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Presentation

Operator

Hello and welcome to the Nokian Tyres Conference Call. Throughout the call all participants will be in a listen-only mode and afterwards there will be a question and answer session. And just to remind you, this conference call is being recorded. Please begin your meeting.

Päivi Antola

Thank you. Good afternoon from Helsinki. My name is Päivi Antola; I am the Head of Investor Relations in Nokian Tyres. Welcome to this end of quarter conference call, where I have with me Hille Korhonen, the President and CEO of Nokian Tyres and Teemu Kangas-Kärki, the CFO. As usual we will start with a couple of words from Hille and also from Teemu this time and then we will go to the questions from you. So, Hille please go ahead.

Hille Korhonen

Thank you. Good afternoon everybody and thank you for joining us today. Before going to Q&A I would like to disclose some information, the latest information regarding our three strategic projects that we are running at the moment. All of them are on schedule and all of them are on cost targets so we are very happy and excited about the proceedings of these three projects.

I was yesterday visiting the heavy tyres factory area in Nokia where we are running the expansion project, and everything looks fine there. The building expansion has been completed and we have been already getting in some new machinery, which is really needed since we see positive development in the markets as stated earlier and we are capacity limited today so we can truly ship and sell all the products that we are producing.

The other main project for us is Datan[?]. I was there two weeks ago visiting the site. We have been starting the recruitment of the core team, roughly 40 – 50 people in the first phase a couple of weeks ago and that is proceeding as planned. The buildings start to be ready and the first machinery has been brought in and some of them have already been installed. So, we are on track and proceeding as planned to be able to ramp up the production during this year and to start the commercial production beginning of 2020.

The third important project for us is the testing track in Spain. We have finally the whole 300 hectares area in our own possession and the earth moving work has been started in the area and no surprises so far in the project. So that is also proceeding as planned and the target date for completion of that project will be end of 2020, when we will have all the roughly ten test tracks in use. So some of the tracks will be already available this year to start testing, but the majority will be completed during next year.

So as a summary these all projects are important for us to implement our strategic ambition and the growth plan and support our growth in both North America, Central Europe and to be able to strengthen our position further in the Nordics and in Russia.

Päivi Antola

Good, thank you Hille. And Teemu before we go to the questions maybe an update on the tax dispute?

Teemu Kangas-Kärki

Yes, so last Friday we got good news from the Supreme at the Ministry of the Court and it has rejected an application for leave to appeal from the Tax Recipients Legal Service Unit in the matter of tax dispute between 2007 and 2010. It is an important milestone for us meaning that the administrative court ruling from last May 2018 is now final and the amount that we are now talking is Euro 82 million and we will adjust our financial reporting in the first quarter. It means that we will book this Euro 82 million below EBIT line to improve our net result in the first quarter with this amount.

Then there is still pending the year 2011. My read of the situation is that now when we have this ruling for the year 2007 and 2010, it means that the likelihood that we get a positive ruling for 2011 should be more positive than earlier but we do not know that yet and we will come back to that when we get information from the tax.

Päivi Antola

Good. And we already got a couple of questions in advance; I could take those before we go to the questions from the audience. The first one is about the profitability impact of the US plant. So the question goes, could you give us some metrics about production costs and profitability, EBIT in absolute and percentage of the US plant in 2020 and 2022, particularly compared with the Russian plant?

Teemu Kangas-Kärki

To the US plant; so I go back to our Capital Markets Day presentation from last year. There we indicated that the North American ramp up impacts our EBIT margin in the first year, 2019, between 100 – 200 basis points and in the year 2020 between 200 – 300 basis points on the EBIT margin. And then in year 2021 it has a negative impact between 100 – 200 basis points on the passenger car tyre EBIT margin. And in euros, as you remember, our net sales is Euro 1.1 billion so you can calculate that from the top line as a percentage.

Päivi Antola

Good. And the other question is about the AGM and the authorisations. The company usually asks the AGM for authorisation for a buy back of shares and it has been done for the next AGM as well for five million shares. In the past the company never conducted the buy back authorised. Is there an intention to execute the buy back on the market?

Teemu Kangas-Kärki

As you know, here in Finland it is quite common practice that the company has asked authorisation to repurchase the company's own shares. In our case as you stated in the question we haven't utilised that in earlier years and at the moment there is no concrete plan other than asking the authorisation from the AGM.

Päivi Antola

Okay, good. And now operator we would be ready for questions from the audience please.

Q&A

Operator

Thank you, ladies and gentlemen if you do wish to ask a question then please press 01 on your telephone keypad. If you wish to withdraw your question you may do so by pressing 02 to cancel. And there will be a brief pause while questions are being registered. And our first question comes from the like of Akshet Kakkar from JP Morgan. Please go ahead your line is now open. Akshet? And it seems like he is not available at the moment. So we go to the next question, which is from Sascha Dommel from Credit Suisse. Please go ahead your line is now open.

Sascha Dommel

Yes, good afternoon and thank you for taking my questions. I have two; the first one is on the tax dispute. The impact will only be on your P&L as far as I am aware right? So you only have then a change of receivables into cash on the balance sheet. Is that the correct understanding or is there any other impact in the cash flow balance sheet that we should be aware of? That would be the first question.

Teemu Kangas-Kärki

There is no impact on the cash flow so only in the profit and loss statement, and clearly equity.

Sascha Dommel

Okay understood. And then the second question, given your three strategic projects, can you talk a little bit about the CAPEX involvement by quarter over 2019, just to get a better understanding of how you foresee cash outs happening over the course of the year?

Teemu Kangas-Kärki

So we have given guidance on an annual level and I want to stick on that as we have not commented that on a quarterly level. So we have been saying that this year will be at a peak in our CAPEX programme roughly on a level of Euro 300 million.

Sascha Dommel

Okay, all right. Thank you very much.

Operator

Thank you. And our next question comes from the line of Akshet Kakkar from JP Morgan. Please go ahead your line is now open.

Akshet Kakkar

Thank you. Akshet from JP Morgan. I just wanted to touch upon the point you mentioned at the end of 2018 of pulling out some volumes from Europe given the high price per share you saw in the market. Can you give us an update on the European market as it stands right now? And the second question is how do your volumes look into the first quarter given we have seen slightly weaker OE volumes in your key markets, both in Russia as well as the Nordics?

Hille Korhonen

When looking at the 2019 overall we do not have very good visibility to what is happening in Central Europe; so it is quite limited due to the fact that the new car sales has some impact on the replacement market as well as it is impacting also the OE sales. So what we have stated in the fourth quarter 2018 call is still valid. So the market situation is not expected to improve in the short term but difficult to make any statements regarding the quarter because of the poor visibility.

Akshet Kakkar

Okay, thank you.

Operator

Thank you. And just as a reminder, if you do wish to ask a question, please press 01 on your telephone keypad. Our next question comes from the line of Ashokh Karim from Jefferies. Please go ahead your line is now open.

Ashokh Karim

My question is two; the first one is do you have any comment on where your inventory levels are? Because I think at the end of 2018 you mentioned that you might have produced a bit more tyres in 2018 than what you sold. So given the weak start to the year in Europe, maybe if you can comment on where your inventory levels are and where your production is running relative to sales? That is the first question.

And then secondly, I am just curious to know as to how much flexibility do you have in terms of allocating products to various regions? Because if you look at the start of this year North America has continued to be strong, or has continued the strength shown in 2018 and Europe continues to be weak. So would you say at the start of '19 now then decide to allocate more volumes towards the US? Is that how, can the business be run that way given your relatively smaller size?

Hille Korhonen

As a company we are running the capacity, and looking at the capacity as a whole. So it means that we are making the allocation decisions on a monthly basis. However, when you look at the North American market, for example, it takes quite a long time to ship the tyres to the North American market so we actually start to deliver during the springtime already the winter tyres. So the lead-time to make changes between for example Europe and North America is quite long.

And when looking at the capacity utilisation, what we have communicated last year is that due to the limited visibility to demand in Central Europe we are ramping up the capacity in Nokia or increasing the capacity in Nokia in a more controlled way. Meaning that we are then able to go down with the production days during the year as needed.

And it is also good to remember that as we are producing 70% of our total passenger car tyre production, we are producing winter tyres and the winter tyre season is quite a short time, so it means that we are all the time as well balancing between the winter and summer tyres in our production depending on the market. So we are doing the balancing activities all the time.

Ashokh Karim

So if I understand what you just said, even though North America is strong it might take some time for you to actually translate that into your volumes on a nearer time basis that you are likely to be more impacted by the weakness that we see in Europe?

Hille Korhonen

Well we are taking these positions on a monthly basis depending on the market need.

Päivi Antola

And then when it comes to the inventory levels as we are now so towards the end of the quarter, maybe this is not the time when we want to give an update on that, just to repeat what we said in the Q4, what we said about the inventory levels in the trade.

Hille Korhonen

In the trade, yes, I was thinking the question was about our inventory levels, but of course we are tracking what is happening in the channel as well and clearly the summer tyre inventories are on a higher level both in Central Europe and in Russia due to weaker sales from last summer season. And especially the Russian summer tyre inventory levels will not go down before the next season because most of the market is now still having winter tyres at the moment.

Operator

Thank you. Our next question comes from the line of Mathias Holmberg from DNB. Please go ahead your line is now open.

Mathias Holmberg

Thank you. I was just wondering if you could please given an update maybe on how the pricing development has been lately. In particular what you've seen sort of if we group the markets by where you are leading; so the Nordics and Russia versus the markets where you are more price followers as I would call it, say Central Europe and North America? Thank you.

Hille Korhonen

Thank you. So the pricing situation in the Nordics and Russia has been I would say quite normal and stable compared to previous years. In Russia we have been taking up some prices and making some adjustments between the different product categories but nothing radical I would say.

Operator

Thank you. Our next question comes from the line of Tomas Bison from Kepler Cheuvreux. Please go ahead your line is now open.

Tomas Bison

Thank you very much. Just two quick questions for me please? Can you give us an update on your shareholding structure and notably on the stake held by your Japanese competitor if you have an update on that topic? And second, I would like you to come back to the answer on the buy back. I am not sure I understood, so I understand that it is a principle to have the possibility to buy back but can you just repeat the management view on the possibility to eventually buy back shares at one point, or is there a price point at which you would be buying back shares eventually?

Hille Korhonen

Okay so I take the first question. The ownership of Bridgestone in Nokia Empires is currently between 5 – 10% level.

Teemu Kangas-Kärki

And with regards to the authorisation on the repurchase of company owned shares; just repeating what I said. It is a common practice in Finland and I do not want to start commenting anything beyond that because it is up to the Board to decide and we inform if the Board decides something.

Tomas Bison

Thank you

Operator

Thank you. And as another reminder, if you do wish to ask a question, please press 01 on your telephone keypad. Our next question comes from the line of Bernt Ehrnrooth from Barry Stains Linoleum. Please go ahead, your line is now open.

Bernt Ehrnrooth

Thank you very much. There are recent reports that car sales in Russia are on an annual basis down by 10 – 12 or up to 15% depending on which report you read. Doesn't it have a big impact on your sales or your margins in a negative way somehow? Thank you.

Hille Korhonen

Yeah, maybe first to comment on the new car sales; there were some VAT sales beginning of the year and it looks like quite a few people have been incentivised to buy the cars end of 2018 and when we look at the new car sales impact on replacement tyre market it is representing one third of the market. So two thirds of the replacement market is driven by replacement cycle, which is usually three to four years; meaning that it is impacted by the amount of cars sold, for example, in 2015 and 2016.

Operator

Thank you. And as there are no further questions I will hand back to the speaker for any closing comments.

Hille Korhonen

Thank you. If there are no additional questions, then we will finish the call here and I wish you all a good day. Thank you.

Operator

This now concludes our conference call. Thank you all for attending and you may now disconnect your lines.