SRV

Construction & Engineering/Finland, September 5, 2018
Company report

Initiate coverage with BUY

We initiate coverage of SRV with a BUY rating and target price of EUR 3.2. We expect profitability to see recovery during H2/18 with the completion of the REDI project. We expect sales growth of 14.5 % in 2019E, driven by an increase in developer contracting housing unit completions, and an EBIT margin of 3.7 %, supported by improved business construction profitability and a smaller foreign exchange rate impact.

Profitability expected to see recovery in H2/18

SRV's sales have declined during H1/18 following fewer completed developer contracting units along with a lowered construction activity in international operations. EBIT was negative at EUR -14.3m due to a negative impact of EUR 20.3m from exceeding costs in the REDI project along with exchange rate impacts. Profitability is expected to see recovery during H2/18 with the completion of the REDI project and increased housing completions.

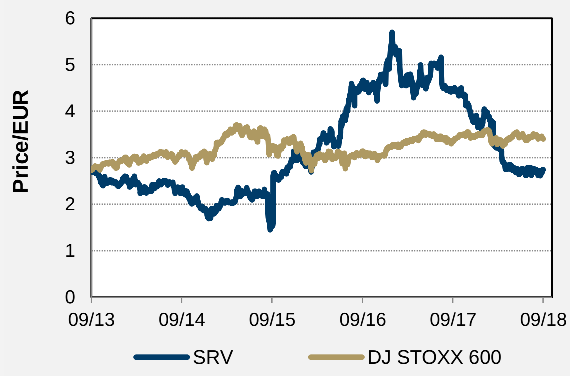
Sales growth and profitability improvement in 2019

We expect sales to see growth in 2019, with our sales growth estimate at 14.5 %. Growth is mainly expected from an increase in developer contracting housing unit completions, supported by a large number of start-ups in 2017. We expect the increased sales, along with the completion of the REDI project in 2018 and reduced exchange rate impact from redenomination of loans to support profitability improvements in 2019 and expect an EBIT of EUR 41.1m, at an EBIT-margin of 3.7 %.

BUY with a target price of EUR 3.2

We initiate coverage of SRV with a BUY-rating and a target price of EUR 3.2. Our sum-of-the-parts and DCF values are at EUR 3.8 per share. On peer 2019E EV/EBIT SRV trades at a slight premium but taking into consideration an estimate range for the earnings impact of a potential Pearl Plaza exit valuation looks more attractive.

Rating BUY



Share price, EUR (Last trading day's closing price)	2.74
Target price, EUR	3.2
Latest change in recommendation	5-Sep-18
Latest report on company	5-Sep-18
Research paid by issuer:	YES
No. of shares outstanding, '000's	59,581
No. of shares fully diluted, '000's	59,581
Market cap, EURm	163
Free float, %	32.0
Exchange rate	-
Reuters code	SRV1V.HE
Bloomberg code	SRV1V FH
Average daily volume, EURm	0.03
Next interim report	25-Oct-18
Web site	www.srv.fi

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BUY HOLD SELL

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
2016	884	28	3.1%	16	0.15	35.1	0.7	10.4	22.2	0.10
2017	1,099	15	1.4%	5	0.03	108.6	0.5	-6.2	36.1	0.06
2018E	961	1	0.1%	-14	-0.23	-11.9	0.5	4.4	920.7	0.00
2019E	1,100	41	3.7%	27	0.30	9.2	0.4	4.1	11.1	0.08
2020E	1,090	45	4.2%	33	0.38	7.3	0.4	3.8	9.5	0.10

Market cap, EURm	163	BV per share 2018E, EUR	3.8	CAGR EPS 2017-20, %	124.7
Net debt 2018E, EURm	319	Price/book 2018E	0.7	CAGR sales 2017-20, %	-0.3
Enterprise value, EURm	483	Dividend yield 2018E, %	0.0	ROE 2018E, %	-5.9
Total assets 2018E, EURm	855	Tax rate 2018E, %	30.8	ROCE 2018E, %	0.3
Goodwill 2018E, EURm	2	Equity ratio 2018E, %	28.4	PEG, P/E 18/CAGR	0.0

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

Investment summary

Finnish construction project developer

SRV is a Finnish project management contractor that develops and builds commercial and business premises, residential units as well as infrastructure and logistics projects. The company operates in Finland, Russia and Estonia.

Relies largely upon use of subcontractors

The company focuses on project management and construction work is assigned to specialized subcontractors. This somewhat lowers the margin potential but enables SRV to adjust its operations relatively quickly and carry out several large projects. SRV also has relatively capital-intensive business model as the company is developer and investor in many projects.

Focus on selected growth centers in Finland

In both Business Construction and Housing construction, SRV focuses on selected growth centers including Helsinki, Espoo, Tampere, Vantaa, Oulu, Turku and Jyväskylä. SRV is also one of the largest residential developers in the Helsinki Metropolitan area. The long-term target is to increase market share in the apartment building construction in the Helsinki and Tampere regions to over 15% by 2020.

Strong recent year market growth expected to slow down

The Finnish construction market has developed favourably in recent years and new construction volumes have seen large increases. According to the Finnish Construction Federation the Finnish construction market grew by 5% in 2017 in terms of volume. Housing start-ups went up by 22.4% compared to 2016 and amounted to 45,900 units. The construction market growth estimates for 2018 and 2019 are at 2 % and 0 % respectively, with housing start-ups expected to decrease to 40,000 units in 2019.

Long-term financial targets: EBIT-% of 8% sought by the end of 2020

SRV targets to achieve operative operating profit margin of 8% and ROE of at least 15% by the end of 2020. In 2017 the levels were at 2.6 % and 2.0 % respectively. In our view, both targets at current levels are challenging and would require a major improvement both in Finnish and International Operations. According to SRV, substantial growth in developer-contracted projects is also required. We expect an operative operating profit margin of 0.9 %, 3.7 % and 4.2 % for 2018-2020, respectively.

2018 Guidance: sales and operative operating profit expected to decline

SRV expects full-year net sales for 2018 to decline compared to 2017 (net sales EUR 1,114.4m). The operative operating profit is expected to be lower than in 2017 (operative operating profit EUR 27.0m). We expect sales in 2018 to decline mainly due to a lower completion of developer contracting units and lower profitability from the higher than expected costs of the REDI project during H1/18, while expecting some recovery during H2/18, with our 2018 sales and operative operating profit estimates at 960.5m (1,114m) and 0.5m (15.4m) respectively.

Sales growth and improved profitability expected in 2019

We expect group sales growth of 14.5 % in 2019. We expect growth to be mainly attributable to housing construction in Finland following an expected higher completion of developer contracting units, supported by the large number of start-ups in 2017. We also expect profitability to improve significantly, mainly due to the REDI project impact diminishing and the foreign exchange rate impact to decline following redenomination of loans. We expect a group operative operating profit of EUR 41.1m in 2019.

BUY with a target price of EUR 3.2

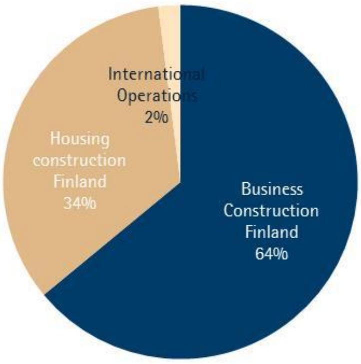
We initiate coverage of SRV with a BUY-rating and a target price of EUR 3.2. Our target price is based on our sum-of-the-parts and DCF values of EUR 3.8 per share along with peer multiples for 2019E. On peer 2019E EV/EBIT SRV trades at a slight premium but taking into consideration an estimate range for the earnings impact of a potential Pearl Plaza exit valuation looks more attractive.

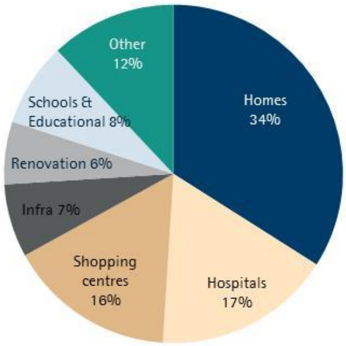
Company overview

Leading player in all main markets

SRV is a Finnish project management contractor that develops and builds commercial and business premises, residential units as well as infrastructure and logistics projects. The company operates in Finland, Russia and Estonia. In 2017 net sales amounted to EUR 1.1 billion and the company had 1,108 employees at the end of 2017.

Figure 1: Revenue split per segment and type, 2017





Source: SRV

Focus on project management

SRV's operating model is based on innovative project development and effective project management. In its projects, SRV is responsible for project management and specific tasks such as design and construction work are assigned to specialized subcontractors. SRV assumes responsibility for project completion according to price, time and quality requirements agreed with the client. SRV's subcontractor network encompasses some 4,000 companies.

Operations in Finland

Finnish operations: Housing and business premises

SRV's Finnish operations include housing and business premises businesses. SRV develops and builds housing, retail premises, offices, logistics centres and hotels, as well as underground construction projects and other special premises for its customers.

Largest hospital builder in Finland

Hospital and wellness construction generated approximately 22 % of SRV's sales during H1/18. The company has several large hospital projects under construction, such as TAYS etupiha in Tampere, Nova Hospital in Jyväskylä and HUS Siltasairaala in Helsinki. The Siltasairaala hospital project in Helsinki was signed in Q1/18, with a target budget of EUR 243 million. The combined value of the hospital-projects was some EUR 703m by the end of 2017.

International operations

Shopping center developer in Russia

International business includes operations in Russia and Estonia. In Russia, the company mainly focuses on developing and building of shopping centers. SRV also has experience in carrying out other commercial premises, offices, hotels and various production and logistics facilities. In geographical terms, operations focus on Moscow and St Petersburg.

Strategy and long-term financial targets

Long-term financial targets renewed in 2018

SRV's strategy and long-term financial targets were approved in February 2018. The targets remained largely unchanged but the company left out its sales target, which was previously to outpace industry growth using large-scale projects. Now the company's primary objective is to improve profitability. The company also prolonged its targets to be achieved in 2022, whereas previous targets were set to be achieved in 2020.

Table 1: SRV's financial objectives

Financial objectives	Previous target	New target as of February 2018:
Growth	Outpace industry growth using large-scale projects	-
Profitability	Operating margin more than 8% by the end of 2020	The operative operating profit margin will rise to 8%* by 2022
Profitability	ROE at least 15% by the end of 2020	ROE will be at least 15% by the end of 2022
Profitability	-	ROI will rise to at least 12% by the end of 2022
Balance sheet	Equity ratio of over 35%	Equity ratio of over 35%
Dividend	Payout ratio 30-50%, taking into account capital needs	Payout ratio 30-50%, taking into account capital needs

*The operative operating profit margin of construction will rise to 8%. Of this objective, 6% will arise from construction margin and 2% from shopping centre rental income as part of associated company holdings.

Targeting operative operating profit margin of 8% by 2022

SRV specified its operating profit target and now expects an operative operating profit margin of 8 %, of which 6% is to arise from construction margin and 2% from shopping center rental income as part of associated company holdings. The company also introduced a new return target according to which ROI will rise to at least 12% by the end of 2022. Targets concerning balance sheet and dividend remained unchanged.

Growth in developer-contracted projects targeted

According to SRV, the achievement of these strategic objectives will be based on moderate but steady economic growth in Finland, and Russia's economy stabilizing at a slightly stronger level. Growth in SRV's developer-contracted projects is also required. SRV seeks to divest shopping centers that are in the management phase when the market situation allows. In order to achieve profitability targets, SRV will seek to boost the efficiency of the company's own operations, as well as implementing a more prudent selection of new projects with regard to profitability and capital commitment.

SRV's guidance for 2018

Expect lower sales and operative operating profit in 2018

SRV expects full-year net sales for 2018 to decline compared to 2017 (net sales EUR 1,114.4m). The operative operating profit is expected to be lower than in 2017 (operative operating profit EUR 27.0m).

Earnings impacted by lower housing completions and weaker margins in certain projects

SRV expects fewer developer-contracted housing units to be completed in 2018 than in the comparison period. It is estimated that a total of 526 housing units will be completed in 2018 (782 in 2017). Although housing will be completed on a steadier schedule in 2018 than in the previous year, a significant part of operating profit will still be made in the second half of the year. In addition, earnings in 2018 will be impacted by the lower-than-expected margins of certain ongoing projects. After 2018, an atypical year, SRV anticipates that it will achieve its strategic earnings level by the end of 2022.

Financial performance

FY2017: Good revenue growth while FX impacted negatively on profits

In 1-12/2017, SRV's revenue increased by 26% and amounted to EUR 1,114.4m (884.1m). Revenue was fueled by growth in Operations Finland, where both Business construction and Housing grew strongly. Large hospital and shopping center projects contributed to the revenue growth. The adjusted operative operating profit improved to EUR 27.0m (26.3m), representing a margin of 2.4% (3.0%). Profitability was supported by growth in Finnish operations and higher recognition of income from developer-contracted housing business, whereas a rise in the costs of certain projects that are under construction had a negative impact on profitability. The operating profit decreased to EUR 15.3m (27.7m) due to the weaker ruble exchange rate, which had an impact of EUR -11.7m.

H1/18: Negative operating profit driven by costs from REDI shopping centre

Revenue during H1/2018 amounted to EUR 451.5m (507.5m), representing a decline of 11.0 % y/y. The decline was driven mainly by lower revenue in housing construction and International operations. Fewer developer contracting housing units were recognized as income compared to the comparison period (H1/18: 202, H1/17: 250). The operating profit during H1/18 was EUR -14.2m (-3.0m). The operating profit was weakened mainly by costs from the REDI shopping centre exceeding expectations.

Improved suppliers' negotiation has had an inverse effect on profits

Due to the good activity in the construction market in Finland, subcontractors and construction material producers have increased their prices. This has had a negative impact on profitability in the construction sector and especially on SRV as the company uses a large subcontractor network to execute projects.

Strong new orders

The order book at the end of 2017 decreased to EUR 1,547.9m (1,758.5m), as many large projects were recorded in the order backlog in the previous year. The order intake has seen healthy development during H1/18, with new orders of EUR 566.7m, driving up the order backlog to EUR 1,734.6m.

High quarterly variation in result

According to SRV, variation in the Group's operating profit and operating profit margin is affected by several factors. SRV's developer-contracted projects are recognized as income upon delivery, while lower-margin contracting projects are recognized as income based on the level of completion.

Construction market outlook

Growth slowing down but outlook for 2018 seems favorable

The overall market conditions in the Finnish construction market have remained favorable but the growth is slowing down. According to the Finnish Construction Federation (Rakennusteollisuus, RT) the Finnish construction market grew by 5% in 2017 in terms of volume. Housing start-ups went up by 22.4% compared to 2016 and amounted to 45,900 units. The estimates for both 2018 and 2019 show a decline in the number of annual start-ups. The number of start-ups is however expected to remain well above 2015-2016 levels. Housing production is focused on small apartments, but construction of bigger apartments has started to pick up.

Total construction market volume expected to grow by 2% in 2018

In 2018, RT expects the total construction volume growth to decelerate from 5% to 2% driven by slower growth in new construction. Housing start-ups are expected to decrease by 4.1% to 44,000 units in 2018. Additionally, the growth in non-residential construction is expected to slow down from 2017.

Apartment building permits may indicate slower growth in Helsinki region

Building permits for apartment buildings have increased strongly since 2014, while permits for terraced houses and detached houses have remained relatively flat. In 2017, building permits were granted for a total of 47,500 houses shows the data collected by

Statistics Finland. A notable aspect is that of the large cities, only Turku and Oulu grew the number of permits. In the Helsinki region, the growth in permits is much slower.

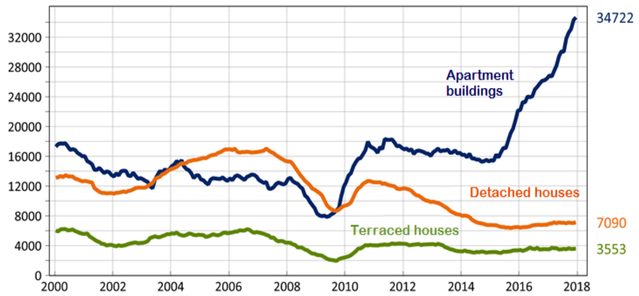
Higher consumer demand driving housing

Over the past two years, consumer demand has considerably improved in the housing market. Record high consumer confidence, decreased unemployment and stronger than expected economic growth have supported households' acquisition of new houses, with investors also having been active. Sales of small apartments in growth centers have remained brisk but now also sales of bigger apartments have recovered.

High consumer confidence in 2018

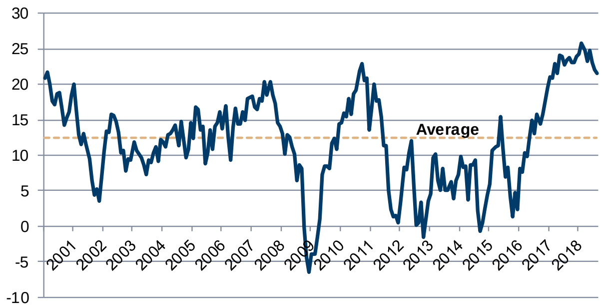
In August, according to Statistics Finland, the consumer confidence amounted to 21.5 (22.0 in July). In 2010s the consumer confidence index has remained significantly lower, with the index having been below 15 from 2011 to 2016. Thereafter the confidence has steadily increased to the current high level. The consumers' confidence in Finland's economy as well as their own economy has been high in 2018. Additionally, consumers' confidence in employment has increased in the first half of 2018. The high confidence on both micro and macro levels is visible in the households' intentions to buy a new house. According to Statistics Finland, 7.4% of households will buy or are likely to buy a new house in the next 12 months. This is higher than the long-term average of 7.0%.

Figure 2: Housing start-ups, variable annual sum 2000-2018



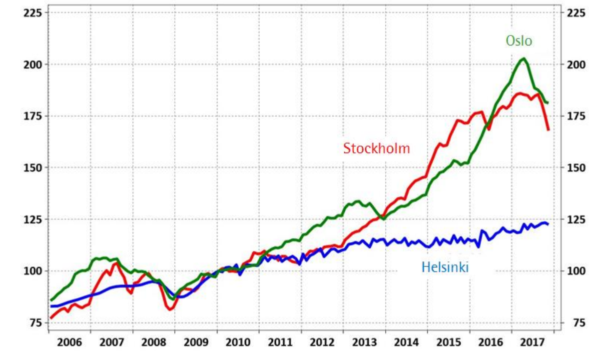
Source: Macrobond, RT

Figure 3: Consumer confidence index, 2001-August 2018



Source: Statistics Finland

Figure 4: House price in the Nordics, 2010=100

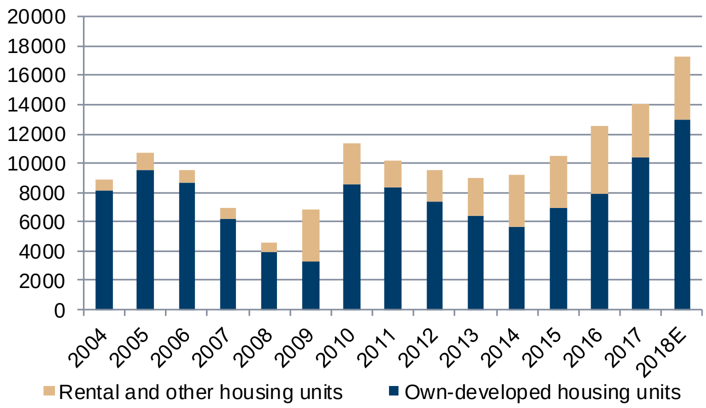


Source: Hypo

Overheating is currently not a significant risk in housing market

Risk of an overheating in housing market is relatively low according to RT. As the house price graph above shows, the overheating seen in Stockholm and Oslo is not present in Helsinki. The five cities seen most at risk of overheating - Seinäjoki, Pori, Kuopio, Rovaniemi & Joensuu – represent only a small share of the total housing market in Finland. In the capital region, years of undersupply and growing migration continue to support the demand, despite rising prices. The capital city region represents roughly 45% of the total own-based residential development market. In other large cities (Tampere, Turku, Oulu and Jyväskylä), supply and demand are in balance, according to RT.

Figure 5: Non-subsidized terraced and apartment housing starts, 2004-2018E



Source: RT

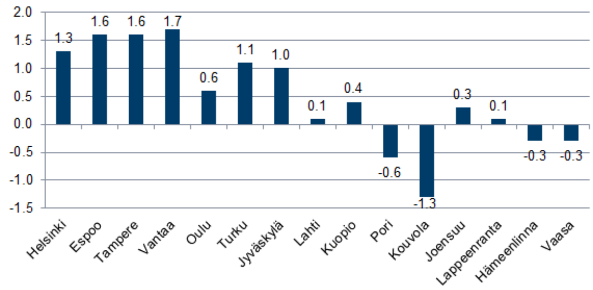
Non-subsidized terraced and apartment housing expected to grow

Residential development start-ups are expected to grow from 10,433 units in 2017 to 12,969 units (+24.3%) in 2018E. Rental and other housing start-ups are also estimated to increase by 20% to 4,280 units in 2018E.

House prices among top-15 cities: price increases especially in the HMA, Tampere & Turku

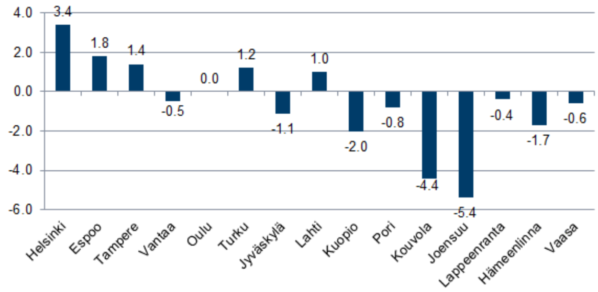
According to data from Statistics Finland, house prices (based on prices of old dwellings) among the larger top-15 cities increased in 2017, especially in Helsinki, Espoo, and Tampere. On the other hand, house prices decreased in the tail of the top-15 cities. In 2017, the average house prices increased by approximately 1%. In the Helsinki Metropolitan Area, house prices went up by almost 3%. Migration continued to be strong in Southern, Central Finland and North-East Finland. Currently, migration volumes exceed new housing production volumes especially in Helsinki. SRV's largest housing projects are in Helsinki, Espoo, Tampere, Vantaa, Oulu, Turku and Jyväskylä, which are the seven largest cities in Finland.

Figure 6: Population changes in 15 largest cities, % (2017)



Source: Statistics Finland

Figure 7: Housing price changes, % (old dwellings, 2017)



Source: Statistics Finland

House prices expected to increase by 3%

Hypo expects the house prices in Helsinki Metropolitan area to increase by 2.5 % in 2018-2019. In total, house prices are expected to increase in Finland by 1.0 % and 1.5% in 2018-2019, respectively.

Growth expected to be strong in Helsinki area

Additionally, Hypo estimates that number of inhabitants grows by 10,000 in Helsinki this year. Within next 25 years, the number of inhabitants in the Helsinki metropolitan area is predicted to increase by 10-15%. The population is projected to grow from 1.4 million to 1.8 million, which means more than 30,000 new homes a year, according to SRV. According to VTT, about 620,000 Finns are expected to move into urban areas by 2040.

Euribor rates to remain negative in 2018

The average mortgage interest rate in Finland is currently at just below 1%. ECB is not expected to raise interest rates this year, while some of the investors had expected the first hike for December 2018. Now the first hike is estimated to take place in H1/2019. As a consequence, Euribor rates should remain negative in 2018.

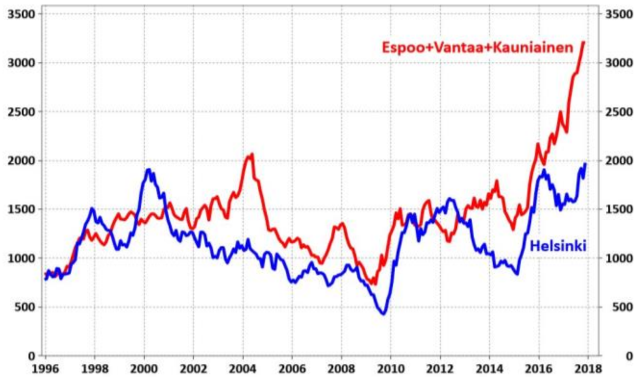
Housing start-ups considerably up in HMA region

In the Helsinki Metropolitan area, the core market for SRV, housing start-ups in units have increased considerably in 2016-2017. Growth rate is lower in square meters as the average size of an apartment has decreased. Still production volumes in units are already higher than in 2000.

Property funds free capital from construction companies' balance sheet

In the recent years, property funds investing in lease land lots have seen advances in the large cities. This somewhat new setting in the Finnish market frees capital from construction companies' balance sheet. The property funds have previously co-operated more with smaller construction firms but as of recently also with larger construction companies. According to Rakennuslehti, currently at least Hypo, Ålandsbanken, Taaleri, FIM and OP operate in the property funds market

Figure 8: Housing start-ups in the Metropolitan area (R12)



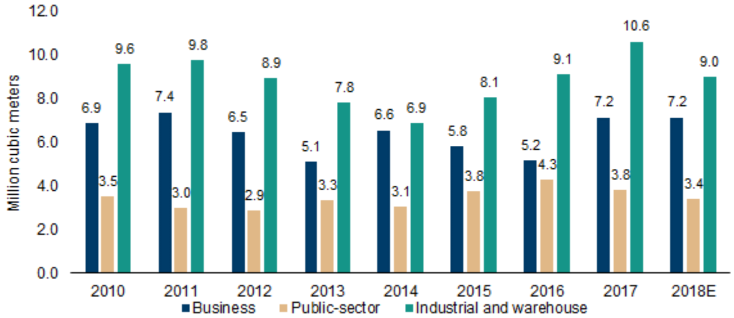
Source: Hypo

Non-housing start-ups projected to slightly decline in 2018

In business construction, the start-up volume (in terms of cubic meters) rose significantly in 2017 with the launch of several major projects. According to forecasts by RT, public service construction start-ups will increase slightly or remain flat this year. In 2017 the non-housing start-ups amounted to 26.4 cubic meters but this year the amount is forecasted to decrease by 1.5 cubic meters. Especially business construction start-ups saw a significant increase in 2017 and the good pace is expected to continue this year although the number of start-ups is not likely to increase but to decrease slightly.

A similar trend can be seen in industrial and warehouse construction – the number of start-ups has increased steadily in the past years but the forecasts show slow decline in the short-term. A different kind of development is present in the public-sector construction. Partly due to social welfare and healthcare reform (SOTE), the hospital start-ups have been numerous but it is expected to slow down as new projects are not initialized. According to RT, the weight in public construction is going to move to school projects.

Figure 9: Non-housing start-ups development by category from 2010 to 2018E



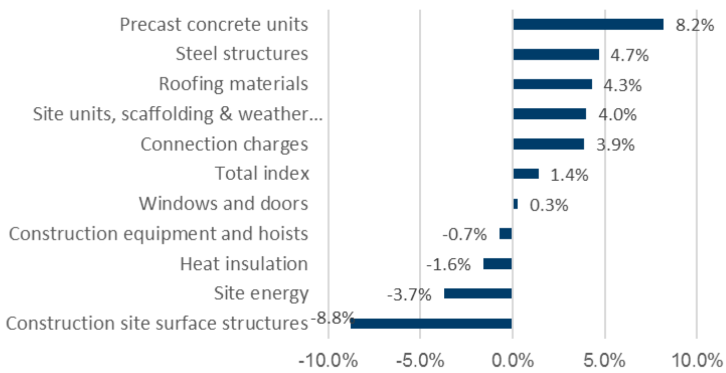
Source: Statistics Finland, RT

Construction costs

Construction costs on the rise

Construction costs have increased mainly due to higher prices of building materials. Strong demand especially in new residential construction has increased producers' capacity utilization rates and price increases have followed. Since 2015, prices of precast concrete units have increased by 8.2%, according to Statistics Finland. Delivery times of concrete units have increased up to 5-6 months. Since 2015, prices of steel structures, roofing materials, site units, scaffolding & weather protection and connection charges have increased approximately 4%. Total construction costs index is up by 1.4%.

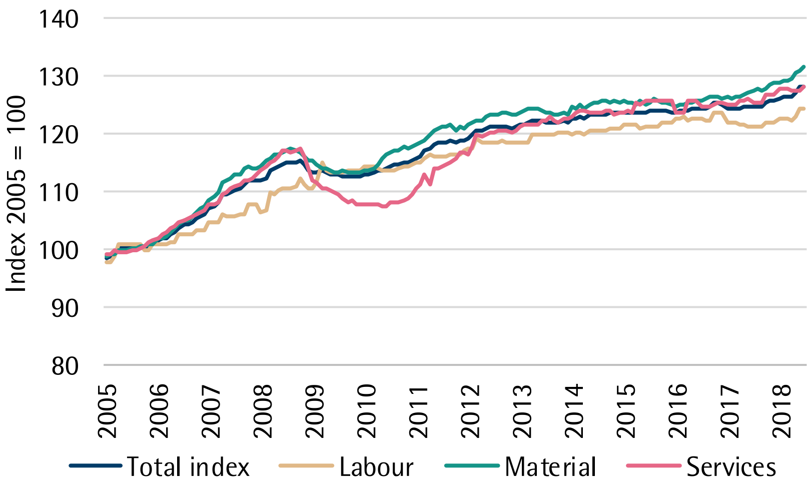
Figure 10: Largest changes in construction costs in Finland, 2015=100



Source: Statistics Finland

In year-on-year comparison, construction costs increased in July 2018 by 2.8 %. The prices of materials went up by 3.2 %. Labor inputs increased by 2.5 % and prices of services were up by 2.2 %.

Figure 11: Construction cost development, 2005-6/2018



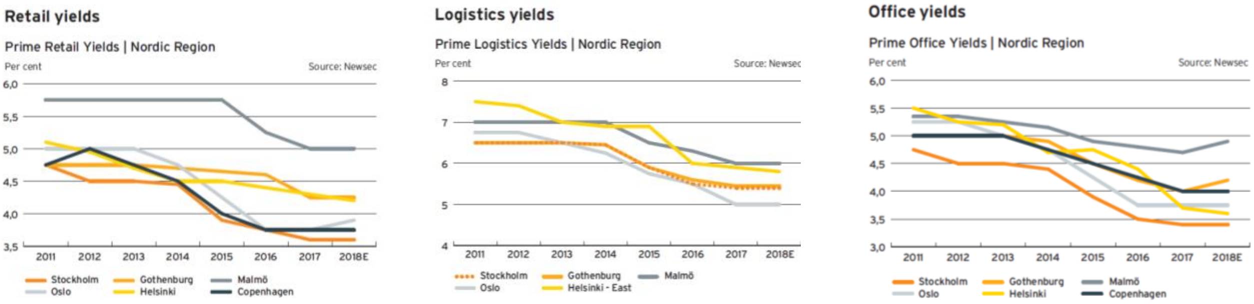
Source: Statistics Finland

Yields

Prime yields down in Helsinki

Prime retail, office and logistics yields in Helsinki have decreased in 2017 supported by an improved investor demand. International investors accounted for almost 70% of the total property transaction volume last year. According to Newsec, prime Helsinki retail yields decreased to 4.3% in 2017 and are expected to go down slightly in 2018. Prime logistics yields are currently slightly below 6% in Helsinki. Helsinki's prime office yields decreased considerably in 2017. The current prime office yield level is now only at 3.7% and Newsec expects yields to continue to decrease in 2018. For a real estate investor, Helsinki still offers yield compression potential, while valuations look unattractive especially in Stockholm and Oslo.

Figure 12: Retail, logistics and office yields in the largest Nordic cities



Source: Newsec

Construction market risks

Construction market risks

In our view, the main risks in the Finnish construction market are: 1) a lack of resources, mainly personnel but also materials, 2) higher construction costs, 3) oversupply of apartment buildings in some regions, 4) availability of land, 5) more intense price competition, and 6) higher interest rates in the long-term.

Business model

Focus on project management

SRV's operating model is based on innovative project development and effective project management. In its projects, SRV is responsible for project management and specific tasks such as design and construction work are assigned to specialized subcontractors. SRV assumes responsibility for project completion according to price, time and quality requirements agreed with the client. The main competitive edges are strong project management skills and efficient implementation of the projects.

Commercial and business premises

SRV is responsible for project completion according to price, time and quality. According to SRV, commercial and business premises construction are typical areas in which the company's business model brings the greatest benefits. The company's project management model is competitive especially in large scale projects.

Own project development units

The company's target is to increase the share of revenue accounted for by its own development projects. SRV has its own project development units in Finland and Russia that are responsible for land acquisition, concept design and finding investors and anchor tenants. Own development projects have clearly higher profitability compared to competitive contracting.

Residential development business offering higher margins

SRV is also a major residential developer especially in the Helsinki region. In the residential development business, SRV acquires plots, takes responsibility of the design and establishes housing corporations. The company owns plots in the growth centers next to good transport connections. To our understanding, residential development business offers the highest margins in the business portfolio.

Takes part also in infra projects

In infra projects, SRV also operates in the role of main contractor. However, many infrastructure projects come ready planned, zoned and financed, which limits potential for value creation. These projects are typically carried out at fixed price.

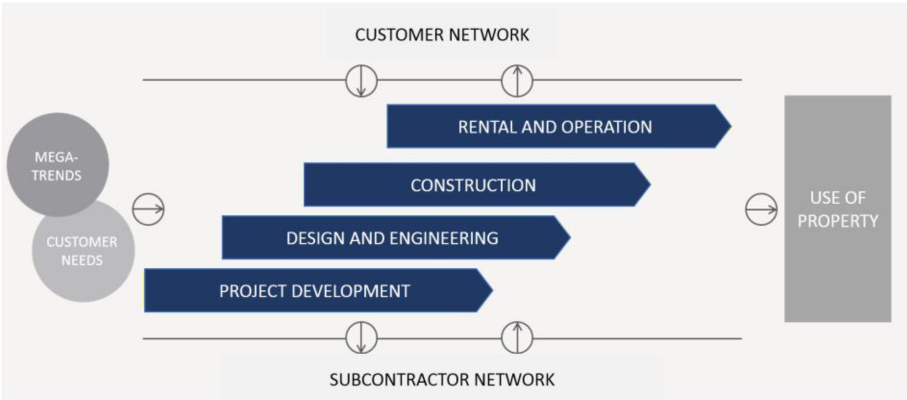
Residential development business offering higher margins

SRV's business model is relatively scalable compared especially to other listed Nordic construction companies. The company uses a large subcontractor network (~4000 companies) annually. This enables SRV to undertake several large-scale projects at the same time. During economic downturns, the company can scale down its operations more quickly. In addition, during an economic downturn subcontractors pricing power is typically weak. During an upturn, subcontractors have more pricing power as they can be more selective with projects.

Own development projects increase risks

Increasing the share of own development projects also increases risks. In the own development projects, SRV bears the risks involved in both sale and construction of such projects. In addition, high share of own development projects typically lowers the return on capital ratios.

Figure 13: SRV model



Source: SRV

Cost structure

High share of variable costs due to operating model

SRV has a network of approximately 4,000 subcontractors. Consequently, the company's variable costs are significantly higher compared to many listed Nordic construction companies. In 2008-2017, variable costs have fluctuated considerably. Ten-year average variable costs share of net sales has been at 88.1%. In 2017, share of variable costs was slightly higher than the ten-year average at 88.3%. Last year, subcontractors pricing power strengthened due to high order books. In addition, prices of building materials increased in 2017.

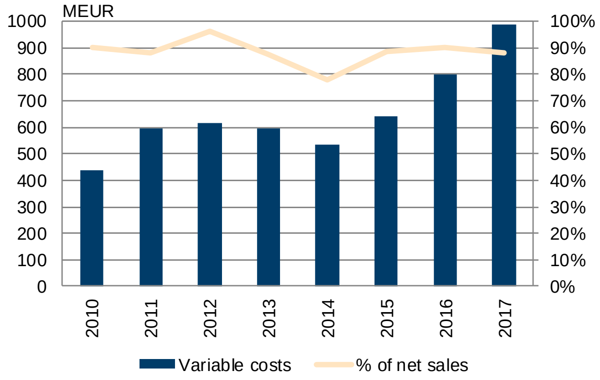
Share of fixed costs has decreased

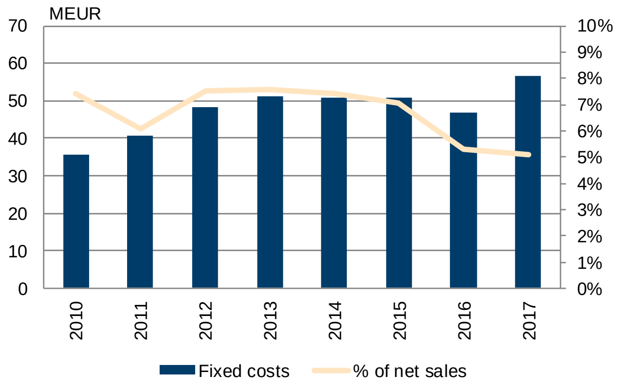
Due to the operating model focusing on project management, SRV's fixed costs are relatively low. In 2008-2017, the company has been able to reduce the share of fixed costs of net sales. In 2017, fixed costs represented 5.1% of the net sales, while the ten-year average is at 6.8%. Since 2014, SRV has reduced its personnel in International Operations by 56 employees. Personnel has grown in Operations Finland and remained steady in Other operations.

Ability to adjust cost structure

Due to the high share of variable costs, SRV can adjust its operations to meet lower demand relatively quickly. For example, in 2014, when the construction market fell by 3.6% the company was able to reduce its variable costs both absolutely and relatively despite higher sales.

Figure 14: SRV's cost structure. Variable costs (left) and fixed costs (right)





Source: SRV

Operations in Finland

Housing construction

SRV operates mainly in seven largest cities in Finland

SRV's largest housing projects are in Helsinki, Espoo, Tampere, Vantaa, Oulu, Turku and Jyväskylä. The company is one of the largest housing companies in the Helsinki Metropolitan Area. Approximately 60% of the net sales were generated by developer-contracted projects and 40% by investor sales in 2017. Over the past five years, SRV has considerably increased its developer-contracted business.

Strong sales growth in 2017, slower progress during H1/18

SRV's housing construction sales grew strongly in 2017, up by 40% compared to the previous year. Sales were fueled by a high number of own-based housing completions. In 2017, SRV completed 782 (503) own-based housing units, with a total recognized income of EUR 209 million. The average house price was at EUR 254k compared to EUR 289k year ago. The decrease was mainly due to higher sales volumes of smaller housing units. During H1/2018 the housing construction sales decreased 16.1 % to EUR 127.2m (EUR 151.6m in H1/2017), following a lower number of developer contracting units recognized as income. The housing construction order backlog was EUR 592m at the end of Q2/18, down 4.6 % y/y.

Significant increase in consumer start-ups up in 2017

SRV increased its consumer start-ups by 124% in 1-12/2017. The start-ups have mainly focused on the capital city region. SRV shifted its focus more on residential development projects – apartments targeted at the consumer market. This had a positive impact on profitability. The company's developing projects under construction decreased by 18% and amounted to 955 (1,127 Q2/2017) at the end of Q2/2018. Start-ups slowed down considerably during H1/18, with only 85 start-ups. According to management this is mainly due to cyclicality and delays in start-ups due to disputes. SRV's unsold completed developer contracting units are at a low level, at 68 units. In 2018, SRV expects to complete 526 (782) housing units, down by 32.7% compared to last year.

38 % houses under construction own-developed projects

Currently, SRV has 3,164 (3,098) housing units under construction, mostly in the Helsinki Metropolitan area and other growth centers in Finland. At the end of Q2/18, 38% of houses under construction were in own-based development projects. SRV only has 68 (124) completed unsold units in its balance sheet.

15,000 new houses in the next 10 years

SRV's long-term target is to build 15,000 new houses in the selected growth centers over the next 10 years. The average construction period in the housing business is about 18 months.

SRV carries out housing projects based on three project models:

Contract type	Construction project	Revenue recognition	Risk profile	Profitability
1) Developer-contracted housing project	Incl. plot acquisition, design, construction and final sale	Recognised when houses completed and sold	High-risk	EBIT-% typically above 10 %*
2) Development project	Incl. plot acquisition, design and construction – project sold to an investor before the start	Percentage of completion	Medium-risk	EBIT-% 5-10%*
3) Contracted project	Launched by others - constructed by the company	Percentage of completion	Low-risk	EBIT-% Below 5%*

*Evli estimate

Source: SRV, Evli research

Business construction

Business premises construction comprise 65% of revenue in Finland

In Business construction, SRV focuses on retail, office, hospital, and logistics construction as well as earthworks and specialized rock construction. The business premises construction accounted for some 65 % of total group revenue in Finland in 2017. Most of the net sales were generated by construction of hospitals and shopping centers.

Hospital projects driving sales, 17% of Group sales

SRV's business construction sales grew by 28.3% and amounted to EUR 717.9 (559.5) million in 2017. Large hospital projects such as TAYS Etupiha in Tampere, Nova in Jyväskylä and New Children's hospital in Helsinki, drove the sales growth. Sales from hospital projects amounted to EUR 187.6 million in 2017, which was 17% of Group sales. SRV is currently the leading hospital constructor in Finland. The total value of the hospital and wellness projects is close to EUR 830 million. During H1/2018 the business construction sales declined by 7 %, to EUR 320.3m.

Two large ongoing own-developed shopping center projects

SRV's two own-developed shopping center projects, REDI in Helsinki and Karuselli in Kerava also supported the sales growth in 2017. Net sales from shopping center construction amounted to EUR 158.5 million or 14% of Group sales. In addition, SRV has multiple ongoing alliance projects that generated sales of EUR 78.1 million in 2017. In addition, SRV is building several educational premises for the public sector.

Alliance projects offering possibility of higher margins

In alliance projects SRV's margins are "above the ordinary level". In these projects, SRV has an opportunity to cooperate with a client in the design phase and lower risks in the project. SRV can also impact on the target price of the project. If the project is completed for less than target price and/ or the project is completed prior to the deadline, SRV can gain additional earnings.

Order book down as comparison year contains large completions

The order book decreased by 21% and amounted to EUR 920.3 (1,164) million at the end of 2017. The order book decreased as many large projects were recorded in the order book in the comparison period. In early 2018, SRV lost two major hospital projects (in Hämeenlinna and Vaasa) to its competitors. SRV has numerous projects in the development phase, which will be included in the order book in 2018. The order book increased by 18.4 % during H1/18 to EUR 1,124.7m, supported by the Siltasairaala Hospital project and Tampere Central Deck and Arena project.

Own construction equipment

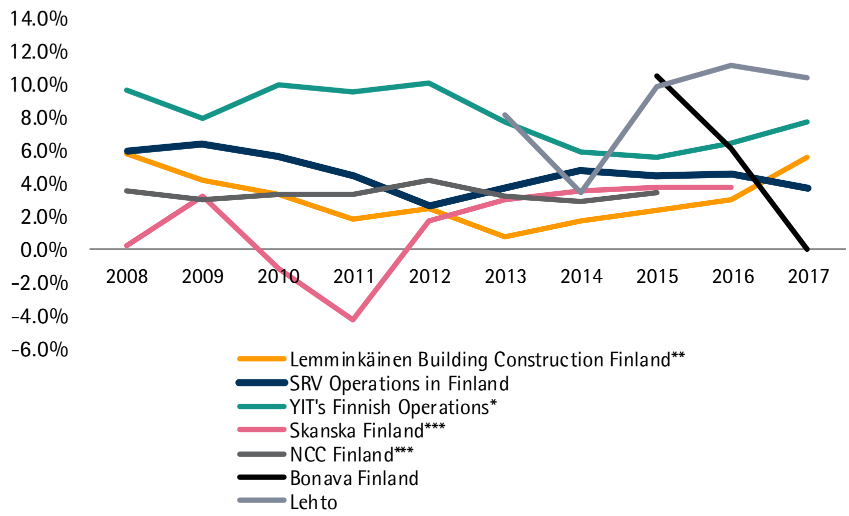
SRV has a construction equipment unit that serves construction business in Finland. The company owns e.g. site units, scaffolding, boring rigs, tower cranes and pile drivers. SRV typically rents lifts and other equipment needed at sites. Investments in tangible and intangible assets were 3.5 (5.4) million in 2017.

Competitor analysis

SRV's margins in line with competitors

We compared SRV's profitability in Finland against the main competitors YIT, Lemminkäinen (now merged with YIT), Skanska, NCC, Bonava and Lehto. The average ten-year EBIT margin among the competitors was 4.7% between 2008 and 2017. SRV's EBIT margin was in line with the competitor average at 4.6%. SRV's profitability has been relatively steady over the years and increasing the share of own-developed projects has supported profitability. Lehto has held the highest margins in the sector mainly due to own manufacturing capacity and effective project execution. Lemminkäinen, Skanska and NCC are below the average due to the high share of contracting in the sales mix.

Figure 15: EBIT margin development of main competitors in Finland

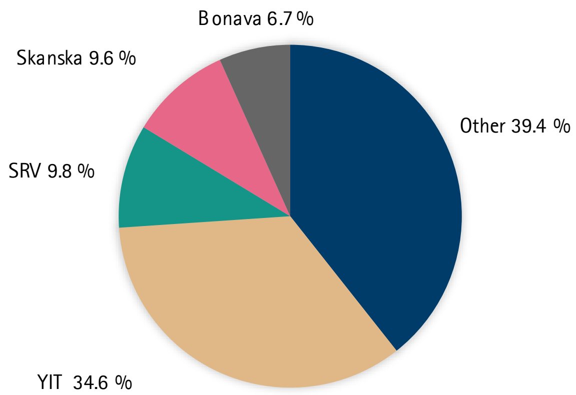


Source: Companies financial statements
*2014-2017 YIT Housing Finland & CEE + Business Premises & Infra, 2008-2013 Construction Services Finland **Lemminkäinen Building Construction 2008-2012 ***Skanska ended reporting of Finnish operations profitability externally in 2017 and NCC in 2016

YIT a clear market leader, SRV among the three largest

Based on 1-12/2017 housing start-ups for consumers, SRV is the second largest listed residential developer in Finland. SRV's market share was 9.8% in 2017. SRV's start-ups are mainly focused on Helsinki Metropolitan Area. YIT (incl. Lemminkäinen) is the clear market leader in Finland, with a market share of 34.6%. Skanska holds an estimated market share of 9.6% and Bonava 6.7% in the developer contracting. As the graph shows, the own-developed housing start-ups market is fragmented and the other players started roughly 40% of the own-developed houses in 2017. Other main residential developers in the Finnish market are Lehto, Pohjola Rakennus, Lujatalo and Hartela along with several smaller players.

Figure 16: Own-developed housing start-ups for consumers in Finland 1-12/2017



Source: Companies financial statements and reports. The total number of developer start-ups from RT. YIT includes Lemminkäinen

International Operations

Investor and responsible of management in three completed shopping centers in Russia

SRV owns and manages three shopping centers in Russia, two in St. Petersburg: Okhta Mall and Pearl Plaza, as well as one in Moscow, 4Daily. As SRV owns shopping centers through its associated companies and joint ventures, their revenue is not presented in SRV's consolidated revenue. The company also has small housing construction operations in Vyborg.

No new shopping centers under construction

The current construction operations include only some finishing and additional work related to the completed shopping centers in Russia. SRV will continue to develop projects in Russia that can be launched when the Group's capital structure allows, and the financial criteria of the properties are fulfilled.

No ongoing shopping center construction have significantly lowered sales

In 2017, net sales from International operations fell by 66 % and amounted to EUR 18.0 (52.4) million. In the comparison period, construction of Okhta Mall and 4Daily were still on-going. Last year sales mainly include finishing and interior works in the Okhta Mall and sales from shopping center management. The order book decreased to EUR 21.2 (32.4) million as no new projects were launched. In 2018, SRV will continue residential projects in Vyborg and continue finishing and additional works in the shopping centers. International operations net sales during H1/18 amounted to EUR 3.5m compared to EUR 11.4m during H1/17.

Profits declined in 2017, driven by high management and financing expenses

The operative operating profit declined from EUR -5.5 million to -6.7 million in 2017. Profitability was burdened by high management and financing expenses from associated companies (shopping centers). During the construction phase, interest expenses are capitalized but once a shopping center is completed interest expenses are presented in full in the result of the company that owns the property. Reported EBIT fell to EUR -18.4 (-4.2) million mainly due to the conversion of euro-denominated loans to rubles and because of the hedging expenses. The H1/18 operative operating profit amounted to EUR -2.4m.

A major negative impact from weaker ruble

SRV's international operations have suffered from the weakening ruble. This has caused a major negative impact on SRV's profits from its Russian operations as ruble denominated revenues have declined. The weakening of the ruble has mostly been driven by lower oil prices.

Figure 17: RUB/EUR rates from January 2008 to Sep 2018

Source: Bank of Finland

Investigating sale of Pearl Plaza

SRV is investigating the possible sale of the Pearl Plaza shopping center. SRV targets to divest its properties after 3-4 years from opening. SRV has now owned 50% of the Pearl Plaza shopping center closer to 5 years and the project is achieving a stable rental income level. SRV is likely to divest its ownership in Pearl Plaza this year or the next. SRV is not likely to divest Okhta Mall or 4Daily any time soon. Okhta Mall was opened in August 2016 and 4Daily in April 2017 and exits would likely take place around 2020-2021.

Ramp up of rental income takes years

During the first few years, shopping centers rental income in Russia is typically impacted by discounts, changing of tenants and relatively weak occupancy ratio. Low rental income is not sufficient to cover all fixed costs and financial expenses, which impacts on the result of associated company holdings. After the ramp-up period, the result improves significantly when target rental income level is achieved.

35 % of SRV's invested capital

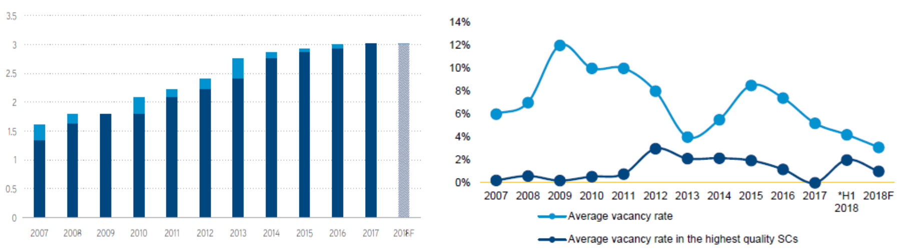
International Operations cover approximately 35% of the company's invested capital. Low return on investment in the business segment has currently a major impact on Group returns.

Market conditions in the Russian shopping center market

Retail vacancy rate at 4.2% in St. Petersburg

In St. Petersburg, retail activity has seen good development. The vacancy rate in the retail market decreased to 4.2% in Q2, according to Colliers market research. According to Colliers, a growing need for re-conception was the main trend last year in the shopping center sector. The occupancy rate in the largest shopping centers reached 100% in 2017, the highest level in ten years. Colliers expects that growing activity of retailers and low commissioning will reduce the vacancy rate to below 3% in 2018. Several shopping centers have announced the execution of re-conceptions in 2018. Only a few new shopping center projects have been announced lately.

Figure 18: St. Petersburg's shopping center year-end completions dynamics (left) and vacancy in 2017 (right)

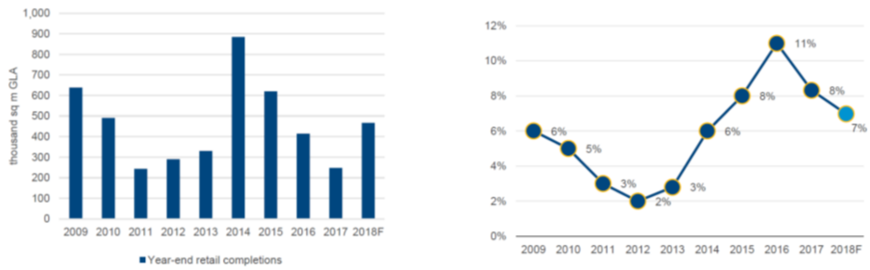


Source: Colliers

Retail completions in Moscow expected to increase in 2018

In the Moscow region, vacancy rate in the retail market decreased from 11% in 2016 to 8.3% in 2017 due to low volume of new retail completions, according to Colliers. The new retail completions by the end of 2017 were at lowest level since 2011. Completions decreased to 247,100 (414,500) square meters. Almost half of the new supply was formed by just one large shopping center (Vegas Kuntsevo). In 2018, retail completions are expected to grow to 466,600 square meters due to several completions of medium-sized shopping centers. Colliers expects the vacancy rate to decrease to 7.0% in 2018. Moscow is expected to remain attractive for retail development supported by intense construction of new residential areas.

Figure 19: Moscow's shopping centers completions dynamics (left) and vacancy (right)



Source: Colliers

Yields 9-10.5 % in the shopping center sector

Foreign investors' confidence in the Russian shopping center market improved in 2017. According to Jones Lang LaSalle (JLL), the typical Moscow prime retail yield is between 9.0 % and 10.5 % for offices and shopping centers. According to Colliers the prime retail yields at the end of 2017 were 9-10 %.

SRV has major stakes in 3 shopping malls

SRV has stakes in three shopping centers and one office building project in Russia. In figure 21, we have included key figures from each project. All the large property development projects in Russia are finished and no new projects have been initialized. The next significant stage for these buildings is the exit. SRV has indicated some preliminary times for exits. However, these exit times cannot be taken for granted as the development of Russian economy clearly has an impact on the process. Nonetheless, we estimated some exit price ranges for these projects using the average Russian shopping center yields of 9% to 10.5%. A summary is presented in figure 21.

Table 2: Key facts of Russian shopping malls and Etmia office

Project	SRV's ownership	Status	Leasable area (square metres)	Assumed net rental level (Evli)	Occupancy ratio %	Potential exit price*	Exit time
Pearl Plaza, shopping center, St. Petersburg	50%	Opened in 8/2013	48,000	EUR 16m	100%	EUR 150-180m	2018-2019
Okhta Mall, shopping center, St. Petersburg	45% + 15%	Opened in 8/2016	78,000	EUR 27m	90%	EUR 255-300m	2020-2021
4Daily, shopping center, Moscow	18.7%	Opened in 4/2017	25,000	EUR 8m	74%	EUR 65-80m	2020-2021
Etmia II office project, Moscow	50%	Ready	6,500	EUR 4m	86%	EUR 38-44m	2020

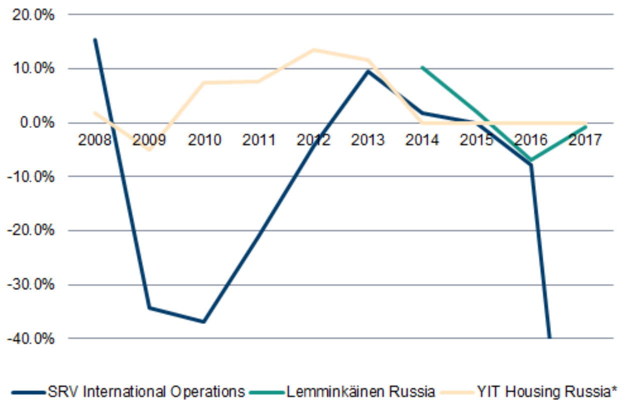
Source: Evli research, SRV. *) Exit range determined using 9-10.5% exit yield and annual net rental level

Competitor analysis

Weaker margins against main peers

We compared SRV International Operations' profitability against the main peers in Russia, YIT Housing Russia segment and Lemminkäinen Russia segment. International Operations' profitability has considerably fluctuated over the past years. Ten-year average EBIT margin is clearly negative and the company has reported figures in the green only in 2008, 2013 and 2014. Lemminkäinen's profitability has been also weak in Russia, four-year average EBIT margin is at 1.1%. The company has not reported its Russian profitability externally in 2008-2013. YIT has reported highest margins in Russia but long-term average EBIT margin (ten-year) is still relatively low at 3.8%. YIT's focus has been in residential development projects. SRV's has built mainly non-residential buildings in Russia during the last ten years. SRV's margins have been low as there has not been any significant exits during the analysis period. In 2013, the company sold 55% stake in the Okhta Mall shopping center project. SRV's project management margin has been eliminated during the construction phase in the shopping center projects and reported at the time of exit. This has had a negative impact on historical profitability.

Figure 20: EBIT margins of SRV, YIT and Lemminkäinen in Russia



Source: Company reports, *2008-2013 including also YIT's operations in the Baltics and CEE countries, SRV including operations in Estonia

Financial position

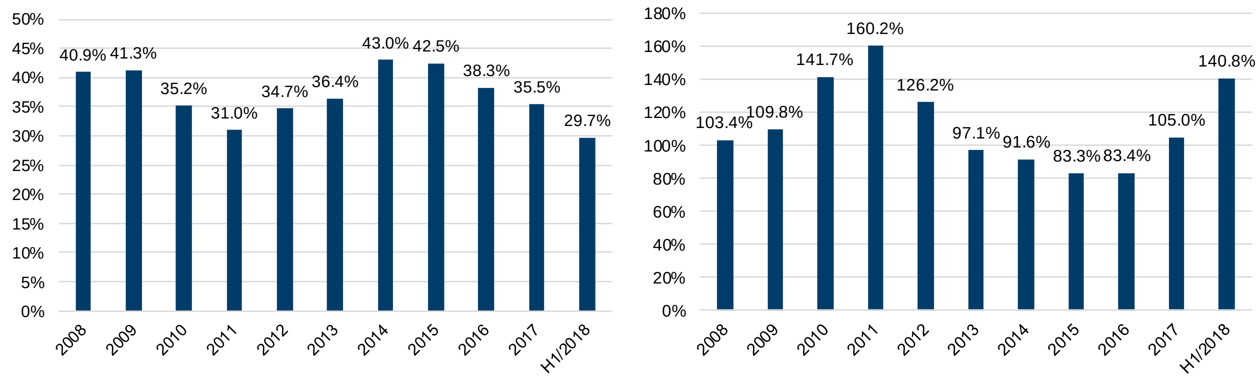
Targeting to lighten balance sheet

SRV is targeting to lighten its balance sheet in 2018-2020. The potential divestment of the Pearl Plaza project would support this target. Equity ratio at the end of Q2/2018 was 29.7 % compared to 35.5% at the end of 2017. SRV's own equity includes a EUR 45 million hybrid bond, with a coupon rate of 8.75%. Increase in net debt and weaker rouble exchange rate along with weaker profitability have had a negative impact on the equity ratio. SRV's cash position weakened considerably in 2017 but saw recovery by Q2/2018. Cash and cash equivalents decreased to EUR 23.5m (54.6) in 2017 but amounted to EUR 53.6m in Q2/2018. Unused committed liquidity facilities, account limit agreements and undrawn project loans amounted to EUR 122 million. Gearing was at a high level, 140.8 % (114.4%) at the end of Q2/2018. In 2018, a EUR 75 million bond was refinanced by the issuance of a EUR 75m 4.875 % coupon bond, maturing in 2022. SRV has a further EUR 100m 6.875 % coupon bond outstanding, maturing in 2021.

High invested capital

The company's property development business and shopping center ownerships in Russia tie capital for a long period of time. Invested capital in International Operations amounted to EUR 227.1 or 34 % of the total invested capital. Operations in Finland represented 60% of the invested capital. Return on investment both in the company's construction operations and real estate development were negative during H1/2018, at -0.9 % and -4.6 % respectively.

Figure 21: SRV's equity ratio (left) and gearing ratio (right) development from 2008 to H1/20178



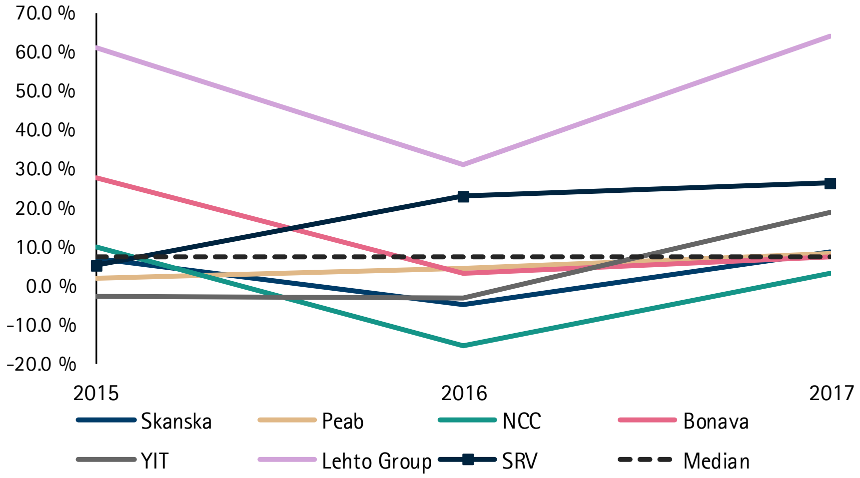
Source: SRV

Profitability against the peers

EBIT margin has not kept up with revenue growth

SRV's revenue has shown good growth, hitting net sales of EUR 1,114.4m in 2017, while at the same time profitability has been challenged. Figures 24 and 25 illustrate SRV's position against its main Nordic peers.

Figure 22: Revenue growth of SRV's main competitors

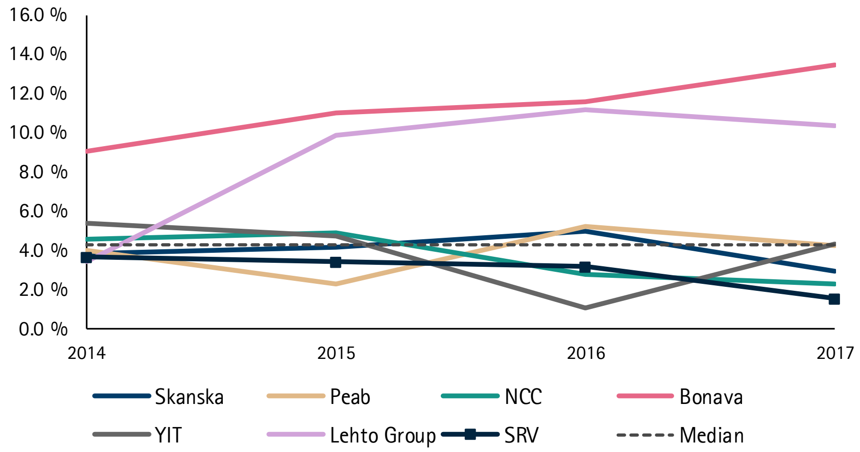


Source: Companies' financial reports

SRV's revenue has grown more than its competitors excluding Lehto

SRV's revenue growth was the second highest of its competitors in 2016 and 2017. Its revenue grew 22.9% and 26.2%, respectively. Only Lehto has been able to increase revenues more in the past two years. NCC spun off Bonava in 2016 which explains its significant decrease in revenues. YIT had negative revenue growth in 2015 and 2016 but an annual revenue growth of 18.8% in 2017. YIT's figures do not include Lemminkäinen. Other competitors had annual revenue growth ranging from -5.0% to 8.6% in the period of 2014-2017.

Figure 23: EBIT margin development of SRV's main competitors



Source: Companies' financial reports

Lehto and Bonava have outperformed other Nordic construction companies

SRV and its main competitors have generated a median 4.2% EBIT margin from 2014 to 2017. Of these companies, Bonava and Lehto Group have outperformed others with EBIT margins significantly above industry median. One of the key reasons for Lehto's success has been its modular business model: it uses repeatable standard solutions in its operations to cut costs. In the construction sector, the productivity has long stagnated and Lehto has been able to increase its productivity with the standard solutions. Bonava, which was spun off from NCC in 2016, has also generated impressive EBIT in the recent years. Like Lehto, Bonava has implemented the modular system into its business which in part explains the high EBIT margin it has generated in the past four years.

SRV's EBIT margin below industry median

Other large Nordic construction companies have had level profit margins in the recent years. SRV has not been able to generate as high profits as its main competitors and the EBIT margin slipped to 1.5% in 2017. The last year's profitability was worse than SRV's competitors and only one third of the median EBIT margin. Another note is that SRV's EBIT margin has steadily decreased from 3.6% in 2014 to the current level. SRV's profitability has been affected by the hefty use of subcontractors as the subcontractors' pricing power has increased during the recent construction boom.

SRV has achieved solid revenue growth but EBIT margin has suffered

Based on competitor analysis of revenue and EBIT margins, SRV has been more successful in growing net sales. It has been able to generate a CAGR of 13% from 2014 to 2017 but at a below peer median level of profitability. SRV's profitability has steadily decreased during the period, with the competitors reporting higher group-level profit margins in 2017.

Estimates

EUR 20.3m negative impact from REDI on H1/18 profitability

SRV's revenue during H1/18 amounted to EUR 451.3m (-11% y/y) while the operative operating profit was EUR -8.5m (EUR 4.6m in H1/17) and EBIT -14.3m (-3.0m in H1/17). Revenue declined in all segments, with roughly half of the decline in housing construction due to completion of fewer developer contracting units. Profitability was affected by the on-going REDI project, with a combined negative impact of EUR 20.3m. Changes in the ruble exchange rate further affected EBIT by EUR -5.7m, caused by conversion of euro-denominated loans to rubles and hedging expenses.

Estimates for 2018

Fewer developer contracting unit completions in 2018

We expect group revenue in 2018 to amount to EUR 960.5m (-13.8% y/y). We expect housing construction in Finland to see a larger decline in revenue due to an expected lower amount of completed developer contracting units, as SRV expects completion of 526 units in 2018 (782 in 2017). We expect the bulk of H2/18 completions in Q4. We expect revenue in housing construction in 2018E to amount to EUR 282.5m (-25.6% y/y).

Expect slight sales decline in business construction in 2018

Business construction in Finland saw strong growth in 2017 (28% y/y) due to several large hospital projects, such as Hospital Nova and the New Children's Hospital, of which the latter was completed during Q2/18. Revenue saw a slight decline during H1/18 to EUR 320.3m, from EUR 344.5m during H1/17. The order book strengthened to EUR 1,124.7m (EUR 950.0m in H2/17), but we do not expect this to be reflected during H2/18 and expect 2018E revenue of EUR 671.m (-6.3 % y/y).

Known REDI cost exceeding accounted for, risks still remain for surprises during H2/18

Profitability in Operations in Finland was burdened mainly by higher-than-expected costs in the fixed-price REDI project, with a negative impact of EUR 20.3m during H1/18. The operative operating profit amounted to EUR -5.4m compared to EUR 10.7m during H1/17. SRV has accounted for the known expected costs exceeding of the project in the financials, wherefore H2/18 should not be affected significantly, but a risk still remains that any new unanticipated costs will affect profitability. We expect profitability to see recovery in H2/18 and an operative operating profit of EUR 16.6m.

International operations burdened by less activity and ruble exchange rates

Revenue in International Operations has seen a declining trend with the completion of shopping centers in Russia and sales during H1/18 declined to EUR 3.5m (EUR 11.4m during H1/17). The on-going projects are limited some additional work on the shopping centers and we do not expect any change to the revenue trend during H2/18. We expect 2018E revenue of EUR 6.5m. The operative operating profit amounted to EUR -2.4m during H1/18 (EUR -3.2m in H1/17), burdened by expenses related to the shopping centers, while EBIT amounted to EUR -8.1m (EUR -10.8m in H1/17). SRV has redenominated euro-denominated loans to rubles in the early half of the year, which decreased the original ruble risk to about a half. We expect profitability to remain negative, with an EBIT of EUR -12.4m (EUR -18.4m).

Estimates for 2019-2020

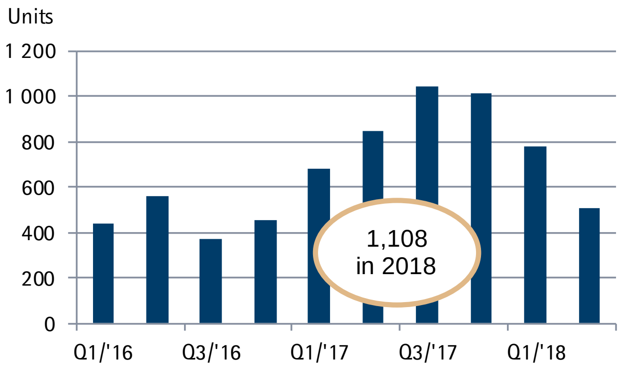
We expect profitability to improve in 2019

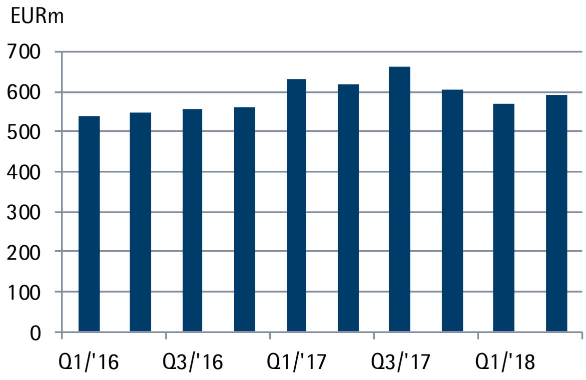
In 2019E and 2020E we expect group revenue of EUR 1,100m and 1,090m respectively. We expect revenue to see growth in 2019 of 14.5 %, mainly due to an expected higher number of developer contracting housing unit completions. We expect EBIT to amount to EUR 41.1m and 45.4m in 2019E and 2020E respectively. Our profitability increases assume improvements in the profitability of Operations in Finland, mainly due from business construction and the completion of the REDI project in 2018, as well as improvements in international operations.

Developer contracting unit start-ups in 2017 support growth from 2019

We expect housing construction in Finland to improve from 2018 levels following an increase in completions of developer contracting units. In 2019E and 2020E we expect revenue of EUR 371.1m and 339.9m respectively, with 800 and 750 developer contracting unit completions respectively. Revenue growth is supported by the large number of start-ups of developer contracting units during 2017 (1,108 units). Start-ups in 2018 have so far been fewer, but SRV expects to see more start-ups in the latter half. The order book and total units under construction have remained at similar levels to the previous year.

Figure 24: Housing construction in Finland developer contracting start-ups (R12m) and orderbook (end of quarter)



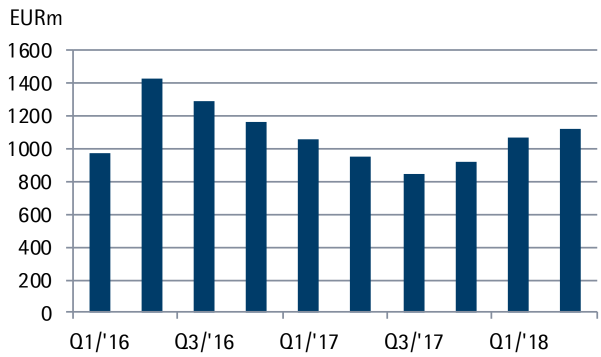


Source: SRV

New projects and construction volume expected to support business construction

In business construction in Finland we expect revenue of EUR 721.2m and 741.2m in 2019E and 2020E respectively. We expect to see growth in revenue, as while for instance the REDI project will be completed during 2018, we estimate new projects and expected increased volumes in existing projects to cover. Construction volumes at the Central Deck and Arena project are estimated to peak during 2019-2020. The order backlog should further be supported by the Helsinki Airport Terminal 2 expansion project, in which SRV has been selected to participate in an alliance.

Figure 25: Business construction orderbook (end of quarter)



Source: SRV

Table 3: Estimates summary

Operative model													
SRV	**2016**	Q1/'17	Q2/'17	Q3/'17	Q4/'17	**2017**	Q1/'18	Q2/'18	Q3/'18E	Q4/'18E	**2018E**	**2019E**	**2020E**
Net sales	**884.0**	**223.7**	**283.9**	**267.8**	**339.0**	**1 114.4**	**215.6**	**235.7**	**216.8**	**292.4**	**960.5**	**1 099.9**	**1 090.1**
sales growth %	*23.0%*	*55.5%*	*29.9%*	*38.8%*	*3.2%*	*26.1%*	*-3.6%*	*-17.0%*	*-19.0%*	*-13.7%*	*-13.8%*	*14.5%*	*-0.9%*
Other operations and elim.	-6.4	0.0	0.0	0.4	0.0	0.4	0.1	0.4	0.0	0.0	0.5	0.0	0.0
Operating EBIT	**26.3**	**2.8**	**1.8**	**8.4**	**14.1**	**27.1**	**-5.1**	**-3.4**	**4.1**	**13.2**	**8.8**	**41.1**	**45.4**
Adjusted EBIT margin	*3.0%*	*1.3%*	*0.6%*	*3.1%*	*4.2%*	*2.4%*	*-2.4%*	*-1.4%*	*1.9%*	*4.5%*	*0.9%*	*3.7%*	*4.2%*
Items affecting comparability	1.4	4.6	-12.2	-1.2	-2.9	-11.7	-3.7	-2.1	-1.5	-1.0	-8.3	0.0	0.0
Reported EBIT	**27.7**	**7.4**	**-10.4**	**7.2**	**11.2**	**15.4**	**-8.8**	**-5.5**	**2.6**	**12.2**	**0.5**	**41.1**	**45.4**
Reported EBIT margin	*3.1%*	*3.3%*	*-3.7%*	*2.7%*	*3.3%*	*1.4%*	*-4.1%*	*-2.3%*	*1.2%*	*4.2%*	*0.1%*	*3.7%*	*4.2%*
Other operations and elim.	-6.3	-0.8	-2.1	-0.1	-1.8	-4.8	0.4	-1.1	-1.0	-2.0	-3.7	-5.0	-5.2
Operations in Finland	**2016**	Q1/'17	Q2/'17	Q3/'17	Q4/'17	**2017**	Q1/'18	Q2/'18	Q3/'18E	Q4/'18E	**2018E**	**2019E**	**2020E**
Net sales	**832.1**	**219.3**	**276.9**	**263.2**	**336.7**	**1 096.1**	**213.8**	**233.5**	**215.3**	**290.9**	**953.5**	**1 092.4**	**1 081.1**
sales growth %	*27.2%*	*66.8%*	*38.2%*	*45.5%*	*5.4%*	*31.7%*	*-2.5%*	*-15.7%*	*-18.2%*	*-13.6%*	*-13.0%*	*14.6%*	*-1.0%*
Business construction	**559.5**	**164.4**	**180.1**	**173.0**	**198.6**	**716.1**	**154.5**	**165.7**	**167.1**	**183.7**	**671.0**	**721.2**	**741.2**
sales growth %		*53.8%*	*25.2%*	*22.3%*	*18.6%*	*28.0%*	*-6.0%*	*-8.0%*	*-3.4%*	*-7.5%*	*-6.3%*	*7.5%*	*2.8%*
Housing construction	**272.6**	**54.8**	**96.8**	**90.2**	**138.1**	**379.9**	**59.3**	**67.8**	**48.2**	**107.2**	**282.5**	**371.1**	**339.9**
sales growth %		*122.8%*	*71.0%*	*128.4%*	*-9.1%*	*39.4%*	*8.2%*	*-30.0%*	*-46.6%*	*-22.4%*	*-25.6%*	*31.4%*	*-8.4%*
Developer contracting units	503	42	221	200	319	782	61	141	55	269	526	800	750
EBIT	***38.2***	**5.0**	**5.7**	**9.7**	**18.2**	**38.6**	**-3.7**	**-1.7**	**6.3**	**15.7**	**16.6**	**43.7**	**45.4**
EBIT margin	*4.6%*	*2.3%*	*2.1%*	*3.7%*	*5.4%*	*3.5%*	*-1.7%*	*-0.7%*	*2.9%*	*5.4%*	*1.7%*	*4.0%*	*4.2%*
International operations	**2016**	Q1/'17	Q2/'17	Q3/'17	Q4/'17	**2017**	Q1/'18	Q2/'18	Q3/'18E	Q4/'18E	**2018E**	**2019E**	**2020E**
Net sales	**52.3**	**4.4**	**7.0**	**4.2**	**2.3**	**17.9**	**1.7**	**1.8**	**1.5**	**1.5**	**6.5**	**7.5**	**9.0**
sales growth %	*-19.8%*	*-64.5%*	*-62.0%*	*-65.3%*	*-75.5%*	*-65.8%*	*-61.4%*	*-74.3%*	*-64.3%*	*-34.8%*	*-63.7%*	*15.4%*	*20.0%*
Operating profit	**-5.6**	**-1.4**	**-1.8**	**-1.2**	**-2.3**	**-6.7**	**-1.8**	**-0.6**	**-1.2**	**-0.5**	**-4.1**	**2.4**	**5.2**
Operating profit margin	*-10.7%*	*-31.8%*	*-25.7%*	*-28.6%*	*-100%*	*-37.4%*	*-106%*	*-33.3%*	*-80.0%*	*-33%*	*-63.1%*	*32.0%*	*57.8%*
Items affecting comparability	1.4	4.6	-12.2	-1.2	-2.9	-11.7	-3.7	-2.1	-1.5	-1.0	-8.3	0.0	0.0
EBIT	***-4.2***	**3.2**	**-14.0**	**-2.4**	**-5.2**	**-18.4**	**-5.4**	**-2.7**	**-2.7**	**-1.5**	**-12.4**	**2.4**	**5.2**
EBIT margin	*-8.0%*	*72.7%*	*-200%*	*-57.1%*	*-226%*	*-103%*	*-318%*	*-150%*	*-180%*	*-100%*	*-191%*	*32.0%*	*57.8%*

Source: Evli research, SRV

No significant new construction activity expected

In International operations we expect limited growth from new construction projects during the near-term. Parking lot construction work at Okhta mall will likely contribute some additional revenue in 2019 but with the somewhat strained economic conditions in Russia we have not anticipated any new projects in our estimates. We expect profitability to see some recovery as the redenomination of loans should decrease exchange rate impacts.

Pearl Plaza exit could trigger income boost

We have not included estimates for the potential exits of shopping centers in our income statement estimates due to the timing and completion uncertainty but have included cash flow estimates and valued cash flows from the projects separately. SRV announced in February 2018 that it is investigating the possible sale of the Pearl Plaza shopping center. We have estimated an exit in 2019 but emphasize that the real estate situation in St. Petersburg has been troublesome, although vacancy rates have been shrinking and the economy has seen some recovery. The timing and terms of an exit therefore involve high uncertainty.

Valuation

BUY-rating with a target price of EUR 3.2

We initiate coverage of SRV with a BUY-rating and a target price of EUR 3.2. Our target price is based on our sum-of-the-parts and DCF values along with peer multiples for 2019E. On peer EV/EBIT 19E SRV trades at a slight premium but taking into consideration an estimate range for the earnings impact of a potential Pearl Plaza exit valuation looks more attractive.

Table 4: Valuation summary

VALUATION	METRIC	Est., EURm	Multiple	EV	Per share	Comments
Operations in Finland	EV/EBIT 19E	44	10x	437	7.3	
Pearl Plaza	NPV	24	1x	24	0.4	Exit '19, yld. 10 %
4Daily	NPV	7	1x	7	0.1	Exit '21, yld. 10 %
Okhta mall	NPV	70	1x	70	1.2	Exit '21, yld. 10 %
REDI	NPV	78	1x	78	1.3	Exit '22, yld. 4.75 %
Etmia II	BV	3	1x	3	0.1	FY2017 BV
International op. plots	BV	85	0.5x	43	0.7	FY2017 BV
Other operations		-8	10x	-80	-1.3	
Net debt				-356	-6.0	Q2/18
Equity value	SOTP			225	3.8	
Equity value	DCF			226	3.8	
Peer multiples	EV/EBIT 19E	41.1	10x	116	2.0	
Peer multiples	EV/EBIT 19E	46.1-49.1	10x	167-197	2.8-3.3	19E EBIT + Pearl Plaza exit
Target price (EUR)					**3.2**	

Source: Evli Research

Sum-of-the-parts equity value EUR 3.8 per share

Our SOTP approach takes into account our 2019E EBIT estimate for construction operations in Finland, at a 10x multiple, based on the peer median, along with separate NPV's for the shopping centers and the Etmia II office building at FY2017 book value. Land-areas and plot-owning companies owned in international operations, not currently under construction, are included at 0.5x FY2017 book value. Other operations include mainly other operations and eliminations. Deducting net interest-bearing debt at the end of Q2/18 gives an equity value of EUR 3.8 per share.

Table 5: Shopping center NPV assumptions

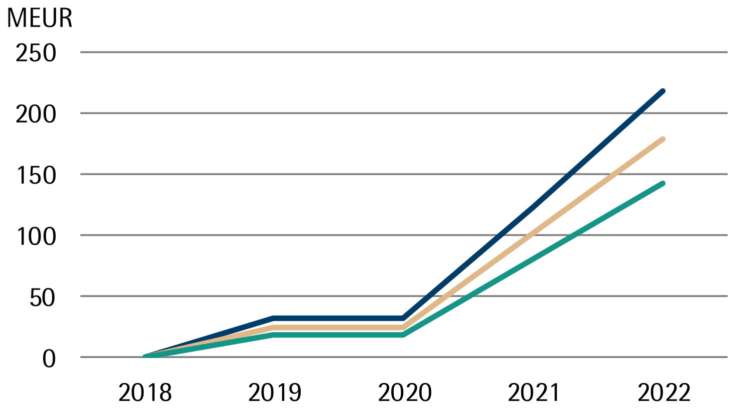
	Pearl Plaza	Okhta Mall	4Daily	REDI
Ownership	50%	45% + 15%	18.7%	40%
Debt financing, EURm	95	100	30	225
Exit year	2019	2021	2021	2022
Target net rental income, EURm	16	27	8	27
Exit yield	10%	10%	10%	4.75%
Exit price, EURm	160	270	80	569
WACC	13%	13%	13%	10%
SRV's share of cash flows, EURm	24	70	7	78

Source: Evli research

NPV estimates highly sensitive to underlying assumptions

Our NPV estimates are highly sensitive to the underlying assumptions. In figure 26 we have depicted the effect of an increase and decrease of the net rental income and exit yield by 5 %. These changes give a lower and upper bound for the estimated cumulative cash flows of some EUR 140-220m.

Figure 26: Cumulative cashflow scenarios



Source: Evli research

Our peer EV/EBIT 2019E multiples on our estimates SRV trades at a slight premium to peers and on a slight discount on the hybrid-adjusted P/E 2019E multiple. As we have not included estimates for the income statement impact of the possible sale of Pearl Plaza we compared multiples using a in our view slightly conservative additional EBIT effect range of EUR 5-8m, giving an EV/EBIT 2019E range of 9.3x-10x, at a slight discount or in line with peers.

Table 6: SRV peer group multiples

	MCAP	EV/EBITDA			EV/EBIT			P/E		
SRV PEER GROUP	MEUR	18E	19E	20E	18E	19E	20E	18E	19E	20E
Skanska	6652	10.8x	9.2x	8.8x	14.4x	11.8x	11.1x	15.1x	13.0x	12.1x
Peab	2294	8.8x	8.7x	8.5x	12.1x	11.8x	11.6x	12.5x	12.5x	12.3x
NCC	1596	9.6x	7.0x	6.5x	15.0x	9.5x	8.6x	15.4x	10.9x	9.9x
AF Gruppen	1270	9.6x	8.8x	8.4x	11.1x	10.0x	9.6x	16.8x	15.2x	14.7x
Veidekke	1114	10.1x	7.2x	6.8x	14.4x	10.4x	9.9x	11.7x	9.7x	9.3x
JM	1226	7.1x	8.7x	8.5x	7.2x	8.8x	8.5x	8.9x	10.9x	10.6x
Bonava	1255	11.2x	12.1x	11.9x	10.5x	11.8x	11.6x	10.8x	11.9x	11.7x
YIT	1174	12.2x	7.8x	7.8x	16.8x	9.8x	9.8x	15.8x	8.5x	8.6x
Lehto Group	485	8.2x	7.0x	6.6x	8.6x	7.7x	7.4x	9.9x	8.4x	7.9x
Peer Group Average	1896	**9.7x**	**8.5x**	**8.2x**	**12.2x**	**10.2x**	**9.8x**	**13.0x**	**11.2x**	**10.8x**
Peer Group Median	1255	**9.6x**	**8.7x**	**8.4x**	**12.1x**	**10.0x**	**9.8x**	**12.5x**	**10.9x**	**10.6x**
SRV (By Evli)*	**164**	**106.8x**	**10.3x**	**8.8x**	**921.8x**	**11.2x**	**9.5x**	**neg.**	**9.2x**	**7.3x**
SRV prem./disc. to peer median		*-*	*19%*	*5%*	*-*	*11%*	*-3%*	*-*	*-16%*	*-31%*

*Source Bloomberg, Evli Research, *hybrid adjusted*

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	2.74	PV of Free Cash Flow	341	Long-term growth, %	2.0	Risk-free interest rate, %	2.25
DCF share value	3.79	PV of Horizon value	232	WACC, %	8.6	Market risk premium, %	5.8
Share price potential, %	38.4	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	3.5
Maximum value	4.4	Marketable securities	24	Minimum WACC, %	8.1	Equity beta coefficient	1.40
Minimum value	3.3	Debt - dividend	-370	Maximum WACC, %	9.1	Target debt ratio, %	45
Horizon value, %	40.5	Value of stock	226	Nr of shares, Mn	59.6	Effective tax rate, %	20

DCF valuation, EURm	2017	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	Horizon
Net sales	1,099	961	1,100	1,090	1,112	1,134	1,157	1,180	1,204	1,228	1,253	1,278
Sales growth, %	*24.3*	*-12.6*	*14.5*	*-0.9*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*
Operating income (EBIT)	15	1	41	45	44	43	44	45	46	47	48	49
EBIT margin, %	*1.4*	*0.1*	*3.7*	*4.2*	*4.0*	*3.8*	*3.8*	*3.8*	*3.8*	*3.8*	*3.8*	*3.8*
+ Depreciation+amort.	6	4	3	4	4	4	7	7	7	7	7	
- Income taxes	2	1	-8	-9	-9	-9	-9	-9	-9	-9	-10	
- Change in NWC	-44	31	3	2	-24	-6	5	6	-6	-6	-6	
NWC / Sales, %	*28.4*	*29.3*	*25.3*	*25.3*	*27.0*	*27.0*	*26.0*	*25.0*	*25.0*	*25.0*	*25.0*	
+ Change in other liabs	10	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-13	-3	-5	-4	-4	-12	-7	-7	-7	-8	-7	-7
Investments / Sales, %	*1.2*	*0.3*	*0.4*	*0.3*	*0.4*	*1.1*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*
- Other items	-18	-4	20	-4	77	78	0	0	0	0	0	
= Unlevered Free CF (FCF)	-43	30	55	35	88	98	40	41	30	31	32	498
= Discounted FCF (DFCF)		30	49	29	67	69	26	25	17	16	15	232
= DFCF min WACC		30	49	29	68	70	27	25	17	16	15	262
= DFCF max WACC		30	49	29	66	68	25	24	16	15	14	206

INTERIM FIGURES

EVLI ESTIMATES, EURm	2017Q1	2017Q2	2017Q3	2017Q4	2017	2018Q1	2018Q2	2018Q3E	2018Q4E	2018E	2019E	2020E
Net sales	224	284	268	323	1,099	216	236	217	292	961	1,100	1,090
EBITDA	8	-9	8	14	21	-8	-5	4	14	5	44	49
EBITDA margin (%)	*3.7*	*-3.3*	*3.1*	*4.3*	*1.9*	*-3.6*	*-2.1*	*1.7*	*4.7*	*0.5*	*4.0*	*4.5*
EBIT	7	-10	7	11	15	-9	-6	3	12	1	41	45
EBIT margin (%)	*3.3*	*-3.7*	*2.7*	*3.5*	*1.4*	*-4.0*	*-2.4*	*1.2*	*4.2*	*0.1*	*3.7*	*4.2*
Net financial items	0	-5	-4	-2	-11	-3	-4	-3	-3	-15	-14	-12
Pre-tax profit	7	-15	3	9	5	-12	-10	-1	9	-14	27	33
Tax	-1	0	0	2	1	2	1	0	2	4	-5	-7
Tax rate (%)	*10.8*	*-0.6*	*0.0*	*-22.3*	*-25.0*	*12.4*	*13.1*	*-20.0*	*-20.0*	*30.8*	*20.0*	*20.0*
Net profit	6	-16	2	10	2	-12	-10	-2	9	-14	18	22
EPS	0.09	-0.28	0.04	0.17	0.03	-0.19	-0.16	-0.03	0.16	-0.23	0.30	0.38
EPS adjusted (diluted no. of shares)	0.09	-0.28	0.04	0.17	0.03	-0.19	-0.16	-0.03	0.16	-0.23	0.30	0.38
Dividend per share	0.00	0.00	0.00	0.00	0.06	0.00	0.00	0.00	0.00	0.00	0.08	0.10
SALES, EURm												
Finnish operations	219	277	263	337	1,096	214	234	215	291	954	1,092	1,081
International	4	7	4	-13	2	2	2	2	2	7	8	9
Other	0	0	0	0	0	0	1	0	0	1	0	0
Total	224	284	268	323	1,099	216	236	217	292	961	1,100	1,090
SALES GROWTH, Y/Y %												
Finnish operations	*66.8*	*38.2*	*45.5*	*5.4*	*31.7*	*-2.5*	*-15.7*	*-18.2*	*-13.6*	*-13.0*	*14.6*	*-1.0*
International	*-64.5*	*-62.0*	*-65.3*	*-241.5*	*-95.6*	*-61.4*	*-74.3*	*-64.3*	*-111.3*	*182.6*	*15.4*	*20.0*
Other	*0.0*	*-100.0*	*299.8*	*-100.1*	*-200.0*	*-*	*-*	*-100.0*	*0.0*	*50.0*	*-99.9*	*0.0*
Total	*55.5*	*30.0*	*38.7*	*-1.6*	*24.3*	*-3.6*	*-16.9*	*-19.0*	*-9.6*	*-12.6*	*14.5*	*-0.9*
EBIT, EURm												
Finnish operations	5	6	10	18	39	-4	-2	6	16	17	44	45
International	3	-14	-2	-5	-18	-5	-3	-3	-1	-12	2	5
Other	-1	-2	0	-2	-5	0	-1	-1	-2	-4	-5	-5
Total	7	-10	7	11	15	-9	-6	3	12	1	41	45
EBIT margin, %												
Finnish operations	*2.3*	*2.1*	*3.7*	*5.4*	*3.5*	*-1.7*	*-0.7*	*2.9*	*5.4*	*1.7*	*4.0*	*4.2*
International	*72.7*	*-200.0*	*-57.1*	*39.1*	*-800.0*	*-317.6*	*-150.0*	*-180.0*	*-100.0*	*-189.2*	*32.0*	*57.8*
Other			*-25.0*		*-1,199.7*	*400.0*	*-240.0*			*-633.3*		
Total	*3.3*	*-3.7*	*2.7*	*3.5*	*1.4*	*-4.0*	*-2.4*	*1.2*	*4.2*	*0.1*	*3.7*	*4.2*

INCOME STATEMENT, EURm	2013	2014	2015	2016	2017	2018E	2019E	2020E
Sales	679	685	719	884	1,099	961	1,100	1,090
Sales growth (%)	*5.9*	*0.8*	*5.1*	*22.9*	*24.3*	*-12.6*	*14.5*	*-0.9*
Costs	-650	-658	-691	-850	-1,078	-956	-1,055	-1,041
Reported EBITDA	30	27	28	34	21	5	44	49
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*4.3*	*3.9*	*3.9*	*3.9*	*1.9*	*0.5*	*4.0*	*4.5*
Depreciation	-3	-2	-3	-7	-6	-4	-3	-4
EBITA	26	25	25	28	15	1	41	45
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	26	25	25	28	15	1	41	45
EBIT margin (%)	*3.9*	*3.6*	*3.4*	*3.1*	*1.4*	*0.1*	*3.7*	*4.2*
Net financials	-4	-6	-7	-11	-11	-15	-14	-12
Pre-tax profit	22	18	18	16	5	-14	27	33
Extraordinary items	0	0	0	0	0	0	0	0
Taxes	-4	-4	-4	-2	1	4	-5	-7
Minority shares	0	0	0	0	0	0	0	0
Net profit	14	10	10	9	2	-14	18	22
BALANCE SHEET, EURm								
Assets								
Fixed assets	121	152	263	295	287	280	277	272
% of sales	*18*	*22*	*37*	*33*	*26*	*29*	*25*	*25*
Goodwill	2	2	2	2	2	2	2	2
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Inventory	365	313	337	400	419	413	418	414
% of sales	*54*	*46*	*47*	*45*	*38*	*43*	*38*	*38*
Receivables	78	84	119	122	146	128	146	145
% of sales	*11*	*12*	*17*	*14*	*13*	*13*	*13*	*13*
Liquid funds	90	18	35	55	24	21	24	23
% of sales	*13*	*3*	*5*	*6*	*2*	*2*	*2*	*2*
Total assets	663	576	763	883	889	855	878	868
Liabilities								
Equity	178	180	232	250	238	225	242	260
% of sales	*26*	*26*	*32*	*28*	*22*	*23*	*22*	*24*
Deferred taxes	3	2	2	4	5	5	5	5
% of sales	*0*	*0*	*0*	*0*	*0*	*1*	*0*	*0*
Interest bearing debt	350	270	311	346	366	340	318	293
% of sales	*52*	*39*	*43*	*39*	*33*	*35*	*29*	*27*
Non-interest bearing current liabilities	121	114	202	253	252	259	286	283
% of sales	*18*	*17*	*28*	*29*	*23*	*27*	*26*	*26*
Other interest free debt	1	0	4	14	18	18	18	18
% of sales	*0*	*0*	*1*	*2*	*2*	*2*	*2*	*2*
Total liabilities	663	576	763	883	889	855	878	868
CASH FLOW, EURm								
+ EBITDA	30	27	28	34	21	5	44	49
- Net financial items	-4	-6	-7	-11	-11	-15	-14	-12
- Taxes	-5	-4	-3	-2	0	4	-5	-7
- Increase in Net Working Capital	34	39	29	-15	-44	31	3	2
+/- Other	9	-8	2	25	-1	-4	20	-4
= Cash flow from operations	62	47	50	31	-35	21	48	29
- Capex	-10	-34	-118	-13	-13	-3	-5	-4
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	52	18	-76	18	-48	19	44	25
+/- Change in interest-bearing debt	5	-81	41	35	20	-27	-22	-25
+/- New issues/buybacks	-2	-3	47	15	-8	3	0	0
- Paid dividend	-2	-4	-4	-6	-6	-4	0	-5
+/- Change in loan receivables	0	-1	5	-43	10	0	0	0
Change in cash	53	-71	12	19	-32	-8	22	-5

KEY FIGURES	2014	2015	2016	2017	2018E	2019E	2020E
M-cap	100	184	322	214	163	163	163
Net debt	251	276	291	343	319	294	269
Enterprise value	352	460	611	555	483	458	433
Sales	685	719	884	1,099	961	1,100	1,090
EBITDA	27	28	34	21	5	44	49
EBIT	25	25	28	15	1	41	45
Pre-tax	18	18	16	5	-14	27	33
Earnings	10	10	9	2	-14	18	22
Book value	179	231	252	240	224	242	259
Valuation multiples							
EV/sales	0.5	0.6	0.7	0.5	0.5	0.4	0.4
EV/EBITDA	13.1	16.5	17.9	26.3	106.7	10.3	8.8
EV/EBITA	14.2	18.8	22.2	36.1	920.7	11.1	9.5
EV/EBIT	14.2	18.8	22.2	36.1	920.7	11.1	9.5
EV/operating cash flow	7.5	9.3	19.7	-16.0	13.0	11.6	10.1
EV/cash earnings	21.7	25.6	29.3	55.7	-83.1	18.3	14.3
P/E	9.8	19.2	35.1	108.6	-11.9	9.2	7.3
P/E excl. goodwill	9.8	19.2	35.1	108.6	-11.9	9.2	7.3
P/B	0.6	0.8	1.3	0.9	0.7	0.7	0.6
P/sales	0.1	0.3	0.4	0.2	0.2	0.1	0.1
P/CF	2.1	3.7	10.4	-6.2	4.4	4.1	3.8
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*973.3*	*11.8*	*10.1*
Target P/E	*15.4*	*42.4*	*32.2*	*10.1*	*-13.9*	*10.7*	*8.5*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*0.9*	*0.8*	*0.7*
Per share measures							
Number of shares	59,229	59,325	59,500	59,500	59,581	59,581	59,581
Number of shares (diluted)	59,229	59,325	59,500	59,500	59,581	59,581	59,581
EPS	0.17	0.16	0.15	0.03	-0.23	0.30	0.38
EPS excl. goodwill	0.17	0.16	0.15	0.03	-0.23	0.30	0.38
Cash EPS	0.27	0.30	0.35	0.17	-0.10	0.42	0.51
Operating cash flow per share	0.79	0.84	0.52	-0.59	0.62	0.66	0.72
Capital employed per share	5.60	5.08	5.55	6.56	6.01	5.98	5.94
Book value per share	3.03	3.90	4.25	4.03	3.76	4.06	4.35
Book value excl. goodwill	3.00	3.87	4.22	4.01	3.73	4.03	4.32
Dividend per share	0.07	0.10	0.10	0.06	0.00	0.08	0.10
Dividend payout ratio, %	41.8	61.8	64.5	180.9	0.0	26.8	26.6
Dividend yield, %	4.2	3.2	1.8	1.7	0.0	2.9	3.6
Efficiency measures							
ROE	5.7	4.7	3.8	0.8	-5.9	7.6	9.0
ROCE	5.6	5.1	5.2	2.9	0.3	7.5	8.4
Financial ratios							
Capex/sales, %	4.9	16.5	1.5	1.2	0.3	0.4	0.3
Capex/depreciation excl. goodwill,%	1,602.7	3,408.1	199.0	236.8	65.4	141.4	97.5
Net debt/EBITDA, book-weighted	9.3	9.9	8.5	16.2	70.5	6.6	5.5
Debt/equity, market-weighted	2.7	1.7	1.1	1.7	2.1	1.9	1.8
Equity ratio, book-weighted	35.3	33.3	30.6	29.0	28.4	29.8	32.4
Gearing	1.39	1.19	1.16	1.44	1.42	1.22	1.04
Number of employees, average	937	1,008	1,081	1,108	1,108	1,108	1,108
Sales per employee, EUR	730,630	713,492	817,761	991,697	867,058	992,653	983,845
EBIT per employee, EUR	26,467	24,306	25,532	13,899	473	37,089	40,980

COMPANY DESCRIPTION: SRV is a Finnish project management contractor that develops and builds commercial and business premises, residential units as well as infrastructure and logistics projects. The company operates in Finland, Russia and Estonia

OWNERSHIP STRUCTURE	SHARES	EURm	%
Kolpi Investments Oy	11,505,457	31.525	19.3%
Kokkila Timo Tapani	7,617,216	20.871	12.8%
Kokkila Tuomas	6,494,422	17.795	10.9%
Kokkila Lauri	6,494,422	17.795	10.9%
Tiiviste-Group Oy	6,411,821	17.568	10.8%
Nordea Life Insurance Finland Ltd.	1,233,843	3.381	2.1%
The State Pension Fund	1,170,000	3.206	2.0%
OP-Suomi Value fund	968,251	2.653	1.6%
Ilmarinen Mutual Pension Insurance Company	962,822	2.638	1.6%
SRV Yhtiöt Oyj	918,599	2.517	1.5%
Ten largest	43,776,853	119.949	73%
Residual	15,804,123	43.303	27%
Total	59,580,976	163.252	100%

EARNINGS CALENDAR	
October 25, 2018	Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS	
CEO: Juha Pekka Ojala	Niittytaival 13
CFO: Ilkka Pitkänen	Tel: +358 20 145 5200

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 Balance sheet 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) $\frac{\text{Turnover}}{\text{Balance sheet total (average)}}$
ROA, % $\frac{\text{Operating profit} + \text{financial income} + \text{extraordinary items}}{\text{Balance sheet total} - \text{interest free short term debt} - \text{long term advances received and accounts payable (average)}}$	Debt/Equity, % $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
ROCE, % $\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non interest bearing debt (average)}}$	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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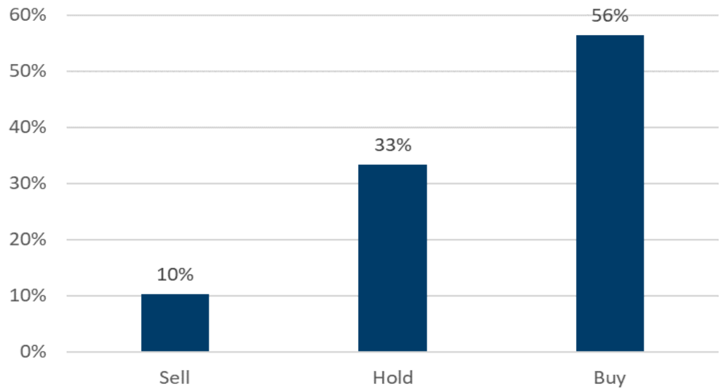
https://research.evli.com/JasperAllModels.action?authParam=key;461&authParam=x;G3rNagWrtf7K&authType=3
Detailed information about the valuation or methodology and the underlying assumptions is accessible via ERP:
http://research.evli.com
Investment recommendations are defined as follows:

Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	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): Salokivi

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