

Weaker margin projects burden EBIT

SRV's Q2 earnings overall were weaker than expected. Revenue was in line with our expectations (Act./Evli EUR 207.4m/209.8m) as Q2 saw the completion of fewer developer-contracted housing units. The operative operating profitability was negative at EUR -3.1m (Evli 2.9m) and clearly weaker than expected, seemingly mainly due to an underestimation of the impact of weaker margin projects.

- SRV's revenue in Q2 amounted to EUR 207.4m (Q2/18: EUR 235.8m), in line with our estimates and below consensus estimates (EUR 209.8m/220.0m Evli/cons.). Revenue in Q2 declined some 12% y/y. Revenue was as expected weaker due to the completion of fewer developer-contracted housing units.
- The operating profit in Q2 amounted to EUR -3.1m (Q2/18: EUR -5.5m), clearly below both our and consensus estimates (EUR 3.6m/2.4m Evli/cons.), at an operating profit margin of -1.5%. The operative operating profit amounted to EUR -3.2m (Evli EUR 2.9m). The deviation seems to arise mainly from an underestimation of the impact on weak margin projects.
- The order backlog remained largely unchanged at EUR 1,667.2m (Q2/18: EUR 1,716.7m)
- SRV issued an EUR 58.4m hybrid bond, of which EUR 20.5m was used to repay an existing hybrid bond and EUR 37.9m for early repayment of existing notes.

Rating 🟡 HOLD

Q2/19	Actual	Evli	Consensus	Year ago	Q1/19
Net sales	207.4	209.8	222.0	235.8	222.6
EBIT	-3.2	3.6	2.4	-5.5	3.3
Adj. EBIT	-3.1	2.9		-3.4	0.5
EPS	-0.18	-0.03	-0.05	-0.15	-0.02
Deviation	Actual	Evli	Consensus	Year ago	Q1/19
Net sales		-1%	-7%	-12%	-7%
EBIT		-	-	42%	-
Adj. EBIT		-		9%	-
EPS		<-100%	<-100%	-17%	<-100%

**Consensus by Bloomberg*

 Share price, EUR (Last trading day's closing price) 1.73

 Target price, EUR 1.9

 Latest change in recommendation 18-Sep-18

 Latest report on company 29-Apr-19

 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 103

 Free float, % 33.2

 Exchange rate 1.000

 Reuters code SRV1V.HE

 Bloomberg code SRV1V.FH

 Average daily volume, EURm 0.149

 Next interim report 17-Jul-19

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+ BUY 🟡 HOLD - SELL

PRE-REPORT 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
2017	1,114	15	1.4%	5	0.04	98.6	0.5	-6.2	36.1	0.06
2018	960	-20	-2.1%	-37	-0.57	-3.0	0.6	-0.8	-30.2	0.00
2019E	1,028	25	2.4%	8	0.03	50.5	0.6	3.1	23.8	0.04
2020E	983	28	2.9%	11	0.07	26.2	0.6	2.3	20.3	0.06
2021E	1,020	35	3.4%	18	0.21	8.4	0.6	103.4	17.4	0.06
Market cap, EURm		103	BV per share 2019E, EUR		3.5	CAGR EPS 2018-21, %				0.0
Net debt 2019E, EURm		484	Price/book 2019E		0.5	CAGR sales 2018-21, %				2.1
Enterprise value, EURm		586	Dividend yield 2019E, %		2.3	ROE 2019E, %				1.0
Total assets 2019E, EURm		1,088	Tax rate 2019E, %		30.1	ROCE 2019E, %				4.4
Goodwill 2019E, EURm		2	Equity ratio 2019E, %		21.2	PEG, P/E 19/CAGR				0.6

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

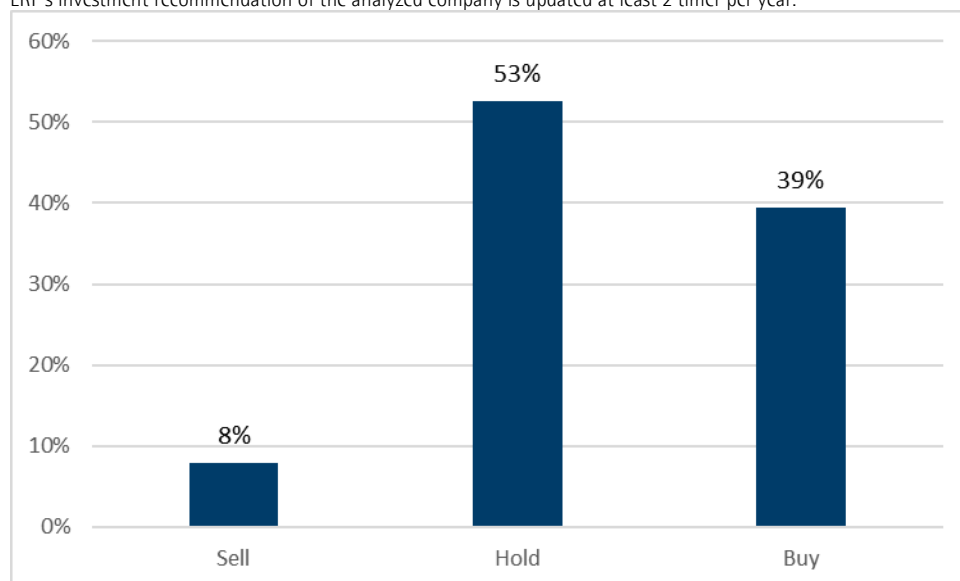
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Investment recommendations are defined as follows:

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

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

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