

Progress being made

SRV's Q3 results were fairly neutral and most importantly construction profitability was rather good. Supported by construction cost declines, the target of improving the 2021 operative operating profit to 2017 levels appears feasible. We retain our BUY-rating, TP EUR 0.64 (0.66).

Decent results, construction margins held up

SRV reported somewhat two-fold Q3 results. Revenue was below our expectations (EUR 223.6m/234.0m Evli/cons.) despite more developer-contracted housing units being recognized as income than we had expected. Operating profit was below expectations at EUR 1.7m (EUR 2.9m/3.0m Evli/cons.) while the operative operating profit amounted to EUR 7.1m (Evli EUR 2.9m), with the cancellation of a EUR 3.1m provision for expenses that were recognized due to a ruling by a Russian court impacting positively. Relative profitability in the Construction segment held up well and corresponded to our expectations.

Margin improvement supported by cost decline

Visibility is somewhat weakened going into 2021. The housing prices recovered well from the dip in H1/20 and activity has been at healthy levels. The order backlog has been relatively stable in the past four quarters and with the current project portfolio we see potential for minor growth in 2021, expecting a slight sales decline in business construction and growth in housing construction. The sales development is currently however clearly of secondary importance as improvement in profitability to offset the interest expense burden is essential. We expect margins to improve in 2021, as margins in 2020 have been pressed by high construction costs and the situation should ease going forward.

BUY with a target price of EUR 0.64 (0.66)

The uncertainty has particularly affected the shopping centres in Russia and exits continue to appear more distant. The construction outlook remains relatively decent, although demand within certain business construction areas is being affected by the pandemic. We adjust our target price to EUR 0.64 (0.66) with our BUY-rating intact.

Rating

BUY



Share price, EUR (Last trading day's closing price)	0.55
Target price, EUR	0.64

Latest change in recommendation	22-Jul-20
Latest report on company	22-Jul-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	145
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	04-Feb-21
Web site	srv.fi/en/investors

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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	977.1	14.9	1.5%	64.6	-0.06	-8.9	0.5	33.1	44.6	0.00
2021E	9,99.9	23.8	2.4%	2.1	0.01	89.6	0.5	20.6	1.4	0.00
2022E	976.1	27.0	2.8%	72.4	0.02	22.1	0.5	17.6	50.1	0.01
Market cap, EURm		145	Gearing 2020E, %			171.6	CAGR EPS 2019-22, %			0.0
Net debt 2020E, EURm		352	Price/book 2020E			0.8	CAGR sales 2019-22, %			-2.7
Enterprise value, EURm		493	Dividend yield 2020E, %			0.0	ROE 2020E, %			-11.6
Total assets 2020E, EURm		878	Tax rate 2020E, %			-9.1	ROCE 2020E, %			3.2
Goodwill 2020E, EURm		2	Equity ratio 2020E, %			24.7	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/'20	Q4/'20E	2020E	2021E	2022E
Revenue	959.6	222.6	207.4	227.1	403.9	1 060.9	208.0	265.1	209.9	294.1	977.1	999.9	976.1
change, %	-13.9%	3.2%	-12.0%	8.9%	34.7%	10.6%	-6.6%	27.8%	-7.6%	-27.2%	-7.9%	2.3%	-2.4%
Operative operating profit	-10.1	0.5	-3.1	-7.0	-87.2	-96.9	5.0	0.5	7.1	5.4	18.0	23.8	27.0
-margin	-1.1%	0.2%	-1.5%	-3.1%	-21.6%	-9.1%	2.4%	0.2%	3.4%	1.8%	1.8%	2.4%	2.8%
Items affecting comparability*	-9.8	2.8	0.0	0.6	0.4	3.8	-0.5	2.7	-5.4	0.0	-3.2	0.0	0.0
Operating profit	-19.9	3.3	-3.2	-6.3	-86.8	-93.0	4.5	3.3	1.7	5.4	14.9	23.8	27.0
-margin	-2.1%	1.5%	-1.5%	-2.8%	-21.5%	-8.8%	2.2%	1.2%	0.8%	1.8%	1.5%	2.4%	2.8%
Net financials	-17.5	-3.6	-7.7	-7.6	-10.4	-29.3	-11.1	-3.0	-8.8	-5.0	-27.9	-20.0	-17.0
Pre-tax profit	-37.3	-0.3	-10.8	-14.0	-97.2	-122.4	-6.6	0.2	-7.0	0.4	-13.0	3.8	10.0
Income taxes	6.1	0.7	1.9	2.3	13.8	18.7	-1.0	-0.3	0.2	-0.1	-1.2	-0.8	-2.0
Non-controlling interest	1.1	-0.7	0.0	-0.1	0.1	-0.7	0.0	2.5	2.4	0.0	4.9	0.0	0.0
Net earnings	-30.1	-0.4	-9.0	-11.7	-83.3	-104.4	-6.1	2.4	-4.5	0.3	-7.9	3.1	8.0
EPS rep.**	-0.56	-0.02	-0.15	-0.22	-1.43	-1.82	-0.11	0.02	-0.01	0.00	-0.03	0.01	0.03
Construction	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20	Q2/'20	Q3/'20	Q4/'20E	2020E	2021E	2022E
Revenue	955.4	221.9	206.7	225.9	403.1	1 057.6	204.8	264.1	209.1	293.5	971.5	994.8	971.0
change, %		3.4%	-11.9%	8.8%	35.0%	10.7%	-7.7%	27.8%	-7.4%	-27.2%	-8.1%	2.4%	-2.4%
<i>Business construction</i>	666.3	145.4	162.6	171.2	200.5	679.7	154.0	182.2	157.8	180.8	674.8	641.1	631.4
change, %	-7.0%	-6.4%	-2.5%	6.8%	9.0%	2.0%	5.9%	12.1%	-7.8%	-9.8%	-0.7%	-5.0%	-1.5%
<i>Housing construction</i>	289.1	77.0	43.6	54.7	202.6	377.9	50.8	81.9	51.3	112.7	296.7	353.7	339.6
change, %	-23.9%	29.8%	-35.7%	15.4%	76.8%	30.7%	-34.0%	87.8%	-6.2%	-44.4%	-21.5%	19.2%	-4.0%
Operating profit	-13.4	4.8	2.0	-3.5	3.6	7.0	6.2	7.4	5.2	8.9	27.7	32.8	34.0
-margin	-1.4%	2.2%	1.0%	-1.5%	0.9%	0.7%	3.0%	2.8%	2.5%	3.0%	2.9%	3.3%	3.5%
Investments	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20	Q2/'20	Q3/'20	Q4/'20E	2020E	2021E	2022E
Revenue	4.6	1.3	1.5	1.4	1.7	5.9	1.6	1.2	1.1	1.1	5.0	4.5	4.5
change, %		8.3%	25.0%	16.7%	70.0%	28.3%	23.1%	-20.0%	-21.4%	-35.3%	-15.3%	-10.0%	0.0%
Operative operating profit	-7.8	-2.7	-1.9	-3.7	-87.9	-96.2	-1.0	-4.4	1.6	-1.5	-5.3	-4.0	-2.0
Items affecting comparability*	-9.8	2.8	0.0	0.6	0.4	3.8	-0.5	2.7	-5.4	0.0	-3.2	0.0	0.0
Operating profit	-17.6	0.1	-1.9	-3.1	-87.5	-92.4	-1.4	-1.7	-3.8	-1.5	-8.5	-4.0	-2.0
Other operations and elim.	2018	Q1/'19	Q2/'19	Q3/'19	Q4/'19	2019	Q1/'20	Q2/'20	Q3/'20	Q4/'20E	2020E	2021E	2022E
Revenue	-0.4	-0.6	-0.8	-0.3	-0.9	-2.6	1.6	-0.2	-0.3	-0.5	0.6	0.6	0.6
Operating profit	11.1	-1.6	-3.2	0.2	-2.9	-7.6	-0.2	-2.4	0.3	-2.0	-4.3	-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	6573	8.2x	8.3x	6.9x	10.5x	10.9x	9.4x	12.5x	12.8x	11.0x
Peab	2327	7.9x	9.3x	8.8x	10.5x	13.5x	12.5x	9.3x	11.5x	10.6x
NCC	1457	6.1x	5.4x	5.2x	11.9x	9.7x	9.1x	12.9x	10.7x	10.3x
AF Gruppen	1455	9.5x	8.3x	7.5x	13.6x	11.5x	9.8x	20.6x	17.7x	14.8x
Veidekke	1304	8.9x	8.6x	7.7x	17.0x	16.3x	13.9x	18.9x	18.2x	15.5x
JM	1690	13.3x	12.3x	10.8x	13.1x	12.0x	10.5x	13.6x	12.6x	11.1x
YIT	942	12.9x	8.6x	7.5x	17.1x	11.5x	9.7x	17.6x	10.0x	8.1x
Bonava	699	15.3x	12.6x	10.4x	15.3x	13.1x	10.8x	13.9x	11.5x	9.2x
Lehto Group	77	15.7x	8.0x	5.6x	37.7x	11.2x	7.0x	56.6x	6.6x	3.8x
Peer Group Average	1662	10.9x	9.0x	7.8x	16.3x	12.2x	10.3x	19.5x	12.4x	10.5x
Peer Group Median	1380	9.5x	8.6x	7.5x	13.6x	11.5x	9.8x	13.9x	11.5x	10.6x
SRV (Evli est.)*	145	21.5x	15.5x	13.6x	27.4x	20.6x	17.6x	neg.	89.6x	22.1x

SRV prem./disc. to peer median
>100%
80%
81%
>100%
79%
80%
-
>100%
>100%
*Source FactSet, Evli Research. *EBIT: Operative operating profit*

VALUATION						
	METRIC	Est., EURm	Multiple	EV	Per share	Comments
Construction	EV/EBIT	28	13.6x	377	1.43	2020E, construction peers
4Daily	NPV	5	1x	5	0.02	Exit '23, yld. 10 %
Okhta mall	NPV	42	1x	42	0.16	Exit '23, yld. 10 %
Investments plots	BV	64	0.7x	45	0.17	2019
Assets held for sale	BV	14	1x	14	0.05	Q3/2020
Other operations		-5	10x	-50	-0.19	2020E EBIT
Net debt				-210	-0.80	Q2/2020 incl. hybrid, excl. IFRS 16
Equity value	SOTP			223	0.85	
Equity value	DCF				0.90	
Peer multiples	EV/EBIT 21-22E				0.34-0.35	
	EV/EBITDA 21-22E				0.32-0.35	
Target price (EUR)					0.64	

Source: Evli Research

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC	
Current share price	0.55 PV of Free Cash Flow	386 Long-term growth, %	2.0 Risk-free interest rate, %	2.25
DCF share value	0.90 PV of Horizon value	352 WACC, %	7.4 Market risk premium, %	5.8
Share price potential, %	62.8 Unconsolidated equity	3 Spread, %	0.5 Debt risk premium, %	3.5
Maximum value	1.1 Marketable securities	28 Minimum WACC, %	6.9 Equity beta coefficient	1.40
Minimum value	0.7 Debt - dividend	-533 Maximum WACC, %	7.9 Target debt ratio, %	60
Horizon value, %	47.7 Value of stock	236 Nr of shares, Mn	263.0 Effective tax rate, %	20

DCF valuation, EURm	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	Horizon
Net sales	1,061	977	1,000	976	996	1,016	1,036	1,057	1,078	1,099	1,122	1,145
<i>Sales growth, %</i>	<i>10.5</i>	<i>-7.9</i>	<i>2.3</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	24	27	35	41	41	42	43	44	45	46
<i>Operating income margin, %</i>	<i>-8.8</i>	<i>1.5</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	23	32	35	43	48	49	50	51	52	53	
- Paid taxes	-6	2	-5	-5	-7	-8	-8	-8	-9	-9	-9	
- Change in NWC	-75	39	3	7	5	5	-5	-5	-5	-6	-6	
<i>NWC / Sales, %</i>	<i>31.3</i>	<i>30.0</i>	<i>29.0</i>	<i>29.0</i>	<i>28.0</i>	<i>26.9</i>	<i>26.9</i>	<i>26.9</i>	<i>26.9</i>	<i>26.8</i>	<i>26.8</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	-2	-2	-2	-3	
<i>opCAPEX / Sales, %</i>	<i>2.5</i>	<i>1.2</i>	<i>1.1</i>	<i>0.4</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>	<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	54	0	0	35	0	0	0	0	
= FCFF	-38	97	27	88	38	43	68	34	34	35	35	676
= Discounted FCFF		96	25	76	30	32	47	22	21	20	18	352
= DFCF min WACC		96	25	76	31	32	48	22	21	20	19	406
= DFCF max WACC		95	24	75	30	31	46	21	20	19	18	308

INTERIM FIGURES

EVLI ESTIMATES, EURm	2019Q1	2019Q2	2019Q3	2019Q4	2019	2020Q1	2020Q2	2020Q3	2020Q4E	2020E	2021E	2022E
Net sales	222.6	207.4	227.1	403.9	1,061.0	208.1	265.1	209.8	294.1	977.1	9,99.9	976.1
EBITDA	6.2	-0.9	-2.0	-6.4	-3.1	6.5	5.1	3.5	7.9	23.0	31.7	35.0
<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>1.7</i>	<i>2.7</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	1.7	5.4	14.9	23.8	27.0
<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>0.8</i>	<i>1.8</i>	<i>1.5</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	-8.7	-5.0	-27.9	-20.0	-17.0
Pre-tax profit	-0.3	-10.8	-14.0	-97.3	-122.4	-6.6	0.2	-7.0	0.4	-13.0	3.8	10.0
Tax	0.7	1.9	2.3	13.8	18.7	-1.0	-0.3	0.2	-0.1	-1.2	-0.8	-2.0
<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>2.9</i>	<i>20.0</i>	<i>-9.1</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	-7.3	0.0	-16.2	1.6	6.5
EPS	0.00	-0.17	-0.21	-1.42	-1.80	-0.04	0.00	-0.03	0.00	-0.06	0.01	0.02
EPS adjusted (diluted no. of shares)	0.00	-0.17	-0.21	-1.42	-1.80	-0.04	0.00	-0.03	0.00	-0.06	0.01	0.02
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	209.0	293.5	971.5	9,94.8	971.0
Investments	1.3	1.5	1.4	1.7	5.9	1.6	1.2	1.1	1.1	5.0	4.5	4.5
Other	-0.6	-0.8	-0.3	-0.9	-2.6	1.6	-0.2	-0.3	-0.5	0.6	0.6	0.6
Total	222.6	207.4	227.1	403.9	1,061.0	208.1	265.1	209.8	294.1	977.1	9,99.9	976.1
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>-7.5</i>	<i>-27.2</i>	<i>-8.1</i>	<i>2.4</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>-21.4</i>	<i>-35.3</i>	<i>-15.3</i>	<i>-10.0</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>0.0</i>	<i>-44.4</i>	<i>-123.1</i>	<i>0.0</i>	<i>0.0</i>
Total	3.2	-12.0	8.8	34.8	10.5	-6.5	27.8	-7.6	-27.2	-7.9	2.3	-2.4
EBIT, EURm												
Construction	4.8	2.0	-3.5	3.7	7.0	6.2	7.3	5.2	8.9	27.6	32.8	34.0
Investments	0.1	-1.9	-3.1	-87.6	-92.5	-1.4	-1.7	-3.8	-1.5	-8.4	-4.0	-2.0
Other	-1.6	-3.2	0.2	-3.0	-7.6	-0.2	-2.4	0.3	-2.0	-4.3	-5.0	-5.0
Total	3.3	-3.1	-6.4	-86.9	-93.1	4.5	3.3	1.7	5.4	14.9	23.8	27.0
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>2.5</i>	<i>3.0</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>-345.5</i>	<i>-136.4</i>	<i>-168.0</i>	<i>-88.9</i>	<i>-44.4</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>-100.0</i>	<i>400.0</i>	<i>-716.7</i>	<i>-833.3</i>	<i>-833.3</i>
Total	1.5	-1.5	-2.8	-21.5	-8.8	2.2	1.2	0.8	1.8	1.5	2.4	2.8

Construction & Engineering/Finland, October 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	977.1	999.9	976.1
<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>-7.9</i>	<i>2.3</i>	<i>-2.4</i>
EBITDA	28.0	34.2	21.1	-14.6	-3.1	23.0	31.7	35.0
<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	-8.1	-7.8	-8.0
EBITA	24.5	27.6	15.4	-19.9	-93.1	14.9	23.8	27.0
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	14.9	23.8	27.0
<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>2.8</i>
Reported EBIT	24.5	27.6	15.4	-19.9	-14.7	14.9	23.8	27.0
<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>2.8</i>
Net financials	-6.9	-11.3	-10.7	-17.5	-29.3	-27.9	-20.0	-17.0
Pre-tax profit	17.6	16.3	4.7	-37.4	-122.4	-13.0	3.8	10.0
Taxes	-3.6	-2.1	1.2	6.1	18.7	-1.2	-0.8	-2.0
Minority shares	0.0	0.0	0.2	1.1	0.7	2.4	0.0	0.0
Net profit	9.6	9.2	2.2	-34.1	-28.8	-16.2	1.6	6.5
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	98	99	98
Goodwill	2	2	2	2	2	2	2	2
Right of use assets	0	0	0	173	149	147	150	146
Inventory	337	400	419	438	372	343	351	342
Receivables	119	122	146	122	204	170	164	160
Liquid funds	35	55	24	93	28	83	85	83
Total assets	763	883	889	1,120	913	878	885	867
Liabilities								
Shareholder's equity	231	252	240	191	95	184	186	192
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	150	146
Deferred taxes	2	4	5	5	3	2	2	2
Interest bearing debt	266	301	321	375	300	272	269	254
Non-interest bearing current liabilities	202	253	252	304	244	220	225	220
Other interest-free debt	4	14	18	9	21	21	21	21
Total liabilities	763	883	889	1,120	914	878	885	867
CASH FLOW, EURm								
+ EBITDA	28	34	21	-15	-3	23	32	35
- Net financial items	-7	-11	-11	-17	-29	-28	-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	54
= Cash flow from operations	44	21	-33	26	-11	76	13	77
- Capex	-118	-13	-24	-15	-26	-12	-11	-4
- 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	65	2	72
+/- New issues/buybacks	47	15	-8	-12	-67	104	0	0
- Paid dividend	-5	-6	-6	-4	0	0	0	0
+/- Other	49	2	40	75	39	-113	0	-74
Change in cash	17	20	-31	70	-65	55	2	-2

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

KEY FIGURES	2016	2017	2018	2019	2020E	2021E	2022E
M-cap	322	214	101	81	145	145	145
Net debt (excl. convertibles)	246	298	456	422	336	334	317
Enterprise value	611	555	601	584	493	491	475
Sales	884	1,114	960	1,061	977	1,000	976
EBITDA	34	21	-15	-3	23	32	35
EBIT	28	15	-20	-93	15	24	27
Pre-tax	16	5	-37	-122	-13	4	10
Earnings	9	2	-34	-107	-16	2	7
Equity book value (excl. minorities)	252	240	191	95	184	186	192
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	21.5	15.5	13.6
EV/EBITA	22.2	36.1	-30.2	-6.3	33.1	20.6	17.6
EV/EBIT	22.2	36.1	-30.2	-6.3	33.1	20.6	17.6
EV/OCF	28.8	-17.1	23.5	-54.5	6.5	37.9	6.2
EV/FCFF	-20.4	-10.6	26.3	-15.2	5.1	18.4	5.4
P/FCFE	40.1	-3.8	9.5	-2.2	2.2	69.5	2.0
P/E	35.1	98.6	-3.0	-0.8	-8.9	89.6	22.1
P/B	1.3	0.9	0.5	0.9	0.8	0.8	0.8
Target EV/EBITDA	0.0	0.0	0.0	0.0	22.4	16.2	14.2
Target EV/EBIT	0.0	0.0	0.0	0.0	34.7	21.6	18.4
Target EV/FCF	0.0	0.0	0.0	0.0	8.0	247.1	6.9
Target P/B	0.0	0.0	0.0	0.0	0.9	0.9	0.9
Target P/E	0.0	0.0	0.0	0.0	-10.4	104.3	25.7
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	-0.06	0.01	0.02
Operating cash flow per share	0.36	-0.55	0.43	-0.18	0.29	0.05	0.29
Free cash flow per share	0.14	-0.96	0.18	-0.62	0.25	0.01	0.28
Book value per share	4.25	4.03	3.21	1.59	0.70	0.71	0.73
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	40.2
Dividend yield, %	1.8	1.7	0.0	0.0	0.0	0.0	1.8
FCF yield, %	2.5	-26.6	10.6	-45.6	44.6	1.4	50.1
Efficiency measures							
ROE	3.8	0.9	-15.8	-74.9	-11.6	0.9	3.5
ROCE	5.2	3.5	-2.1	-12.1	3.2	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	17.4	16.4	16.4
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	30.0	29.0	29.0
Operative CAPEX/sales, %	1.5	2.2	1.5	2.5	1.2	1.1	0.4
CAPEX/sales (incl. acquisitions), %	1.5	2.2	1.5	2.5	1.2	1.1	0.4
FCFF/EBITDA	-0.9	-2.5	-1.6	12.4	4.2	0.8	2.5
Net debt/EBITDA, book-weighted	7.2	14.1	-31.2	-136.2	14.6	10.5	9.1
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	24.7	24.7	26.1
Gearing, %	83.4	105.0	195.1	240.4	171.6	169.2	155.5

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	47,306,787	26.019	18.0%
Ilmarinen Mutual Pension Insurance Company	33,295,636	18.313	12.7%
Kolpi Investments Oy	23,776,663	13.077	9.0%
OP Life Assurance Company Ltd	19,267,105	10.597	7.3%
Pohjola Insurance Ltd	15,896,954	8.743	6.0%
Havu Capital Oy	15,741,398	8.658	6.0%
Tiiviste-Group Oy	13,373,642	7.356	5.1%
Tungelin Investments Oy	6,926,660	3.810	2.6%
Lareale Investments Oy	6,926,660	3.810	2.6%
Kokkila Tuomas	6,494,422	3.572	2.5%
Ten largest	189,005,927	103.953	72%
Residual	74,011,414	40.706	28%
Total	263,017,341	144.660	100%

EARNINGS CALENDAR	
February 04, 2021	FY 2020 Results
April 29, 2021	Q1 report
July 21, 2021	Q2 report
October 28, 2021	Q3 report
OTHER EVENTS	
March 29, 2021	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, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

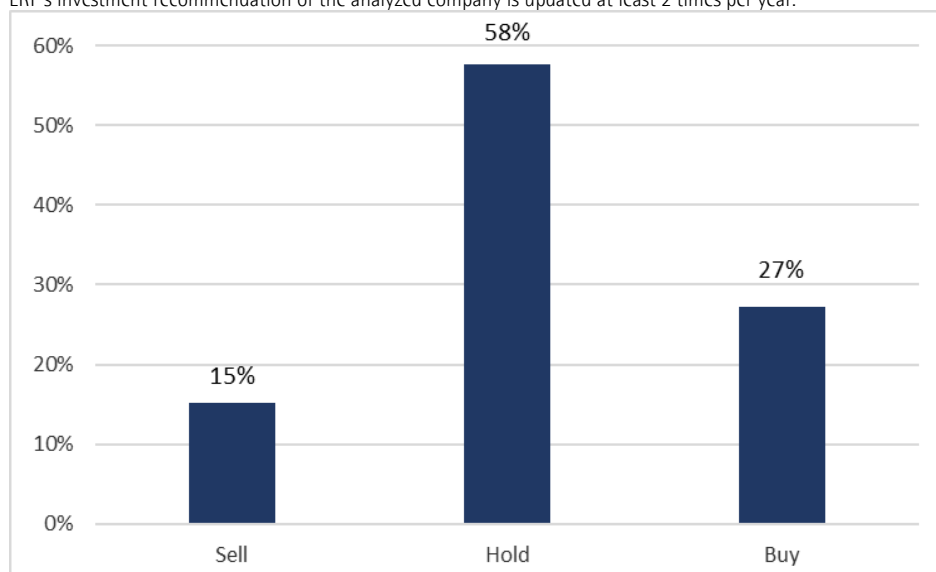
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Investment recommendations are defined as follows:

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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