Suominen

Annual update

6/2016

Back to the track

We retain target price 4,50 euros and recommendation accumulate for Suominen. The company is executing its credible organic growth strategy for the strategy period of 2015-2017, which growing nonwoven markets support decently. Despite recent headwind, we estimate that Suominen's earnings will stay on uphill track in the upcoming years driven especially by net sales growth and slight gross-margin expansion. Given the profit growth outlook, we consider that there is decent upside in the share price as the company trades at P/E-ratio 11x FY'16 and 10x FY'17 based on our estimates.

Long term outlook of nonwovens remains supportive

Suominen is executing its organic growth strategy launched in October 2014 where high value added nonwovens consist of the core. We believe in the strategy and the management's ability to execute it due to Suominen's strong track-record in the last few years' even if the company have faced some headwinds recently. Suominen's relevant markets (Americas and Europe) are expected to grow 3-3.5 % p.a. on average driven by population growth, increase in standard of living and urbanization but interestingly Suominen can find faster growing pockets from its most profitable value added segments. Competition in the sector is still fierce as recent new capacity entry to the markets demonstrate. We argue Suominen's advantages in competition are advanced product portfolio and excellence in supply chain management while the dependence on key customers, limited pricing power and overcapacity represent the most concrete risks.

Value and volume drive profit growth

Suominen got a weak start for FY'16, which created also profit warning risk around the company. However, we expect market to normalize in 2016 which should return Suominen's profits to growth path with Bethune's new production line to be installed in H2'16. The profit drivers should be volume and value growth raising net sales while improving product mix and increasing operational efficiency should push gross-margin still slightly up despite competitive pressures. On the cost side, we see pressure in OPEX in absolute terms due to growth efforts but increase in net sales should be enough to offset this. Overall, we expect Suominen to reach its net sales goal of 500 MEUR in 2017 and to keep its EBIT-margin on good level above 7 %. This reflects profit potential of the company's given Suominen's asset base and competitive environment in the markets.

Valuation has dropped attractive

After the rebuilding Suominen is a normal organically growing company, which should be valued by income statement based multiples. Currently, Suominen trades at P/E-ratio 11x and 10x based on our estimates for 2016 and 2017. We see this relatively attracting level even though the number of shares will increase by 20 % as convertible hybrid bond maturing in 2018 cuts long term EPS growth. Investors should keep this in mind already now as it lowers the acceptable valuation. On the secondary relative metrics, Suominen trades at clear discount to OMXH and to the loosely related peers. These two relative metrics support our view on existing upside. Therefore, given the valuation as whole, we still see that the share holds upside on long term even if short term risk profile stays elevated due to weak start FY'16 and general risks related to stock markets.

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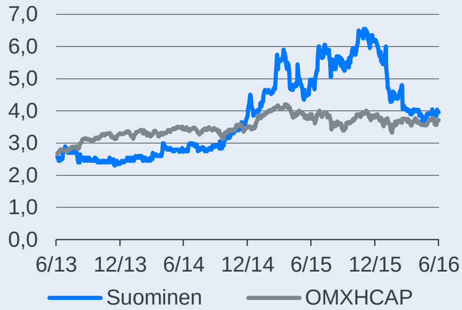
Recommendation

Accumulate

Target price: 4,50 €



Source:

Last close	**3,93 EUR**
12 month range	**3,61 – 6,65 EUR**
Upside	**14,5 %**

Key Figures

	2015	2016e	2017e
Net sales	444	452	493
Growth-%	10,5 %	1,8 %	9,0 %
EBIT (adj)	31,2	31,8	35,3
EBIT-% (adj.)	7,0 %	7,0 %	7,2 %
Pre-tax profit	26,5	28,5	31,3
Net earnings	17,0	18,5	20,4
EPS (adj.)	0,33	0,36	0,40
DPS	0,10	0,13	0,15
Payout-%	30 %	36 %	38 %
P/E	18,4	10,9	9,9
P/B	2,5	1,4	1,3
P/S	0,7	0,4	0,4
EV/S	0,8	0,6	0,5
EV/EBITDA	7,0	5,0	4,2
EV/EBIT	10,8	8,1	6,7
Dividend yield-%	1,6 %	3,3 %	3,8 %

Source: Inderes

Suominen summary

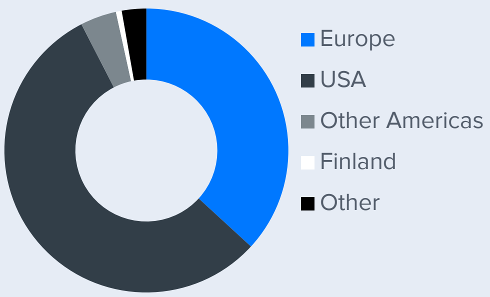
Investment case

Value drivers	▪ Sustainable megatrends support nonwoven demand growth ▪ Consumer driven nonwoven demand is defensive ▪ Profits keep growing due to volume growth and gradually improving product mix in the next years
Risks	▪ Value chain position keeps the pricing power limited ▪ Overcapacity remains constant risk in the business ▪ Growth requires investments in CAPEX and OPEX
Valuation	▪ Income statement based valuation is fairly low given expected profit growth ▪ Short term risk profile is elevated due to weak start FY'16 ▪ Coming dilution in 2018 lowers acceptable valuation now

Accumulate

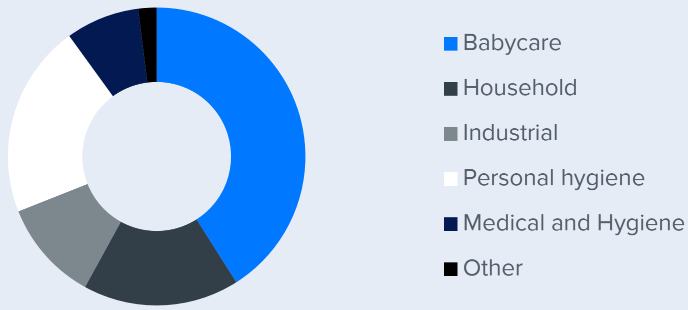
Target price: 4,50 €

Geographical sales split in 2015



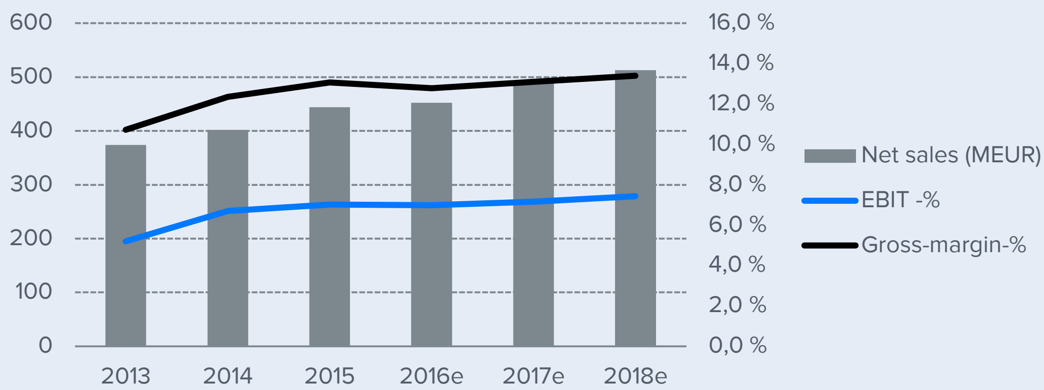
Source: Suominen

Sales split by product end-use in 2015



Source: Suominen

Business development 2013-2018e



Source: Suominen, Inderes

Valuation 2016e

11x
P/E

5x
EV/EBITDA

0,6x
EV/S

3 %
Yield-%

Contents

Company profile

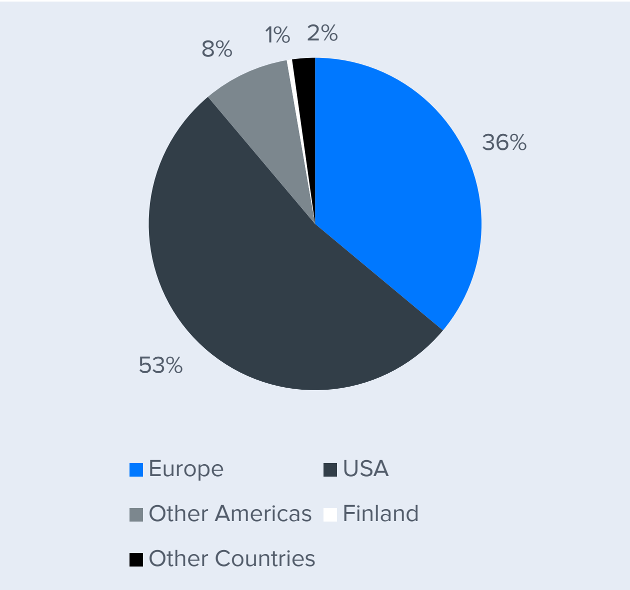
Suominen is a global manufacturer of nonwovens focusing on wiping, medical and hygiene segments. The company generates 60 % of its net sales from Americas and the rest mostly from Europe. In 2015 Suominen's net sales were 444 MEUR and EBIT (excl. NRI) 31.2 MEUR. The year of 2015 was also the first year when the company executed its growth strategy after rebuilding profitability and the balance sheet in 2012-2014. Suominen faced certain headwinds in terms of organic growth in 2015 but kept on prudently executing its strategy railing on increasing share of value added products during the year.

General overview

Suominen is a manufacturer of nonwovens and the company consist of two BA's, Convenience and Care. The first produces nonwovens for wiping products while the latter focuses on nonwovens hygiene and medical sectors. However, the company reports financial results only on the group level. The company has approximately 630 employees in 6 countries. In 2015 Suominen's net sales were 444 MEUR and EBIT excl. NRI 31.2 MEUR.

Suominen is the leading global producer in wiping and supplies a range of nonwoven roll goods, which Suominen manufactures in US, Spain, Italy, Brazil and Finland. Due to its manufacturing footprint, Suominen achieves significant sales in the North and South America as Americas bring over 60 % the group's net sales, US being clearly biggest single market by over 50 % of net sales. The second major market is Europe representing over 35 % of net sales. Net sales is low in other areas as overseas sales is typically difficult in nonwoven business due to logistical issues.

Geographical sales split in 2016

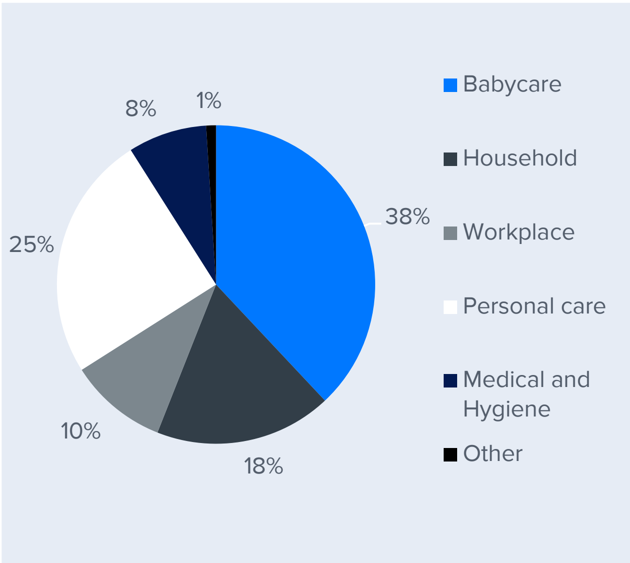


Source: Suominen

Business model

Suominen operates in a typical manufacturing industry, which transforms fiber materials to nonwovens mostly by spunlace technology. Suominen's strategy focuses on high value added nonwovens, which consist of around 60 % of the company's net sales currently. Focus in value added grades such as household, workplace, personal care wiping and medical&hygiene is good decision in our opinion as their margin profile is clearly and growth outlook somewhat better than value for money products. However, the rest 40 % of the net sales, which come from typical value for money wiping (baby care), has still clear but diminishing role in the company's strategy. These high volume products give critical load for the production system, which is necessary in the manufacturing industry as operational efficiency is highly dependent on capacity utilization.

Product mix in Q1'16



Source: Suominen

The company's key customers are global brand owners and retailers, which sell converted nonwoven products to consumers. Suominen have not publicly disclosed its customers but the two largest customers brought 19 % and 15 % of the group's net sales in 2015. In general, we believe that around 10 key accounts constitute around 50 % of Suominen's sales while the second half of the sales come from smaller sources. Therefore, the company's customer pool is fairly concentrated.

We believe Suominen's strengths are its global footprint, key accounts, competitive product portfolio and effective supply chain management. Also the company's asset base is competitive enough given the characteristics of the industry as Suominen's production lines have been started-up or rebuilt mostly in 1990s and 2000s.

Historical development

Two acquisitions and two divestments focused Suominen on Nonwovens

Suominen has long history from the year 1898 but the company got a rebirth in August 2011 when Suominen agreed to acquire Ahlstrom's Home & Personal BA. This transaction made Suominen global company that is focused on Nonwovens. Since then Nonwovens has been the only core business of the company but at the beginning of 2012 Suominen had also two other businesses, Codi Wipes and Flexibles. As current Suominen and Suominen before the Home & Personal acquisition have very little in common, we focus only the last four years of Suominen's history in this report.

The main reasons behind Ahlstrom Home&Personnel acquisition were to expand the geographical coverage, synergies (i.e. cross selling & cost savings), to focus on wiping and create globally strong player in the business. Before the transaction in Q3'11, Suominen's gearing was 233% and equity ratio stood at 22.9 %. Both of these ratios clearly signaled the distressed situation of the company and without the rearrangement of its finances, Suominen was drifting towards the financial distress. The enterprise value of the transaction was 170 MEUR and the corresponding valuation metrics were EV/S 0.58x and EV/EBITDA 7.5x. Thus, the deal was not definitely bargain.

The transformation continued in June 2013 when Suominen announced the divestment of its Codi Wipes business (acquired in 2003). The transaction value was 9.2 MEUR and Suominen took an impairment charge of -16.8 MEUR in Q2'13. Most of this impairment was related to the goodwill. Low transaction price reflected size of the business (some 50 MEUR) and its weak profitability (slightly positive EBIT). This divestment was in line with the strategy as Suominen is focusing on its core business of Nonwovens. The Codi Wipes business works as a converter between the nonwoven manufacturer and the brand company. Simply put, the Codi Wipes business is one step closer to end user in the value chain. From the value chain perspective divestment was justified as the pricing power does not grow significantly if the player covers both nonwovens manufacturing and converting. In addition, the company gave up the same converting business where its customers operate. Thus, the divestment may have improved Suominen's credibility in the eyes of its customers.

The transformation continued in January 2014 when Suominen announced that it will acquire Ahlstrom's Paulinia nonwoven manufacturing plant in Brazil. The plant consists of production line utilizing modern spunlace technology and employs around 40 workers. This was the end for a long saga as Paulinia plant was originally included in the Home & Personal acquisition completed in November 2011. However, this part of the deal delayed several months due to Brazilian authorities. Ahlstrom got the required permissions in 2013 but the two companies could not renegotiate the terms and financing in order to push the deal though before February 2014. We think also Paulinia acquisition was a logical move from Suominen. By the acquisition the company expanded geographically to the new emerging continent where demand for nonwovens are expected to grow over 7 % p.a. Furthermore, nonwoven products are at beginning of their life cycle in South America, which enables higher margins especially in small but fast growing value added category.

The transaction value was 17.5 MEUR (EV), which corresponds EV/S-ratio around 0.9x and estimated EV/EBIT-ratio potentially around 9x-11x. Given the figures, the acquisition was not a bargain for Suominen but reasonable for modern state of art plant in the fast growing market. Suominen financed the deal by 17.5 MEUR convertible hybrid bond. To be after wise, this became an expensive instrument for the shareholders as conversion will increase Suominen's number of shares by 8.6 million (20 % compared to the end of 2013). This is due to rather lucrative conversion price of 2.50 euros per share.

Suominen completed the strategic transformation in July 2014 when the company sold Flexibles BA to Lonsdale Capital Partners LPP for 20 MEUR (EV). However, the company maintained 19.9 % minority share in business. The divestment led to 4.5 MEUR write-down in Q2'14 but we still consider the price corresponding EV/S-ratio 0.3x and estimated EV/EBITDA-ratio of 6x good from Suominen's perspective given Flexible's poor financial track-record and weak business outlook. The strategically logical divestment of the non-core asset reduced clearly the company's risk profile as it was a constant fear that Flexible's losses eat the improving results of Nonwovens and delay the rebuilding.

Strong turnaround in Nonwovens in 2012-2014

2012 was first year of "new Suominen" and the company launched a new strategy focusing Suominen on high value added nonwovens at the beginning of the year. Value added products carry higher gross-margin than value for money products. Thus, high value added grades offer clearly more interesting margin profile for Suominen than highly competitive bulk production. The company achieved sales of 357 MEUR while the EBIT (excl. NRI) was 14.9 MEUR in continuing operations (Nonwovens) in 2012.

The main focus was in the "Summit" cost saving program in 2012. The program aimed to streamline the cost level of the combined corporate structure to competitive level. The program was successful and it exceeded its 10 MEUR saving target. Apart from the savings, Suominen executed its strategy by increasing gradually share of value added products in its sales mix. EPS was 0.04 euros on red as NRI related to the cost savings program, high financial costs, taxes from profitable North American operations and losses from discontinued burdened the net results. However, Suominen made strong cash flow from operations of 24.9 MEUR in 2012. As the company was much disciplined with its investments (basically only maintenance), Suominen managed to reduce its net debt, which was on relatively high level after the large acquisition (2012: gearing 102 %).

Due to the successful cost savings program in 2012, Suominen had much better starting point for the year 2013. Suominen continued its business development according to its strategy, which basically meant increasing the share of value added products in the portfolio. In addition, Suominen focused on improving its operating efficiency and supply chain, which resulted certain savings in the cost side. Naturally cost control remained tight in every sense. These actions kept Suominen's topline and profitability on uphill track in 2013 as the company grew its net sales 4.7 % to 374 MEUR net sales and made 19.4 MEUR EBIT (excl. NRI) from continuing operations. Once again, high financial costs, extremely heavy taxes from very profitable North American operations and losses from discontinued operations (losses and write-downs) kept EPS on the red (-0.09 euros). However, cash flow from operations remained strong at 21.3 MEUR. Thereby, the shrinking equity did not cause challenges for the balance sheet and Suominen's gearing was 96.2 % at the end of 2013.

Suominen completed rebuilding in 2014. Continuing operations' focus remained on gradual product mix development and efficiency improvements while integration of acquired Paulinia plant became a new element. The financial results remained on the right track as Suominen grew its net sales 7.5 % (of which 3.5 % organic) to 402 MEUR and made EBIT (excl. NRI) of 26.9 MEUR in 2014. The final step of the restructuring was refinance, which Suominen completed in Q3'14 and at the beginning of Q4'14. The refinance lowered Suominen's interest rates from 7 - 8 % to around 4.0 % and gave financial freedom for the company. Good results, strong cash flow from operations, convertible hybrid bond finance for Paulinia acquisition offset greatly headwind from negative NRI from Flexibles' divestment, one-time items from refinance and high tax rate. Thus Suominen gearing dropped to 34.2 % at the end of the year. Therefore, after three years of rebuilding, Suominen's operating and financial platforms were ready for the next strategic phase, which Suominen's confirmed to be organic growth in its strategy update launched in October 2014.

2015 was double folded for Suominen

At the beginning of 2015 Suominen changed gear and began seek growth to reach of its 500 MEUR net sales goal for 2017. The company's sales grew nicely 10.5 % to 444 MEUR while also EBIT (excl. NRI) increased to 31.2 MEUR. However, the company got major tailwind from FX as depreciating EUR/USD boosted sales and profits through translation. Organic growth dropped clearly below market growth (around 3 %) at 1 % which in line with fairly intact product mix and unchanging raw material use (138 t in 2014/2015) indicating flat volume development in 2015. This was probably due to certain market related challenges in US while Europe developed mostly likely positively in slightly improving economic environment. However, EPS increased to 0.06 euros per share as the refinance lowered financial costs and tax-rate normalized to 35 % during the year.

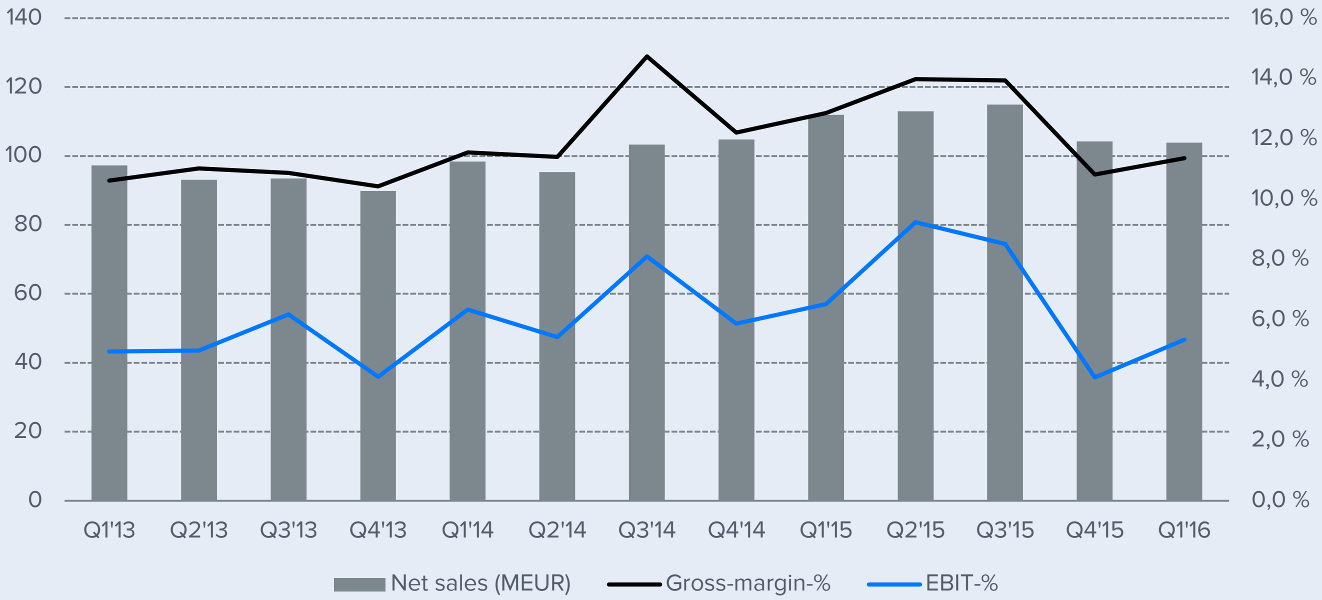
Even if the sales and earnings growth was driven by somewhat weak driver (FX), Suominen continued to execute its strategy prudently during the year. Several new products were launched in 2015 while the company made significant investments (CAPEX and OPEX) to enable the future volume and value growth. Also overall market conditions seemed to develop favorably as progress is consumer confidence was positive in the major markets last year. Therefore, we do not see that somewhat tame underlying performance indicate major trend change around the company but organic growth must definitely rebound in 2016 if the company wants to reach its 2017 profit target and correspondingly return its "growth company" -valuation.

Reverse split reduced number of shares in 2016

In addition to operating development, Suominen's board of directors proposed AGM in February 2016 to reduce the number of all shares by 5:1 reverse split. AGM accepted the proposal in March, which reduced number of the share in Suominen to 51.2 million share (prev. 252.4 million). In addition, hybrid bond conversion may increase number of shares by 8.8 million (prev. 40.8 million) in February 2018. We argue reverse split gave some flexibility to dividend payout or the company but overall nominal value of the share did not have any major consequences for the investors in our opinion.

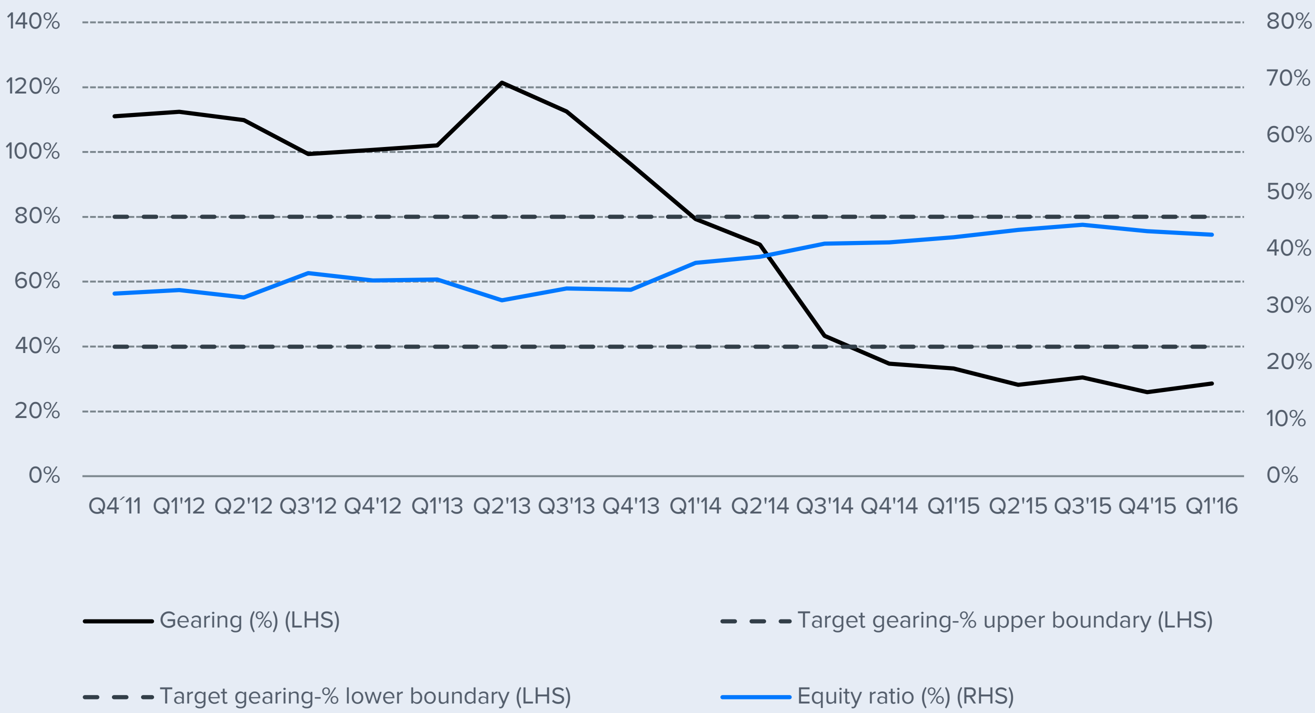
Suominen's historical track record

Historical development of continuing operations



Source: Suominen

Historical balance sheet development



Source: Suominen

Nonwoven industry and competitors

Suominen is a manufacturing company, which operates in the middle of the nonwoven value chain between raw-material suppliers and brand houses or retailers. In general, nonwovens are vast market of 26 billion USD. Suominen is present especially in the wiping segment, where Suominen is a global market leader with 20 % market share. In other focus segments, in medical and hygiene, Suominen is only minor player. Suominen's relevant markets are expected to grow around 3-3.5 % p.a in the next years driven by population growth and aging, increasing spending on healthcare and urbanization. However, Suominen can interestingly find faster growing pockets from its most profitable value added segments. Thus, the overall market outlook of the defensive nonwoven business looks positive in our opinion even if competitive environment remains challenging in the sector as opportunities to differentiate are somewhat limited.

Nonwoven industry

Value chain of nonwoven products

The nonwoven value chain starts with a raw-material manufacturer, which sells main raw-materials such as polypropylene, viscose, pulp and polyester for nonwoven products. Nonwoven manufacturers such as Suominen purchases these goods from global markets. Suominen is focused on the next step of the value chain where nonwoven producers transform raw-materials to nonwoven rolls. The next step of the value chain contains wiping product manufacturers or so called converters of which function is to convert the nonwoven roll materials in to actual wiping products. Converters are either working independently or they are part of the brand houses. Suominen's divested Codi Wipes covered this part of the value chain.

The next step in the value chain contains brand houses or private label manufacturers. Brand houses are usually large global players such as Procter & Gamble, Johnson & Johnson and Loreal. Brand Houses usually are not manufacturing the actual products, but instead focusing on branding and distribution of these products. Some brand houses have made, however, strategic decisions to be involved also in converting. In the end of the value chain are retailers who are having a direct reach for customers through their sales network. These retailers range from local players such as Kesko and S-Group in Finland to global giants like Walmart, Tesco and Carrefour in other markets. Private label manufacturers can supply converted nonwoven products for these retailers, which sell them under their retail brands.

Potential customers of Suominen

Source: Inderes

When we survey the value chain from the pricing power point of view, we can easily see that the pricing power is heavily weighted towards the ends of the value chain. In the early parts of the value chain the pricing power is very limited as the raw-materials are purchased from the global markets where demand and supply determine the prices of the goods. In addition, supply of certain raw materials is controlled by few large players, which increase their purchase power compared to fragmented nonwoven industry. Same very limited pricing power applies for manufacturers and converters against the brand houses. Brand houses are usually large global players, which are able to source their materials globally. On the other hand, the nonwoven products, especially in value for money segment, are mainly homogenous. Thereby, the major competitive force left is the price even if quality and delivery reliability have some role in the game too. The same applies for converters, which sometimes can skip brand houses and work directly for the retailer and as a private label manufacturer. In this setup retailer has significant pricing power against the converter and the position reminds the classical principal versus subcontractor setup.

Despite imbalanced distribution of pricing power in the value chain, typical supplier-client relationships between nonwoven manufacturers and brand houses or retailers are relatively long. For example, Suominen's average customer relationships last around 14 years. This indicates that brand owners and retailers are not very keen to change their suppliers despite their pricing power, which could be due to the indirect costs (i.e. product auditions) or uncertainty (delivery reliability and quality issues) that change in well-established relationship with the supplier can cause. Also the manufacturing contracts are long, typically 2-3 years. In addition, around half of Suominen's contracts include certain clauses transferring changes of raw-material prices to end product prices. Therefore, customers are not continuously bidding their contracts and manufacturers are not in a constant thumbscrew despite their limited pricing power in the value chain.

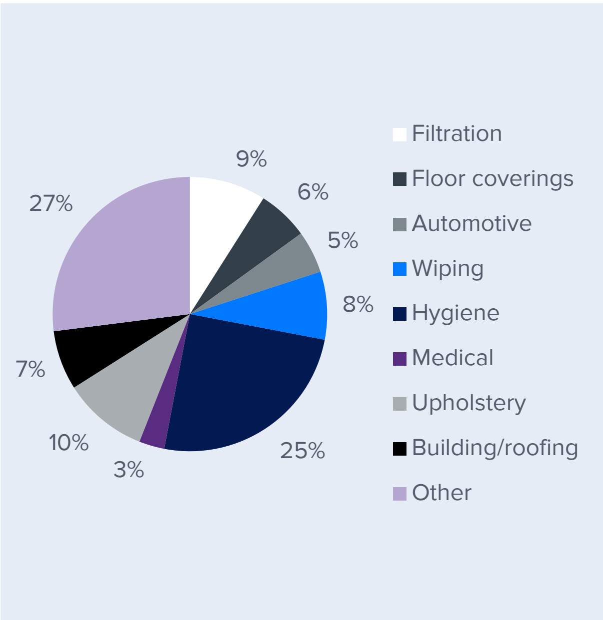
As mentioned before, Suominen operates in wiping, medical and hygiene segments. Wiping is globally market worth of 2.1 billion USD. However, this market is divided to several sub-segments such as baby care, workplace, flushables, household, personal care and travelling&catering. Traditionally baby care represents low value added value for money product category while in the latter segments products are more or less in the value added category. Suominen's Convenience BA is global market leader with 20 % market share in Wiping but the global market remains fairly fragmented and there are only few global players.

Medical is little market worth of some 800 million USD but hygiene is the largest single segment in the nonwoven market worth of some 6.5 billion dollars. These segments include value for money and value added product categories but Suominen is focusing solely on the latter category in its Care BA. In these two end-use segments Suominen's Care BA is minor player and does not have any significant market share.

Global Nonwoven market worth of 26 BUSD

Suominen is operating in a global nonwoven market, which overall market size is estimated to be 26 billion USD. This is of course divided between various segments as nonwovens have several end-use applications in different solutions.

Distribution of global nonwoven market to segments



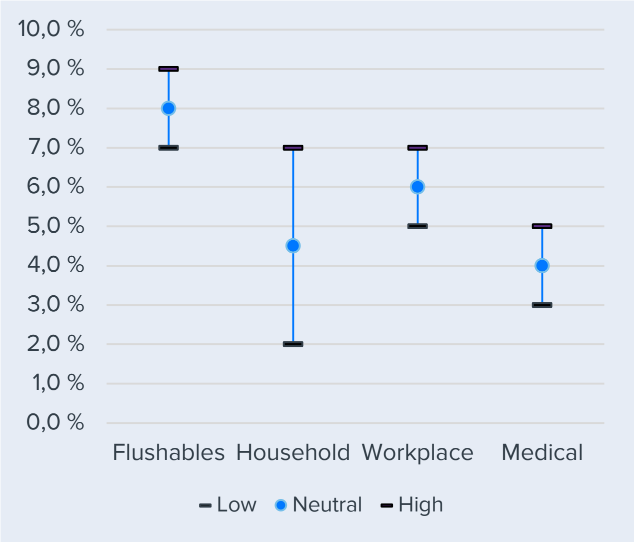
Source: Suominen

Historical market growth exceeds GDP growth

Demand for nonwoven products has grown historically 2-4 percentage points faster than GDP in developed Western markets (US and Europe). This has been driven by several megatrends such as population growth and aging, increasing consumption on personal health and urbanization. In the future, these megatrends will be increasingly present in developing markets, which have clear impact on the market growth expectations in future. According to Suominen's external market research sources, demand for nonwovens is expected to grow around 2 % per annum in North America, 2-6 % in Europe, 7 % in South America, 7 % in Africa and 8 % in Asia in the next few years. This makes around 3-3.5 % expected CAGR for Suominen's main markets and some 5 % globally.

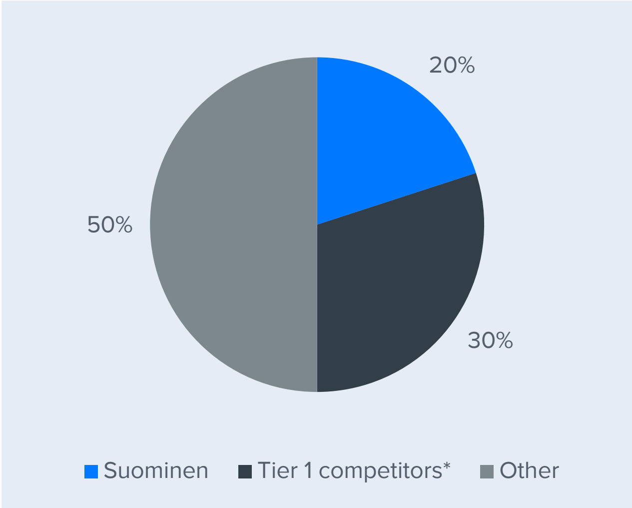
However, investors should keep in mind that these figures represent overall growth for nonwoven demand while growth varies greatly between end-use segments. This gives Suominen opportunities to focus on most interesting and fast growing segments. Generally, value added categories of Convenience and Care have higher growth outlook than value for money products. In the other words, 60 % of the company's current offering are expected to exceed market growth in the future. Thus, the company should have room to exceed overall market growth in its most profitable product categories. Thus, we believe the market offers enough support for Suominen but the growth depends on the company's success in strategy execution as competition will be fierce in the sector.

Growth outlook of value added grades



Source: Suominen

Market shares in Wiping



Source: Suominen
*Kimberly Clark, Jacob Holm, Sandler, Avintiv

In addition to growth outlook, it is important to understand that the basic demand for wiping products is stable as the products can be seen as consumer discretionary. Thus, demand do not usually fluctuate greatly with the economic cycles even if consumers tend to switch to lower cost products when consumer confidence shrinks. However, we consider defensive character of the business a positive factor from investors' perspective.

Competitive field

Fragmented markets in global scale

As mentioned, Suominen has around 20 % market share in Wiping, which makes the company a global market leader in the segment. The four biggest tier 1 competitors have together some 30 % market share, thus the five biggest hold only slightly above half the market. The other half is controlled by smaller and local players.

Nonwovens is local business

Nonwoven business is local by nature. As the nonwovens are fairly low cost and high volume products, they are unable to carry significant logistics costs. Therefore, the production must be continental or in certain cases even more local. Naturally, more expensive value added products can carry somewhat higher logistics costs than the cheapest value for money products, which expands slightly potential market area at the high end. However, we argue overseas sales is still challenging in the business. This is proved also by Suominen's geographical sales split as only 2 % of net sales came from the regions in which the company did not have production in 2015. The same goes for the raw materials, which the manufacturers purchase continentally.

We argue the nature of the industry is a two-folded coin for Suominen. On the one hand, locality reduces somewhat Suominen's global operational synergies and ability to utilize its key accounts consisting of large brand companies without expanding its plant portfolio geographically. On the other hand, Suominen's European and North American markets are practically safe from Asian low cost exports. This limits competitive pressure in the company's main markets.

Growing markets attract investments

The whole wiping business has been suffering from a modest overcapacity in Europe, which was built during the boom years of 2003-2008. Clear overcapacity has been cut due to recent growth but there is still definitely enough production capacity especially in value for money baby wipes in Europe while North American supply/demand balance has been historically better as similar overcapacity was not built in early 2000s.

There have been recently some capacity increases in Suominen's main markets as at least two plants were started up in North America and two in Europe. We argue very good trading conditions in the last years have attracted market players to invest in North America and robust long term growth outlook to certain fast growing segments (such as flushables) also in Europe. In addition, certain capacity increases are also announced for future, which will bring new capacity to the markets in 2017. Capacity increases are natural and inevitable as the markets keep on growing but they have always impact on the market balance at least on short term. For example, the capacity started up at the end of 2015 in US and Europe caused also Suominen's volumes and prices to decline some 3-4 % in Q1'16. This describes fierce competitive environment in the sector, which will remain as such also in future.

Despite recent increases and planned increases, we consider market balance currently reasonable in Suominen's main markets. We believe North America remains somewhat better market than Europe even if the gap between the continents seem to slightly even out as North American capacity increases more and on the other than European economy has recovered. Given current estimates, we do not expect chronic overcapacity to be built to either market. However, further capacity increases could make the matters worse. We argue one new production line in Europe or North America will raise up local production capacity some 2-3 %. Basically, one line per continent year is required to meet demand growth but several lines would create market pressure if old capacity is not simultaneously ceased. We remind this is big picture on overall market conditions while in single product grades situation may vary significantly.

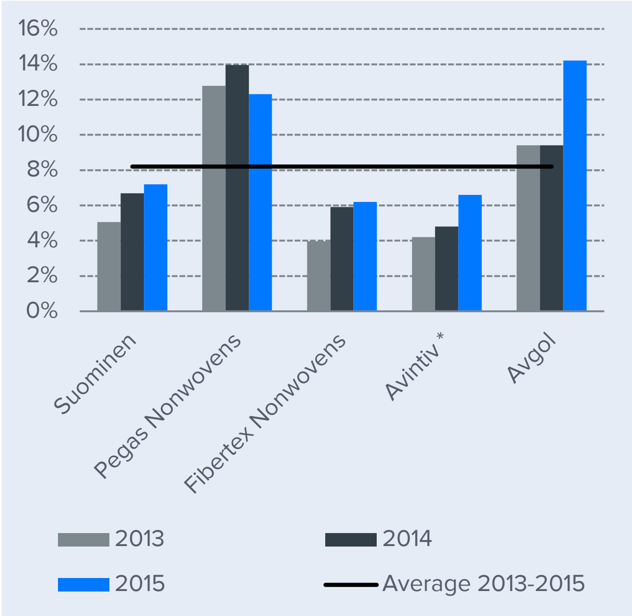
South American market is growing fast but the markets cannot always absorb all the volumes that come to the markets unevenly due to start-up of a greenfield plant. This is due to absolute market size in tons, which clearly smaller in South America compared to North America and Europe. Thus, supply/demand-balance may be temporarily unfavorable but the fast growth should even out imbalances fairly quickly. From Suominen's perspective, it is important to understand that South America is a developing market and Suominen is basically launching value added grades to the market after Paulinia plant rebuild completed in 2015. Therefore, it will take time reaching on group level significant value added sales in Brazil. Recently, Brazilian nonwoven market has remained fairly robust despite the challenges in the economy resulting from declining commodity prices. This confirms defensive nature of the business in our opinion.

Performance versus sector peers'

Even if Suominen faces competition from global players such as Kimberly-Clark, Jacob Holm, Sandler and Avintiv in wiping, it is very difficult to compare Suominen's financial performance to other players directly. This is due to fact that straight competitors are private equity companies or parts of big corporations, which have different businesses to reduce comparability. Therefore, reliable comparison figures are difficult to find. However, we have benchmarked Suominen's financial performance against certain players of different nonwoven segments. We have included the in comparison Pegas Nonwovens, Fibertex Nonwovens, Avintiv (prev. PGI, currently part of Berry Plastics) and Avgol. Pegas Nonwovens is Czech listed company, which operates in hygiene segment with somewhat different technology compared to Suominen mostly in Eastern Europe. Israeli Avgol operates in similar business globally. Fibertex Nonwovens belongs to Schouw Group and operates mostly in continental Europe in industrial nonwoven segments such as automotive, building and furniture.

Suominen has performed recently quite well in line with the peers in terms of profit margins, which confirms our view that the rebuilding was successful and that the company has built a solid platform for growth. Pegas Nonwovens and Avgol have outperformed clearly but investors should understand that their business is based on somewhat more capital intensive technology than Suominen's one. This must be visible also in the profit margins and ROI-% would be actually right metrics to compare their performance to Suominen.

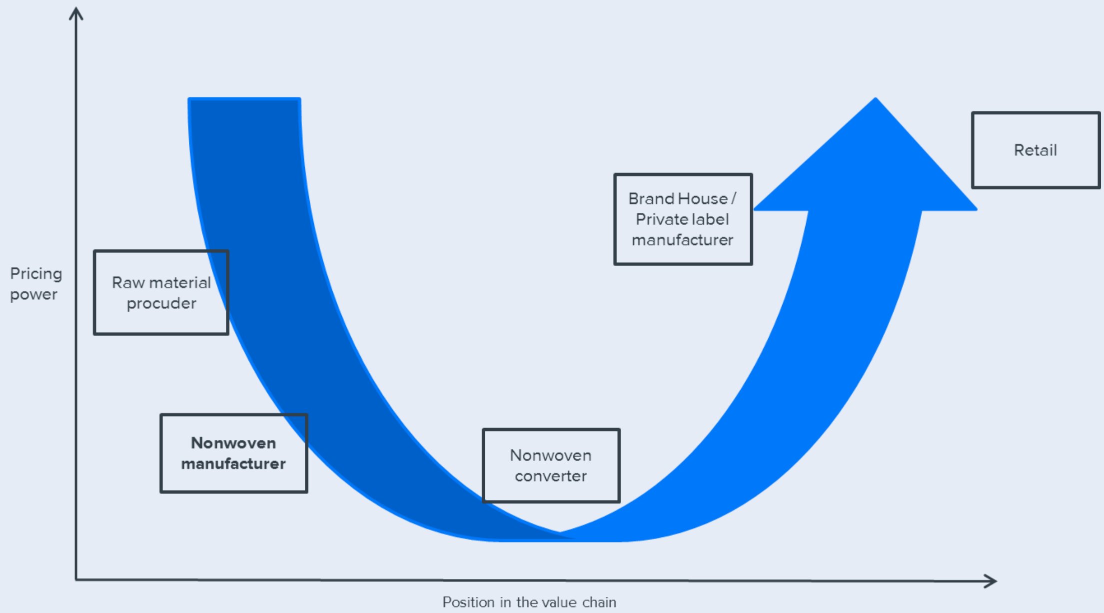
Suominen and Nonwoven peers' EBIT-% 2013-2015



Source: Bloomberg and CapitalIQ
*6/2015 LTM

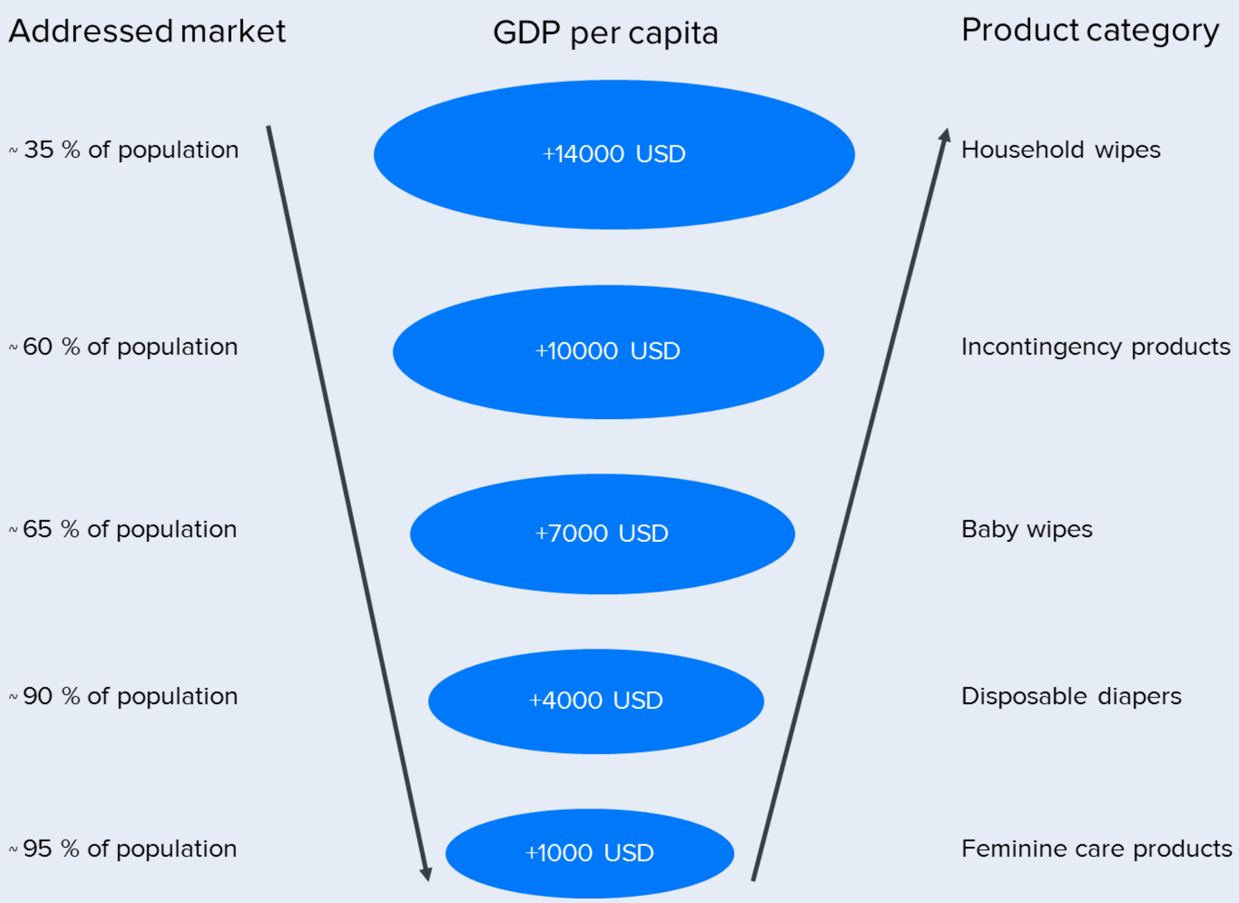
Nonwoven industry

Nonwoven value chain



Source: Inderes

Global reach of nonwoven products



Source: Suominen, The World Distribution of Household Wealth

Strategy, competitive edge and risks

After the rebuilding Suominen announced strategy update, which focused the company from internal efficiency improvement to organic growth for the strategic period of 2015-2017. However, high value added nonwovens remained in the core of the strategy. We believe in the company's strategy and the management's ability to execute it due to Suominen's strong track-record during the rebuilding era and credible plan for the next strategic period. Competition in the sector is fierce but we argue Suominen's advantages in the game are global presence, competitive product portfolio and excellence in supply chain management while the dependence on key customers, limited pricing power and overcapacity represent the most concrete risks.

Strategy

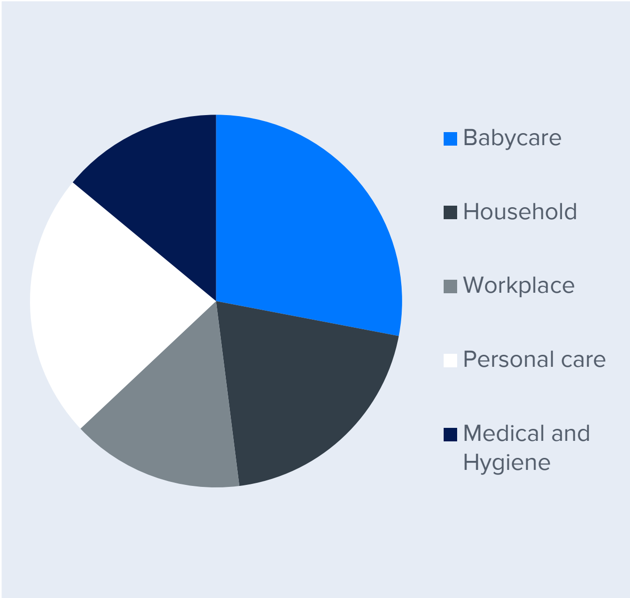
The strategy leans on high value added nonwovens

Suominen's first strategic cornerstone is based on aim to increase share of value added products in the product portfolio. Even though Suominen does not disclose the actual margins between different products, we estimate that the value added products are carrying clearly higher margins than the regular value for money or bulk products. These value added products are also less vulnerable for a customer contract termination as these products have clearly higher switching costs for the customers than the regular bulk products (especially baby care).

In 2012 Suominen's net sales were roughly evenly split between value added products and value for money products. Strategy implementation continued in 2013-2014 and we estimate Suominen was able to increase share of value added products to almost 60 % in 2014 while value for money products brought still slightly over 40 % of revenue. This was good transformation pace in our opinion given that acquired Paulinia plant is still almost fully focused on baby care. However, 2015 was a year off for Suominen in this sense as there were no visible changes in the product mix even if the company launched several new products during the year and continued its strategy execution prudently. This was mostly likely due to hick-ups in US market and Care, which suffered delayed orders of some key accounts in H2. We expect product mix improvement returns back on track in 2016 and Q1'16 was also promising in this sense. However, after slower 2015, we pay increasing attention on the issue as the mix improvement is vital for the company long term.

Suominen has not published any numeric targets regarding the product mix but we believe at the end of the on-going strategic period in 2017 baby care should bring around 30 % of Suominen's net sales leaving the rest 70 % for the value added grades. We would like to remind that baby care have still valuable role in Suominen's portfolio despite lower margins as its high volumes give critical load for the production system. This is important from efficiency perspective. However, growth expectations lay especially on workplace and household wiping, medical&hygiene (Care) and personal hygiene (flushables), which should increase their relative shares in Suominen's portfolio clearly in 2016-2017.

Suominen's estimated product mix in 2017



Source: Inderes

The second cornerstone aiming to significant profitability improvement is based on the product strategy but in our opinion also on continuous improvement of operational efficiency. The latter is very also crucial and necessary in the industry where product differentiation is difficult, the competitive pressure remains fierce and gross margins are thin. In practice, continuous improvement has meant tight cost discipline, NWC control and CAPEX allocation. Suominen has completed also two strategic programs during rebuilding era focusing on supply chain efficiency and R&D process improvement. These programs have brought also tangible results during the rebuilding. We believe operational efficiency will also continue to be the focus area for Suominen despite the fact that the strategy is focusing increasingly on growth, which will require definitely more resources in the next years.

The last strategic cornerstone, transformation of corporate culture, is somewhat more intangible goal but we believe this is in connection with continuous improvement of operationally efficiency. Basically, the management has brought cost-efficient way of thinking to whole organization of the company. This is somewhat harder to measure by any public KPI's but we believe results have been reasonable also in this sense given improved financial results.

Focus shift on growth after the rebuilding

Suominen announced in the strategy update in autumn 2014 that the company aims to have roughly 500 MEUR net sales in the last year of strategic period in 2017. The company confirmed the aim in CMD in autumn 2015. Suominen should reach this level by organic growth in its current markets and current product categories as geographical expansion, greenfield investments, acquisitions or new product segments are not focus areas during this strategic period. To reach the growth, Suominen has 60 MEUR growth CAPEX budget (of which 54 MEUR Suominen allocated in 2015) to build new capacity and rebuild current production lines. Rebuilding current lines means certain de-bottlenecking investments but also investments to improve flexibility of the capacity to produce increasingly more value added grades. In addition to CAPEX, Suominen will invest in OPEX (namely sales&marketing and R&D) in order to reach 500 MEUR topline in 2017.

As mentioned before, Suominen's relevant markets are expected to grow around 3.0-3.5 % p.a. Correspondingly, Suominen should reach 6.2 % p.a. annum growth rate given net sales level of 444 MEUR in 2015. Thus, the company should exceed clearly the market growth rate in the next two years. The target is ambitious even if now looks that FX rates (USD is significantly stronger now than in autumn 2014 when the aim was set) will make the reaching the target somewhat easier.

The key driver for the growth should be increase in value due to improving product mix, which Suominen aims to reach to establishing product leadership. This require success in R&D leading commercialization of new products, commercial excellence, active key account management and certain quality improving investments in the current production plants. However, Suominen needs also volume growth above market growth in order the reach its net sales goal FY'17. Therefore, the company will build new production line in US during the strategic period but fill in and also slightly increase the capacity also in Europe as demonstrated in 2015.

Strategy execution began fast in 2015

Suominen started fast executing the strategy as the company has allocated most of its CAPEX budget and launched several new products at the end of 2014 and during 2015-2016. First, Suominen has started and completed product quality and flexibility enhancing investments in Paulinia and Alicante plants. In addition, Suominen has made small capacity adding investment in Nakkila where a production line shut down in 2012 was taken again in use. Currently the line is operating flexibly according to the needs of the market. These three investments were combined 4 MEUR, thus they were just small part of the company's CAPEX program. However, we consider them to be well in line with the strategy.

In addition, Suominen published in May 2015 that it will invest in new wet laid production line focusing on household and workplace wipes, personal care and flushables in Bethune US. The company disclosed is September 2015 that the line is an investment worth of 50 MEUR. The total investment became clearly higher than we expected due to Suominen's certain technical choices that increase flexibility and correspondingly investment costs of the line. Production capacity remained intact. At the same time, Suominen had to increase its CAPEX budget of the strategy period from 30-50 MEUR to 60 MEUR, thus the costs must have somewhat surprised also the company.

The update raised also our CAPEX estimates FY'15-FY'17 even if we had estimated the company will end up to the upper range of its old budget. Therefore, we did not consider the budget increase entirely positive news as it could be increasingly difficult to make over 12 % ROCE for 50 MEUR capital employed than 25-30 MEUR that typical nonwoven line would cost. However, we remind that benefits of flexibility will be seen only when the line is up and running and Suominen management's strong track-record give confidence that also extra capital was allocated productively.

Despite clear hick-ups in US market in 2015, we argue the Bethune investment is logical from the market perspective. First, North America represents the biggest market of high value added nonwovens in the world. Second, market growth outlook is good in US and demand/supply-balance has remained decent. Third, Suominen's old lines cannot produce all the products new line will manufacture, thus it does not directly compete with Suominen and competitors' existing production but relies on commercializing certain new products. In line with that we expect also launches of certain new products in 2016-2017, which will be manufactured in Bethune. Finally, building the new line to the existing plant should be relatively efficient from perspective of capital use as Suominen can utilize existing infrastructure of the plant to some extent. Thus, locating the investment to Bethune makes sense in our opinion.

Given Bethune's production line investment and smaller projects in Paulinia, Alicante and Nakkila, Suominen has still some 6 MEUR left in its growth investment budget. We believe the company will allocate money to several smaller quality and flexibility improving projects in 2016 or by the latest in early 2017. Therefore, we believe Suominen will basically use the full budget to support growth.

Apart from CAPEX, Suominen launched six new value added products to markets in 2015. Five of the products belong to Care as they were nonwoven products for wound care and hygiene. The sixth one was next generation flushable wiping product for which Suominen also has patent protection. We think these launches support well the company's product strategy but commercial start of these products has been somewhat slower than we expected as there were no visible changes in the product mix in 2015 compared to 2014. However, we still expect visible signs from the new products in 2016 before re-evaluating commercial success of these products. In addition, we expect the company has still launches of new products in the pipeline. Some of these new products will supplement also Suominen workplace product offering, which the company launched to the markets as product family in May 2016.

The strategy is concrete and credible

In general, we think the selected and much focused strategy guides Suominen to right direction. We believe that current markets offer still clear growth potential for Suominen, thus there is yet no need for riskier geographical expansion which would have required greenfield investments or M&A. However, we believe geographical expansion will be focus area in the next strategic period in 2018-2020 as we argue the company is determined to hold its position as a global player. In addition, we expect the company remains in wiping and medical&hygiene segments as they offer still plenty of room to grow over long term. Therefore, there is no reason to look for other segments of the Nonwoven market.

We argue the most likely direction will be Asia as Africa remains still too underdeveloped for the company focusing on high value added grades. In Asia both greenfield and M&A driven expansion strategies would be possible while the final decision will depend on several things such as general economic situation, market balance, availability of M&A targets and so on. However, the footsteps of the next strategic period will be published most likely only at the end of 2017 or at the beginning of 2018. Therefore, investors will still focus on following how the company's current strategy delivers and it will determine also the share's performance short term.

Financial targets

As a part of the strategy update, Suominen also sharpened its financial targets in October 2014. Suominen has still three targets, which are:

"Suominen aims to increase its net sales at a rate that exceeds the average growth rate of the industry."

As mentioned before, even if Suominen got clear tailwind from FX in 2015, the company should exceed clearly market growth rate during the next two years in order to reach its net sales goal of 500 MEUR in 2017. Despite disappointing organic growth in 2015 and in Q1'16, we remain fairly confident Suominen reaches it goals when new products and growth investments (especially Bethune's new line) will begin to contribute on the growth. We would like also remind that Suominen exceeded market growth during the rebuilding in 2012-2014 without growth focus. Thus, the company should have all tools to grow the business. However, risks remain somewhat elevated due to recent weak progress.

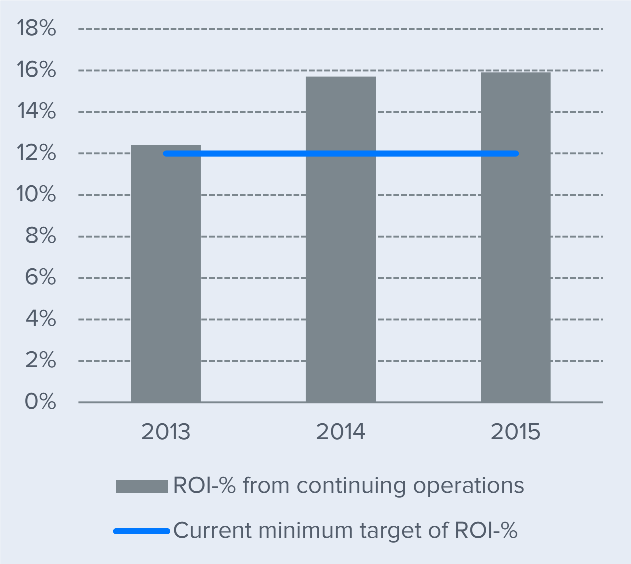
"Suominen aims to have a solid capital structure with a gearing ratio principally between 40% and 80%."

Due to the Suominen's position in the value chain, we believe that it is businesswise necessary to maintain strong balance sheet. However, Suominen went slightly below the lower boundary of the target in 2015 as good financial results supported the balance sheet and the company operates in somewhat capital intensive manufacturing industry, where certain leverage is required to ensure optimal return on invested capital. Thus, we think Suominen will not intentionally try to push gearing further down. In general, the company should not have any worries with the capital structure in the any foreseeable future, which offers the company wide financial freedom to execute its strategy.

"Suominen aims to clearly improve its relative profitability. The target level of the company's return on investment (ROI) is to be above 12 % (above 10 % until October 2014)."

Even if Suominen has limited pricing power towards the both ends of the value chain, we see this 12 % ROI-target easily achievable. This is due to the company's healthy cost structure, good profitability and relatively light balance sheet. In addition, Suominen's CAPEX will be moderate compared to depreciation in the next years despite growth efforts, thus increasing size of the balance sheet should not severely push down ROI-% in the next years. In addition, the company has exceeded the current target clearly in the last two years in continuing operations even if the overall market cycle has not been exceptionally strong. Therefore, we argue Suominen's ROI-target of minimum 12 % is too low for the company. Therefore, we believe Suominen will raise the bar of ROI-% target at the end of strategic period if the company progresses with the strategy as planned. We argue Suominen should be able to aim to above 15 % ROI-% given its current capital structure.

Suominen's ROI-% in 2013-2015



Source: Suominen

We believe the company has been quite cautious with the profitability target due to the on-going growth strategy. ROI of 12 % is definitely clearly above Suominen's WACC and would be actually a good (if not very good) level of return for Bethune's new production line tying up capital over 50 MEUR. Therefore, returns for new capacity are not necessarily such lucrative that they would attract major investments. However, Suominen's well depreciated old asset base can generate higher ROI-% as the efficiency differences between modern and old capacity do not become fast an issue for profit generation capacity in this type of industry. This reduces comparability of ROI-% between group and single investment level in our opinion.

As a new element, Suominen published its first dividend policy in the strategy update in October 2015. This well expected step confirmed Suominen's status as "normal" company after some years of turnaround. Suominen's dividend policy is following:

"Suominen's policy is to distribute approximately 30% of its profit for the period in annual dividends. In assessing its proposal for the payment of dividends, the board will also consider Suominen's future investment needs and the solidity of its financial position."

Given Suominen's current gearing below the target range and growing but still reasonable CAPEX, we consider 30 % payout-ratio target to be fairly cautious. However, we understand that the company wants to begin payout mildly, keep dividends on the uphill track and maintain enough financial flexibility to execute the growth strategy. Therefore, we estimate that the board may raise the payout ratio target in the next strategy update.

Competitive edge

Suominen operates in the manufacturing industry where opportunity to differentiate is limited excluding certain value added categories. On the other hand, we believe operating efficiency of the machinery, which is the usually gained through CAPEX in the process industry, is not the crucial issue in nonwoven sector because the production volumes (local nature of business) and share of fixed costs of total costs are fairly low compared to very capital intensive industries (like steel, pulp or energy). Also lifecycle of the technology is relatively long. Therefore, we argue that it is difficult to build competitive advantage through CAPEX in this type of industry. In addition, we consider the company's production setup technically competitive enough as several machines are built or rebuilt in 2000s. Therefore, the machinery itself is neither competitive advantage nor competitive disadvantage for Suominen.

As opportunities to differentiate and obtain pricing power are limited in nonwoven business, we consider the business as the supply chain efficiency game especially in Convenience but also in Care. Thus, profits exceeding the industry average require excellence in different areas of supply chain management such as procurement, inbound logistics, operations, outbound logistics, sales, services, research and development, human resources and organizational development. Altogether, lower variable and especially fixed costs are the keys to widen the margins in addition to competitive product portfolio.

Suominen should have competitive and developing product offering in our opinion and we see a good change Suominen succeeds to establish product leadership as aimed in the strategy. This would make competitive edge resulting from the products stronger. However, production portfolio can barely become sustainable competitive advantage over long term in this type of industry but rather give some advantage in time.

Suominen manages the whole supply chain on corporate level. Different plants are technically capable of making different orders to large extent, which reduces production risks and gives flexibility for the company. Customers and orders are allocated to the plants to optimize corporate profitability of large entities and key accounts. We consider Suominen's supply chain management principles adequate. In addition, we believe the company's production setup gives certain flexibility to optimize logistics and production on continental basis what necessarily all smaller and local competitors do not have. We believe flexibility and certain economies of scale resulting lower fixed costs in supporting functions to give certain competitive edge for Suominen.

Geographically we consider Suominen's portfolio to be good from supply chain management perspective in Americas. However, European portfolio is clearly weighted towards Northern and Southern Europe as the European plants are located in Finland, Spain and Italy. Given the state of European economy and growth potential weighted towards developing Eastern Europe and wealthy Central Europe and UK, we do not consider European portfolio perfectly optimal. This probably causes some non-optimality on Suominen's cost position but this disadvantage does not anyway equal fully the advantages elsewhere.

Risks

Raw material price risk: As raw materials form vast majority of Suominen's cost of goods sold (60-70 % of COGS, 50-60 % of total costs), it is always carrying raw material price risk. Suominen is not hedging its raw material purchases but it is tackling this issue through raw material price clauses, which are included in half the contracts (likely consisting mostly of large key accounts and/or baby care clients). The lag between the price increases varies from 2-5 months depending on the customers. Overall, we can say that the lag between the raw material price development and the actual price increases is fairly long. This can cause some fluctuation on quarterly level but should shield the company reasonably over longer time period.

In addition, half of the contracts do not include raw-material clauses, which is intentional business decision made by the management. We believe Suominen has not included raw material clauses in deliveries where cost of Suominen's products represent only a small part of total costs of the customer's end product. In this type of deliveries, the customer's awareness of Suominen's raw-material price development may not be the best and the customers' resistance against price increases the most severe, which give Suominen some pricing power. In addition, short-term or spot sales do not include raw-material clauses.

In general, we consider the company's hedging from changes in raw-material prices appropriate and raw-material risks limited on long time frame if prices follow-trend-like progress. However, fluctuating raw material prices would probably be a problem for Suominen as customers' resistance against price increases is the strongest when raw-material prices do not show a clear trend.

Losing a major customer: Suominen's two largest clients brought 19 % and 15 % of the company's net sales in 2015 and we believe that 10 key customers are accounting around 60 % of total net sales. Therefore, losing any one of these key accounts would cause a significant drop in sales short term, which would have also impact on profitability. However, the average customer relationship of Suominen is around 14 years, which implies very low customer turnover ratio. Thereby, we see the overall risk of losing a major customer fairly small. However, large global brand houses and retailers barely give all their orders for one suppliers but use rather 2-3 manufacturers. Customers' order allocation to suppliers may also vary, which may also create the pressure on Suominen's sales even if the customer is not totally lost. We believe Suominen suffered this type of changes in Q1'16.

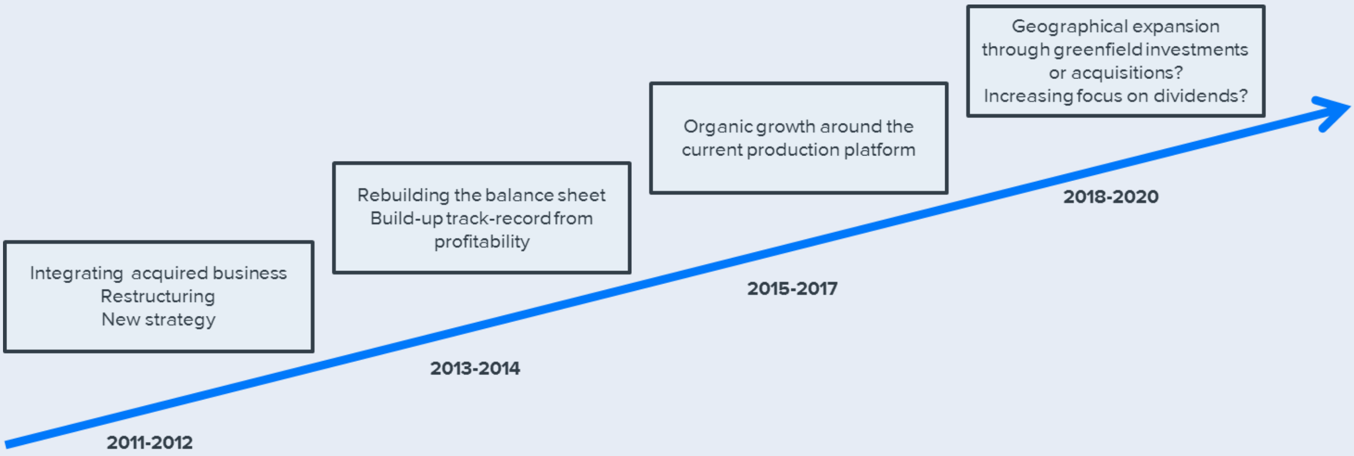
Overcapacity: Due to the relatively low price per volume unit, the production in nonwovens has to be located fairly close to the end user. This and growing nature of the business mean always a risk for local oversupply. Magnitude of the overcapacity would naturally depend on amount of new capacity and growth rate of the product segment. Usually overcapacity leads to price erosion and/or higher unit costs in production. The latter fact is due to decreasing operational efficiency deriving from to lowering capacity utilization. Overcapacity is especially poisonous in value for money products, where products are very homogenous. Furthermore, there are some capacity expansion plans in North America and Europe, which will increase capacity also in value added grades, which reflected also negatively on Suominen's results at the beginning of 2016. Therefore, this risk remains actual for Suominen short and longer term.

Competitive pressure by large competitors: Even though Suominen is the globally leading player in wiping, it is still relatively small when looking nonwovens as a whole. Therefore, there is always a risk for the competitive pressure from large competitors, which could dominate the business by economies of the scale. There has been also consolidation in fragmented sector (for example Avintinv doubled its sales to 2 BUSD under control of Blackstone in 2012-2015), which may well continue. These two factors could change competitive environment to more unfavorable from Suominen's perspectives. However, over short term we see the risk limited as this type of changes will not happen overnight.

Sensitivity to EUR/USD is risk for Suominen as the company generates over 50 % of its sales and probably even bigger share of EBIT from US. According to the company, 10 % of change in EUR/USD has 2.5 MEUR impact on annual EBIT given current business structure. The impact comes through translation to the income statement, which limits opportunities to hedge. Therefore, EUR/USD can have significant impact on Suominen's reported sales and results. FX sensitivity is naturally two folded coin but we consider in general FX driven earnings volatility somewhat negative factor from investors' perspective.

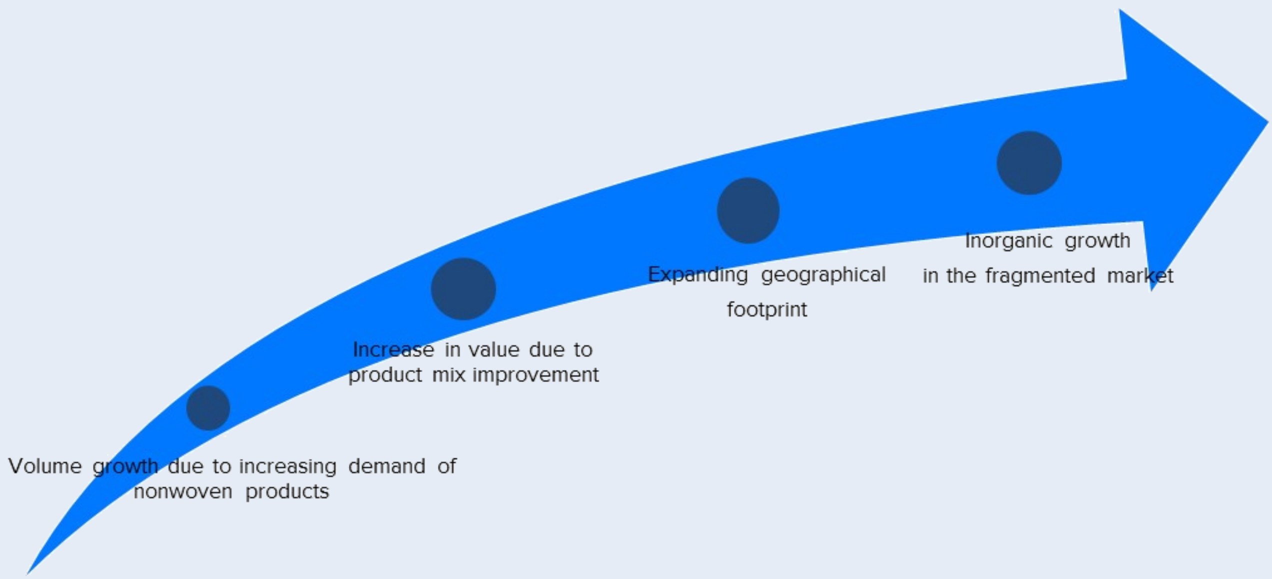
Suominen's strategic road-map

Strategic road-map



Source: Inderes

Suominen's long term growth drivers



Source: Inderes

Cost structure and financial position

Suominen operates in the industry, which is characterized by low gross margins. This requires tight fixed cost control. Suominen has managed to raise gross margins by product mix and efficiency improvements while keeping OPEX well in control. On the balance sheet side, Suominen's position is very strong after successful rebuilding. The company's gearing was at 33.2 % at the end of Q1'16 which is below the lower boundary of the target level. Therefore, Suominen has definitely enough financial flexibility to execute its growth strategy.

Cost structure analysis

Suominen's cost structure

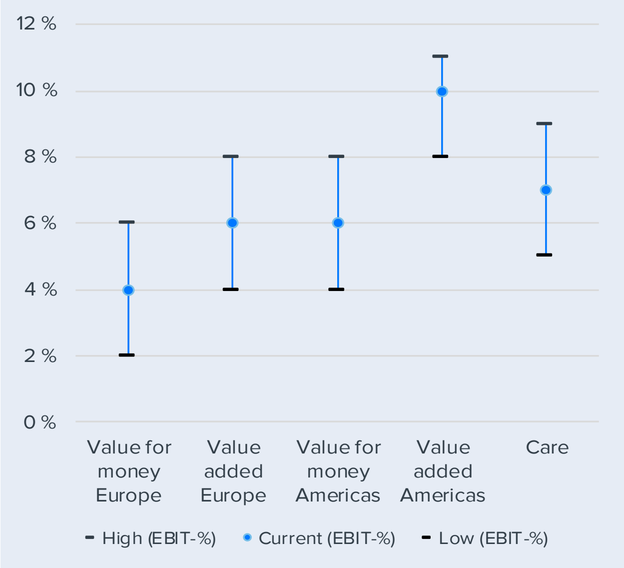
	2014	% of sales	2015	% of sales
Sales	401,8	100,0 %	444,0	100,0 %
Cost of good sold	-352,1	-87,6 %	-386,0	-86,9 %
Gross margin	**49,6**	**12,4 %**	**58,0**	**13,1 %**
Sales & Marketing	-6,3	-1,6 %	-7,8	-1,7 %
Research & Development	-2,9	-0,7 %	-3,5	-0,8 %
Administration	-14,1	-3,5 %	-16,7	-3,8 %
Other costs	-2,2	-0,5 %	-0,9	-0,2 %
Other income	2,7	0,7 %	2,6	0,6 %
Non-recurring items	-1,0	-0,2 %	0,5	0,1 %
EBIT(excl. NRI)	**26,9**	**6,7 %**	**31,2**	**7,0 %**

Source: Suominen

We estimate that some two thirds of COGS are raw-materials. Raw-materials are mainly priced in the global markets and Suominen has limited pricing power there. The second big variable component in COGS is probably energy, which could constitute around 10-15 % of COGS. Price of energy is naturally determined also in the markets but energy markets are more local than for example raw-material markets. The third large variable cost component in COGS sold must be wages of production personnel, which could represent another 10-15 % total COGS. Almost entire production staff of Suominen locate in the developed countries where wages are high. However, as the nonwoven business is local by nature, Suominen's position is not significantly worse in relation to competitors. Basically, high wages could be competitive disadvantage in Europe where Suominen could face competition from Eastern European manufacturers, which have lower personnel related costs. In addition, we see no room for further gross-margin improvement by headcount reduction because the production staff has already been cut to its sustainable minimum during the rebuilding era.

Therefore, we believe the lower input costs have to come through better capacity utilization, which also have an impact on cost efficiency also on the variable side in this type of industry. Currently, we believe Suominen's capacity utilization is at decent level in general in both continents. This has been case in America for some time but 15.3 % (includes only minimal FX tailwind) growth y-on-y growth in Europe in 2015 indicates clear volume growth and correspondingly improving capacity utilization in Europe. This must have helped the company to reach 0.7 %-point gross-margin improvement in 2015, which mostly likely somewhat declining US volumes (zero growth despite FX tailwind) offset only partially. Altogether, the main driver over long term for the gross-margin expansion should be still increasing share of value added products carrying higher margins over as there is only limited room to improve utilization rate of current capacity on the group level.

Estimated profitability of product categories

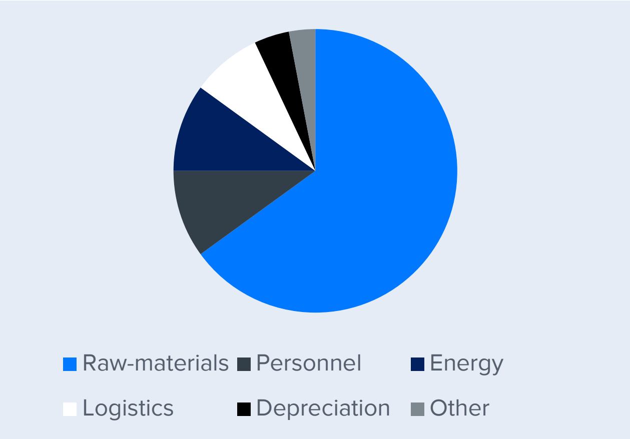


Source: Inderes

On the OPEX side the largest item is administration expenses. The second biggest item is sales&marketing while other items (R&D, other costs and other income) are below 1 % of the company's sales. Overall these SGA costs accounted 5.5 % of sales or 20.7 MEUR in 2013, 5.7 % of sales or 22.8 MEUR in 2014 and 5.9 % or 26.2 MEUR in 2015. In 2015 3.4 MEUR SGA cost increase y-on-y is probably partially explained by FX but as the growth efforts require also new resources and inevitable cost inflation will drive Suominen's OPEX up on absolute terms. The company has also publicly disclosed that it will aim to increase R&D spending over 1 % of net sales in order to support the product strategy. This includes investment in processes but also recruitments of R&D personnel. In addition, increasing CAPEX will also drive up depreciation but this burdens mostly gross profit (depreciation of production assets is accounted in COGS) and only slightly SGA items in administration.

Despite absolute growth in SGA, we believe the management is focused to maintain extremely tight cost discipline. Thus, we believe relative share of SGA will remain fairly flat at around 6 % in the near future. This is very good level on in our option, which is also necessary given the nature of the industry. Therefore, we do not believe SGA will become the problem for the company also in the future.

Estimated cost structure by cost items



Source: Inderes

Balance sheet analysis

The majority of Suominen's non-current assets consist of tangible assets, which are mostly plants and machinery. At the end of Q1'16 tangible assets were 94 MEUR. This is relatively low value due to fairly fast depreciation rate and we consider Suominen's tangible assets fairly valued. At the end of Q1'16 the balance sheet contained some 15.5 MEUR of goodwill representing 15 % of equity attributable to shareholders. Existing goodwill was formed in 2011 when Suominen acquired Ahlstrom's Home&Personal BA. As the business development in Nonwovens has been good, there should be no pressure for write-downs if the company does not deviate from the track. Other intangible rights were 13.4 MEUR at end of Q1'16.

On the non-current asset side, the fourth meaningful non-current item in the asset side is loan receivable of 7.8 MEUR. This is related to Flexibles' divestment as Suominen gave a vendor loan for the buyers to finance the transaction. The item is treated as interest bearing receivable. The receivable is divided to loan note of maturing at the end of 2018 and having interest of 6 % p.a. and subordinated loan note maturing at the end of 2024 and having interest rate of 9 % p.a. Thus, the company should get some 0.5 MEUR per annum financial income from the vendor loan. We see this currant as Flexibles' (currently Amerplast) have managed to improve its financial performance. In addition, Suominen has earn-out of 1 MEUR based on Flexibles' financial performance but there is still major uncertainty over its realization and timing (could be 3-5 years) of the earn-out. In addition, Londsdale Capital Partners will most probably aim to exit from Amerplast after the successful turnaround. This would allow also Suominen to sell its equity stake of 19.9 % in Amerpalst potentially with a one-time profit.

On the current asset side, the three biggest items were inventories (32 MEUR), trade receivables (52 MEUR) and cash (53 MEUR) at the end of Q1'16. Generally, we believe that the NWC items (including payables in liabilities) are on good level since Suominen has been able to trim down its NWC clearly during the rebuilding. In the end of 2015 the NWC to net sales ratio was slightly above 8 %. We believe that the current level should be a sustainable level for Suominen but as the company grows it will tie up more capital also in NWC. This trend began in 2015 and we expect that it will continue in next years. Cash position is currently definitely elevated given the scale of the business but this is temporarily justified given coming cash out to CAPEX. Other items in current assets have fairly limited significance on the group level.

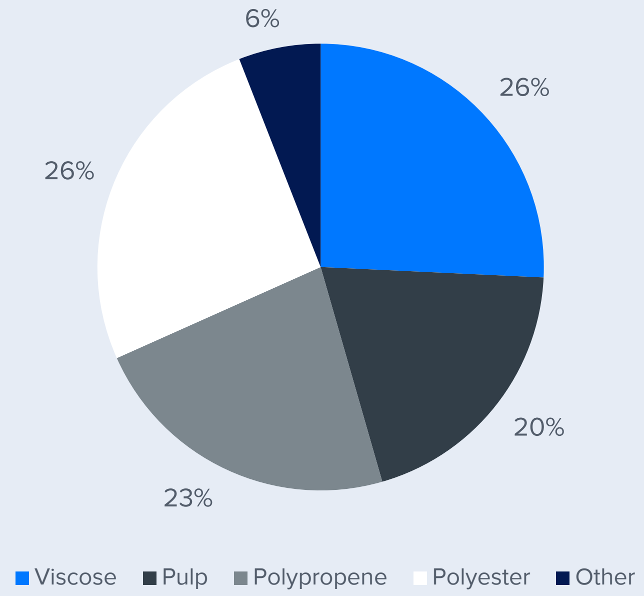
In the liabilities Suominen has 104 MEUR of equity attributable owners of the parent company and 17.2 MEUR convertible hybrid bond. As mentioned before, the latter item will be converted to share capital by latest in February 2018, which will increase Suominen's number of shares around 20 % compared to a level in February 2014.

Suominen's non-current liabilities included 75 MEUR bond maturing in September 2019 and 18 MEUR bank loan Suominen negotiated during the refinance in Q3'14 and raised in parts in 2014 and 2015. At the end of 2015 Suominen converted its euro nominated bank loans to USD to create natural hedge for EUR/USD. We consider this good move given the company's sensitivity to EUR/USD but its hedging impact is low given the company's operating USD flows and amount of the debt. In addition, the company has 30 MEUR non-draft revolving credit facility for NWC needs. The five-year senior bond has coupon rate of 4.4 % while interest rate of the bank loan should be lower, around 1.5-2.5 % per annum. Currently Suominen's financing cost are competitive level at around 1 % of net sales (incl. interests and other financing costs). Furthermore, Suominen has around 10.4 MEUR of deferred taxes in the liabilities. Current liabilities are dominated by payables of 54 MEUR while current interesting bearing liabilities of 3 MEUR include share of long term debt, which Suominen will pay back during the next year. Total assets of were 283 MEUR at the end of Q1'16, thus Suominen operates with fairly light and currant balance sheet.

Suominen's gearing was 28.6 % and equity ratio 42.6 % at the end of Q1'16. However, as mentioned before, we argue Suominen will not intentionally try to push gearing further down as certain leverage is needed to keep WACC-% reasonable. Thus, the company has still wide financial freedom to execute the strategy and keep the balance sheet optimal also from the perspective of the ROI-target.

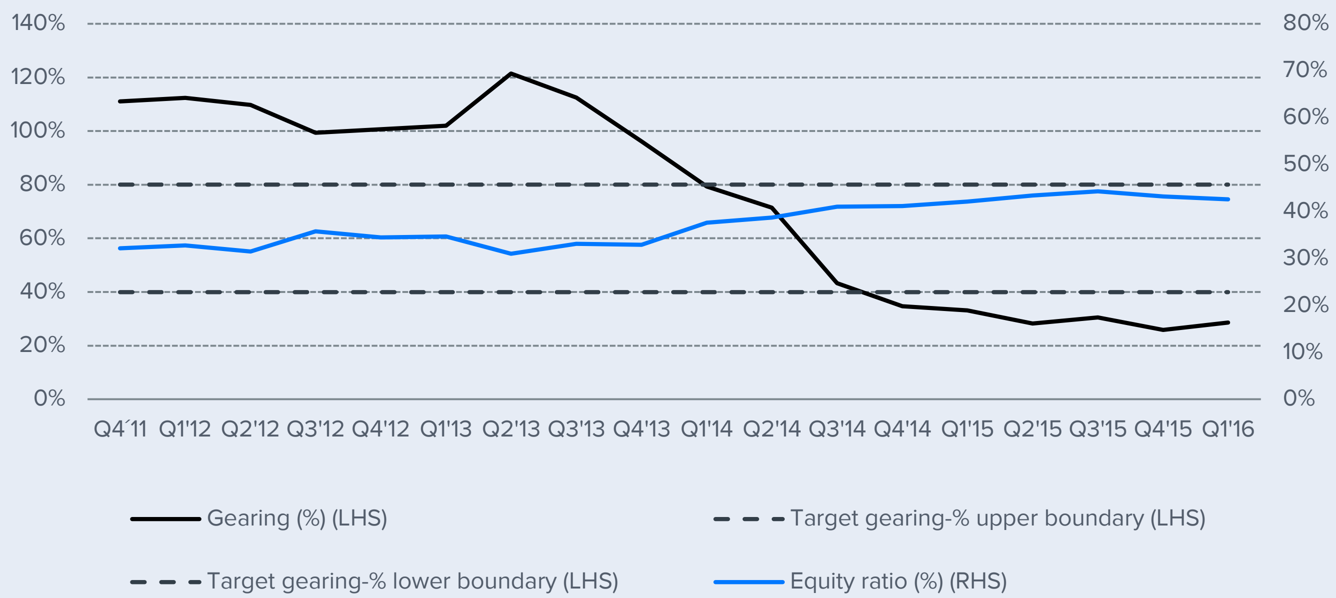
Suominen's cost structure and balance sheet

Raw-material use in 2015



Source: Suominen

Suominen's balance sheet development



Source: Inderes

Future estimates

Suominen started 2016 somewhat weakly in challenging market conditions but we expect the company to remain on the path of profit growth during the on-going strategic period. The profit drivers are volume and value growth raising net sales while improving product mix and increasing operational efficiency should push the gross-margin slightly up. On the cost side, we see pressure in OPEX in absolute terms due to growth efforts but increasing net sales offset this. Therefore, we expect Suominen to reach its net sales goal of around 500 MEUR in 2017 and to reach good EBIT-margin of 7.4 %. This reflects profit potential of the company's current asset base relatively well in our opinion given current trading conditions.

Short and mid-term outlook

US and Europe remain on the growth path

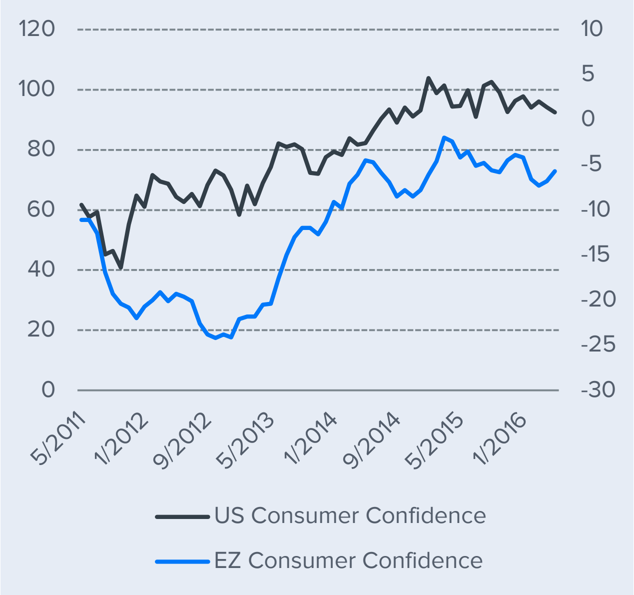
Suominen operates in consumer related business, thus the main relevant macroeconomic drivers for the company are GDP growth and consumer confidence. Considering the Suominen's main markets, GDP growth was good in North America during 2015. On the other hand, Europe began to show slightly positive signs but the structural challenges keep the growth below its potential in the continent.

The macroeconomic big picture has remained mostly same at the beginning of 2016 even if US has reported somewhat weaker than expected figures in Q1'16 indicating weaker or at the best similar full year growth than in 2015. There has been also some decline in consumer confidence but is has remained on good level on absolute terms in US. However, the market challenges Suominen faced in US in 2015 and at the beginning of 2016 derive mostly from the supply side.

ECB's QE has only minor impact on real economy in Europe but QE caused euro to depreciate, which helps the economy of Eurozone through increasing exports. In addition, low price of oil is naturally positive news for EU countries. However, governments have failed to make structural changes that keep growth lacking below its full potential in several European countries (especially in Southern Europe and Finland). Correspondingly, consumer confidence has remained reasonable despite certain decline from the peak of March 2015. Overall, positive progress in Europe was visible also on Suominen's demand in 2015 before supply side challenges hit the business at the beginning of 2016. Currently, surprising victory of Brexit side in UK's EU-vote is creating black shadow over whole Europe and the world but it is still early to estimate concrete impacts on GDP growth that Brexit will cause.

From macroeconomic perspective our profit estimates for Suominen are based on IMF's GDP forecasts, which expect US' GDP to grow 2.4 % in 2015, 2.5 % in 2016 and 2.4 % in 2017. Corresponding figures for Eurozone are 1.5 % in 2016, 1.6 % in 2017 and 1.6 % in 2018 but these estimates will face clear pressure in near future due to Brexit. Therefore, we expect no tailwind from recovery of GDP growth in Suominen's major markets. In addition, debt risks (Southern Europe, Japan and China), geopolitical situation and Brexit keep risks high short and medium term and uncertainty around operating environment will remain concrete in the next few years.

Consumer confidence in US and EU 2011-2016



Source: Bloomberg

Weak start for 2016 has created a profit warning risk

Q1'16 was difficult for Suominen since Suominen's net sales declined 7.2 % to 103.9 MEUR in Q1. Weak topline development derived from changes in the market balance in Europe ja North America, which the company discussed already in AGM in March. Basically, new capacity that came on stream during Q1 created competitive pressures that declined Suominen's volumes and sales prices in Q1. Net sales declined 6.7 % on Americas and 8.5 % in Europe, thus there were no major difference in markets in geographical basis. FX had only minor impact on sales in Q1 as average EUR/USD stayed basically flat y-on-y.

Topline development had naturally negative reflection to gross-margin, which decreased 1.4 %-points to 11.4 % in Q1'16. OPEX remained on very good level (6.0 % of net sales) but low net sales and declining gross-margin pushed EBIT to 5.5 MEUR (Q1'15: 7.3 MEUR). FX did not have any material impact either on EBIT. Net financing were untypically low due to FX changes during the quartile while tax-rate was on its normal level of 35 %. Thus, Suominen's EPS remained flat y-on-y at 0.06 euro.

Despite weaker Q1 Suominen retained its guidance FY'16 in the report. The management expects still better net sales and EBIT (excl. NRI) than in 2015. In the last year Suominen made 444 MEUR net sales and 31.2 MEUR. In addition, Suominen commented the first signs of normalizing demand was seen at the end of Q1 and Suominen expects end-use to grow on the last year's rate (around 3-3.5 % on relevant markets). Thus there seem to be no hick-ups at the base demand of consumers according to the company.

We were somewhat relieved after the retained guidance but as the Q1 left Suominen far behind the guided levels and Q2 comparison figures are extremely hard (all time high EBIT), profit warning risk remains real in our opinion until end of this year. We argue overcapacity is very often more prolonged in manufacturing industry (depends of course on amount of new capacity) but we fear especially pricing may not normalize fast even if growing markets would absorb increasing volumes fairly quickly. Thus, short term outlook remains rather cautious in our opinion right now.

Currently we estimate Suominen's will grow 1.8 % and make 452 MEUR net sales and 31.6 MEUR EBIT (excl. NRI) in 2016. The slight improvement comes through topline as we estimate annual gross-margin (2016e: 12.8 %) and absolute OPEX (2016e: -26.3 MEUR) will stay fairly flat. This is due to weaker H1 in terms of volume growth and pricing but in Q3 and especially in Q4 volumes and gradually improving product mix (increasing share of value added products) should again begin to support net sales and gross-margin. The improvement should be reached by current plant portfolio as we do not expect any contribution from Bethune this year (actually profit contribution is likely negative right after start up). In OPEX, we forecast that R&D costs increase slightly y-on-y but the company does not reach over 1 % target this year. Altogether, 2016 profits will most likely magnitude to H2. We would like to highlight that margins between our estimates and the guidance are very thin (actually our estimates are fairly on 2015 levels) and we expect trading conditions to normalize during Q2. Therefore, short term estimate risks are clearly elevated.

We would like also remind that our estimates are based on scenario that FX will not have any significant contribution on net sales or EBIT in 2016 but EUR/USD stays fairly flat at 1.10-1.15. Currently, the exchange rate is in the upper end of the range, which would basically mean that slight currency headwind begins in Q2. Therefore, further appreciation of EUR/USD would be negative for Suominen and would make reaching the guidance even increasingly challenging.

Below EBIT was forecast Suominen's net financing costs are -3.3 MEUR in 2016, which means basically 1 MEUR/Q net financing costs for Q2-Q4. This is fairly normalized level in our opinion consider the company's debt structure and other annual financing costs. In addition, FX may fluctuate also financing costs but as we expect fairly flat EUR/USD, the impact should remain moderate. Therefore, our PTP estimate FY'16 is 28.8 MEUR. Tax-rate remains at normalized level of 35 % in 2016. This rate does not assume that the company would be able to make any significant deductions in taxation based on earlier losses that Suominen has at least in Italy (and probably also in Finland). Altogether, we estimate EPS grows to 0.37 euros this year. This is calculated by current number of shares (10.6.2016 51.2 million shares). Thus, we do not expect any conversion of hybrid bond capital to equity this year in our estimates, which may happen but is impossible to estimate. Due to positive progress of EPS, we also expect that Suominen raises its dividend to 0.13 euros per share, which reflects the company's dividend policy (2016e: payout-ratio 36 %).

On the cash flow side, we expect still good progress from Suominen in 2015. Suominen reported 9.1 MEUR cash flow from operations in Q1, which is exceptionally strong figure since usually Q1 ties seasonally up capital in inventories. However, this year volumes dropped in Q1, which reflected positively to NWC. We expect operating cash flow will be 36.4 MEUR given that the company will tie up slightly NWC when volumes turn to upward trend and Bethune starts up. We estimate that Suominen will spend 6 MEUR for maintenance CAPEX and 34 MEUR on growth CAPEX in 2015, thus total CAPEX raises clearly above depreciation in our estimates in 2016 (2016e: depreciation 19 MEUR). This is naturally due to Bethune investment of which cash outflow will occur mostly this year. Thus, we expect slightly negative free cash flow this year. However, we expect that Suominen's gearing will stay slightly below lower boundary of the target in 37 % at the end of 2016 hence the company's financial position remains solid.

Bethune speeds up development in 2017

We expect positive progress to continue in 2017 as market fundaments reflected by consumer driven GDP growth in Europe and US should support nonwoven sector also in 2017. However, new production line in Bethune should give clear support to volumes during the year even if first months will be definitely ramp-up phase in this sense and full volume and profit impact from the line will be seen only 2018. In addition, we expect relatively long ramp-up phase in Bethune as we believe Suominen will not fill the capacity in value for money volume products but will try to concentrate on value added products from the very beginning. We consider this right choice given the company's strategy. We expect that Suominen should be able to improve its product mix somewhat faster in 2017 as new value added products launched in 2015-2016 have had time to take off. Bethune investment and completed programs in Alicante and Paulinia support this progress. In our base case we do not expect any impact from currencies on net sales and profitability in 2017 but this will of course sharpen up when visibility to FX rates becomes clearer.

We estimate net sales of 493 MEUR for Suominen in 2017. This corresponds 9 % growth, which comes once again from volume and value. Our gross-margin estimate for 2017 is 13.10 %. This is somewhat moderate estimate given expected product mix development but we remain cautious as we currently see uncertainty around pricing due to competitive environment. However, we see that OPEX will face pressure upwards in 2017. Therefore, we expect OPEX-% will grow marginally 0.1 %-points to 5.9 %. These three factors should boost Suominen's EBIT to 35.3 MEUR in 2017.

As financing costs should remain somewhat intact at around 4 MEUR/a (large share of bond financing), we expect 31.3 MEUR PTP from Suominen in 2017. On the tax-side we estimate Suominen tax-rate remains at 35 % in 2016. Altogether, we expect Suominen makes EPS of 0.40 euros in 2017, which is calculated by current number of shares as there is no visibility to hybrid bond conversions. Positive progress of EPS will keep also dividends on uphill track and we estimate Suominen pays out 0.15 euros DPS being in line with the company's dividend policy (2017e: 38 % payout).

As we estimate Suominen's CAPEX consisting of some 6 MEUR to maintenance and 11 MEUR to growth will drop slightly below depreciation (2017e: 20.8 MEUR). As NWC should tie up only moderately capital, Suominen's free cash flow should return clearly positive to 25 MEUR in 2017. Therefore, gearing drops to 24 % at the end of 2017 in our estimates. This is too low level for Suominen in our opinion and the company should have some extra cash flow available for CAPEX or higher dividends if the company progresses in line with our estimates.

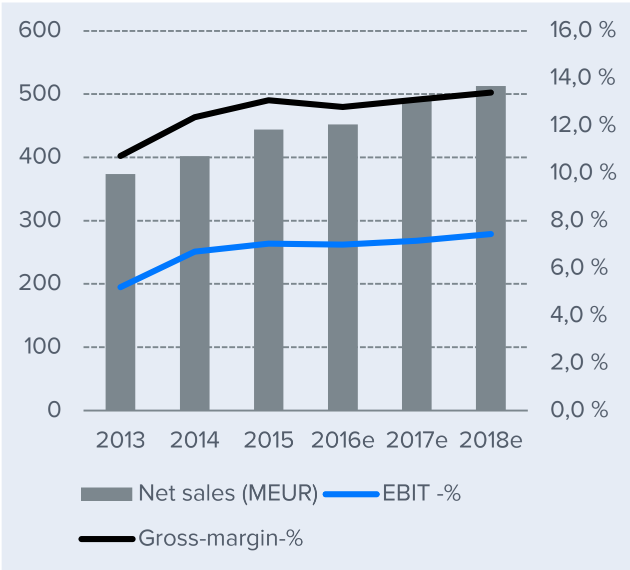
Full potential of Bethune will be seen in 2018

As discussed before, we expect strategy update from Suominen in the end of current strategy period in autumn 2017 or in winter 2018. This could change Suominen's big picture clearly from 2018 onwards. In our base case we expect that the company will focus on geographical expansion during the next strategy period. As the company has not disclosed any specific plans, our current estimates are based on organic growth by current production setup.

2018 should not offer any changes to the big picture of nonwoven markets that remain growing steadily supported by the previously named drivers. We expect Suominen's growth remains slightly above market growth in 4 % as gradual improvement of product mix continues and Bethune reaches its full volume potential. Therefore, our net sales estimate is 513 MEUR FY'18. Once again, we expect currently no impact from FX.

We expect Suominen's gross-margin reaches 13.4 % in 2018 as improving product mix and efficiency support gross-margin expansion, which is partially offset by fierce price competition. We forecast OPEX will keep on growing with sales, which brings OPEX-% 6.0 % in 2018. These three factors lift Suominen's EBIT to 38.1 MEUR in 2018 in our estimates, which corresponds very good EBIT-margin of 7.4 %. In 2018 we estimate net financial items of 3.5 MEUR due to diminishing interest bearing debt in the balance sheet and normal tax rate of 35 %. However, hybrid bond conversion will increase number of shares in February 2018, thus we estimate EPS to drop to 0.38 euros per share. Our dividend estimate is 0.16 euros per share in 2018 since we see that the company can increase payout at the first of next strategy period (2018e: payout-% 43 %). However, expected strategy update in 2017/2018 focusing Suominen most likely to geographic expansion could change payout estimates clearly.

Suominen's profit estimates 2013-2018e



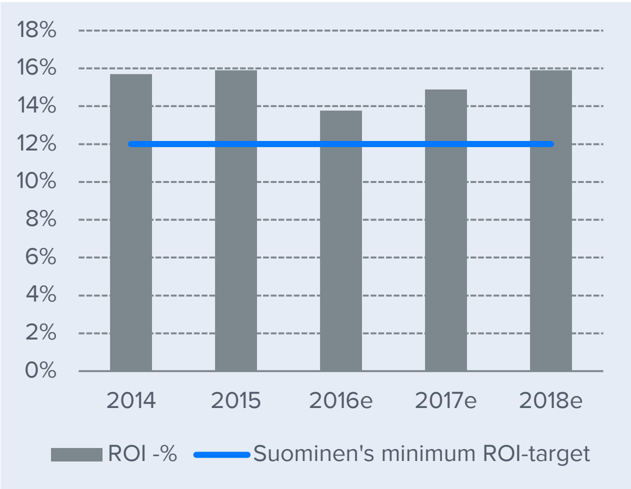
Source: Suominen, Inderes

On the cash flow side, we expect CAPEX drop to 16 MEUR of which 6-7 MEUR goes for maintenance and 9-10 MEUR for development or growth. Thus, we forecast CAPEX is below depreciation in 2018. Volume growth tie up some capital also in 2018 but, we argue the company's cash flow from remains very solid. Therefore, Suominen's gearing keep on falling to 11 % at end of 2018, which is once again too low figure for the industry, However, our estimated CAPEX level is naturally way too low if the company begins geographical expansion by greenfield investments or M&A, thus financial flexibility in the balance sheet may be needed. On the other hand, higher dividend payout remains also in option depending on magnitude of growth plans.

The bar is still set high

As illustrated before, we expect that Suominen's EBIT will remain uphill track in the next years. For instance, we estimate that Suominen's report 9 % EBIT CAGR in 2015-2018. These are challenging figures as such and it does not become any easier if we compare it to Suominen's existing ROI-target. Given our profit and balance sheet estimates, Suominen's ROI-% stays at 14-16 % in 2015-2018. This is well above the company's targeted minimum of 12 %. Also ROI comparison suggest that the current estimates set the bar high even if we see a change in positive scenario that Suominen surprises in certain categories (i.e. gross-margin). However, as mentioned before, we argue 12 % of ROI is too low target for the Suominen given the company's fairly light balance sheet. Thus, we expect the board raises the bar to 15 % in the next strategy update.

Suominen's ROI-% 2014-2018e



Source: Suominen, Inderes

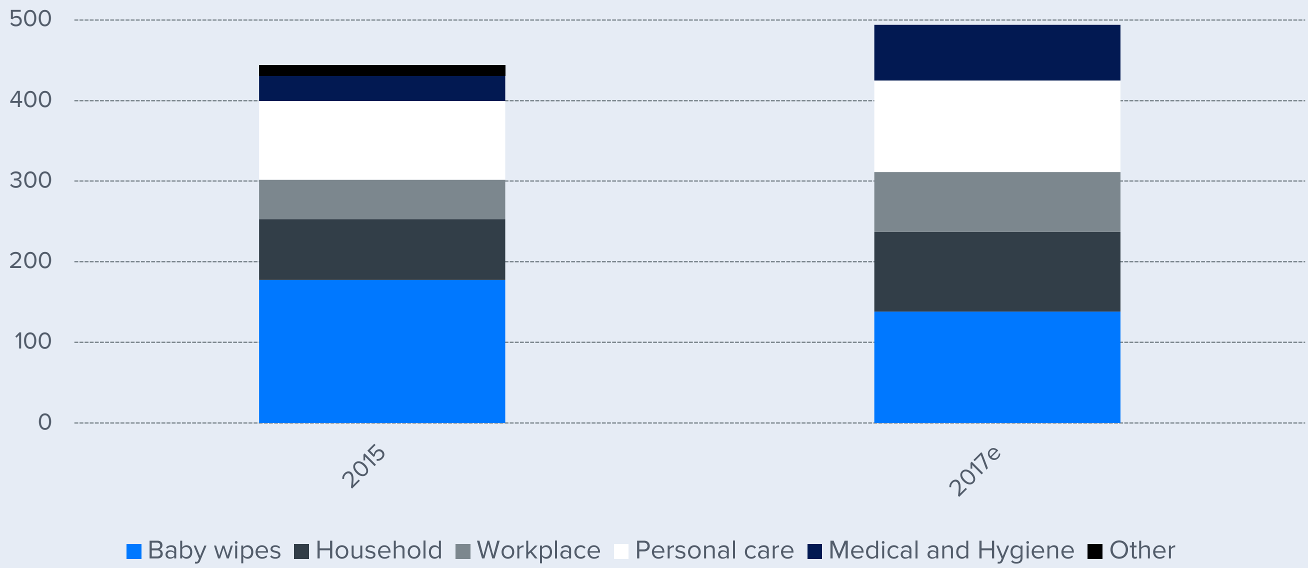
Growth evens out over long term

From 2018 onwards we are expecting the growth to be in range of 2.5-3.5 % which represents the average growth rate of the industry and GDP of the main markets over long term. We estimate EBIT margin peaks around slightly below 7.4 % in 2018/2019 and will decrease to 5-6 % over long term when competition increases in the sector. However, we would like to remind that these estimate are based on organic growth even if we believe that Suominen takes part in continuing consolidation of nonwoven industry over the long term. In addition, long term estimates are non-cyclical averages as timing of cycles remains impossible to estimate.

We believe that capital markets focus on Suominen's short term outlook as the company's strategic direction is somewhat unsure after the on-going strategic period even if high value added nonwovens will definitely remain in the core of the strategy also over the long term. Therefore, we have used long term estimates only in DCF-modelling, which we have made as a reality check for our short term estimates.

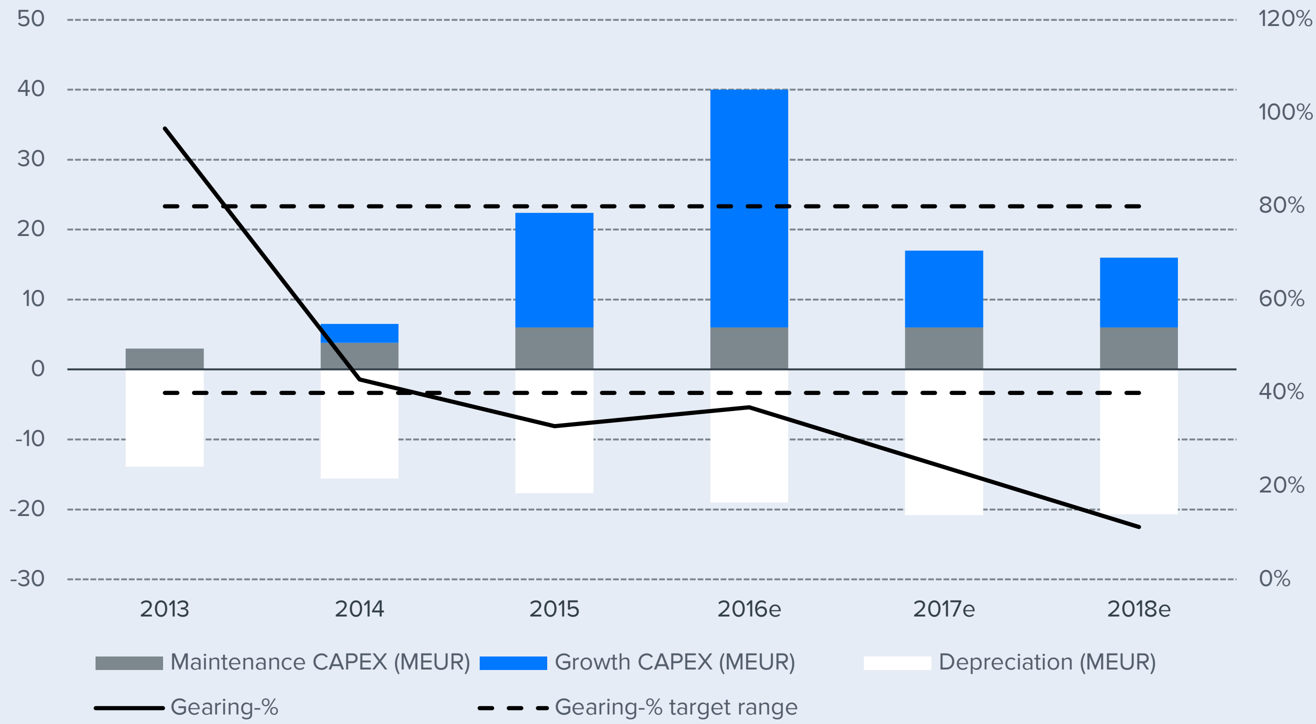
Future estimates of Suominen

Suominen’s salesmix 2015-2017e (MEUR)



Source: Inderes

Suominen’s CAPEX and capital structure 2013-2018e



Source: Inderes

Valuation

After the rebuilding Suominen is a “normal” organically growing company, which should be valued by income statement based multiples (most importantly by P/E). Currently Suominen trades with a P/E-ratio 11x and 10x based on our estimates for 2016 and 2017. We see this attractive valuation despite number of shares will dilute by 20 % in 2018, which investors should keep in mind already now. On the secondary relative metrics Suominen trades at clear discount to OMXH and to the loosely related peers. This supports our view on Suominen’s upside potential. Altogether, given the valuation as whole, we still see that the share holds some upside on long term.

Valuation cornerstones

After the rebuilding and corresponding turnaround case, investors categorize Suominen as growing manufacturing company. Thus, Suominen will be valued by income statement based valuation multiples, the most importantly by P/E-ratio. However, we use also EV-multiples to value the share as they take into account Suominen’s fairly strong balance sheet unlike P/E. Especially EV/EBITDA is useful multiple as EBITDA illustrates the strong cash flow from operations Suominen can generate.

We argue that defensive nature of consumer related nonwoven business support acceptable valuation level. Due to this factor we also give also forward looking multiples relatively large weight in our valuation as visibility to the demand is fairly good. On the other hand, the company’s difficult value chain position, limited opportunities to differentiate and weak pricing power offset this partially. Given that background, we argue Suominen should be valued by P/E-ratio 12-14x in the current organic growth phase. This is somewhat more cautious approach than in the last update but the company’s weaker than expected performances during the last six months and overall increased risk profile in the global stock market have decreased acceptable valuation recently.

Correspondingly, acceptable EV/EBITDA-ratio is somewhere between 6x-7x in our opinion. The latter figure should be proportionally somewhat lower as EV/EBITDA does not take in account Suominen’s tax-rate, which is hefty even if the company has managed reduce the tax rate to its normalized level of 35 %. Acceptable EV-based valuation range is supported also by recent M&A-activities in the sector since Blackstone sold Avintiv to Berry Plastics for LTM EV/EBITDA 8x in summer 2015 while few months earlier Mondi acquired Ascania for LTM EV/EBITDA 6x. These deals give good indication for valuation levels in the business even if several factors have impact on transaction prices in M&A-cases.

Profit growth pushes valuation multiples down

Suominen’s P/E-ratios for the two years based on our estimates are 10x and 11x. P/E for 2018, which takes into account increase in number of shares due to hybrid bond conversion, is 11x. Corresponding EV/EBITDA-ratios are 5x-4x. Therefore, given our valuation range for Suominen, we see some upside potential in the share for the coming 12 months after the share’s 30 % downhill in 2016.

We argue the most uncertain driver for the EPS and correspondingly for the share price is gross-margin. We have illustrated gross-margin sensitivity in the two value matrix below for 2015 and 2018 to reflect the upside potential of the share. These sensitivity analyses are based on our net sales, OPEX, net financing cost and tax-rate estimates and expected number of shares. As the figure illustrate, gross-margin has major impact on valuation as the range for the share price is 4.46 euros to 6.01 euros for 2016 based on our estimates. 2018 matrix describes also how hybrid bond conversion increasing number of shares limits upside potential of the share.

Valuation matrix 2016e (above) and 2018e (below)

		Gross-margin (%)				
		11 %	12 %	13 %	14 %	15 %
P/E	10	2,57	3,14	3,72	4,29	4,87
	11	2,83	3,46	4,09	4,72	5,36
	12	3,08	3,77	4,46	5,15	5,84
	13	3,34	4,09	4,83	5,58	6,33
	14	3,60	4,40	5,21	6,01	6,82
	15	3,85	4,72	5,58	6,44	7,30
	16	4,11	5,03	5,95	6,87	7,79

		Gross-margin (%)				
		11 %	12 %	13 %	14 %	15 %
P/E	10	2,36	2,92	3,47	4,03	4,59
	11	2,60	3,21	3,82	4,43	5,04
	12	2,84	3,50	4,17	4,84	5,50
	13	3,07	3,80	4,52	5,24	5,96
	14	3,31	4,09	4,86	5,64	6,42
	15	3,55	4,38	5,21	6,05	6,88
	16	3,78	4,67	5,56	6,45	7,34

Source: Inderes

Attractive growing dividend yield after share price decline

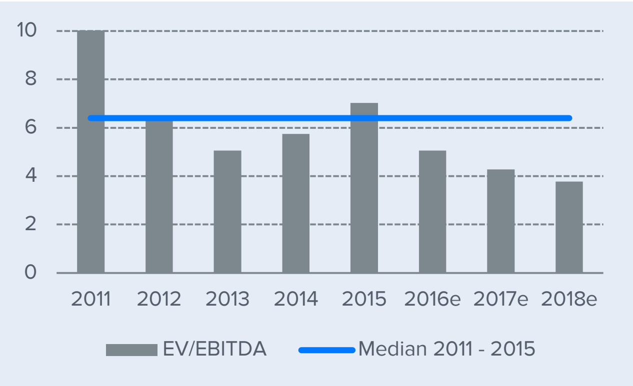
As Suominen's medium term profit outlook remains positive and the company's has necessarily strong balance sheet, we expect Suominen keeps its dividend on steady uphill track in the next few years. After the share price decline, our estimated dividend yields have raised to 3.3-4.4 % for 2016-2018. These fairly attractive dividend levels will support total shareholder return of investors in the next years.

We would like also remind that the company's expected payout ratio remains fairly low at 30-45 % in the next years. Given also the company's capital structure and moderate payout ratio, risk profile related to dividends is relatively low in our opinion. However, we remain so far cautious with payout as it remains unclear how the company will grow in the next strategic period and how much the expansion requires capital.

EV/EBITDA below historical level

From, historical viewpoint, EV/EBITDA is basically the only relevant income statement based figure as it stayed clearly positive during the entire rebuilding. Currently, Suominen is valued clearly below its historical EV/EBITDA-level. In addition, EBITDA growth and decreasing net debt pushing EV still down, the ratio drops when looking at forward looking multiples. This strengthens our view that the company's share holds upside.

Suominen's EV/EBITDA 2013-2018e

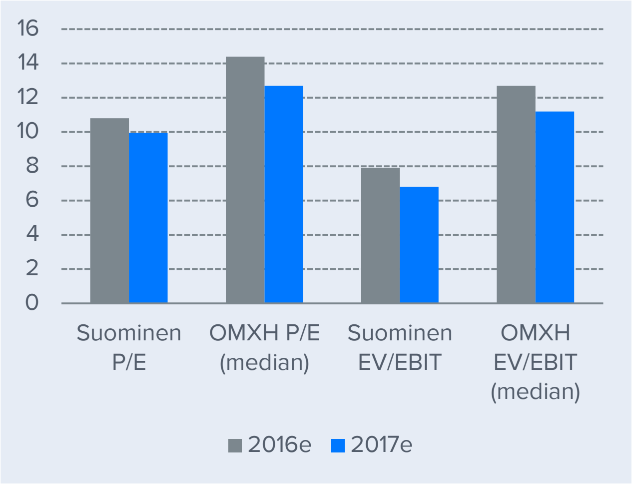


Source: Inderes

The share trades at a slight discount to OMXH

Median P/E-ratios of OMXH for 2015 and 2016 based on Inderes' estimates (100 companies) are 14x and 13x, while corresponding EV/EBIT-ratios are 13x and 11x. Therefore, Suominen trades discount to OMXH. This somewhat supports our view on upside potential of Suominen's share even if we see certain discount to OMXH justified taking into account nature of Suominen's business, its outlook and coming dilution in number of shares in 2018.

Suominen vs. OMXH's valuation



Source: Inderes

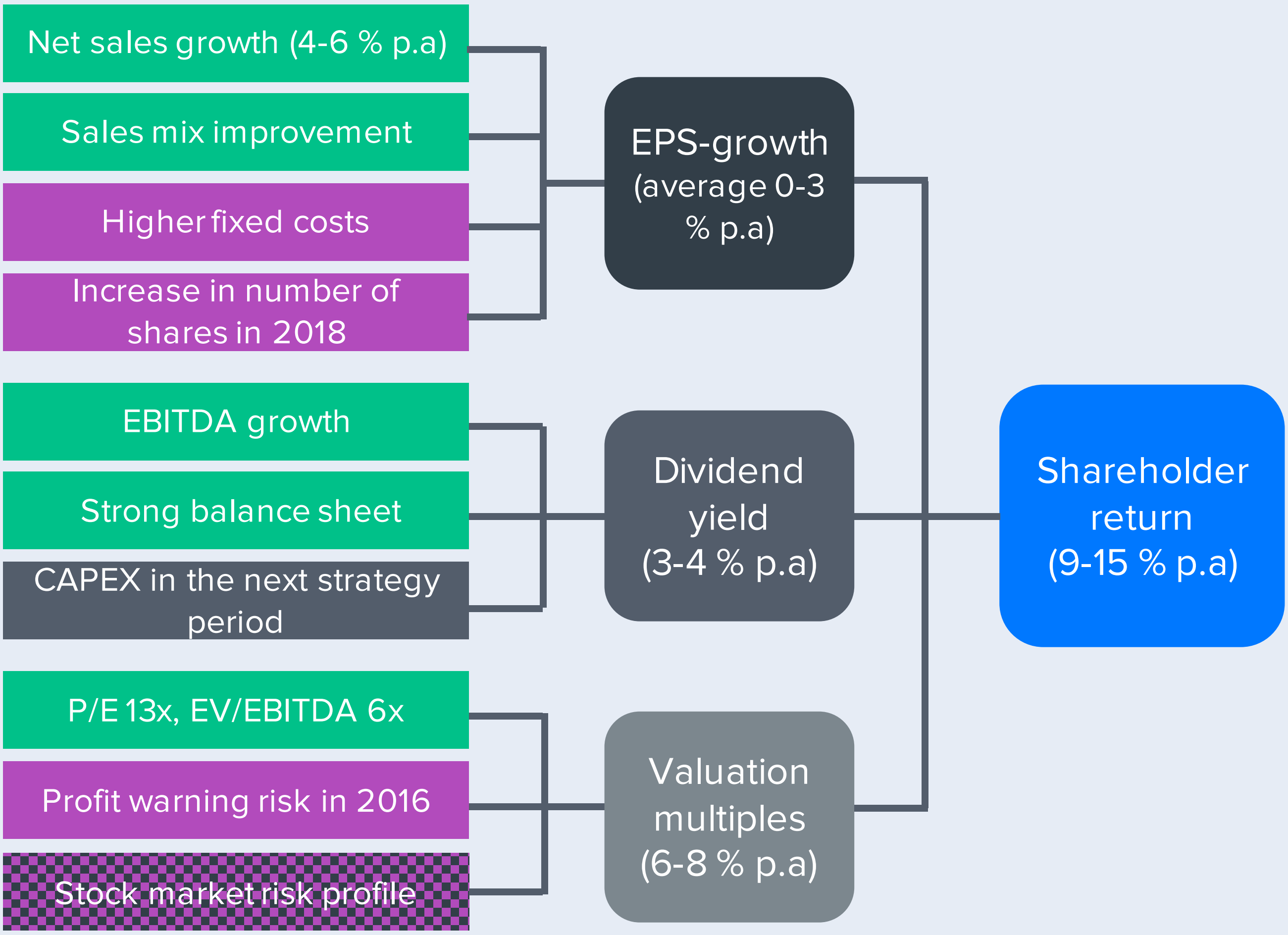
Peer group valuation is only an indication

As Suominen's direct competitors in wiping segment are private equity owned companies or parts of large corporations consisting of several business segments, valuing the share in relation to the peer group is challenging. However, we have collected a peer group, which includes a few listed companies from other segments of nonwoven industry. The peers group table is on the next page. On the other hand, we have included in the peer group also companies from other sectors, which have similar business model (industrial manufacturing), type of products (not branded consumer related goods) and value chain position to Suominen. However, peer group is far from complete in terms of size and type of companies, thus we keep its weigh limited in our valuation. It is basically just reality check for the valuation (like DCF-model).

Suominen is valued clear discount by P/E-ratio and especially EV/EBITDA-ratio compared to peer group. Also this supports our view that the share is undervalued currently even if some discounts are justified due to coming dilution in 2018, small size of the business and hefty normalized tax-rate, which EV/EBITDA does not take into account. However, we point out to pay attention on the fact that the markets seem to accept relatively high valuation for this type of defensive consumer related companies on absolute terms currently, which should support also Suominen when elevated short term risk profile normalizes.

Suominen's valuation

Total shareholder return 2016e-2018e



Source: Inderes

Valuation multiples

	EV/EBIT		EV/EBITDA		EV/Sales		P/E		Dividend yield-%		P/B
Company	**2016e**	**2017e**	**2016e**	**2017e**	**2016e**	**2017e**	**2016e**	**2017e**	**2016e**	**2017e**	**2016e**
Suominen					0,4	0,3	10,7	9,9	3,3	3,8	1,5
Huhtamäki	15,9	14,6	11,3	10,5	1,5	1,4	18,2	16,9	2,2	2,5	3,2
Duni	10,7	9,6	8,4	7,7	1,2	1,2	12,6	11,6	5,2	5,6	1,9
Sealed Air	14,6	13,5	11,1	10,4	1,9	1,8	16,8	14,8	1,3	1,5	16,5
Riverstone	12,9	11,3	10,7	9,5	3,0	2,7	16,1	14,5	8,1	9,0	3,6
Pegas	13,4	12,8	8,9	8,5	2,0	1,9	12,3	11,8	0,2	0,2	1,4
Halyard			9,3	8,6	1,2	1,2	18,9	17,7			1,8
Suominen (Inderes)	**8,1**	**6,8**	**5,1**	**4,3**	**0,6**	**0,5**	**11,0**	**10,0**	**3,3**	**3,8**	**1,5**
Average	**13,5**	**12,3**	**9,9**	**9,2**	**1,6**	**1,5**	**15,1**	**13,9**	**3,4**	**3,7**	**4,3**
Median	**13,4**	**12,8**	**10,0**	**9,1**	**1,5**	**1,4**	**16,1**	**14,5**	**2,8**	**3,1**	**1,9**
Premium/discount -% vs. medi	**-39 %**	**-47 %**	**-49 %**	**-53 %**	**-62 %**	**-65 %**	**-32 %**	**-31 %**	**19 %**	**20 %**	**-23 %**

Source: Bloomberg / Inderes. Notification: Inderes' MCAP does not include treasury shares

Income statement and balance sheet

Income statement 2014-2018e (continuing operations)

Quarterly earnings	2014	Q1'15	Q2'15	Q3'15	Q4'15	2015	Q1'16	Q2'16e	Q3'16e	Q4'16e	2016e	2017e	2018e
Net sales	**401,8**	**111,9**	**112,9**	**114,9**	**104,2**	**444,0**	**103,9**	**114,1**	**120,6**	**113,6**	**452,2**	**492,9**	**512,6**
Nonwovens	*401,8*	*111,9*	*112,9*	*114,9*	*104,2*	*444,0*	*103,9*	*114,1*	*120,6*	*113,6*	*452,2*	*492,9*	*512,6*
EBITDA	**41,5**	**11,7**	**14,3**	**14,4**	**9,0**	**49,5**	**10,1**	**13,5**	**15,1**	**12,1**	**50,8**	**56,1**	**58,8**
Depreciation	-15,6	-4,4	-3,8	-4,7	-4,8	-17,7	-4,6	-4,7	-4,7	-5,0	-19,0	-20,8	-20,7
EBIT (excl. NRI)	**26,9**	**7,3**	**9,9**	**9,8**	**4,3**	**31,3**	**5,5**	**8,8**	**10,4**	**7,1**	**31,8**	**35,3**	**38,1**
EBIT	**25,9**	**7,3**	**10,4**	**9,8**	**4,3**	**31,8**	**5,5**	**8,8**	**10,4**	**7,1**	**31,8**	**35,3**	**38,1**
Nonwovens	*26,9*	*7,3*	*10,4*	*9,8*	*4,3*	*31,8*	*5,5*	*8,8*	*10,4*	*7,1*	*31,8*	*35,3*	*38,1*
NRI	*-1,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*	*0,0*
Net financial items	-8,1	-1,6	-1,1	-1,2	-1,4	-5,3	-0,2	-1,1	-1,0	-1,0	-3,3	-4,0	-3,4
PTP	**17,8**	**5,7**	**9,4**	**8,5**	**2,9**	**26,5**	**5,3**	**7,7**	**9,4**	**6,1**	**28,5**	**31,3**	**34,7**
Taxes	-7,6	-2,2	-3,1	-3,1	-1,0	-9,5	-1,9	-2,7	-3,3	-2,1	-10,0	-11,0	-12,1
Minority interest	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net earnings	**10,2**	**3,5**	**6,2**	**5,4**	**1,9**	**17,0**	**3,4**	**5,0**	**6,1**	**3,9**	**18,5**	**20,4**	**22,5**
EPS (adj.)	**0,05**	**0,01**	**0,02**	**0,02**	**0,01**	**0,07**	**0,07**	**0,10**	**0,12**	**0,08**	**0,36**	**0,40**	**0,38**
EPS (rep.)	**0,04**	**0,01**	**0,03**	**0,02**	**0,01**	**0,07**	**0,01**	**0,02**	**0,02**	**0,02**	**0,36**	**0,40**	**0,38**

Balance sheet 2013-2017e

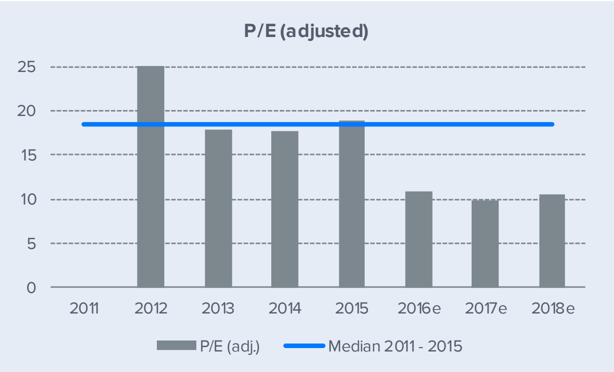
Assets (MEUR)	2013	2014	2015	2016e	2017e
Non-current assets	**133,8**	**134,6**	**142,2**	**163,5**	**160,0**
Goodwill	15,5	15,5	15,5	15,5	15,5
Intangible assets	12,0	12,5	13,3	13,6	13,9
Tangible assets	98,6	88,7	97,9	118,9	115,1
Associated companies	0,0	0,0	0,0	0,0	0,0
Other investments	1,4	1,6	0,8	0,8	0,8
Other non-current assets	0,5	10,8	10,2	10,2	10,2
Deferred tax assets	5,8	5,5	4,5	4,5	4,5
Current assets	**105,1**	**130,0**	**149,6**	**147,0**	**149,4**
Inventories	31,9	32,4	32,6	34,8	38,0
Other current assets	0,0	6,9	9,9	9,9	9,9
Receivables	54,6	52,3	51,5	52,5	57,2
Cash and equivalents	18,6	38,4	55,6	49,7	44,4
Balance sheet total	**238,9**	**264,6**	**291,8**	**310,4**	**309,4**

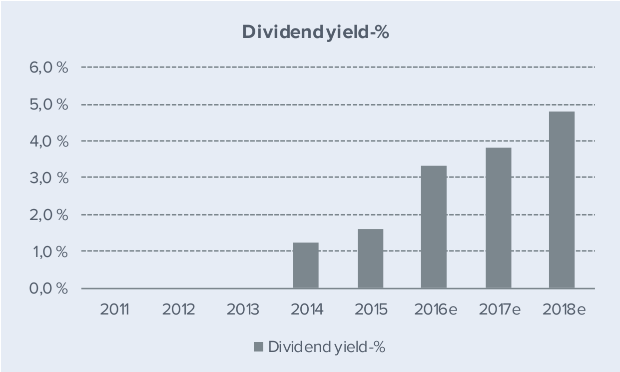
Liabilities (MEUR)	2013	2014	2015	2016e	2017e
Equity	**78,5**	**108,7**	**125,7**	**139,2**	**152,9**
Share capital	11,9	11,9	11,9	11,9	11,9
Retained earnings	-51,1	-46,9	66,4	79,9	93,6
Shares repurchased	0,0	0,0	0,0	0,0	0,0
Revaluation reserve	0,0	0,0	0,0	0,0	0,0
Other equity	117,7	143,8	47,4	47,4	47,4
Minorities	0,0	0,0	0,0	0,0	0,0
Non-current debt	**78,8**	**92,2**	**106,2**	**109,4**	**90,5**
Deferred tax liabilities	7,2	8,8	10,9	10,9	10,9
Provisions	0,0	0,0	0,0	0,0	0,0
Long term debt	70,4	81,7	93,5	96,8	77,8
Convertibles	0,0	0,0	0,0	0,0	0,0
Other long term liabilities	1,3	1,7	1,8	1,8	1,8
Current debt	**81,6**	**63,7**	**59,9**	**61,8**	**66,0**
Short term debt	24,1	3,3	3,4	4,3	3,3
Payables	57,5	60,1	56,5	57,5	62,7
Other current liabilities	0,0	0,2	0,0	0,0	0,0
Balance sheet total	**238,9**	**264,6**	**291,8**	**310,4**	**309,4**

Valuation multiples and DCF-model

Valuation	2011	2012	2013	2014	2015	2016e	2017e	2018e
Share price	1,95	1,75	2,40	4,00	6,20	3,93	3,93	3,93
MCAP	96	86	118	197	313	201	201	201
EV	242	183	194	243	354	253	238	220
P/E (adj.)	neg.	259,3	17,9	17,7	18,9	10,9	9,9	10,5
P/E	neg.	neg.	20,7	19,3	18,4	10,9	9,9	10,5
P/FCF	-1,1	1,4	4,4	13,7	36,9	-71,7	8,5	7,2
P/B	0,9	0,9	1,5	1,8	2,5	1,4	1,3	1,2
P/S	0,4	0,2	0,3	0,5	0,7	0,4	0,4	0,4
EV/S	1,1	0,4	0,5	0,6	0,8	0,6	0,5	0,4
EV/EBITDA	27,7	6,4	5,1	5,7	7,0	5,0	4,2	3,7
EV/EBIT	neg.	16,4	7,9	9,1	10,8	8,1	6,7	5,8
Payout (%)	0,0 %	0,0 %	0,0 %	24,2 %	29,7 %	36,0 %	37,7 %	42,7 %
Dividend yield-%	0,0 %	0,0 %	0,0 %	1,3 %	1,6 %	3,3 %	3,8 %	4,8 %

Source: Inderes



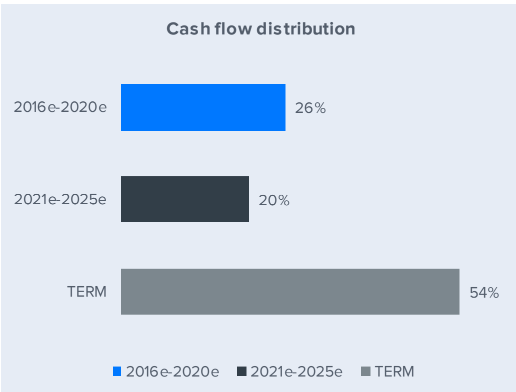


DCF model

DCF model (MEUR)	2015	2016e	2017e	2018e	2019e	2020e	2021e	2022e	2023e	2024e	2025e	TERM
EBIT (operating profit)	**31,8**	**31,8**	**35,3**	**38,1**	**41,3**	**41,5**	**40,5**	**38,7**	**36,8**	**34,7**	**35,5**	
+ Depreciation	17,7	19,0	20,8	20,7	19,9	18,6	17,7	16,9	16,2	16,3	16,6	
- Paid taxes	-8,6	-10,0	-11,0	-12,1	-13,3	-13,4	-13,0	-12,4	-11,7	-11,0	-11,3	
- Tax, financial expenses	-1,9	-1,2	-1,4	-1,2	-1,2	-1,2	-1,2	-1,2	-1,2	-1,2	-1,2	
+ Tax, financial income	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
- Change in working capital	-7,9	-2,2	-2,7	-1,3	-2,1	-1,1	-1,1	-1,1	-1,2	-1,2	-0,8	
Operating cash flow	**30,7**	**37,5**	**41,1**	**44,2**	**44,6**	**44,6**	**42,9**	**40,9**	**39,0**	**37,7**	**38,8**	
+ Change in other long-term liabilities	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
,- Gross CAPEX	-22,4	-40,3	-17,3	-16,3	-16,3	-16,3	-16,3	-16,3	-17,3	-18,3	-20,2	
Free operating cash flow	**8,5**	**-2,8**	**23,8**	**27,9**	**28,3**	**28,3**	**26,6**	**24,6**	**21,7**	**19,4**	**18,6**	
+/- Other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
FCFF	8,5	-2,8	23,8	27,9	28,3	28,3	26,6	24,6	21,7	19,4	18,6	346,0
Discounted FCFF		-2,7	21,3	23,2	21,9	20,4	17,8	15,3	12,6	10,5	9,3	173,4
Sum of FCFF present value		**322,9**	**325,6**	**304,4**	**281,1**	**259,2**	**238,8**	**221,0**	**205,7**	**193,2**	**182,7**	**173,4**
Debt free DCF		**322,9**										

- Interesting bearing debt		-96,9
+ Cash and equivivalents		55,6
-Minorities		0,0
-Dividend/capital return		-5,0
Equity value DCF		**276,6**
Equity value DCF per share		**5,40**

WACC	
Tax-% (WACC)	35,0 %
Target debt ratio (D/(D+E)	25,0 %
Cost of debt	6,0 %
Equity Beta	1,00
Market risk premium	4,75 %
Liquidity premium	1,00 %
Risk free interest rate	3,0 %
Cost of equity	8,8 %
Average cost of capital (WACC)	7,5 %



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Recommendation history, LTM

Date	Recommendation	Target price	Share price
23.10.2013	Accumulate	0,52 €	0,48 €
16.1.2014	Accumulate	0,55 €	0,49 €
30.1.2014	Accumulate	0,57 €	0,50 €
30.4.2014	Accumulate	0,65 €	0,58 €
27.5.2014	Accumulate	0,65 €	0,56 €
14.7.2014	Buy	0,70 €	0,58 €
21.7.2014	Buy	0,70 €	0,60 €
27.10.2014	Accumulate	0,72 €	0,64 €
13.11.2014	Accumulate	0,72 €	0,67 €
8.1.2015	Reduce	0,82 €	0,88 €
2.2.2015	Accumulate	0,88 €	0,80 €
17.3.2015	Accumulate	1,00 €	0,95 €
28.4.2015	Accumulate	1,10 €	1,04 €
18.6.2015	Buy	1,10 €	0,90 €
20.7.2015	Accumulate	1,20 €	1,13 €
27.10.2015	Reduce	1,20 €	1,19 €
12.11.2015	Reduce	1,25 €	1,27 €
1.2.2016	Reduce	1,05 €	1,07 €
17.3.2016	Accumulate	0,95 €	0,84 €
29.4.2016	Accumulate	4,50 €	4,03 €
29.6.2016	Accumulate	4,50 €	3,93 €

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2015

#1 estimates

2016,2015,2014

#1 estimates and recommendations

2016, 2014

#1 recommendations

2016, 2012

#1-2 recommendations

2016, 2012

#1-2 recommendations

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