

Ekspress Grupp

Hold

Initiation of coverage

Price: EUR 0.67/share
Price target: EUR 0.68/share

A leader facing challenging times

We initiate coverage of Ekspress Grupp, the leading media group in the Baltics region, with a HOLD rating and a 12M price target (PT) of EUR 0.68/share (1% upside potential). The company has been in operation for 30 years and its business is focused on two areas – media (newspapers, magazines, online portals), and printing services, with one of the largest printing houses in the region. On the one hand, we like the company for its: i) strong market position (media leader in the Baltics countries); ii) well-diversified business, supported by M&A; and iii) relatively low multiples (2021E EV/EBITDA at 5.5x, 28% below its peers). On the other, we note that the leverage level (2.6x as at end-2020E, on our forecasts), coupled with the uncertain (due to the epidemic) market outlook, may result in flat yoy EBITDA in 2021E, on our numbers. This limits the FCF expansion and, consequently, the dividend payment capacity (we do not expect a dividend payment in 2021E).

Global media and entertainment market is digitising... According to PwC's forecasts, the global revenues from the digital segment of the market should enjoy a 2019-22E CAGR of 5%. The non-digital segment should remain stagnant (-1% average annual growth rate). This implies a contraction risk for printed media in the long term.

...as is Ekspress Grupp's business, supported additionally by M&A. The company has been expanding the contribution of its online business to its top line (in 9M20, its share in the media segment revenues stood at 70% vs. 55% in 2015). Moreover, Ekspress Grupp uses M&A as part of its growth strategy. In 2019, it acquired an online ticketing business – SIA Biļešu Paradīze – which we believe may be enjoying very high profitability (its peer's, CTS Eventim, ticketing segment records 40%+ EBITDA margins), but, given the adverse COVID-19 impact on mass events, its contribution to the results may be lower than the company assumed at the time of the transaction, in our view.

Slow EBITDA growth may limit the chances of a dividend, placing the focus on deleveraging. In our model, we have pencilled in a 2019-22E EBITDA CAGR of 3%, on the back of the uncertain market outlook, given the COVID-19 impact on the media market (limited ad spending). Moreover, as we do not rule out possible M&A (although the company is not guiding for any transaction at this stage), we believe it may focus on reducing its leverage (2020E ND/EBITDA at 2.6x), rather distributing profit in 2021E.

Valuation: fair, according to our DCF, low on multiples. Our DCF (a 90% weight) yields a 12M PT of EUR 0.64/share (5% downside), while our peers' valuation (a 10% weight) produces a 12M PT of EUR 1.07/share (60% upside). According to our forecasts, the company is trading at our 2021-22E P/E multiples of 16.1-11.4x, indicating 17-32% discounts vs. its peers (Bloomberg forecasts); while, according to our 2021-22E EV/EBITDA multiples, the name is valued at 5.5-4.9x, 28-15% below its peers' median. Consequently, we arrive at a 12M PT of EUR 0.68/share, implying 1% upside potential and a HOLD rating.

Risks: Brexit; worldwide GDP growth; competition; employee turnover; litigation; FX risk; and low liquidity.

Expected events

4Q20 (unaudited)	19 February
4Q20 (audited)	1 April
1Q21 results	30 April
2Q21 results	30 July
3Q21 results	29 October

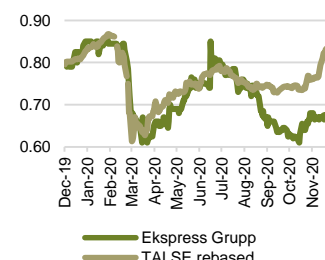
Key data

Market Cap	USD 25m
3M ADTV	USD 7.5k
Free float	41%
Shares outstanding	31m
Major Shareholder	Hans H. Luik (59%)
Bloomberg Code	EEG1T ET
TALSE Index	1,310

Price performance

52-w range	EUR 0.61-0.86
52-w performance	-16%
Relative performance	-19%

Ekspress Grupp 12M share price performance



	Revenues EURm	EBITDA EURm	EBIT EURm	NI EURm	EPS EUR	DPS EUR	P/E x	EV/EBITDA x	Div. yield %	ND/EBITDA x
2018	60.5	4.3	1.2	0.0	0.00	0.07	nm	8.0x	10.4%	3.3x
2019	67.5	6.8	2.7	1.4	0.05	0.00	14.3x	6.0x	0.0%	3.0x
2020E	65.7	6.8	2.7	1.3	0.04	0.00	15.8x	5.7x	0.0%	2.6x
2021E	71.6	6.7	2.6	1.3	0.04	0.00	16.1x	5.5x	0.0%	2.4x
2022E	78.7	7.3	3.2	1.8	0.06	0.02	11.4x	4.9x	3.1%	2.1x

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Closing Prices as of 11 December 2020

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Requests for permission to make copies of any part of this report should be mailed to:

WOOD & Company Financial Services a.s.
Palladium, Namesti Republiky 1079/1a,
110 00 Prague 1 – Czech Republic
tel.: +420 222 096 111
fax: +420 222 096 222
<http://www.wood.cz>

Company snapshot – HOLD, PT EUR 0.68/share

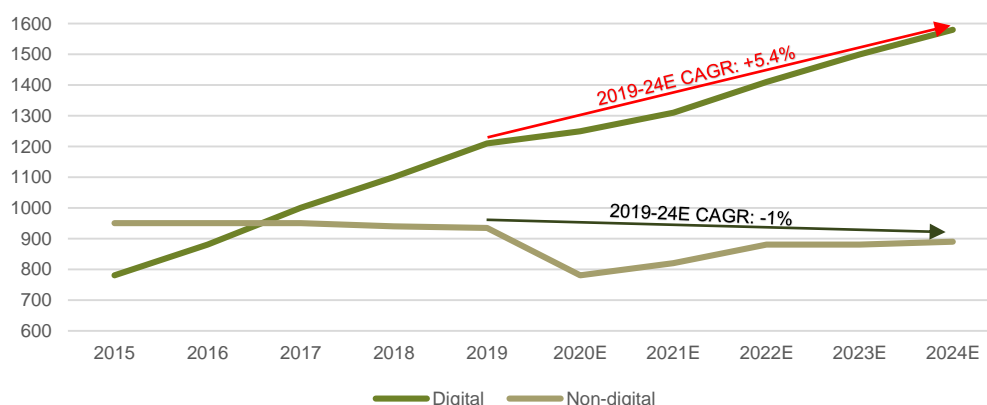
Ekspress Grupp		SHARE PRICE PERFORMANCE		COMPANY DESCRIPTION									
HOLD				<p>Ekspress Grupp is the leading media group in the Baltic region. The company has been in operation for over 30 years, and it has been listed on the Tallinn Stock Exchange since 2007. Ekspress Grupp has been growing both organically and through acquisitions. The company's primary area of activity is based on its media segment, which deals with publishing newspapers (both printed and online), running online portals (news, real estate and ticket sales) and offering advertisement services, both online and outdoor. Over 9M20, the online media's contribution to the segment's revenues amounted to 70%, and 48% to the company's top line. The second segment – printing – is based on the largest publishing house in the Baltic region, AS Printall.</p>									
Bloomberg ticker EEG1T ET Closing price (EUR/share) 0.67 PT (EUR/share) 0.68 Upside to PT 1% Shares outstanding (m) 31 Market cap (USDm) 25 Free float 41% Average daily turnover (USDk) 7.5 52 Week performance -16% 52 Week relative performance -19% 52 Week Range (EUR) 0.61-0.86													
RATIOS													
EUR/share		2018	2019	2020E	2021E	2022E	VALUATION RATIOS		2018	2019	2020E	2021E	2022E
EPS		0.00	0.05	0.04	0.04	0.06	EV/EBITDA		8.0x	6.0x	5.7x	5.5x	4.9x
DPS (from the given year's net profit)		0.07	0.00	0.00	0.00	0.02	P/E		nm	14.3x	15.8x	16.1x	11.4x
Dividend pay-out ratio		66%	0%	0%	0%	50%	FCF yield		-14.2%	-27.8%	-7.8%	6.6%	8.5%
							Dividend yield		10.4%	0.0%	0.0%	0.0%	3.1%
FINANCIAL RATIOS													
EBITDA margin		2018	2019	2020E	2021E	2022E	FCF BREAKDOWN (EURm)		2018	2019	2020E	2021E	2022E
7.0%		10.1%	10.3%	9.4%	9.3%	9.3%	EBIT		1.2	2.7	2.7	2.6	3.2
Net margin		0.0%	2.1%	2.0%	1.8%	2.3%	NOPAT		0.1	2.2	2.2	2.1	2.5
Effective tax rate		91.4%	19.4%	20.0%	20.0%	20.0%	D&A		3.1	4.1	4.1	4.2	4.2
ROE		0.0%	2.7%	2.5%	2.4%	3.3%	CAPEX (M&A)		0.0	-6.6	-0.4	0.0	0.0
ROA		0.0%	1.6%	1.4%	1.3%	1.8%	CAPEX (PPE, int. assets)		-3.1	-2.8	-4.7	-4.6	-4.6
ROC		0.2%	3.1%	2.8%	2.7%	3.4%	Change in WC		-2.9	-2.4	-2.8	-0.3	-0.4
							FCF		-2.8	-5.6	-1.6	1.4	1.8
COMPANY FINANCIALS													
INCOME STATEMENT, EURm		2018	2019	2020E	2021E	2022E	BALANCE SHEET, EURm		2018	2019	2020E	2021E	2022E
Revenues		60.5	67.5	65.7	71.6	78.7	PPE		11.9	14.9	15.4	15.5	15.7
Media		37.2	44.2	43.8	49.0	56.4	Intangibles		46.7	56.4	56.5	56.8	57.1
Online media as % of total media		65.9%	69.1%	71.1%	73.1%	75.1%	Others		4.3	4.6	5.0	5.0	5.0
Printing		25.2	25.7	24.4	25.1	25.1	Total non-current assets		62.9	75.9	76.9	77.3	77.7
Other		-2.0	-2.5	-2.4	-2.6	-2.8	Inventories		3.4	3.1	2.9	3.1	3.5
EBITDA		4.3	6.8	6.8	6.7	7.3	Trade accounts receivable		9.2	12.7	10.8	11.8	12.9
D&A		-3.1	-4.1	-4.1	-4.2	-4.2	Cash and cash equivalents		1.3	3.6	5.2	5.4	4.6
Operating profit		1.2	2.7	2.7	2.6	3.2	Others		0.0	0.0	0.0	0.0	0.0
PBT		0.3	1.7	1.6	1.6	2.3	Total current assets		13.8	19.5	18.9	20.3	21.0
Income tax		-0.3	-0.3	-0.3	-0.3	-0.5	Total assets		76.7	95.4	95.9	97.7	98.7
Minorities		0.0	0.0	0.0	0.0	0.0	Total shareholders equity		51.6	52.9	54.2	55.4	56.8
Net profit		0.0	1.4	1.3	1.3	1.8	Long-term borrowings		14.1	19.2	17.7	16.7	14.7
							Other LT liabilities		0.0	2.9	2.9	2.9	2.9
CASH FLOW STATEMENT, EURm		2018	2019	2020E	2021E	2022E	Total non-current liabilities		14.1	22.1	20.6	19.6	17.6
CF from operations		4.9	6.7	8.2	5.7	6.4	ST Debt		1.4	5.1	5.1	5.1	5.1
D&A		3.1	4.1	4.1	4.2	4.2	ST trade payables		10.8	16.5	17.1	18.6	20.5
Changes in WC		1.5	0.9	2.8	0.3	0.4	Other ST liabilities		0.0	0.1	0.1	0.1	0.1
CF from investments		-2.9	-9.3	-5.1	-4.6	-4.6	Total current liabilities		12.2	21.6	22.3	23.8	25.7
o/w capex (PPE & int. ass.)		-3.1	-2.8	-4.7	-4.6	-4.6	Total equity and liabilities		76.7	95.4	95.9	97.7	98.7
o/w capex (M&A)		0.0	-6.6	-0.4	0.0	0.0	Gross debt		15.5	24.3	22.8	21.8	19.8
CF from fin. activities		-1.9	5.0	-1.5	-1.0	-2.6	Net debt		14.2	20.7	17.6	16.4	15.3
o/w borrowings		-0.9	1.2	-1.5	-1.0	-2.0	ND/EBITDA		3.3x	3.0x	2.6x	2.4x	2.1x
o/w dividends		-2.1	0.0	0.0	0.0	-0.6							
Revenues by segment													
EURm		2018	2019	2020E	2021E	2022E	EBITDA by segment						
Media		37.2	44.2	43.8	49.0	56.4	Media		3.4	6.0	5.9	6.3	7.1
yoy		17%	19%	-1%	12%	15%	EBITDA margin		9.0%	13.5%	13.5%	12.8%	12.6%
Printing		25.2	25.7	24.4	25.1	25.1	Printing		2.4	2.0	2.1	1.8	1.6
yoy		6%	2%	-5%	3%	0%	EBITDA margin		9.5%	7.9%	8.5%	7.0%	6.5%
Other		-2.0	-2.5	-2.4	-2.6	-2.8	Other		-1.5	-1.2	-1.2	-1.3	-1.4
ND/EBITDA and CAPEX													
<p>Source: WOOD Research, company data, Bloomberg</p>													

Investment case

We initiate coverage of Ekspress Grupp, the leading media group in the Baltics region, with a HOLD rating and a 12M price target (PT) of EUR 0.68/share (1% upside potential). The company has been in operation for 30 years and its business is focused on two areas – media (newspapers, magazines, online portals), and printing services, with one of the largest printing houses in the region. On the one hand, we like the company for its: i) strong market position (media leader in the Baltics countries); ii) well-diversified business, supported by M&A; and iii) relatively low multiples (2021E EV/EBITDA at 5.5x, 28% below its peers). On the other, we note that the leverage level (2.6x as at end-2020E, on our forecasts), coupled with the uncertain (due to the epidemic) market outlook, may result in flat yoy EBITDA in 2021E, on our numbers. This limits the FCF expansion and, consequently, the dividend payment capacity (we do not expect a dividend payment in 2021E). Overall, we see the printing business as challenged, and the future depends on the successful diversification into online, which the company is striving to do.

The global entertainment and median (E&M) market is digitising, according to PwC's data. The non-digital media segment has been in permanent moderate decline mode over the past four years, and it should remain so in the coming years. On the other hand, in the case of digital media, PwC expects it to enjoy a 2019-22E CAGR of 5%.

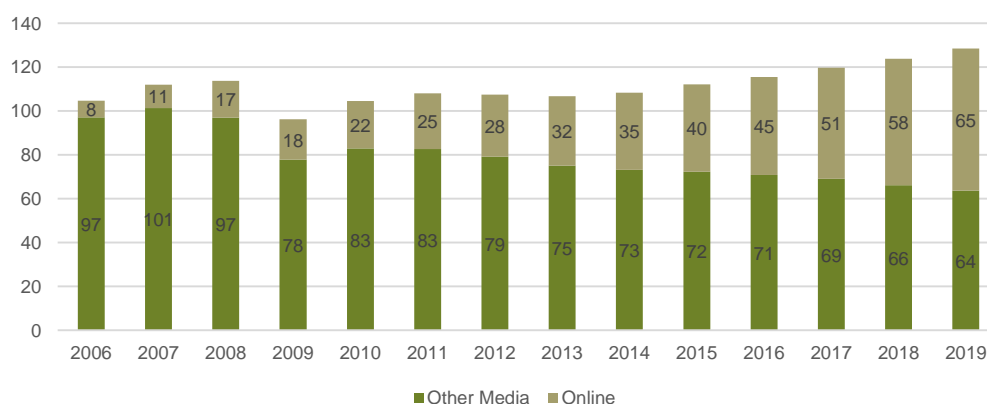
Global E&M revenue (USD bn) breakdown by segments



Source: WOOD Research, PwC

...and the European advert market is following the same trend. The trends of E&M migration into the online space are also present in the European advertising market. In 2006, media advertising spending amounted to EUR 105bn, of which only 8% was online advertising, according to IAB Europe's estimates. Over the years, the proportion has begun to reverse: in 2013, it reached a 30% share; while, in 2019, for the first time, the online channel exceeded other media.

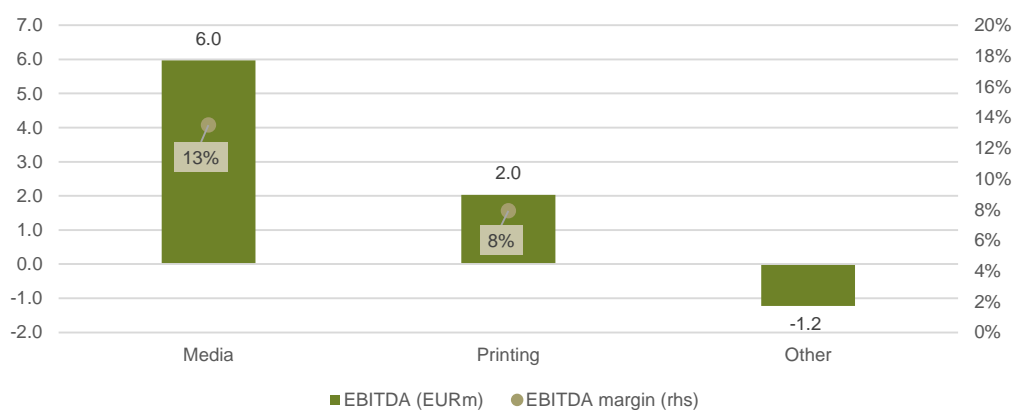
Total media ad spend in Europe (EUR bn)



Source: WOOD Research, IAB Europe

The company has two segments – media and printing; the former is the more profitable and dominant. The media segment accounts for the majority of the top line, and it also contributes the larger part of the company's EBITDA. In 2019, the segment generated EUR 6m of profit, operating on a 13% margin. The printing segment added EUR 2m of EBITDA (with an 8% EBITDA margin).

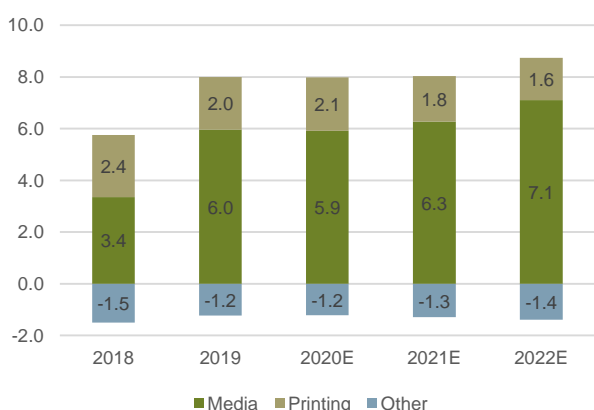
2019 EBITDA: breakdown by segments



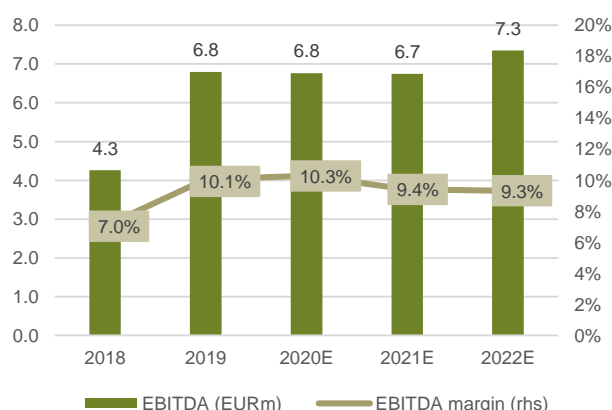
Source: WOOD Research, company data

We expect moderate growth in the EBITDA in 2022E, as the 2020E profit has been inflated by a one-off event. In our model, we have pencilled in 10.3% EBITDA margin for 2020E. The yoy improvement stems from savings that the company managed to generate over 9M20, stemming from pay cuts, as well as the c.EUR 1.1m salary subsidy from the Estonian Unemployment Insurance Fund (the subsidy is for the whole of 2020E). The latter figure accounts for c.17% of our 2020E EBITDA forecast. For 2021E, we assume margin erosion, as we do not pencil in any further subsidies (if there are any, we would see upside potential for our forecasts).

EBITDA by segments (EUR m)



EBITDA and EBITDA margin

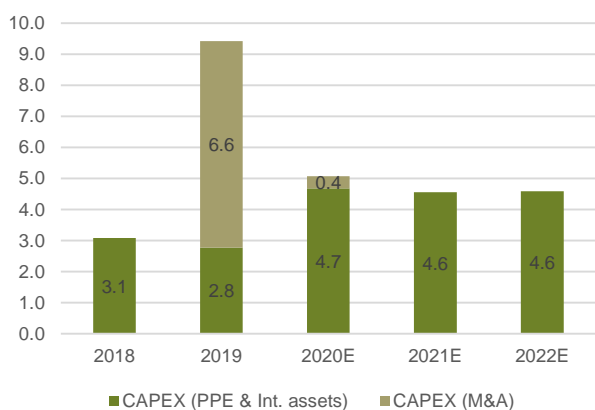


Source: WOOD Research, company data

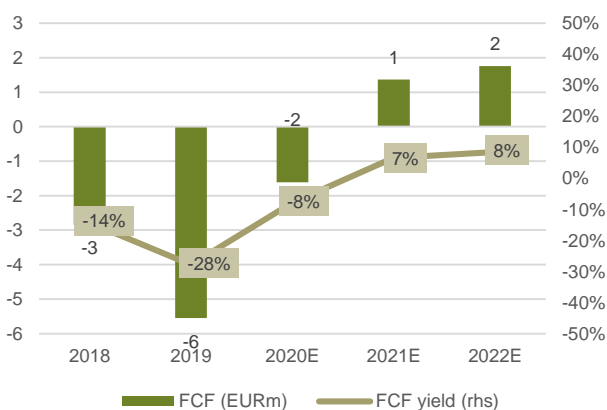
M&A are part of the company's equity story... We see M&A as an inherent part of the media business (with local peers – Wirtualna Polska – serving as a good example of such a growth tactic). Not surprisingly, in 2019 Ekspress Grupp has been engaged in the acquisition activity. It increased stake from 50% to 100% in Linna Ekraanid OÜ, an Estonian digital outdoor advertising company; purchased 25% stake in SIA Altero, a financial comparison and brokerage platform; and a 100% stake in SIA Bīļešu Paradīze, a Latvian ticketing platform. The latter acquisition is quite an interesting one, in our view: although the company has not disclosed Bīļešu Paradīze's profitability, we believe it may be higher than the other businesses in the Ekpress Grupp mix. We note that the former company's peer's (CTS Eventim) ticketing segment records 40%+ EBITDA margins. However, on the other hand, we note that, given COVID-19's adverse impact on various entertainment events, its contribution to the Ekspress Grupp's result may be lower than the company assumed at the time of the transaction, in our view.

...but we assume no acquisitions at this stage, which should support the recovery of the FCF. As the company has not communicated its intentions for proceeding with further M&A, we have not pencilled in any additional capex that may be spent on it (although we would be not surprised if the company proceeds with acquisitions, which we see as one of the key development opportunities for media companies). With the capex limited to organic growth only, we pencil in a recovery in the FCF into positive territory from 2021E.

Capex



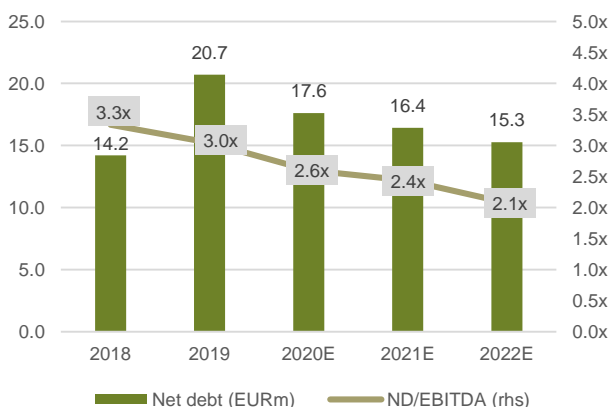
FCF and FCF yield



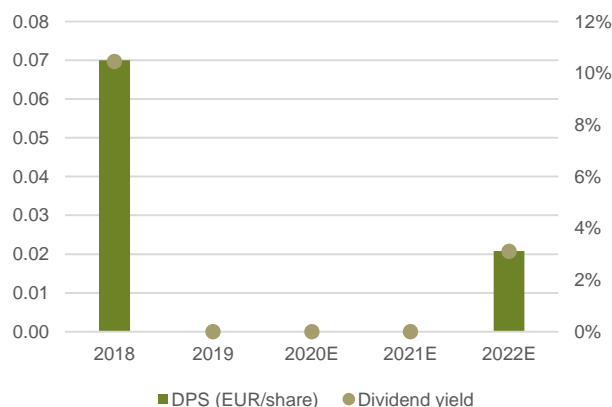
Source: WOOD Research, company data

Focus on deleveraging, dividend may come later, in our view. Taking into consideration the epidemic environment and the still significant uncertainty over the economic recovery path (albeit supported by the availability of the vaccine), we believe that the company's primary focus will be on reducing its leverage. Again, we do not exclude possible ad hoc M&A in the meantime. This makes us believe that the company may not be eager to distribute profit in 2021E, but we see a chance for a dividend payment in 2022E, from the 2021E profit. As we do not see Ekspress Grupp as a dividend name at this stage, we do not perceive it as a major drawback in its equity story (even the 3% dividend yield we expect in 2022E is below the 5% average for the MSCI Frontier Markets index and c.4% for its peers' median, according to the Bloomberg consensus).

Leverage



Dividend



Source: WOOD Research, company data

Ekspress Grupp trading at significant discounts to both its peers and its own long-term average multiples... According to our forecasts, the company is valued at our 2021-22E P/E multiples of 16.1-11.4x, indicating 17-32% discounts vs. its peers (Bloomberg forecasts); while, according to our 2021-22E EV/EBITDA multiples, the name is valued at 5.5-4.9x, 28-15% below the peers' median. Moreover, on both its EV/trailing 12M EBITDA (4.8x) and P/12M trailing EPS (7.4x), Ekspress Grupp is valued at nearly a 40% discount to its long-term average multiples.

...but, given the company's leverage and low liquidity, we assign a greater weight to the DCF valuation. We have decided to base our valuation of the company primarily on DCF (90% weight) as, at this stage (due to the company's leverage, the uncertain economic and market outlook, and the stock's low liquidity), it is the FCF generation capacity that is the most important to us. Our DCF valuation implies a 12M PT of EUR 0.64/share (5% downside), while the peers' valuation produces a 12M PT of EUR 1.07/share (60% upside). Consequently, we arrive at a 12M PT of EUR 0.68/share, implying 1% upside potential and a HOLD rating.

Risks: M&A; competition in the media business; contracting printing segment; paper price; FX risk; litigation risk; COVID-19 and GDP growth; and low liquidity.

Valuation

We rate Ekspress Grupp a HOLD, with a 12M price target (PT) of EUR 0.68/share, implying 1% upside potential. We derive our PT based mainly on our DCF analysis (90% weight), with the peer group valuation assigned a 10% weight. We have decided to assign such a small weight to the multiples valuation due to the small size of the company (market cap of only USD 25m; 2019 EBITDA at c.EUR 7m), as well as the limited stock liquidity (3M ADTV below USD 8k).

Valuation summary

	Weight	PT	Current price	Upside
DCF	90%	0.64	0.67	-5%
Peer-based valuation	10%	1.07	0.67	60%
Weighted PT	100%	0.68	0.67	1%

Source: WOOD Research

DCF: 12M PT at EUR 0.64/share

We base our DCF valuation on the following assumptions:

- ✓ A WACC of c.10%.
- ✓ A present value of the discounted free cash flows of EUR 13m for 2021-28E.
- ✓ An end-2020E net debt of EUR 17m.
- ✓ A present value of the terminal value of EUR 21m.
- ✓ A terminal growth rate of 1.0%.
- ✓ As we base our forecasts on the financials reported under the equity method, we adjust the equity value for the 2020E investment in associates
- ✓ Fully diluted number of shares as of 1Q24E of c.32m, i.e., following the completion of the current stock option programme

DCF valuation

EURm	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Terminal
Revenues	71.6	78.7	84.8	89.9	94.1	97.3	99.1	100.9	100.9
yoy		10%	8%	6%	5%	3%	2%	2%	0%
EBIT	2.6	3.2	3.6	4.0	4.3	4.5	4.7	4.9	4.9
EBIT margin	4%	4%	4%	4%	5%	5%	5%	5%	5%
Cash tax (20%)	0.5	0.6	0.7	0.8	0.9	0.9	0.9	1.0	1.0
NOPAT	2.1	2.5	2.9	3.2	3.4	3.6	3.8	3.9	3.9
(+) D&A	4.2	4.2	4.2	4.2	4.3	4.3	4.3	4.4	4.4
(-) capex	-4.6	-4.6	-4.7	-4.8	-4.8	-4.9	-4.8	-4.7	-4.4
(-) Working capital growth	-0.3	-0.4	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1
Net investment	-0.7	-0.8	-0.8	-0.8	-0.8	-0.7	-0.6	-0.4	-0.1
FCF	1.4	1.8	2.1	2.4	2.7	2.9	3.2	3.5	3.8

Terminal growth [g(t)]	1.0%
PV TV	21
PV FCF 2021-2028E	13
Enterprise value (EUR m)	33
Net debt (end 2020E)	18
Minorities (end 2020E)	0
Investment in associates (2020E)	2
Equity value (EUR m)	18
Number of shares (m), diluted 2024	32
Value per share (EUR, 1 Jan 2021)	0.57
12M PT (EUR)	0.64

Source: WOOD Research

DCF sensitivity

		WACC						
		6.7%	7.7%	8.7%	9.7%	10.7%	11.7%	12.7%
Terminal growth rate	0.1%	0.60	0.59	0.58	0.57	0.56	0.55	0.54
	0.4%	0.63	0.62	0.60	0.59	0.58	0.57	0.56
	0.7%	0.65	0.64	0.63	0.62	0.61	0.60	0.59
	1.0%	0.68	0.66	0.65	0.64	0.63	0.62	0.61
	1.3%	0.70	0.69	0.68	0.67	0.66	0.65	0.64
	1.6%	0.73	0.72	0.71	0.70	0.69	0.67	0.66
	1.9%	0.76	0.75	0.74	0.73	0.72	0.70	0.69

Source: WOOD Research

Peers valuation: 12M PT at EUR 1.07/share

Ekspress Grupp trades at significant discounts to the other regional media companies, growing faster than its peers, but paying no dividend. Based on our numbers, the company trades at 5.5-4.9x 2021-22E EV/EBITDAs (28-15% discounts vs. its peers). On our 2021-22E P/Es, the company is valued at 16.1-11.4x (17-32% discounts vs. its peers). We value the company based on the 2021-22E multiples, as 9M20 has been reported already.

Ekspress Grupp: peers

	Country	Market cap USDm	ND/ EBITDA	P/E			EBITDA CAGR 19-22E	EV/EBITDA			Dividend yield		
				2020E	2021E	2022E		2020E	2021E	2022E	2020E	2021E	2022E
Ekspress Grupp	Estonia	25	2.6x	15.8	16.1	11.4	3%	5.7	5.5	4.9	0.0%	0.0%	3.1%
Sanoma	Finland	2,642	0.4x	22.5	17.7	16.4	-2%	6.1	7.7	7.1	3.9%	4.1%	4.4%
Sina	China	2,690	-2.3x	19.7	17.1	16.8	18%	4.4	2.4	1.1	0.0%	0.0%	0.0%
Yelp	US	2,310	-6.2x	42.3	22.9	19.9	17%	12.7	7.6	5.9	0.0%	0.0%	0.0%
Daily Mail&General Trust	Britain	2,452	-2.1x	41.9	27.9	21.3	6%	12.7	10.7	8.8	3.4%	3.4%	3.5%
Promotora De Informaciones	Spain	886	n.a.	129.9	n.a.	n.a.	-8%	16.7	11.7	9.8	0.0%	n.a.	n.a.
Alma Media	Finland	862	-1.1x	21.5	22.6	20.9	-3%	10.9	10.4	9.4	4.4%	4.5%	4.7%
Wirtualna Polska	Poland	662	1.4x	32.7	21.1	17.7	7%	13.8	11.0	9.6	0.3%	1.2%	2.8%
Arnoldo Mondadori Editore	Italy	497	2.0x	26.3	12.7	11.3	-1%	6.6	5.4	4.8	0.0%	2.0%	3.7%
Rcs Mediagroup	Italy	364	3.6x	9.5	7.2	7.2	-10%	6.8	4.6	4.2	n.a.	n.a.	n.a.
Bloomsbury Publishing	Britain	283	-1.3x	15.7	21.6	15.9	8%	8.7	9.7	7.3	0.5%	3.2%	3.3%
Roularta Media Group	Belgium	236	-6.0x	38.9	36.9	38.9	-5%	6.7	5.1	4.6	3.4%	3.4%	3.4%
Cairo Communications	Italy	199	3.2x	26.7	6.0	5.6	-8%	7.5	5.3	4.6	0.0%	7.1%	8.7%
Vocento	Spain	124	2.1x	n.a.	10.6	7.3	2%	8.6	5.6	4.7	n.a.	3.7%	3.7%
Agora	Poland	88	5.7x	n.a.	n.a.	197.1	-4%	14.1	8.4	5.7	n.a.	n.a.	4.3%
Weighted median				26.5	19.4	16.8	-1%	8.6	7.7	5.8	0%	3%	4%
Ekspress Grupp vs. peers' median				-40%	-17%	-32%	3.8pp	-34%	-28%	-15%	0pp	-3pp	-1pp

Source: WOOD Research, Bloomberg

Peer valuation

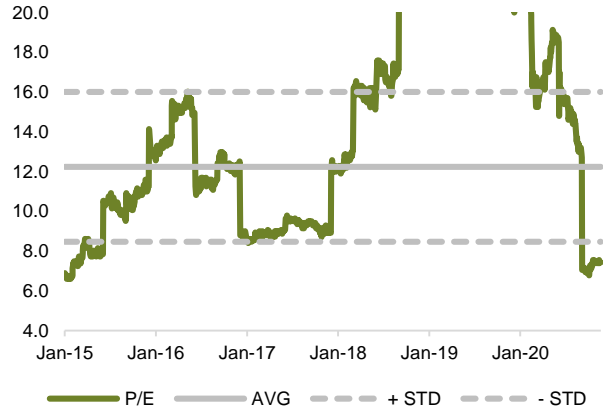
	P/E (x)			EV/EBITDA (x)		
	2020E	2021E	2022E	2020E	2021E	2022E
Total weighted median (x)	26.5	19.4	16.8	8.6	7.7	5.8
EPS (EUR/share) for P/E and EBITDA (EUR m) for EV/EBITDA	0.04	0.04	0.06	6.8	6.7	7.3
Implied enterprise value				58	52	42
Implied Equity value	35	25	30	41	35	27
Implied Equity value per share (EUR)	1.12	0.81	0.98	1.32	1.14	0.88
Weight (%)	0.0%	25.0%	25.0%	0.0%	25.0%	25.0%
Implied weighted equity value per share (EUR)					0.95	
12M price target (PT)					1.07	

Source: Bloomberg, WOOD Research

Ekspress Grupp trades at 4.8x EV/12M trailing EBITDA, on the Bloomberg figures, implying a 37% discount to its long-term average. Similarly, on its P/12M trailing EPS multiple, the company is valued at 7.4x, i.e., 39% below the long-term average.

EV/EBITDA*

P/E**

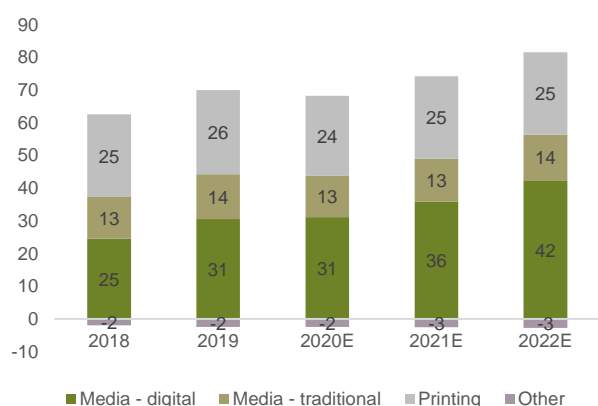


Source: Bloomberg, WOOD Research; *current EV divided by the trailing 12M EBITDA; **current price divided by trailing 12M EPS; multiples for the period October 2018-January 2020 treated as outliers for the purpose of the average and standard deviations calculations

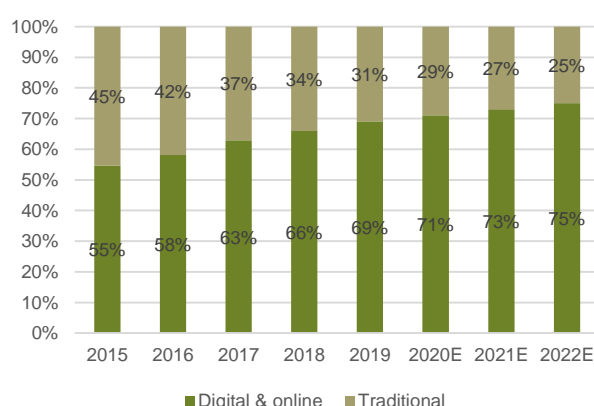
Financial forecasts

2019-22E revenues CAGR at 5%, according to our forecasts. In our forecasts for 2020E, we have pencilled in a 3% yoy top-line contraction (9M20 revenues down 6% yoy), but we believe that, along with the improved macroeconomic outlook in the following years, the company should see growth in its revenues base. This ought to be driven, in our view, by a recovery in the advertisement revenues, further growth of subscriptions, and more favourable conditions for the online ticketing business, which we believe was very profitable prior to the emergence of COVID-19. Moreover, we expect a change in the top-line structure, i.e., we assume that the median digitisation trend, described in the market section of this report, should continue. Specifically, we forecast that the contribution of the digital and online business to the media segment revenues should increase from 69% in 2019 to 75% in 2022E.

Revenues (EUR m)



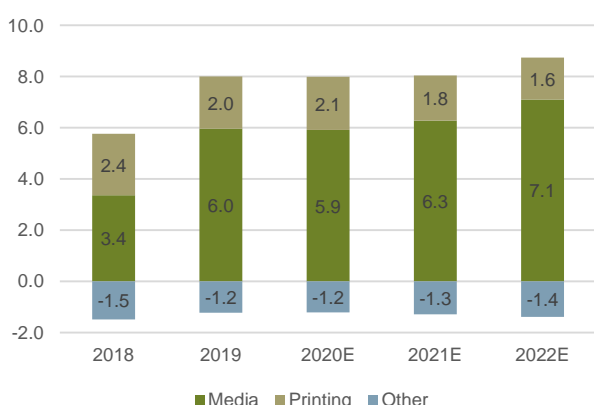
Media segment revenues – digital vs. traditional



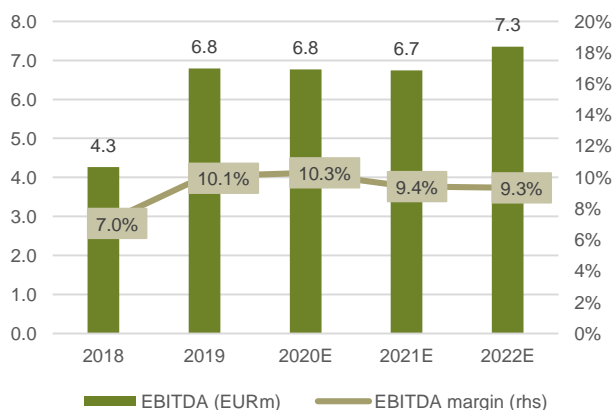
Source: WOOD Research, company data

We expect major growth in the EBITDA in 2022E, as the 2020E profit has been inflated by a one-off event. In our model, we have pencilled in 10.3% EBITDA margin for 2020E. The yoy improvement stems from savings that the company managed to generate over 9M20, stemming from pay cuts, as well as the c.EUR 1.1m salary subsidy from the Estonian Unemployment Insurance Fund (the subsidy is for the whole of 2020E). The latter figure accounts for c.17% of our 2020E EBITDA forecast. For 2021E, we assume margin erosion, as we do not pencil in any further subsidies (if there are any, we would see upside potential for our forecasts).

EBITDA by segments (EUR m)



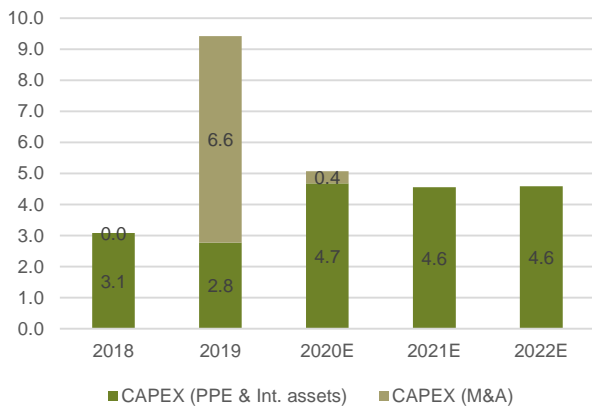
EBITDA and EBITDA margin



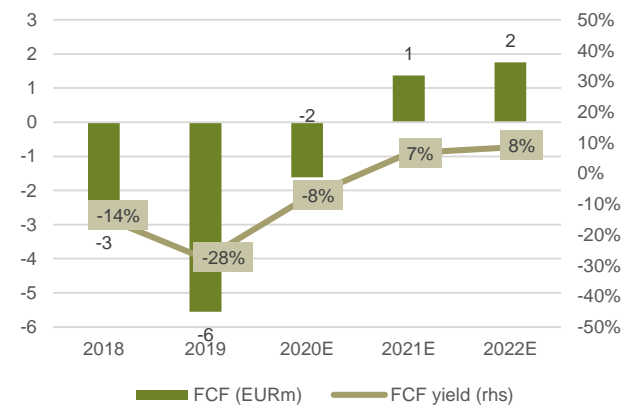
Source: WOOD Research, company data

No M&A would support the recovery of the FCF, according to our forecasts. In 2019, Ekspress Grupp was engaged in acquisition activity (increasing its stake from 50% to 100% in Linna Ekraanid OÜ, an Estonian digital outdoor advertising company; and purchasing a 25% stake in SIA Altero, a financial comparison and brokerage platform and a 100% stake in SIA Bīlešu Paradīze, a Latvian ticketing platform). As the company has not communicated its intentions for proceeding with further M&A, we do not pencil in additional capex that may be spent on it (however, we would be not surprised if the company makes some acquisitions, which we see as one of the key development opportunities for media companies). With its capex limited to organic growth only, we pencil in a recovery of the FCF into positive territory from 2021E.

Capex



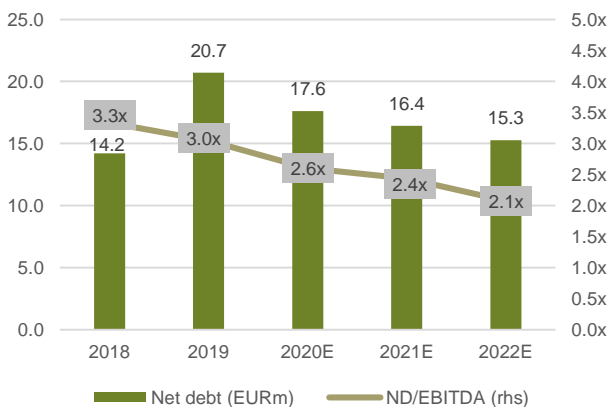
FCF and FCF yield



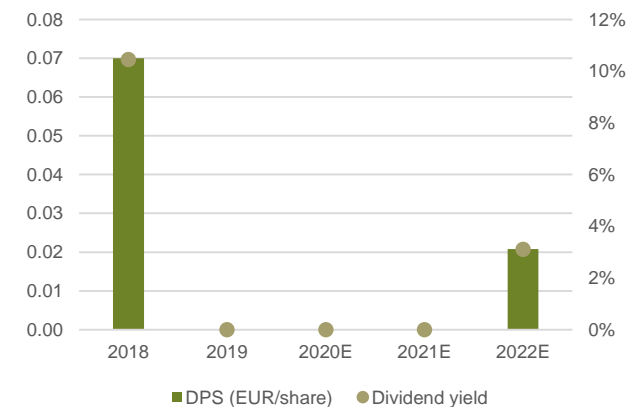
Source: WOOD Research, company data

Focus on deleveraging, dividend may come later, in our view. Taking into consideration the epidemic environment and the still significant uncertainty over the economic recovery path (albeit supported by the availability of the vaccine), we believe that the company's primary focus will be on reducing its leverage. Again, we do not exclude possible ad hoc M&A in the meantime. This makes us believe that the company may not be eager to distribute profit in 2021E, but we see a chance for a dividend payment in 2022E, from the 2021E profit. As we do not see Ekspress Grupp as a dividend name at this stage, we do not perceive it as a major drawback in its equity story (even the 3% dividend yield we expect in 2022E is below the 5% average for the MSCI Frontier Markets index and c.4% for its peers' median, according to the Bloomberg consensus).

Leverage



Dividend



Source: WOOD Research, company data

Risks

COVID-19 and the macroeconomic environment. COVID-19 resulted in the closure of and/or limiting occupancy rates at public events, such as theatres. This has had a negative impact on the company's ticketing business in Latvia. Should the epidemic persist, the business may remain under pressure. Moreover, macroeconomic uncertainty affects companies' willingness to spend money on advertisements. Hence, the weakening of the economic sentiment could affect Ekspress Grupp's revenues from adverts (both online and outdoor).

M&A. Ekspress Grupp has been engaged in M&A activities (the most recent examples include online ticketing platform Biļešu Paradīze). In our model, we have not pencilled in any M&A (the company has not disclosed its acquisition plans), but we do not exclude that some transactions may happen. Should M&As happen, we note the possible risks associated with obtaining a value-accretive price and executing synergies.

Competition in the media business. We note that the company may face greater competition in its online business from other companies offering similar content.

Contracting printing business. We note that there is a worldwide trend of the digitalisation of all kinds of printed materials (newspapers, books, journals, etc.). It may be that this trend erodes the revenues and profitability of the company's printing segment faster than we assume. The company is striving to preserve the margins in this business by increasing the automation of the production process.

Paper price. Paper is the main raw material used in the company's printing business. Ekspress Grupp does not hedge the price of this raw material, as it sees accepting the prices as the most optimal solution.

FX risk. As Ekspress Grupp operates in Eurozone countries (Lithuania, Estonia and Latvia), its FX risk is very limited and restricted to the export activities of its printing house. According to the company's data, non-Euro denominated revenues accounted for c.1% of the 9M20 top line.

Litigation risk. As the company runs online news portals, it is exposed to various litigation risks, involving publishing material that may be considered false factual allegations by some entities. At this stage, the company has one such case ongoing. On 28 April 2020, AS MM Grupp submitted a EUR 2.0m claim against AS Ekspress Meedia to the Harju County Court on the grounds of alleged false factual allegations made by one of the latter company's journalists. Ekspress Grupp "considers the claim to be without perspective". At this stage, we do not pencil any potential fine into our figures. However, we note that the EUR 2.0m compensation demand accounts for c.30% of our 2020E forecast for the company's EBITDA.

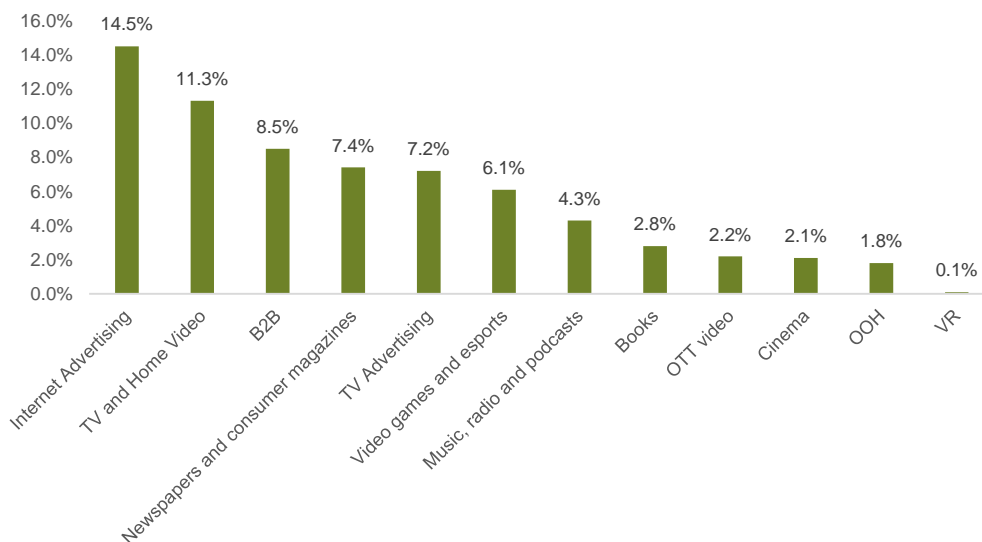
Low liquidity of the stock price. We note that Ekspress Grupp's 3M ADTV stock stands at only USD 8k. This implies that it may be difficult for investors to trade large stakes without distorting the stock price significantly.

Leverage. Ekspress Grupp and its subsidiaries have different levels of debt covenants in various credits. The main loan (EUR 14.2m; due on 20 October 2021) has total debt/EBITDA below 3.0x (if it is below 2.5x, the lower margin is applied to the loan costs). As at end-2019, the ratio stood at 2.36x, calculated in accordance with the adjustments laid down in the loan contract. As noted earlier, given that we assume no material M&A activity in the coming years, we expect the leverage to drop gradually.

The media market

The global entertainment and media market (E&M) was worth c.USD 2.1trn in 2019, according to PwC's estimates. Internet advertising (c.USD 0.3trn) is the largest segment, with a 14.5% market share, followed by the TV and home video (11.3%/USD 0.24trn) and B2B (8.5%/USD 0.18trn) segments. The printed media (newspapers and magazines) is fourth, with a 7.4% share of the market.

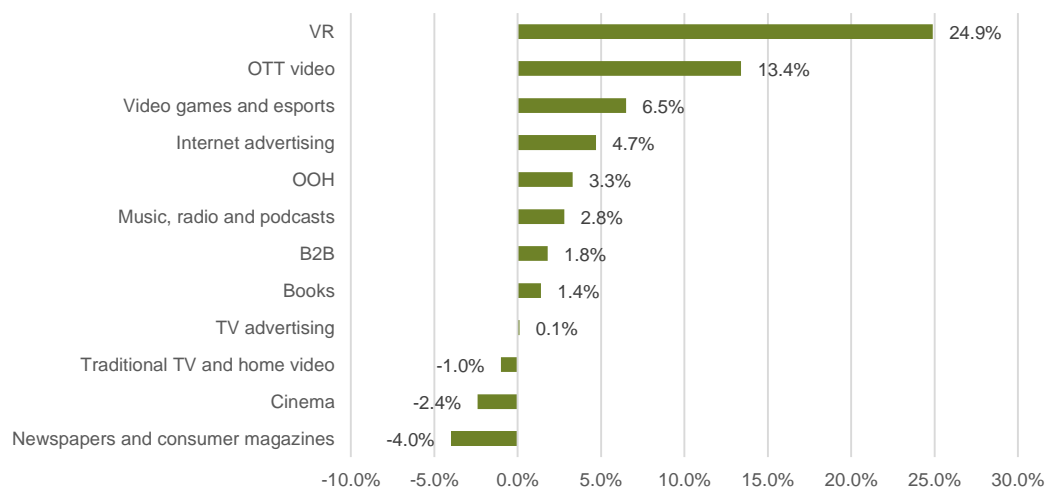
Global E&M revenue share by segment in 2019



Source: WOOD Research, PwC

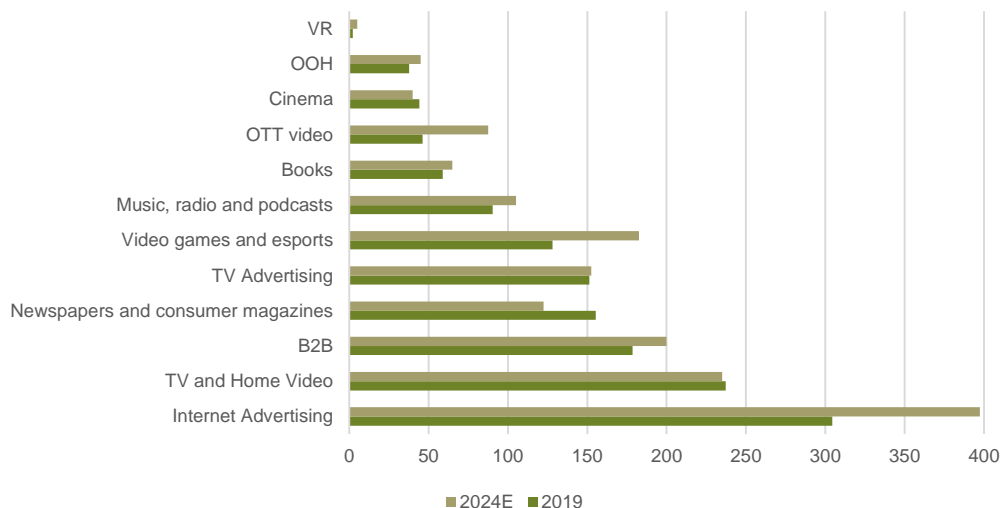
Newspapers and magazines revenues might contract, while internet advertising should continue to grow. PwC's data indicate that the largest E&M segment, internet advertising, should enjoy mid-single digit yoy growth over the next five years (c.5% yoy). At the same time, similar dynamics (but in negative territory (-4%)) are expected for newspaper and consumer magazines. Not surprisingly, PwC expects revenues from advertisements published in newspapers and the circulation of newspapers to contract over the next five years.

Global E&M Market CAGR (2019-24E)



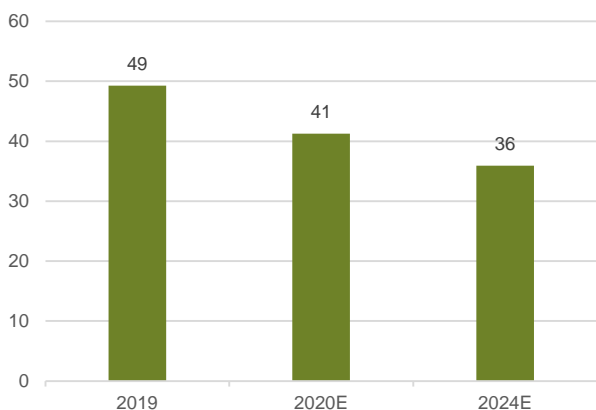
Source: WOOD Research, PwC

Global E&M revenue by segment (USD bn) (2019 and 2024E)

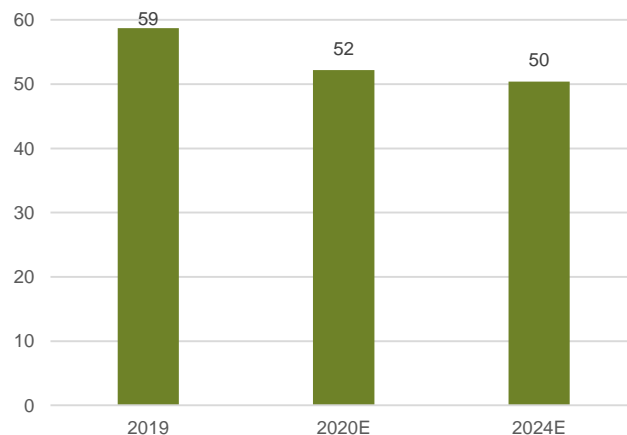


Source: WOOD Research, PwC

Global newspaper advertising revenue, 2019-24E (USD bn)*



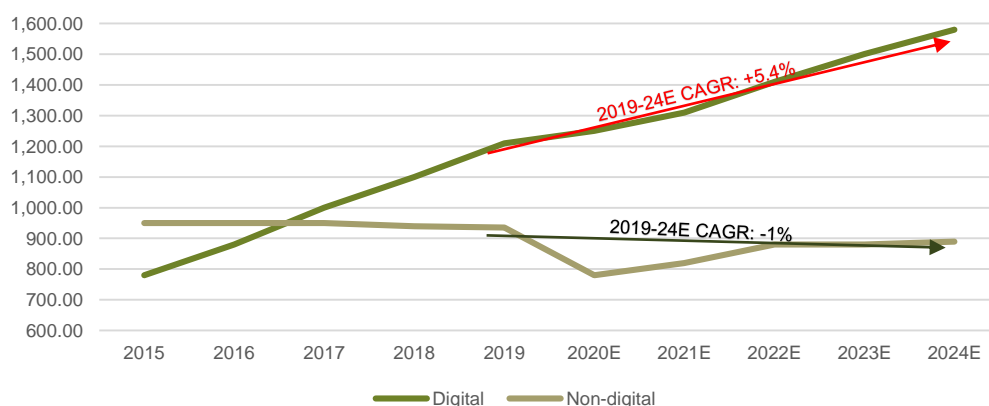
Global newspaper circulation revenue, 2019-24E (USD bn)*



Source: WOOD Research, PwC; *online and printed

COVID-19 has facilitated the digitalisation of E&M, and this trend should continue, according to PwC’s data. The non-digital media segment has been stagnant over the past four years. Not surprisingly, the epidemic has had a detrimental effect on its revenues in 2020E. On the other hand, in the case of digital media, the impact has been much more moderated, with the segment continuing its growth over the COVID-19 period, albeit at a smaller growth pace than previously. Taking into consideration a five-year perspective, PwC expects digital media to enjoy a CAGR of c.5%, vs. a moderate decline mode for the non-digital part of the market (2019-24E CAGR at -1%).

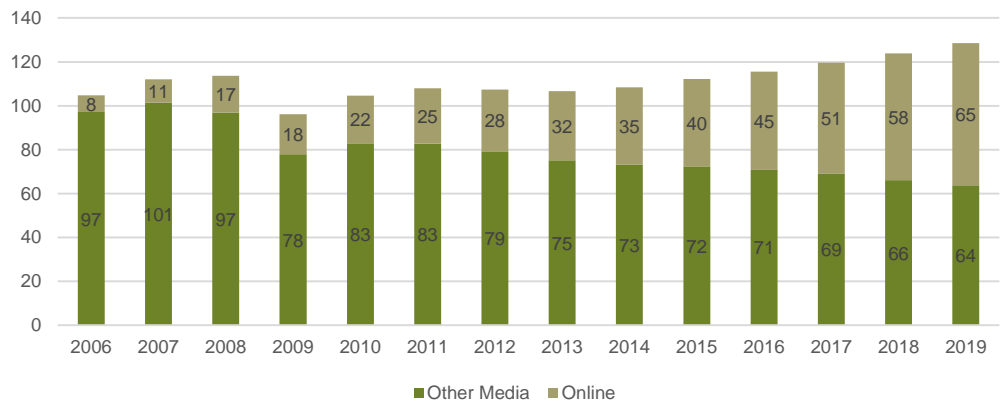
Global E&M revenue (USD bn) breakdown by segments



Source: WOOD Research, PwC

The European advert market is digitising as well. The trends of E&M migration into the online space has been also present in the European advert market. In 2006, media advertising spending amounted to EUR 105bn, of which only 8% was online advertising, according to IAB Europe estimates. Over the years, the proportion has begun to reverse: in 2013, it reached a 30% share; while, in 2019, for the first time, the online channel exceeded the other media.

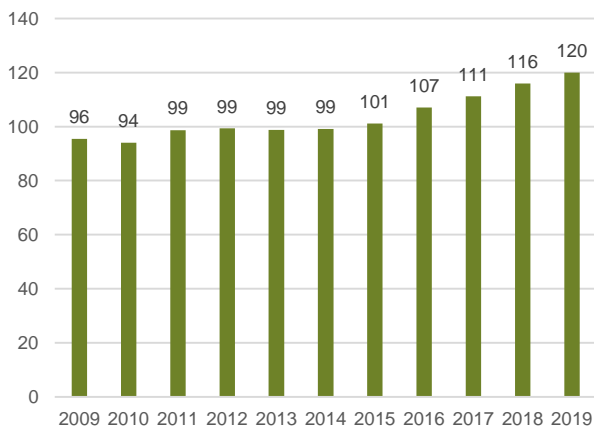
Total media ad spend in Europe (EUR bn)



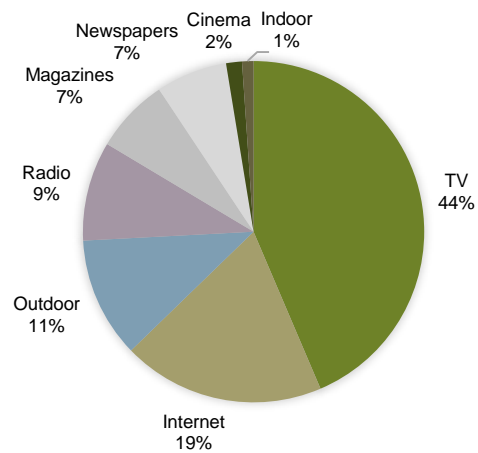
Source: WOOD Research, IAB Europe

The advertising market revenue in Lithuania was worth EUR 120m in 2019. TV advertising accounted for the largest part of the advertising market, equal to EUR 53m (44%) in 2019, while online advertising (19%) was the second-largest revenue generator.

Lithuania's advertising market (EUR m)



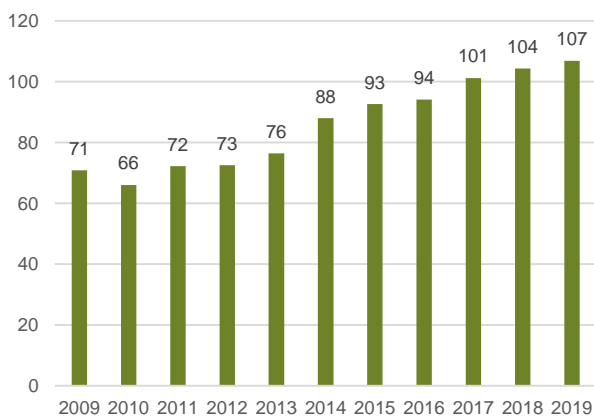
Advertising market share by media type in 2019 (%)



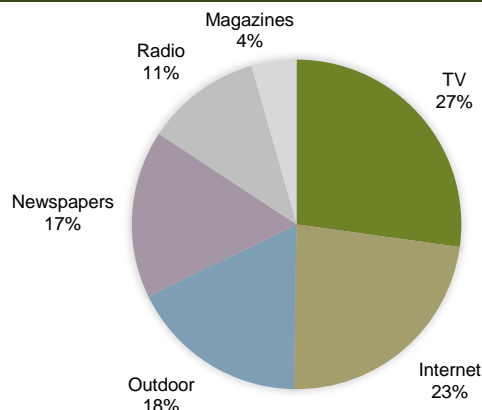
Source: WOOD Research, Kantar Lithuania

The advertising market revenue in Estonia was worth EUR 107m in 2019. Similarly to Lithuania, the Estonian market is also dominated by TV (27%) and internet adverts (23%), although it is not as dominated by the former.

Estonia's advertising market (EUR m)



Advertising market value by media type in 2019 (%)

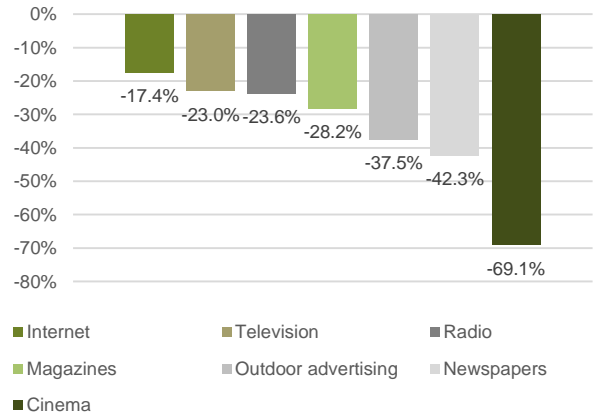
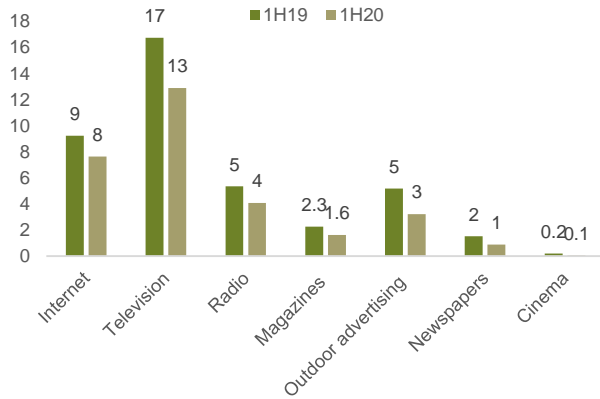


Source: WOOD Research, Kantar Lithuania, Kantar Emor

In Latvia, TV and internet adverts have the highest market share among all the Baltic countries. Over 1H20, TV adverts accounted for c.42% of the market, while internet had a 25% share. Nonetheless, over this period, all segments of the Latvian adverts market suffered double-digit drops, including internet, according to the Latvian Advertising Association.

Latvian advertising market value (EUR m)

Change in advertising volume by media type (1H19 vs. 1H20)

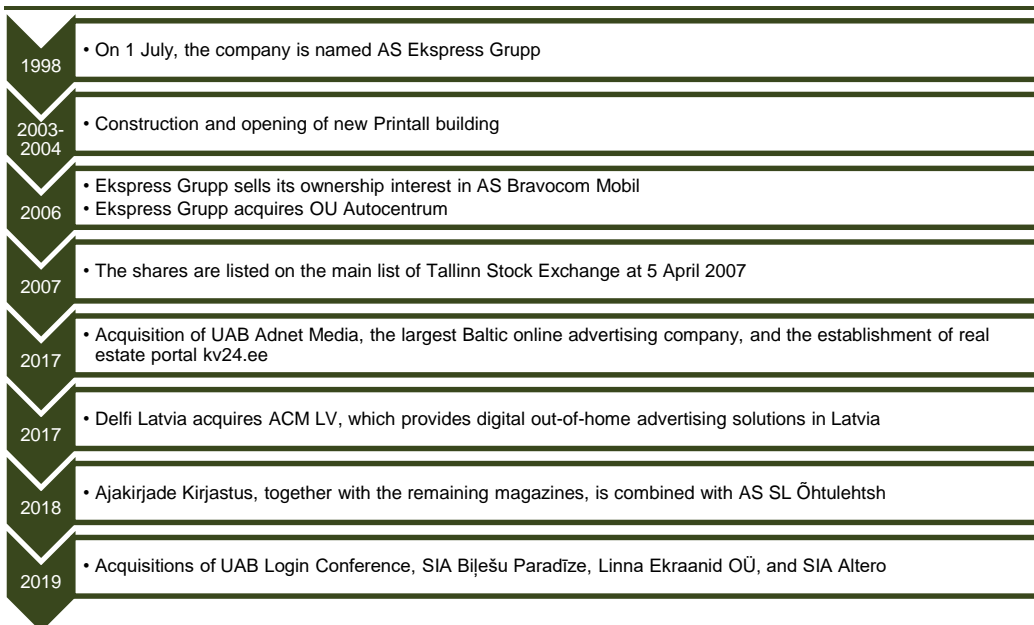


Source: WOOD Research, Latvian Advertising Association

Company description

Ekspress Group is the leading media group in the Baltics. The company has been in operation for over 30 years and, since 2007, it has been listed on the Tallin Stock Exchange. Over the years, Ekspress Grupp has grown both organically and through acquisitions. The company's primary area of activity is publishing newspapers (both printed and online), running online information portals (news, real estate and ticket sales), and offering advertisement services, both online and outdoor. On top of this, the company has one of the largest publishing houses in the Baltic region – AS Printall.

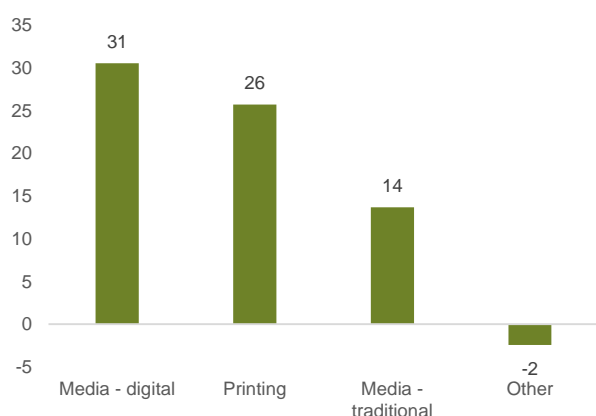
Ekspress Grupp: key milestones



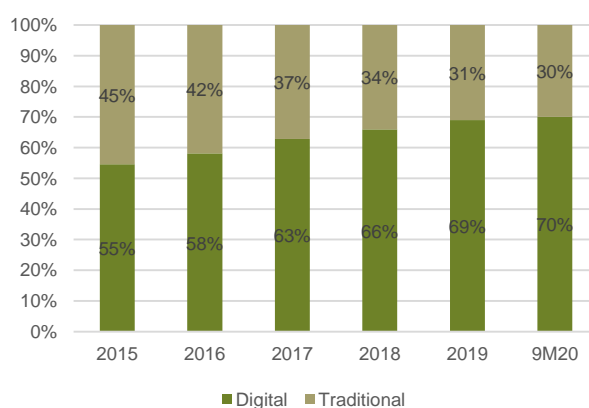
Source: WOOD Research, company data

Ekspress Grupp has two segments – media and printing. The former accounts for over EUR 42m of the company's top line, while the latter adds nearly EUR 26m. It is worth noting that the structure of the media's segment revenues is changing in favour of the online channels, which now account for the majority of the top line (70% of the media's top line and 48% of the company's top line over 9M20).

2019 revenues breakdown by segments



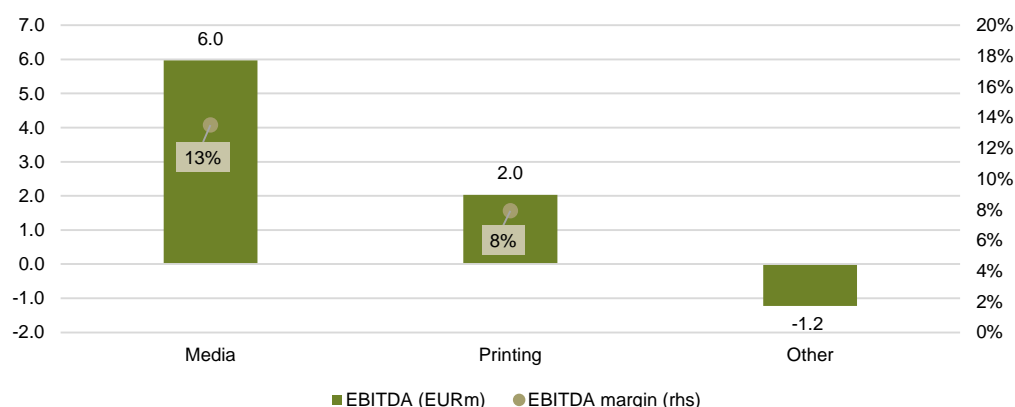
Media segment revenues structure



Source: WOOD Research, company data

The media segment is more profitable than the printing segment. Not only does the media account for the majority of the top line, it also contributes the larger part of the company's EBITDA. In 2019, the segment generated EUR 6m of profit, operating on a 13% margin. The printing segment added EUR 2m of EBITDA (implying an 8% margin).

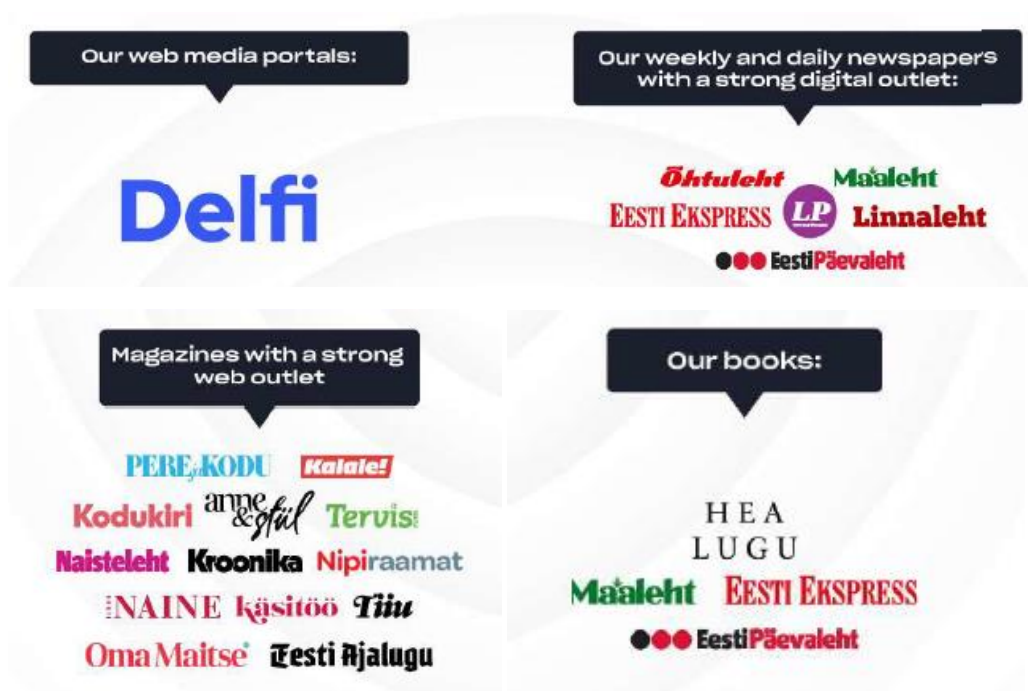
2019 EBITDA: breakdown by segments



Source: WOOD Research, company data

The company's business is well-diversified. Ekspress Grupp operates in various areas of media and publishing. Ohtuleht Kirjastus publishes the largest daily in Estonia, *Ohtuleht*, while its *ohtuleht.ee* portal has 300k+ monthly users. Moreover, the company's Adnet Media is the leading online advertising network in the Baltic region. On top of this, Ekspress Grupp also publishes Eesti Päevaleht, the third-largest daily newspaper in Estonia, as well as the well-known weekly newspapers Eesti Ekspress and Maaleht. In its portfolio, the company also has the leading Estonian magazines: Eesti Naine, Kroonika, and Pere&Kodu.

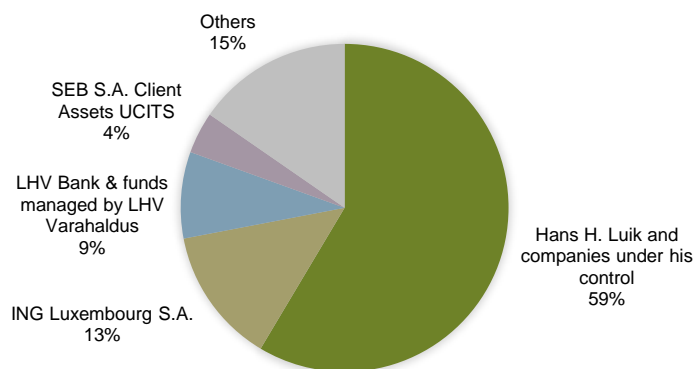
Ekspress Grupp: product portfolio



Source: WOOD Research, company data

The major shareholder of Ekspress Grupp is Hans H. Luik, the founder of the holding. Mr. Luik has been a member of the supervisory board since 2004, and controls c.59% of shares. He also serves as a member of the boards at OÜ HHL Rühm, and OÜ Minigert. The three largest institutional investors (ING, LHV and SEB) own a total of c.26% of the company.

Structure of shareholders as of 30 September 2020



Source: WOOD Research, company data

Financials

Profit and loss statement

EUR m	2018	2019	2020E	2021E	2022E
Revenues	60.5	67.5	65.7	71.6	78.7
Media	37.2	44.2	43.8	49.0	56.4
<i>Online media as % of total media</i>	<i>65.9%</i>	<i>69.1%</i>	<i>71.1%</i>	<i>73.1%</i>	<i>75.1%</i>
Printing	25.2	25.7	24.4	25.1	25.1
Other	-2.0	-2.5	-2.4	-2.6	-2.8
EBITDA	4.3	6.8	6.8	6.7	7.3
Media	3.4	6.0	5.9	6.3	7.1
Printing	2.4	2.0	2.1	1.8	1.6
Other	-1.5	-1.2	-1.2	-1.3	-1.4
EBIT	1.2	2.7	2.7	2.6	3.2
Profit before tax	0.3	1.7	1.6	1.6	2.3
Tax	-0.3	-0.3	-0.3	-0.3	-0.5
Minorities	0.0	0.0	0.0	0.0	0.0
Net profit	0.0	1.4	1.3	1.3	1.8

Source: WOOD Research, company data

Margins

	2018	2019	2020E	2021E	2022E
EBITDA margin	7.0%	10.1%	10.3%	9.4%	9.3%
EBITDA margin – media	9.0%	13.5%	13.5%	12.8%	12.6%
EBITDA margin – printing	9.5%	7.9%	8.5%	7.0%	6.5%
Net margin	0.0%	2.1%	2.0%	1.8%	2.3%
ROA	0.0%	1.6%	1.4%	1.3%	1.8%
ROE	0.0%	2.7%	2.5%	2.4%	3.3%
ROIC	0.2%	3.1%	2.8%	2.7%	3.4%

Source: WOOD Research, company data

Balance sheet

EUR m	2018	2019	2020E	2021E	2022E
PPE	12	15	15	16	16
Intangibles	47	56	56	57	57
Others	4	5	5	5	5
Total non-current assets	63	76	77	77	78
Inventories	3	3	3	3	3
Trade accounts receivables	9	13	11	12	13
Cash and cash equivalents	1	4	5	5	5
Others	0	0	0	0	0
Total current assets	14	19	19	20	21
Total assets	77	95	96	98	99
Total shareholders equity	52	53	54	55	57
Long-term borrowings	14	19	18	17	15
Other LT liabilities	0	3	3	3	3
Total non-current liabilities	14	22	21	20	18
ST Debt	1	5	5	5	5
ST trade payables	11	16	17	19	20
Other ST liabilities	0	0	0	0	0
Total current liabilities	12	22	22	24	26
Total equity and liabilities	77	95	96	98	99
Gross debt	15	24	23	22	20
Net debt	14	21	18	16	15
ND/EBITDA	3.3x	3.0x	2.6x	2.4x	2.1x

Source: WOOD Research

Cash flow statement

EUR m	2018	2019	2020E	2021E	2022E
CF from operations	5	7	8	6	6
D&A	3	4	4	4	4
Changes in WC	2	1	3	0	0
Other	0	2	1	1	2
CF from investments	-3	-9	-5	-5	-5
o/w capex (PPE & int. ass.)	-3	-3	-5	-5	-5
o/w capex (M&A)	0	-7	0	0	0
Other	0	0	0	0	0
CF from fin. activities	-2	5	-2	-1	-3
o/w borrowings	-1	1	-2	-1	-2
o/w dividends	-2	0	0	0	-1
Other	1	4	0	0	0
Net change in cash	0.2	2.4	1.6	0.2	-0.9
Cash at the beginning of the year	1.1	1.3	3.6	5.2	5.4
Cash at the end of the year	1.3	3.6	5.2	5.4	4.6

Source: WOOD Research

Valuation multiples

	2018	2019	2020E	2021E	2022E
P/E (x)	nm	14.3x	15.8x	16.1x	11.4x
EV/EBITDA (x)	8.0x	6.0x	5.7x	5.5x	4.9x
Dividend yield (%)	10.4%	0.0%	0.0%	0.0%	3.1%
FCF yield (%)	-14.2%	-27.8%	-7.8%	6.6%	8.5%

Source: Company data, WOOD Research

Appendix: Ekspress Grupp

Ekspress Grupp: the group's structure

Company name	Status	Ownership interest (as of 30 Sept 2020)	Main field of activity	Country
Operating segment: corporate functions				
Ekspress Grupp AS	Parent company		Holding company and support services	Estonia
Ekspress Finants OÜ	Subsidiary	100%	Financing and book-keeping services (established in March 2020)	Estonia
Operating segment: media (online and print media)				
Ekspress Meedia AS	Subsidiary	100%	Online media, publishing of daily and weekly newspapers	Estonia
Delfi A/S	Subsidiary	100%	Online media	Latvia
D Screens SIA	Subsidiary	100%	Sale of outdoor advertising	Latvia
Delfi Ticket Service SIA	Subsidiary	100%	Holding company	Latvia
Delfi Tickets SIA	Subsidiary	-	Holding company (merged with SIA Biļešu Paradīze in February 2020)	Latvia
Biļešu Paradīze SIA	Subsidiary	100%	Operation of the electronic ticket platform and box offices	Latvia
Altero SIA	Associate	25.48%	Financial comparison and brokerage platform	Latvia
Delfi UAB	Subsidiary	100%	Online media	Lithuania
UAB Login Conferences	Subsidiary	-	Organisation of technology and innovation conference (merged with Delfi UAB in May 2020)	Lithuania
Sport Media UAB	Subsidiary	51%	Currently dormant	Lithuania
Hea Lugu OÜ	Subsidiary	83%	Book publishing	Estonia
Eesti Audioraamatute Keskus OÜ	Associate	33.33%	Production and sale of audio books (established In March 2020)	Estonia
Adnet Media UAB	Subsidiary	100%	Online advertising solutions and network	Lithuania
Adnet Media OÜ	Subsidiary	-	Online advertising solutions and network. Dissolved on 27 February 2020.	Estonia
Adnet Media SIA	Subsidiary	100%	Online advertising solutions and network	Latvia
Videotinklas UAB	Subsidiary	100%	Production studio for content creation	Lithuania
Õhtuleht Kirjastus AS	Joint venture	50%	Newspaper and magazine publishing	Estonia
Express Post AS	Joint venture	50%	Home delivery of periodicals	Estonia
Linna Ekraanid OÜ	Subsidiary	100%	Sale of digital outdoor advertising	Estonia
Centra Ekрани SIA	Subsidiary	100%	Currently dormant	Latvia
Babahh Media OÜ	Associate	49%	Sale of video production, media and infrastructure	Estonia
Kinnisvarakeskkond OÜ	Associate	49%	Development of a real estate portal	Estonia
Operating segment: printing services				
Printall AS	Subsidiary	100%	Printing services	Estonia

Source: WOOD Research, company data

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CONTACTS

Czech Republic

namesti republiky 1079/1a
Palladium
110 00 Praha 1
Czech Republic
Tel +420 222 096 111
Fax +420 222 096 222

Poland

Skylight Zlote Tarasy
Zlota 59
00 120 Warszawa
Poland
Tel +48 22 222 1530
Fax +48 22 222 1531

UK

City Point, 11th Floor
1 Ropemaker Street
London EC2Y 9HT

Tel +44 20 3530 0691

Italy

Via Luigi Settembrini, 35
20124 Milan
Italy

Tel +39 02 36692 500

Kristen Andrasko

Head of Equities
+420 222 096 253
kristen.andrasko@wood.com

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WUCO

www.wood.com

Romania

Metropolis Center
89-97 Grigore Alexandrescu St.
010624 Bucharest 1
Tel.: +40 316 30 11 81

Research

Co-Head of Research/ Head of Research Poland

Marta Jezewska-Wasilewska
+48 22 222 1548
marta.jezewska-wasilewska@wood.com

Head of Turkey Research

Atinc Ozkan
+90 542 202 3632
atinc.ozkan@wood.com

Head of Financials

Can Demir
+44 20 3530 0623
can.demir@wood.com

Consumer/Real Estate

Jakub Caithaml
+420 222 096 481
jakub.caithaml@wood.com

Financials

David Lojkasek
+420 222 096 256
david.lojkasek@wood.com

Co-Head of Research/Head of Greek Research

Alex Boulougouris
+30 211 106 9447
alex.boulougouris@wood.com

Head of Russia Research

Ildar Davletshin
+44 203 530 0631
ildar.davletshin@wood.com

Head of TMT

Piotr Raciborski
+48 22 222 1551
piotr.raciborski@wood.com

Energy/Utilities

Ondrej Slama
+420 222 096 484
ondrej.slama@wood.com

Greece

Fani Tzioukalia
+30 211 106 9449
fani.tzioukalia@wood.com

Head of Consumer/Industrials

Lukasz Wachelko
+48 22 222 1560
lukasz.wachelko@wood.com

Head of Romania Research

Iuliana Ciopraga
+40 316 30 1185
iuliana.ciopraga@wood.com

Energy

Jonathan Lamb
+44 20 3530 0621
jonathan.lamb@wood.com

Poland

Pawel Wieprzowski
+48 22 222 1549
pawel.wieprzowski@wood.com

Russia

Dmitry Vlasov
+44 750 714 6702
dmitry.vlasov@wood.com

Macroeconomics

Raffaella Tenconi
+44 20 3530 0685
raffaella.tenconi@wood.com

Macroeconomics

Alessio Chiesa
+44 75177 06102
alessio.chiesa@wood.com

Utilities/Mining/Pharma

Bram Buring
+420 222 096 250
bram.buring@wood.com

Consumer

Jakub Mician
+420 222 096 320
jakub.mician@wood.com

Gaming/Mid-caps

Maria Mickiewicz
+48 602 450 718
maria.mickiewicz@wood.com

Sales

Head of Sales

Kristen Andrasko
+420 222 096 253
kristen.andrasko@wood.cz

Grzegorz Skowronski
+48 22 222 1559
grzegorz.skowronski@wood.com

Jan Koch
+48 22 222 1616
jan.koch@wood.com

Jarek Tomczynski
+44 203 530 0688
jarek.tomczynski@wood.com

Piotr Kopec
+48 22 222 1615
piotr.kopec@wood.com

Kostas Tsigkourakos
+30 694 082 5810
kostas.tsigkourakos@wood.com

Ioana Pop
+44 20 3530 0693
ioana.pop@wood.com

Tatiana Sarandinaki
Brasil Plural in association with WOOD&Co.
1 212 388 5613
tsarandinaki@wood-brasilplural.com

Sales Trading and Execution Services

Zuzana Mora
+420 222 096 283
zuzana.mora@wood.com

Ermir Shkurti
+420 222 096 847
ermir.shkurti@wood.com

Vladimir Vavra
+420 222 096 397
vladimir.vavra@wood.com

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