

Upgrade to BUY

SRV's Q2 profitability fell short of our estimates due to one-offs, with revenue and construction profitability slightly better than expected. We have raised our 20-22E EBIT estimates by some 5-10% on a fairly good H1 order intake and higher construction margin expectations. We upgrade our rating to BUY (HOLD) with a target price of EUR 0.66 (0.64).

One-offs affected profitability, good construction margins

SRV's revenue in Q2 grew 28% y/y to EUR 265.0m for a slight expectations beat (EUR 243.4m/243.0m Evli/cons.). The operative operating profit was at EUR 0.5m (Evli 3.8m), affected by an EUR 3.1m provision for expenses recognized due to a ruling by a Russian court as well as recovery programme costs and costs stemming from impacts of the coronavirus. Construction profitability was good and slightly better than expected, with an operative operating profit margin of 2.8% (Evli 2.6%). The effects of the coronavirus were limited, although some additional costs were incurred, and housing sales were slower during April-May. Shopping centres were also affected and in Russia a large share of stores were and remain closed due to restrictions.

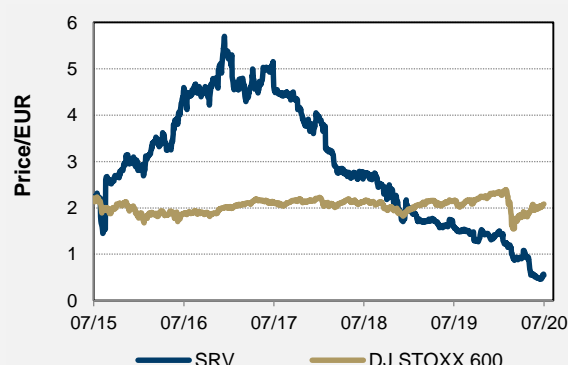
20-22E EBIT estimates raised by some 5-10%

We have post-Q2 raised our 20-22E EBIT estimates by some 5-10%, prompted by a fairly good H1/20 order intake and slightly raised construction margin expectations. The coronavirus pandemic continues to pose a risk, but current recovery prospects in Finland and a higher share of housing units sold to investors in the construction portfolio remain supportive factors.

BUY (HOLD) with a target price of EUR 0.66 (0.64)

Uncertainty of shopping centre exits has increased due to the pandemic and will most likely be delayed, with Pearl Plaza discussions already having been in late stages. On our 21-22E estimates and peer multiples, current valuation levels in our view essentially appear to only assign a value to SRV's construction operations. We upgrade our rating to BUY (HOLD) with a target price of EUR 0.66 (0.64).

Rating

+ BUY


Share price, EUR (Last trading day's closing price) 0.54

Target price, EUR 0.66

Latest change in recommendation 22-Jul-20

Latest report on company 03-Jun-20

Research paid by issuer: YES

No. of shares outstanding, '000's 263,017

No. of shares fully diluted, '000's 263,017

Market cap, EURm 142

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 29-Oct-20

Web site srv.fi/en/investors

Analyst Jerker Salokivi

E-mail jerker.salokivi@evli.com

Telephone +358 9 4766 9149

+ 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	1,008.8	16.2	1.6%	69.9	-0.04	-13.0	0.5	30.2	49.2	0.00
2021E	1,021.0	24.5	2.4%	-7.4	0.01	65.5	0.5	20.3	-5.2	0.00
2022E	996.9	27.7	2.8%	70.8	0.03	19.9	0.5	17.3	49.8	0.01
Market cap, EURm	142			Gearing 2020E, %	161.9			CAGR EPS 2019-22, %	0.0	
Net debt 2020E, EURm	350			Price/book 2020E	0.7			CAGR sales 2019-22, %	-2.1	
Enterprise value, EURm	490			Dividend yield 2020E, %	0.0			ROE 2020E, %	-7.5	
Total assets 2020E, EURm	888			Tax rate 2020E, %	-12.2			ROCE 2020E, %	3.6	
Goodwill 2020E, EURm	2			Equity ratio 2020E, %	25.8			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/'20	Q3/'20E	Q4/'20E	2020E	2021E	2022E
Revenue	959.6	222.6	207.4	227.1	403.9	1 060.9	208.0	265.1	223.6	312.0	1 008.7	1 021.0	996.9
change, %	-13.9%	3.2%	-12.0%	8.9%	34.7%	10.6%	-6.6%	27.8%	-1.5%	-22.8%	-4.9%	1.2%	-2.4%
Operative operating profit	-10.1	0.5	-3.1	-7.0	-87.2	-96.9	5.0	0.5	2.9	5.5	13.9	24.5	27.7
-margin	-1.1%	0.2%	-1.5%	-3.1%	-21.6%	-9.1%	2.4%	0.2%	1.3%	1.8%	1.4%	2.4%	2.8%
Items affecting comparability*	-9.8	2.8	0.0	0.6	0.4	3.8	-0.5	2.7	0.0	0.0	2.2	0.0	0.0
Operating profit	-19.9	3.3	-3.2	-6.3	-86.8	-93.0	4.5	3.3	2.9	5.5	16.2	24.5	27.7
-margin	-2.1%	1.5%	-1.5%	-2.8%	-21.5%	-8.8%	2.2%	1.2%	1.3%	1.8%	1.6%	2.4%	2.8%
Net financials	-17.5	-3.6	-7.7	-7.6	-10.4	-29.3	-11.1	-3.0	-5.0	-5.0	-24.1	-20.0	-17.0
Pre-tax profit	-37.3	-0.3	-10.8	-14.0	-97.2	-122.4	-6.6	0.2	-2.1	0.5	-8.0	4.5	10.7
Income taxes	6.1	0.7	1.9	2.3	13.8	18.7	-1.0	-0.3	0.4	-0.1	-1.0	-0.9	-2.1
Non-controlling interest	1.1	-0.7	0.0	-0.1	0.1	-0.7	0.0	2.5	0.0	0.0	2.5	0.0	0.0
Net earnings	-30.1	-0.4	-9.0	-11.7	-83.3	-104.4	-6.1	2.4	-1.7	0.4	-5.0	3.6	8.6
EPS rep.**	-0.56	-0.02	-0.15	-0.22	-1.43	-1.82	-0.11	0.02	-0.01	0.00	-0.02	0.01	0.03
Construction	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20	Q2/'20	Q3/'20E	Q4/'20E	2020E	2021E	2022E
Revenue	955.4	221.9	206.7	225.9	403.1	1 057.6	204.8	264.1	222.9	311.3	1 003.1	1 015.8	991.7
change, %		3.4%	-11.9%	8.8%	35.0%	10.7%	-7.7%	27.8%	-1.3%	-22.8%	-5.2%	1.3%	-2.4%
<i>Business construction</i>	666.3	145.4	162.6	171.2	200.5	679.7	154.0	182.2	174.9	185.8	696.9	662.1	652.1
change, %	-7.0%	-6.4%	-2.5%	6.8%	9.0%	2.0%	5.9%	12.1%	2.2%	-7.3%	2.5%	-5.0%	-1.5%
<i>Housing construction</i>	289.1	77.0	43.6	54.7	202.6	377.9	50.8	81.9	48.0	125.5	306.2	353.7	339.6
change, %	-23.9%	29.8%	-35.7%	15.4%	76.8%	30.7%	-34.0%	87.8%	-12.2%	-38.1%	-19.0%	15.5%	-4.0%
Operating profit	-13.4	4.8	2.0	-3.5	3.6	7.0	6.2	7.4	5.4	9.0	28.0	33.5	34.7
-margin	-1.4%	2.2%	1.0%	-1.5%	0.9%	0.7%	3.0%	2.8%	2.4%	2.9%	2.8%	3.3%	3.5%
Investments	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20	Q2/'20	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	-4.4	-1.5	-1.5	-8.4	-4.0	-2.0
Items affecting comparability*	-9.8	2.8	0.0	0.6	0.4	3.8	-0.5	2.7	0.0	0.0	2.2	0.0	0.0
Operating profit	-17.6	0.1	-1.9	-3.1	-87.5	-92.4	-1.4	-1.7	-1.5	-1.5	-6.2	-4.0	-2.0
Other operations and elim.	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20	Q2/'20	Q3/'20E	Q4/'20E	2020E	2021E	2022E
Revenue	-0.4	-0.6	-0.8	-0.3	-0.9	-2.6	1.6	-0.2	-0.5	-0.5	0.4	0.4	0.4
Operating profit	11.1	-1.6	-3.2	0.2	-2.9	-7.6	-0.2	-2.4	-1.0	-2.0	-5.6	-5.0	-5.0

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

SRV PEER GROUP	MCAP MEUR	EV/EBITDA			EV/EBIT			P/E		
		20	21	22	20	21	22	20	21	22
Skanska	7958	9.5x	9.3x	8.5x	12.0x	11.9x	11.1x	13.9x	13.7x	12.6x
Peab	2446	10.4x	9.7x	9.4x	15.2x	13.9x	13.1x	12.3x	11.1x	10.5x
NCC	1660	6.6x	6.1x	5.9x	11.3x	9.9x	9.4x	12.5x	11.0x	10.6x
AF Gruppen	1799	10.7x	9.3x	8.5x	14.0x	11.8x	11.1x	23.6x	19.9x	17.1x
Veidekke	1591	9.5x	8.8x	7.7x	16.8x	14.9x	12.1x	14.3x	16.0x	12.7x
JM	1806	13.9x	13.7x	12.2x	13.7x	13.6x	12.1x	14.9x	14.8x	13.1x
YIT	1092	9.6x	9.7x	8.4x	13.4x	13.1x	10.9x	13.1x	11.7x	9.3x
Bonava	648	17.4x	17.0x	13.7x	17.1x	16.7x	13.5x	14.3x	13.6x	10.6x
Lehto Group	81	12.9x	10.5x	8.8x	19.6x	16.5x	23.4x	17.4x	10.3x	7.5x
Peer Group Average	1919	11.2x	10.4x	9.2x	14.8x	13.6x	13.0x	15.1x	13.6x	11.6x
Peer Group Median	1625	10.4x	9.7x	8.5x	14.0x	13.6x	12.1x	14.3x	13.6x	10.6x
SRV (Evli est.)*	142	20.0x	15.2x	13.3x	35.2x	20.3x	17.3x	neg.	65.2x	19.9x

SRV prem./disc. to peer median
92% 57% 57% >100% 50% 43% - >100% 87%
*Source Bloomberg, Evli Research. *EBIT: Operative operating profit*

VALUATION						
	METRIC	Est., EURm	Multiple	EV	Per share	Comments
Construction	EV/EBIT	28	14.0x	392	1.49	2020E, construction peers
4Daily	NPV	6	1x	6	0.02	Exit '22, yld. 10 %
Okhta mall	NPV	48	1x	48	0.18	Exit '22, yld. 10 %
Investments plots	BV	64	0.7x	45	0.17	2019
Assets held for sale + receivables	BV	29	1x	29	0.11	Q2/2020
Other operations		-5.6	10x	-56	-0.21	2020E EBIT
Net debt				-193	-0.73	Q2/2020 incl. hybrid, excl. IFRS 16
Equity value	SOTP			271	1.03	
Equity value	DCF				0.87	
Peer multiples	EV/EBIT 21-22E				0.52-0.55	
	EV/EBITDA 21-22E				0.46-0.49	
Target price (EUR)					0.66	

Source: Evli Research

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC
Current share price	0.54 PV of Free Cash Flow	377 Long-term growth, %	2.0 Risk-free interest rate, %
DCF share value	0.87 PV of Horizon value	354 WACC, %	7.4 Market risk premium, %
Share price potential, %	60.8 Unconsolidated equity	3 Spread, %	0.5 Debt risk premium, %
Maximum value	1.1 Marketable securities	28 Minimum WACC, %	6.9 Equity beta coefficient
Minimum value	0.7 Debt - dividend	-533 Maximum WACC, %	7.9 Target debt ratio, %
Horizon value, %	48.4 Value of stock	228 Nr of shares, Mn	263.0 Effective tax rate, %

DCF valuation, EURm	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Horizon
Net sales	1,061	1,009	1,021	997	1,017	1,037	1,058	1,079	1,101	1,123	1,146	1,169
<i>Sales growth, %</i>	<i>10.5</i>	<i>-4.9</i>	<i>1.2</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	16	25	28	36	41	42	43	44	45	46	47
<i>Operating income margin, %</i>	<i>-8.8</i>	<i>1.6</i>	<i>2.4</i>	<i>2.8</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	8	8	8	8	8	8	8	8	8	8	8
EBITDA	-3	25	33	36	44	50	50	51	52	53	54	
- Paid taxes	-6	3	-5	-6	-7	-8	-8	-9	-9	-9	-9	
- Change in NWC	-75	39	-3	7	5	5	-5	-5	-6	-6	-6	
<i>NWC / Sales, %</i>	<i>31.3</i>	<i>29.0</i>	<i>29.0</i>	<i>29.0</i>	<i>28.0</i>	<i>27.0</i>	<i>27.0</i>	<i>26.9</i>	<i>26.9</i>	<i>26.9</i>	<i>26.9</i>	
+ Change in other liabs	-4	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-201	-8	-2	-2	-2	-2	-2	-3	-3	-3	-3	
<i>opCAPEX / Sales, %</i>	<i>2.5</i>	<i>1.2</i>	<i>1.4</i>	<i>0.5</i>	<i>0.7</i>	<i>0.6</i>	<i>0.6</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	41	-1	52	0	0	35	0	0	0	0	
= FCFF	-38	99	21	87	39	44	69	35	35	36	36	693
= Discounted FCFF		96	19	73	30	32	47	22	21	20	18	354
= DFCF min WACC		96	19	74	31	33	48	23	21	20	19	408
= DFCF max WACC		95	18	72	30	31	46	21	20	19	18	309

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2	2020Q3E	2020Q4E	2020E	2021E	2022E
Net sales	222.6	207.4	227.1	403.9	1,061.0	208.1	265.1	223.6	312.0	1,008.8	1,021.0	996.9
EBITDA	6.2	-0.9	-2.0	-6.4	-3.1	6.5	5.1	4.9	8.0	24.5	32.6	36.1
<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>1.9</i>	<i>2.2</i>	<i>2.6</i>	<i>2.4</i>	<i>3.2</i>	<i>3.6</i>
EBIT	3.3	-3.1	-6.4	-86.9	-93.1	4.5	3.3	2.9	5.5	16.2	24.5	27.7
<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>1.2</i>	<i>1.3</i>	<i>1.8</i>	<i>1.6</i>	<i>2.4</i>	<i>2.8</i>
Net financial items	-3.6	-7.7	-7.6	-10.4	-29.3	-11.1	-3.1	-5.0	-5.0	-24.2	-20.0	-17.0
Pre-tax profit	-0.3	-10.8	-14.0	-97.3	-122.4	-6.6	0.2	-2.1	0.5	-8.0	4.5	10.7
Tax	0.7	1.9	2.3	13.8	18.7	-1.0	-0.3	0.4	-0.1	-1.0	-0.9	-2.1
<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>157.9</i>	<i>20.0</i>	<i>20.0</i>	<i>-12.2</i>	<i>20.0</i>	<i>20.0</i>
Net profit	0.1	-9.8	-12.6	-84.7	-107.2	-9.9	1.0	-2.0	0.0	-10.9	2.2	7.1
EPS	0.00	-0.17	-0.21	-1.42	-1.80	-0.04	0.00	-0.01	0.00	-0.04	0.01	0.03
EPS adjusted (diluted no. of shares)	0.00	-0.17	-0.21	-1.42	-1.80	-0.04	0.00	-0.01	0.00	-0.04	0.01	0.03
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	0.01
SALES, EURm												
Construction	221.9	206.7	226.0	403.1	1,057.7	204.9	264.1	222.9	311.3	1,003.2	1,015.8	991.7
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	-0.2	-0.5	-0.5	0.4	0.4	0.4
Total	222.6	207.4	227.1	403.9	1,061.0	208.1	265.1	223.6	312.0	1,008.8	1,021.0	996.9
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>27.8</i>	<i>-1.4</i>	<i>-22.8</i>	<i>-5.2</i>	<i>1.3</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>-75.0</i>	<i>66.7</i>	<i>-44.4</i>	<i>-115.4</i>	<i>0.0</i>	<i>0.0</i>
Total	3.2	-12.0	8.8	34.8	10.5	-6.5	27.8	-1.5	-22.8	-4.9	1.2	-2.4
EBIT, EURm												
Construction	4.8	2.0	-3.5	3.7	7.0	6.2	7.3	5.4	9.0	27.9	33.5	34.7
Investments	0.1	-1.9	-3.1	-87.6	-92.5	-1.4	-1.7	-1.5	-1.5	-6.1	-4.0	-2.0
Other	-1.6	-3.2	0.2	-3.0	-7.6	-0.2	-2.4	-1.0	-2.0	-5.6	-5.0	-5.0
Total	3.3	-3.1	-6.4	-86.9	-93.1	4.5	3.3	2.9	5.5	16.2	24.5	27.7
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>2.8</i>	<i>2.4</i>	<i>2.9</i>	<i>2.8</i>	<i>3.3</i>	<i>3.5</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>-139.2</i>	<i>-125.0</i>	<i>-125.0</i>	<i>-117.3</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>1,185.0</i>	<i>200.0</i>	<i>400.0</i>	<i>-1,400.0</i>	<i>-1,250.0</i>	<i>-1,250.0</i>
Total	1.5	-1.5	-2.8	-21.5	-8.8	2.2	1.2	1.3	1.8	1.6	2.4	2.8

Construction & Engineering/Finland, July 22, 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	1,008.8	1,021.0	996.9
<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>-4.9</i>	<i>1.2</i>	<i>-2.4</i>
EBITDA	28.0	34.2	21.1	-14.6	-3.1	24.5	32.6	36.1
<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>3.6</i>
Depreciation	-3.5	-6.6	-5.7	-5.3	-90.0	-8.3	-8.1	-8.4
EBITA	24.5	27.6	15.4	-19.9	-93.1	16.2	24.5	27.7
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	16.2	24.5	27.7
<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>1.6</i>	<i>2.4</i>	<i>2.8</i>
Reported EBIT	24.5	27.6	15.4	-19.9	-14.7	16.2	24.5	27.7
<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>1.6</i>	<i>2.4</i>	<i>2.8</i>
Net financials	-6.9	-11.3	-10.7	-17.5	-29.3	-24.2	-20.0	-17.0
Pre-tax profit	17.6	16.3	4.7	-37.4	-122.4	-8.0	4.5	10.7
Taxes	-3.6	-2.1	1.2	6.1	18.7	-1.0	-0.9	-2.1
Minority shares	0.0	0.0	0.2	1.1	0.7	2.5	0.0	0.0
Net profit	9.6	9.2	2.2	-34.1	-28.8	-10.9	2.2	7.1
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	109	109	109
Goodwill	2	2	2	2	2	2	2	2
Right of use assets	0	0	0	173	149	147	153	150
Inventory	337	400	419	438	372	354	358	350
Receivables	119	122	146	122	204	166	168	164
Liquid funds	35	55	24	93	28	76	77	75
Total assets	763	883	889	1,120	913	888	901	883
Liabilities								
Shareholder's equity	231	252	240	191	95	195	197	204
Minority interest	1	-2	-2	-3	-2	-4	-4	-4
Convertibles	45	45	45	45	83	15	15	15
Lease liabilities	0	0	0	174	150	147	153	150
Deferred taxes	2	4	5	5	3	2	2	2
Interest bearing debt	266	301	321	375	300	264	266	250
Non-interest bearing current liabilities	202	253	252	304	244	227	230	224
Other interest-free debt	4	14	18	9	21	21	21	21
Total liabilities	763	883	889	1,120	914	888	901	883
CASH FLOW, EURm								
+ EBITDA	28	34	21	-15	-3	25	33	36
- Net financial items	-7	-11	-11	-17	-29	-24	-20	-17
- Taxes	-3	-2	0	-1	-1	0	-1	-2
- Increase in Net Working Capital	29	-15	-44	56	-75	39	-3	7
+/- Other	-3	15	2	2	98	43	-1	52
= Cash flow from operations	44	21	-33	26	-11	82	7	75
- Capex	-118	-13	-24	-15	-26	-12	-14	-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	70	-7	71
+/- New issues/buybacks	47	15	-8	-12	-67	110	0	0
- Paid dividend	-5	-6	-6	-4	0	0	0	0
+/- Other	49	2	40	75	39	-132	8	-73
Change in cash	17	20	-31	70	-65	48	1	-2

Construction & Engineering/Finland, July 22, 2020
Company update

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	322	214	101	81	142	142	142
Net debt (excl. convertibles)	246	298	456	422	335	342	325
Enterprise value	611	555	601	584	490	497	480
Sales	884	1,114	960	1,061	1,009	1,021	997
EBITDA	34	21	-15	-3	25	33	36
EBIT	28	15	-20	-93	16	25	28
Pre-tax	16	5	-37	-122	-8	5	11
Earnings	9	2	-34	-107	-11	2	7
Equity book value (excl. minorities)	252	240	191	95	195	197	204
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	20.0	15.2	13.3
EV/EBITA	22.2	36.1	-30.2	-6.3	30.2	20.3	17.3
EV/EBIT	22.2	36.1	-30.2	-6.3	30.2	20.3	17.3
EV/OCF	28.8	-17.1	23.5	-54.5	6.0	71.8	6.4
EV/FCFF	-20.4	-10.6	26.3	-15.2	5.0	24.2	5.5
P/FCFE	40.1	-3.8	9.5	-2.2	2.0	-19.2	2.0
P/E	35.1	98.6	-3.0	-0.8	-13.0	65.5	19.9
P/B	1.3	0.9	0.5	0.9	0.7	0.7	0.7
Target EV/EBITDA	0.0	0.0	0.0	0.0	21.2	16.2	14.1
Target EV/EBIT	0.0	0.0	0.0	0.0	32.1	21.5	18.4
Target EV/FCF	0.0	0.0	0.0	0.0	7.4	-71.3	7.2
Target P/B	0.0	0.0	0.0	0.0	0.9	0.9	0.8
Target P/E	0.0	0.0	0.0	0.0	-15.9	80.0	24.4
Per share measures							
Number of shares	59,500	59,500	59,581	59,581	263,017	263,017	263,017
Number of shares (diluted)	59,500	59,500	59,581	59,581	263,017	263,017	263,017
EPS	0.15	0.04	-0.57	-1.80	-0.04	0.01	0.03
Operating cash flow per share	0.36	-0.55	0.43	-0.18	0.31	0.03	0.29
Free cash flow per share	0.14	-0.96	0.18	-0.62	0.27	-0.03	0.27
Book value per share	4.25	4.03	3.21	1.59	0.74	0.75	0.78
Dividend per share	0.10	0.06	0.00	0.00	0.00	0.00	0.01
Dividend payout ratio, %	64.5	164.3	0.0	0.0	0.0	0.0	36.9
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	49.2	-5.2	49.8
Efficiency measures							
ROE	3.8	0.9	-15.8	-74.9	-7.5	1.1	3.5
ROCE	5.2	3.5	-2.1	-12.1	3.6	5.2	5.7
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	16.5	16.4	16.5
Non-interest bearing liabilities as % of sales	28.7	22.7	31.7	23.0	22.5	22.5	22.5
NWC/sales, %	30.4	28.0	26.7	31.3	29.0	29.0	29.0
Operative CAPEX/sales, %	1.5	2.2	1.5	2.5	1.2	1.4	0.5
CAPEX/sales (incl. acquisitions), %	1.5	2.2	1.5	2.5	1.2	1.4	0.5
FCFF/EBITDA	-0.9	-2.5	-1.6	12.4	4.0	0.6	2.4
Net debt/EBITDA, book-weighted	7.2	14.1	-31.2	-136.2	13.7	10.5	9.0
Debt/equity, market-weighted	0.9	1.5	3.7	3.7	1.9	1.9	1.8
Equity ratio, book-weighted	36.1	35.5	23.6	21.2	25.8	25.7	27.1
Gearing, %	83.4	105.0	195.1	240.4	161.9	163.7	150.2

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	%
As Pontos Capital	22,891,615	12.361	8.7%
Ilmarinen Mutual Pension Insurance Company	16,647,818	8.990	6.3%
Kolpi Investments Oy	11,505,547	6.213	4.4%
OP Life Assurance Company Ltd	11,021,928	5.952	4.2%
Pohjola Insurance Ltd	7,948,477	4.292	3.0%
Havu Capital Oy	7,617,216	4.113	2.9%
Kokkila Tuomas	6,494,422	3.507	2.5%
Kokkila Lauri	6,494,422	3.507	2.5%
Tiiviste-Group Oy	6,111,821	3.300	2.3%
Ilmarinen Mutual Pension Insurance Company	1,727,385	0.933	0.7%
Ten largest	98,460,651	53.169	37%
Residual	164,556,690	88.861	63%
Total	263,017,341	142.029	100%

EARNINGS CALENDAR

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, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

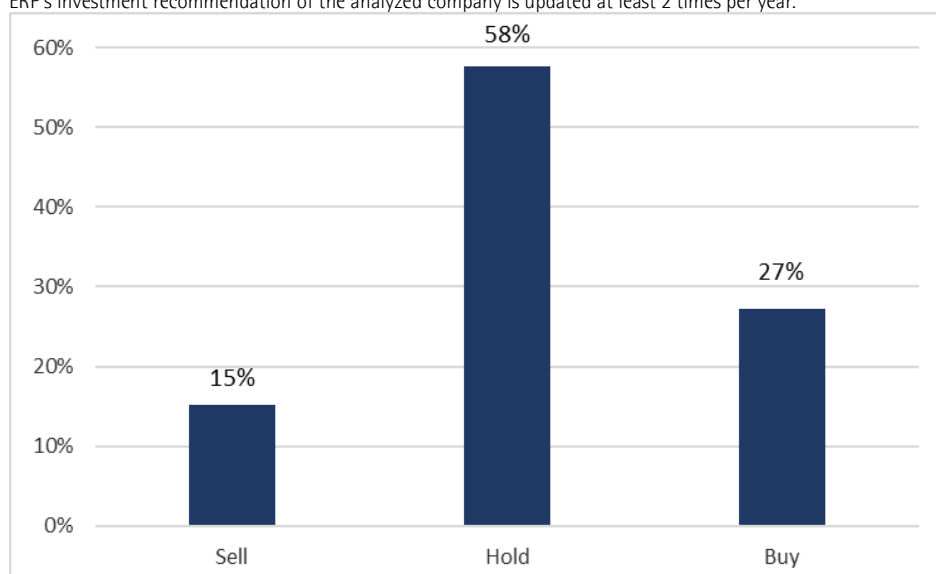
Important Disclosures

Evli Research Partners Plc ("ERP") uses 12-month target prices. Target prices are defined by utilizing analytical techniques based on financial theory including (but not limited to) discounted cash flow analysis and comparative valuation. The selection of valuation methods depends on different circumstances. Target prices may be altered on the basis of new information coming to light in the underlying company or changes in interest rates, changes in foreign exchange rates, other securities prices or market indices or outlook for the aforementioned factors or other factors that may change the conditions of financial markets. Recommendations and changes by analysts are available at [Analysts' recommendations and ratings revisions](#).

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 updated at least 2 times per year.



The graph above shows the distribution of ERP's recommendations of companies under coverage in 11th of May 2020. If recommendation is not given, it is not mentioned here.

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

This research report has been prepared by Evli Research Partners Plc ("ERP" or "Evli Research"). ERP is a subsidiary of Evli Bank Plc. Production of the investment recommendation has been concluded on 22.7.2020, 9:00. This report has been published on 22.7.2020, 9:30.

None of the analysts contributing to this report, persons under their guardianship or corporations under their control have a position in the shares of the company or related securities.

The date and time for any price of financial instruments mentioned in the recommendation refer to the previous trading day's closing price(s) unless otherwise stated in the report.

Each analyst responsible for the content of this report assures that the expressed views accurately reflect the personal views of each analyst on the covered companies and securities. Each analyst assures that (s)he has not been, nor are or will be, receiving direct or indirect compensation related to the specific recommendations or views contained in this report.

Companies in the Evli Group, affiliates or staff of companies in the Evli Group, may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) of any company mentioned in the publication or report.

Neither ERP nor any company within the Evli Group have managed or co-managed a public offering of the company's securities during the last 12 months prior to, received compensation for investment banking services from the company during the last 12 months prior to the publication of the research report.

ERP may pursue an assignment from the issuer(s) of the financial instruments mentioned in the recommendation or this report. These assignments may have a limited economic or financial impact on ERP and/or Evli. Under such assignments ERP may perform services including, but not limited to, arranging investor meetings or –events, investor relations communication advisory and production of research material.

ERP has signed an agreement with the issuer of the financial instruments mentioned in the recommendation, which includes production of research reports. This assignment has a limited economic and financial impact on ERP and/or Evli. Under the assignment ERP performs services including, but not limited to, arranging investor meetings or –events, investor relations communication advisory and production of research material.

ERP or another company within the Evli Group does not have an agreement with the company to perform market making services.

For the prevention and avoidance of conflicts of interests with respect to this report, there is an information barrier (Chinese wall) between Investment Research and Corporate Finance units concerning unpublished investment banking services to the company. The remuneration of the analyst(s) is not tied directly or indirectly to investment banking transactions performed by Evli Bank Plc or any company within Evli Group.

This report has not been disclosed to the company prior to its dissemination.

This report is provided and intended for informational purposes only and may not be used or considered under any circumstances as an offer to sell or buy any securities or as advice to trade any securities.

This report is based on sources ERP considers to be correct and reliable. The sources include information providers Reuters and Bloomberg, stock-exchange releases from the companies and other company news, Statistics Finland and articles in newspapers and magazines. However, ERP does not guarantee the materialization, correctness, accuracy or completeness of the information, opinions, estimates or forecasts expressed or implied in the report. In addition, circumstantial changes may have an influence on opinions and estimates presented in this report. The opinions and estimates presented are valid at the moment of their publication and they can be changed without a separate announcement. Neither ERP nor any company within the Evli Group are responsible for amending, correcting or updating any information, opinions or estimates contained in this report. Neither ERP nor any company within the Evli Group will compensate any direct or consequential loss caused by or derived from the use of the information represented in this publication.

All information published in this report is for the original recipient's private and internal use only. ERP reserves all rights to the report. No part of this publication may be reproduced or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, or stored in any retrieval system of any nature, without the written permission of ERP.

This report or its copy may not be published or distributed in Australia, Canada, Hong Kong, Japan, New Zealand, Singapore or South Africa. The publication or distribution of this report in certain other jurisdictions may also be restricted by law. Persons into whose possession this report comes are required to inform themselves about and to observe any such restrictions.

Evli Bank Plc is not registered as a broker-dealer with the U. S. Securities and Exchange Commission ("SEC"), and it and its analysts are not subject to SEC rules on securities analysts' certification as to the currency of their views reflected in the research report. Evli Bank is not a member of the Financial Industry Regulatory Authority ("FINRA"). It and its securities analysts are not subject to FINRA's rules on Communications with the Public and Research Analysts and Research Reports and the attendant requirements for fairness, balance and disclosure of potential conflicts of interest. This research report is only being offered in U.S. by Auerbach Grayson & Company, LLC (Auerbach Grayson) to Major U.S. Institutional Investors and is not available to, and should not be used by, any U.S. person or entity that is not a Major U.S. Institutional Investor. Auerbach Grayson is a broker-dealer registered with the U.S. Securities and Exchange Commission and is a member of the FINRA. U.S. entities seeking more information about any of the issuers or securities discussed in this report should contact Auerbach Grayson. The securities of non-U.S. issuers may not be registered with or subject to SEC reporting and other requirements.

ERP is not a supervised entity but its parent company Evli Bank Plc is supervised by the Finnish Financial Supervision Authority.

Contact information**SALES, TRADING AND RESEARCH****Equity Sales**

Ari Laine +358 9 4766 9115
Lauri Ahokanto +358 9 4766 9117
Niclas Henelius +358 9 4766 9116

Trading

Lauri Vehkaluoto (Head) +358 9 4766 9120
Pasi Väisänen +358 9 4766 9120
Antti Kässi +358 9 4766 9120
Miika Ronkanen +358 9 4766 9120

ETFs and Derivatives

Joachim Dannberg +358 9 4766 9123
Kimmo Lijja +358 9 4766 9130

Structured Investments

Heikki Savijoki +358 9 4766 9726
Aki Lakkisto +358 9 4766 9123

Equity Research

Jonas Forslund +358 9 4766 9314
Joonas Ilvonen +358 44 430 9071
Jerker Salokivi +358 9 4766 9149
Anna-Liisa Rissanen +358 40 157 9919

Evli Investment Solutions

Johannes Asuja +358 9 4766 9205
Markku Reinikainen +358 9 4766 9669



EVLI BANK PLC
Aleksanterinkatu 19 A
P.O. Box 1081
FIN-00101 Helsinki, FINLAND
Phone +358 9 476 690
Fax +358 9 634 382
Internet www.evli.com
E-mail firstname.lastname@evli.com

**EVLI BANK PLC,
STOCKHOLMSFILIAL**
Regeringsgatan 67 P.O. Box 16354
SE-103 26 Stockholm
Sverige
stockholm@evli.com
Tel +46 (0)8 407 8000
Fax +46 (0)8 407 8001