private precedent M&A transactions

Target	Seller	Acquirer	Completion date	EV (EURm)	EV/S 1)	EV/EBITDA 1)	EV/EBIT 1)
Handy Chemicals	Rain Industries	CPS Performance Materials	Dec-20	7	0.3x		
Unired Quimicas S.A.S.	Private shareholders	IMCD	Nov-19	7	1.0x		
Groupe Unipex	Private shareholders	BNP Paribas Developpement	Oct-19	56	0.6x		
Prinova Group LLC	Prinova Corporation	Nagase	Aug-19	554	0.8x		14.8x
David Hermon Hodge	David Hodge (private investor)	NWF Group	Jul-19	5	0.1x	5.6x	6.8x
Nexeo Solutions Plastics	Nexeo Solutions	One Rock Capital Partners	Mar-19	565	0.3x	7.5x	
L.V. Lomas Ltd	Lomas family	IMCD	Aug-17	94	0.4x	7.8x	
VWR International	Madison Dearborn Partners	Avantor	Nov-17	5 846	1.4x	14.4x	20.3x
Seqens (67% Stake)	Ardian	Eurazeo	Jun-16	684	1.1x	7.5x	
Nexeo Solutions Holdings	TPG Capital	Nexeo Solutions	Jun-16	1 461	0.4x	12.6x	21.0x
Lansdowne Chemicals	Private investor	OQEMA	Oct-15	36	0.5x	5.2x	5.6x
Pietro Carini	Bozzi family	KRAHN CHEMIE	Apr-14	18	0.7x	11.5x	12.7x
Archway Sales; Jacaab	Baumstark family	Nexeo Solutions	Apr-14	92	0.6x	11.4x	11.4x
TMS International	Onex Partners	The Pritzker Organization	Oct-13	723	0.4x	7.3x	15.2x
CFAO	Kering Group	Toyota Tsusho Corporation	Feb-13	2 597	0.8x	8.5x	9.8x
Warwick International Group	Sequa Corporation	CBPE Capital	Sep-08	153	0.9x	7.0x	8.9x
Univar	HAL Holding	CVC Capital Partners	Oct-07	2 004	0.4x	9.6x	11.4x
SABIC Polymershapes	General Electric	Saudi Basic Industries	Aug-07	8 615	1.7x		
Chemcentral Corporation	Various shareholders	Univar USA	Apr-07	493	0.5x	9.3x	
Azelis (61% Stake)	Motion Equity Partners	3i Group	Feb-07	315	0.4x	9.3x	
Brenntag	Bain Capital	BC Partners	Aug-06	3 000	0.6x	10.0x	
Average				**1 301**	**0.7x**	**9.0x**	**12.5x**
Median				**493**	**0.6x**	**8.9x**	**11.4x**

1) Multiples based on latest reported full fiscal year
Source: FactSet, Mergermarket

In our opinion Telko is well-positioned to add shareholder value through acquisitions at least for so long as it pays no more than roughly 0.5x EV/S (whereas we see Telko's own fair value translating to some 0.6-0.7x EV/S valuation multiple) for its targets. We note Telko's five latest acquisitions averaged an EV/S multiple of 0.6x, in other words slightly below typical valuation levels. The Eltrex acquisition in particular looks attractive from a pure financial perspective due to the target's high relative profitability; Eltrex generated an operating margin of roughly 12% in 2022, which means the acquisition price translated to an EV/EBIT multiple of only some 6.3x despite the fact that the EV/S multiple was a relatively high 0.8x. We see Telko's own fair value at around 10-12x in terms of EV/EBIT, based on current peer earnings multiples. Many peers trade closely around similar levels.

In our view the acquisition of Optimol and Greenfluid appears especially attractive financially as its valuation was no more than 0.8x EV/S and 6.2x EV/EBIT, in other words very similar to that of Eltrex, while it provides Telko a lubricants growth platform in France and the Benelux countries. The four acquired companies are already very profitable with an EBIT margin of 12%, so Telko may not be able to achieve much upside in terms of relative profitability. The acquisition, however, still wasn't very large as its revenue was EUR 18m and thus added scale could further improve cost efficiency. The acquired companies comprise dominantly Castrol lubricants products distribution business (Telko already distributed Castrol products in Finland, Sweden, Norway and the Baltics) but also those of Master Fluid Solutions and Q8Oils.

Table 14: Telko peer group valuations

TELKO PEER GROUP	MCAP MEUR	EV/EBITDA 23	EV/EBITDA 24	EV/EBITDA 25	EV/EBIT 23	EV/EBIT 24	EV/EBIT 25	EBIT-% 23	EBIT-% 24	EBIT-% 25
AKR Corporindo	1660	7.7x	7.6x	7.2x	8.5x	8.6x	8.1x	8.4 %	9.0 %	9.2 %
Ashland	3775	11.7x	11.0x	9.8x	24.6x	20.5x	17.0x	10.1 %	12.1 %	14.2 %
Brenntag	9310	9.3x	8.2x	7.6x	11.6x	11.1x	10.1x	7.5 %	6.7 %	7.0 %
IMCD	8643	18.5x	17.2x	15.7x	23.7x	21.0x	18.9x	9.6 %	9.9 %	10.3 %
Azelis Group	4603	13.4x	11.7x	11.0x	15.5x	13.8x	12.9x	10.4 %	10.4 %	10.4 %
Nagase	2235				12.3x	13.3x	12.1x	3.5 %	3.9 %	4.1 %
Redox	968	8.0x	10.5x	10.0x	8.7x	11.4x	10.8x	10.7 %	10.8 %	10.4 %
Peer Group Average	4456	**11.4x**	**11.0x**	**10.2x**	**15.0x**	**14.2x**	**12.9x**	**8.6 %**	**9.0 %**	**9.4 %**
Peer Group Median	3775	**10.5x**	**10.7x**	**9.9x**	**12.3x**	**13.3x**	**12.1x**	**9.6 %**	**9.9 %**	**10.3 %**

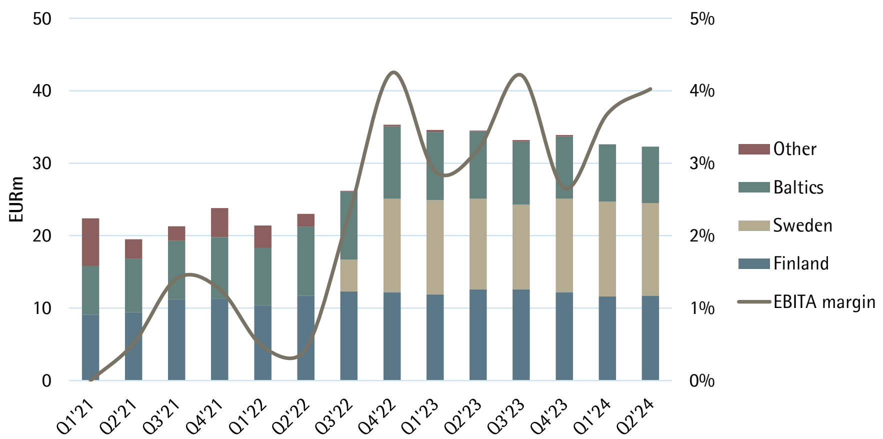
Source: FactSet

Leipurin

Leipurin overview

Leipurin acts as an intermediary between ingredients producers and bakeries as it distributes various raw materials to different kinds of participants along the food industry value chain.

Figure 62: Leipurin quarterly revenue by geography and relative profitability



Source: Aspo

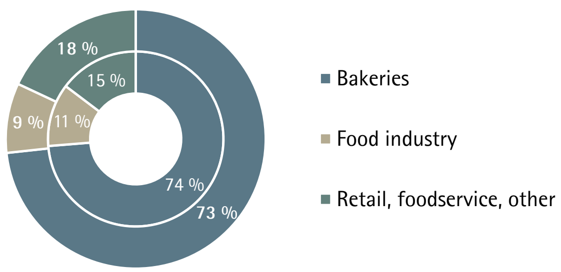
Leipurin acquired Kobia in September 2022, which made Sweden equally important a market as Finland. The Swedish and Finnish markets are quite similar in many ways, as are other Western markets from the perspective of several demand trends, however Leipurin and Kobia have some complementary competencies which should provide cross-selling opportunities. The latest acquisition of Kebelco will make Sweden the most important country of Leipurin by 2025.

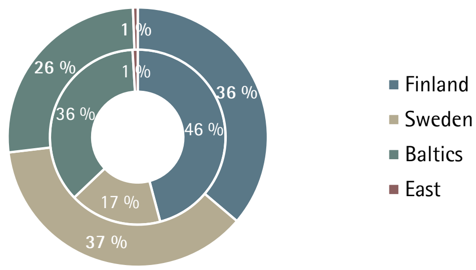
Leipurin business model and strategy

The company largely focuses on serving bakeries' production needs

Leipurin distributes raw materials, ingredients and packaging from its 500 principals to 3,000 customers, where there is some concentration to supply products from a relatively small number of key principals to a rather wide customer base. In this sense Leipurin is quite similar to Telko, although there is slightly more customer account revenue concentration in the case of Leipurin due to the baking industry structure. Various bakeries represent the most important customer group, but Leipurin also serves other food industry participants such as out-of-home (foodservice) chains. Leipurin has untied the offering and so is able to serve bakeries throughout the value chain. The company does not engage in raw materials and ingredients production, nor does it distribute ready-for-consumption products like pastries and bread. The revenue streams of Leipurin can be further divided into bulk bakery materials and more advanced ingredients. We estimate Leipurin distributes bulk ingredients and technical products in similar amounts; the company would prefer more advanced ingredients sales since the category generates higher margins, but smaller customers in particular need a wider raw materials selection. Leipurin also has its own private label under which it distributes ingredients sourced from the supplier network. We estimate such sales make up more than 20% of the company's raw materials revenue, in addition to which they also earn relatively high margins. The company's service offering includes recipe development within its R&D baking centers.

Figure 63: Leipurin business and geographical revenue split (FY'23 vs y/y)





Source: Aspo
Note: Outer ring FY'23 vs inner ring FY'22

Machinery sales used to include equipment manufactured by the principals as well as machines manufactured by Leipurin under the Vulganus brand name. We estimate Leipurin sold these two types of machines in roughly equal numbers. The offering targeted industrial, retail and in-store bakeries. Leipurin did not lease out machines and the equipment were for the most part sold independent from raw materials. Leipurin had a plant in Lahti, Finland where the design and manufacturing work took place. The manufacturing work encompassed labor-intensive assembly and happens only on a firm-order basis, meaning Leipurin carried no machinery-related inventory. Machinery sales generated approximately 10-20% of the company's revenue, or some EUR 10m, while the project-like deliveries used to lead to considerable quarter-to-quarter variations in profitability. Leipurin divested the machine manufacturing business in 2022. Leipurin also divested its bakery equipment trading business in 2023 for a price of EUR 0.5m, or some 0.25x in terms of EV/S. The divestments have helped Leipurin to focus on ingredients and services, according to its strategy.

Key raw materials and ingredients distributed by Leipurin include e.g. wheat, oat, rye, sugar and oil. Dairy, meat and convenience food players are some of the other customer types besides bakeries. A typical contract is signed for a year-long period, but smaller customers are often not ready to commit to long-term raw material sourcing agreements. Leipurin carries raw material inventories on its own balance sheet. The company's test bakeries provide the grounds for additional services, including product, process and concept development. Several such sites can be found in various countries. Leipurin's wide offering and network of relationships, ranging from food universities to bakeries, suppliers and retailers, helps the company to develop better products which allow its customers to react to changing consumption habits and tastes.

Table 15: Leipurin product types and services for customer groups

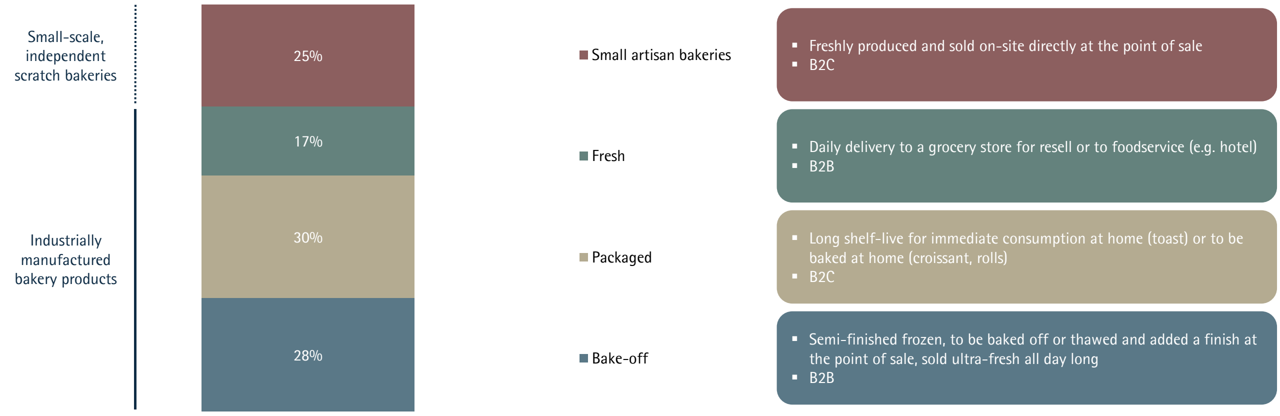
Bulk Materials	Advanced Ingredients
• **Basic Ingredients** o Flours, fats, sugars, cheeses and other dairy goods o Baking additives • **Berries and Fruits** o Various jams and marmalades o Berries and fruits for pastry usage • **Fillings and Toppings** o Sugar-based toppings such as marzipan and caramel-like fillings o Jellies	• **Specialty Products** o Thickening agents o Organic color additives o Fruit purees o Lecithins, functional ingredients • **Frozen Goods** o Breads, buns, pies, rolls, donuts, croissants and other pastries • **Dairy and Confectionery** o Acids, cheese wax, colors, cultures, emulsifiers, enzymes, flavors, gelatine, minerals, rennet, salts and sweeteners • **Gelato and Ice Cream** o Gelato, ice cream and sorbet ingredients o Toppings and dressings o Waffles and cones • **Health Food, Nutrition and Beverages** o Acids, colors, chocolate coating, extracts, flavors, gelatine, licorice powder, minerals, preservatives, probiotics, proteins, salts, sweeteners and vitamins

Bakeries	Food industry	Food service
- New product ideas and recipes - Raw materials, frozen bakery products and baking supplies - Equipment for professionals - Product development	**- Product development and ingredients for sports and nutritional supplements, ready meals, ice creams, dairy and meat products, jams, sweets, animal food, and the brewing and beverage industry - Food industry equipment**	**- Frozen products - High-quality ingredients - Fine tools and supplies - Baking and gelato equipment**

Source: Leipurin

We estimate industrial bakeries make up almost half the revenue of Leipurin, whereas retail, in-store & artisanal bakeries contribute roughly a quarter. This bakery revenue split would be roughly in line with the estimates concerning the bakery market composition provided by Aryzta, according to which industrially manufactured bakery products make up about three-quarters of the total bakery market while the remainder is attributable to small artisan bakeries. The remaining quarter of Leipurin revenue is attributable to Food service (somewhat above 15%) and Food industry (10%).

Figure 64: Bakery market segment splits (2025 forecast)



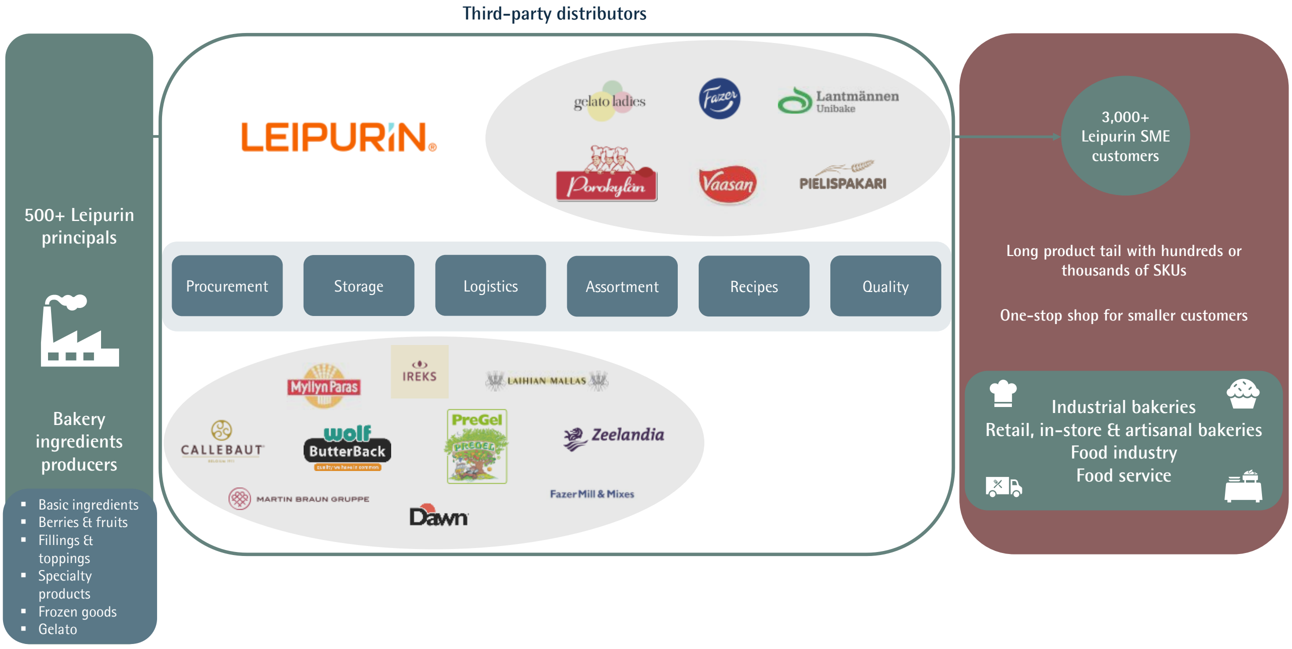
Source: Aryzta
Note: European market shares based on the presence of Aryzta

The food industry offers plenty of earnings growth potential

The out-of-home (OOH) solutions, or Food service, offering includes the supply of raw materials, services and machinery for customers like cafes and restaurants. Recipes and third-party manufactured gelato machines are also included under this offering. Leipurin provides its OOH customers with e.g. frozen and semi-finished foodstuffs but focuses on developing and widening its concept offering for foodservice chains, including assortment development, logistics, procurement, warehousing, order portal as well as quality and sustainability solutions. The concept development relies on Leipurin's expertise in logistics. The acquisition of Kobia has helped to bring the annual retail and foodservice revenue to around EUR 25m. Meanwhile the food industry business amounts to slightly over EUR 10m in annual revenue (around EUR 20m after the acquisition of Kebelco) and is focused on product development and ingredients distribution for various categories including nutritional supplements, ready meals and dairy and meat products. In our view all three product areas (bakeries, food industry and foodservice) are quite similar in the sense that there's only limited amount of potential for differentiation and pricing power, while there should be some scope for further consolidation and more efficient supply and sourcing capabilities. The food industry is the largest market segment and it continues to grow relatively fast while it holds the most earnings potential as technical ingredients products carry high margins.

The acquisition of Kobia has been transformational in terms of company size and profitability as the integration of Kobia offers cross-selling opportunities (Swedish products sold in Finland and vice versa) within different categories. The divestment of Vulganus means that Leipurin can better focus on its core operations, namely the distribution of bakery products ingredients as well as services to the wider food value chain.

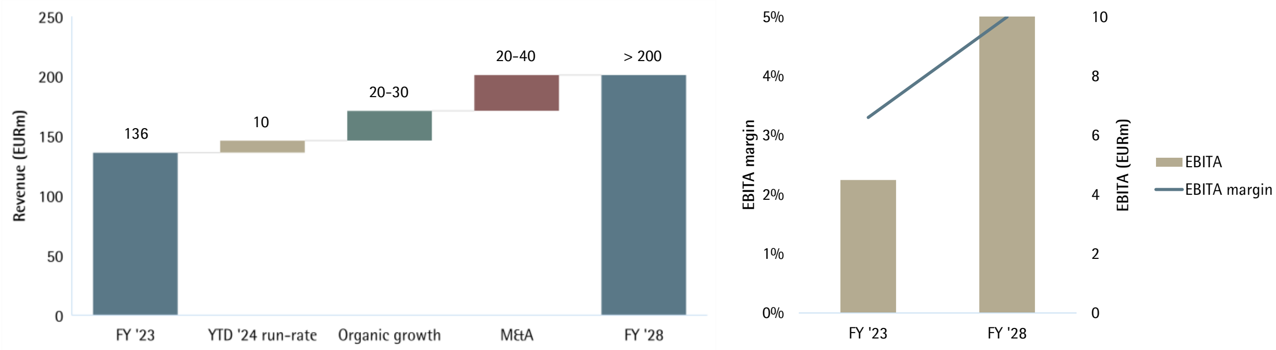
Figure 65: Leipurin's value chain positioning



Source: Evli Research

Efficient logistics are a key requirement for success and central to Leipurin's position in the bakery and food sector value chain. In our view this holds true especially in bakery products markets like those of Finland, where a typical company is quite small and not very profitable. Value-added services help Leipurin to better serve many customers, however in our view they do not represent significant margin upside potential, rather increased levels of higher margin product sales are the key to long-term earnings growth.

Figure 66: Leipurin illustrative potential based on 2028 financial targets



Source: Aspo
Note: YTD '24 run-rate includes Kebelco, organic growth rate assumed at above 3%

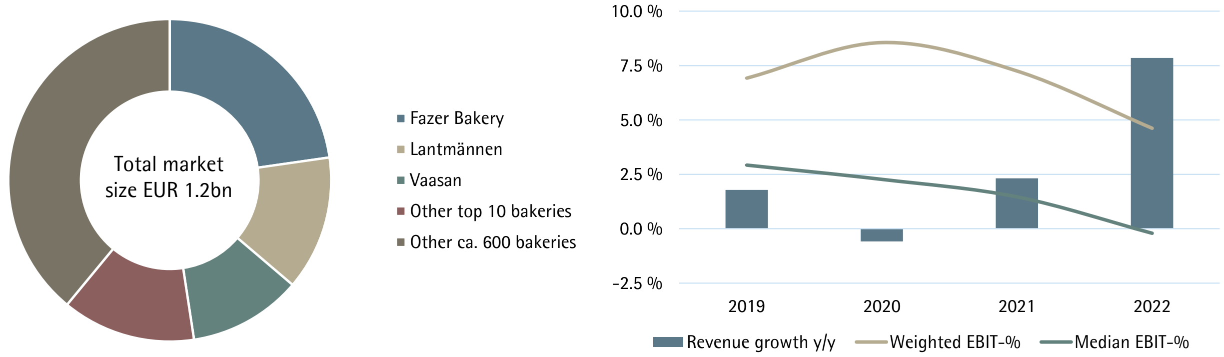
Leipurin markets and competition

The Finnish bakery market is mature and generates roughly a third of Leipurin revenue. The Finnish bakery market hasn't grown markedly on a volume-basis for a while due to its mature nature, and the situation isn't very different in most other regional bakery markets. Many Finnish bakeries have also closed their operations in recent years, even before the effects of the pandemic were felt. Fazer Bakery remains the leading brand in Finland as it has four industrial bakeries in the country (in addition to three in Sweden and two in the Baltics) as well as around 140 in-store bakeries. We believe the industrial bakeries to be significantly more profitable than in-store bakeries also in the case of Fazer. Fazer Bakery Finland's revenue grew by 7.5% in FY'22 as it expanded its in-store bakeries' network by 17% the previous year to 120 and continued to add another 13 in FY'22.

The Finnish market is challenging, but the two largest players have performed relatively well

We estimate Fazer Bakery to have held a 25% leading share of the Finnish bakery market in 2023, which equates to around EUR 300m in revenue. The runner-up is Vaasan (exclusively industrial bakeries), which we believe achieves roughly half the top line of Fazer Bakeries in Finland. There are a few other large Finnish bakeries, but the vast majority are small operations with less than 10 personnel and a couple of hundred thousand euros in annual top line. A typical Finnish bakery therefore achieves not much more than a 5% EBITDA margin, although profitability can vary a lot between individual bakeries. The two largest players, Fazer and Vaasan, have however performed somewhat better than a typical bakery company as they have grown at around 2-4% in recent years and have also achieved rather high levels of profitability (above 7% average EBIT margin in the case of Fazer and 16% in the case of Vaasan). We note the Finnish market nevertheless remains quite challenging for Fazer as well since its local in-store bakeries' network grew by some 35% in FY '21-23 while revenue grew by only roughly 20% during the same period. Meanwhile the top line of Vaasan has remained quite flat in recent years whereas its EBIT margin has stayed high in the double-digits, which in our view reflects its position as the leading industrial bakery company in Finland (where it has four production sites).

Figure 67: Finnish bakery market shares (2022), market growth rates and profitability levels



Source: Evli Research, Asiakastieto, Ministry of Economic Affairs and Employment
Note: Market size estimates, growth rates and profitability trends based on the 15 largest companies' financials

We estimate the Finnish bakery market to have grown at a CAGR of around 5% in 2021-22, driven by inflation while volumes continued to develop soft, while Leipurin Finnish operations grew at a CAGR of 11% in the period Q3'21-Q4'23 (includes also foodservice business). Leipurin reports to have seen volumes decline across the food chain from mid-2022 throughout the year 2023; Leipurin saw sales volume in kilos decline by slightly over 10% in 2023, excluding the impact of Kobia. Many bakeries' top line grew at a high single-digit rate in 2022 thanks to inflation, however it also seems the bakeries were not often able to push all the cost increases forward to customers as relative and absolute profitability levels declined in most cases. A typical bakery company in our sample posted a slightly negative EBIT margin in 2022 while the size-weighted figure remained significantly above that as larger companies were more profitable (mostly due to Fazer Bakery and Vaasan), however even large players mostly saw their profitability decline. Typically bakeries' EBIT margins were only less than 2% in 2019-22 while the larger companies were often able to achieve very decent 7% margins.

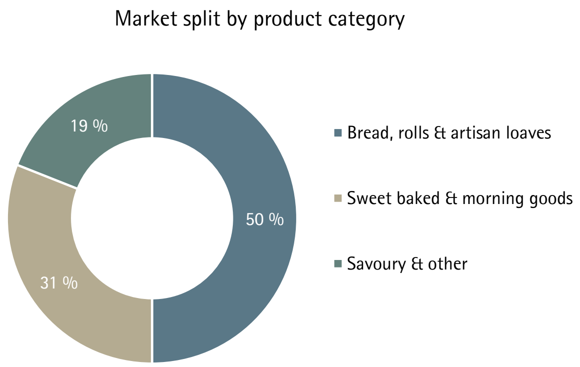
The Finnish bakery market is quite concentrated among the largest players as Lantmännen Group owns both Vaasan and Myllyn Paras. We therefore estimate the two largest parties, Fazer Bakery and Lantmännen Group companies, to have together controlled around 50% of the market in 2023. Fazer Bakery is also relatively well established in Estonia, where it has more than 10 in-store bakeries, while it has opened one such site in Sweden.

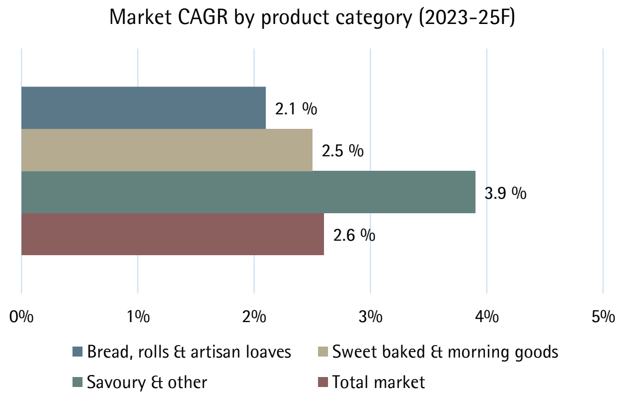
Lantmännen Unibake and Lantmännen Cerealia are not very profitable as the Food Sector of Lantmännen group only reached an operating margin of 3.6% and a return on operating capital of 4.2% in 2023, which was an improvement from the previous year's result.

In our view the Swedish bakery market is quite similar to that of Finland, in other words a mature market where most (smallish) players are not very profitable. Leipurin sees its total addressable bakery niche market amounts to around EUR 0.5bn within its current markets of Sweden, Finland and the Baltic countries; we assume this could be roughly split so that Sweden's share is some EUR 250m while Finland and the Baltics both hold some EUR 125m. Fazer Bakery has a considerable presence in the Swedish bakery market through its three local industrial bakeries, which we estimate could generate some EUR 75m in annual revenue for the company.

Demand for (pre-packed) industrial-packed bread has declined across the Western markets, while at the same time the trend for low-carbohydrate foods has reduced overall bread consumption, but nevertheless the market for in-store bakeries and baking units has expanded. Volume growth is very low, the market remains challenging for industrial bakeries, however there are some opportunities driven by major food trends like snacking, takeaway, and out-of-home dining. Bakeries can respond to these possibilities by introducing high price-point bread-based products, and any successful product launch can lift the bakery in question to profitability levels far above the industry average. Certain trends like artisanal and local production also involve higher production costs.

Figure 68: European bakery market product split and growth rates by category



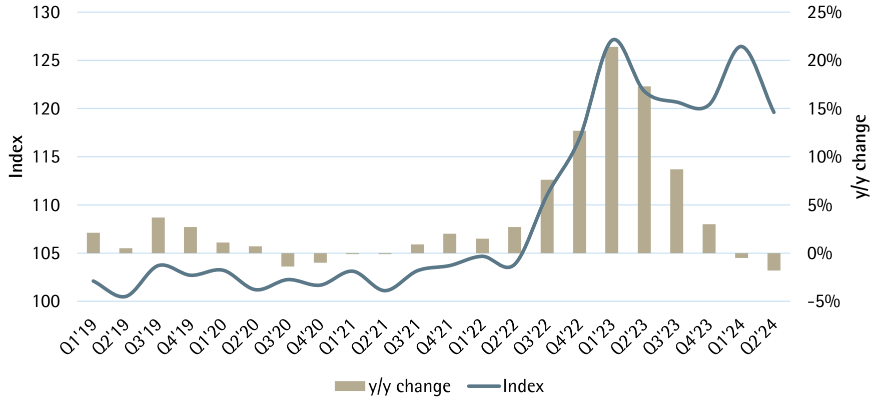


Source: Aryzta

Bakery markets are mature, but new fillings, shapes and flavors can add to growth

The Western bakery markets have consolidated; the development has led to more independent raw materials sourcing among the largest bakeries, which has also posed some challenges for Leipurin. The pace of growth remains rather slow across Europe as e.g. Aryzta sees the total bakery market CAGR at around 1%, which is understandable since many countries are already very urbanized and their populations do not often grow (while there are certain limitations to per capita foodstuff consumption growth, at least in terms of volume). The company's select market niches grow at around 2-3% while Aryzta itself aims to grow at roughly double that rate, the excess growth being largely attributable to premiumization and innovation measures such as new fillings, shapes, and flavors in addition to healthier recipes. In our view the expertise of Leipurin could add value to bakeries, especially smaller ones with rather limited resources, in such innovation cases, however that kind of service may not directly translate to any significant earnings. Aryzta sees savory and pastry products as the fastest growing category within its bake-off market segment (where the goods are delivered semi-finished frozen, to be either baked off or thawed and added a finish at the retail point of sale), however such products still represent a relatively small share of the total market which is dominated by bread and rolls as well as sweet morning goods. Aryzta has identified the consumer desire for freshness and all-day-long availability as a key underlying growth driver. In our opinion most bakeries' growth opportunities stem from different kinds of premiumization and convenience levers due to the inherently mature nature of the market. We also note that even though the market doesn't generally grow much there's still room for some product differentiation as segmentation needs to deliver on the considerations of value and health on the one hand, and those of premium and indulgence on the other.

Figure 69: European bakery product price index



Source: Aryzta
Note: Data based on Aryzta's European operations' price and mix changes

Aryzta saw its own manufactured bakery products prices increase by some cumulative 20% over the past couple of years, however q/q price changes turned to negative already around the middle of 2023. Aryzta's prices have remained rather flat for the past year or so, an observation which is largely in line with the market comments provided by Leipurin and the fact that raw materials price inflation now seems to be negligible in many cases.

Healthier recipes represent a growing niche

Consumer healthiness demand trends have been well noted: the World Obesity Federation estimates 1 in 5 adults to be obese by 2025 while some 84% of consumers are concerned about health and wellbeing, according to a Global Data Consumer Survey. Yet only 9% of global food and drink launches in 2022 had no, low or reduced sugar/calorie claims, whereas 11% of food and drink launches were plant-based. A research survey by Tate & Lyle shows that there should be demand for bakery products with reduced calories and sugar content, but there are also other healthiness-related demand drivers since positive health benefits such as high fiber or protein content can enhance the attractiveness of a given product. Such additional nutritional benefits can in fact figure as a more important consideration than the negatives of high concentrations of fat, salt, or sugar.

The Kebelco acquisition helps address a growth market some 20x the size of bakeries

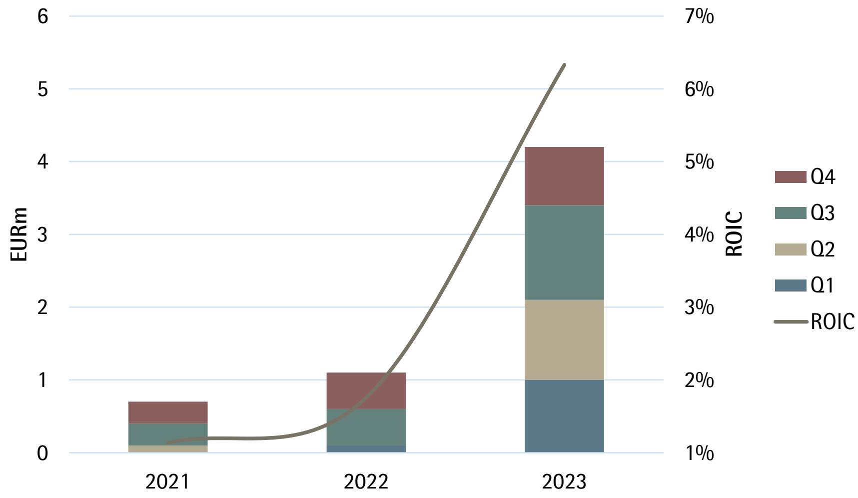
Orkla Food Ingredients sees categories such as formulations, value-added ingredients and functional ingredients growing at a CAGR of around 4%. Meanwhile Tate & Lyle estimates its own relevant global specialty food ingredient market to grow at a CAGR of around 6% across solutions to sweetening, mouthfeel (texturants) and fiber fortification needs. Specialty ingredients, such as different thickening agents and lecithins, have a relatively favorable long-term growth outlook as they can help food manufacturers achieve tastier products without making sacrifices in terms of healthiness. Such ingredients can e.g. deliver nutritional improvements as well as reductions in sugars and calories while they also sweeten and enhance mouthfeel. The market opportunity for advanced sweetening ingredients is underpinned by the fact that sugar still has roughly 80% share of the global sweetener market. The latest acquisition by Leipurin, that of the Swedish company Kebelco, should help better address this relatively fast-growing market although we note Leipurin already had some similar presence in Finland. Kebelco focuses on ingredients for dairy, confectionary and sports nutrition segments. Leipurin sees the food industry to be roughly 20x the size of the bakery market and it should hold profitable volume growth opportunities due to partially overlapping product offerings as well as enhanced logistical efficiency.

Leipurin estimates the addressable Finnish foodservice solutions market at some EUR 100m (where Leipurin's revenue now amounts to around EUR 25m). Foodservice customers are often smaller than industrial bakeries, which helps to improve Leipurin's pricing power, although we believe the value proposition continues to tilt towards efficient delivery volumes. The foodservice distribution business is not therefore fundamentally that different compared to the bakery market, but it represents a growth opportunity for Leipurin.

Leipurin financials

Leipurin reports quarterly revenue for its geographic regions, namely Finland, Sweden, the Baltic countries and Ukraine, but also for its product mix (including bakeries, food industry as well as retail, foodservice, and other). Leipurin has an asset-light business model which mostly ties working capital around inventories and accounts receivable. We estimate the 5% EBIT margin Leipurin targets would produce a ROIC of around 15%.

Figure 70: Leipurin quarterly EBIT and annual return on invested capital



Source: Aspo, Evli Research
Note: Estimated ROIC

Inflation has driven top line growth in recent years (according to Aryzta, a European bakery company, raw materials prices have increased some 40% since 2021 while its own prices have risen by only around half of that) and yet bakeries often haven't been able to pass all the cost increases forward to customers, however price levels are now stabilizing while the softness witnessed lately in volumes means there is scope for some rebound as the situation should normalize. Leipurin has recently improved its cost efficiency through a country-based operating model, while the divestment of non-performing businesses as well as select changes to customer and product portfolio have also helped operating margins. We estimate Leipurin net working capital position amounts to some EUR 15-20m, or roughly 15% of revenue. The profile is similar to that of Telko as the vast majority of the figure is tied to inventories, while accounts receivable is somewhat smaller than that. Accounts payable is not quite as large as accounts receivable.

Leipurin estimates and valuation

The volumes of Leipurin have recently declined while inflation has been high. Volume declines have been witnessed across the food value chain, and a recovery is likely as the situation appears somewhat extraordinary. Leipurin volume declines have happened mostly within the low-margin commodity product group and hence product mix has improved, which supports positive operating margin development going forward.

We estimate 5% CAGR to be a relevant long-term organic growth target for Leipurin as the company has levers such as the Kobia cross-selling opportunities and continued mix tilt towards advanced ingredients distribution, however the short-term outlook includes some headwinds such as lower prices. Volume development has recently been soft, however it also means comparison figures are not very challenging. 5% organic volume growth aim is supported by the mid-term target of Aryzta, a leading Europe-focused listed bakery company, as it targets 4.5-5.5% organic growth assuming constant pricing, although the company acknowledges its core focus segment of semi-finished frozen to be baked off or thawed products only grows at a CAGR of 2-3%. We believe the foodservice business continues to represent a growth opportunity for Leipurin. We estimate Leipurin to achieve an EBIT margin of around 4% in the coming years as product mix continues to develop favorably while prices and volumes stabilize. Leipurin also acquires Kebelco in a transaction set to close during Q3'24 and which is to add some EUR 8m in revenue going forward while its profitability (7-9% EBIT margin) has been considerably higher than that of Leipurin.

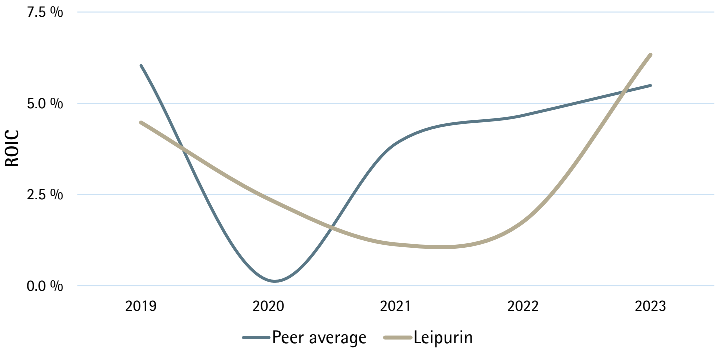
Table 16: Leipurin estimates

Leipurin	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e
Revenue	105.9	34.6	34.5	33.2	33.9	136.2	32.6	32.3	33.7	36.1	134.7	145.5
growth-%	*22 %*	*62 %*	*50 %*	*27 %*	*-4 %*	*29 %*	*-6 %*	*-6 %*	*2 %*	*6 %*	*-1 %*	*8 %*
Finland	46.6	11.9	12.6	12.6	12.2	49.3	11.6	11.7	12.3	12.9	48.5	50.3
Sweden	17.3	13.0	12.5	11.7	12.9	50.1	13.1	12.8	13.2	13.9	53.0	58.9
Baltics	36.8	9.4	9.3	8.7	8.6	36.0	7.9	7.8	8.1	9.3	33.1	36.2
Ukraine	1.0	0.3	0.1	0.2	0.2	0.8						
Other	4.2											
Bakeries	74.9	25.7	24.9	24.4	24.7	99.7	23.4	23.1	23.6	24.9	95.0	99.4
Food industry	11.8	2.9	3.1	2.9	3.0	11.9	3.0	2.9	3.9	4.8	14.6	19.9
Other	19.2	6.0	6.4	5.9	6.2	24.5	6.2	6.3	6.3	6.4	25.2	26.2
Adjusted EBITA	**2.3**	**1.0**	**1.1**	**1.4**	**0.9**	**4.5**	**1.2**	**1.3**	**1.3**	**1.4**	**5.2**	**6.6**
Adjusted EBITA margin	2.2 %	2.9 %	3.2 %	4.2 %	2.7 %	3.3 %	3.7 %	4.0 %	3.9 %	3.9 %	3.9 %	4.5 %

Source: Evli Research

We find, according to FactSet data, that the peers of Leipurin do not often achieve high returns on invested capital despite the fact that even the smallest of these companies are many times the size of Leipurin. The peers usually manage only around 4-5% ROIC. The peers appear quite similar to Leipurin in terms of financial profile, even though they are larger in size, as their operating margins tend to be around 3-5%. In our view the relatively low profitability levels reflect the fact that it can be hard to differentiate from the competition when the distributed products are mostly of uniform quality.

Figure 71: Leipurin and peers' return on invested capital



Source: Evli Research, FactSet

Table 17: Leipurin precedent M&A transactions

Target	Seller	Acquirer	Announced	Completed	EV (EURm)	EV/S [1)]	EV/EBITDA [1)]	EV/EBIT [1)]
Edward Don & Co	Vestar Capital Partners	Sysco	Oct-23	Nov-23	1 037	0.9x		
Renzi Bros	Renzi family	US Foods	May-23	Jul-23	133	0.8x		
Westcountry Food Holdings	Family shareholders	Kitwave Group	Dec-22	Dec-22	34	1.0x		
Primient (50.1% stake)	Tate & Lyle	KPS Capital Partners	Jul-21	Apr-22	2 317	1.1x		
M.J. Baker Foodservice	Private shareholders	Kitwave Group	Feb-22	Feb-22	23	1.1x		12.9x
Core-Mark Holding	Public shareholders	Performance Food Group	May-21	Sep-21	2 228	0.2x	15.7x	26.6x
Smart Foodservice Stores	Apollo Global	US Foods	Mar-20	Apr-20	866	0.9x	11.4x	
Reinhart Foodservice	Reyes Holdings	Performance Food Group	Jul-19	Dec-19	1 767	0.3x		
Food Group of Companies	Services Group of America	US Foods	Jul-18	Sep-19	1 540	0.6x		
Kotipizza	Public shareholders	Orkla	Nov-18	Jun-19	158	1.7x	19.7x	24.5x
Supervalu	Public shareholders	United Natural Foods	Jul-18	Oct-18	2 676	0.2x	9.7x	25.2x
Dole Food	Mr. David H. Murdock	Total Produce	Feb-18	Jul-18	240	0.2x	5.2x	31.1x
Friolisa	Geland	Pomona Iberia SL	Dec-17	Dec-17	28	0.7x	13.8x	16.2x
Delinuts	Aera Foods	Acomo	Mar-17	May-17	22	0.3x	7.9x	8.6x
Gourmet Guru	Private shareholders	United Natural Foods	Aug-16	Aug-16	9	0.2x		
Brake Bros	Bain Capital	Sysco	Feb-16	Jul-16	2 811	0.7x	14.5x	21.0x
DE.AL.	Mascaretti family	Marr	Apr-16	Apr-16	43	0.7x	21.3x	25.2x
Nor-Cal Produce	Private shareholders	United Natural Foods	Mar-16	Mar-16	60	0.5x		
TFC Holland	Private shareholders	BayWa	Feb-16	Mar-16	41		6.4x	7.6x
Enterprise Foods	South Yorkshire Investment	Hattington Capital	Aug-14	Aug-14	38	0.5x	9.2x	9.4x
Tony's Fine Foods	Private shareholders	United Natural Foods	May-14	Jul-14	143	0.3x		
US Foods	KKR; Clayton, Dubilier & Rice	Sysco	Dec-13	Antitrust cancel	5 975	0.4x	11.9x	24.5x
Grupa Dystrybucyjna	Emperia Holding	Eurocash	Jan-11	Dec-11	244	0.2x		15.8x
Performance Food Group	Public shareholders	Blackstone	Jan-08	May-08	855	0.2x	10.7x	14.4x
Brake Bros	Clayton, Dubilier & Rice	Bain Capital	Jun-07	Sep-07	2 077	0.9x	13.0x	17.5x
FGDI (45% stake)	INTL FCStone	Agrex	Jun-07	Jun-07	190	0.2x		
US Foods	Royal Ahold Delhaize	KKR; Clayton, Dubilier & Rice	May-07	Jul-07	5 226	0.4x	25.7x	30.7x
Average					**1 140**	**0.6x**	**13.1x**	**19.4x**
Median					**240**	**0.5x**	**11.9x**	**19.3x**

1) Multiples based on latest reported full fiscal year/trailing twelve months
Source: FactSet, Bloomberg, Mergermarket

Leipurin acquired Kobia for an EV of EUR 17m, or an EV/EBIT multiple of roughly 11x (slightly above 0.3x EV/S), which in our view wasn't too challenging a valuation as the multiples paid were only around half of the typical level paid in our sample of precedent transactions. We estimate the product mix of Kobia to have been quite similar to that of Leipurin, in other words some three-quarters of revenue derived from the bakery ingredients business and the remainder attributable to e.g. the foodservice business.

While Orkla is a close competitor in many segments (especially its Orkla Food Ingredients), in our view Tate & Lyle is in a certain respect a closer peer for Leipurin in terms of overall end-market mix; the vast majority of Tate & Lyle's revenue derives from specialty ingredients for the Beverage, Dairy, Bakery and Snacks as well as Soups, Sauces and Dressings industries. One difference between Leipurin and Tate & Lyle is that the latter sources agricultural crops (mainly corn) and produces its products and ingredients at its large-volume corn wet mills and smaller blending facilities; consequently Tate & Lyle achieves roughly 15% EBIT margins, although it also has some distribution business. Other peers tend to be focused on product distribution, but they often have only very limited amounts of exposure to bakeries. This in our view reflects the fact that bakery products represent a relatively niche market compared to the wider food industry and service businesses.

The peers of Leipurin exhibit a lot of variation from the perspective of business models and end-markets; in our opinion Leipurin's lack of asset-backing (compared to the case of ESL) and its relatively idiosyncratic business (compared to the case of Telko, which has many quite relevant listed peers) make it somewhat harder to value fairly. In our view continued growth of the foodservice business could bring the product mix of Leipurin closer to those of its publicly traded peers, however many of these companies' operations have been focused in the US. We see the fair value of Leipurin at around 10-14x in terms of EV/EBIT, or some 0.5x EV/S multiple.

Table 18: Leipurin peer group valuations

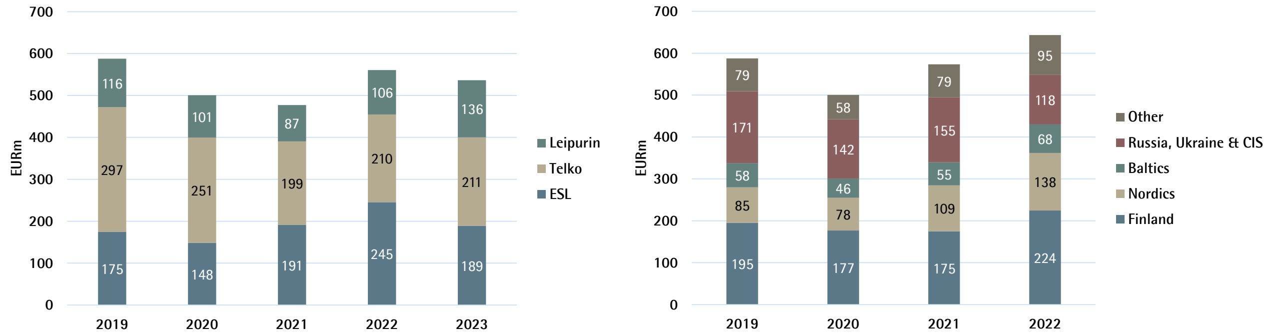
	MCAP	EV/EBITDA			EV/EBIT			EBIT-%		
LEIPURIN PEER GROUP	MEUR	23	24	25	23	24	25	23	24	25
Sligro Food Group NV	566	8.4x	7.0x	5.7x	37.2x	18.8x	11.4x	1.1 %	1.9 %	3.3 %
Chefs' Warehouse	1429	11.5x	12.1x	10.9x	18.8x	20.1x	17.2x	3.4 %	3.5 %	3.8 %
Marr	746	8.0x	7.5x	6.8x	11.7x	10.8x	9.8x	4.1 %	4.3 %	4.7 %
United Natural Foods	782	7.9x	8.7x	7.9x	19.3x	27.6x	22.9x	0.8 %	0.5 %	0.6 %
Orkla	8263	10.6x	11.9x	11.7x	14.5x	16.2x	15.7x	10.2 %	10.9 %	11.0 %
Performance Food Group	10088	11.0x	10.2x	9.4x	14.4x	13.4x	12.2x	1.9 %	2.0 %	2.2 %
Sysco	34900	12.1x	11.9x	11.3x	14.8x	14.4x	13.5x	4.3 %	4.5 %	4.6 %
Tate & Lyle	3159	9.0x	8.8x	8.0x	11.4x	11.4x	10.4x	15.3 %	16.1 %	16.6 %
Dole	1348	6.5x	7.1x	6.8x	10.6x	10.9x	10.3x	2.9 %	3.0 %	3.0 %
US Foods Holding	12643	10.4x	10.8x	9.8x	13.7x	14.1x	12.6x	3.3 %	3.5 %	3.7 %
Nomad Foods	2831	8.4x	8.3x	7.8x	11.2x	10.5x	9.6x	13.2 %	14.0 %	14.9 %
Peer Group Average	6978	**9.4x**	**9.5x**	**8.7x**	**16.1x**	**15.3x**	**13.2x**	**5.5 %**	**5.8 %**	**6.2 %**
Peer Group Median	2831	**9.0x**	**8.8x**	**8.0x**	**14.4x**	**14.1x**	**12.2x**	**3.4 %**	**3.5 %**	**3.8 %**

Source: FactSet

Aspo financials and estimates

Aspo reports quarterly key financial figures for all its three current segments, including revenue and operating profit, as well as details and comments on certain operational metrics such as volumes.

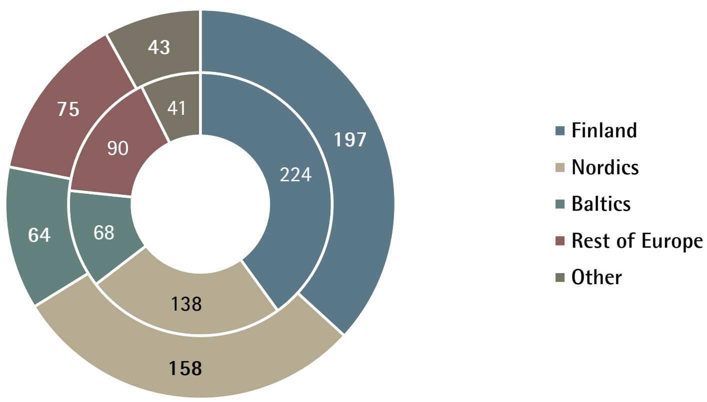
Figure 72: Aspo segmental (continued operations) and historical geographical revenue exposure



Source: Aspo

The amount of revenue attributable to Russia and Belarus was some EUR 80m in FY'22, whereas the previous year it was around EUR 100m. The acquisition of Kobia in Sweden by Leipurin added to Aspo's revenue in the Nordic countries, while the Eltrex, Optimol & Greenfluid as well as Polyma acquisitions by Telko will add to revenue in rest of Europe. The latest acquisition of Swed Handling and Kebelco will add some EUR 60m to Nordic revenue.

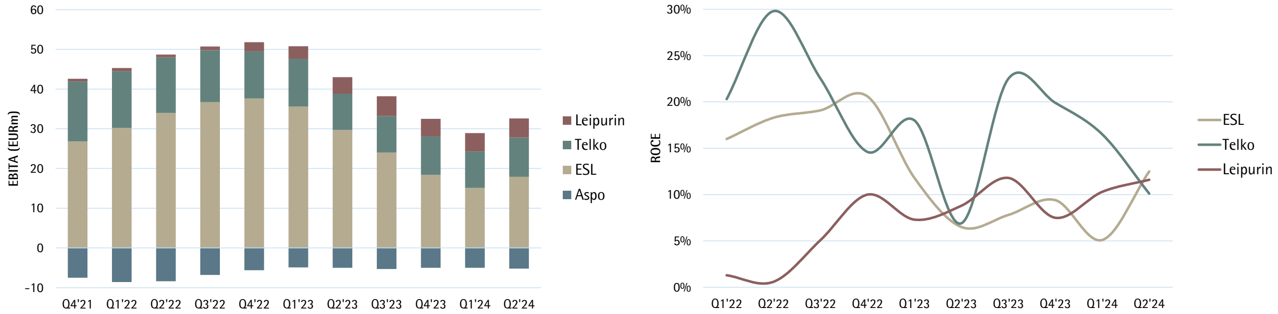
Figure 73: Aspo current geographical revenue split, EURm



Source: Aspo
Note: Outer ring FY'23 vs inner ring FY'22

Aspo's long-term financial targets imply its current operational structure has potential to reach an EBITA of roughly EUR 50m in the coming years; we estimate ESL's long-term sustainable EBITA level at roughly EUR 30m (based on current fleet structure), whereas Telko could achieve close to EUR 20m (assuming some further organic and inorganic growth and an EBITA margin of 8%). The profitability of Leipurin could improve from around EUR 5m to roughly EUR 8m (assuming some growth and an EBITA margin of 5%). Recent financial performance also shows how the earnings of ESL, Telko and Leipurin are not very correlated with each other, which to some extent diversifies risk.

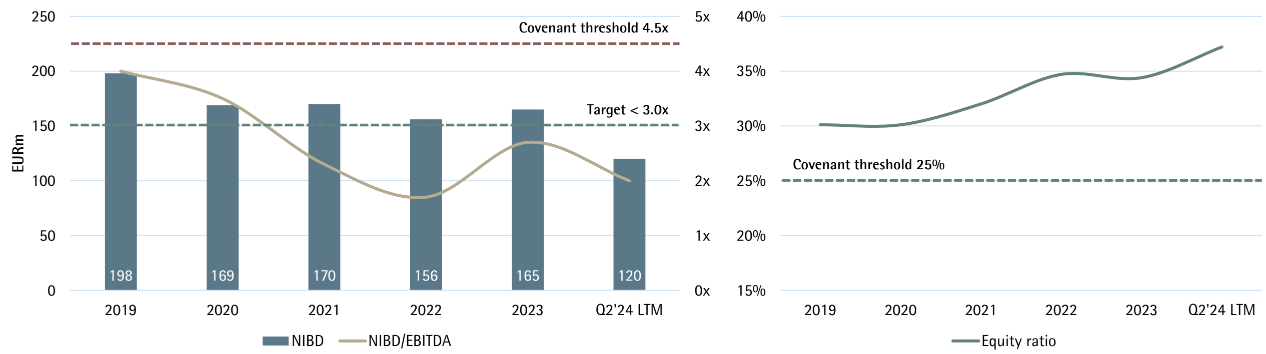
Figure 74: Aspo trailing twelve-month EBITA and ROCE by segment



Source: Aspo

Aspo's current EBITA levels, roughly around EUR 30m, are some EUR 10m above the historical norm when excluding Russia, as Aspo achieved some EUR 20-25m levels of EBIT before the pandemic when it still had significant profitable Russian operations. The improvement is especially due to ESL, which has been able to employ its LNG-powered Handysize vessels profitably, but Telko and Leipurin have also improved the profitability of their core Western operations. Aspo's rolling last twelve-month EBIT stayed around EUR 44m for three consecutive quarters in late 2022 and early 2023 but has since declined to around EUR 30m due to more challenging market conditions for both ESL and Telko. ESL's past performance level of around EUR 36m EBITA will be particularly challenging to meet again in the short-term with its current fleet structure, but in our view Telko's recent average EBIT of EUR 12m isn't an extraordinarily high benchmark especially now that the company has acquired more than EUR 7m of additional earnings potential.

Figure 75: Aspo balance sheet strength measures

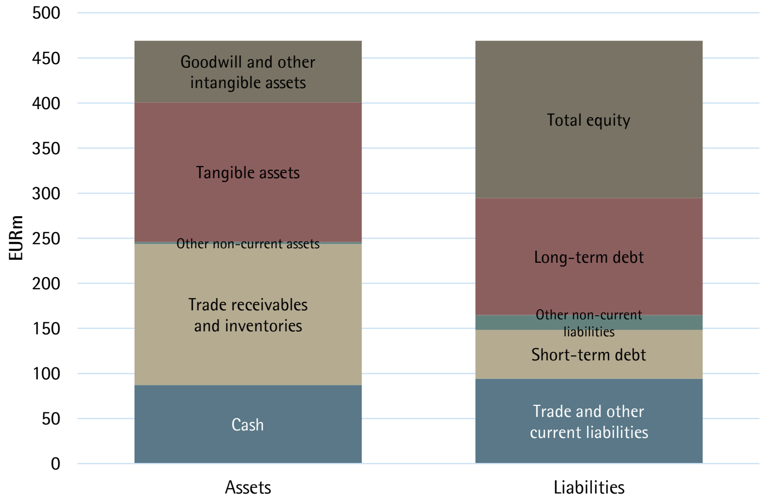


Source: Aspo

Aspo's balance sheet strengthened recently thanks to the minority stake sale of ESL, however as the investments will continue both in the short and medium term perspective absolute indebtedness is to edge up again; NIBD/EBITDA should nevertheless remain well below the covenant threshold of 4.5x but also roughly in line with the below 3x target.

ESL's shipping capacity will grow in the short and medium term, after the Supramax divestment, thanks to the new green coasters the company gradually receives, while its fleet will expand even more in the long term as it looks to buy several new Handysize vessels towards the end of this decade. The fleet expansion will take ESL's EBIT to another level, but it also requires considerable amounts of financing for which Aspo will have to pull several levers in the coming years.

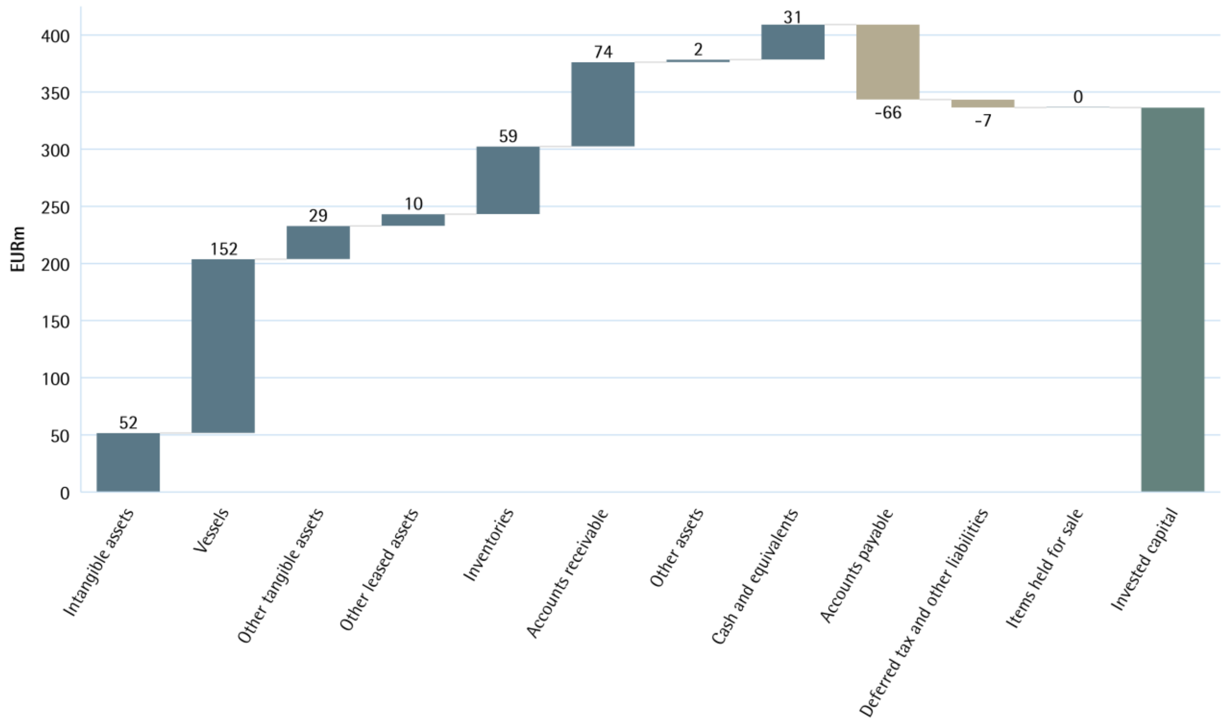
Figure 76: Aspo balance sheet composition (Q2'24)



Source: Aspo

Aspo's balance sheet includes tangible assets to the tune of EUR 170m, of which close to EUR 160m is attributable to the vessels of ESL. The EUR 60m inventories figure is mostly that of Telko (roughly EUR 40m), while Leipurin also carries some EUR 15m worth. Aspo has a common inventory policy for all its group companies, according to which any inventory more than 12 months old will be fully written off. We estimate Telko's accounts receivable amounts to almost half of the roughly EUR 70m Aspo group-level figure. The EUR 70m accounts payable figure can in our view be attributed to Telko and Leipurin in similar corresponding proportions. Aspo's invested capital, which amounted to EUR 336m at the end of 2023, is largely tied in vessels (ESL's invested capital makes up some two-thirds of the Aspo total) as well as inventories and other working capital (the invested capital of Telko and Leipurin each make up around 15% of the Aspo total).

Figure 77: Aspo invested capital (YE '23)

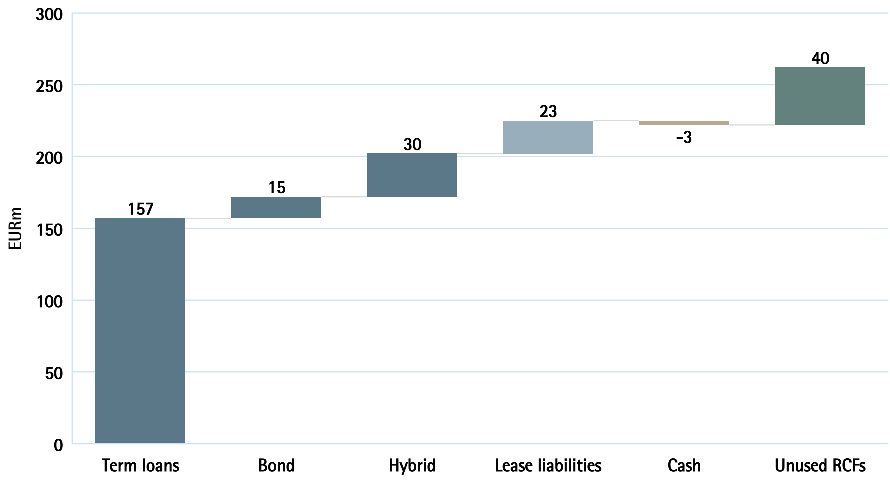


Source: Aspo

Aspo's equity includes its EUR 30m hybrid bond, which carries a fixed interest rate of 8.75% until Jun 2025 and a floating rate of 3-month Euribor plus a spread of 12.25% thereafter, in other words the coupon would reset around 16% based on the current level of interest rates. Aspo has said its long-term aim is not to have an outstanding hybrid bond.

Aspo's interest-bearing liabilities are comprised of loans and overdraft facilities, including an unsecured private placement bond of EUR 15m (fixed interest rate) set to mature in September 2024. Aspo also has bilateral bank loans and a revolving credit facility, and ESL recently refinanced EUR 37.6m in ship financing loan agreements, in addition to which Aspo has signed some EUR 52m worth of loan agreements to help finance ESL's EUR 70m investment in the six hybrid vessels. Some EUR 135m of Aspo's debt is attributable to ESL, according to the recent minority share sale transaction.

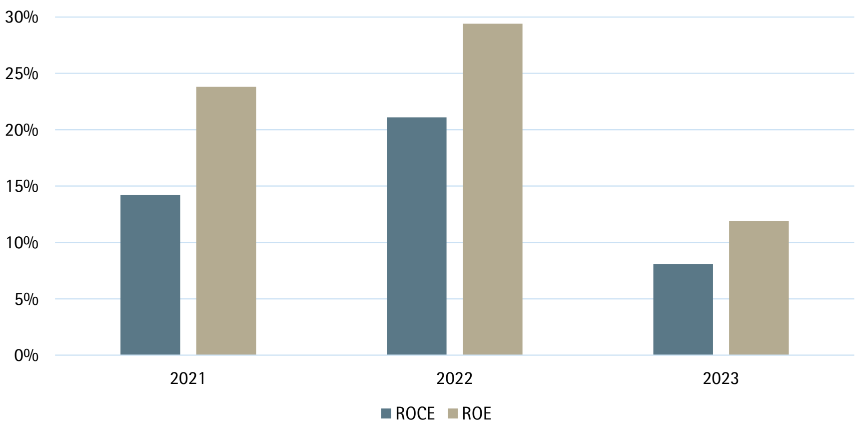
Figure 78: Aspo financial liabilities and liquidity (YE '23)



Source: Aspo

The average interest rate paid by Aspo on its interest-bearing liabilities has increased by some 400bps to just above 5% while short-term benchmark interest rates have increased by roughly 400bps from their historic lows. There has thus been no very significant change in Aspo's credit spread, and in fact the margin seems to have modestly decreased as Aspo's average interest rate hasn't increased quite as much as general benchmark interest rates (although this could be the result of the fact that some of Aspo's debt instruments carry fixed interest rates).

Figure 79: Aspo capital return measures (continued business, comparable figures)



Source: Aspo

We estimate Aspo's latest acquisitions and divestitures, all announced in 2024, will have a net positive effect of more than EUR 5m on FY'25 EBIT while they will add roughly EUR 25m to net indebtedness. Aspo expects FY'24 amortizations to be about EUR 2m, while historically there has not been any significant difference between EBIT and EBITA. Telko's acquisitions will add to the difference between EBIT and EBITA, but there should be no major impact for ESL and Leipurin. Telko by itself acquired some EUR 7.5m of EBIT in 2024. Aspo guides FY'24 comparable EBITA to exceed EUR 32m, compared to the EUR 27.9m figure seen in FY'23.

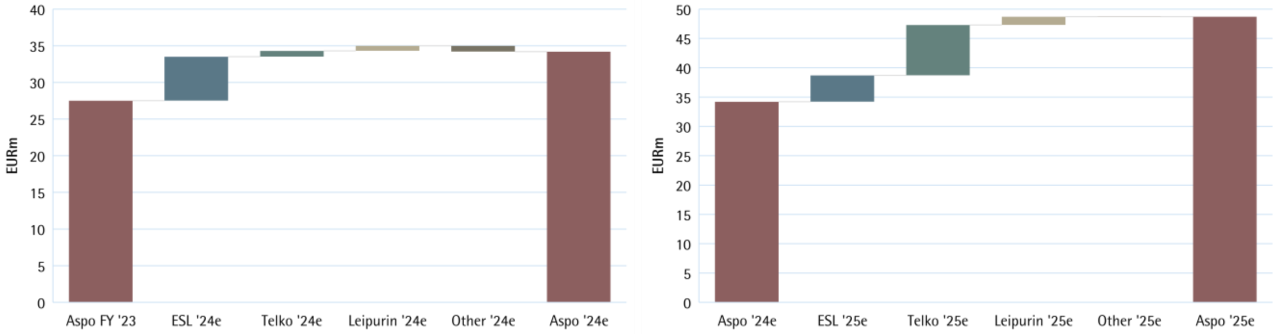
Table 19: Aspo estimates summary

ESL Shipping	2022	Q1'23	Q2'23	Q3'23	Q4'23	2023	Q1'24	Q2'24	Q3'24e	Q4'24e	2024e	2025e
Cargo volume (mt)	14.7	3.3	3.0	3.1	3.3	12.7	3.1	3.2	3.2	3.4	12.9	13.3
Revenue	245.4	52.7	43.9	43.0	49.3	188.9	49.9	60.3	56.2	57.7	224.1	231.9
growth-%	*28 %*	*-7 %*	*-27 %*	*-34 %*	*-22 %*	*-23 %*	*-5 %*	*37 %*	*31 %*	*17 %*	*19 %*	*3 %*
Adjusted EBITA	**37.6**	**6.0**	**3.3**	**4.1**	**5.0**	**18.4**	**2.7**	**6.1**	**6.3**	**9.3**	**24.4**	**28.9**
Adjusted EBITA margin	15.3 %	11.4 %	7.5 %	9.5 %	10.1 %	9.7 %	5.4 %	10.1 %	11.2 %	16.1 %	10.9 %	12.5 %
Telko	**2022**	**Q1'23**	**Q2'23**	**Q3'23**	**Q4'23**	**2023**	**Q1'24**	**Q2'24**	**Q3'24e**	**Q4'24e**	**2024e**	**2025e**
Revenue	209.3	54.3	54.2	53.8	49.0	211.3	50.2	60.9	65.1	66.4	242.6	292.6
growth-%	*5 %*	*7 %*	*2 %*	*4 %*	*-10 %*	*1 %*	*-8 %*	*12 %*	*21 %*	*36 %*	*15 %*	*21 %*
Plastics	110.1	26.6	24.7	26.5	23.6	101.4	23.6	26.7	26.6	26.2	103.1	113.3
Chemicals	49.2	15.1	16.7	14.9	12.7	59.4	13.0	16.4	20.7	22.3	72.4	99.4
Lubricants	50.2	12.6	12.8	12.4	12.7	50.5	13.6	17.8	17.8	17.9	67.1	79.9
Adjusted EBITA	**12.0**	**2.8**	**1.1**	**3.2**	**2.6**	**9.7**	**2.3**	**1.8**	**3.2**	**3.2**	**10.5**	**19.1**
Adjusted EBITA margin	5.7 %	5.2 %	2.0 %	5.9 %	5.3 %	4.6 %	4.6 %	3.0 %	4.8 %	4.8 %	4.3 %	6.5 %
Leipurin	**2022**	**Q1'23**	**Q2'23**	**Q3'23**	**Q4'23**	**2023**	**Q1'24**	**Q2'24**	**Q3'24e**	**Q4'24e**	**2024e**	**2025e**
Revenue	105.9	34.6	34.5	33.2	33.9	136.2	32.6	32.3	33.7	36.1	134.7	145.5
growth-%	*22 %*	*62 %*	*50 %*	*27 %*	*-4 %*	*29 %*	*-6 %*	*-6 %*	*2 %*	*6 %*	*-1 %*	*8 %*
Finland	46.6	11.9	12.6	12.6	12.2	49.3	11.6	11.7	12.3	12.9	48.5	50.3
Sweden	17.3	13.0	12.5	11.7	12.9	50.1	13.1	12.8	13.2	13.9	53.0	58.9
Baltics	36.8	9.4	9.3	8.7	8.6	36.0	7.9	7.8	8.1	9.3	33.1	36.2
Ukraine	1.0	0.3	0.1	0.2	0.2	0.8						
Other	4.2											
Bakeries	74.9	25.7	24.9	24.4	24.7	99.7	23.4	23.1	23.6	24.9	95.0	99.4
Food industry	11.8	2.9	3.1	2.9	3.0	11.9	3.0	2.9	3.9	4.8	14.6	19.9
Other	19.2	6.0	6.4	5.9	6.2	24.5	6.2	6.3	6.3	6.4	25.2	26.2
Adjusted EBITA	**2.3**	**1.0**	**1.1**	**1.4**	**0.9**	**4.5**	**1.2**	**1.3**	**1.3**	**1.4**	**5.2**	**6.6**
Adjusted EBITA margin	2.2 %	2.9 %	3.2 %	4.2 %	2.7 %	3.3 %	3.7 %	4.0 %	3.9 %	3.9 %	3.9 %	4.5 %
Aspo other	**2022**	**Q1'23**	**Q2'23**	**Q3'23**	**Q4'23**	**2023**	**Q1'24**	**Q2'24**	**Q3'24e**	**Q4'24e**	**2024e**	**2025e**
Adjusted EBITA	**-5.7**	-1.2	-1.6	-1.0	-1.2	**-5.1**	-1.2	-1.8	-1.5	-1.4	**-5.9**	**-5.9**
Aspo group	**2022**	**Q1'23**	**Q2'23**	**Q3'23**	**Q4'23**	**2023**	**Q1'24**	**Q2'24**	**Q3'24e**	**Q4'24e**	**2024e**	**2025e**
Revenue	560.7	141.6	132.6	130.0	132.2	536.4	132.7	153.5	155.0	160.2	601.4	670.0
Adjusted EBITA	**46.2**	8.7	3.9	7.7	7.2	**27.5**	5.1	7.4	9.3	12.5	**34.2**	**48.7**
Adjusted EBITA margin	8.2 %	6.1 %	2.9 %	5.9 %	5.5 %	5.1 %	3.8 %	4.8 %	6.0 %	7.8 %	5.7 %	7.3 %

Source: Evli Research

We estimate Aspo's profitability to have touched, in the past few years, both its highs and lows so that those points will remain the extremes for the foreseeable future. We expect profitability levels to stabilize in FY'24 as all three segments should be able to improve, each driven by their specific conditions.

Figure 80: Aspo EBITA growth bridge



Source: Evli Research

Aspo valuation

In our view sum-of-the-parts valuation works reasonably well in the case of Aspo as it accounts for the fact that the three business segments are all quite different and of varying importance to Aspo's group-level results. The segments' acceptable earnings multiples, based on those of their relevant peers, do not however differ that much from each other and are generally slightly above 10x EV/EBITA.

Table 20: Aspo sum-of-the-parts valuation

Segment	EBITA '24e 1)	EBIT '24e 1)	EV/EBIT '24e *	EV	EBITA '25e	EBIT '25e	EV/EBIT '25e *	EV
ESL	24.4	24.3	8.4x	204	28.9	28.8	7.5x	216
Telko	10.5	9.2	13.3x	122	19.1	17.6	12.1x	212
Leipurin	5.2	4.9	14.1x	69	6.6	6.2	12.2x	75
Other operations	-5.9	-6.2	10.3x	-64	-5.9	-6.2	9.6x	-59
Total	*34.2*	*32.2*	*10.3x*	*332*	*48.7*	*46.3*	*9.6x*	*444*
ESL minority				29				29
Hybrid				30				30
Net debt (Evli YE est.)				154				137
Equity value				117				256
Per share				3.7				8.2

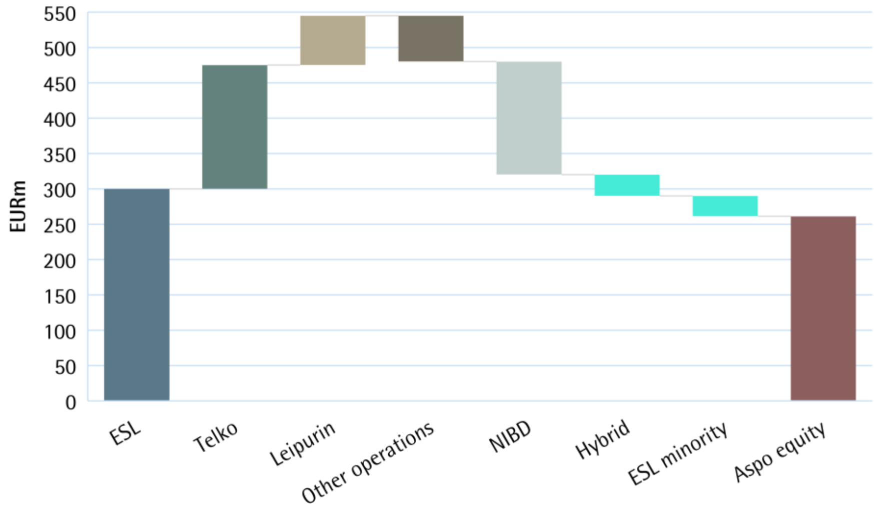
**Peer group median (FactSet)*
1) adjusted for comparison
Source: Evli Research, FactSet

There are some differences in terms of peer multiple applicability: ESL should have quite relevant peers in the sense that it represents an asset-backed business dependent on global dry bulk cargo flows, yet its niche positioning within the Baltic Sea value chain makes its profile rather different compared to many global spot market players. The peer multiples should work well in relatively stable market conditions, but the environment has been very volatile in recent years as cargo volumes first surged after the pandemic-induced slump (and the market had been quite soft even before that) only to begin their marked decline again in 2023. Global dry bulk spot-rate indices in fact peaked already in 2021-22, which also underlines how ESL's earnings do not move in too close a lockstep with its peers. This discrepancy is only set to grow further in the future as ESL has divested its two Supramax vessels, which mostly operate in the global spot markets (hence their performance is sensitive to the general market conditions). ESL's peer multiples are thus often not very useful for valuing the segment and seem at the moment rather too low.

In our opinion Telko has the most relevant peer group out of all three Aspo segments as its business model is very similar to those of e.g. Azelis, Brenntag and IMCD. Telko is considerably smaller in size than these peers, but we nevertheless consider their multiples highly applicable for the valuation of Telko even if it may be valued slightly lower than its peers.

There are many peers with businesses somewhat similar to that of Leipurin, but we still find Leipurin to be a pretty unique listed company from the perspective of overall business model and product distribution mix. We don't therefore consider any single peer to be too relevant for the valuation of Leipurin, however as a group the peers tend to have reasonable earnings multiples which can be applied to Leipurin as well.

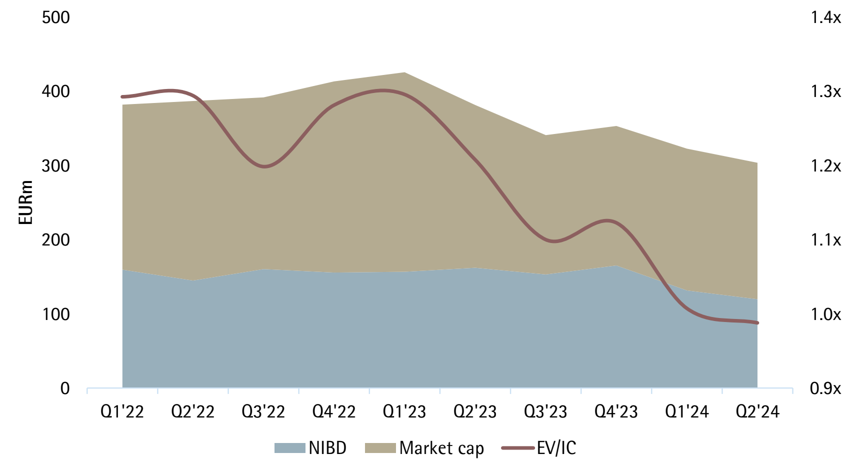
Figure 81: Aspo sum-of-the-parts valuation summary



Source: Evli Research

We see ESL's current fair value at some EUR 300m, whereas Telko should be valued at around EUR 175m (which would still be a rather conservative valuation considering an EBITA of above EUR 20m shouldn't be too hard to achieve in the coming years). Leipurin would in our view command a valuation somewhat north of EUR 65m. Such valuations would imply an Aspo EV/EBITA multiple of roughly 10x on our FY '25 estimates, and we would still view it a conservative level as Telko's respective EBITA multiple on our estimates only amounts to a bit above 9x. On this basis Aspo's fair equity value per share would be slightly above EUR 8.0.

Figure 82: Aspo enterprise value trends



Source: Evli Research

Aspo is valued about 1.0x in terms of EV/IC, which we would not regard too challenging a level in the light of ESL's niche positioning (since it should help the carrier generate relatively high average earnings over the long-term) as well as the asset-light business models of Telko and Leipurin. We conclude Aspo's valuation is not too challenging as it seems to reflect a rather low enterprise value for ESL and relatively modest earnings multiples for Telko considering its margin improvement potential going forward. We retain our EUR 7.0 TP as there's still some uncertainty around how much EBITA will improve in H2'24, but we note earnings will in any case have a lot more room to gain in FY'25 so that valuation should have meaningful upside also beyond our current TP.

Investment risks

Major risks are related to business cyclicality issues, investments and capital structure

Aspo holds exposure to three different independent business segments, which to some extent diversifies its underlying business risks, however all three current segments' income statements are sensitive to e.g. pricing changes as well as to volume growth. Aspo's long-term strategy aims to mitigate its segments' earnings volatility, and we note there have recently been many concrete steps towards the desired direction due to e.g. offering mix changes, however the businesses' value chain positioning will still pose certain challenges in the future as they are not isolated from competition and general economic shocks.

End-market exposures are often cyclical

Many of the customer industries ESL Shipping and Telko serve tend to exhibit cyclical demand patterns as their end-markets include e.g. the construction and energy sectors. Telko's customer base is relatively well diversified across different sectors in many countries, although still quite exposed to economic cycles, while ESL is rather dependent on Nordic steel industry demand.

Sales prices can vary a lot over the cycle

All three current segments face quite dynamic pricing environments in their respective markets where they often have only limited bargaining power and thus have to accept most price changes as given. We note this presents both upside and downside potential, as can be seen to have happened for all the segments in recent years; prices have fluctuated, which has had both positive and negative impacts on the segments' profitability. The relevant prices of Telko and Leipurin in particular can vary quickly and thus have a clear impact on P&L in short order due to the inventory effect; we note such isolated price level changes will have no long-term profitability effects, and in practice the raw materials prices of Telko and Leipurin do not seem to be very correlated with each other.

ESL's capacity will grow in the coming years

ESL has already committed itself to a green Coaster investment program, which will add almost 20% to its capacity in terms of DWT. In our view ESL might then, after all the 12 new green Coasters have been received in 2027, invest in a handful of new green Handysize vessels; we estimate such an investment could then add maybe more than 30% to capacity, although ESL may also have to retire some of its existing capacity in the coming years due to ageing as vessels have a lifespan of some 25-30 years. We note that the capacity growth risks are largely mitigated by the fact that relevant dry bulk cargo demand is set to grow significantly over the coming years.

M&A ambitions pose some integration risks

We believe Telko has a rather rigorous M&A process in place, which mitigates many of the associated acquisition risks, however there still remain e.g. integration risks as the company expands into new European countries where it has not previously had any presence. In our view smaller M&A targets tend to present less riskier acquisition opportunities due to both often lower earnings valuation multiples as well as easier integration processes.

Financial leverage remains a key risk due to the business nature of dry bulk shipping

Financial debt plays an important role in Aspo's capital structure especially due to ESL and its asset-heavy business model, and asset-backing supports relatively high levels of leverage as the vessels can be used as collateral since they have a rather deep second-hand market. This dynamic, coupled with the target limit on leverage, helps to make the debt levels manageable but it still leaves equity value quite sensitive to changes in enterprise value and to some refinancing risk. Debt financing remains a crucial part of Aspo's balance sheet in the future as ageing capacity needs to be replaced with new vessels. The asset-heavy nature of ESL's business thus causes some risks to equity holders while it also helps to earn rather high leveraged returns on equity.

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	5.92	PV of Free Cash Flow	338	Long-term growth, %	1.0	Risk-free interest rate, %	2.25
DCF share value	16.80	PV of Horizon value	370	WACC, %	7.4	Market risk premium, %	5.8
Share price potential, %	183.9	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	2.8
Maximum value	18.6	Marketable securities	31	Minimum WACC, %	6.9	Equity beta coefficient	1.00
Minimum value	15.3	Debt - dividend	-211	Maximum WACC, %	7.9	Target debt ratio, %	35
Horizon value, %	52.2	Value of stock	528	Nr of shares, Mn	31.4	Effective tax rate, %	10

DCF valuation, EURm	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	Horizon
Net sales	536	601	670	686	697	708	719	729	740	751	759	767
Sales growth, %	*-4.3*	*12.1*	*11.4*	*2.4*	*1.7*	*1.5*	*1.5*	*1.5*	*1.5*	*1.5*	*1.0*	*1.0*
Operating income (EBIT)	26	24	46	53	63	50	50	51	52	53	53	54
Operating income margin, %	*4.8*	*4.0*	*6.9*	*7.7*	*9.0*	*7.0*	*7.0*	*7.0*	*7.0*	*7.0*	*7.0*	*7.0*
+ Depreciation+amort.	34	37	28	32	25	23	22	20	20	20	20	
EBITDA	59	61	74	85	88	73	72	71	72	73	74	
- Paid taxes	-2	-3	-5	-5	-6	-5	-5	-5	-5	-5	-5	
- Change in NWC	-2	6	-14	-9	-5	2	6	6	-1	-1	-1	
NWC / Sales, %	*12.3*	*10.0*	*11.0*	*12.0*	*12.5*	*12.0*	*11.0*	*10.0*	*10.0*	*10.0*	*10.0*	
+ Change in other liabs	-1	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-22	-25	-25	-20	-20	-16	-6	-21	-22	-22	-22	
opCAPEX / Sales, %	*7.9*	*5.9*	*4.2*	*3.0*	*2.9*	*2.4*	*0.9*	*3.0*	*3.0*	*3.0*	*2.9*	
- Acquisitions	0	0	0	0	0	0	0	0	0	0	0	
+ Divestments	0	0	0	0	0	0	0	0	0	0	0	
- Other items	-5	0	-1	-1	-1	-1	-1	-1	-1	-1	0	
= FCFF	27	39	30	50	55	53	66	49	42	43	46	720
= Discounted FCFF		38	27	42	44	39	45	31	25	24	24	370
= DFCF min WACC		38	27	43	44	39	46	32	26	25	25	419
= DFCF max WACC		38	27	42	43	38	44	30	24	23	23	328

INTERIM FIGURES

EVLI ESTIMATES, EURm	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024Q1	2024Q2	2024Q3E	2024Q4E	2024E	2025E	2026E
Net sales	141.6	132.6	130.0	132.2	536.4	132.7	153.5	155.0	160.2	601.4	670.0	686.0
EBITDA	16.8	11.1	16.4	15.1	59.4	12.3	13.9	16.4	19.5	60.9	73.9	85.2
EBITDA margin (%)	*11.9*	*8.4*	*12.6*	*11.4*	*11.1*	*9.3*	*9.1*	*10.6*	*12.2*	*10.1*	*11.0*	*12.4*
EBIT	8.6	2.9	8.0	6.4	25.9	-3.2	6.4	8.9	12.0	24.1	46.3	52.7
EBIT margin (%)	*6.1*	*2.2*	*6.2*	*4.8*	*4.8*	*-2.4*	*4.2*	*5.7*	*7.5*	*4.0*	*6.9*	*7.7*
Net financial items	-1.9	-2.2	-2.5	-2.7	-9.3	-2.2	-2.1	-1.7	-1.7	-7.9	-6.5	-6.6
Pre-tax profit	6.7	0.7	5.5	3.7	16.6	-5.4	4.3	7.2	10.3	16.2	39.8	46.1
Tax	-0.3	0.9	-0.3	-0.7	-0.4	-0.6	-0.5	-0.7	-0.7	-2.5	-3.9	-4.6
Tax rate (%)	*4.5*	*-128.6*	*5.5*	*18.9*	*2.4*	*-11.1*	*11.6*	*9.7*	*6.8*	*15.2*	*9.8*	*10.0*
Net profit	6.4	1.6	5.2	3.0	16.2	-7.4	4.9	5.0	8.1	10.5	28.7	33.8
EPS	0.20	0.05	0.17	0.10	0.52	-0.24	0.16	0.16	0.26	0.33	0.91	1.08
EPS adjusted (diluted no. of shares)	0.20	0.05	0.17	0.10	0.52	-0.24	0.16	0.16	0.26	0.33	0.91	1.08
Dividend per share	0.00	0.00	0.00	0.00	0.47	0.00	0.00	0.00	0.00	0.35	0.40	0.45
SALES, EURm												
ESL Shipping	52.7	44.0	43.0	49.3	189.0	49.9	60.3	56.2	57.7	224.1	231.9	237.7
Leipurin	34.6	34.4	33.2	33.9	136.1	32.6	32.3	33.7	36.1	134.7	145.5	148.4
Telko	54.3	54.2	53.8	49.0	211.3	50.2	60.9	65.1	66.4	242.6	292.6	299.9
Total	141.6	132.6	130.0	132.2	536.4	132.7	153.5	155.0	160.2	601.4	670.0	686.0
SALES GROWTH, Y/Y %												
ESL Shipping	*-7.2*	*-27.0*	*-33.8*	*-22.1*	*-23.0*	*-5.3*	*37.0*	*30.7*	*17.0*	*18.6*	*3.5*	*2.5*
Leipurin	*61.7*	*49.6*	*26.7*	*-4.0*	*28.5*	*-5.8*	*-6.1*	*1.5*	*6.5*	*-1.0*	*8.0*	*2.0*
Telko	*7.3*	*2.5*	*4.3*	*-9.8*	*0.9*	*-7.6*	*12.4*	*21.0*	*35.5*	*14.8*	*20.6*	*2.5*
Total	*9.9*	*-2.6*	*-9.0*	*-13.5*	*-4.3*	*-6.3*	*15.8*	*19.2*	*21.2*	*12.1*	*11.4*	*2.4*
EBIT, EURm												
ESL Shipping	6.0	3.3	4.0	4.4	17.7	-5.0	5.9	6.3	9.3	16.5	28.8	30.9
Leipurin	1.2	1.4	2.0	1.0	5.6	1.1	0.9	1.3	1.3	4.6	6.2	7.0
Telko	2.7	-0.1	3.1	2.3	8.0	2.2	1.3	2.8	2.9	9.2	17.6	21.0
Other operations	-1.3	-1.7	-1.1	-1.3	-5.4	-1.5	-1.7	-1.5	-1.5	-6.2	-6.2	-6.2
Total	8.6	2.9	8.0	6.4	25.9	-3.2	6.4	8.9	12.0	24.1	46.3	52.7
EBIT margin, %												
ESL Shipping	*11.4*	*7.5*	*9.3*	*8.9*	*9.4*	*-10.0*	*9.8*	*11.2*	*16.1*	*7.4*	*12.4*	*13.0*
Leipurin	*3.5*	*4.1*	*6.0*	*2.9*	*4.1*	*3.4*	*2.8*	*3.9*	*3.6*	*3.4*	*4.3*	*4.8*
Telko	*5.0*	*-0.2*	*5.8*	*4.7*	*3.8*	*4.4*	*2.1*	*4.3*	*4.4*	*3.8*	*6.0*	*7.0*
Total	*6.1*	*2.2*	*6.2*	*4.8*	*4.8*	*-2.4*	*4.2*	*5.7*	*7.5*	*4.0*	*6.9*	*7.7*

INCOME STATEMENT, EURm	2019	2020	2021	2022	2023	2024E	2025E	2026E
Sales	587.7	500.7	573.3	560.7	536.4	601.4	670.0	686.0
Sales growth (%)	*8.7*	*-14.8*	*14.5*	*-2.2*	*-4.3*	*12.1*	*11.4*	*2.4*
EBITDA	49.7	45.7	71.4	71.5	59.4	60.9	73.9	85.2
EBITDA margin (%)	*8.5*	*9.1*	*12.5*	*12.8*	*11.1*	*10.1*	*11.0*	*12.4*
Depreciation	-28.6	-29.0	-34.5	-33.2	-33.5	-36.8	-27.6	-32.4
EBITA	21.1	16.7	36.9	38.3	25.9	24.1	46.3	52.7
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	21.1	16.7	36.9	38.3	25.9	24.1	46.3	52.7
EBIT margin (%)	*3.6*	*3.3*	*6.4*	*6.8*	*4.8*	*4.0*	*6.9*	*7.7*
Reported EBIT	21.1	16.7	33.9	28.2	11.3	24.1	46.3	52.7
EBIT margin (reported) (%)	*3.6*	*3.3*	*5.9*	*5.0*	*2.1*	*4.0*	*6.9*	*7.7*
Net financials	-2.9	-4.5	-3.9	-5.9	-9.3	-7.9	-6.5	-6.6
Pre-tax profit	18.2	12.2	33.0	32.4	16.6	16.2	39.8	46.1
Taxes	-2.1	-1.4	-4.7	-1.7	-0.4	-2.5	-3.9	-4.6
Minority shares	0.0	0.0	0.0	0.0	0.0	-3.3	-6.0	-6.5
Net profit	16.1	10.8	25.3	20.6	1.6	10.5	28.7	33.8
Cash NRIs	0.0	0.0	-3.0	-10.1	-14.6	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	190	177	175	179	170	165	163	150
Goodwill	43	49	40	47	52	52	52	52
Right of use assets	22	20	21	16	23	25	28	29
Inventory	56	42	69	70	59	72	84	89
Receivables	75	63	83	82	74	72	84	89
Liquid funds	24	32	18	22	31	24	27	27
Total assets	410	384	406	416	410	413	439	439
Liabilities								
Shareholder's equity	122	113	129	144	141	136	154	175
Minority interest	0	0	0	0	0	0	0	0
Convertibles	0	0	0	0	0	0	0	0
Lease liabilities	9	7	7	5	24	25	28	29
Deferred taxes	0	0	0	0	0	0	0	0
Interest bearing debt	200	182	164	172	172	161	157	132
Non-interest bearing current liabilities	61	64	79	72	67	84	94	96
Other interest-free debt	18	18	27	23	6	6	6	6
Total liabilities	410	384	406	416	410	413	439	439
CASH FLOW, EURm								
+ EBITDA	50	46	71	72	59	61	74	85
- Net financial items	-3	-4	-4	-6	-9	-8	-7	-7
- Taxes	0	-2	-5	-2	-1	-2	-4	-5
- Increase in Net Working Capital	-14	29	-23	-13	-2	6	-14	-9
+/- Other	0	0	0	-6	-5	-3	-7	-8
= Cash flow from operations	33	68	40	45	42	53	43	58
- Capex	-7	-21	-31	-28	-43	-35	-28	-21
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	25	48	9	17	-1	18	15	37
+/- New issues/buybacks	28	-12	2	8	10	0	0	0
- Paid dividend	-14	-7	-11	-14	-14	-15	-11	-13
+/- Other	-35	-20	-14	-6	15	-10	-1	-24
Change in cash	4	9	-15	4	9	-7	3	1

KEY FIGURES	2020	2021	2022	2023	2024E	2025E	2026E
M-cap	264	357	258	189	186	186	186
Net debt (excl. convertibles)	157	153	155	165	162	158	134
Enterprise value	420	510	413	354	348	344	320
Sales	501	573	561	536	601	670	686
EBITDA	46	71	72	59	61	74	85
EBIT	17	37	38	26	24	46	53
Pre-tax	12	33	32	17	16	40	46
Earnings	11	28	31	16	10	29	34
Equity book value (excl. minorities)	113	129	144	141	136	154	175
Valuation multiples							
EV/sales	0.8	0.9	0.7	0.7	0.6	0.5	0.5
EV/EBITDA	9.2	7.1	5.8	6.0	5.7	4.7	3.8
EV/EBITA	25.2	13.8	10.8	13.7	14.4	7.4	6.1
EV/EBIT	25.2	13.8	10.8	13.7	14.4	7.4	6.1
EV/OCF	6.2	12.9	9.2	8.5	6.5	8.1	5.5
EV/FCFF	6.7	18.5	12.0	13.0	9.0	11.6	6.4
P/FCFE	5.6	41.0	15.6	-171.4	10.4	12.5	5.0
P/E	24.4	12.6	8.4	11.6	17.8	6.5	5.5
P/B	2.3	2.8	1.8	1.3	1.4	1.2	1.1
Target EV/EBITDA	*0.0*	*0.0*	*0.0*	*0.0*	*6.3*	*5.1*	*4.2*
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*15.9*	*8.2*	*6.7*
Target EV/FCF	*0.0*	*0.0*	*0.0*	*0.0*	*21.3*	*25.5*	*9.6*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*1.6*	*1.4*	*1.3*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*21.0*	*7.7*	*6.5*
Per share measures							
Number of shares	31,420	31,420	31,420	31,420	31,420	31,420	31,420
Number of shares (diluted)	31,420	31,420	31,420	31,420	31,420	31,420	31,420
EPS	0.34	0.90	0.98	0.52	0.33	0.91	1.08
Operating cash flow per share	2.17	1.26	1.42	1.32	1.69	1.36	1.83
Free cash flow per share	1.51	0.28	0.53	-0.04	0.57	0.47	1.18
Book value per share	3.61	4.12	4.57	4.47	4.33	4.90	5.57
Dividend per share	0.35	0.45	0.46	0.47	0.35	0.40	0.45
Dividend payout ratio, %	101.8	50.0	47.1	91.2	105.1	43.8	41.8
Dividend yield, %	4.2	4.0	5.6	7.8	5.9	6.8	7.6
FCF yield, %	18.0	2.4	6.4	-0.6	9.6	8.0	19.9
Efficiency measures							
ROE	9.2	23.3	22.5	11.4	7.6	19.8	20.6
ROCE	5.3	12.3	12.3	7.9	7.3	14.0	15.6
Financial ratios							
Inventories as % of sales	8.5	12.0	12.5	11.0	12.0	12.5	13.0
Receivables as % of sales	12.6	14.4	14.6	13.8	12.0	12.5	13.0
Non-interest bearing liabilities as % of sales	12.8	13.8	12.9	12.5	14.0	14.0	14.0
NWC/sales, %	5.7	8.9	11.4	12.3	10.0	11.0	12.0
Operative CAPEX/sales, %	4.2	5.4	5.0	7.9	5.9	4.2	3.0
CAPEX/sales (incl. acquisitions), %	4.2	5.4	5.0	7.9	5.9	4.2	3.0
FCFF/EBITDA	1.4	0.4	0.5	0.5	0.6	0.4	0.6
Net debt/EBITDA, book-weighted	3.4	2.1	2.2	2.8	2.7	2.1	1.6
Debt/equity, market-weighted	0.7	0.5	0.7	0.9	0.9	0.8	0.7
Equity ratio, book-weighted	29.5	31.8	34.6	34.3	33.0	35.1	39.9
Gearing, %	137.9	118.2	107.9	117.6	119.0	102.8	76.4

COMPANY DESCRIPTION: Aspo includes three independent business-to-business segments each of which operates mostly in regions surrounding the Baltic Sea. The three segments all provide different kinds of logistical solutions, such as maritime transportation and raw materials wholesale distribution. Aspo's goal is to help each of its operating segments build long-lasting customer relationships. Aspo aims to create value by developing and internationalizing its subsidiary businesses while proactively considering potential acquisitions and divestitures.

INVESTMENT CASE: Aspo's largest segment by value, ESL Shipping, should see its earnings rebound in the coming years thanks to stabilizing dry bulk cargo demand in its key markets as well as changes to its fleet structure. ESL has stable long-term customer relationships and a fleet tailored for the specifications of the Baltic Sea, where dry bulk cargo demand will grow in the coming years due to major green industrial investments. We expect Telko, a chemical distributor, to achieve significantly higher earnings going forward as it has made many acquisitions recently. We also see good scope for Leipurin's continued improvement due to internal measures as well as recent acquisitions.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Havsudden Oy Ab	3,412,941	20.205	10.9%
Aev Capital Holding Oy	3,253,554	19.261	10.4%
Varma Mutual Pension Insurance Company	1,423,076	8.425	4.5%
Vehmas Tapio	1,275,827	7.553	4.1%
Ilmarinen Mutual Pension Insurance Company	875,226	5.181	2.8%
Nyberg Gustav	818,045	4.843	2.6%
Nordea Nordic Small Cap Fund	726,040	4.298	2.3%
Mandatum Life Insurance Company Limited	683,128	4.044	2.2%
Procurator-Holding Oy	564,882	3.344	1.8%
Iaik Oy	505,947	2.995	1.6%
Ten largest	13,538,666	80.149	43%
Residual	17,881,113	105.856	57%
Total	31,419,779	186.005	100%

EARNINGS CALENDAR	
October 29, 2024	Q3 report
OTHER EVENTS	

COMPANY MISCELLANEOUS	
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IR:	

DEFINITIONS

P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS $\frac{\text{Profit before extraord. items and taxes– income taxes + minority interest}}{\text{Number of shares}}$
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity + taxed provisions per share}}$	DPS Dividend for the financial period per share
Market cap Price per share * Number of shares	OCF (Operating cash flow) EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value) Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow) Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales $\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, % $\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales $\frac{\text{Capital expenditure – divestments – acquisitions}}{\text{Sales}}$
EV/EBIT $\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital Current assets – current liabilities
Net debt Interest bearing debt – financial assets	Capital employed/Share $\frac{\text{Total assets – non-interest bearing debt}}{\text{Number of shares}}$
Total assets Balance sheet total	Gearing $\frac{\text{Net debt}}{\text{Equity}}$
Div yield, % $\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, % $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity + minority interest + taxed provisions}}$
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes – income taxes + minority interest}}$	Equity ratio, % $\frac{\text{Shareholders' equity + minority interest + taxed provisions}}{\text{Total assets – interest-free loans}}$
ROCE, % $\frac{\text{Profit before extraordinary items + interest expenses+ other financial costs}}{\text{Balance sheet total – non-interest bearing debt (average)}}$	CAGR, % Cumulative annual growth rate = Average growth per year

ROE, % $$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity + minority interest + taxed provisions (average)}}$$	

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Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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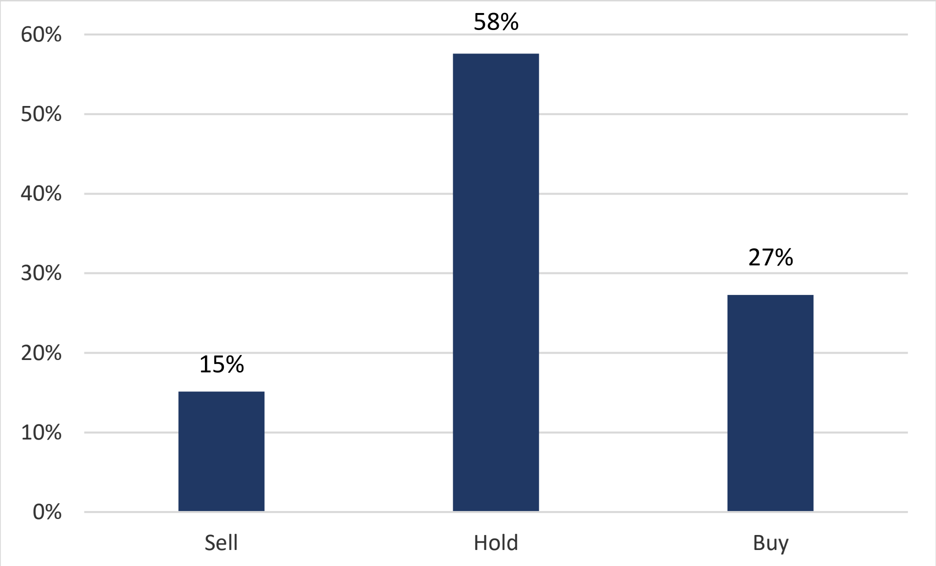

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Name(s) of the analyst(s): Ilvonen

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