Initiating coverage with ACCUMULATE

We initiate coverage on Consti with an ACCUMULATE recommendation and a target price of EUR 15.5. We see Consti as a good cash generator with a stable profitability profile. The company has good opportunities to grow both organically and through bolt-on acquisitions in the fragmented Finnish market.

A leading and profitable renovation company

Consti is the market leader in the less cyclical Finnish renovation market, where EBIT-margins are stable but typically lower compared to the new building sector. Consti has been on average more profitable than its Nordic construction peers as well as small Finnish renovation competitors. Consti's higher margins are based on good project execution, strong M&A track record and favorable geographical sales mix. We expect Consti to improve its EBIT-margin in '17 to 4.4% but to remain below the company's long-term financial target (5% adjusted).

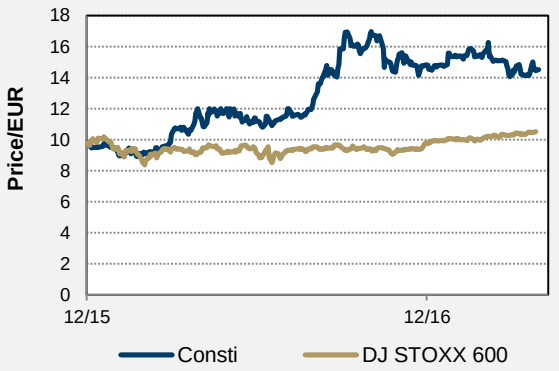
Limited upside potential in margins

Consti operates in a competitive renovation market with a fixed-priced project contract model, which limits upside potential in margins in the long-term. The business model is not very scalable due to high share of project business and low operating leverage. In order to further improve profitability, the company has to continue a good M&A track record, focus even more on service and grow especially within Building Facades segment, which in our view is the most profitable business in the company.

Initiating coverage with ACCUMULATE, target price EUR 15.5

Consti trades with a discount both against its Nordic construction and Building installations and service peer groups. We value Consti at EV/EBIT '17E 10.0x, while the median multiple in the Nordic construction sector is at 11.7x and in the Building installations and service sector at 13.8x. Due to stable margins, opportunities to grow, and ability to generate good cash flow, we see that the valuation should be closer to its peers. Current valuation is fairly attractive.

Rating ACCUMULATE



Share price, EUR (Last trading day's closing price)	14.50
Target price, EUR	15.5
Latest change	11-Apr-17
Latest report on company	11-Apr-17
No. of shares, '000's	7,621
No. of shares fully diluted	7,621
Market cap, EURm	111
Free float, %	78.0
Exchange rate EUR	1.000
Reuters code	CONSTI.HE
Bloomberg code	CONSTI FH
Average daily vol., EURm	0.176
Next interim report	04-May-17
Web site	www.consti.fi

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KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	Ptx profit EURm	EPS EUR	P/E (x)	EV/Sales (x)	P/CF (x)	EV/EBIT (x)	DPS EUR
2015	256	11	4.1%	6	0.70	13.6	0.4	5.7	8.6	0.39
2016	262	11	4.2%	10	1.05	14.1	0.5	9.7	11.4	0.54
2017E	286	13	4.4%	12	1.23	11.8	0.4	8.6	9.4	0.68
2018E	306	14	4.5%	13	1.36	10.6	0.4	7.8	8.3	0.75
2019E	321	15	4.7%	15	1.55	9.4	0.3	7.2	7.1	0.85

Market cap, EURm	111	BV per share 2017E, EUR	4.6	CAGR EPS 2016-19, %	13.9
Net debt 2017E, EURm	8	Price/book 2017E	3.2	CAGR sales 2016-19, %	7.0
Enterprise value, EURm	119	Dividend yield 2017E, %	4.7	ROE 2017E, %	29.0
Total assets 2017E, EURm	106	Tax rate 2017E, %	20.0	ROCE 2017E, %	24.3
Goodwill 2017E, EURm	44	Equity ratio 2017E, %	37.7	PEG, P/E 17/CAGR	1.2

All the important disclosures can be found on the last pages of this report.

Investment summary

Good earnings growth potential

We initiate coverage of Consti with an ACCUMULATE recommendation as we see Consti as a good cash generator with a stable profitability and the company has opportunities to grow both organically and through acquisitions in the fragmented Finnish renovation market. We estimate 13.9% (CAGR) EPS growth for 2016-2019E, which together with the fairly attractive valuation is a good combination in the investment case.

Focused on less cyclical renovation

Consti is a market leader in the Finnish renovation market and it has the widest offering in renovation construction, supporting its competitiveness against large Nordic players and especially the smaller niche players. Consti has historically grown relatively aggressively but in recent years the company has focused more on integrating acquired companies to Consti.

Steadily growing market: +2% in '17E

Renovation is an industry with low barriers to entry, which typically keeps competition rather tough and margins low. However, the renovation sector is less cyclical compared to the new building sector, which lowers the risk profile in Consti. According to the Finnish Construction Federation, renovation is expected to grow by 2.0% in 2017E and by 1.5% in 2018E, respectively.

Ambitious financial targets

Consti is targeting 10% annual sales growth and adjusted EBIT-margin exceeding 5%, which are in our view somewhat challenging targets. Growth target requires bolt-on acquisitions and above the average market growth. Consti is targeting to improve its profitability through improved project management, optimized sales mix and operative leverage.

Project management key to success

Project management is a key for good profitability in the renovation sector, where typical sources of competitive edge like brand and distribution are less significant. Project-business generates 85% of the company's total net sales. In our view, Consti is one of the most competitive players in the Finnish renovation sector. It has been able to produce higher margins than its competitors in Finland and the EBIT-margin (reported) has improved from 2.2% in 2012 to 4.2% in 2016. We estimate Consti to deliver an EBIT-margin (reported) of 4.4% in 2017E driven by sales growth, good project management and cost control. In the long-term, margins are expected to develop steadily as the company focuses on less risky fixed-price renovation projects.

Business model supports cash flow generation

Consti's business model supports the cash generation profile. In the renovation project business, CAPEX requirements are limited as companies mainly use light machinery (hand tools, etc.) in their operations. The company has also operated with negative operating capital during past two years. In large projects, contract prepayments support the cash flow generation. Consti's cash conversion (FCF/EBITDA) is over 80% which is higher than its peers in the Nordic construction and Building installations and service sector.

Main risks in the investment case

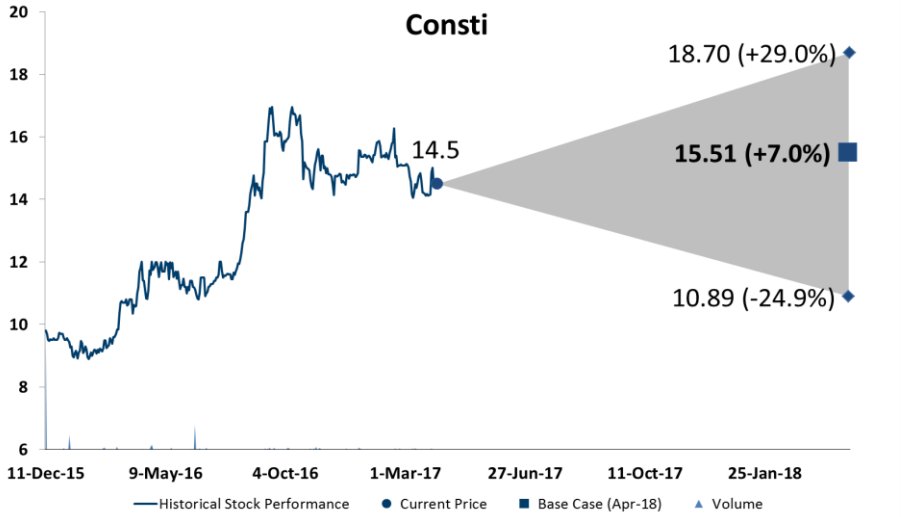
We see as the main risks failures in project management, unsuccessful acquisitions, and increasing competition in the renovation sector. Consti's growth story in the long-term has relied on acquisitions, which is a higher risk strategy in comparison to organic growth. Large construction companies may also enlarge their position in the renovation sector when market conditions in the new building construction weaken. We also see that large Nordic building installations and service companies (Caverion and Bravida) may expand their renovation business through acquisitions in Finland.

Coverage initiated

Target price EUR 15.5

Our base case ACCUMULATE is based on estimated good sales and earnings growth in 2017E-2018E. We see the valuation as a fairly attractive as the company has been able to produce steadily improving margins and generate good cash flow. We value Consti at EV/EBIT 10.0x with a target price of 15.5.

Evli scenario analysis – Consti



Base case EUR 15.5

Base case
Growth case in our view

In our base case, sales growth is estimated to be 7.0% (CAGR) 2016-2019E. In 2017, we anticipate that Consti's growth will be faster than market growth (~2%) through already completed acquisitions, signed large projects and a favorable geographical mix. In 2017, sales are expected to grow by 9.4% (excluding acquisitions 5.4%). In the long-term, Consti's growth is driven by bolt-on acquisitions, steadily growing renovation market and focus on Helsinki & Uusimaa region.

Stable margins support the valuation

We expect EBIT-margin to steadily improve as a result of sales growth, good project management and cost control. Consti has a geographic concentration in the Helsinki region, where margins in our view are above average. Consti has increased its service business, which is expected to support margins in the long-term. By company segment, we expect the margins in Technical Building Services to remain below the company average due to intense competition in the market as well as competition in the markets for skilled employees (mainly supervisors and white-collar employees). In Building Facades, the company faces less competition, especially from the construction sector, and we expect the segment to produce margins above the company average. In Renovation Contracting, we expect margins to remain fairly stable. We expect EBIT-margin to steadily improve from 4.2% in 2016 to 4.7% in 2019E. In 2017E, we expect Consti to deliver 4.4% EBIT-margin. EPS growth is expected to be 13.9% (CAGR) in 2016-2019E. This base scenario indicates a value of up to EUR 15.5.

DCF valuation, EURm	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	Horizon
Net sales	262	286	306	321	332	339	345	352	359	367	374	381
Sales growth, %	*2.1*	*9.4*	*7.1*	*4.8*	*3.5*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*
Operating income (EBIT)	11	13	14	15	16	15	16	16	16	16	13	14
EBIT margin, %	*4.2*	*4.4*	*4.5*	*4.7*	*4.7*	*4.5*	*4.5*	*4.5*	*4.5*	*4.5*	*3.5*	*3.5*
+ Depreciation+amort.	2	2	3	3	3	3	3	3	3	3	3	
- Income taxes	-2	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	
- Change in NWC	0	1	1	0	0	0	0	0	0	0	0	
NWC / Sales, %	*-2.6*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-3	-4	-3	-3	-3	-3	-3	-3	-3	-4	-4	-4
Investments / Sales, %	*1.0*	*1.4*	*1.0*	*1.1*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	9	9	11	12	13	12	12	13	13	13	11	165
= Discounted FCF (DFCF)		8	10	10	9	8	8	7	7	6	5	74
= DFCF min WACC		8	10	10	9	8	8	8	7	7	5	84
= DFCF max WACC		8	10	9	9	8	8	7	7	6	5	66

Bull case: Stronger growth and a margin improvement

Bull case EUR 18.7

In our bull case, we expect sales growth to be approximately 8.9% (CAGR) 2016-2019E. Consti needs to grow clearly faster than the market, execute projects well and continue acquisitions to consolidate the market. The EBIT-margin is expected to improve above the company long-term financial target, from 4.2% in 2016 to 5.2% in 2019E. To reach this level, the company needs to integrate acquired companies successfully, grow rapidly in service and strengthen market positions in specialized renovation segments, where margins are typical higher. This scenario indicates a value of up to EUR 18.7.

Bear case: Fierce competition and project management challenges

Bear case EUR 10.9

In our bear case, sales growth decelerates to around 4.1% (CAGR) 2016-2019E. Consti faces difficulties in its projects due to failures in project management and increasing price competition in the renovation sector, dampening the margins. Consti's recent acquisitions turn out be weaker than expected in terms of profitability and the company slows down M&A activity. As a consequence, the EBIT-margin deteriorates below the 4% level. This scenario indicates a value of some EUR 10.9 per share.

			2016A	2017E	2018E	2019E
Bull	**Accelerated sales growth driven by acquisitions and large projects, EBIT-margin in the range of 4.5-5.2% supported by margin improvement in main segments. EV/EBIT '17 multiple 11.5**	Sales	261.6	291.0	316.3	337.4
18.7 (+29.0%)		Sales growth	2.1%	11.3%	8.7%	6.7%
		EBIT	11.0	13.1	15.3	17.5
		EBIT-margin	4.2%	4.5%	4.8%	5.2%
		EPS	1.05	1.28	1.54	1.80
Base	**Sales growth some 7% supported by bolt-on acquisitions and organic growth, EBIT-margin in the range of 4-4.7% with stable improvement in project management. EV/EBIT '17 multiple equaling to 10.0**	Sales	261.6	286.0	306.2	320.7
15.51 (+7.0%)		Sales growth	2.1%	9.4%	7.1%	4.8%
		EBIT	11.0	12.6	13.7	15.2
		EBIT-margin	4.2%	4.4%	4.5%	4.7%
		EPS	1.05	1.23	1.36	1.55
Bear	**Sales growth decelerates closer to market growth, project margins in pressure pushing EBIT-margin to below 4%. EV/EBIT '17 multiple equaling to 8.0**	Sales	261.6	279.5	290.4	295.2
10.89 (-24.9%)		Sales growth	2.1%	6.9%	3.9%	1.6%
		EBIT	11.0	11.4	10.8	10.8
		EBIT-margin	4.2%	4.0%	3.9%	3.7%
		EPS	1.05	1.07	1.12	1.07

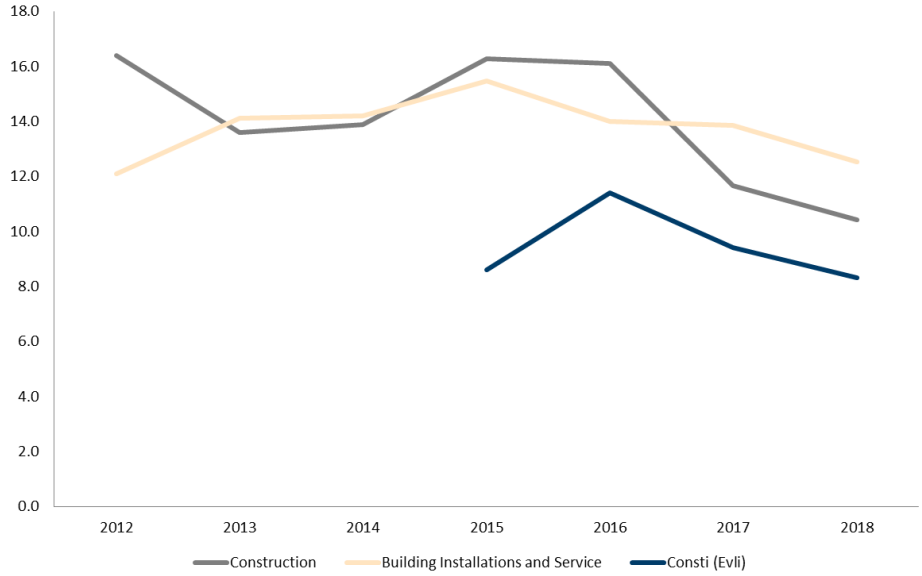
Valuation against Nordic construction and Building installations and service sector

Trading at a discount to the Nordic construction and Building installations and service sector

We have compared Consti's valuation against both Nordic construction sector and Building installations and service sector. Consti's main listed competitors operate in both of these sectors. Consti's valuation compared to the peer group is fairly attractive, currently trading at a discount on EV/EBIT multiples both to Nordic construction companies and Building installations and service companies. The median EV/EBIT 2017E multiple in the Nordic construction sector is at 11.7x and in the Building installations and service sector at 13.8x, while Consti trades at 9.4x. Compared to the peer group, Consti is clearly a smaller player, but operates within the less cyclical renovation sector, where margins are typically also lower compared to for instance new building construction. In the Building installations and service sector, companies have often higher valuations due to higher share of service in their sales mix. However, 2017E multiples are higher also due to low profitability of some of the companies. Consti's margins have been higher compared to Nordic construction sector but below the Building installations and service sector. Consti's profitability has been relatively stable and it has generated good cash flow, which support the valuation. We see that Consti's valuation should be closer to its peers. We value Consti at 10.0x EV/EBIT 2017E equaling to 15.5 a share.

		Enterprise Value/EBITDA (x)		Enterprise Value/EBIT (x)		Price/Earnings (x)		Dividend Yield (%)	
	Company	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**
C	**YIT**	12.1	9.6	13.2	10.4	13.6	10.1	4.0	4.6
C	**Lemminkäinen**	6.0	5.7	9.6	8.4	13.3	10.7	3.9	4.5
C	**SRV**	11.4	9.8	12.3	10.5	11.0	9.0	3.4	4.2
C	**Lehto**	11.7	10.0	12.3	10.4	16.8	14.5	2.4	2.8
C	**Skanska**	9.2	9.5	11.7	11.6	16.0	16.4	4.2	4.3
C	**NCC**	8.5	8.0	11.4	10.7	15.6	14.7	4.0	3.8
C	**PEAB**	9.0	8.5	12.4	11.6	15.3	14.7	4.2	4.4
C	**JM AB**	10.0	9.3	10.0	9.4	12.8	12.4	3.5	3.7
C	**Veidekke**	7.4	6.5	9.5	8.3	12.0	10.8	4.8	5.4
B	**Caverion**	14.3	9.4	21.7	12.5	26.9	16.0	2.4	3.5
B	**Bravida**	12.8	11.6	13.1	11.9	15.6	14.5	2.6	3.0
B	**Mitie Group**	8.5	8.1	10.9	10.3	12.8	12.0	3.6	3.8
B	**ISS**	11.4	10.7	13.8	13.0	16.8	15.7	2.9	3.1
B	**Bilfinger Berger**	17.7	7.4	41.8	13.5	59.0	24.1	1.9	2.5
	Source: Factset								
C	**Construction**								
	average	9.5	8.6	11.4	10.2	14.0	12.6	3.8	4.2
	median	9.2	9.3	11.7	10.4	13.6	12.4	4.0	4.3
B	**Building Installations and Service**								
	average	12.9	9.5	20.3	12.2	26.2	16.5	2.7	3.2
	median	12.8	9.4	13.8	12.5	16.8	15.7	2.6	3.1
	Consti (Evli)	8.0	7.0	9.4	8.3	11.8	10.6	4.7	5.2

EV/EBIT against the peer group

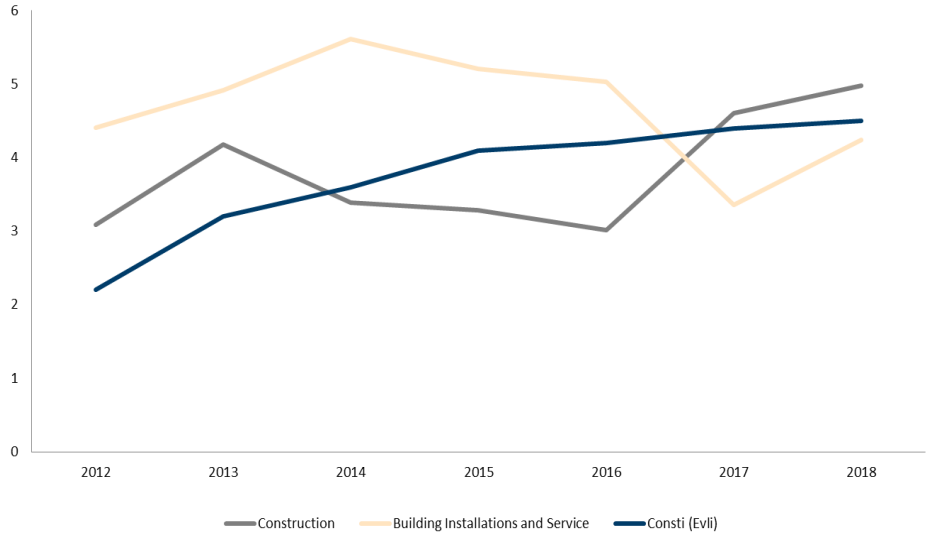


Source: Reuters

Why is Consti trading at a discount?

Consti has lower valuation multiples when comparing to the Nordic construction and Building installations and service sector. We see some key reasons for lower valuation. Consti's only geographical exposure is Finland, which slightly increases the risk profile. Renovation as an industry has low barriers to entry, which keeps competition fierce and margins relatively low. Also the upside potential in margins in the sector is clearly lower compared to for instance developer based residential construction (e.g. YIT and JM). Consti is also built mainly through acquisitions, which is a higher-risk strategy compared to organic growth. Organic growth has also slowed down considerably in 2016 although we expect growth to accelerate again in 2017E. Consti's relatively low share of service in sales against especially Building installations and service companies also has an impact on multiples.

Consti's EBIT-margin against the peer group



Source: Reuters and Evli

Stable margins compared to peer group

Consti's EBIT-margin has been above Nordic construction sector but below the Building installations and service sector during last three years. Consti's good project

management and cost control have supported the profitability against the peers. In 2017E, Nordic construction sector profitability is expected to improve as result of strong market conditions especially in new building sector. Profitability in the Building installations and service sector is expected to remain under pressure. According to our EBIT-margin estimates 2017E-2018E, Consti is estimated to generate lower margins compared to Nordic construction companies but higher than Building installations and service players. We see Consti's valuation as fairly attractive as a result of stable profitability and relatively low multiples.

Dividend yield above peer group

Stable profitability, good cash conversion and a low net debt to EBITDA ratio support dividend expectations in coming years. With our dividend estimate of EUR 0.68 (yield 4.7% for '17E), the company would offer a higher dividend compared to its peer group (~4% Nordic construction and ~2.5% Building installations and service). Furthermore, the company has possibilities to increase its pay-out ratio especially if it decides to slow down the M&A activity. We expect Consti to invest (mainly M&A) approximately half of the earnings and distribute the other half to shareholders.

Consti in brief

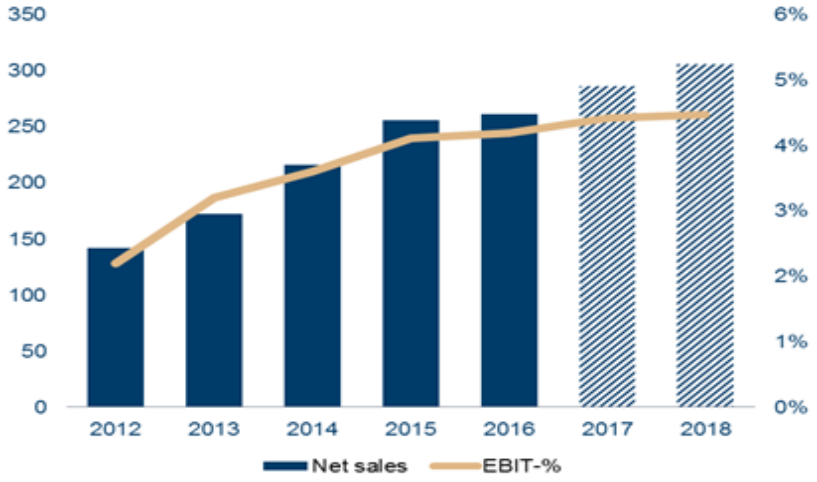
Focusing on renovation with wide offering

Consti, listed in the Helsinki stock exchange in 2015, is one of the leading renovation and technical service companies in Finland. Consti has a comprehensive service offering covering residential pipeline renovation, renovation contracting, building facade repair and maintenance, and other renovation and technical services for demanding residential and non-residential properties. Consti's strongest position, in our view, is in the residential building pipeline and façade renovations especially in the Helsinki and Uusimaa region. Consti was established in 2008 to meet the growing need for repair and construction work.

Organic growth driven by favorable demand in renovation

Consti has been aggressively growing through acquisitions, in years 2008-2016 nineteen acquisitions were carried out, increasing sales to EUR 261m in 2016. In 2016, net sales grew by 2.1%, while according to our estimate sales growth excluding acquisitions was approximately 1%. Organic growth between 2012-2016 has been quite strong, some 13% CAGR, according to our calculations. In 2017, the company has completed two acquisitions. We expect the current completed acquisitions in late 2016 and early 2017 to add 4% sales growth to 2017E.

Net sales and EBIT-margin

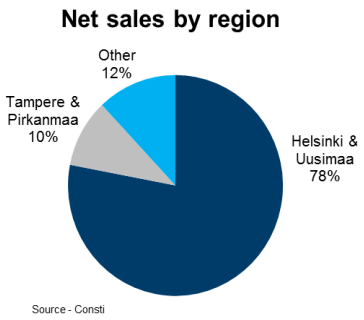


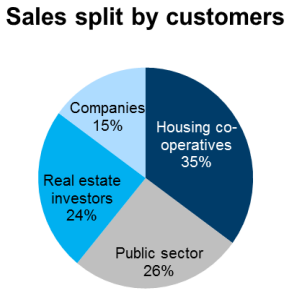
Source: Consti and Evli

Despite being active in acquisitions, Consti has also been able to grow by taking market share in the renovation market. The organic growth has come mainly from Building Facades and Renovation contracting segments, where Consti has successfully strengthened its position.

Generating some 80% of sales from Helsinki & Uusimaa region

Geographically Consti has focused operations on the Helsinki & Uusimaa region, where 78% of the company's sales in 2016 where generated. The second largest market region is Tampere & Pirkanmaa, which represents 10% of sales. According to Consti, the renovation market activity is currently strongly centralized in the Helsinki & Uusimaa region and Tampere & Pirkanmaa region due to large building stocks and migration development. Other main operating cities for Consti are Turku, Lahti and Oulu. According to Consti's management, the company is aiming to expand its geographical presence (mainly Finnish growth centers) and also improve market share in more specialized market segments (e.g automation & building monitoring).

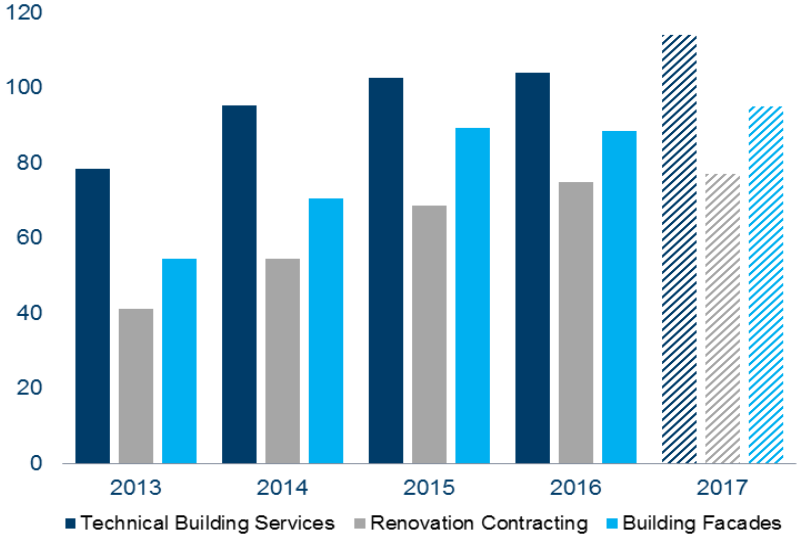




Housing co-operatives largest customer sector

Sales by customer type are relatively well split, with housing co-operatives remaining the largest. Consti's customer portfolio is well diversified, with no single customer exceeding 10% of net sales. In our view, customer portfolio is less cyclical compared to new building sector.

Net sales by division and estimates



Source: Consti and Evli

Technical Building Services largest segment

The company has three different segments: Technical Building Services, Renovation Contracting and Building Facades. Technical Building Services and Building Facades focus

mainly on residential renovation, while Renovation Contracting operates in the non-residential renovation market. Service business is reported within segments. Project business generates 85% of the net sales and service 15% of the sales. According to Consti's management, the service business is more profitable than project business.

Technical Building Services	Building Facades	Renovation Contracting
39% of sales	33% of sales	28% of sales
- Pipeline renovations of residential buildings - Technical installations to non-residential properties and public buildings - Service & maintenance	- Renovation of building outer layers (facades, roofs, windows, balconies) - Residential and non-residential offering - Service & maintenance	- Renovation contracting of non-residential properties and public buildings - Comprehensive remodelling and overhaul projects - Service & maintenance

Growth from Building Facades and Renovation Contracting

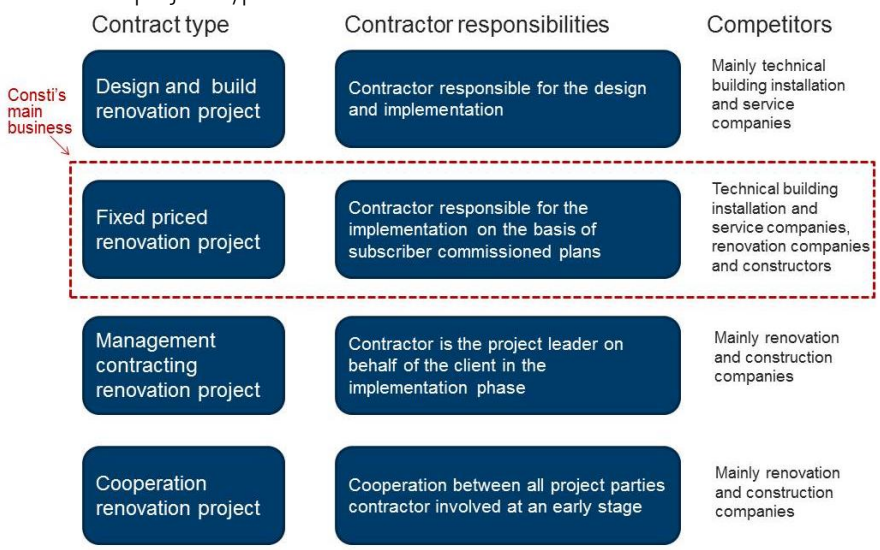
In recent years, the Building Facades and Renovation Contracting segments have grown the fastest. In our view, Building Facades has faced less competition especially from large Nordic construction and Building installations and service companies, which has supported the margins. In Renovation Contracting, the company has grown strongly, mainly driven by good demand in the Helsinki and Uusimaa region and in the Turku region.

Business model in focus

Project-driven business model

Project management is a key for good profitability in the renovation sector, where typical sources of competitive edge like brand and distribution are less significant. Project management, execution and skilled employees are the main competitive edges for Consti. Consti is a project-driven company as 85% of the sales are generated from renovation projects. The total number of projects in the portfolio amounted to 806 at the end of 2016. The median project size was 183k. Consti uses subcontracting and agency employees but projects are mainly executed through Consti's own personnel.

Renovation project types



Source: Prospectus 2015 and Evli

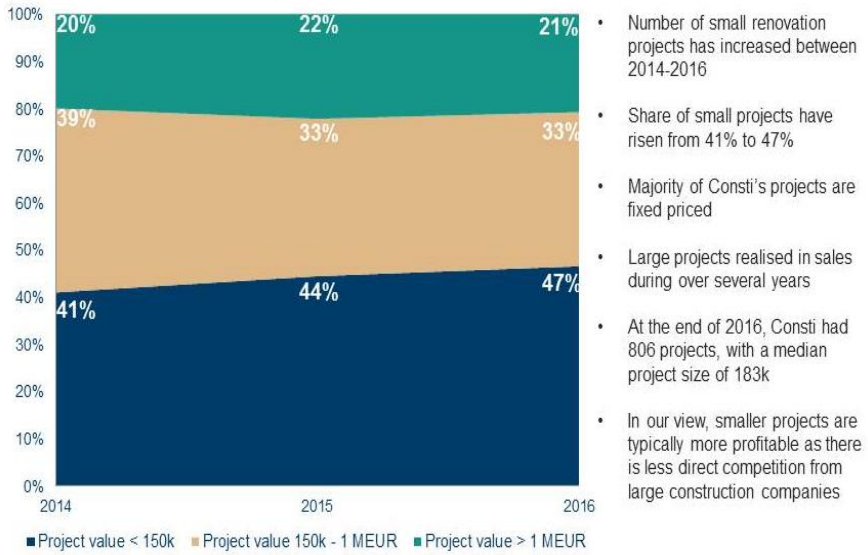
Lower risk fixed-price projects the main business

Consti focuses on fixed-price renovation projects that account for the majority of the company's project business. In the fixed-price projects, the contractor is responsible for the implementation of the project on the basis of the subscribers commissioned plans. The renovation company does not take part in the design phase but executes the implementation of the project and covers the warrant period. Consti's contracts normally apply a two-year warranty period. As a result of good project management, Consti's warranty costs have been quite low.

Main project selection criteria: price, expertise and references

In the procurement process, the main selection criteria are the total price, the employee's expertise, and references. In the fixed-priced projects any possible additional work is charged separately. We see this as a very stable business but it has limited upside potential in margins and price competition is rather tough. In the fixed-priced project business, there exists a risk that the total costs of a project rises higher than estimated and execution takes longer than expected.

Consti's project portfolio



Source: Consti and Evli

Average project size relatively low

Share of smaller project has risen during last three years, which in our view has also somewhat supported the profitability. Typically price competition in large projects is fiercer. Some large projects, mainly in the non-residential sector, last longer than one year and revenue recognition is based on completion rates. Consti's project write-down risks are very limited due to focus on short fixed-priced renovation projects. Consti's main competitor in Finland, Caverion, has reported large project write-downs in 2016 (however, outside Finland). Compared to Caverion, Consti focuses on less risky and non-cyclical renovation projects and the project sizes are clearly smaller. Consti has not entered the developer contracting-based renovation projects, which tie more capital but are also more profitable. From Consti's competitors, for instance, Lehto has entered the developer-based renovation market.

Large projects signed in '17

Consti has secured five relatively large projects during the early 2017. Consti will execute three residential renovation projects in Helsinki worth EUR 21 million in total. In the non-residential sector, it has agreed to renovate two commercial buildings (Jumbo/Helsinki & Kaari/Helsinki) worth EUR 9 million in total. The projects have had a positive impact on our 2017E and 2018E estimates.

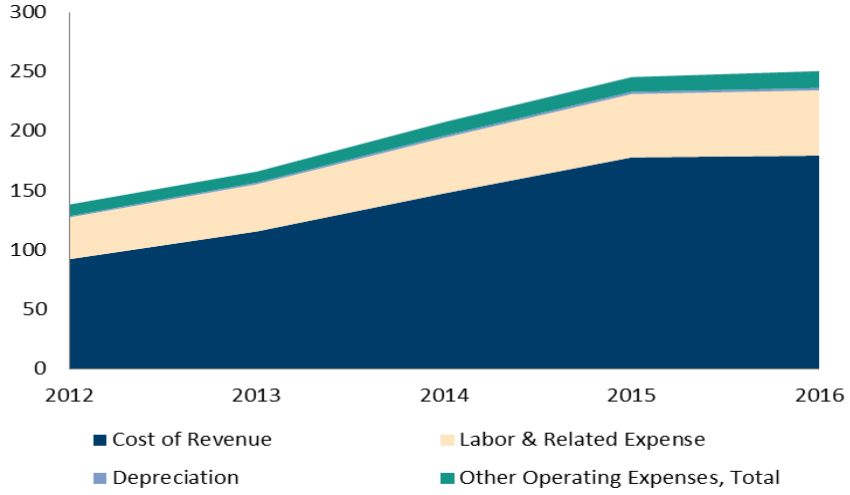
Service offers margin improvement potential

Consti has strategically aimed to increase its service business, which currently represents 15% of the company's net sales. Service, mainly technical building maintenance, offers margin improvement potential for the company. Currently the company focuses on small-scale maintenance but is aiming to increase e.g. its building automation business. Large players like Caverion and Are, are the main competitors in the service market. In our view, Consti has limited resources to compete against the large players. Both Caverion and Are have an extensive service offering and good geographical coverage in Finland.

Consti has grown rapidly in service

Between 2012-2016, Consti's CAGR net sales growth in the service business has been 18.7%, according to our calculations. The service business has higher margins in comparison to fixed-priced renovation projects. The service business has supported Consti's margin improvement during recent years. However, the service business is also a labor-intensive business, which in our view requires further acquisitions. In 2016, the company acquired two service companies from the Tampere region. Organically, the service offering was expanded in the Oulu region.

Consti's cost structure



Source: Reuters

Low operating leverage due to high share of variable costs

The majority of Consti's costs are variable, which highlights the importance of the procurement function. According to management, the company has been able to handle higher construction material prices quite well in 2016 and 2017. Consti's variable costs include construction materials, project employees' wages and other costs. Due to high variable costs, the company is able to adjust its cost structure relatively well depending on volumes. However, Consti has a low share of fixed costs, mainly including facility (rented offices) and white-collar employees' costs. As a result, operating leverage is relatively low. During 2016, the competition for skilled employees increased due to high activity in the new building construction. Wage inflation is expected to continue in 2017 due to the lack of skilled white-collar employees and supervisors in the Finnish construction sector.

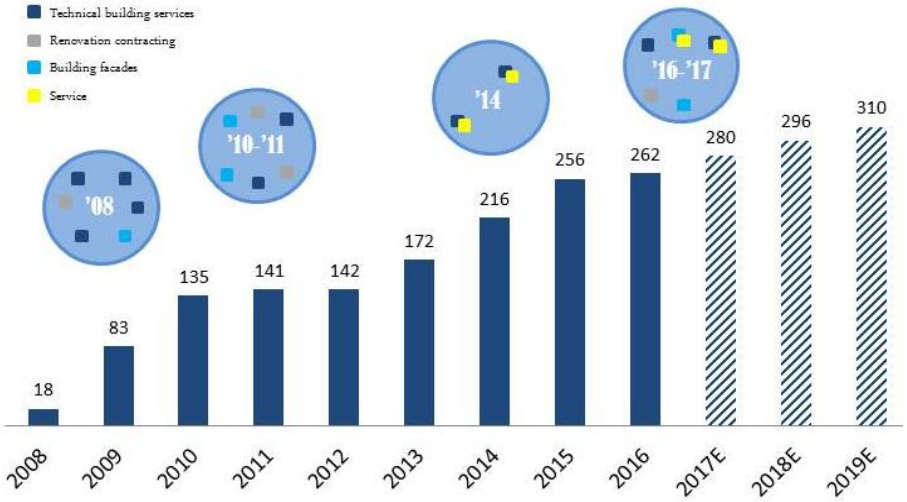
Acquisitions as part of the growth strategy

Acquisitions offering further growth

Consti has formed through a series of small and medium sized acquisitions. Track-record in our view has been good and the management has extensive experience from consolidating the Finnish renovation market. Acting as a consolidator isn't always easy

but the company has grown rapidly as the largest renovation company in Finland, with a market share of approximately 4%. In 2016, Consti focused more on integration of the acquired companies.

Consti's acquisitions by segment



Source: Consti and Evli

Fragmented market offering growth potential

The Finnish renovation market is still fragmented and provides opportunities for further acquisitions. Firstly, we expect Consti to expand its geographical presence in Finland as the company is now highly focused on Helsinki and Uusimaa region. Secondly, we anticipate that Consti will increase its service business through acquisitions due to the higher margin potential. Thirdly, specialized renovation segments that are more "white spots", e.g. glass and roof construction, may offer acquisition opportunities.

Acquisitions to add 4% sales growth for 2017E

In 2017, Consti has completed two acquisitions: it acquired a pipeline renovation specialists Oulun Talosaneeraus Oy in Oulu and a roofing specialist Pisara Steel operating in the Ostrobothnia region in Western Finland as well as the Helsinki region. The two companies generated total net sales of slightly over EUR 10 million in 2016. Late 2016, Consti acquired Pirkanmaan JT-Palvelut from Tampere region.

Able to generate shareholder value through acquisitions

Consti has been able to generate value for its shareholders by paying 2.0-5.0x EBITDA of acquired companies, while its own multiple has been between 6.0x-8.0x EBITDA. We anticipate that valuation multiples have risen in the Finnish construction M&A field due to strong momentum in the sector. In 2016, listed construction company Lehto, acquired renovation specialist Wareco (net sales EUR 29 million), which operates in the Helsinki region mainly in the areas of real estate renovations, plumbing renovations, renovation and modification projects. Lehto's target is to strengthen its presence in the renovation market. Consti may have challenges finding profitable acquisitions within the lower end of its EBITDA-target. Large construction companies may also enlarge their position in the renovation sector when market conditions in the new building construction weaken. We also see that listed large Nordic building installations and service companies (Caverion and Bravida) may expand their renovation business through acquisitions in Finland. Despite higher M&A valuation multiples, we expect Consti to continue small bolt-on acquisitions but the probability for larger acquisitions is quite low.

Acquisitions expected to continue

Acquisitions remain a growth driver for Consti. We expect the company to continue bolt-on acquisitions due to its ambitious net sales growth target (10%). Profitable targets which are well-integrated have the possibility to speed up earnings growth.

Steadily growing renovation market

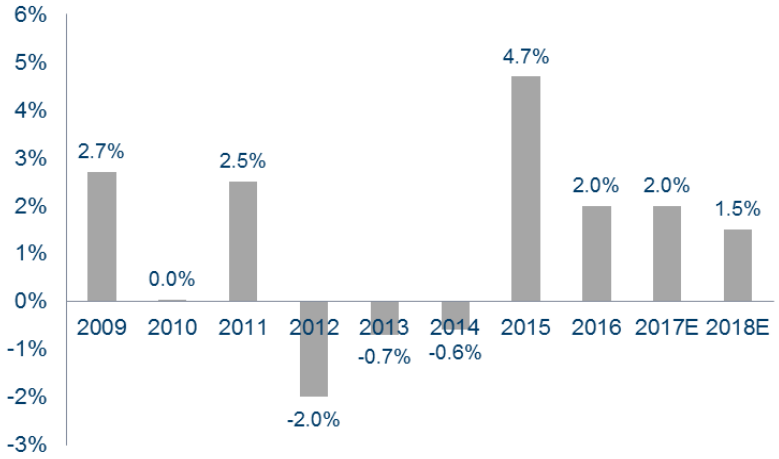
The Finnish renovation market expected to grow by 2.0% in '17

In the Finnish construction market, renovation is the most stable market sector. Growth rates have been historically lower compared to the new building market but during the downturns the sector has declined less than new building. During 2012-2015 renovation exceeded new construction but due to robust growth in new building throughout the 2016, the situation turned again in favor of new building. Renovation is an industry with low barriers to entry, which typically keeps competition rather tough and margins low.

Consti's target market approx. 7 billion

The total renovation market amounted to 12.6 billion in 2016. Consti's target market is renovation excluding household renovations, which amount to approximately 7.0 billion. In 2016, the total renovation market grew by 2.0% according to the Finnish Construction Federation. The geographically largest markets are the Helsinki and Uusimaa region and Tampere region, followed by other growth centers. Renovation is expected to increase also by 2.0% in 2017 and by 1.5% in 2018, respectively. In 2018, growth is expected to decelerate slightly due to the lack of supervisors and white-collar employees in the sector.

Growth rates in the Finnish renovation market

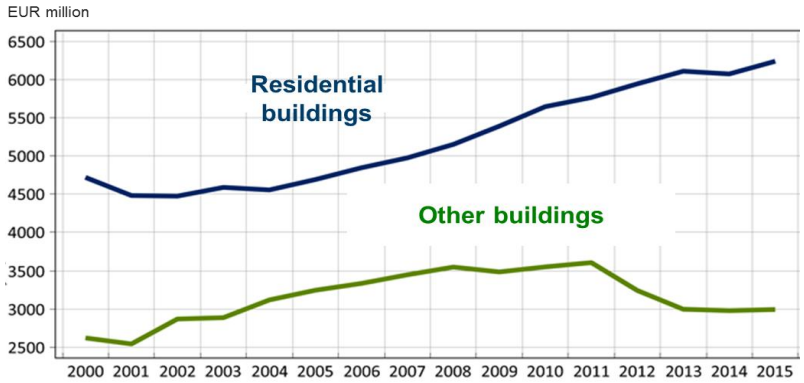


Source: Finnish Construction Federation

Strong market conditions in the main target market

The renovation market can be split into residential buildings and other buildings. Demand has been strong especially within residential buildings (mainly among housing corporations). Demand in the non-residential sector (offices, commercial building etc.) has been relatively stable. Geographically, demand has developed favorably especially in Southern Finland and large growth centers (especially Tampere & Pirkanmaa region). In rural areas, market development has been modest due to weak building stock growth and lower house prices.

Renovation by building type



Source: Finnish Construction Federation

Consti has a high exposure in Helsinki and Uusimaa region

According to VTT's long-term renovation estimate 2014-2020E, growth is expected to be +3.3% in Helsinki, +3.1% in Tampere, Turku & Oulu and +2.9% in other growth centers. Helsinki is clearly the largest market for Consti, representing 78% of net sales, followed by Tampere & Pirkanmaa with 10% and Others with 12% (mainly Oulu, Turku and Lahti etc. growth centres). According to the latest forecast by Rakli, renovation activity in Helsinki & Uusimaa region is expected to remain favorable in 2017. Renovation activity is focused on growth centers due to large ageing building stocks, migration development and brisk new building. In rural areas, renovation growth is expected to be slower mainly due to a negative migration trend. In 2017, office and commercial building renovation activity in Helsinki region is expected to improve due to economic growth and lower unemployment rates (Rakli).

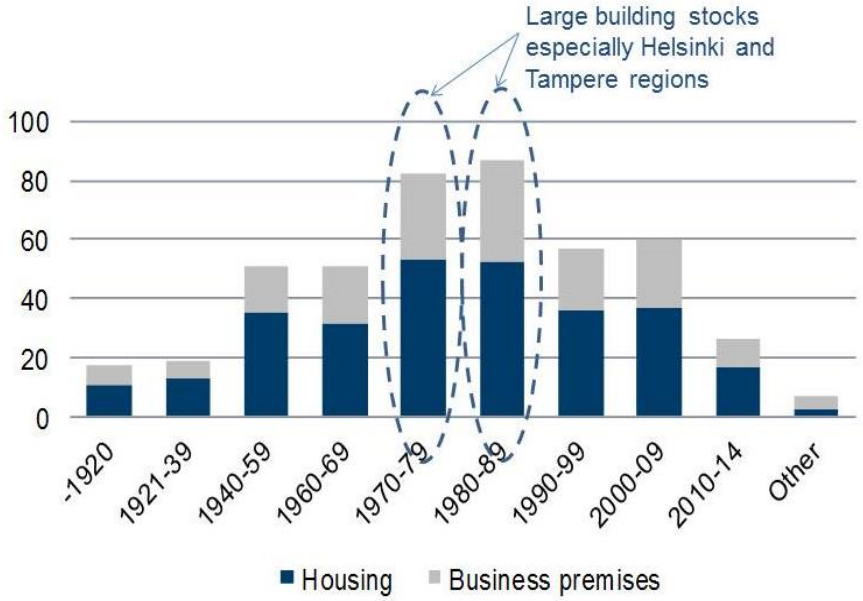
Cost inflation not a major concern for Consti

Cost inflation has started to pick up in the construction sector. Especially raw material and building material prices have lately risen quite rapidly. In Consti's case, the main cost inflation comes from wages (mainly supervisors and white-collar employees). However, according to management, this has a limited impact on the current cost base due to the higher share of blue-collar employees in the company. Consti's projects are typically relatively short, which lowers the risk of the cost inflation.

Ageing building stock supports renovation volumes in the short and long-term

The growth in renovation volumes is supported by the aging building stock. Currently, the building stock, which has been built in 1960-70's is under renovation construction and therefore the current volume outlook is favorable. An even larger building stock is to be renovated when the 1980's building stock comes to renovation age after 2020. These large building stocks are located especially in the Helsinki and Tampere region.

Building base in Finland (mm2)



Source: Statistics Finland and Evli

Migration to growth centers continues

Migration to growth centers has continued in Finland. This creates a need for new building but also renovation in the long-term. According to Tilastokeskus, the migration focuses on Southern Finland (incl. Helsinki, Espoo & Vantaa), South West (incl. Turku), Tampere region and Lahti region. Consti has low exposure to new building and projects are typically electrification and HVAC installation projects. Denser city structures drive urbanization especially in large growth centers. For instance residential construction has in recent years focused more on apartment buildings, which in renovations is the main target market for Consti.

Energy efficiency becoming more important also in renovation

Buildings continue to account for a large proportion of the total energy consumption, currently at around 40%. The EU-target is that all new buildings must be nearly zero energy buildings by 2020. The EU also has a separate target for renovations - EU countries make energy efficiency improving renovations to at least 3% of buildings owned and occupied by central government. In Finland, new requirements demand that in connection with building conversions and technical systems renovations, companies should increase the energy efficiency of renovated buildings. Energy efficiency is relatively weak, especially among building stock constructed in 1970'-1980', which supports Consti's demand in the long-term. Consti often improves buildings energy efficiency in connection with renovation projects.

Building conversions slowly moving market

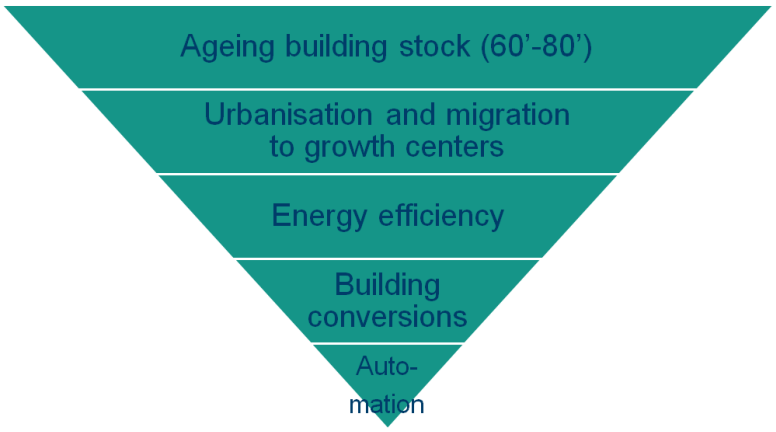
Typically building conversion projects in Finland are concentrated to the office and industrial building sector. Vacancy rates in the office sector remains at a relatively high level and according to Newsec, rates are also expected to remain high, at least in the short-term. More efficient use of facilities is a growing trend especially in the office sector, which affects the rates negatively. Some real estate investors are also looking for opportunities to convert offices into apartments but the market hasn't really kicked off.

Building automation - potential in the long-term

Increasing automation is expected to support especially new technical installations market in the construction sector. Improving control of heating, ventilation and air conditioning improves living conditions but also lowers energy consumption. Consti still

has a low exposure to the building automation market, where large Building installations and service companies like Caverion and Are dominate the market.

Long-term renovation market growth drivers in Finland



Source: Evli

Ageing building stock the strongest driver

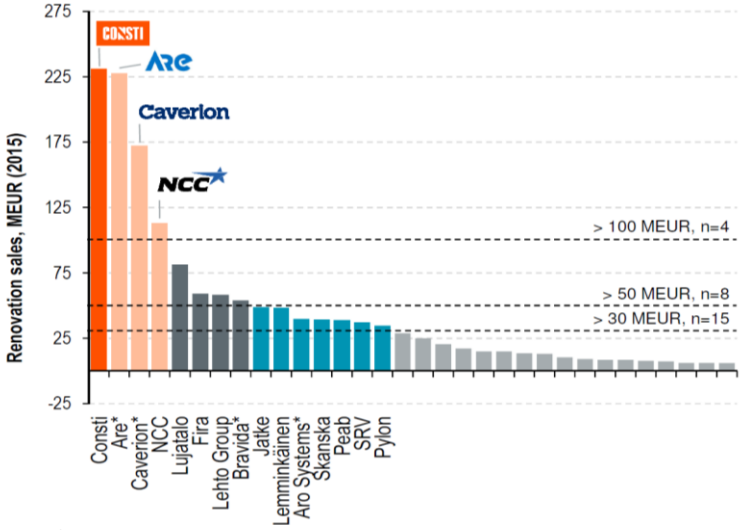
We see that the most important long-term market driver for Consti is the ageing building stock. Currently renovations focus on the 1960-70's building stock but the even larger building stocks, built 1980-89's "boom years", will come under renovation in the future. Especially residential buildings are in some regions in relatively poor condition. Urbanization and migration to growth centers have an impact on Consti's markets as the company's sales are generated mainly from the Finnish growth centers. Energy efficiency, building conversions and automation are also demand drivers but have in our view limited impact on Consti.

Competitive landscape

Large Building installations and service companies the main competitors

Consti is the largest renovation company in Finland, with a market share of approximately 4%. According to Consti, it has three main competitors; ARE, Caverion and NCC. These companies do not publish exact sales and profitability figures from their renovation activities. Are and Caverion are Building installations and service companies that focus also on renovation projects. They have fairly similar offering as Consti. The large listed construction companies are also to some extent exposed to the renovation markets, but their renovation sales have not exceeded EUR 100 million annually in Finland. NCC is an exception as the company's sales from renovation activities amount to over EUR 100 million in Finland. NCC operates both in residential and non-residential renovation projects.

Market structure of the Finnish renovation sector



Source: Consti

Less competition from construction sector

Other large construction companies are more focused on other sectors in the construction market. However, Lehto Group increased its presence in the renovation market by acquiring medium-sized Wareco in 2016. Lemminkäinen operates within residential and non-residential renovation mainly in the Helsinki region. Listed Skanska, Peab and SRV are only medium-sized players in the Finnish renovation market. Other competitors are mainly non-listed Finnish construction companies that operate in the renovation market but have also other construction operations.

Competitive service landscape

In the service business, Consti's largest competitors are ISS, Lassila & Tikanoja and Caverion, who offer technical maintenance for different type of buildings. According to its listed competitors, demand for technical maintenance in Finland is expected to be strong in the long-term. Consti's target is to increase its presence in the technical repair and maintenance market. Currently 15% of Consti's sales are generated from service business.

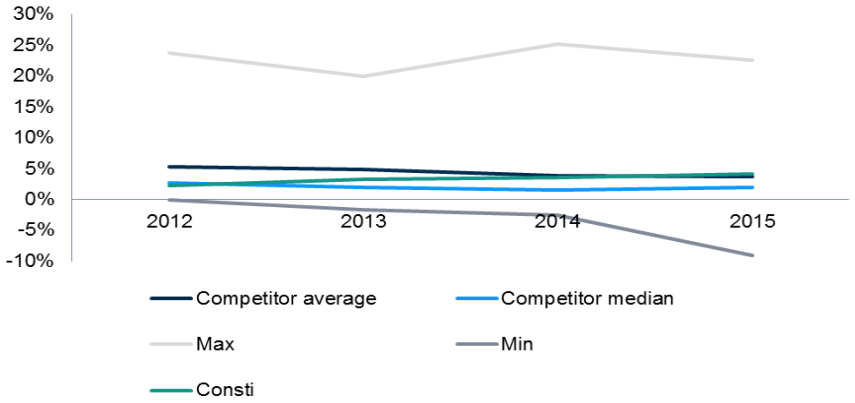
Bravida has grown through acquisitions

Large listed Nordic Building installations and service company, Bravida, entered to the Finnish market in 2015 and has enlarged its operations through acquisitions. Bravida operates mainly in new HVAC and electrical installations market but has also exposure to the Finnish renovation market. The company may have an interest to expand further its presence in the renovation.

Consti's profitability above sector median

We compared Consti's profitability (EBIT-margin) against local Finnish renovation companies. Smaller renovation players typically focus on specific segments in the renovation market (pipeline renovation, façade repairs or other renovation contracting etc.). Since 2012, Consti's EBIT-margin has been higher than the competitor median three out of four years. The competitor median EBIT-margin has remained at a 2% level, which is a normal level for the renovation sector. Consti has been able to maintain a margin above 3%, which in our view is based mainly on good project execution and growth in services. Some small players have generated margins clearly above the median, but this is mainly due to sales of building materials in connection with renovation projects. Consti's size compared to the smaller competitors should increase confidence among the customers but differentiation in the sector is rather challenging. Furthermore, renovation is an industry with low barriers to entry, which typically keeps competition rather tough and margins low.

EBIT-margin in the Finnish renovation sector



Source: Asiakastieto / Competitors include Pylon Rakennus, Kenno-Rakenne, Remonttipartio, Fira, Aro Systems, Hämeen Laaturemontti, Rakennus Oy Wareco, Lapin Teollisuusrakennus, Jatke and Are

Consti's financial performance

Rapid growth and stable margins

Consti has been growing rapidly since its establishment in 2008, sales CAGR of some 40%, driven by acquisitions. In 2016, the company missed growth targets with a growth of 2.1% in sales. Organic growth was approximately 1%, which was below the general market growth. Consti has growth opportunities both organically and through bolt-on acquisitions in the fragmented Finnish renovation market. The profitability has so far not reached the financial target of 5% EBIT-margin.

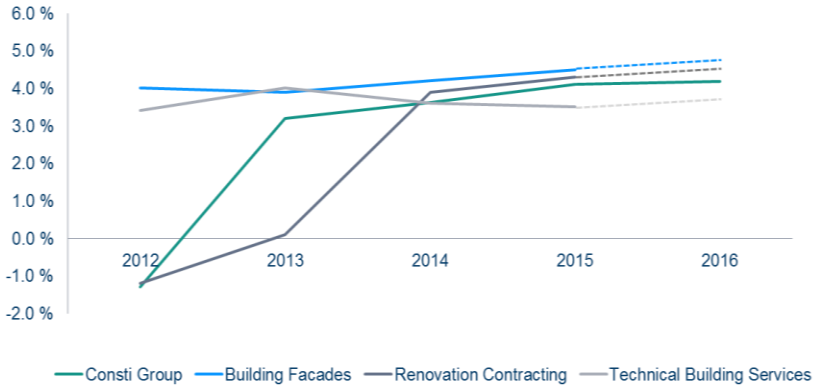
Q4/'16: Profitability improved

Consti's Q4/2016 sales figures were a slight disappointment as sales decreased compared to the previous year. According to Consti, a higher number of relatively small projects, competition for skilled employees caused by the active new construction market, and the slow start of large projects, had a negative impact on sales. Sales growth continued in Building Facades and Renovation Contracting, while sales decreased in the Technical Building Services segment. Fourth-quarter profitability improved, in our view, mainly due to continued good project execution. The company estimates that its total annual net sales for 2017 will grow compared to 2016. It provides no margin guidance for 2017 (as in 2016).

Building Facades best-performing segment in our view

We compared Consti's profitability (EBIT-margin) between reporting segments (source: Asiakastieto). The financial statements do not necessarily give an accurate view of the segment's profitability, as these may also include other companies. In the comparison, the best-performing segment has been Building Facades (mainly Consti Julkisivut Oy), where the company faces less competition especially from major Nordic construction and Building installations and service companies. Building Facades (mainly Consti Julkisivut Oy) has been generating 4.0-4.5% EBIT-margin in the past couple of years. The largest segment, Consti Technical Building Services (mainly Consti Talotekniikka Oy), has been generating an EBIT-margin of some 3.5-4.0% between 2012-2015. Consti Renovation Contracting (mainly Korjausurakointi Oy) has improved its EBIT-margin considerably from -1.2% in 2012 to 4.3% in 2015. Figures for 2016 are not yet published at Asiakastieto.

Conti's EBIT-margin by segment and estimate



Source: Consti, Asiakastieto and Evli estimate (Technical Building Services, mainly Consti Julkisivut Oy) (Building Facades, mainly Consti Julkisivut Oy) and (Renovation Contracting, mainly Korjausurakointi Oy)

Building Facades most profitable segment in our view

According to Consti's management, margins between segments have not varied considerably in 2016. In our view, Building Facades has retained its position as the most profitable segment. Tougher competition and challenges to recruit supervisors and white-collar employees may have had a negative effect on margins, especially in Technical Building Services. The segment also faces more competition from large players like Caverion and Are. In Renovation Contracting, the development of margins has most likely been flat or slightly improved in 2016.

Consti targeting to grow rapidly and improve margins

Consti's long-term financial targets are:
-Sales growth on average at least 10%
-Adjusted EBIT-margin exceeding 5%
-Cash conversion ratio exceeding 90%
-Net debt / EBITDA below 2.5x
-Dividends at least 50% of net earnings

We see long-term targets somewhat challenging

In our view, sales and profitability targets are ambitious and we do not expect Consti to reach these targets in our base case. In order to reach the 10% sales growth target, the company would need to make a major acquisition (or a series of several small acquisitions) or aggressively take market share, which would most likely have a negative impact on margins. We see the likelihood of a large acquisition as quite low, due to the structure of the Finnish renovation market. Historically, Consti has a good M&A track record paying 2-5x EBITDA of acquired companies.

Overseas expansion unlikely

We do not except Consti to grow geographically outside of Finland, mainly due to Finnish construction companies having historically had profitability challenges in other Nordic countries. The competition is also tougher, for example in the Swedish market, which mitigates willingness to expand business overseas. We see that Consti has good opportunities to grow organically (new regions and segments in the renovation sector) and through bolt-on acquisitions in the Finnish market, which is still fragmented.

We do not expect Consti to reach 5% EBIT-margin target in our base case

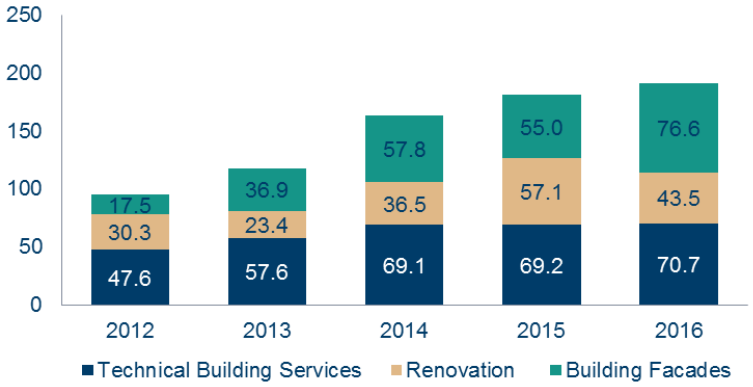
Consti is targeting to improve its EBIT-margin through improved project management, optimized sales mix and operative leverage. To reach an adjusted EBIT-margin of over 5%, both new building and renovation market would need to grow faster than is currently estimated by the Finnish Construction Federation. Also acquisitions, especially specialized segments in renovation industry, would improve margins. In addition, renovation prices should increase from current levels. By segment, Consti would need to grow in higher margin segments (mainly in our view Building Facades) as well as expand

its service business. In our base case, the EBIT-margin remains below the financial target at (4.4%-4.7% in 2017E-2019E).

Balance sheet relatively strong – however, goodwill a risk in a downturn

Due to the business model, Consti is relatively asset-light compared to its listed Nordic construction company peers. Supported by good cash flow and contract prepayments, Consti operates with negative net working capital. The company also focuses on relatively small projects, which limits the need of capital. Strong cash flow supported the net debt in 2016 and gearing decreased to 40.8% at the end of 2016. The company's capital structure target – net debt / EBITDA below 2.5x was clearly achieved (0.9x) in 2016. In our view, the company has good possibilities to continue bolt-on acquisitions and even raise the dividend pay-out ratio to further leverage the company. As a result of acquisitions, Consti has goodwill of EUR 44.1 million in the balance sheet, which represents 149% of the total equity. In its history, the company has not reported any significant goodwill write-downs. It has paid mainly EBITDA 2-5x of the acquired companies. However, in the downturns, Consti's balance sheet is somewhat vulnerable due to high goodwill and contract prepayments.

Order book by segment

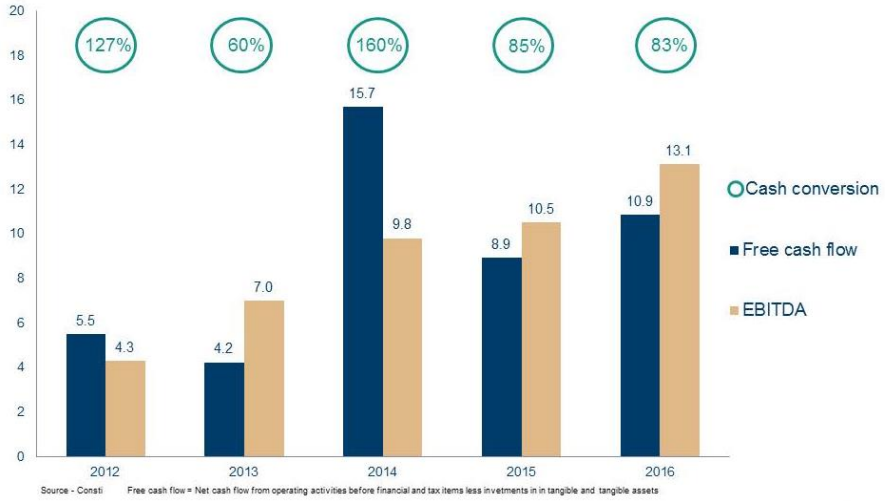


Source - Consti

Short order book reduces visibility

Consti's order book is relatively short due to the length of its projects and service business. This reduces the visibility in the stock. A good market situation has supported the order book especially in Building Facades. The order book in Technical Building Services is more stable, mainly in our view due to a higher share of service compared to other segments. Renovation Contracting's order book has been somewhat volatile due to the segment focusing on non-residential renovation, where demand fluctuates more compared to residential renovation. Consti has signed several renovation projects during 2017, which support the order book and improves the visibility for both 2017E and 2018E.

Cash conversion



Good historical cash generation ability

Consti has a strong track record of generating cash. In 2016, FCF/EBITDA totaled 83% vs. the company's target of 90%. We expect cash conversion to remain high as we do not expect Consti to make any large acquisitions and gained major projects in 2017 support the cash flow in the short-term. In the renovation project business, CAPEX requirements are limited as companies mainly use light machinery (hand tools, etc.) in their operations.

Stronger cash conversion than peers

According to Reuters data, the average FCF/EBITDA in the construction sector is expected to be below 50% in 2017E. In the Building installations and service sector, the cash conversion is estimated to be close to 65% in 2017E. Consti has reported stronger figures which in our view supports the valuation.

Estimate summary

Sales growth estimate 7.0% (CAGR) for '16-'19E

In our base case, we expect net sales to grow 7.0% (CAGR) in 2016-2019E. Sales growth is supported by bolt-on acquisitions, new large projects in 2017 and a favorable geographical mix.

Slight margin improved in '17E

We estimate Consti to deliver an EBIT-margin of 4.4% in 2017E driven by sales growth, good project management and cost control. In the long-term, margins are expected to develop steadily as the company focuses on less risky fixed-price renovation projects. EPS growth (CAGR) is estimated to be 13.9% in 2016-2019E.

Valuation fairly attractive

Consti is a lower risk case in the Nordic construction sector due to stable nature of the Finnish renovation market, a well-diversified project portfolio and good project management. Our base case ACCUMULATE is based on estimated good sales and earnings growth in 2017E-2018E. We see the valuation as a fairly attractive as the company has been able to produce steadily improving margins and good cash flow. We value Consti at EV/EBIT 10.0x with a target price of EUR 15.5.

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	14.50	PV of Free Cash Flow	78	Long-term growth, %	2.0	Risk-free interest rate, %	2.25
DCF share value	18.41	PV of Horizon value	74	WACC, %	8.6	Market risk premium, %	5.8
Share price potential, %	27.0	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	3.3
Maximum value	19.9	Marketable securities	9	Minimum WACC, %	8.1	Equity beta coefficient	1.15
Minimum value	17.1	Debt - dividend	-21	Maximum WACC, %	9.1	Target debt ratio, %	30
Horizon value, %	48.7	Value of stock	140	Nr of shares, Mn	7.6	Effective tax rate, %	20

DCF valuation, EURm	2016	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	Horizon
Net sales	262	286	306	321	332	339	345	352	359	367	374	381
Sales growth, %	*2.1*	*9.4*	*7.1*	*4.8*	*3.5*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*
Operating income (EBIT)	11	13	14	15	16	15	16	16	16	16	13	14
EBIT margin, %	*4.2*	*4.4*	*4.5*	*4.7*	*4.7*	*4.5*	*4.5*	*4.5*	*4.5*	*4.5*	*3.5*	*3.5*
+ Depreciation+amort.	2	2	3	3	3	3	3	3	3	3	3	
- Income taxes	-2	-3	-3	-3	-3	-3	-3	-3	-3	-3	-3	
- Change in NWC	0	1	1	0	0	0	0	0	0	0	0	
NWC / Sales, %	*-2.6*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-3	-4	-3	-3	-3	-3	-3	-3	-3	-4	-4	-4
Investments / Sales, %	*1.0*	*1.4*	*1.0*	*1.1*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*	*1.0*
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	9	9	11	12	13	12	12	13	13	13	11	165
= Discounted FCF (DFCF)		8	10	10	9	8	8	7	7	6	5	74

= DFCF min WACC	8	10	10	9	8	8	8	7	7	5	84
= DFCF max WACC	8	10	9	9	8	8	7	7	6	5	66

INTERIM FIGURES

EVLI ESTIMATES, EURm	2016Q1	2016Q2	2016Q3	2016Q4	2016	2017Q1E	2017Q2E	2017Q3E	2017Q4E	2017E	2018E	2019E
Net sales	51	65	71	75	262	53	70	79	84	286	306	321
EBITDA	1	3	4	5	13	1	4	5	6	15	16	18
EBITDA margin (%)	*1.3*	*4.7*	*6.4*	*6.5*	*5.0*	*1.9*	*5.0*	*6.0*	*6.6*	*5.2*	*5.3*	*5.6*
EBIT	0	3	4	4	11	1	3	4	5	13	14	15
EBIT margin (%)	*0.4*	*4.0*	*5.2*	*5.9*	*4.2*	*0.9*	*4.0*	*5.4*	*6.0*	*4.4*	*4.5*	*4.7*
Net financial items	0	0	0	0	-1	0	0	0	0	-1	-1	0
Pre-tax profit	0	2	4	4	10	0	3	4	5	12	13	15
Tax	0	-1	-1	-1	-2	0	-1	-1	-1	-2	-3	-3
Tax rate (%)	*21.6*	*21.1*	*20.4*	*20.4*	*20.6*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*
Net profit	0	2	3	3	8	0	2	3	4	9	10	12
EPS	-0.01	0.25	0.37	0.44	1.05	0.03	0.27	0.42	0.51	1.23	1.36	1.55
EPS adjusted (diluted no. of shares)	-0.01	0.25	0.37	0.44	1.05	0.03	0.27	0.42	0.51	1.23	1.36	1.55
Dividend per share	0.00	0.00	0.00	0.00	0.54	0.00	0.00	0.00	0.00	0.68	0.75	0.85
SALES, EURm												
Technical Building Services	24	28	26	26	104	24	30	30	31	116	124	131
Renovation	17	17	20	21	75	17	18	20	22	77	79	81
Building Facades	12	21	27	29	89	14	23	30	32	99	108	115
Elimination	-1	-1	-2	-2	-6	-1	-1	-1	-1	-6	-6	-6
Total	51	65	71	75	262	53	70	79	84	286	306	321
SALES GROWTH, Y/Y %												
Technical Building Services	*8.8*	*10.4*	*2.2*	*-12.5*	*1.3*	*1.3*	*7.2*	*18.3*	*17.7*	*11.3*	*7.5*	*5.0*
Renovation	*17.3*	*8.8*	*9.6*	*3.1*	*9.1*	*1.9*	*2.1*	*3.0*	*2.9*	*2.5*	*3.5*	*2.5*
Building Facades	*-5.6*	*-11.4*	*-4.1*	*15.6*	*-0.7*	*14.7*	*13.1*	*11.2*	*10.5*	*11.9*	*9.0*	*6.0*
Elimination	*-14.7*	*-8.3*	*129.0*	*71.3*	*36.1*	*37.5*	*29.9*	*-17.8*	*-33.7*	*-5.3*	*2.0*	*2.0*
Total	*8.2*	*2.3*	*0.2*	*-0.2*	*2.1*	*3.9*	*7.4*	*12.2*	*12.1*	*9.4*	*7.1*	*4.8*
EBIT, EURm												
Group	0	3	4	4	11	1	3	4	5	13	14	15
Total	0	3	4	4	11	1	3	4	5	13	14	15
EBIT margin, %												
Total	*0.4*	*4.0*	*5.2*	*5.9*	*4.2*	*0.9*	*4.0*	*5.4*	*6.0*	*4.4*	*4.5*	*4.7*

INCOME STATEMENT, EURm	2012	2013	2014	2015	2016	2017E	2018E	2019E
Sales	0	172	216	256	262	286	306	321
Sales growth (%)	*0.0*	*0.0*	*25.6*	*18.6*	*2.1*	*9.4*	*7.1*	*4.8*
Costs	0	-165	-206	-244	-248	-271	-290	-303
Reported EBITDA	0	7	10	13	13	15	16	18
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*0.0*	*4.1*	*4.5*	*4.9*	*5.0*	*5.2*	*5.3*	*5.6*
Depreciation	0	-1	-2	-2	-2	-2	-3	-3
EBITA	0	6	8	11	11	13	14	15
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	0	6	8	11	11	13	14	15
EBIT margin (%)	*0.0*	*3.2*	*3.6*	*4.1*	*4.2*	*4.4*	*4.5*	*4.7*
Net financials	0	-5	-5	-4	-1	-1	-1	0
Pre-tax profit	0	1	3	6	10	12	13	15
Extraordinary items	0	0	0	-2	0	0	0	0
Taxes	0	0	-1	-1	-2	-2	-3	-3
Minority shares	0	0	0	0	0	0	0	0
Net profit	0	16	2	3	8	9	10	12
BALANCE SHEET, EURm								
Assets								
Fixed assets	0	7	7	6	6	6	7	7
% of sales	*0*	*4*	*3*	*2*	*2*	*2*	*2*	*2*
Goodwill	0	43	44	43	44	44	44	44
% of sales	*0*	*25*	*20*	*17*	*17*	*15*	*14*	*14*
Inventory	0	0	1	1	1	1	1	1
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Receivables	0	24	35	36	39	43	46	48
% of sales	*0*	*14*	*16*	*14*	*15*	*15*	*15*	*15*
Liquid funds	0	1	10	4	9	10	11	11
% of sales	*0*	*1*	*5*	*2*	*4*	*4*	*4*	*4*
Total assets	0	76	96	91	98	106	110	113
Liabilities								
Equity	0	-1	1	25	30	35	40	46
% of sales	*0*	*-1*	*0*	*10*	*11*	*12*	*13*	*14*
Deferred taxes	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Interest bearing debt	0	55	55	21	21	18	14	8
% of sales	*0*	*32*	*25*	*8*	*8*	*6*	*4*	*3*
Non-interest bearing current liabilities	0	22	40	43	46	51	55	57
% of sales	*0*	*13*	*18*	*17*	*18*	*18*	*18*	*18*
Other interest free debt	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total liabilities	0	76	96	91	98	106	110	113
CASH FLOW, EURm								
+ EBITDA	0	7	10	13	13	15	16	18
- Net financial items	0	-5	-5	-4	-1	-1	-1	0
- Taxes	0	0	-1	-1	-2	-2	-3	-3
- Increase in Net Working Capital	0	-3	8	2	0	1	1	0
+/- Other	0	15	0	-2	0	0	0	0
= Cash flow from operations	0	14	12	7	11	12	13	15
- Capex	0	-51	-2	-1	-3	-4	-3	-3
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	0	-37	9	6	8	8	10	12
+/- Change in interest-bearing debt	0	55	-1	-33	0	-3	-5	-5
+/- New issues/buybacks	0	0	0	21	4	0	0	0
- Paid dividend	0	0	0	0	-3	-4	-5	-6
+/- Change in loan receivables	0	0	1	0	0	0	0	0
Change in cash	0	2	9	-6	5	1	1	1

KEY FIGURES	2013	2014	2015	2016	2017E	2018E	2019E
M-cap	0	0	73	112	111	111	111
Net debt	54	44	17	12	8	3	-3
Enterprise value	54	44	91	125	119	113	108
Sales	172	216	256	262	286	306	321
EBITDA	7	10	13	13	15	16	18
EBIT	6	8	11	11	13	14	15
Pre-tax	1	3	6	10	12	13	15
Earnings	0	2	5	8	9	10	12
Book value	-1	1	25	30	35	40	46
Valuation multiples							
EV/sales	0.3	0.2	0.4	0.5	0.4	0.4	0.3
EV/EBITDA	7.7	4.5	7.2	9.5	8.0	7.0	6.0
EV/EBITA	9.9	5.7	8.6	11.4	9.4	8.3	7.1
EV/EBIT	9.9	5.7	8.6	11.4	9.4	8.3	7.1
EV/operating cash flow	29.5	2.7	7.0	10.8	9.2	8.0	7.0
EV/cash earnings	60.2	9.6	12.4	11.9	10.6	8.8	7.4
P/E	0.0	0.0	13.6	14.1	11.8	10.6	9.4
P/E excl. goodwill	0.0	0.0	13.6	14.1	11.8	10.6	9.4
P/B	0.0	0.0	3.0	3.8	3.2	2.8	2.4
P/sales	0.0	0.0	0.3	0.4	0.4	0.4	0.3
P/CF	0.0	0.0	5.7	9.7	8.6	7.8	7.2
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*13.1*	*10.0*	*8.8*	*7.6*
Target P/E	*0.0*	*0.0*	*0.0*	*16.5*	*12.6*	*11.4*	*10.0*
Target P/B	*0.0*	*0.0*	*0.0*	*4.6*	*3.4*	*2.9*	*2.6*
Per share measures							
Number of shares	7,615	7,615	7,615	7,621	7,621	7,621	7,621
Number of shares (diluted)	7,615	7,615	7,615	7,621	7,621	7,621	7,621
EPS	0.04	0.26	0.70	1.05	1.23	1.36	1.55
EPS excl. goodwill	0.04	0.26	0.70	1.05	1.23	1.36	1.55
Cash EPS	0.12	0.60	0.96	1.38	1.47	1.70	1.91
Operating cash flow per share	0.24	2.13	1.69	1.52	1.68	1.85	2.01
Capital employed per share	6.96	5.87	5.51	5.48	5.66	5.64	5.67
Book value per share	-0.16	0.07	3.22	3.89	4.58	5.26	6.06
Book value excl. goodwill	-5.82	-5.65	-2.49	-1.90	-1.21	-0.53	0.27
Dividend per share	0.00	0.00	0.39	0.54	0.68	0.75	0.85
Dividend payout ratio, %	0.0	0.0	55.4	51.5	55.0	55.0	55.0
Dividend yield, %	0.0	0.0	4.1	3.7	4.7	5.2	5.9
Efficiency measures							
ROE	0.0	0.0	42.8	29.5	29.0	27.7	27.3
ROCE	20.3	14.3	21.0	22.7	24.3	25.8	28.2
Financial ratios							
Capex/sales, %	29.7	1.1	0.5	1.0	1.4	1.0	1.1
Capex/depreciation excl. goodwill,%	533.3	100.0	66.0	87.6	185.1	116.4	122.7
Net debt/EBITDA, book-weighted	7.7	4.5	1.4	0.9	0.6	0.2	-0.2
Debt/equity, market-weighted	0.0	0.0	0.3	0.2	0.2	0.1	0.1
Equity ratio, book-weighted	-1.6	0.5	31.4	34.8	37.7	41.5	40.8
Gearing	-45.17	88.40	0.71	0.41	0.24	0.07	-0.06
Number of employees, average	732	853	890	935	972	1,002	1,032
Sales per employee, EUR	234,836	253,107	287,810	279,704	294,105	305,679	310,902
EBIT per employee, EUR	7,514	9,144	11,819	11,708	12,958	13,679	14,734

COMPANY DESCRIPTION: Consti, listed in the Helsinki stock exchange in 2015, is one of the leading renovation and technical service companies in Finland. Consti has a comprehensive service offering covering technical building services, residential pipeline renovation, renovation contracting, building facade repair and maintenance, and other renovation and technical services for demanding residential and non-residential properties. Consti's strongest position is in residential building pipeline and façade renovations. Consti was established in 2008 to meet the growing need for repair and construction work.

INVESTMENT CASE: A leading and profitable renovation company

Consti is the market leader in the less cyclical Finnish renovation market, where EBIT-margins are stable but typically lower compared to the new building sector. Consti has been on average more profitable than its Nordic construction peers as well as small Finnish renovation competitors. Consti's higher margins are based on good project execution, strong M&A track record and favorable geographical sales mix. We expect Consti to improve its EBIT-margin in '17 to 4.4% but to remain below the company's long-term financial target (5% adjusted).

OWNERSHIP STRUCTURE	SHARES	EURm	%
Etera	469,451	6.807	6.2%
Esa Korkeela	399,600	5.794	5.2%
Keva	388,000	5.626	5.1%
Risto Kivi	375,300	5.442	4.9%
Ilmarinen	311,000	4.509	4.1%
Markku Kalevo	296,900	4.305	3.9%
Antti Korkeela	289,842	4.203	3.8%
Fondita Nordic Micro Cap	260,000	3.770	3.4%
Consti Yhtiöt Oyj	208,408	3.022	2.7%
Danske Invest Finnish Institutional Equity Fund	208,268	3.020	2.7%
Ten largest	3,206,769	46.498	42%
Residual	4,413,931	64.002	58%
Total	7,620,700	110.500	100%

EARNINGS CALENDAR

May 04, 2017	Q1 report
October 08, 2017	Q2 report
November 09, 2017	Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS

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CFO: Esa Korkeela	Tel: +358 10 288 6000
IR: -	

DEFINITIONS

P/E $\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/Sales $\frac{\text{Market cap}}{\text{Sales}}$	DPS Dividend for the financial period per share
P/BV $\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	CEPS $\frac{\text{Gross cash flow from operations}}{\text{Number of shares}}$
P/CF $\frac{\text{Price per share}}{\text{Operating cash flow per share}}$	EV/Share $\frac{\text{Enterprise value}}{\text{Number of shares}}$
EV (Enterprise value) Market cap + net debt + minority interest at market value – share of associated companies at market value	Sales/Share $\frac{\text{Sales}}{\text{Number of shares}}$
Net debt Interest bearing debt – financial assets	EBITDA/Share $\frac{\text{Earnings before interest, tax, depreciation and amortisation}}{\text{Number of shares}}$
EV/Sales $\frac{\text{Enterprise value}}{\text{Sales}}$	EBIT/Share $\frac{\text{Operating profit}}{\text{Number of shares}}$
EV/EBITDA $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortisation}}$	EAFI/Share $\frac{\text{Pretax profit}}{\text{Number of shares}}$
EV/EBIT $\frac{\text{Enterprise value}}{\text{Operating profit}}$	Capital employed/Share $\frac{\text{Total assets} - \text{non interest bearing debt}}{\text{Number of shares}}$
Div yield, % $\frac{\text{Dividend per share}}{\text{Price per share}}$	Total assets Balancesheet total
Payout ratio, % $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Interest coverage (x) $\frac{\text{Operating profit}}{\text{Financial items}}$
Net cash/Share $\frac{\text{Financial assets} - \text{interest bearing debt}}{\text{Number of shares}}$	Asset turnover (x) $\frac{\text{Turnover}}{\text{Balancesheet total (average)}}$
ROA, % $\frac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balancesheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, % $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, % $\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balancesheet total} - \text{non interest bearing debt (average)}}$	Equity ratio, % $\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest free loans}}$
ROE, % $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions (average)}}$	CAGR, % Cumulative annual growth rate = Average growth per year

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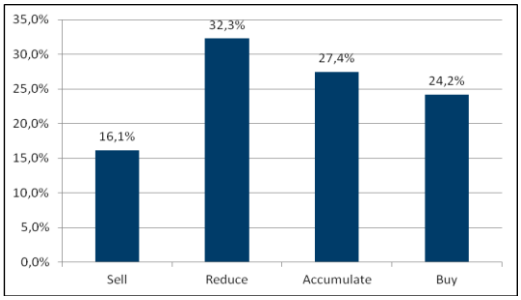
https://research.evli.com/JasperAllModels.action?authParam=key;461&authParam=x;G3rNagWrtf7K&authType=3
Detailed information about the valuation or methodology and the underlying assumptions is accessible via ERP:
http://research.evli.com
Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -5 %	SELL
-5 – (+5) %	REDUCE
5 – 15 %	ACCUMULATE
> 15 %	BUY

ERP's investment recommendation of the analyzed company is in general updated 2 – 4 per year.



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

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