

Transtema Group AB

Business Services
Sweden

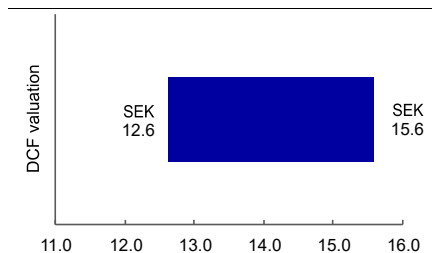
KEY DATA

Stock country	Sweden
Bloomberg	Trans ss
Reuters	Trans.st
Share price (close)	SEK 9.90
Free Float	100%
Market cap. (bn)	EUR 0.04/SEK 0.38
Website	www.transtemagroup.se/
Next report date	05 Nov 2020

PERFORMANCE



VALUATION APPROACH



ESTIMATE CHANGES

Year	2020E	2021E	2022E
Sales	n.a.	n.a.	n.a.
EBIT (adj)	n.a.	n.a.	n.a.

Source: Nordea estimates

Nordea Markets - Analysts

Klas Danielsson
AnalystJörgen Wetterberg
Senior Analyst

Impressive transformation offers major discount

We initiate coverage of Transtema with a DCF-based fair value range of SEK 12.6-15.6 per share, based on a WACC of 8.2-9.5%. We are impressed by Transtema's strategy shift from the Fiber-to-the-home (FTTH) installation market to operation and maintenance (O&M) and believe that the company is well-positioned to continue delivering operational improvements at higher margins and more solid cash flow. The company recently won three important contracts and is set for explosive revenue and EBITA growth in 2021. All in all, we expect a 2019-22 EBITA CAGR of 20%.

Transtema at a glance

Transtema is active in design, construction, maintenance and other services related to communication networks and data centre infrastructure. The company is undergoing a restructuring and strategy shift, where it has exited the FTTH installation market and is in the process of divesting non-performing operations. It now generates most of its revenue from O&M operations, where revenue is more stable (four- to five-year contracts) and margins are more attractive.

Strategy shift set to drive strong EBITA growth

We find Transtema's financial development after it initialised its restructuring to be highly encouraging. The company has generated an adjusted EBITA margin of 4.3% on average for the past three quarters, and we expect that the revenue composition of more than 70% long-term O&M contracts will allow it to focus further on improving margins. The company has enjoyed significant contract momentum since the strategy shift, winning three long-term O&M contracts, which are set to start in Q3 2020 and at the beginning of 2021. Moreover, the market is entering a strong phase, with several structural trends, such as the build-out of 5G, adding solid mid-term growth opportunities that could leave some upside to our estimates. All in all, we estimate that Transtema will grow revenue and EBITA at a CAGR of 7% and 20%, respectively, between 2019 and 2022.

Steep discount to peers

The company is trading at 2020E and 2021E adjusted EV/EBITA of 8.5x and 7.2x, on our estimates, corresponding to a 44% discount to installation and service peers. However, as Transtema is smaller in size and has a more concentrated income base, a discount could be in order. We argue that this gap could be closed by diversifying the customer group. Our DCF valuation range implies a discount of 17-31%.

SUMMARY TABLE - KEY FIGURES

SEKm	2016	2017	2018	2019	2020E	2021E	2022E
Total revenue	432	970	1,058	1,497	1,491	1,783	1,832
EBITDA (adj)	44	43	-24	137	147	172	186
EBIT (adj)	37	26	-71	29	44	48	59
EBIT (adj) margin	8.6%	2.7%	-6.7%	1.9%	2.9%	2.7%	3.2%
EPS (adj, SEK)	1.43	1.46	-2.04	-8.00	0.59	0.61	0.84
EPS (adj) growth	n.a.	2.6%	-239.1%	-292.8%	107.4%	3.1%	38.1%
DPS (ord, SEK)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EV/Sales	1.1	1.0	0.6	0.3	0.3	0.3	0.2
EV/EBIT (adj)	13.0	36.0	n.m.	14.0	11.9	10.3	7.4
P/E (adj)	16.5	24.5	n.m.	n.m.	16.7	16.2	11.8
P/BV	4.3	3.2	1.2	1.7	1.7	1.5	1.4
Dividend yield (ord)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF Yield bef A&D, lease	-7.7%	-10.1%	-4.1%	-6.3%	3.3%	11.3%	14.1%
Net debt	43	124	282	235	140	110	57
Net debt/EBITDA	1.0	2.9	n.m.	1.7	1.1	0.6	0.3
ROIC after tax	35.8%	7.2%	-11.0%	4.9%	9.9%	9.9%	12.8%

Source: Company data and Nordea estimates

Factors to consider when investing in Transtema

We believe that Transtema's strategic decision to leave the FTTH market and focus on operation and maintenance (O&M) puts the company in a good position to drive value in the long and short term. We argue that the shift offers significantly longer and more stable contracts and revenue streams, which de-risks the business and puts the company in a better position to improve growth and profitability. Moreover, Transtema has considerable contract momentum heading into H2 2020 and 2021; it is active in a market with several structural changes ahead, eg 5G and an increase in integrated communications network infrastructure.

Transtema at a glance

Transtema is active in the design, construction, installation, and maintenance of communication networks. It also provides data centre infrastructure services. The majority of its operations are in Sweden, but a small share of its revenue also comes from Norway. Transtema prides itself in having strong service coverage – it can reach 60% of the Swedish population within an hour and is set to expand to 100% reach in the short term. This is an important factor in delivering swift maintenance operations and minimising the downtime of its customers' networks, as well as securing larger contracts in the Swedish market.

The group consists of 12 subsidiaries divided into two business areas: Network Services and Emerging Business. Network Services is Transtema's core operation; it is a one-stop-shop for construction, O&M and other services for copper, fibre, and mobile networks. The area generated approximately 94% of group revenues in 2019. Within Emerging Business, the company supplies services for data centres and cloud service infrastructure. While this is a small segment (only 6% of revenues), Transtema views it as a profitable long-term growth opportunity.

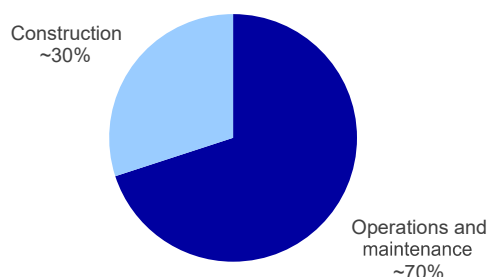
ERICSSON LSS KPIS (SEKm)

Ericsson LSS KPIs (SEKm)	
Revenues	1,162
EBITDA	34
EBITDA margin	2.9%
Transaction value	180
P/S	0.2x
P/EBITDA	5.3x

Source: Company data

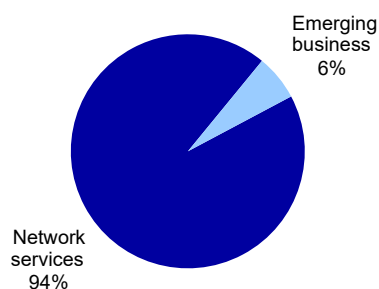
The company has transformed significantly through the years. Between 2016 and 2018, Transtema's core business was FTTH projects, where it was responsible for everything from design to excavation and installation. While growth was initially high, the market started to mature in 2018 with little to no expansion in addressable fibre networks. In late 2018, the company acquired Ericsson LSS, which has its core business in operation and maintenance (O&M). The acquisition was subsequently renamed "Transtema Network Services" and was integrated into a business area carrying the same name. Following this, the company made the decision to exit the FTTH market and focus primarily on TNS's O&M operations. In 2019, approximately 70% of its revenues in continuing operations came from O&M. After strong momentum in new contracts during 2019 and 2020, we expect this share to increase further.

BUSINESS MIX IN CONTINUING OPERATIONS, 2019



Source: Company data and Nordea estimates

REVENUE SPLIT PER SEGMENT, 2019



Source: Company data

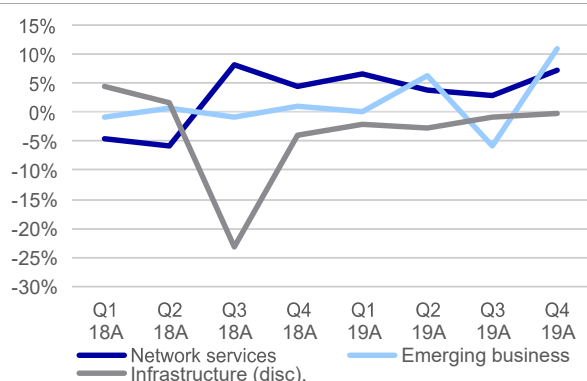
The strategic shift means that Transtema's business should be more stable going forward

New business model provides foundation for further improvements

We believe that the strategic shift has been and will remain highly beneficial for Transtema. First, it provides the company with a much more stable revenue profile, as contracts are now typically three to five years long with limited seasonality. This is not only attractive from a cash flow point of view – due to higher visibility and predictability – but we argue that the risks are also considerably lower compared to its previous business structure.

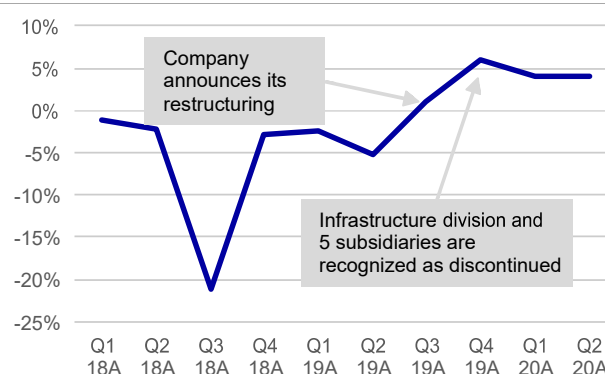
Second, the O&M business is characterised by higher margins than the construction business and FTTH projects in particular. Transtema recognised the Infrastructure division as discontinued in Q4 2019, which has yielded significant improvements in its profitability profile.

ADJUSTED EBITDA MARGIN BY SEGMENT



Source: Company data and Nordea estimates

ADJUSTED EBITA MARGIN



Source: Company data and Nordea estimates

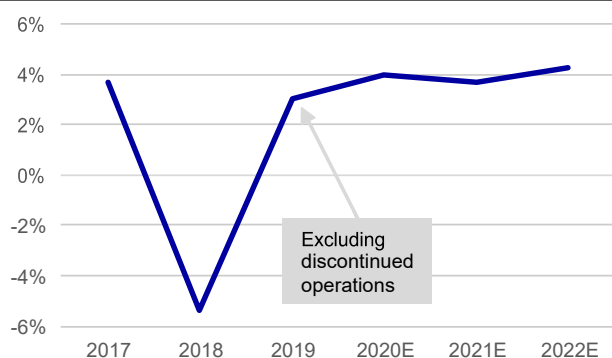
We argue the target of reaching an EBITA margin of 5% is attainable in the long term

Good position to drive margin improvements

We believe that the stability seen in the last three quarters, operating at an adjusted EBITA margin of 4.3% on average, is sustainable. Moreover, we believe that the increased mix of O&M contracts and the efficiency programme launched in autumn 2019 – which centralises some functions and streamlines internal control – leaves room for further improvements over time. We also argue that the company's target of reaching a 5% EBITA margin, which is in line with comparable companies, is attainable in the long term.

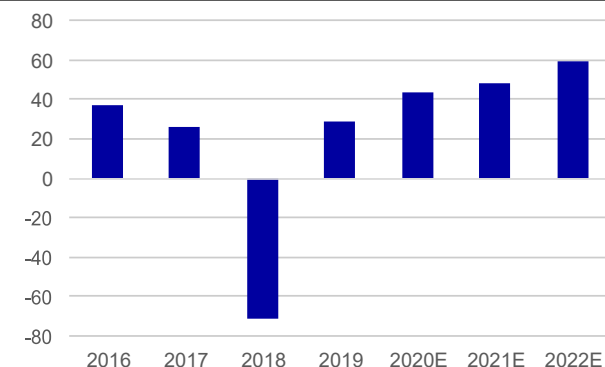
A rapid acceleration of contract startups tends to burden margins for service businesses in the short term. As contracts mature and efficiencies are extracted, margins tend to rise. For 2020, we forecast an adjusted EBITA margin of 4.0%. Following the high contract momentum in late 2019 and 2020, we expect startup costs to burden the adjusted EBITA margin by 20 bp y/y for 2021. As these contracts gradually mature, we expect the company to reach an adjusted EBITA margin of 4.2% for 2022.

ANNUAL ADJUSTED EBITA MARGIN (%)



Source: Company data and Nordea estimates

ANNUAL ADJUSTED EBITA (SEKm)



Source: Company data and Nordea estimates

Transtema has signed three new contracts during 2019-20, with a combined annual value of SEK 345m

Solid contract momentum to drive organic growth in 2021

While Transtema's end-markets are typically slow-moving with low growth, the company has recently enjoyed success in signing new contracts. Since 2019, Transtema has announced three large contracts (mainly in O&M) with a combined annual value of SEK 345m, start dates in 2020, and minimum contract lengths of four to five years. In 2021, we estimate that more than 80% of revenues will be generated from O&M contracts, almost all of which will have a contract life of around five years. We expect these new contracts to drive organic revenue growth of 19.6% for 2021.

RECENT CONTRACT ANNOUNCEMENTS (SEKm)

Client	Announcement period	Start period	Contract length	Total value	Value per year
Telia	Q2 2020	Q4 2020	5+2 years	1,300*	260
E.ON	Q4 2019	Q4 2020	4+3 years	180	45
3GIS	Q2 2020	Q3 2020	5 years	200	40

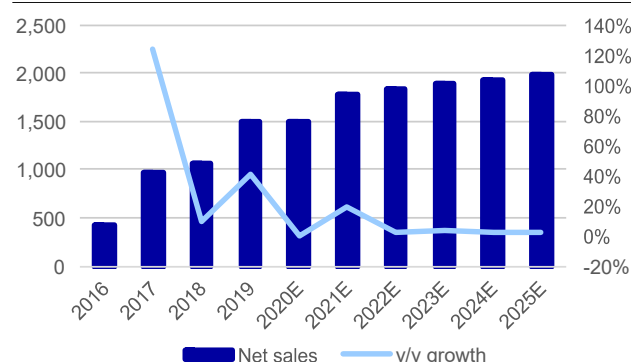
Source: Company data and Nordea estimates

The company is putting itself in a good position to capitalise on upcoming trends

Foundation for sustainable growth is solid

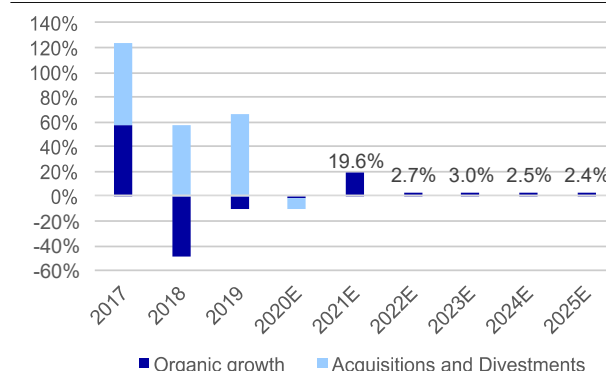
We believe there are several emerging trends that will drive the expansion of communications networks in the coming years. These include the rollout of 5G as well as other infrastructure with connectivity features, which we highlight in further detail below. With the new deals signed and its large base of long-term contracts, we believe that Transtema has also laid a solid foundation to capitalise on these and improve its long-term organic growth profile. We model organic growth of 2-3% for 2023E-25E.

ANNUAL NET SALES AND Y/Y GROWTH (SEKm AND %)



Source: Company data and Nordea estimates

ESTIMATED Y/Y GROWTH PER DRIVER (%)



Source: Company data and Nordea estimates

5G a potential upside risk

With the Swedish 5G spectrum auction coming up in November, telecom operators are likely to increase installation and network build-out capex for the coming two to three years. This does not, however, only affect the construction side. As 5G requires a higher density of mobile base stations and towers to reach the same coverage as previous technology generations, it will also likely require a higher degree of maintenance spending.

Due to uncertainty in the contracts' profiles, we have not included major volumes in our estimates, but we believe that 5G could provide upside to our estimates

We expect Transtema to be one of many actors in the roll-out of 5G, and we believe the company's market position as a leading network O&M service provider – with the only nationwide service coverage in Sweden – provides good long-term growth prospects in O&M. We believe the company is currently in procurement processes with several actors. In our view, there is a high likelihood of the company winning contracts in 5G with Telia – given their long-running relationship, and we believe that Transtema has a decent position with other providers. However, due to the uncertainty in timing and the potential number of contract wins as well as the contract values, we have not included any larger volumes from 5G in our estimates. We believe that growth in the area could be lumpy and that 5G could provide an upside risk to our estimates.

We also note that the relatively higher density of 5G networks could drive higher efficiencies in O&M, compared to other network contracts. This would not only mean that 5G could fuel growth, but also yield higher profitability. On the installation side, we believe that margins are likely to depend on the capacity of the company's installation employees, and thus the speed and intensity of the rollout. If the rollout is prolonged, which currently seems likely, the contracts could be accretive to Transtema's margin.

Connected infrastructure is driving growth already – and more is to come

Connected infrastructure

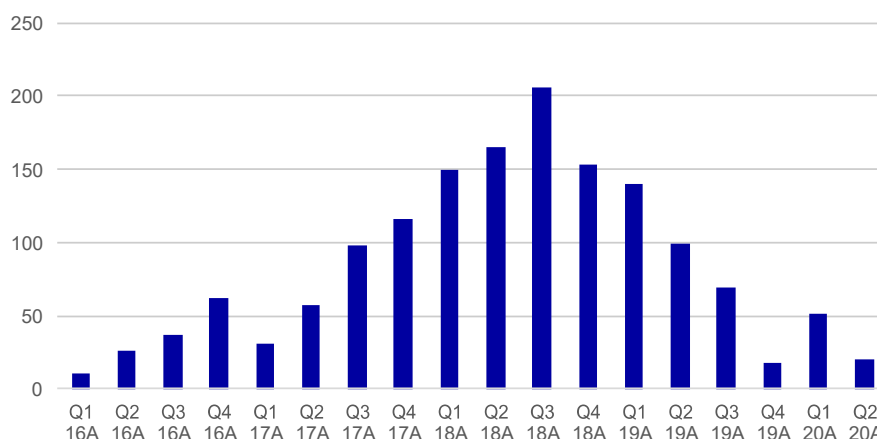
Another long-term trend that Transtema has the capability to address is the increasing integration of communication networks in other parts of infrastructure. One example of this already impacting the company is its contract with energy company E.ON. E.ON is set to install a total of 1,000,000 metres, while its competitors Vattenfall and Ellevio will add another 4,000,000 metres combined. In total, the Swedish authority Swedac estimates that a total of 5,500,000 chargers will have to be exchanged over the coming five years. Transtema's SEK 180m contract with E.ON covers around one-third of E.ON's meter base, implying a total market size of around SEK 3bn over the coming five years.

Another initiative that has yet to result in any notable volumes for the company are emissions-reduction targets, which are fuelling the build-out of connected charging stations for electric vehicles. The Swedish Energy Agency predicts that approximately 15,000 to 25,000 charging stations will be needed to reach its 2030 emissions target, whereas there were 2,000 in total in 2019. The EU's Green Deal also specifies that the rollout of one million charging stations around Europe will be needed by 2025.

Underlying financial position could drive attractive capital allocation

Transtema has reduced its indebtedness over the last two years and reported a modest net debt to LTM adjusted EBITDA of 1.2x as of Q2 2020 (financial target of below 3x). While this is partly the result of two rights issues, the company has made significant improvements to cash flow, mainly from increased earnings but also from a working capital release. Net working capital has been the main contributor, having reduced significantly as a result of the strategic shift to O&M. Its previous exposure to FTTH was characterised by long project cycles, whereas O&M is significantly capital lighter. Moreover, the company has had a strict focus on the issue and has integrated working capital incentives into its employee contracts.

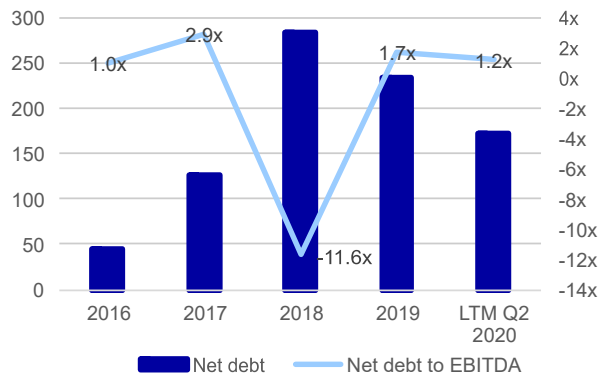
QUARTERLY NET WORKING CAPITAL (SEKm)



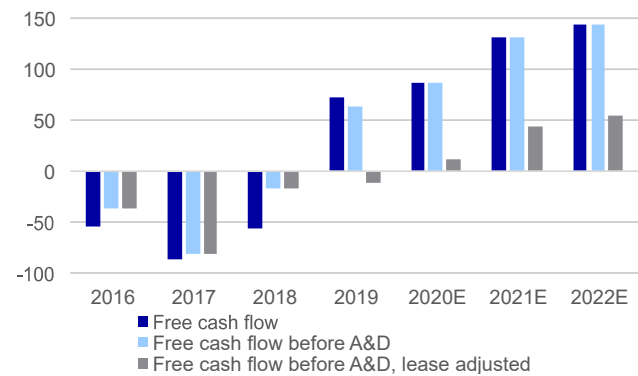
Source: Company data and Nordea estimates

Low leverage, high stability, and improved cash flow could open up for shareholder distributions and/or acquisitions

While 2019-20 has remained somewhat depressed by discontinued operations, we estimate a free cash flow CAGR of 25% between 2019 and 2022. We argue that Transtema's low leverage levels, greater stability, and improved cash flow going forward could drive shareholder distributions and/or allow the company to reignite its acquisition strategy. We caution that this would likely not be an instantaneous process, however, and that continuity in its cash flow generation will be prioritised before this could become a reality. We find it likely that a more aggressive capital allocation strategy could be employed starting in H2 2021.

NET DEBT AND NET DEBT TO EBITDA (X)

Source: Company data and Nordea estimates

FREE CASH FLOW (SEKm)

Source: Company data and Nordea estimates

Concentrated customer base presents the largest risk

In 2019, 76% of Transtema's revenue came from its largest customer, Telia. Such levels of concentration generally create the risk of a large drop-off in revenues and cash flow if the contract is terminated or the parties have a disagreement. Transtema recently extended and expanded its contract with Telia for an additional five years, coupled with a two-year extension option – the company is now Telia's sole O&M partner in Sweden. This likely entails significant integration between the two parties, which we view as both a mitigating factor and a sign of quality for Transtema.

Valuation

For our valuation purposes, we consider both peer multiples and a DCF valuation. While the overall peer group consists of eleven companies, we select four as key peers, based on their exposure to installation and maintenance services. In our DCF valuation, we derive a fair value range of SEK 12.6-15.6 per share based on a WACC of 8.2-9.5%.

Peer group

We use a peer group of eleven companies for our valuation purposes. We consider a multitude of factors in our screening process, such as market exposure, revenue and profitability profiles, end markets and business models. While all of the included peers have differences in their characteristics, especially in terms of market cap, we believe that the aggregate of the group represents the core characteristics of the business model in an effective manner.

Key peers

We consider Eltel, Caverion, Spie, and Bravida as key peers. They are all installation companies with notable aftermarket revenues, as well as similar profitability, cyclicality, growth and margin characteristics.



Eltel

Eltel is a Nordic provider of field services for power and communication networks. The company works with maintenance services, project delivery for new construction and buildouts, as well as the installation and upgrades for communications equipment. Eltel is present in Denmark, Lithuania, Germany, Poland, Norway, and Sweden. Eltel is one of few competitors in the market for maintenance services in Sweden.



Caverion

Caverion is a Finnish construction, installation, and service provider with a focus on infrastructure, industrial sites, and other real estate-related services. Its largest markets are Sweden, Finland, Norway, and Germany, but it has a presence in many more. The company delivers a broad range of services, including technical maintenance, facility management, and advisory services.



Spie

Spie is a French technical service provider with a focus on energy and communications networks, active in 38 countries and around 600 locations. Approximately 22% of its production was related to IT and communications technology in 2019, whereas its largest segment was mechanical and electrical services. In total, around 20% of the group's production in 2019 was related to design and installation; the remaining ~80% was related to aftermarket services such as maintenance.



Bravida

Bravida is a Swedish installations and service business with a focus on HVAC and energy projects. The company is active in Denmark, Sweden, Norway, and Finland, across approximately 300 units as of 2019. It has a broad range of customers in the private and public sectors. The company has a roughly 50/50 split between its installation and service revenues. Bravida is active in both the construction phase of buildings and the aftermarket phase.

Peer comparison

We note that the peer group is more diverse in terms of customers and geography and that Transtema is considerably smaller in terms of sales and market capitalisation. We argue that this could warrant a discount versus peers, which could shrink if Transtema were to diversify its customer base. Our DCF valuation implies a 17-31% discount on 2020E EV/EBITA.

PEER GROUP FINANCIALS

	Sales (SEKm)			Growth (%)			EBITA margin (%)		
	20E	21E	22E	20E	21E	22E	20E	21E	22E
Key peers									
Eltel AB	10,058	10,151	10,335	-12.2%	0.9%	1.8%	0.3%	0.3%	0.3%
Caverion Oyj	22,853	23,269	24,119	1.8%	1.8%	3.6%	0.2%	0.3%	0.4%
Bravida Holding AB	21,236	21,576	22,288	4.1%	1.6%	3.3%	0.6%	0.6%	0.6%
Spie SA	68,484	72,228	73,702	-8.1%	5.5%	2.0%	0.5%	0.6%	0.6%
Broader service peers									
Instalco AB	7,065	7,464	7,867	24.1%	5.7%	5.4%	0.8%	0.8%	0.9%
Coor	9,745	10,339	10,804	-5.5%	6.1%	4.5%	0.5%	0.5%	0.5%
Securitas AB	109,289	112,415	116,245	-1.5%	2.9%	3.4%	0.4%	0.5%	0.5%
Loomis AB	19,285	20,134	20,592	-8.4%	4.4%	2.3%	0.9%	1.2%	1.2%
Lassila & Tikanoja Oyj	7,697	7,993	8,145	-7.3%	3.8%	1.9%	0.4%	0.6%	0.6%
Iss A/S	100,628	105,611	109,404	-9.6%	5.0%	3.6%	-0.1%	0.3%	0.4%
G4S PLC	79,098	82,557	85,563	-16.4%	4.4%	3.6%	0.5%	0.5%	0.5%
Key peers average	25,939	26,938	27,662	1.9%	3.1%	3.2%	0.5%	0.5%	0.6%
Peer average	41,403	43,067	44,460	-3.5%	3.8%	3.2%	0.5%	0.6%	0.6%
Transtema group ab (Nordea est.)	1,488	1,774	1,821	-0.6%	19.2%	2.7%	4.2%	3.8%	4.4%
- relative to key peers	5.7%	6.6%	6.6%	-2.6 pp	16.1 pp	-0.5 pp	3.7 pp	3.2 pp	3.8 pp
- relative to peer group	-96.4%	-95.9%	-95.9%	2.9 pp	15.4 pp	-0.5 pp	3.8 pp	3.2 pp	3.8 pp

PEER GROUP VALUATION

	Mkt cap	P/E (adj)			EV/EBITA (adj.)			Div Yield (%)			Net debt/EBITDA		
	(SEKm)	20E	21E	22E	20E	21E	22E	20E	21E	22E	20E	21E	22E
Key peers													
Eltel AB	3,291	n.a.	n.a.	n.a.	14.6	14.6	10.8	0.0%	0.0%	3.4%	2.0	1.6	1.0
Caverion Oyj	8,574	23.3	15.1	12.4	17.6	11.1	8.5	1.8%	2.7%	4.1%	1.2	0.6	0.3
Bravida Holding AB	21,342	21.3	20.4	19.0	17.3	16.2	14.9	2.4%	2.6%	2.8%	0.9	0.6	0.4
Spie SA	24,099	13.1	10.2	18.6	10.8	8.8	7.7	3.0%	4.1%	4.3%	3.0	2.4	1.8
Broader service peers													
Instalco AB	9,365	n.a.	20.3	9.3	14.1	12.3	11.0	1.3%	1.4%	1.5%	1.1	0.5	-0.1
Coor	5,826	14.7	12.5	11.9	14.1	12.3	11.0	4.6%	5.9%	7.3%	1.9	1.4	1.2
Securitas AB	47,581	15.5	13.1	12.0	12.4	10.7	9.7	2.8%	3.4%	3.9%	2.0	1.7	1.5
Loomis AB	18,614	15.6	11.4	10.8	n.a.	n.a.	n.a.	3.2%	4.4%	4.5%	n.a.	n.a.	n.a.
Lassila & Tikanoja Oyj	5,296	25.9	15.6	14.1	20.3	14.8	13.7	7.1%	7.1%	7.1%	1.7	1.5	1.5
Iss A/S	21,871	n.a.	11.5	8.3	n.a.	12.0	5.4	0.8%	6.9%	7.7%	14.0	3.8	3.1
G4S PLC	33,608	14.2	12.0	10.8	11.7	10.1	9.1	1.0%	4.0%	4.6%	2.5	2.2	2.0
Key peers average	14,327	19.3	15.2	16.7	15.1	12.7	10.5	1.8%	2.4%	3.7%	1.8	1.3	0.9
Peer average	18,133	18.0	14.2	12.7	14.8	12.3	10.2	2.5%	3.9%	4.7%	3.0	1.6	1.3
Transtema Group (Nordea est.)	374	16.3	15.8	11.5	8.6	7.3	5.5	0.0%	0.0%	0.0%	0.9x	0.4x	0.1x
- relative to key peers		-15.1%	4.0%	-31.2%	-42.7%	-42.1%	-47.6%	-1.8 pp	-2.4 pp	-3.7 pp	-49.3%	-67.1%	-93.1%
- relative to peer group		-9.0%	11.6%	-9.8%	-41.5%	-40.3%	-46.0%	-2.5 pp	-3.9 pp	-4.7 pp	-70.7%	-74.0%	-95.1%

Source for both tables above: Refinitiv and Nordea estimates (values as of 24 September 2020)

DCF and valuation assumptions

Our primary valuation methodology for Transtema is a DCF model, in which we use a discount rate of 8.2-9.5%, based on our calculated WACC. For our terminal period, we model 2.5% growth. Based on the assumptions made in our estimates, we arrive at a fair value range of SEK 12.6-15.6 per share.

DCF VALUE COMPONENTS

DCF value	8.2% WACC		9.5% WACC	
	Value	Per share	Value	Per share
NPV FCFF	793	20.7	681.2	17.8
(Net debt)	-235	-6.1	-234.7	-6.1
Market value of associates	0	0.0	0.0	0.0
(Market value of minorities)	-1	0.0	-0.7	0.0
Surplus values	0	0.0	0.0	0.0
(Market value preference shares)	0	0.0	0.0	0.0
Share based adjustments	0	0.0	0.0	0.0
Other adjustments	0	0.0	0.0	0.0
Time value	41	1.1	38.1	1.0
DCF Value	598	15.6	483.9	12.6

Source: Nordea estimates

WACC COMPONENTS**WACC components**

Risk-free interest rate	2.0%	2.0%
Market risk premium	4.5%	4.5%
Forward looking asset beta	nm	nm
Beta debt	0.10	0.10
Forward looking equity beta	1.80	2.20
Cost of equity	10.1%	11.9%
Cost of debt	3.0%	3.0%
Tax-rate used in WACC	22.0%	22.0%
Equity weight	75.0%	75.0%
WACC	8.2%	9.5%

Source: Nordea estimates

LONG-TERM AVERAGES AND ASSUMPTIONS AT 8.2% WACC

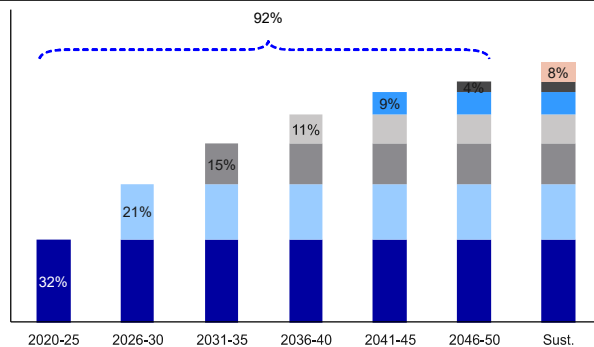
Averages and assumptions	2020-25	2026-30	2031-35	2036-40	2041-45	2046-50	Sust.
Sales growth, CAGR	5.83%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%
EBIT-margin, excluding associate:	3.4%	4.2%	4.1%	4.1%	4.1%	1.5%	
Capex/depreciation, x	0.9	1.05	1.05	1.05	1.05	1.00	
Capex/sales	5.9%	5.4%	5.5%	5.6%	5.6%	5.6%	
NWC/sales	1.3%	1.3%	1.3%	1.3%	1.3%	2.0%	
FCFF, CAGR	65.0%	1.8%	1.7%	2.0%	2.0%	-13.2%	2.5%

Source: Nordea estimates

SENSITIVITY ANALYSIS AT 8.2% WACC

		WACC				
		6.2%	7.2%	8.2%	9.2%	10.2%
EBIT marg. change	+2.0pp	28.4	30.8	24.7	20.3	16.9
	+1.0pp	31.7	24.9	20.2	16.7	14.0
		23.5	18.9	15.6	13.1	11.0
	-1.0pp	15.4	13.0	11.0	9.4	8.1
	-2.0pp	7.3	7.0	6.5	5.8	5.1

Source: Company data and Nordea estimates

DCF VALUE DISTRIBUTION AT 8.5% WACC

Source: Company data and Nordea estimates

LONG-TERM AVERAGES AND ASSUMPTIONS AT 9.5% WACC

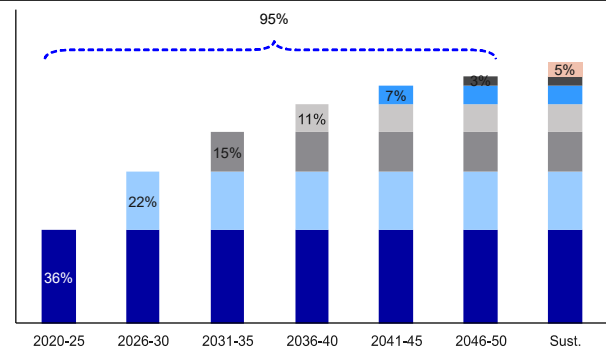
Averages and assumptions	2020-25	2026-30	2031-35	2036-40	2041-45	2046-50	Sust.
Sales growth, CAGR	5.83%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%
EBIT-margin, excluding associate:	3.4%	4.2%	4.1%	4.1%	4.1%	1.6%	
Capex/depreciation, x	0.9	1.05	1.05	1.05	1.05	1.00	
Capex/sales	5.9%	5.4%	5.5%	5.6%	5.6%	5.6%	
NWC/sales	1.3%	1.3%	1.3%	1.3%	1.3%	2.0%	
FCFF, CAGR	65.0%	1.8%	1.7%	2.0%	2.0%	-11.2%	2.5%

Source: Company data and Nordea estimates

SENSITIVITY ANALYSIS AT 9.5% WACC

		WACC				
		7.5%	8.5%	9.5%	10.5%	11.5%
EBIT marg. change	+2.0pp	41.1	23.6	19.4	16.2	13.7
	+1.0pp	23.7	19.3	16.0	13.4	11.4
		18.3	15.1	12.6	10.7	9.1
	-1.0pp	12.8	10.8	9.2	7.9	6.7
	-2.0pp	7.3	6.6	5.8	5.1	4.4

Source: Company data and Nordea estimates

DCF VALUE DISTRIBUTION AT 9.5% WACC

Source: Company data and Nordea estimates

Risk factors

Below, we list the risk factors we find relevant to consider for Transtema. The purpose of this is not to provide a comprehensive picture of all risks that the company may face but instead to highlight those that we find the most relevant. In short, the most important factors to consider are the company's highly concentrated customer base and the strong cyclicity in the industry.

A concentrated customer base could lead to unfavourable terms for the company	<p>Highly concentrated customer base</p> <p>Transtema's four largest customers account for over 80% of total revenue. The company is highly dependent on the relationships it has established with these customers and there is a risk that a disparity in power between the counterparties could lead to unfavourable for terms Transtema. This is partly what happened in its infrastructure division, where outstanding payments from larger customers led to bankruptcy in some of its subsidiaries.</p>
Transtema's largest customer, Telia, accounted for 76% of revenue in 2019. This means that the company relies on a good relationship with Telia for a large part of its business	<p>Transtema's largest customer, Telia, accounted for 76% of revenue in 2019, which should be considered a risk, as it means that the company has a high dependency on the customer. It is worth noting that the company's potential and existing customers consist of a few large players that control and dominates the Swedish network infrastructure. While Transtema's bargaining power towards its customers could be seen as rather weak due to the size differences, customers that rely on a slim set of O&M providers are also dependent on their counterparties to avoid prolonged network outages. For example, Transtema is Telia's only exclusive partner when it comes to the operation and maintenance services of Telia's networks. We view this as a factor that clearly mitigates the risk of the contract.</p>
Transtema's industry changes in cycles, with growth in the construction business being reliant on new technology generations	<p>Cyclical growth and technology shifts</p> <p>Transtema operates within an industry that is driven by cyclical growth and technology generation shifts. Therefore, the demand for products and services is subject to these cyclical fluctuations. This entails a risk for the company, since it needs to be able to adapt its product offering to the changes in order to maintain its competitiveness. Otherwise, the company might miss large opportunities. Moreover, the technological changes mean that the company's O&M contracts might be prone to a reduction in scope and a decline in revenue. Two examples are service contracts in copper and 3G networks, which will likely shrink as the networks are gradually decommissioned.</p>
Transtema is in legal disputes with TDC, IP-only and Huawei over SEK 38m of outstanding payments	<p>Current significant legal disputes</p> <p>The company is currently engaged in legal disputes with TDC in Denmark and IP-only in Sweden. The disputes cover approximately SEK 38m of outstanding payments for work Transtema has done; the cases are set to be concluded in 2021 at the latest. In both disputes, the outcome is uncertain. In the TDC dispute, the worst-case scenario would be a risk of writing down the entire sum, which would impact the EBITA margin. However, apart from a loss in the outstanding payments in the future, this cost would not burden the cash flow. While the IP-only case is similar in regards to the risk of writedowns, it also includes potential further claims from IP-only, which have been raised but not yet realised. As such, the direct and indirect financial effects of the disputes are still uncertain.</p>
Long-term contracts mean that significant flaws in cost calculations can burden margins for a long time	<p>Contract calculation risk</p> <p>Transtema's O&M operations are characterised by large long term-contracts. While this comes with the advantage of stability, it also means that faulty estimates of project costs can become a large burden for the company. If costs and certain contract clauses are underestimated, the contracts can become a severe drag on profitability for the entirety of their lifetime. While we are uncertain of the exact clauses in Transtema's contract with Telia (which is Transtema's single largest contract exposure), during the past few years Telia has shifted its approach to writing so called Vested contracts with its suppliers. These are structured in such a way that cost overruns to a certain degree are compensated by Telia in order to ensure the maximal quality of service and to avoid suppliers not being able to fulfil the terms of their agreements due to financial constraints. If such a contract was entered into, we argue that a large part of the near-term growth and the contract portfolio should carry relatively low risk in terms of contract calculation.</p>

Large organisational changes in connection with acquisitions could burden profitability and cause organisational complexity

Acquisition-related risk

Transtema has carried out a large part of its acquisitions during the past four years, including TNS, which accounts for a large part of its revenue. While the company is currently not in any integration phase, we believe that it could make acquisitions in the future. Acquisitions of this order are prone to integration risks. There is a risk that the organisational changes made in connection with the acquisitions do not result in the outcome that Transtema aspires to and that they could burden profitability and cause organisational complexity. Improper internal control could exasperate these issues.

Company overview

Transtema is a Swedish company that delivers services and solutions in networks and communications infrastructure. It is one of the leading players in the market, and its biggest customer is currently Telia. The company recently changed its strategy, discontinuing its operations in the FTTH segment and shifting its focus to operation and maintenance services. Today, it operates within two business areas: Network Services and Emerging Business. The company employs around 920 people and has operations in 35 different locations in Sweden, as well as in Oslo, Norway.

Transtema is active within the design, construction, maintenance and operation of communication networks

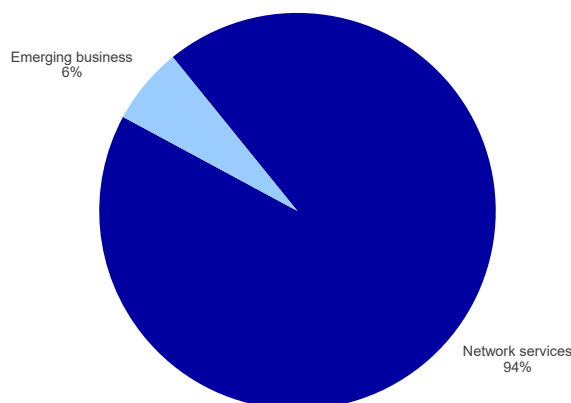
A Nordic supplier of network infrastructure

Transtema is active in the design, construction, installation, maintenance and other communication networks services. Following an extensive change in strategy, the company today operates within two business segments: Network Services (94% of revenues) and Emerging Business (6% of revenues). Moreover, approximately 96% of the company's revenues in 2019 were generated in Sweden, whereas the remainder came from its operations in Norway. The company is headquartered in the west of Sweden, in a town outside Gothenburg called Mölndal, and was listed on Aktietorget in 2015, but moved its listing to the Nasdaq First North Growth Market in 2016. It is traded under the ticker TRANS. Transtema has developed three financial targets that it is striving to achieve over the course of an economic cycle:

- Revenue growth of 3% per year
- An EBITA margin of 5%
- Net debt/EBITDA below 3x

REVENUE SPLIT PER SEGMENT, 2019

94% of revenues adhere to the business area Network Services



Source: Company data

Company history

Transtema was founded in Mölndal in 1997, and has since grown from being a local player to a well-known national company

Transtema AB was founded in 1997 by current group CEO and member of the board, Magnus Johansson. It was first established in Mölndal, outside Gothenburg in Western Sweden, where its headquarters are still located. However, the company has expanded its operations and is now present in over 35 cities all over Sweden, as well as in Oslo, Norway. Over the years, the company has, through strategic acquisitions and business development, expanded from being a local player to becoming a well-known national company. Because of this, Transtema has succeeded in developing a solid business platform with a broad technical knowledge as well as large geographical coverage, which enables it to compete for large contracts, eg Telia and E.ON. Its wide geographical coverage enables it to reach approximately 60% of the Swedish population within one hour, a reach which will expand to 100% in December 2020 when new contracts are operational.

TRANSTEMA: MILESTONES

Year	Event
1997	Transtema is founded by Magnus Johansson, with a focus on radio link, network and consulting services
1998	First service agreement for operation of communication networks
2002	First service agreement for operation all day and night, all year around
2003	Optic fiber installations becomes bigger than radio link systems
2004	Starts own 24-hour network operating center, "NOC"
2008	Subsidiary Relink Network is established
2011	Introduction of management systems for quality assurance, environmental assurance and work environment
	Transtema acquires IP-konsulterna AB
2014	Transtema Group is created from Transtema AB and Relink AB and a new growth strategy is established
2015	Listed on Aktietorget
2016	Transtema Group acquires Fiber Gruppen i Sverige AB
	Transtema acquires Datelab AB
	Transtema acquires Fiber Solution Sweden AB
	Transtema acquires HC Telecom AB
	Transtema acquires WinCore AB
	Transtema acquires BearCom AB
	Transtema changes its listing exchange from Aktietorget to Nasdaq First North
2017	Transtema acquires Foki AB
	Transtema acquires Andersson & Jansäter Entreprenad AB
	Rights issue of 900 000 new shares
	Transtema acquires Effektvision AB
	Transtema acquires Fiberdata AB
	Transtema acquires Copiad Telecom
	Acquires TheBplan AS, Norway
	A project accounting issue is discovered in one of the groups subsidiaries, incurring negative effect on Q4 17 earnings
2018	Rights issue of 325,000 new shares
	Transtema acquires Ericsson Local Services AB and renames the entity Transtema Network Services AB
2019	Decides to divest Transtema Infrastructure, and file for bankruptcies for the subsidiaries Andersson & Jansäter, Nordlund Entreprenad and TIAB
	Recognises Transtema Infrastructure as discontinued
	TNS wins procurement, estimated order value from E.ON of SEK 180 million over three years
2020	TNS wins procurement with 3GIS
	TNS renews and extends its contract with Telia

Source: Company data

The company experienced high growth in FTTH between 2016 and 2018 and made a number of acquisitions in the period

However, the company eventually experienced governance and project calculation issues within its FTTH operations

The company decided to diversify into operations and maintenance at the end of 2018, as the market was refocusing away from construction

Subsequently, the company decided to divest its FTTH operations in 2019

Between 2016 and 2018, the company experienced high growth due to strong fibre expansion, spurred on by connectivity goals set by the Swedish government. During this period, Transtema focused on FTTH (fibre-to-the-home) construction, which included large turnkey projects and excavation activities. Moreover, the company made a large number of acquisitions within this area.

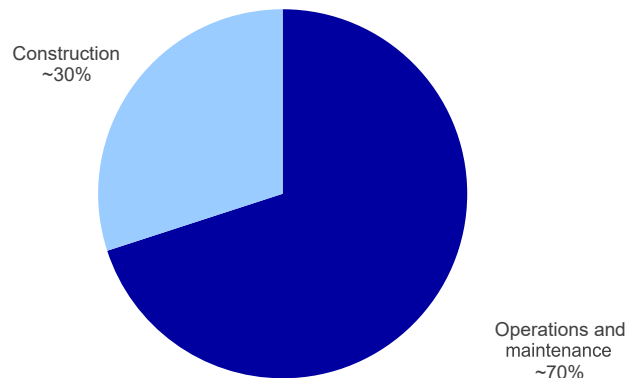
While the acquisitions created a solid foundation with a large geographical footprint, the high pace also led to governance problems in the company's portfolio of subsidiaries, as aggressive revenue recognition for some of its unfinished projects was eventually discovered. This resulted in significant writedowns and project losses. Moreover, final adjustments in excavation projects related to its FTTH operations continued to burden the company.

Strategy shift and acquisition of Ericsson Local Services

In 2018, the company started to experience a downturn in the FTTH market, as the market had matured and there was little to no expansion in the underlying fibre network. The company subsequently decided to diversify its operations by acquiring the maintenance-focused company Ericsson Local Services (LSS), stating that the market was gradually refocusing from construction to operation and maintenance. This marked a first step towards a new strategy entailing a greater focus on operation, maintenance and technical services related to network infrastructure.

In 2019, the company decided to divest its Infrastructure division and five of its subsidiaries active in the FTTH market. In conjunction with this, it also decided to exit Denmark. The new strategy and the acquisition of LSS changed the business mix radically for Transtema. Previously, 85% of the company's business consisted of building fibre networks, where Transtema had contracts controlling the whole value chain – from design to installation. Today, the business mix is the opposite, with around 70% of the company's business consisting of network operations and maintenance ("O&M"), which is set to increase as new contracts are implemented in H2 2020-2021.

BUSINESS MIX AT THE END OF 2019



Source: Company data and Nordea estimates

We believe that the strategy shift is beneficial, as the new focus is characterised by lower risk and seasonality, as well as higher margins and stability than the FTTH projects

In our view, this represents a solid strategy shift, as O&M is typically characterised by longer contracts of around three to five years, better profitability and less seasonality than construction, as well as significantly lower project risk compared to the FTTH business. As a result of the implementation of the new strategy, Transtema operates within two business areas: Network Services and Emerging Business. However, it does not provide quarterly financials for both.

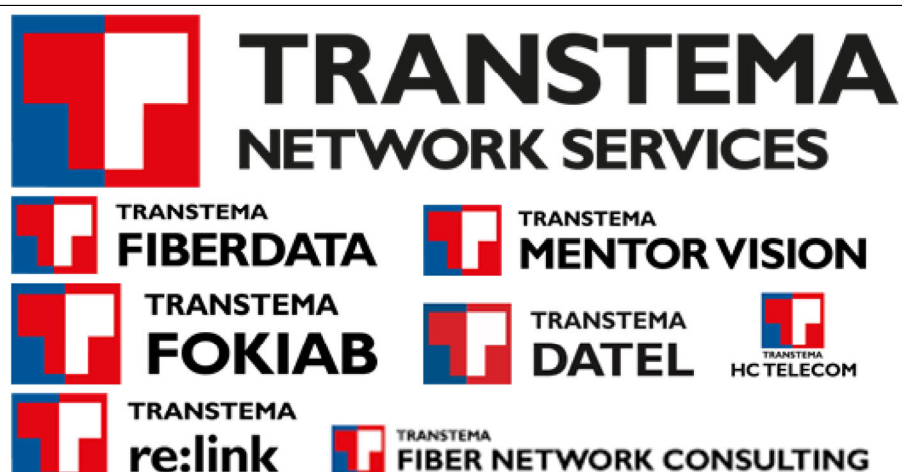
Business areas

Network services

TNS consists of nine subsidiaries and focuses on the construction and maintenance of communication networks

Network Services was formed as a result of the acquisition of Ericsson Local Services (subsequently rebranded as TNS) and several of the company's existing subsidiaries in 2018 and is the largest business area in the group. Today, it consists of nine subsidiaries. Within this segment, operations are focused on technically advanced passive and active communication networks. The division is active in both construction, where it can handle large turn-key projects, as well as aftermarket services in the operation and maintenance of communication networks. Traditional telecommunication network owners are its largest customers, however, Transtema can also address installation and maintenance of smaller and more concentrated networks.

NETWORK SERVICES SUBSIDIARIES



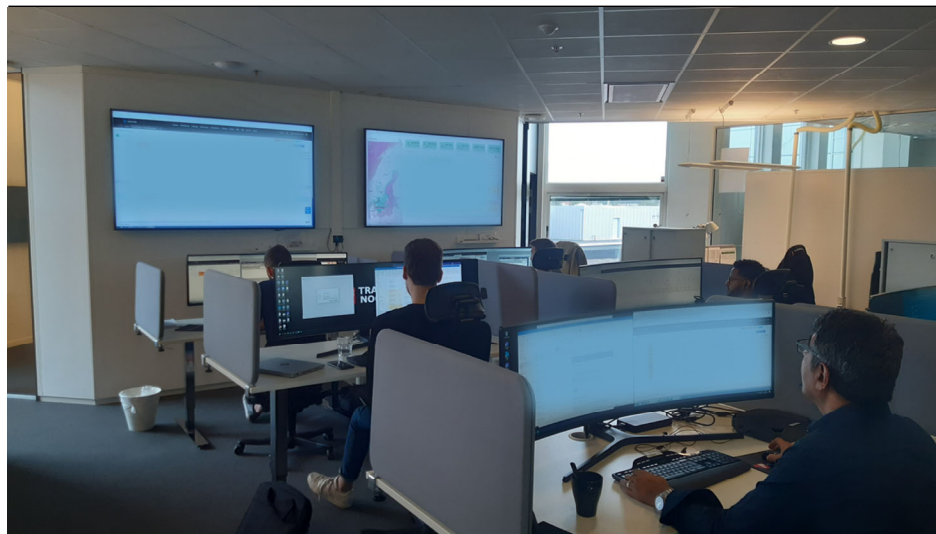
Source: Company data

The company currently has a service coverage of 60% the Swedish population which it can reach within one hour, and is currently expanding to 100%

As part of Transtema's new strategy, TNS focuses mainly on the aftermarket maintenance throughout Sweden. With the acquisition of TNS, the group increased its geographical coverage in southern and central Sweden and now has the capability of reaching 60% of the Swedish population within one hour. In order to support Transtema's contract expansion with Telia, the company is in the process of increasing its reach across Sweden. In time, the company will have service coverage of 100% of the Swedish population, which is a unique position in the country. Within its

maintenance business, the company manages operations and maintenance for 25 network owners with a 24/7 service and network operating centre.

ONE OF TRANSTEMA'S NETWORK OPERATING CENTRES (NOC)



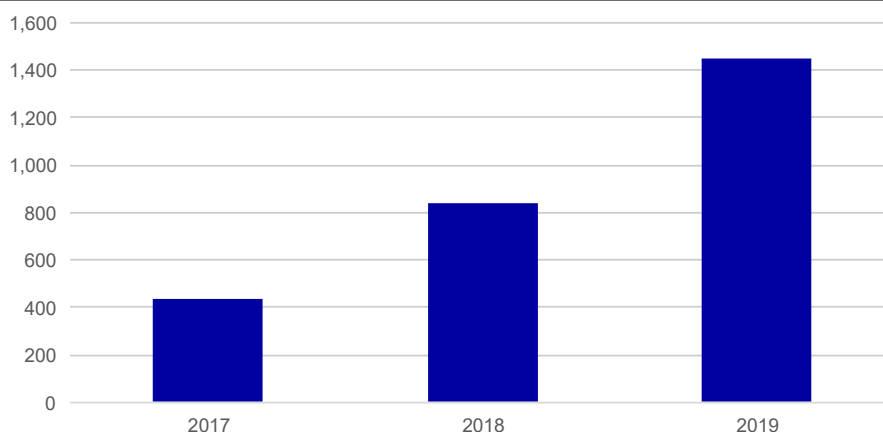
Source: Company data and Nordea

The company has developed a proprietary IT system for resource handling, which optimises route handling and service agent allocation

The O&M business includes running the daily operations in the networks, which in turn includes ensuring the quality of service and minimising network downtime. To ensure maximum efficiency and quality of service, the company has developed a proprietary IT system for resource handling. The system automatically optimises ticket-handling routes and allocation for its service agents, in effect increasing the pace at which Transtema can handle its tickets and enhancing efficiency by increasing the number of tickets handled per employee.

As mentioned above, Network Services is Transtema's largest and most important segment, accounting for approximately 94% of total revenues. The business area is solely operational in Sweden.

TRANSTEMA NETWORK SERVICES: NET SALES (SEKm)



Source: Company data

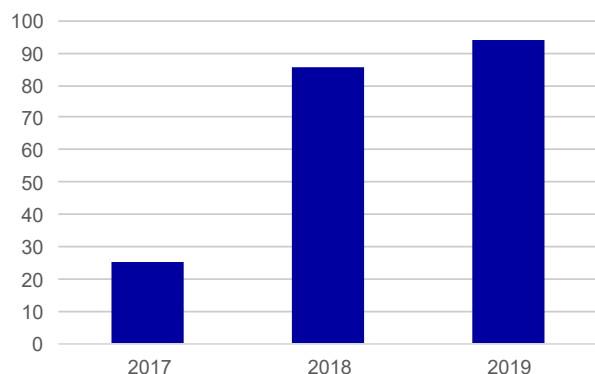
Emerging Business is Transtema's division for cloud and data centre infrastructure

Emerging Business

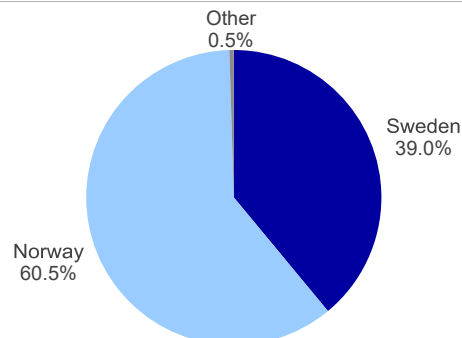
The Emerging Business segment is Transtema's operations within cloud and data centre infrastructure. It generated only 6% of Transtema's revenue in 2019 and is operational in both Norway (61% of 2019 sales) and Sweden (39% of 2019 sales). The segment was established via the acquisitions of Wincore in 2016 and The Bplan in 2017. The Emerging Business segment grew by 9.7% and generated revenues of SEK 94m in 2019, with an EBITDA margin of 5.8%.

EMERGING BUSINESS: SUBSIDIARIES

Source: Company data

EMERGING BUSINESS: NET SALES (SEKm)

Source: Company data

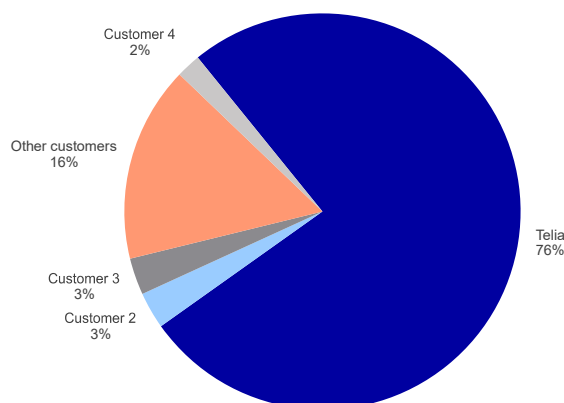
EMERGING BUSINESS: GEOGRAPHICAL MIX

Source: Company data

Customer base

Telia was Transtema's single largest customer in 2019, generating 76% of the company's revenue

Transtema's customers include major municipalities, telecom operators and other public administrations. However, the customer base is very concentrated and the largest customer, Telia, accounted for approximately 76% of total revenue in 2019. With the new Telia contract announced in 2019, the share of the company's revenue that Telia generates is set to increase in 2021.

TRANSTEMA GROUP: CUSTOMER BASE FOR NETWORK SERVICES SEGMENT, 2019

Source: Company data

Management and ownership overview

Executive management

Transtema has an executive management team and a board of directors consisting of three and six members, respectively.

Magnus Johansson is the group CEO and founder of Transtema in 1997. He is also the largest shareholder of the company

Magnus Johansson is the group CEO and founder of Transtema. He has been with the company since the start in 1997. He has also been a member of the board since 2014 and is the largest shareholder in the company, holding around 25% of outstanding shares in the company. He is accompanied by Jens Boberg, who has been COO since 2005, and Henning Sveder, who joined the team as CFO in November 2019.

Among the largest shareholders in the company are Magnus Johansson and Göran Nordlund. Additionally, all members of the executive management are shareholders in the company and most of the members of the board are also shareholders. We believe that this insider ownership is positive, as it gives management and the board strong incentives to run a healthy business with a clear focus on creating shareholder value.

EXECUTIVE MANAGEMENT



Magnus Johansson	Jens Boberg	Henning Sveder
Position	Position	Position
CEO & Boardmember	COO	CFO
Born	Born	Born
1963	1982	1969
Background	Background	Background
Group CEO and founder of Transtema	Technical background with focus on IT security and data communication	Previously CFO for Qmatic group and snr Finance Director in SVP Worldwide and Burger King Corporation
Education	Education	Education
MSc Computer Engineering at Chalmers University of Technology and MBA from Gothenburg School of Business	Marketing diploma from IHM Business School with a focus on marketing and leadership	MSc Business and Economics, Karlstad University
No. of shares	No. of shares	No. of shares
9,653,617	80,000	18,180
No. of share options	No. of share options	No. of share options
0	121,250	100,000

Source: Company data and Nordea

Board of directors

Göran Nordlund is chairman of the board and has been on the board since 2014. Our overall impression is that Transtema possesses the relevant experience in its executive management and board of directors needed to facilitate the company's strategy.

BOARD OF DIRECTORS



Göran Nordlund	Magnus Johansson	Linus Brandt
Position	Position	Position
Chairman	CEO & Boardmember	Boardmember
Born	Born	Born
1958	1963	1966
Background	Background	Background
Entrepreneur within the Telecom industry. Chairman of Cellink AB, Ebeco AB etc	Group CEO and founder of Transtema	CFO and Executive Vice President in Opus Group
Education	Education	Education
MSc in Electrical Engineering from Chalmers University of Technology	MSc Computer Engineering at Chalmers University of Technology and MBA from Gothenburg School of Business	BSc in Business administration and Management at School of Business, Economics and Law at the University of Gothenburg
No. of shares	No. of shares	No. of shares
3,716,679	9,653,617	2,000
No. of share options	No. of share options	No. of share options
0	0	20,000



Liselotte Hägertz Engstam	Peter Stenquist
Position	Position
Boardmember	Boardmember
Born	Born
1960	1965
Background	Background
MSc Engineer from Chalmers university of Technology	Experience from the automotive industry, IT and consultant within several industries
Education	Education
MSc Computer Engineering at Chalmers University of Technology	MSc Civil Engineer from Chalmers University of Technology
No. of shares	No. of shares
2,212	187,500
No. of share options	No. of share options
20,000	195,000

Source: Company data and Nordea

The company's shareholders are relatively concentrated, with the three largest shareholders controlling around 50% of the capital and votes

Shareholders

The three largest shareholders in the company are Magnus Johansson, Göran Nordlund and Jonas Nordlund. Together, they account for approximately 43% of the capital and 43% of the votes. The company has strong insider ownership with CEO Magnus Johansson being the largest shareholder, followed by chairman of the board Göran Nordlund. It is worth noting that the ten largest shareholders together account for approximately 70% of the shares and thus 70% of the votes.

SHAREHOLDERS AS OF 21 SEPTEMBER 2020

Shareholder	No. of shares	Value (SEKm)	% of capital	% of votes	Country
Magnus Johansson	9,653,617	92	25.18%	25.18%	Sweden
Göran Nordlund	3,716,679	35	9.69%	9.69%	Sweden
Jonas Nordlund	1,485,985	14	6.93%	6.93%	Monaco
Nordnet Pensionsförsäkring	1,916,394	18	5.00%	5.00%	Sweden
Theodor Jeansson	1,589,501	15	4.15%	4.15%	Sweden
Telefon AB LM Ericsson	1,302,567	12	3.40%	3.40%	Sweden
Nordic Cross Asset Management	1,281,500	12	3.34%	3.34%	Sweden
Avanza Pension	1,171,693	11	3.06%	3.06%	Sweden
Sune Tholin	1,170,820	11	3.05%	3.05%	Sweden
Carl Schneider	1,157,462	11	3.02%	3.02%	Sweden

Source: Company data

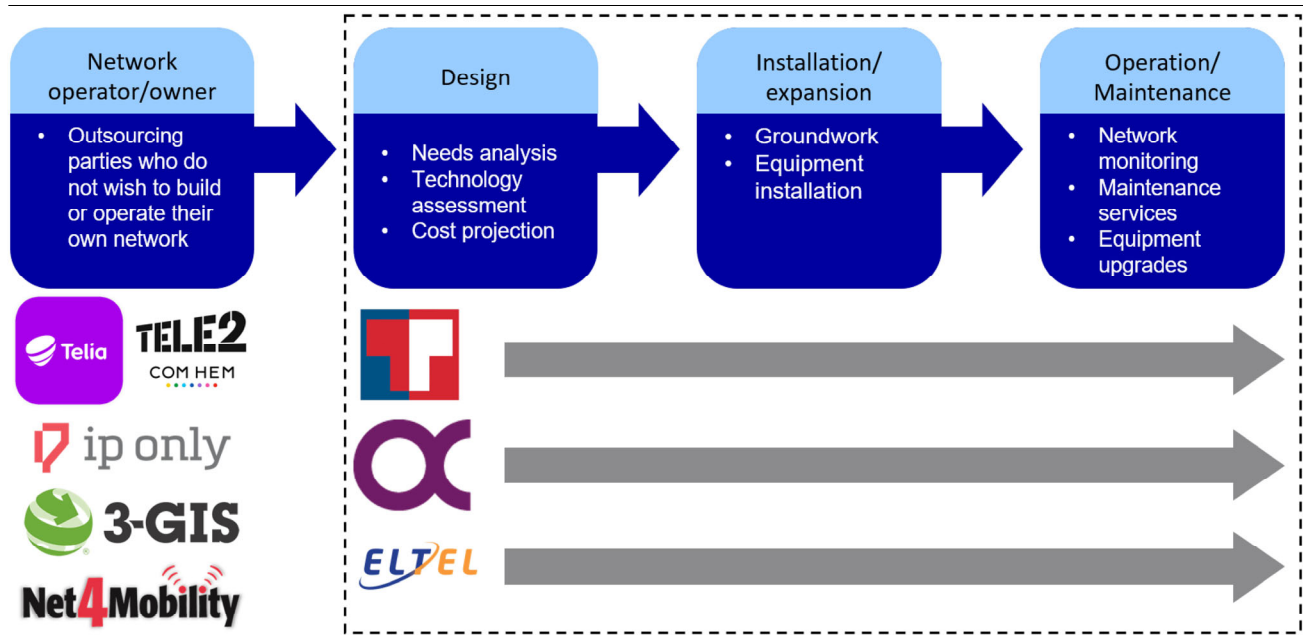
Market overview

The Swedish market for communication network services is uncomplicated, with network owners and operators outsourcing design, construction and O&M to third-party service vendors. These in turn ensure reliability and quality of services for the end customers. While O&M is stable, expansion of the networks is cyclical in nature, depending on shifts in technology generations. Having a local presence is important to fulfil Service Level Agreements (SLAs) and command some price premium, ie deliver swift services and minimise network downtime, which makes having broad geographical service coverage important for winning larger contracts. Being able to increase utilisation levels from multiple contracts is key for profitability. We believe that Transtema's unique position of soon having 100% service coverage in Sweden is a competitive advantage allowing for above-market growth and margin expansion from scale efficiencies.

Value chain of network service providers

The value chain of network service providers is uncomplicated. It begins with the network operators and owners, who offer their own communications services direct-to-consumer and/or lease bandwidth over their network to other operators. Telia and Com Hem are examples of the former and IP-only is an example of the latter. These companies typically outsource the construction of the networks, equipment installation, aftermarket service and operations and maintenance to service providers.

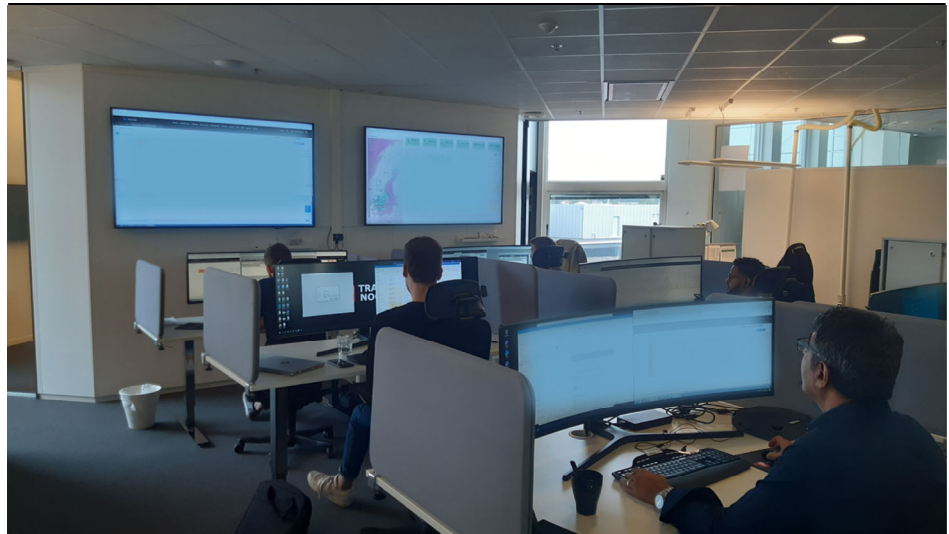
COMMUNICATION NETWORK VALUE CHAIN AND SOME OF ITS ACTORS



Source: Nordea

Minimising network downtime is vital for network operators, as long outages can harm customer satisfaction

The service providers are responsible for ensuring the quality and reliability of service for the network operators' end customers, consisting of households, businesses and individuals who are using any type of connectivity service. This includes monitoring (which is done from a network operating centre) and rectifying network outages that can damage the operator's reputation and customer satisfaction. Minimising network downtime is thus vital for the network owners and operators. To address this, Transtema has developed a proprietary system to automate route handling, which drives ticket handling efficiency.

ONE OF TRANSTEMA'S NETWORK OPERATING CENTRES (NOC)

Source: Company Data and Nordea

The communication networks can be split into two types: fixed (for TV, fixed line telephony and broadband offerings) and mobile networks. The mobile networks are concentrated, owned either on a standalone basis or via a combination of Telia, Tele2, Telenor and 3 Sweden. The latter are generally required by law to unbundle their networks, in practice meaning that they need to allow third-party mobile operators to use their networks. Apart for Telia's Skanova, which is deemed to have significant market power status (SMP), fixed networks are not bound by these requirements. As such, the market for fibre networks is generally more fragmented, with both local and national network operators. This includes fibre networks owned by municipalities, which generally gain a monopoly in their footprint.

Transtema addresses all types of communication networks. Its growth has historically been driven by the fibre rollout, but with the acquisition of Ericsson Local Services in 2019, it has a significantly larger exposure to mobile networks.

Cyclicity and technology shifts

The expansion and evolution of communication networks is driven by cyclical shifts in technology generations

As evident by Transtema's rapid growth in the fibre market during 2016-17, the evolution of communication networks is driven by cyclical growth and technology shifts. This is also evident in mobile networks, where 5G is currently being deployed. Each technology generation is long, and has in mobile networks' case historically lasted around ten years. The deployment cycle tends to vary between markets, where the most intensive phase of the rollout lasts around two to three years. As such, underlying market growth is lumpy with little expansion taking place between the periods. Construction of new networks entails, for example, large investments in both active (eg radios, antennas and switches) and passive (eg towers, rooftop sites and underground fibre cables) equipment.

For the last three generations, the investment rationale for network owners has mainly been adding capabilities for higher speed internet. This has over the years facilitated new solutions, such as video streaming, that have been driven by fibre and mobile 4G. This in turn drives higher data consumption, which telecom operators can capitalise on by selling plans with more data at a higher price to their customers.

AN OVERVIEW OF MOBILE TECHNOLOGY GENERATIONS

Generation	1G	2G	3G	4G	5G
Deployment	1970–84	1980–99	1990–2002	2000–10	2020+
Bandwidth	2 Kbps	14–64 Kbps	2 Mbps	200 Mbps	1 Gbps+
Latency	n/a	300–1000 ms	100–500 ms	<100 ms	1 ms
Service	Analog Voice	Digital Voice, SMS, MMS	Integrated High-Quality Audio, Video and Data	Dynamic Information Access, Variable Devices	Dynamic Information Access with AI Capabilities, IoT, Wearable Devices

Source: Cisco

New technologies sometimes directly replace old ones that are decommissioned, which can translate into shrinking revenues...

These technologies might replace earlier generations, from which usage has migrated to the more modern networks. These are sometimes decommissioned, as is the current case with the 3G and copper networks in Sweden. While O&M revenues depend on the contract structure (ie if the contracts are based on per ticket or site, or on an annual fee), networks that are gradually decommissioned usually translate into declining revenues for the service provider.

...which can cause problems generating profitability in those contracts

Given the shrinking scale of the contracts, it can be difficult to generate profitability from these, especially if they are located in areas where the company has a low presence in its other operations. Thus, having geographically overlapping contracts is important in order to gain efficiency and ensure profitability over time. However, we also note that the decommissioning process often is outsourced to third-party service providers, which can offset some of the losses in profitability.

Network expansion in Sweden has for the last few years been driven by fibre. However, 5G is set to become the most prevalent theme in the coming years, while the integration of communication networks into other parts of infrastructure is another important driver during the coming years. Below, we highlight the fibre network buildout, 5G and a few other current themes.

National fibre market at a glance

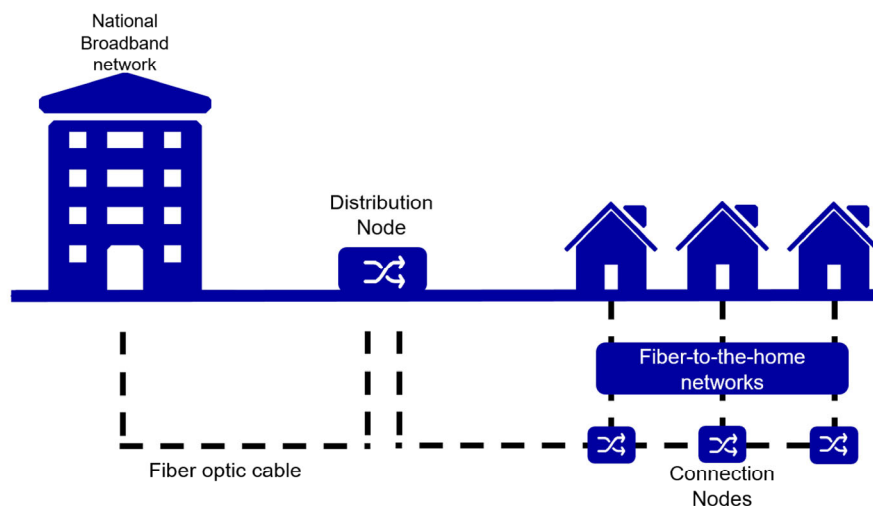
Transtema's growth has historically been driven by fibre market rollouts, but its exposure has now shifted towards the aftermarket

The buildout of fibre networks has historically driven Transtema's growth through installation services. However, growth has slowed and after its strategy shift, the company is now more oriented towards O&M services. Fibre networks consist of transparent flexible glass or plastic fibres used to transmit light. Optical fibre has a wide usage in fibre communication, allowing for transmission over longer distances, at higher frequencies and lower interference than wire cables; hence, fibre networks have higher efficiency than old communication network standards such as copper.

The fibre cables are dug underground and rerouted closer and closer into active equipment by the end customer. Observe that while fibre is regularly recognised as a direct broadband technology, the cable is also needed to connect mobile towers, small cells and rooftop sites to the broader network. The construction efforts of these networks require broad planning and design, whereas the aftermarket is typically coupled with maintenance and capacity upgrades as bandwidth demand grows.

The fibre network is divided into a large number of smaller segments. Below, we describe the segmentation of a national fibre network.

SIMPLIFIED NETWORK STRUCTURE



Source: Nordea

Dissecting a national fibre network

A national fibre network generally consists of four different parts: the backbone network, distribution networks, connection networks and property networks.

Backbone network

The backbone network forms the foundation of the national network structure and is built and owned by a very limited set of actors, such as Telia's Skanova and IP-only. This network connects to the so-called main nodes, which are central points of fibre connection. They are similar to highways, connecting an entire nation's fibre infrastructure.

Distribution networks

The distribution networks connect the main nodes in the backbone network with distribution nodes. A distribution node is a passive intersection point at a location or other geographic area, meant to redirect the network into cities and other populated areas.

Connection networks

The connection network connects and redirects the distribution networks into smaller segments. The connection network usually runs along streets or other already existing infrastructure and is often directly connected to the individual property's equipment, which in turn is connected to the operator's active equipment.

Property networks

The property network then connects the connection node with the individual end consumer in a property. This connection is often via a basement or through the street, close to the property. The owner of these networks is usually the individual property owner. This part of the network is also commonly known as FTTH.

Fibre broadband buildout

The Swedish government presented the targets for the development of broadband strategy in 2016. The strategy has three sub-goals which the Swedish telecom regulator PTS has the overall responsibility for monitoring.

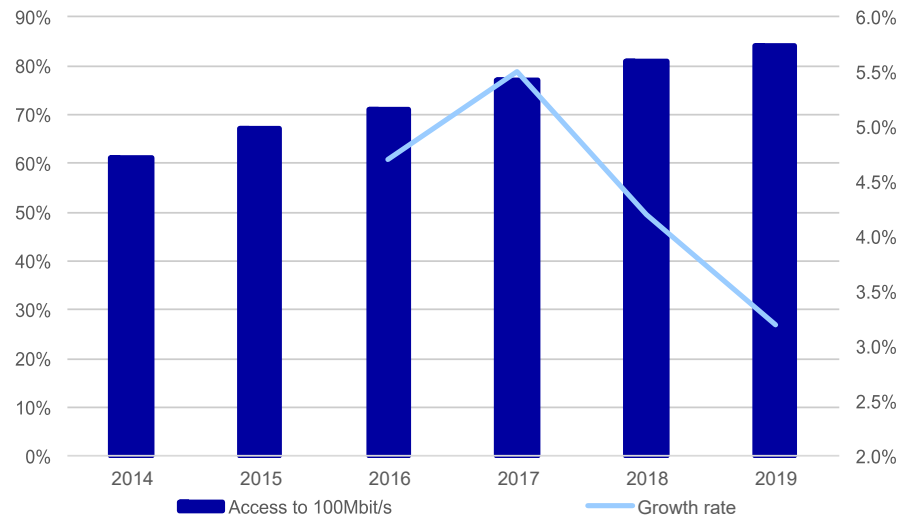
These include:

1. By 2020: 95% of all households and companies should have access to 100 Mbit/s internet
2. By 2023: All of Sweden should have access to high quality mobile services
3. By 2025: 98% of all households and companies should have access to 1 Gbit/s internet

With ~84% of all Swedish households and companies already having access to high-speed internet, the market is refocusing to the aftermarket...

At the end of 2019, approximately 84% of all the Swedish households and companies had access to high-speed internet according to PTS. While this would imply the need for a rapid acceleration to reach the 2020 goals, urban areas are already mostly covered whereas rural areas account for the largest underpenetration. Fibre has so far been the main technology used to build out in these areas. However, as the fibre rollout has slowed, the market has shifted more towards aftermarket service.

HIGH SPEED INTERNET ACCESS FOR SWEDISH HOUSEHOLDS, 2014-19

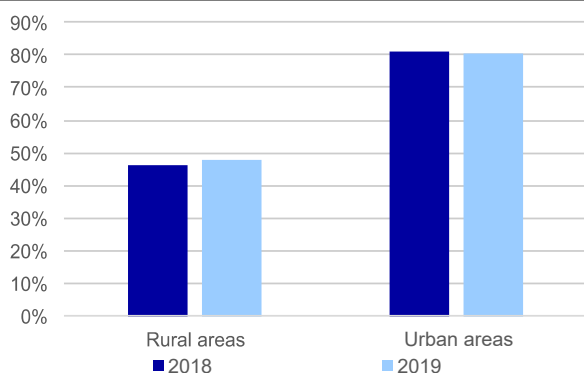


Source: PTS and Nordea

...which is driven by the relatively low returns generated by rural fibre infrastructure

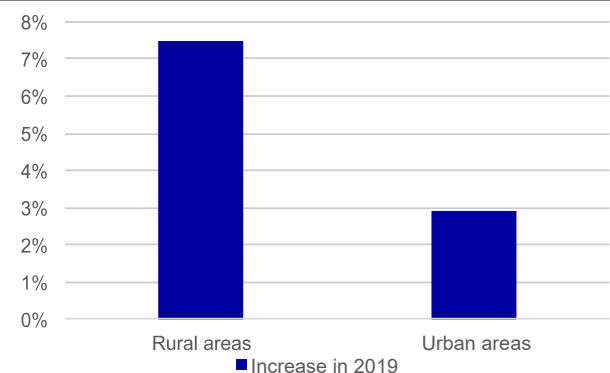
From our understanding, national network owners argue that returns in rural areas are too low to justify expanding the fibre networks further. To reach the targets set by PTS (which is indifferent to the technology supplying the broadband), other solutions such as fixed wireless access ("FWA") or state subsidies will be needed. While the alternative solutions still rely on distribution networks, they aim to reduce the amount of fibre infrastructure needed by the network owners to supply a household with broadband. The Swedish government has pledged to spend around SEK 3bn until 2025 in subsidies, but PTS has reported that an additional SEK 20bn will be needed to reach the goals. All in all, the slow pace of the fibre network buildout is likely to continue, especially in FTTH.

FIBRE PENETRATION URBAN AREAS VS RURAL AREAS



Source: PTS and Nordea

INCREASE OF FIBRE PENETRATION IN 2019



Source: PTS and Nordea

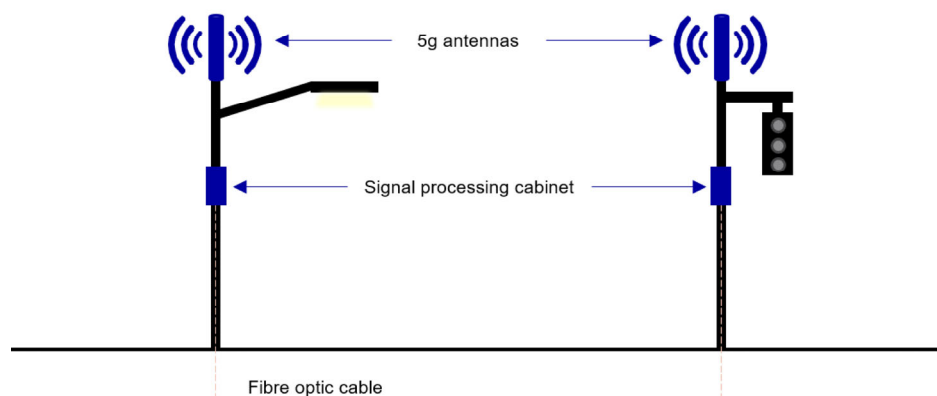
Fifth generation mobile networks (5G)

5G is the next generation mobile network, enabled primarily by new radio and antenna technology. 5G will bring faster internet speeds with higher capacity and lower latency. Due to its characteristics, the new standard is set to drive new functionality, for example in autonomous vehicles, augmented reality and industrial IoT.

5G will require a higher number of mobile sites, which could translate to higher contract values in O&M

The technology will utilise higher frequency bands that have shorter reach in comparison to 4G. This means that there will be a need for extensive expansion of the number of cell sites in order to achieve consistent coverage. This will include small cells that are installed on for example street and traffic lights, which will require direct connection via underground fibre. While the expansion is set to benefit the installation market, the higher density and scale of the networks could also mean increased demand for maintenance services in comparison to prior technology generations.

EXAMPLE OF 5G SMALL CELL STRUCTURE



Source: Nordea

While three out of the four major telecom operators in Sweden have already started rolling out their 5G networks, the required spectrum for 5G is set to be auctioned out in November 2020. Thus, the rollout will most likely accelerate significantly in December and heading into 2021.

Smart electricity meters

The Swedish Energy Markets Inspectorate has, on behalf of the Swedish government, composed a recommendation for new functional requirements for future electricity meters. To live up to the new requirements and guidelines, all power network companies in Sweden need to replace their electricity meters, which are set to include connectivity features in order to implement smart monitoring and reporting features.

The Swedish authority, Swedac, that is in charge of regulating metering technology estimates that 5,500,000 will have to be changed. This is set to happen over the coming three to four years, with Vattenfall and Ellevio having announced a total of 5,000,000 meters that are set to be replaced. There is also an aftermarket for these products, such as maintenance, that companies like Transtema can address. The company has taken a first step in this segment, having won a contract for installation of a third of E.ON's installed base. The contract also includes monitoring and maintenance of the meters and is valued at SEK 180m – implying a market size of roughly SEK 3bn.

Electric vehicle charging stations

The Swedish Energy Agency together with the governance of Stockholm city have set the goal that Stockholm should be completely free from fossil fuels by 2030. In order to reach the goal, it is estimated that around 150,000-200,000 electric cars will be required. To provide this number of electric cars with electricity, the Swedish Energy Agency predicts that approximately 15,000-25,000 charging stations will be needed, whereas there were 2,000 in total in 2019. Thus, there is a need for an extensive buildout of both public and private stations. The public charging stations will need to be connected to communication networks in order to support monitoring and reporting and to facilitate payment systems.

There is significant support for these solutions from international organisations. The EU's Green Deal, presented in 2020, specifies that the rollout of one million charging stations will be needed by 2025 to meet its emissions targets.

Emissions targets are driving the implementation of connected charging stations for electric vehicles

Competitors

There are a few dominant players in the market, but competition is still high

While there are only a few nationwide actors in the market for communications network services, the market is characterised by intense competition, partly from local players. Companies tend to compete on price, though local presence is another important factor. While this means that local competitors can compete effectively in local contracts, companies with a larger service coverage have the advantage in competing for larger and more wide-ranging contracts.

According to Transtema, it already has the highest service coverage in Sweden today, being able to reach 60% of the population, and is currently in the process of increasing this to 100%. We believe that this puts Transtema at a competitive advantage.

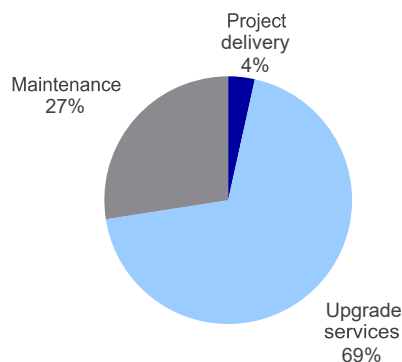
We note that while Transtema is focused explicitly on communications networks, its main competitors also focus on power networks. Below, we outline Transtema's two main competitors: Eltel and OneCo.

Eltel

Like Transtema, Eltel is a Nordic provider of field services for power and communication networks. It works with maintenance services, project delivery of new constructions and buildouts, as well as installation and upgrades for communications equipment. Eltel is present Denmark, Lithuania, Germany, Poland and Norway, as well as Sweden. Eltel is one of few competitors on the market for maintenance services in Sweden.

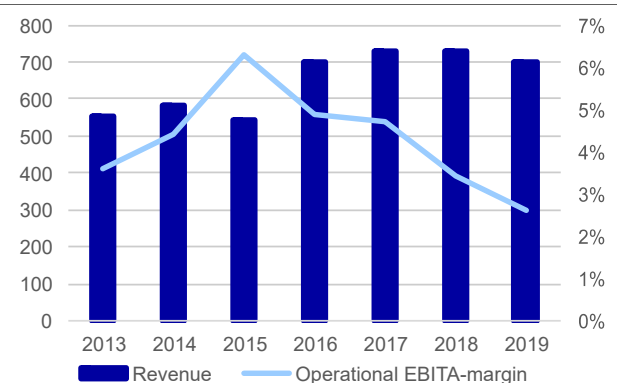


ELTEL COMMUNICATION BUSINESS MIX, 2019



Source: Company data

ELTEL COMMUNICATION REVENUE (EURm) AND OP. EBITA MARGIN



Source: Company data

OneCo

OneCo is a Norwegian industrial group with operations in Norway and Sweden, with a broad focus on energy, automation, communication networks and more. It deepened its focus in Sweden at the end of 2019, when it bought Relacom. The company's operations in Sweden are quite similar to Eltel's, having a focus on not only communication networks, but also on energy as well as IT. Like Transtema, OneCo operates within the planning and construction of new networks as well as continuous maintenance.



Historical financials

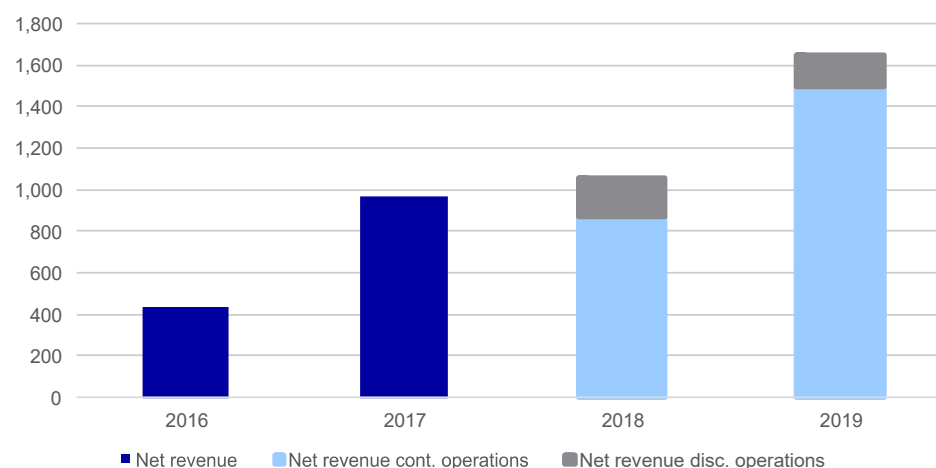
Between 2016 and 2019 Transtema has posted a revenue CAGR of 56%, reaching approximately SEK 1.6bn in 2019. This was primarily thanks to 16 acquisitions of varying size. However, its underlying market has changed significantly over the years, leading to volatile organic growth. Most recently the company has exited some segments of the communication networks market, prompting a significant improvement in its financial position.

Driven by acquisitions, Transtema's sales have grown rapidly since 2016

Sales

Transtema grew revenues by a 56% CAGR between 2016 and 2019, driven mainly by acquisitions. As a result of the FTTH market's strong growth in 2016 and 2017 and subsequent fall in 2018, organic growth has been highly volatile. The company divested the Infrastructure division (containing its FTTH business) in Q3 2019 and recognised the business as discontinued in the following quarter. Approximately 94% of Transtema's sales are generated in Sweden.

NET SALES (SEKm)

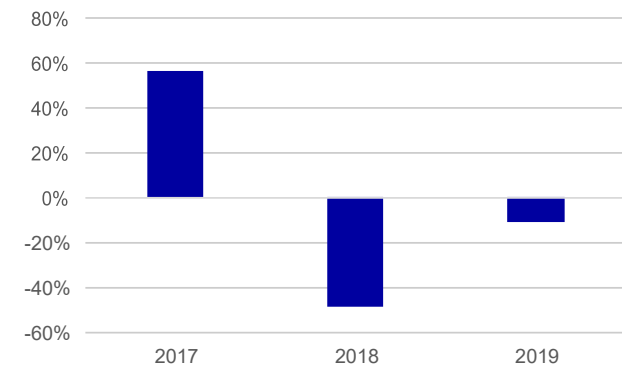


Source: Company data and Nordea estimates

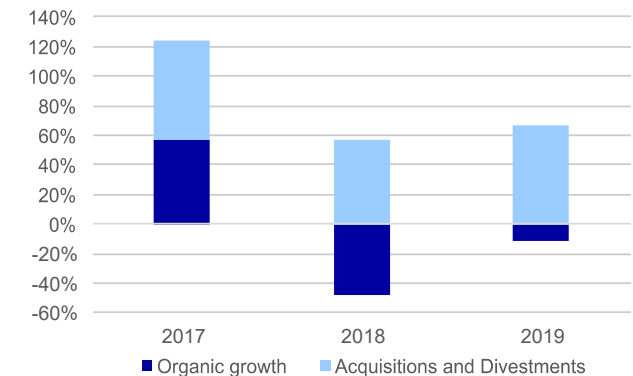
Organic growth has been volatile, ranging from 57% to -48% since 2016

When estimating the underlying growth drivers (organic growth, acquisitions and divestments), we note that acquisitions have driven most of the growth – with Transtema having made 16 acquisitions since it was listed in 2016. According to our calculations, organic growth has been volatile, ranging from 57% to -48%, owing mainly to large fluctuations in the fibre installation and construction markets.

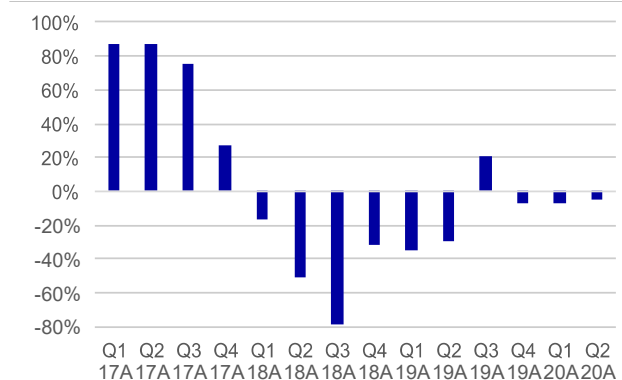
As previously stated, this has largely been due to the strong growth and subsequent fall in the FTTH segment. Since Q4 2019, the divestment of the infrastructure division has put negative pressure on sales by roughly 9-13% each quarter, whereas organic growth has suffered in the construction business. During 2020, this was partly related to COVID-19. Mobility restrictions have led to the pausing of some installation projects.

ANNUAL ORGANIC SALES GROWTH (%)

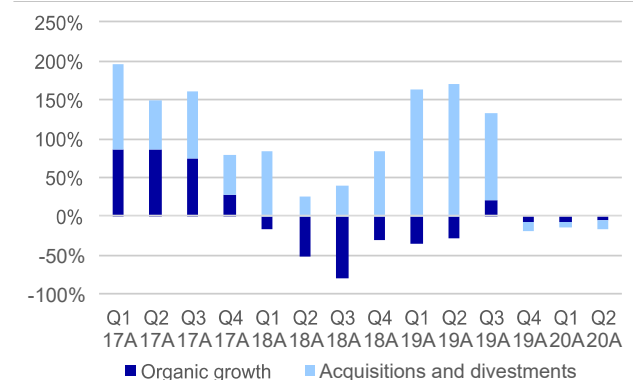
Source: Company data and Nordea estimates

ANNUAL SALES GROWTH PER DRIVER (%)

Source: Company data and Nordea estimates

QUARTERLY ORGANIC SALES GROWTH (%)

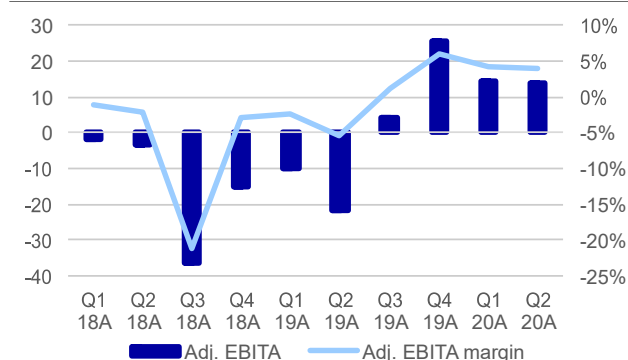
Source: Company data and Nordea estimates

QUARTERLY SALES GROWTH PER DRIVER (%)

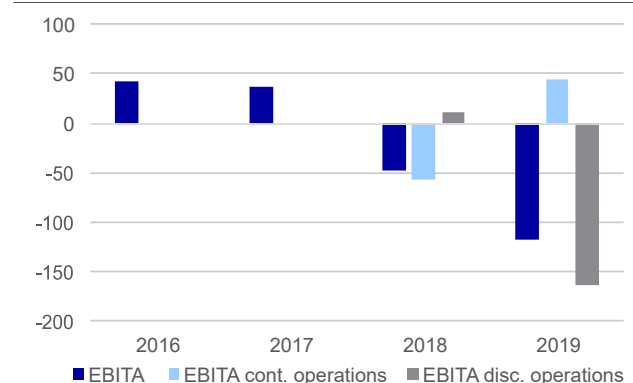
Source: Company data and Nordea estimates

As a result of the restructuring, Transtema has turned margins around and operated at an average adjusted EBITA margin of 4.3% over the past three quarters

Transtema's adjusted EBITA has, similar to its organic growth, been highly volatile in the past few years. Reflecting the challenges between end-2017 and mid-2019, adjusted EBITA declined significantly. Owing to its restructuring efforts in Q3 2019 and the discontinuation of the infrastructure division in the following quarter, the company has shown impressive profitability. For the past three quarters Transtema has operated at an average EBITA adjusted margin of 4.3%.

ADJUSTED EBITA BY QUARTER (SEKm)

Source: Company data and Nordea estimates

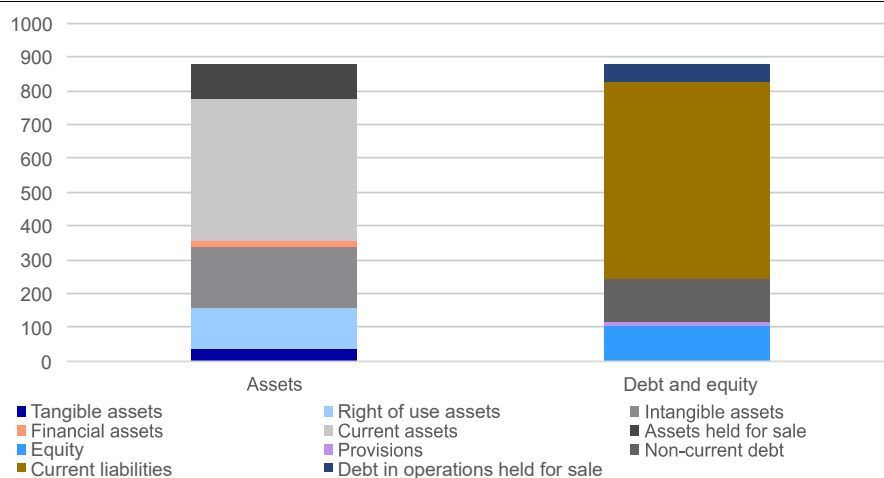
EBITA GROUP, CONTINUING AND DISCONTINUED OPERATIONS (SEKm)

Source: Company data and Nordea estimates

In terms of the company's balance sheet, its single largest asset item is current assets, with around SEK 160m in accounts receivables and SEK 200m in prepaid expenses and accrued income. As a result of its M&A agenda, it has around SEK 90m in goodwill, roughly corresponding to half of the company's intangible assets. In 2019, the company made a SEK 32m writedown of goodwill related to its infrastructure division. As a result of its strategy of leasing vehicles and its head offices, the company has around SEK 121m in right of use assets.

Turning to the debt and equity side, the company has a significant portion of current liabilities – amounting to SEK 582m, of which around SEK 100m is prepaid income and SEK 170m is trade payables.

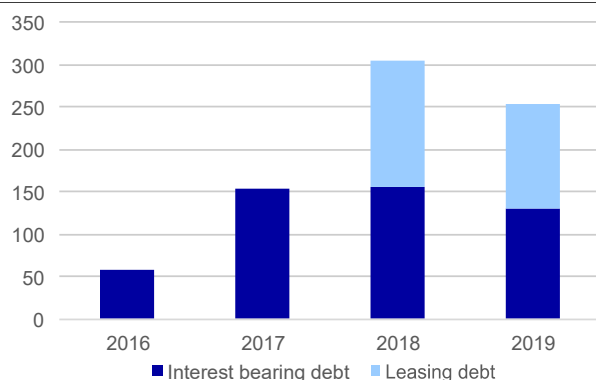
ASSET DISPOSITION (SEKm), 2019



Source: Company data

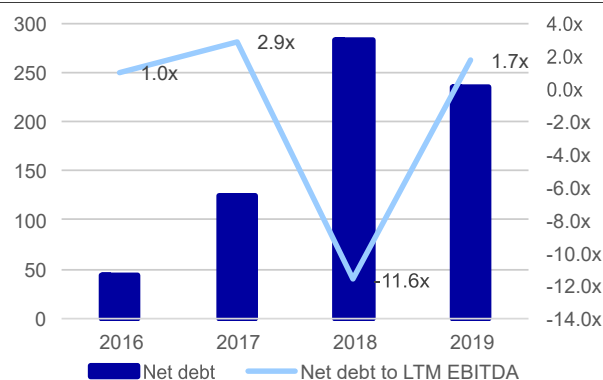
Along with its acquisition strategy in 2016 and 2018, Transtema has gradually increased its gross debt. Although, the increase in 2018 was mostly driven by an increase in leasing debt related to IFRS 16. Since 2018 the company has had a strict focus on reducing its interest-bearing debt and since Q4 2018 has reduced the position from SEK 157m to SEK 89m in Q2 2020. Transtema has made two equity issuances, in Q4 2018 and Q1 2020, to facilitate this, netting a total of SEK 125m. On an adjusted basis, the net debt to EBITDA was as of Q2 2020 1.2x, showing clear improvements compared to historical levels.

GROSS DEBT (SEKm)



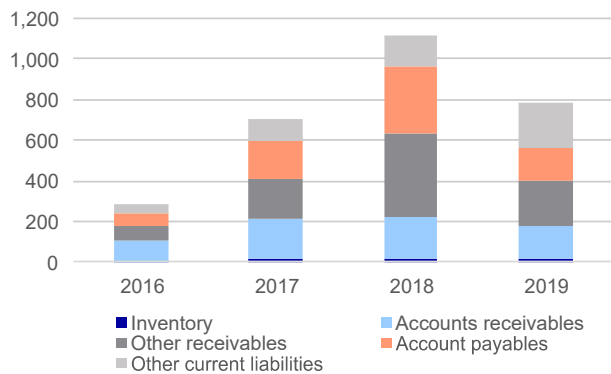
Source: Company data

NET DEBT AND NET DEBT-TO-EBITDA (SEKm)

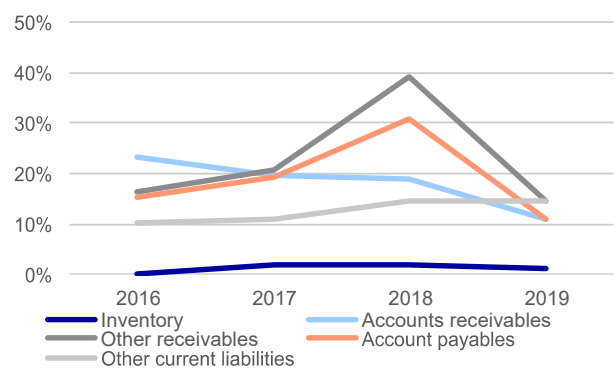


Source: Company data and Nordea estimates

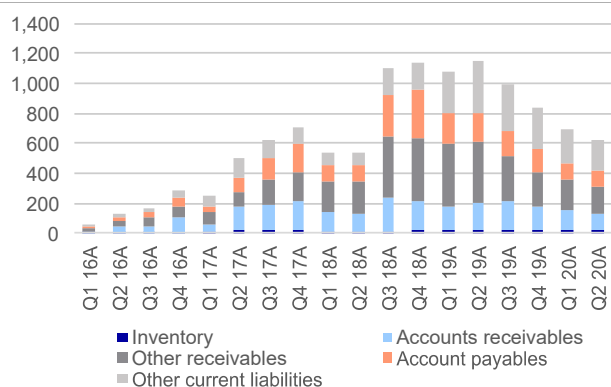
Working capital is another part of Transtema's balance sheet that has been transformed. Reducing WC has been one of the company's focus areas since the strategy shift, yielding significant results. The improvements have primarily been derived from reducing other receivables, consisting of prepaid expenses and accrued income, from 39% of sales in 2018 to 15% of sales in 2019.

ANNUAL WORKING CAPITAL (SEKm)

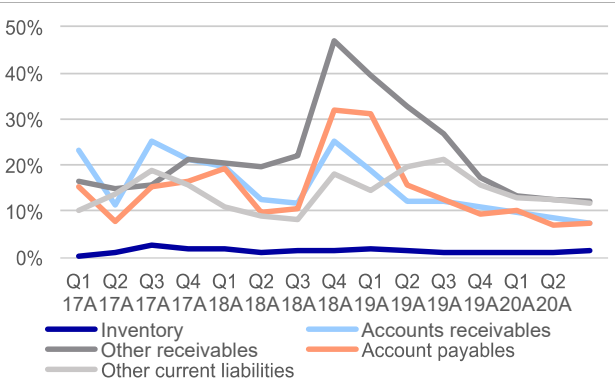
Source: Company data and Nordea estimates

ANNUAL WORKING CAPITAL AS % OF NET REVENUE

Source: Company data and Nordea estimates

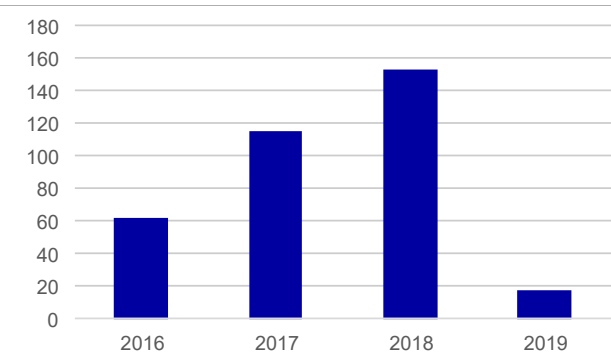
QUARTERLY WORKING CAPITAL (SEKm)

Source: Company data and Nordea estimates

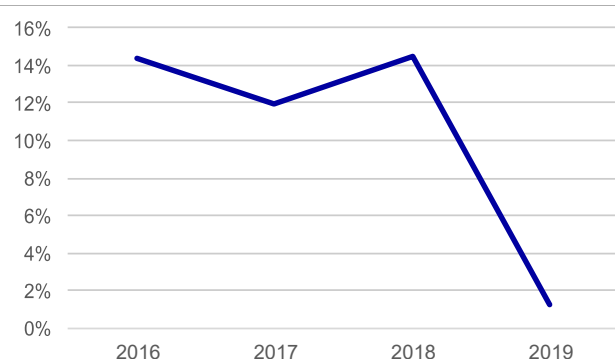
QUARTERLY WORKING CAPITAL AS % OF NET REVENUE

Source: Company data and Nordea estimates

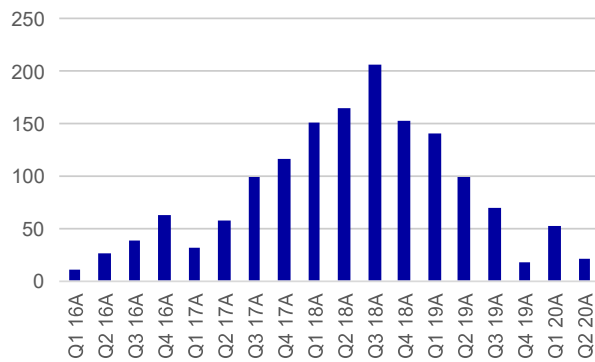
In terms of net working capital, Transtema has cut its exposure dramatically. Net working capital temporarily declined to negative in Q4 2019 and has rebounded slightly since, albeit it is still at historically low levels. This is in part driven by the company's increased exposure to O&M, where projects are shorter and terms are more beneficial in terms of payment.

ANNUAL NET WORKING CAPITAL (SEKm)

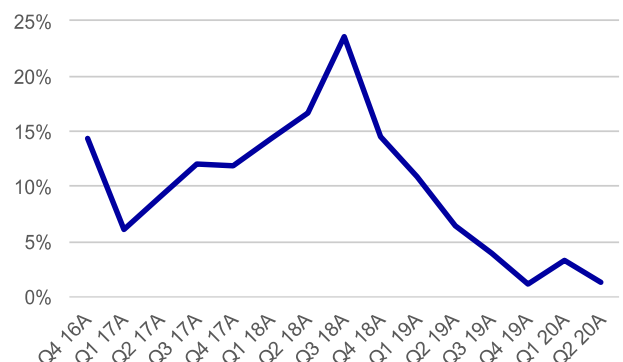
Source: Company data and Nordea estimates

ANNUAL NET WORKING CAPITAL AS % OF NET REVENUE

Source: Company data and Nordea estimates

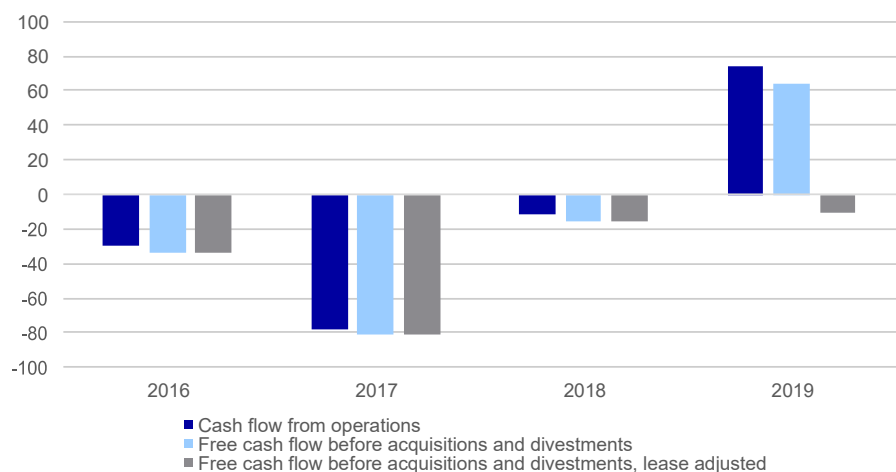
QUARTERLY NET WORKING CAPITAL (SEKm)

Source: Company data and Nordea estimates

QUARTERLY NET WORKING CAPITAL AS % OF NET REVENUE

Source: Company data and Nordea estimates

Transtema's cash flow, adjusted for leasing cost, has been negative for the past four years. While operating profits were high in 2016 and 2017, this was driven by working capital tie-ups. The company has since reduced cash outflow, partly through the working capital improvements. In 2020 so far cash flow has been solid, with further tailwinds from working capital and the positive earnings trend.

TRANSTEMA: CASH FLOW FROM OPERATIONS AND FREE CASH FLOW

Source: Company data and Nordea estimates

Estimates

While we expect annual revenue growth of 2-3% on a more long-term basis, Transtema has announced three important contracts since the end of 2019 that are set to drive growth of 20% in 2021. Overall, we estimate a growth CAGR of 6.9% between 2019 and 2022. In terms of profitability, we expect Transtema to continue its solid recent path, delivering an adjusted EBITA margin of 4.0% for 2020E. While we argue that margin expansion will likely take a breather in 2021, due to the significant contract startups, we forecast a further increase to 4.2% for 2022.

In total, Transtema has announced contracts worth SEK 345m, 21% of 2019 revenue

Recent contract announcements

Since the end of 2019, Transtema has announced three new contracts that will have a significant impact on revenue and cash flow. In total, the company has presented contracts worth SEK 1,680m, ie around SEK 345m on an annual basis (~21% of 2019 revenues) running until 2024-25.

TRANSTEMA: RECENT CONTRACT INTAKE (SEKm)

Client	Announcement period	Start period	Contract length	Total value	Value per year
Telia	Q2 2020	Q4 2020	5+2 years	1,300*	260
E.ON	Q4 2019	Q4 2020	4+3 years	180	45
3GIS	Q2 2020	Q3 2020	5 years	200	40

Source: Company data, Nordea, and E.ON

New Telia deal covers maintenance and service of Telia's networks, across all of Sweden

Extended and expanded service contract with Telia

At the end of May 2020, Transtema announced the extension and expansion of its contract with Telia, as a supplier of O&M services for Telia's network, nodes and customer equipment, as well as the delivery and maintenance of active customer equipment. The contract runs over five years, with an option for an additional two years. The extension part of the contract is approximately SEK 1.3bn, excluding the option for an additional two years. This corresponds to SEK 260m in annual revenue and 16% of 2019 revenue. The contract means that Transtema is now the sole service and O&M provider for Telia's networks in Sweden, thus we assume Transtema is now highly integrated into Telia's operations. Telia is Transtema's largest customer by far and we see this as positive, hence decreasing the risk level over the coming years.

E.ON deal covers the installation of one-third of E.ON's electricity meters and the following maintenance until 2024

Replacement and service of electricity meters for E.ON

In October 2019, Transtema announced a contract with E.ON worth SEK 180m (SEK 46m annually, 3% of 2019 sales). The contract includes the replacement of one-third of E.ON's installed base of electricity meters with new connected smart meters, as well as the operation and maintenance of these meters. According to E.ON the contract starts at the end of 2020 and spans four years, split into two phases. The first three years relate to installation and the fourth year relates to maintenance. E.ON has an extension option for an additional three years of aftermarket service and maintenance.

The contract with 3GIS covers maintenance services for Telenor and Three's shared 3G network

New service contract with 3G Infrastructure Services

In March 2020 Transtema announced a new contract with 3G Infrastructure Services (3GIS) for aftermarket O&M services of its mobile network. 3GIS is a joint venture between Telenor and Three, covering the Swedish 3G network infrastructure. The contract runs over five years and we estimate the total value to be SEK 200m, corresponding to SEK 40m annually (~3% of 2019 revenues). While the contract size is quite small and an extension is unlikely (Sweden's 3G networks are set to be dismantled), it is positive that Transtema is broadening its customer portfolio.

We expect organic revenue growth of 19% in 2021, driven by the new contracts

Well positioned for sustainable growth

We expect order momentum to drive growth in H2 2020, leading to slightly negative organic growth of -0.4% for the full year. For 2021, however, we expect a significant ramp-up of the contracts announced and organic revenue growth of 19.6%. Moreover, we expect that divestment of the Infrastructure division will continue to burden net sales of total operations through H2, albeit with only a mild impact after Q3 2020.

Looking further out, we believe that Transtema's sales mix, consisting of more than 80% long-term service and general O&M contracts in 2021, puts it in a position to hit its organic growth target of 3%.

We do not expect any meaningful acquisitions over the coming years

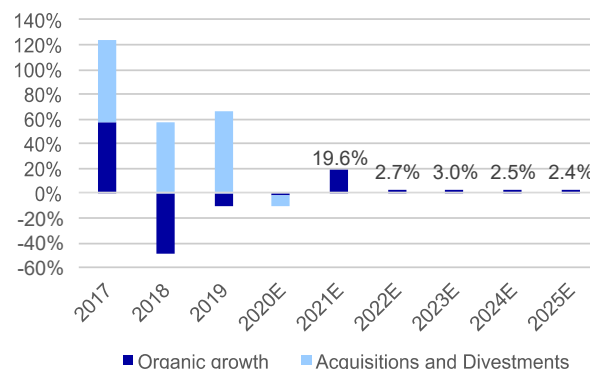
While Transtema historically has had an active acquisition strategy, we do not expect any meaningful acquisitions over the coming few years. We believe that the company will focus on strengthening its balance sheet, improving profitability, and starting up the extended Telia contract. We expect a revenue growth CAGR of 6.9% for 2019-22.

NET SALES (SEKm) AND Y/Y GROWTH (%)



Source: Company data and Nordea estimates

GROWTH PER DRIVER (%)



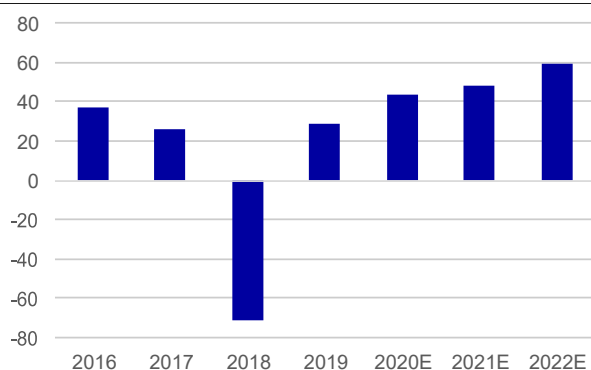
Source: Company data and Nordea estimates

Stable margins ahead

We forecast a solid margin development for Transtema. Larger contract startups tend to burden margins for service businesses for a period of time, however, ie margins and growth tend to have a negative correlation. As the contracts mature, margins typically rise as efficiencies are extracted. These variations tend to be affected by the geographic footprint. Adding volumes to existing areas yield a higher utilisation rate for its service workers, which in turn drives higher margins, and vice versa.

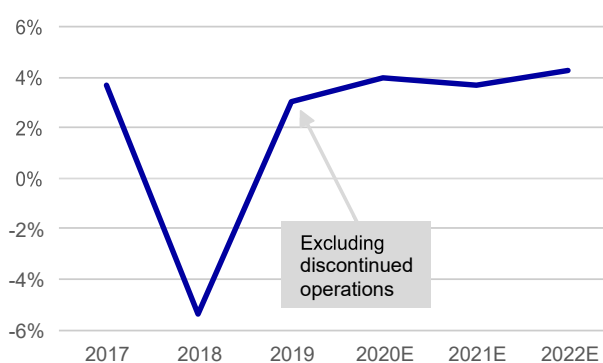
We expect an adjusted EBITA margin of 4.0% for 2020, driven by slightly lower margins in H2 as compared to H1. This is mainly due to startup costs related to the Telia contract, which includes expansion to northern Sweden where the geographic density is somewhat lower. We expect the contracts to remain a slight drag on margins for 2021 and model an EBITA margin of 3.7%, whereas we forecast a 50 bp uptick to 4.2% as the contracts mature in 2022.

ADJUSTED EBITA (SEKm)



Source: Company data and Nordea estimates

ADJUSTED EBITA MARGIN (%)



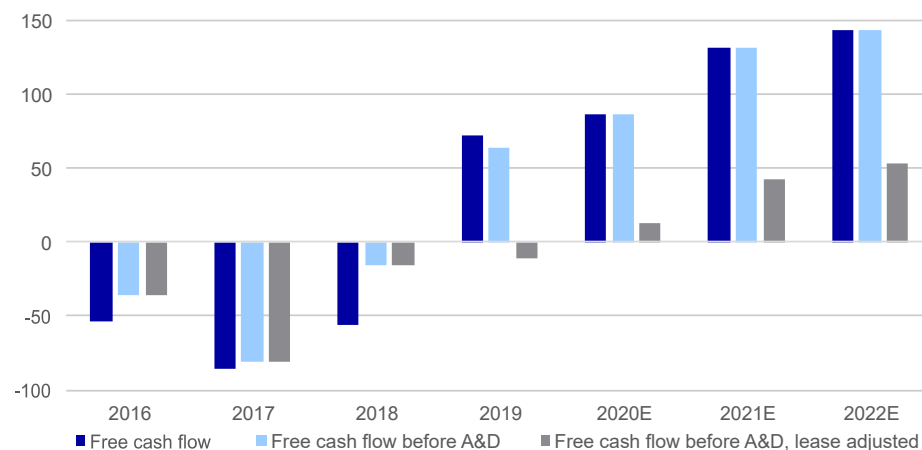
Source: Company data and Nordea estimates

Our estimates do not include any effects from writedowns relating to the company's ongoing legal disputes. We expect these to be resolved by H1 2021. In a scenario where Transtema gains no compensation for the outstanding payments, this would burden EBITA by SEK 38m during the period. This would take the shape of writedowns of receivables or provisions, and would not affect cash flow. The direct or indirect financial impact from the disputes is not yet known, or possible to forecast. As such, we have not included this in our forecasts.

Cash flow

In accordance with the EBITA growth, as well as the capital release from the discontinued assets in 2021, we expect impressive growth in free cash flow. While 2019-20 has remained somewhat depressed by discontinued operations, we estimate a free cash flow CAGR of 25% between 2019 and 2022.

OPERATIONAL CASH FLOW AND FREE CASH FLOW (SEKm)



Source: Company data and Nordea estimates

Net debt

We estimate that Transtema's net debt to EBITDA will fall to 1.0x by the end of 2020 and 0.6x by the end of 2021, fuelled by EBITDA growth and the company's continued focus on reducing debt. We believe that the modest indebtedness and relatively high stability of Transtema's revenue profile will allow it to reignite its acquisition strategy and/or make shareholder distributions.

Detailed estimates

DETAILED ESTIMATES, QUARTERLY (SEKm)

SEKm	Q1 19A	Q2 19A	Q3 19A	Q4 19A	Q1 20A	Q2 20A	Q3 20E	Q4 20E
Net sales	406	412	401	429	343	344	351	454
Other Income	10	2	20	0	2	2	0	0
Revenue	415	414	421	429	345	346	351	454
Raw materials and inventory	-179	-190	-207	-192	-139	-149	-144	-187
Other external cost	-59	-57	-172	-43	-35	-44	-36	-47
Personnel expenses	-162	-164	-131	-145	-134	-134	-136	-177
Other operating expenses	0	0	0	0	0	0	0	0
EBITDA	15	3	-89	49	36	19	35	43
Depreciation	-25	-25	-23	-23	-22	-19	-21	-25
EBITA	-10	-22	-112	26	14	0	14	17
Amortisation	-5	-4	-68	-5	-4	-4	-4	-5
EBIT	-16	-26	-180	21	10	-4	10	13
Net finance	-5	-3	-4	0	-3	-3	-3	-3
PTP	-20	-29	-184	20	7	-6	7	10
Tax	5	6	-2	12	0	1	-2	-2
Net profit	-15	-23	-186	32	7	-6	6	7
Ordinary EPS	-0.55	-0.84	-6.78	0.15	0.11	-0.14	0.15	0.19
Diluted EPS	-0.55	-0.84	-6.78	0.15	0.11	-0.14	0.15	0.19
Ordinary number of shares	27	27	27	27	27	33	38	38
Diluted number of shares	27	27	27	27	27	33	38	38
Adj. EBIT	-16	-26	0	21	10	10	10	13
Adj. EBITA	-10	-22	4	26	14	14	14	17
Adj. EBITDA	15	3	28	49	36	33	35	43
Adj. EBIT Margin	-3.8%	-6.3%	0.0%	4.8%	3.0%	3.0%	2.9%	2.8%
Adj. EBITA Margin	-2.4%	-5.3%	1.1%	6.0%	4.1%	4.0%	3.9%	3.8%
Adj. EBITDA Margin	3.7%	0.8%	6.6%	11.4%	10.5%	9.6%	9.9%	9.4%

Source: Company data and Nordea estimates

DETAILED ESTIMATES, YEARLY (SEKm)

SEKm	2016	2017	2018	2019	2020E	2021E	2022E	2023E
Net sales	432	970	1,058	1,497	1,491	1,783	1,832	1,886
Other Income	1	8	45	30	4	0	0	0
Revenue	433	978	1,103	1,528	1,495	1,783	1,832	1,886
Raw materials and inventory	-288	-660	-621	-650	-619	-733	-749	-770
Other external cost	-44	-104	-148	-176	-163	-185	-189	-194
Personnel expenses	-57	-170	-355	-565	-581	-693	-708	-727
Other operating expenses	0	-1	-3	0	0	0	0	0
EBITDA	44	43	-24	137	133	172	186	195
Depreciation	-3	-7	-33	-92	-88	-107	-108	-104
EBITA	41	36	-57	45	45	66	78	91
Amortisation	-4	-10	-14	-16	-15	-18	-18	-19
EBIT	37	26	-71	29	30	48	59	72
Net finance	-1	-7	-9	-12	-12	-13	-13	-13
PTP	36	19	-80	17	18	35	46	59
Tax	-9	14	24	14	-3	-8	-10	-13
Net profit	27	33	-56	31	15	27	57	72
EPS	1.41	1.28	-2.03	-8.03	0.31	0.71	1.47	1.87
EPS	1.36	1.22	-2.03	-8.03	0.31	0.71	1.47	1.87
Ordinary number of shares	19	21	27	27	38	38	38	38
Diluted number of shares	19	22	27	27	38	38	38	38
Adj. EBIT	37	26	-71	29	44	48	59	72
Adj. EBITA	41	36	-57	45	59	66	78	91
Adj. EBITDA	44	43	-24	137	147	172	186	195
Adj. EBIT Margin	8.6%	2.6%	-6.4%	1.9%	2.9%	2.7%	3.2%	3.8%
Adj. EBITA Margin	9.5%	3.7%	-5.2%	2.9%	4.0%	3.7%	4.2%	4.8%
Adj. EBITDA Margin	10.2%	4.4%	-2.2%	8.9%	9.8%	9.7%	10.2%	10.4%

Source: Company data and Nordea estimates

Reported numbers and forecasts

INCOME STATEMENT

SEKm	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Total revenue	n.a.	n.a.	n.a.	n.a.	432	970	1,058	1,497	1,491	1,783	1,832
Revenue growth	n.a.	n.a.	n.a.	n.a.	n.a.	124.3%	9.1%	41.5%	-0.4%	19.6%	2.7%
of which organic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which FX	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	0	0	0	0	44	43	-24	137	133	172	186
Depreciation and impairments PPE	0	0	0	0	-3	-7	-33	-92	-88	-107	-108
of which leased assets	0	0	0	0	0	0	0	-75	-74	-89	-90
EBITA	0	0	0	0	41	36	-57	45	45	66	78
Amortisation and impairments	0	0	0	0	-4	-10	-14	-16	-15	-18	-18
EBIT	n.a.	n.a.	n.a.	n.a.	37	26	-71	29	30	48	59
of which associates	0	0	0	0	0	0	0	0	0	0	0
Associates excluded from EBIT	0	0	0	0	0	0	0	0	0	0	0
Net financials	0	0	0	0	-1	-7	-9	-12	-15	-17	-17
of which lease interest	0	0	0	0	0	0	0	-4	-4	-4	-4
Changes in value, net	0	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	0	0	0	0	36	19	-80	17	14	31	42
Reported taxes	0	0	0	0	-9	14	24	14	-3	-8	-10
Net profit from continued operations	0	0	0	0	27	33	-56	31	11	23	32
Discontinued operations	0	0	0	0	0	0	0	-250	-3	0	0
Minority interests	0	0	0	0	1	0	0	0	0	0	0
Net profit to equity	0	0	0	0	28	33	-56	-219	9	23	32
EPS, SEK	n.a.	n.a.	n.a.	n.a.	1.43	1.46	-2.04	-8.00	0.23	0.61	0.84
DPS, SEK	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which ordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which extraordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Profit margin in percent

EBITDA	n.a.	n.a.	n.a.	n.a.	10.3%	4.5%	-2.3%	9.1%	8.9%	9.7%	10.2%
EBITA	n.a.	n.a.	n.a.	n.a.	9.6%	3.7%	-5.4%	3.0%	3.0%	3.7%	4.2%
EBIT	n.a.	n.a.	n.a.	n.a.	8.6%	2.7%	-6.7%	1.9%	2.0%	2.7%	3.2%

Adjusted earnings

EBITDA (adj)	0	0	0	0	44	43	-24	137	147	172	186
EBITA (adj)	0	0	0	0	41	36	-57	45	59	66	78
EBIT (adj)	0	0	0	0	37	26	-71	29	44	48	59
EPS (adj, SEK)	n.a.	n.a.	n.a.	n.a.	1.43	1.46	-2.04	-8.00	0.59	0.61	0.84

Adjusted profit margins in percent

EBITDA (adj)	n.a.	n.a.	n.a.	n.a.	10.3%	4.5%	-2.3%	9.1%	9.8%	9.7%	10.2%
EBITA (adj)	n.a.	n.a.	n.a.	n.a.	9.6%	3.7%	-5.4%	3.0%	4.0%	3.7%	4.2%
EBIT (adj)	n.a.	n.a.	n.a.	n.a.	8.6%	2.7%	-6.7%	1.9%	2.9%	2.7%	3.2%

Performance metrics

CAGR last 5 years											
Net revenue	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	32.8%	13.6%
EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	31.1%	33.9%
EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	5.1%	18.2%
EPS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-15.6%	-10.5%
DPS	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Average last 5 years											
Average EBIT margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	0.9%	0.9%	1.2%
Average EBITDA margin	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	6.1%	6.8%	7.9%

VALUATION RATIOS - ADJUSTED EARNINGS

SEKm	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
P/E (adj)	n.a.	n.a.	n.a.	n.a.	16.5	24.5	n.m.	n.m.	16.7	16.2	11.8
EV/EBITDA (adj)	n.a.	n.a.	n.a.	n.m.	10.9	21.5	n.m.	3.0	3.5	2.8	2.3
EV/EBITA (adj)	n.a.	n.a.	n.a.	n.m.	11.7	25.8	n.m.	9.1	8.8	7.5	5.6
EV/EBIT (adj)	n.a.	n.a.	n.a.	n.m.	13.0	36.0	n.m.	14.0	11.9	10.3	7.4

VALUATION RATIOS - REPORTED EARNINGS

SEKm	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
P/E	n.a.	n.a.	n.a.	n.a.	16.5	24.5	n.m.	n.m.	43.8	16.2	11.8
EV/Sales	n.a.	n.a.	n.a.	n.a.	1.12	0.96	0.63	0.27	0.35	0.27	0.24
EV/EBITDA	n.a.	n.a.	n.a.	n.m.	10.9	21.5	n.m.	3.0	3.9	2.8	2.3
EV/EBITA	n.a.	n.a.	n.a.	n.m.	11.7	25.8	n.m.	9.1	11.5	7.5	5.6
EV/EBIT	n.a.	n.a.	n.a.	n.a.	13.0	36.0	n.m.	14.0	17.5	10.3	7.4
Dividend yield (ord.)	n.a.	n.a.	n.a.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	n.a.	n.a.	n.a.	n.m.	-15.7%	-10.7%	-14.4%	42.1%	22.8%	34.7%	37.8%
FCF Yield bef A&D, lease adj	n.a.	n.a.	n.a.	n.m.	-7.7%	-10.1%	-4.1%	-6.3%	3.3%	11.3%	14.1%
Payout ratio	n.a.	n.a.	n.a.	n.a.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data and Nordea estimates

BALANCE SHEET

SEKm	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
Intangible assets	0	0	0	0	74	230	255	180	168	153	139
of which R&D	0	0	0	0	0	0	0	0	0	0	0
of which other intangibles	0	0	0	0	40	111	131	87	74	60	45
of which goodwill	0	0	0	0	34	119	124	93	93	93	93
Tangible assets	0	0	0	0	24	51	219	158	171	177	170
of which leased assets	0	0	0	0	0	0	179	121	140	153	153
Shares associates	0	0	0	0	0	0	0	0	0	0	0
Interest bearing assets	0	0	0	0	2	1	1	0	0	0	0
Deferred tax assets	0	0	0	0	0	0	3	18	21	19	17
Other non-IB non-current assets	0	0	0	0	0	0	0	0	0	0	0
Other non-current assets	0	0	0	0	0	0	0	0	0	0	0
Total non-current assets	0	0	0	0	100	282	478	355	360	350	326
Inventory	0	0	0	0	1	18	19	17	19	23	23
Accounts receivable	0	0	0	0	101	190	199	163	108	129	132
Short-term leased assets	0	0	0	0	0	0	0	0	0	0	0
Other current assets	0	0	0	0	72	200	416	220	179	214	220
Cash and bank	0	0	0	0	13	29	22	19	91	134	188
Total current assets	0	0	0	0	187	437	656	419	397	500	564
Assets held for sale	0	0	0	0	0	0	0	104	0	0	0
Total assets	0	0	0	0	287	720	1,133	878	758	851	890
Shareholders equity	0	0	0	0	103	252	323	104	228	251	279
Of which preferred stocks	0	0	0	0	0	0	0	0	0	0	0
Of which equity part of hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Minority interest	0	0	0	0	1	0	0	1	0	0	0
Total Equity	0	0	0	0	104	252	323	104	228	251	279
Deferred tax	0	0	0	0	14	20	0	13	10	11	14
Long term interest bearing debt	0	0	0	0	33	39	31	47	6	6	6
Pension provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term provisions	0	0	0	0	0	0	0	11	0	0	0
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0	0
Non-current lease debt	0	0	0	0	0	0	93	66	85	98	98
Convertible debt	0	0	0	0	0	0	0	0	0	0	0
Shareholder debt	0	0	0	0	0	0	0	0	0	0	0
Hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Total non-current liabilities	0	0	0	0	47	59	124	137	100	115	118
Short-term provisions	0	0	0	0	0	0	0	0	0	0	0
Accounts payable	0	0	0	0	67	187	328	166	110	131	135
Current lease debt	0	0	0	0	0	0	55	58	58	58	58
Other current liabilities	0	0	0	0	45	105	178	276	179	212	218
Short term interest bearing debt	0	0	0	0	25	116	125	83	83	83	83
Total current liabilities	0	0	0	0	136	409	686	582	429	484	493
Liabilities for assets held for sale	0	0	0	0	0	0	0	54	0	0	0
Total liabilities and equity	0	0	0	0	287	720	1,133	878	758	851	890
Balance sheet and debt metrics											
Net debt	0	0	0	0	43	124	282	235	140	110	57
of which lease debt	0	0	0	0	0	0	148	124	142	156	156
Working capital	0	0	0	0	62	115	128	-42	17	23	23
Invested capital	0	0	0	0	162	398	606	313	378	373	349
Capital employed	0	0	0	0	161	407	628	359	459	496	524
ROE	n.m.	n.m.	n.m.	n.m.	53.9%	18.5%	-19.4%	n.m.	5.2%	9.8%	12.2%
ROIC	n.m.	n.m.	n.m.	n.m.	35.8%	7.2%	-11.0%	4.9%	9.9%	9.9%	12.8%
ROCE	n.m.	n.m.	n.m.	n.m.	44.9%	6.6%	-15.4%	4.2%	7.9%	7.3%	9.1%
Net debt/EBITDA	n.m.	n.m.	n.m.	n.m.	1.0	2.9	n.m.	1.7	1.1	0.6	0.3
Interest coverage	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Equity ratio	n.m.	n.m.	n.m.	n.m.	35.8%	35.0%	28.5%	11.8%	30.0%	29.5%	31.3%
Net gearing	n.m.	n.m.	n.m.	n.m.	41.0%	49.3%	87.2%	224.8%	61.5%	43.9%	20.3%

Source: Company data and Nordea estimates

CASH FLOW STATEMENT

SEKm	2012	2013	2014	2015	2016	2017	2018	2019	2020E	2021E	2022E
EBITDA (adj) for associates	0	0	0	0	44	43	-24	137	133	172	186
Paid taxes	0	0	0	0	-3	-9	-13	-10	-7	-6	-8
Net financials	0	0	0	0	-1	-7	-8	-13	-15	-17	-17
Change in provisions	0	0	0	0	0	0	0	11	-11	0	0
Change in other LT non-IB	0	0	0	0	0	0	-3	-15	-4	2	2
Cash flow to/from associates	0	0	0	0	0	0	0	0	0	0	0
Dividends paid to minorities	0	0	0	0	0	0	0	0	0	0	0
Other adj to reconcile to cash flow	0	0	0	0	0	-4	-31	-71	62	0	-5
Funds from operations (FFO)	0	0	0	0	40	23	-79	38	158	151	159
Change in NWC	0	0	0	0	-70	-101	67	35	-60	-5	-1
Cash flow from operations (CFO)	0	0	0	0	-30	-78	-12	74	98	146	158
Capital expenditure	0	0	0	0	-4	-3	-4	-10	-12	-14	-15
Free cash flow before A&D	0	0	0	0	-34	-81	-16	64	86	132	144
Proceeds from sale of assets	0	0	0	0	0	0	0	10	0	0	0
Acquisitions	0	0	0	0	-35	-4	-40	-1	0	0	0
Free cash flow	0	0	0	0	-69	-86	-56	73	86	132	144
Free cash flow bef A&D, lease adj	0	0	0	0	-34	-81	-16	-11	13	43	54
Dividends paid	0	0	0	0	0	0	0	0	0	0	0
Equity issues / buybacks	0	0	0	0	11	46	74	0	53	0	0
Net change in debt	0	0	0	0	55	46	-14	-4	-41	0	0
Other financing adjustments	0	0	0	0	0	0	0	0	-27	-89	-90
Other non-cash adjustments	0	0	0	0	17	10	-12	-47	0	0	0
Change in cash	0	0	0	0	13	16	-8	-2	72	43	54
Cash flow metrics											
Capex/D&A	n.m.	n.m.	n.m.	n.m.	59.6%	18.9%	8.8%	9.3%	11.6%	11.5%	11.6%
Capex/Sales	n.a.	n.a.	n.a.	n.a.	1.0%	0.3%	0.4%	0.7%	0.8%	0.8%	0.8%
Key information											
Share price year end (/current)	n.a.	n.a.	n.a.	9	24	36	14	6	10	10	10
Market cap.	n.a.	n.a.	n.a.	0	441	803	389	173	380	380	380
Enterprise value	n.a.	n.a.	n.a.	0	484	927	671	408	520	490	437
Diluted no. of shares, year-end (m)	0.0	0.0	0.0	0.0	18.7	22.4	27.4	27.4	38.3	38.3	38.3

Source: Company data and Nordea estimates

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