

Good start to the year

SRV's Q1 results were better than expected, most importantly profitability improved to healthy levels (EBIT Act./Evli EUR 4.5m/-5.1m), and order intake is showing positive development. Steps to improve the financial position continue to be of focus, COVID-induced uncertainty poses a threat to shopping centre exit plans. We retain our HOLD rating with a TP of EUR 1.1 (1.0).

Back to healthier profitability in Q1

SRV's Q1 results were better than expected. Revenue amounted to EUR 208.1m (EUR 187.0m/198.0m Evli/cons.) and EBIT to EUR 4.5m (EUR -5.1m/-0.4m Evli/cons.). Compared to our estimates, profitability was higher mainly due to a misjudgment of FX hedging and the higher revenue. Q1 included EUR 2.1m profit margin eliminations from the sale of holdings in REDI and Tampere Deck and Arena. Overall, Q1 profitability was in our view a clear but still early positive sign of a turnaround. New orders have developed positively so far during 2020, with EUR 198m new orders in Q1.

2020 EBIT estimate raised to 14.8m (4.3m)

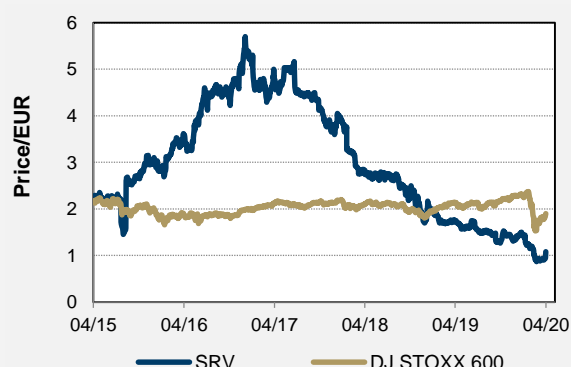
Apart from adjustments based on Q1 figures, our 2020 estimates are largely intact. SRV's estimate for developer-contracted housing unit completions in 2020 was revised to 520 (586), but we had for housing construction already as a precaution to possible near-term housing market uncertainty due to the coronavirus pandemic assumed a clearly lower number of units recognized as income compared to completion guidance. Our revised 2020E estimates for revenue and EBIT are EUR 957.2m (prev. 956.2m) and EUR 14.8m (prev. EUR 4.3m).

HOLD with a target price of EUR 1.1 (1.0)

Following estimates revisions, we adjust our target price to EUR 1.1 (1.0) and retain our HOLD-rating. Q1 showed good progress on the profitability front, next steps will be the measures to improve the financial position. Received commitments support the upcoming rights issues, shopping centre exits will likely see delays due to the COVID-induced uncertainty.

Rating

HOLD



Share price, EUR (Last trading day's closing price) 1.08

Target price, EUR 1.1

Latest change in recommendation 17-Sep-18

Latest report on company 31-Mar-20

Research paid by issuer: YES

No. of shares outstanding, '000's 59,581

No. of shares fully diluted, '000's 151,962

Market cap, EURm 64

Free float, % 33.2

Exchange rate 1.000

Reuters code SRV1V.HE

Bloomberg code SRV1V FH

Average daily volume, EURm 0.06

Next interim report 21-Jul-20

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BUY HOLD SELL

KEY FIGURES

	Sales EURm	EBIT EURm	EBIT %	FCF EURm	EPS EUR	P/E (x)	EV/Sales (x)	EV/EBIT (x)	FCF yield %	DPS EUR
2018	959.9	-19.9	-2.1%	10.7	-0.57	-3.0	0.6	-30.2	10.6	0.00
2019	1,061.0	-93.1	-8.8%	-36.9	-1.80	-0.8	0.6	-6.3	-45.6	0.00
2020E	957.2	14.8	1.5%	80.0	-0.12	-8.8	0.5	29.7	124.3	0.00
2021E	986.0	23.2	2.4%	-31.9	-0.01	-203.7	0.5	20.4	-49.6	0.00
2022E	962.7	25.4	2.6%	73.0	0.01	170.3	0.5	18.2	113.4	0.02
Market cap, EURm			64	Gearing 2020E, %		174.3	CAGR EPS 2019-22, %			0.0
Net debt 2020E, EURm			377	Price/book 2020E		0.4	CAGR sales 2019-22, %			-3.2
Enterprise value, EURm			441	Dividend yield 2020E, %		0.0	ROE 2020E, %			-14.2
Total assets 2020E, EURm			918	Tax rate 2020E, %		3.8	ROCE 2020E, %			3.5
Goodwill 2020E, EURm			2	Equity ratio 2020E, %		23.8	PEG, P/E 20/CAGR			0.0

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

SRV	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20	Q2/'20E	Q3/'20E	Q4/'20E	2020E	2021E	2022E
Revenue	959.6	222.6	207.4	227.1	403.9	1 060.9	208.0	243.4	205.8	299.9	957.1	986.0	962.7
change, %	-13.9%	3.2%	-12.0%	8.9%	34.7%	10.6%	-6.6%	17.4%	-9.4%	-25.7%	-9.8%	3.0%	-2.4%
Operative operating profit	-10.1	0.5	-3.1	-7.0	-87.2	-96.9	5.0	3.8	1.5	5.0	15.3	23.2	25.4
-margin	-1.1%	0.2%	-1.5%	-3.1%	-21.6%	-9.1%	2.4%	1.6%	0.7%	1.7%	1.6%	2.4%	2.6%
Items affecting comparability*	-9.8	2.8	0.0	0.6	0.4	3.8	-0.5	0.0	0.0	0.0	-0.5	0.0	0.0
Operating profit	-19.9	3.3	-3.2	-6.3	-86.8	-93.0	4.5	3.8	1.5	5.0	14.8	23.2	25.4
-margin	-2.1%	1.5%	-1.5%	-2.8%	-21.5%	-8.8%	2.2%	1.6%	0.7%	1.7%	1.5%	2.4%	2.6%
Net financials	-17.5	-3.6	-7.7	-7.6	-10.4	-29.3	-11.1	-6.0	-6.0	-6.0	-29.1	-20.0	-20.0
Pre-tax profit	-37.3	-0.3	-10.8	-14.0	-97.2	-122.4	-6.6	-2.2	-4.5	-1.0	-14.3	3.2	5.4
Income taxes	6.1	0.7	1.9	2.3	13.8	18.7	-1.0	0.4	0.9	0.2	0.5	-0.6	-1.1
Non-controlling interest	1.1	-0.7	0.0	-0.1	0.1	-0.7	1.4	0.0	0.0	0.0	1.4	0.0	0.0
Net earnings	-30.1	-0.4	-9.0	-11.7	-83.3	-104.4	-6.1	-1.8	-3.6	-0.8	-12.3	2.6	4.3
EPS rep.**	-0.56	-0.02	-0.18	-0.22	-1.43	-1.85	-0.13	-0.03	-0.06	-0.02	-0.25	0.01	0.03
Construction	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20	Q2/'20E	Q3/'20E	Q4/'20E	2020E	2021E	2022E
Revenue	955.4	221.9	206.7	225.9	403.1	1 057.6	204.8	242.7	205.1	299.2	951.8	981.1	957.8
change, %		3.4%	-11.9%	8.8%	35.0%	10.7%	-7.7%	17.4%	-9.2%	-25.8%	-10.0%	3.1%	-2.4%
<i>Business construction</i>	666.3	145.4	162.6	171.2	200.5	679.7	154.0	162.2	171.0	183.8	671.0	637.4	627.9
change, %	-7.0%	-6.4%	-2.5%	6.8%	9.0%	2.0%	5.9%	-0.3%	-0.1%	-8.3%	-1.3%	-5.0%	-1.5%
<i>Housing construction</i>	289.1	77.0	43.6	54.7	202.6	377.9	50.8	80.5	34.1	115.4	280.9	343.7	330.0
change, %	-23.9%	29.8%	-35.7%	15.4%	76.8%	30.7%	-34.0%	84.7%	-37.6%	-43.0%	-25.7%	22.4%	-4.0%
Operating profit	-13.4	4.8	2.0	-3.5	3.6	7.0	6.2	6.3	4.0	8.5	25.0	31.4	31.6
-margin	-1.4%	2.2%	1.0%	-1.5%	0.9%	0.7%	3.0%	2.6%	2.0%	2.8%	2.6%	3.2%	3.3%
Investments	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20	Q2/'20E	Q3/'20E	Q4/'20E	2020E	2021E	2022E
Revenue	4.6	1.3	1.5	1.4	1.7	5.9	1.6	1.2	1.2	1.2	5.2	4.8	4.8
change, %		8.3%	25.0%	16.7%	70.0%	28.3%	23.1%	-20.0%	-14.3%	-29.4%	-11.9%	-7.7%	0.0%
Operative operating profit	-7.8	-2.7	-1.9	-3.7	-87.9	-96.2	-1.0	-1.5	-1.5	-1.5	-5.5	-4.0	-2.0
Items affecting comparability*	-9.8	2.8	0.0	0.6	0.4	3.8	-0.5	0.0	0.0	0.0	-0.5	0.0	0.0
Operating profit	-17.6	0.1	-1.9	-3.1	-87.5	-92.4	-1.4	-1.5	-1.5	-1.5	-6.0	-4.0	-2.0
Other operations and elim.	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20	Q2/'20E	Q3/'20E	Q4/'20E	2020E	2021E	2022E
Revenue	-0.4	-0.6	-0.8	-0.3	-0.9	-2.6	1.6	-0.5	-0.5	-0.5	0.1	0.1	0.1
Operating profit	11.1	-1.6	-3.2	0.2	-2.9	-7.6	-0.2	-1.0	-1.0	-2.0	-4.2	-4.2	-4.2

*Foreign exchange rate impact, **incl. tax adjusted hybrid interest

Source: SRV, Evli Research

VALUATION						
	METRIC	Est, EURm	Multiple	EV	Per share*	Comments
Construction	EV/EBIT 20E	25	10.9	250	1.65	Construction peers
4Daily	NPV	6	1x	6	0.04	Exit '22, yld. 10 %
Okhta mall	NPV	56	1x	56	0.37	Exit '22, yld. 10 %
Investments plots	BV	64	0.7x	45	0.30	2019
Assets held for sale	BV	69	1x	69	0.46	2019
Other operations		-4.2	10x	-42	-0.28	2020E EBIT
Net debt				-220	-1.45	2020E
Equity value	SOTP			164	1.08	
Equity value	DCF				1.25	
Target price (EUR)					1.10	

Source: Evli Research

In deriving the per share SOTP-value we have made preliminary assumptions regarding the announced actions to improve financial stability. Due to lack of further information, we have assumed that both share issues will be completed to the amount of given commitments announced in February 2020 and a subscription price of EUR 1.05 in both share issues, which corresponds to the subscription price that commitments for the first planned issue were given at. This would result in an estimated total of EUR 95.5m (57m hybrid conversion + 40m share issue – expense est. EUR 1.5m) decrease in net debt and an increase in shares of 92.4m to a total of 151.96m.

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	1.08 PV of Free Cash Flow	357 Long-term growth, %	2.0 Risk-free interest rate, %	2.25
DCF share value	1.25 PV of Horizon value	338 WACC, %	7.4 Market risk premium, %	5.8
Share price potential, %	16.0 Unconsolidated equity	1 Spread, %	0.5 Debt risk premium, %	3.5
Maximum value	1.6 Marketable securities	28 Minimum WACC, %	6.9 Equity beta coefficient	1.40
Minimum value	0.9 Debt - dividend	-533 Maximum WACC, %	7.9 Target debt ratio, %	60
Horizon value, %	48.7 Value of stock	190 Nr of shares, Mn	152.0 Effective tax rate, %	20

DCF valuation, EURm	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Horizon
Net sales	1,061	957	986	963	982	1,002	1,022	1,042	1,063	1,084	1,106	1,129
<i>Sales growth, %</i>	<i>10.5</i>	<i>-9.8</i>	<i>3.0</i>	<i>-2.4</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>	<i>2.0</i>
Operating income (EBIT)	-93	15	23	25	34	40	41	42	43	43	44	45
<i>Operating income margin, %</i>	<i>-8.8</i>	<i>1.5</i>	<i>2.4</i>	<i>2.6</i>	<i>3.5</i>	<i>4.0</i>	<i>4.0</i>	<i>4.0</i>	<i>4.0</i>	<i>4.0</i>	<i>4.0</i>	<i>4.0</i>
+ Depreciation+amort.	90	9	8	8	8	8	8	8	8	8	8	8
EBITDA	-3	23	31	34	42	48	49	50	51	51	52	
- Paid taxes	-6	-1	-5	-5	-7	-8	-8	-8	-9	-9	-9	
- Change in NWC	-75	51	-30	6	5	5	-5	-5	-5	-5	-6	
<i>NWC / Sales, %</i>	<i>31.3</i>	<i>29.3</i>	<i>31.5</i>	<i>31.6</i>	<i>30.5</i>	<i>29.4</i>	<i>29.4</i>	<i>29.3</i>	<i>29.2</i>	<i>29.1</i>	<i>29.0</i>	
+ Change in other liabs	-4	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-201	-2	-2	-2	-2	-2	-2	-3	-3	-3	-3	
<i>opCAPEX / Sales, %</i>	<i>2.5</i>	<i>0.6</i>	<i>1.0</i>	<i>0.5</i>	<i>0.7</i>	<i>0.7</i>	<i>0.7</i>	<i>0.6</i>	<i>0.6</i>	<i>0.6</i>	<i>0.6</i>	
- Acquisitions	0	0	0	0	0	0	0	0	0	0	0	
+ Divestments	0	0	0	0	0	0	0	0	0	0	0	
- Other items	172	40	-3	59	0	0	35	0	0	0	0	
= FCFF	-38	112	-9	91	38	43	68	34	34	35	35	673
= Discounted FCFF		107	-8	76	29	31	46	21	20	19	18	338
= DFCF min WACC		107	-8	77	30	31	47	22	21	20	18	390
= DFCF max WACC		106	-8	75	29	30	44	20	19	18	17	295

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2E	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	222.6	207.4	227.1	403.9	1,061.0	208.1	243.4	205.8	299.9	957.2	986.0	962.7
EBITDA	6.2	-0.9	-2.0	-6.4	-3.1	6.5	5.8	3.5	7.5	23.3	31.4	33.7
<i>EBITDA margin (%)</i>	<i>2.8</i>	<i>-0.4</i>	<i>-0.9</i>	<i>-1.6</i>	<i>-0.3</i>	<i>3.1</i>	<i>2.4</i>	<i>1.7</i>	<i>2.5</i>	<i>2.4</i>	<i>3.2</i>	<i>3.5</i>
EBIT	3.3	-3.1	-6.4	-86.9	-93.1	4.5	3.8	1.5	5.0	14.8	23.2	25.4
<i>EBIT margin (%)</i>	<i>1.5</i>	<i>-1.5</i>	<i>-2.8</i>	<i>-21.5</i>	<i>-8.8</i>	<i>2.2</i>	<i>1.6</i>	<i>0.7</i>	<i>1.7</i>	<i>1.5</i>	<i>2.4</i>	<i>2.6</i>
Net financial items	-3.6	-7.7	-7.6	-10.4	-29.3	-11.1	-6.0	-6.0	-6.0	-29.1	-20.0	-20.0
Pre-tax profit	-0.3	-10.8	-14.0	-97.3	-122.4	-6.6	-2.2	-4.5	-1.0	-14.3	3.2	5.4
Tax	0.7	1.9	2.3	13.8	18.7	-1.0	0.4	0.9	0.2	0.5	-0.6	-1.1
<i>Tax rate (%)</i>	<i>233.3</i>	<i>17.6</i>	<i>16.4</i>	<i>14.2</i>	<i>15.3</i>	<i>-15.2</i>	<i>20.0</i>	<i>20.0</i>	<i>20.0</i>	<i>3.8</i>	<i>20.0</i>	<i>20.0</i>
Net profit	0.1	-9.8	-12.6	-84.7	-107.2	-9.9	-2.8	-4.4	-1.6	-18.7	-0.8	1.0
EPS	0.00	-0.17	-0.21	-1.42	-1.80	-0.06	-0.02	-0.03	-0.01	-0.12	-0.01	0.01
EPS adjusted (diluted no. of shares)	0.00	-0.17	-0.21	-1.42	-1.80	-0.06	-0.02	-0.03	-0.01	-0.12	-0.01	0.01
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02
SALES, EURm												
Construction	221.9	206.7	226.0	403.1	1,057.7	204.9	242.7	205.1	299.2	951.9	981.1	957.8
Investments	1.3	1.5	1.4	1.7	5.9	1.6	1.2	1.2	1.2	5.2	4.8	4.8
Other	-0.6	-0.8	-0.3	-0.9	-2.6	1.6	-0.5	-0.5	-0.5	0.1	0.1	0.1
Total	222.6	207.4	227.1	403.9	1,061.0	208.1	243.4	205.8	299.9	957.2	986.0	962.7
SALES GROWTH, Y/Y %												
<i>Construction</i>	<i>3.3</i>	<i>-11.9</i>	<i>8.9</i>	<i>35.1</i>	<i>10.7</i>	<i>-7.7</i>	<i>17.4</i>	<i>-9.2</i>	<i>-25.8</i>	<i>-10.0</i>	<i>3.1</i>	<i>-2.4</i>
<i>Investments</i>	<i>8.3</i>	<i>25.0</i>	<i>16.7</i>	<i>70.0</i>	<i>28.3</i>	<i>23.1</i>	<i>-20.0</i>	<i>-14.3</i>	<i>-29.4</i>	<i>-11.9</i>	<i>-7.7</i>	<i>0.0</i>
<i>Other</i>	<i>100.0</i>	<i>0.0</i>	<i>200.0</i>	<i>-400.0</i>	<i>2,500.0</i>	<i>-366.7</i>	<i>-37.5</i>	<i>66.7</i>	<i>-44.4</i>	<i>-103.8</i>	<i>0.0</i>	<i>0.0</i>
Total	3.2	-12.0	8.8	34.8	10.5	-6.5	17.4	-9.4	-25.7	-9.8	3.0	-2.4
EBIT, EURm												
Construction	4.8	2.0	-3.5	3.7	7.0	6.2	6.3	4.0	8.5	25.0	31.4	31.6
Investments	0.1	-1.9	-3.1	-87.6	-92.5	-1.4	-1.5	-1.5	-1.5	-5.9	-4.0	-2.0
Other	-1.6	-3.2	0.2	-3.0	-7.6	-0.2	-1.0	-1.0	-2.0	-4.2	-4.2	-4.2
Total	3.3	-3.1	-6.4	-86.9	-93.1	4.5	3.8	1.5	5.0	14.8	23.2	25.4
EBIT margin, %												
<i>Construction</i>	<i>2.2</i>	<i>1.0</i>	<i>-1.5</i>	<i>0.9</i>	<i>0.7</i>	<i>3.0</i>	<i>2.6</i>	<i>2.0</i>	<i>2.8</i>	<i>2.6</i>	<i>3.2</i>	<i>3.3</i>
<i>Investments</i>	<i>7.7</i>	<i>-126.7</i>	<i>-221.4</i>	<i>-5,152.9</i>	<i>-1,567.8</i>	<i>-89.4</i>	<i>-125.0</i>	<i>-125.0</i>	<i>-125.0</i>	<i>-114.0</i>	<i>-83.3</i>	<i>-41.7</i>
<i>Other</i>	<i>266.7</i>	<i>400.0</i>	<i>-66.7</i>	<i>333.3</i>	<i>292.3</i>	<i>-14.4</i>	<i>200.0</i>	<i>200.0</i>	<i>400.0</i>	<i>-4,230.0</i>	<i>-4,200.0</i>	<i>-4,200.0</i>
Total	1.5	-1.5	-2.8	-21.5	-8.8	2.2	1.6	0.7	1.7	1.5	2.4	2.6

Construction & Engineering/Finland, April 30, 2020
Company update

INCOME STATEMENT, EURm	2015	2016	2017	2018	2019	2020E	2021E	2022E
Sales	719.2	884.0	1,114.1	959.9	1,061.0	957.2	986.0	962.7
<i>Sales growth (%)</i>	<i>5.1</i>	<i>22.9</i>	<i>26.0</i>	<i>-13.8</i>	<i>10.5</i>	<i>-9.8</i>	<i>3.0</i>	<i>-2.4</i>
EBITDA	28.0	34.2	21.1	-14.6	-3.1	23.3	31.4	33.7
<i>EBITDA margin (%)</i>	<i>3.9</i>	<i>3.9</i>	<i>1.9</i>	<i>-1.5</i>	<i>-0.3</i>	<i>2.4</i>	<i>3.2</i>	<i>3.5</i>
Depreciation	-3.5	-6.6	-5.7	-5.3	-90.0	-8.5	-8.2	-8.3
EBITA	24.5	27.6	15.4	-19.9	-93.1	14.8	23.2	25.4
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	24.5	27.6	15.4	-19.9	-93.1	14.8	23.2	25.4
<i>EBIT margin (%)</i>	<i>3.4</i>	<i>3.1</i>	<i>1.4</i>	<i>-2.1</i>	<i>-8.8</i>	<i>1.5</i>	<i>2.4</i>	<i>2.6</i>
Reported EBIT	24.5	27.6	15.4	-19.9	-14.7	14.8	23.2	25.4
<i>EBIT margin (reported) (%)</i>	<i>3.4</i>	<i>3.1</i>	<i>1.4</i>	<i>-2.1</i>	<i>-1.4</i>	<i>1.5</i>	<i>2.4</i>	<i>2.6</i>
Net financials	-6.9	-11.3	-10.7	-17.5	-29.3	-29.1	-20.0	-20.0
Pre-tax profit	17.6	16.3	4.7	-37.4	-122.4	-14.3	3.2	5.4
Taxes	-3.6	-2.1	1.2	6.1	18.7	0.5	-0.6	-1.1
Minority shares	0.0	0.0	0.2	1.1	0.7	0.0	0.0	0.0
Net profit	9.6	9.2	2.2	-34.1	-28.8	-18.7	-0.8	1.0
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	78.4	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	263	295	287	273	122	122	122	122
Goodwill	2	2	2	2	2	2	2	2
Right of use assets	0	0	0	173	149	147	148	144
Inventory	337	400	419	438	372	336	346	338
Receivables	119	122	146	122	204	166	192	188
Liquid funds	35	55	24	93	28	110	79	77
Total assets	763	883	889	1,120	913	918	925	907
Liabilities								
Shareholder's equity	231	252	240	191	95	168	168	169
Minority interest	1	-2	-2	-3	-2	-2	-2	-2
Convertibles	45	45	45	45	83	32	32	32
Lease liabilities	0	0	0	174	150	147	148	144
Deferred taxes	2	4	5	5	3	3	3	3
Interest bearing debt	266	301	321	375	300	309	308	299
Non-interest bearing current liabilities	202	253	252	304	244	220	227	222
Other interest-free debt	4	14	18	9	21	21	21	21
Total liabilities	763	883	889	1,120	914	918	925	907
CASH FLOW, EURm								
+ EBITDA	28	34	21	-15	-3	23	31	34
- Net financial items	-7	-11	-11	-17	-29	-29	-20	-20
- Taxes	-3	-2	0	-1	-1	1	-1	-1
- Increase in Net Working Capital	29	-15	-44	56	-75	51	-30	6
+/- Other	-3	15	2	2	98	40	-3	59
= Cash flow from operations	44	21	-33	26	-11	86	-23	78
- Capex	-118	-13	-24	-15	-26	-6	-9	-5
- Acquisitions	0	0	0	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	-74	8	-57	11	-37	80	-32	73
+/- New issues/buybacks	47	15	-8	-12	-67	92	0	0
- Paid dividend	-5	-6	-6	-4	0	0	0	0
+/- Other	49	2	40	75	39	-90	1	-75
Change in cash	17	20	-31	70	-65	82	-31	-2

Construction & Engineering/Finland, April 30, 2020
Company update

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	322	214	101	81	64	64	64
Net debt (excl. convertibles)	246	298	456	422	346	377	367
Enterprise value	611	555	601	584	441	473	462
Sales	884	1,114	960	1,061	957	986	963
EBITDA	34	21	-15	-3	23	31	34
EBIT	28	15	-20	-93	15	23	25
Pre-tax	16	5	-37	-122	-14	3	5
Earnings	9	2	-34	-107	-19	-1	1
Equity book value (excl. minorities)	252	240	191	95	168	168	169
Valuation multiples							
EV/sales	0.7	0.5	0.6	0.6	0.5	0.5	0.5
EV/EBITDA	17.9	26.3	-41.1	-188.5	18.9	15.1	13.7
EV/EBITA	22.2	36.1	-30.2	-6.3	29.7	20.4	18.2
EV/EBIT	22.2	36.1	-30.2	-6.3	29.7	20.4	18.2
EV/OCF	28.8	-17.1	23.5	-54.5	5.1	-21.0	6.0
EV/FCFF	-20.4	-10.6	26.3	-15.2	3.9	-52.5	5.1
P/FCFE	40.1	-3.8	9.5	-2.2	2.1	-5.1	2.2
P/E	35.1	98.6	-3.0	-0.8	-8.8	-203.7	170.3
P/B	1.3	0.9	0.5	0.9	0.4	0.4	0.4
Target EV/EBITDA	0.0	0.0	0.0	0.0	23.3	18.3	16.7
Target EV/EBIT	0.0	0.0	0.0	0.0	36.6	24.8	22.2
Target EV/FCF	0.0	0.0	0.0	0.0	6.8	-18.0	7.7
Target P/B	0.0	0.0	0.0	0.0	1.0	1.0	1.0
Target P/E	0.0	0.0	0.0	0.0	-8.9	-207.5	173.4
Per share measures							
Number of shares	59,500	59,500	59,581	59,581	151,962	151,962	151,962
Number of shares (diluted)	59,500	59,500	59,581	59,581	151,962	151,962	151,962
EPS	0.15	0.04	-0.57	-1.80	-0.12	-0.01	0.01
Operating cash flow per share	0.36	-0.55	0.43	-0.18	0.56	-0.15	0.51
Free cash flow per share	0.14	-0.96	0.18	-0.62	0.53	-0.21	0.48
Book value per share	4.25	4.03	3.21	1.59	1.11	1.10	1.11
Dividend per share	0.10	0.06	0.00	0.00	0.00	0.00	0.02
Dividend payout ratio, %	64.5	164.3	0.0	0.0	0.0	0.0	315.3
Dividend yield, %	1.8	1.7	0.0	0.0	0.0	0.0	1.9
FCF yield, %	2.5	-26.6	10.6	-45.6	124.3	-49.6	113.4
Efficiency measures							
ROE	3.8	0.9	-15.8	-74.9	-14.2	-0.5	0.6
ROCE	5.2	3.5	-2.1	-12.1	3.5	4.8	5.2
Financial ratios							
Inventories as % of sales	45.3	37.6	45.7	35.1	35.1	35.1	35.1
Receivables as % of sales	13.7	13.1	12.7	19.2	17.3	19.5	19.6
Non-interest bearing liabilities as % of sales	28.7	22.7	31.7	23.0	23.0	23.0	23.0
NWC/sales, %	30.4	28.0	26.7	31.3	29.3	31.5	31.6
Operative CAPEX/sales, %	1.5	2.2	1.5	2.5	0.6	1.0	0.5
CAPEX/sales (incl. acquisitions), %	1.5	2.2	1.5	2.5	0.6	1.0	0.5
FCFF/EBITDA	-0.9	-2.5	-1.6	12.4	4.8	-0.3	2.7
Net debt/EBITDA, book-weighted	7.2	14.1	-31.2	-136.2	14.8	12.0	10.9
Debt/equity, market-weighted	0.9	1.5	3.7	3.7	4.8	4.8	4.6
Equity ratio, book-weighted	36.1	35.5	23.6	21.2	23.8	23.5	24.2
Gearing, %	83.4	105.0	195.1	240.4	174.3	191.1	184.7

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 is also an investor in and manager of several shopping centres. The company operates in Finland and Russia.

INVESTMENT CASE: SRV's road has been bumpy in the past few years and earnings have been in the red despite a construction boom and record high revenue levels. The expected slow-down in construction volumes should alleviate supply chain pressures and along with profitability improvement measures to be taken support bottom-line figures. Successful exits from developed shopping centres remain crucial in improving the company's balance sheet.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Kolpi Investments Oy	11,505,457	4.872	7.6%
Kokkila Timo Tapani	7,617,216	3.225	5.0%
Kokkila Tuomas	6,494,422	2.750	4.3%
Kokkila Lauri	6,494,422	2.750	4.3%
Tiiviste-Group Oy	6,111,821	2.588	4.0%
Nordea Life Insurance Finland Ltd.	1,720,685	0.729	1.1%
The State Pension Fund	1,170,000	0.495	0.8%
Ilmarinen Mutual Pension Insurance Company	962,822	0.408	0.6%
SRV Yhtiöt Oyj	918,599	0.389	0.6%
OP-Suomi Value fund	716,666	0.303	0.5%
Ten largest	43,712,110	18.510	29%
Residual	108,249,790	45.838	71%
Total	151,961,900	64.347	100%

EARNINGS CALENDAR	
July 21, 2020	Q2 report
October 29, 2020	Q3 report
OTHER EVENTS	
March 26, 2020	AGM

COMPANY MISCELLANEOUS	
CEO: Saku Sipola	Tarvonsalmenkatu 15, Espoo
CFO: Ilkka Pitkänen	Tel: +358 20 145 5200
IR:	

DEFINITIONS

P/E	$\frac{\text{Price per share}}{\text{Earnings per share}}$	EPS	$\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$
P/BV	$\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$	DPS	Dividend for the financial period per share
Market cap	Price per share * Number of shares	OCF (Operating cash flow)	EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments
EV (Enterprise value)	Market cap + net debt + minority interest at market value – share of associated companies at market value	FCF (Free cash flow)	Operating cash flow – operative CAPEX – acquisitions + divestments
EV/Sales	$\frac{\text{Enterprise value}}{\text{Sales}}$	FCF yield, %	$\frac{\text{Free cash flow}}{\text{Market cap}}$
EV/EBITDA	$\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$	Operative CAPEX/sales	$\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$
EV/EBIT	$\frac{\text{Enterprise value}}{\text{Operating profit}}$	Net working capital	Current assets – current liabilities
Net debt	Interest bearing debt – financial assets	Capital employed/Share	$\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$
Total assets	Balance sheet total	Gearing	$\frac{\text{Net debt}}{\text{Equity}}$
Div yield, %	$\frac{\text{Dividend per share}}{\text{Price per share}}$	Debt/Equity, %	$\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$
Payout ratio, %	$\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$	Equity ratio, %	$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$
ROCE, %	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$	CAGR, %	Cumulative annual growth rate = Average growth per year
ROE, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

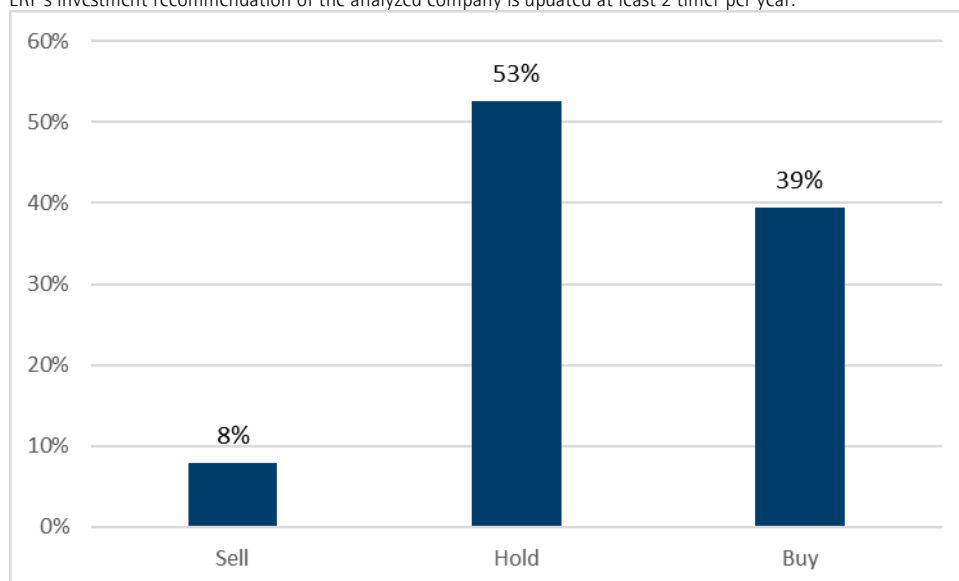
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-10 – (+10) %	HOLD
> 10 %	BUY

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

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