EVLI

CONSTI

Construction & Engineering/Finland, March 29, 2019
Company report

Time to regain profitability

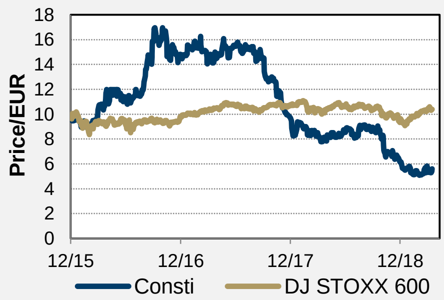
Consti has had project management related issues, which has dented earnings during the past year, and has been taking measures to improve profitability. We expect margin recovery, although risks to future earnings still remain. We downgrade to HOLD (BUY) with a target price of EUR 6.0.

Leading renovation company seeking to regain profitability
Consti is a market leader in the less cyclical Finnish renovation market, where the demand outlook remains good due to among other things an ageing building stock. Consti's performance has during the past years however been hampered by internal project management and execution related issues, which has left a dent in profitability. Consti has been implementing changes towards a more customer-centric organization and to increase operational efficiency, expected to also aid profitability through cost-savings.

Expecting margin recovery
We expect Consti's focus to be on improving margins and as such estimate only slight sales growth for the coming years, with our estimated 2018-2021E sales CAGR at 2.2%. Sales growth has been affected by the implementation of stricter tendering criteria, which we expect to continue to have an effect, but on the other hand has a reductive effect on possible further unprofitable projects. A larger share of the unprofitable projects have been completed but open risks still remain. We expect profitability to be supported by a lesser impact of the unprofitable projects along with an alleviation of the pressure from subcontractors and suppliers following boom years in building construction volumes. Our EBIT-margin estimate for 2019E is 2.2%.

HOLD (BUY) with a target price of EUR 6.0
Consti trades at a 22%/31% discount on 2019E EV/EBIT to our mainly Nordic construction and building installations and services peer groups. With and elevated risk profile due to internal project management issues and the on-going arbitration proceedings in the Hotel St. George project we consider a discount justifiable. We value Consti at 9.2x 2019E EV/EBIT for a target price of EUR 6.0 and downgrade to HOLD (BUY).

Rating — HOLD



Share price, EUR (Last trading day's closing price)	5.60
Target price, EUR	6.0
Latest change in recommendation	29-Mar-19
Latest report on company	29-Mar-19
Research paid by issuer:	YES
No. of shares outstanding, '000's	7,858
No. of shares fully diluted, '000's	7,858
Market cap, EURm	44
Free float, %	70.0
Exchange rate EUR	1.000
Reuters code	CONSTI.HE
Bloomberg code	CONSTI FH
Average daily volume, EURm	0.09
Next interim report	26-Apr-19
Web site	www.consti.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
2017	300	0	-0.1%	-1	-0.14	-61.0	0.3	7.7	-207.0	0.00
2018	316	-2	-0.7%	-3	-0.30	-18.5	0.2	-5.7	-31.4	0.00
2019E	324	7	2.2%	6	0.61	9.2	0.2	4.2	8.8	0.25
2020E	331	11	3.4%	10	1.02	5.5	0.2	3.2	5.0	0.40
2021E	337	12	3.6%	11	1.16	4.8	0.1	3.0	4.1	0.58

Market cap, EURm	44	BV per share 2019E, EUR	3.6	CAGR EPS 2018-21, %	0.0
Net debt 2019E, EURm	18	Price/book 2019E	1.6	CAGR sales 2018-21, %	2.2
Enterprise value, EURm	62	Dividend yield 2019E, %	4.5	ROE 2019E, %	18.6
Total assets 2019E, EURm	118	Tax rate 2019E, %	20.0	ROCE 2019E, %	13.4
Goodwill 2019E, EURm	49	Equity ratio 2019E, %	23.9	PEG, P/E 19/CAGR	0.3

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

Investment summary

Market leader in the Finnish renovation market

Consti is a market leader in the Finnish renovation market and it has a wide offering in renovation construction, supporting its competitiveness against large Nordic players and especially the smaller niche players. Renovation is an industry with low barriers to entry, which typically keeps competition rather tough and margins low. However, the renovation sector is less cyclical compared to the new building sector, which lowers the risk profile in the renovation market. The renovation volumes are expected to grow at a CAGR of 1.7% during 2018-2021E[1].

Project management key to success

Project management is a key for good profitability in the renovation sector, where typical sources of competitive edge like brand and distribution are less significant. The project-business generated some 87% of the company's total net sales in 2018, with the services business accounting for the rest. 2017-2018 proved to show the importance of good project management and execution, as the earnings in particular during 2018 were impacted by a few unprofitable projects, resulting in an EBIT-margin of -0.7%.

Ambitious financial targets

Consti is targeting 10% annual sales growth and an adjusted EBIT-margin exceeding 5%, which in our view considering recent performance remains challenging. Focus in the coming years will in our view be on improving profitability, which we expect to restrict sales growth. The sales growth target has previously been achieved through bolt-on acquisitions but the current share price and financing situation in our view restricts M&A activity and we do not expect acquisitions in the near-term. The profitability target has yet to be achieved and would in our view above all require improvements in project management and execution.

Expect slight growth and notable margin improvement

We expect sales growth to be limited and estimate a sales CAGR of 2.2% during 2018-2021E, slightly above the expected market growth. We expect a focus on improving profitability to slow down growth along with already adopted stricter bidding criteria, in particular within pipeline renovations. Although the order backlog in Q4/2018 was on par with the comparison period, Consti's management still expects more activity in 2019, which is supported by the significant orders signed during Q1/2019. We expect Consti's profitability to improve in 2019 and estimate an EBIT-margin of 2.2% in 2019E. Profitability will be aided by the finishing of unprofitable projects, although we remain somewhat conservative to profitability development, as a few of the projects are still on-going and risks for further exceeding costs exist.

Main risks in the investment case

The main risks in our view are internal risks, relating to on-going projects. Some of the projects that have burdened profitability are still on-going and may result in further negative impacts on margins. Project management issues may also arise in other projects. Consti is also involved in the arbitration proceeding relating to the Hotel St. George project, which depending on the final ruling may have a negative impact on future cash flows. External risks in our view relate to new building construction, as volume declines after several boom years may lead to construction companies seeking to expand positions in the renovation market.

HOLD (BUY) with a target price of EUR 6.0

Consti trades at a 22%/31% discount on 2019E EV/EBIT to our mainly Nordic construction and building installations and services peer groups. Although we consider that the less cyclical renovation sector and a favourable demand outlook would warrant valuation closer to the construction companies, Consti's risk profile has been elevated due to internal project management issues and the on-going arbitration proceedings in the Hotel St. George project. As such we consider a discount justifiable. We value Consti at 9.2x 2019E EV/EBIT for a target price of EUR 6.0 and downgrade to HOLD (BUY).

[1] Source: Euroconstruct, The Confederation of Finnish Construction Industries (via Consti)

Company overview

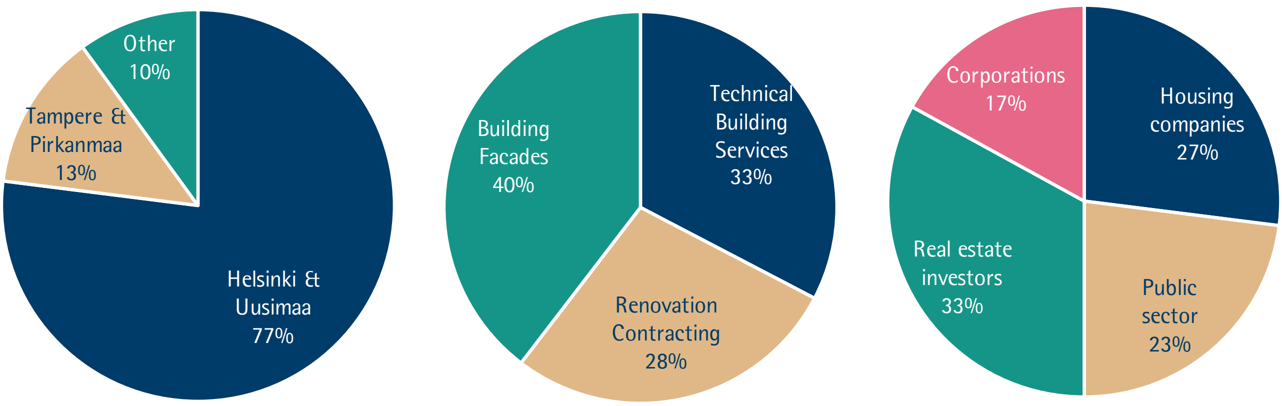
Leading renovation and technical services company in Finland

Consti is one of the leading renovation and technical service companies in Finland. Consti has a comprehensive service offering covering residential pipeline renovation, renovation contracting, building facade repair and maintenance, and other renovation and technical services for demanding residential and non-residential properties. Consti was established in 2008 and listed on the Helsinki stock exchange in 2015. Consti has some 1,050 employees.

Rapid acquisition driven growth phase slowed down as focus shifted towards margin improvement

Consti has a history of acquisition driven growth. Consti has since 2008 carried out over 20 acquisitions. Through the acquisitions Consti has grown both in size and broadness of offering, with an aim to be part of a larger share of the renovation value chain, spanning from the planning phase to maintenance services after project completion. Consti has sought further growth both geographically, focusing on growth centres in Finland, and through its offering, within for instance service and certain specialty renovation markets. Focus in the past years has shifted to improving profitability, as margins have tumbled due to project management and execution related issues.

Figure 1: Consti's sales split by region, segment and customers (2018)



Source: Consti

Nearly 80% of sales from Helsinki & Uusimaa region

Geographically Consti has focused operations on the Helsinki & Uusimaa region, representing 77% of the company's sales in 2018. The second largest market region is Tampere & Pirkanmaa, representing 13% of sales. Renovation activity in the regions has been favourable due to large building stocks and migration development. Other main operating cities for Consti are Turku, Lahti and Oulu. Consti has sought to expand its geographical presence (mainly Finnish growth centers) and also improve its market share in more specialized market segments.

Building Facades largest segment with 40% of 2018 sales

40% of Consti's sales in 2018 were generated by the Building Facades segment, having seen growth of 15.4% during 2018 from volume growth in the housing repair business included in the segment. Growth in Renovation Contracting amounted to 13.0%, supported by acquisitions and growth in the Greater Helsinki area. Sales in Technical Building Services saw a decrease of 6.2% due to reorganisation of the business areas and stricter bidding principles in pipeline renovation services.

Real estate investors the largest customer sector

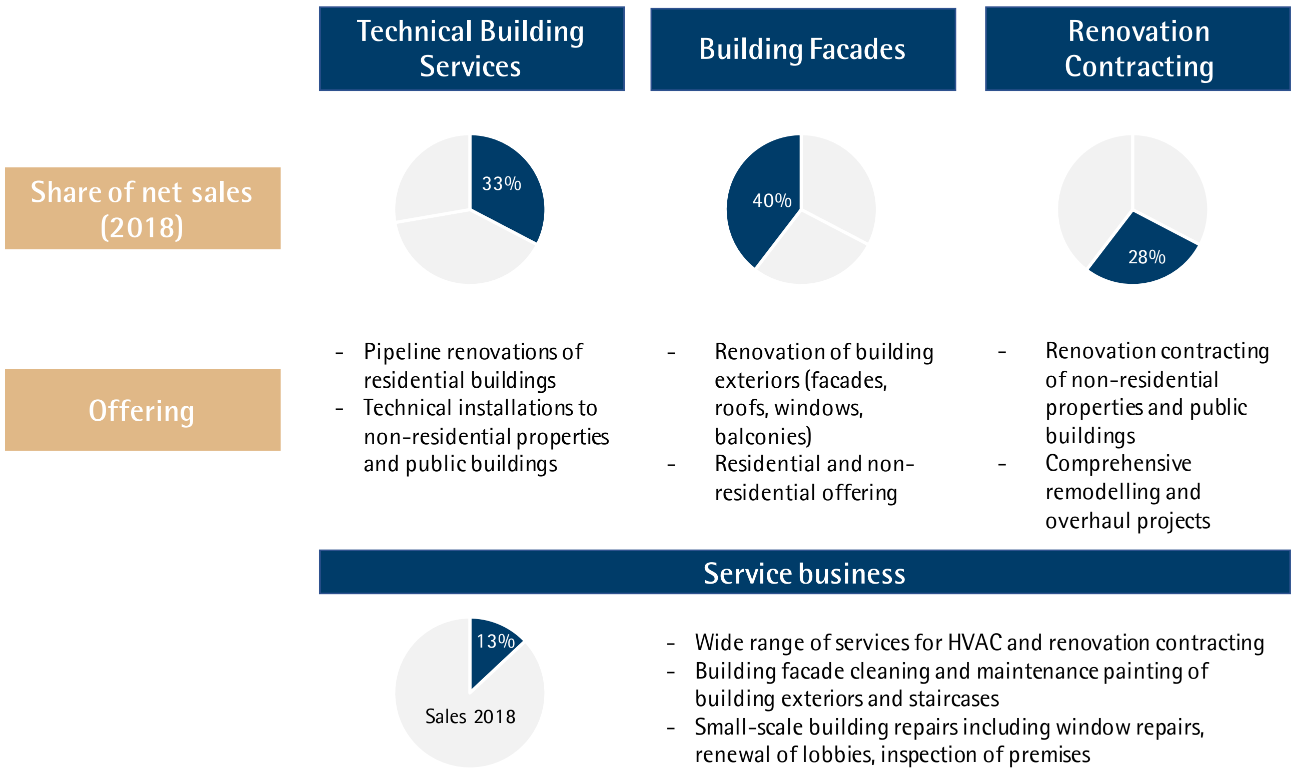
Sales by customer type can vary significantly any given year, with real estate investors being the largest customer group in 2018 at 33% of sales (17% in 2017, depending on demand and projects selected. The overall project portfolio is relatively diverse, with a handful of major projects and hundreds of smaller projects.

Segment overview

Technical Building Services largest segment

Consti had three different segments up until the 18.2.2019: Technical Building Services, Renovation Contracting and Building Facades. Building Facades focus mainly on residential renovation, while Renovation Contracting operates in the non-residential renovation market. The Technical Building Services segment provides services both in the residential sector (pipeline renovation services) and the non-residential sector (technical installations and services). Service business is reported within segments. The project business generated 87% of the net sales and service business 13% of the sales in 2018. According to Consti's management, the service business has been more profitable than the project business.

Figure 2: Segment overview (up until 18.2.2019)



Source: Consti

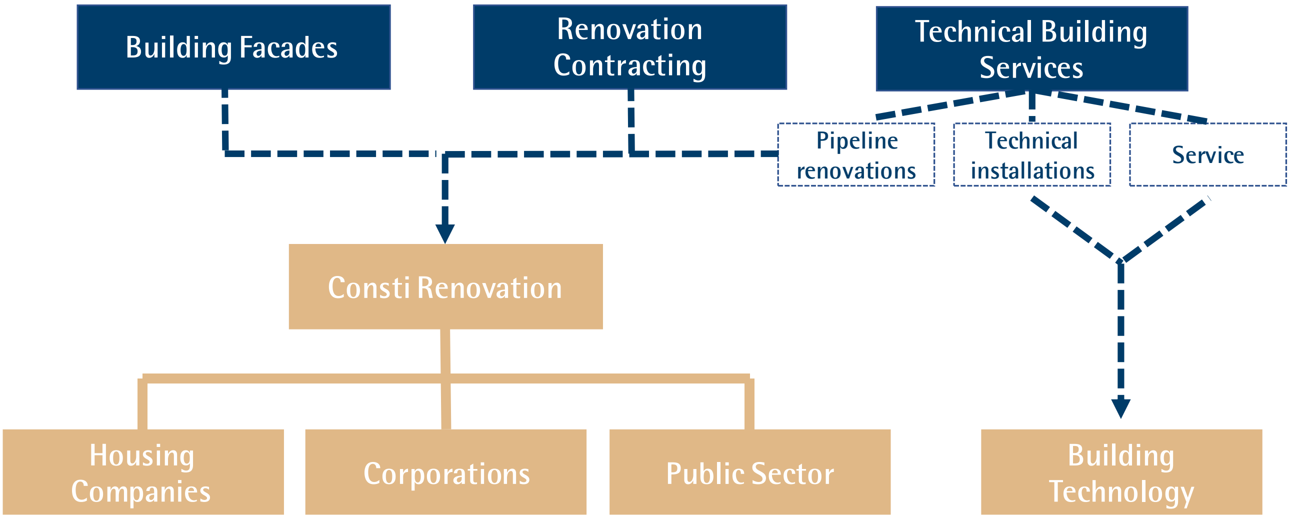
Building Facades and Renovation Contracting on a growth track

In recent years, the Building Facades and Renovation Contracting segments have grown the fastest. In our view, Building Facades has faced less competition especially from large Nordic construction and Building installations and service companies, which along with a good demand situation has supported growth and margins. In Renovation Contracting, the company has grown strongly, mainly driven by good demand in the Helsinki and Uusimaa region and in the Tampere region. Technical Building Services has seen growth declines due to reorganization of the segment and stricter project criteria.

New customer-centric organization structure

Consti has renewed its organizational structure and business areas, with the new reporting structure effective as of the 18.2.2019 and to be implemented from the Q1/2019 interim report onwards. The new organization structure consists of four operating segments and is designed to be more customer-centric, with each business area being able to provide the needed services for the customer group in question and the Technical Building Services supporting the other three operating segments.

Figure 3: Changes in Consti's organization

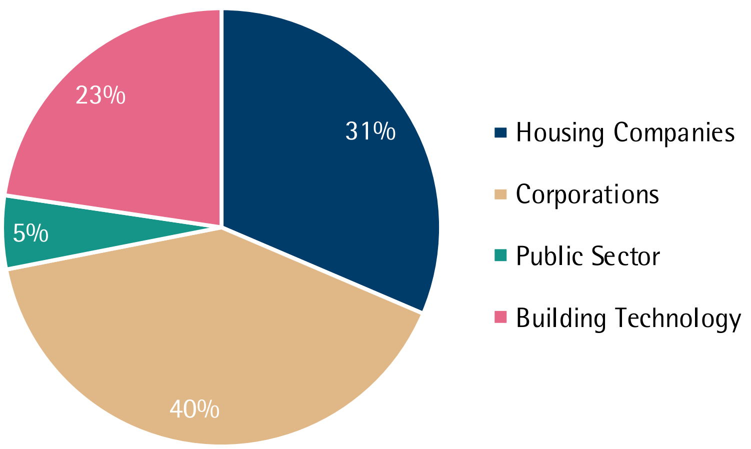


Source: Consti, Evli Research

New customer-centric organization structure

Under the new organizational structure the Building Facades and Renovation contracting segments along with the pipeline renovation business previously included in Technical Building Services will be transferred to a new business area Consti Renovation. The renovation services will be re-grouped into three operating segments in accordance with the customer groups: Housing Companies, Corporations, and Public Sector. The former Technical Building Services segment, excluding the pipeline renovations business, will make up the fourth operating segment Building Technology. The new organizational structure will further feature common support functions, as under the previous organizational structure the business segments have support functions of their own.

Figure 4: Sales split by operating segment under the new organizational structure (2018)



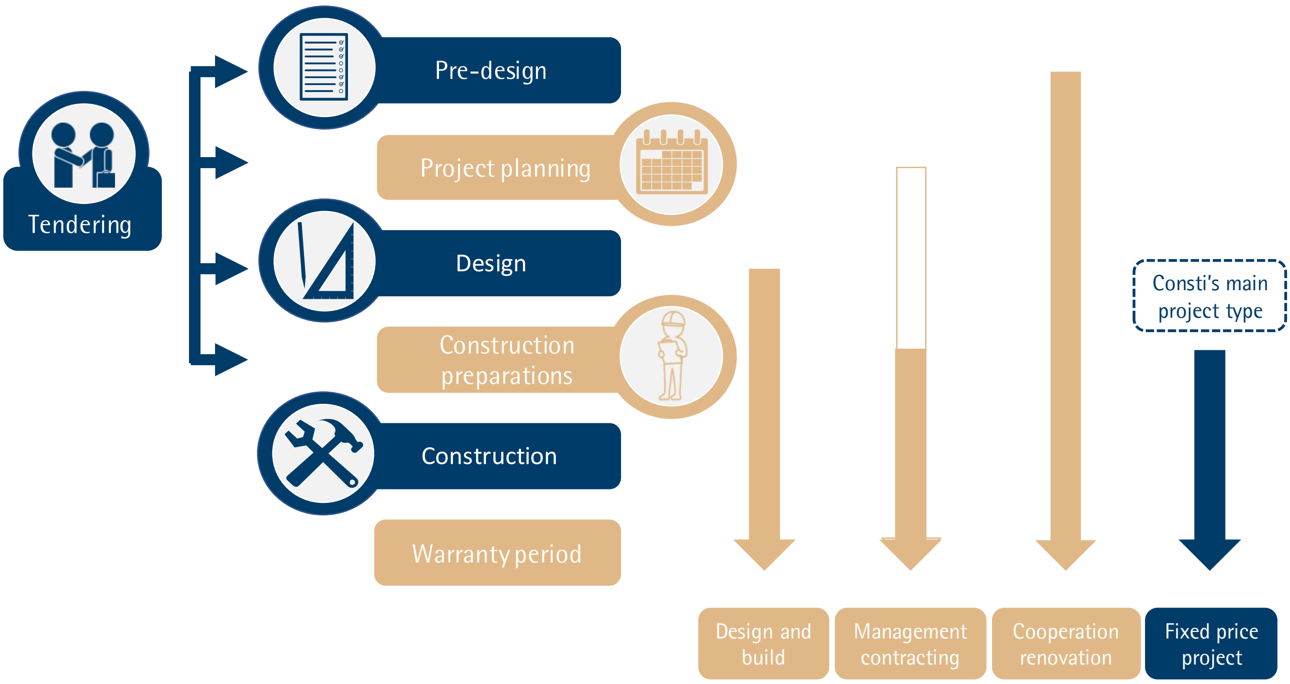
Source: Consti

Business model

Project-driven business model

Project management is a key for good profitability in the renovation sector, where typical sources of competitive edge like brand and distribution are less significant. Project management, execution and skilled employees are the main competitive edges for Consti, with renovation projects accounting for 87% of sales in 2018. The total number of projects in the portfolio amounted to 874 at the end of 2018. The median project size was 191k.

Figure 5: Renovation project types and phases (illustrative)



Source: Consti, Evli

Lower risk fixed-price projects the main business

Consti focuses on fixed-price renovation projects that account for the majority of the company's project business. In the fixed-price projects, the contractor is responsible for the implementation of the project on the basis of the subscribers commissioned plans. The renovation company does not take part in the design phase but executes the implementation of the project and covers the warranty period. Consti's contracts normally apply a two-year warranty period. As a result of good project management, Consti's warranty costs have been quite low.

Main project selection criteria: price, expertise and references

In the procurement process, the main selection criteria are the total price, the employee's expertise, and references. In the fixed-priced projects any possible additional work is charged separately. The fixed-price project model and the projects usually implemented as fixed-price projects offer rather stable business, but competition is usually tougher and the projects as such typically offer lower margins. The fixed-priced project business comes with the risk of project costs exceeding the originally budgeted costs or project execution taking longer than expected. Other project types or larger projects may offer potential for higher margins, through for instance incentive mechanisms and lower competition for certain projects, but the associated risks are typically also bigger.

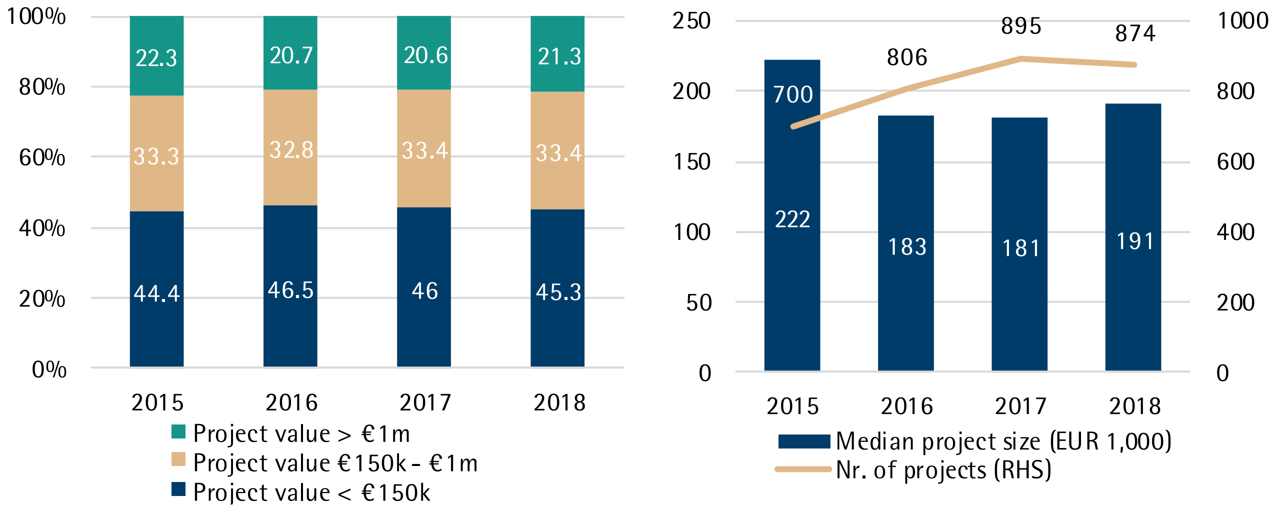
Projects vary in complexity

Consti's projects also vary by purpose and scope. Projects can vary from the likes of smaller repair projects to substantial building purpose modification projects and project values from thousands to tens of millions. The more complex and valuable projects usually offer higher margin potential but also bigger risks, which has shown during 2018, as Consti's weaker profitability was driven by a few larger and more complex building purpose modification projects.

Median project size relatively low, revenue mainly generated by larger projects

The smaller under EUR 1m projects account for nearly 80% of the projects and the share of total projects has remained relatively stable. However, 70% of revenue in 2018 was generated from projects exceeding EUR 1m. Some large projects, mainly in the non-residential sector, last longer than one year and revenue recognition is based on completion rates. Consti has not entered the developer contracting-based renovation projects, which tie more capital but can also be more profitable.

Figure 6: Consti's project portfolio (% of total nr. of projects) and median project size



Source: Consti

Few unsuccessful large projects can crumble otherwise healthy profits

Consti's project portfolio consists mainly of projects worth under EUR 1m but also a few significantly larger projects. Among the projects signed during 2018 are the full renovation of two properties (~EUR 35m) and the renovation of three blocks of flats (~EUR 17m) in Helsinki. Consti has further signed a contract for the renovation of Myllypuro comprehensive service centre (~EUR 25m) and a residential renovation project (~EUR 13m) during Q1/2019. Consti does not restrict itself to certain project sizes but assesses each project based on project risks and margins. The larger projects can be a driver for earnings if managed well but also risk becoming quite the opposite. Consti's earnings in 2018 proved to show how a few unsuccessful larger projects can affect the groups profitability. The earnings were mainly affected by two demanding building purpose modification projects, while the four worst projects combined had a negative effect on the operating profit in 2018 of around EUR 10m, while nearly all of the other projects showed healthy margins.

Service offers margin improvement potential

Consti has during the past years aimed to increase its service business, representing some 13% of the company's net sales. Between 2014-2018, Consti's net sales CAGR in the service business has been around 10%. Consti has been growing its service business both through acquisitions and organically. The service business, mainly technical building maintenance, offers margin improvement potential for the company and more recurring revenue through on-going service contracts. Currently the company focuses on small-scale maintenance but has been aiming to increase for instance its building automation business. Large players like Caverion, Lassila & Tikanoja, and ISS are among the main competitors in the service market. In our view Consti has limited resources to compete against the large players, with diverse operations and broad geographical coverage, but opportunities for smaller scale local growth still exist.

Strategy and targets

Long-term targets, profitability in particular, have proven challenging

Consti has had some challenges reaching its long-term strategic goals, in particular during the past two years due to the weak profitability. Consti has over the course of the past five years been able to achieve the average revenue growth target of over 10%, aided by acquisitions. Consti has yet to achieve its profitability target of over 5% adjusted EBIT-margin and the margins have been barely negative in the past two years. We expect the revenue growth and profitability targets to remain challenging also in the near term.

Growth currently not the main priority

We expect the implementation of stricter tendering processes and focus on profitability to continue to affect growth and Consti's weakened share price is also not supportive for creating shareholder value through M&A activity using the company's shares for payment. Achieving the revenue growth target in the long-term will in our view require increased M&A activity. With the current focus on improving profitability a future change in the growth target to reflect growth above the market pace (1.5-2.0%) is in our view possible.

Profitability dependent on project execution

Near-term profitability will in our view be affected by the pricing power of suppliers, which increased during the boom in new construction volumes in recent years but is showing signs of decline as volumes have been decreasing. The on-going profitability improvement program will also generate costs but is expected to translate into EUR 2m cost savings to be fully achieved from 2020 onwards. Achieving the profitability target in the long-term remains possible but challenging and would above all require improvements in project execution. The new building construction volumes are expected to slow down, which will likely have at least some effect on competition in the renovation sector, but we do not expect any larger impact on the already pressed margins in the sector.

Table 1: Consti's long-term strategic goals

	Growth	Profitability	Cash flow	Capital structure
Measure	Average annual revenue growth	Adjusted EBIT-margin	Cash conversion (free cash flow/EBITDA)	Net debt to adjusted EBITDA ratio
Target	>10%	>5%	>90%	<2.5x
2018	5.2%	-0.7%	(EBITDA neg.)	(EBITDA neg.)

Source: Consti

Overseas expansion unlikely

We do not except Consti to grow geographically outside of Finland, mainly due to Finnish construction companies having historically had profitability challenges in other Nordic countries. The competition is also tougher, for example in the Swedish market, which mitigates willingness to expand business overseas. In our view Consti has ample growth opportunities domestically from the expected stable growth of the renovation market and through expansion of services and regional coverage. The fragmented Finnish renovation market also provides opportunities for inorganic growth, which we see would likely be through bolt-on acquisitions to strengthen or expand into new service areas.

Guidance for 2019

Operating result expected to improve in 2019

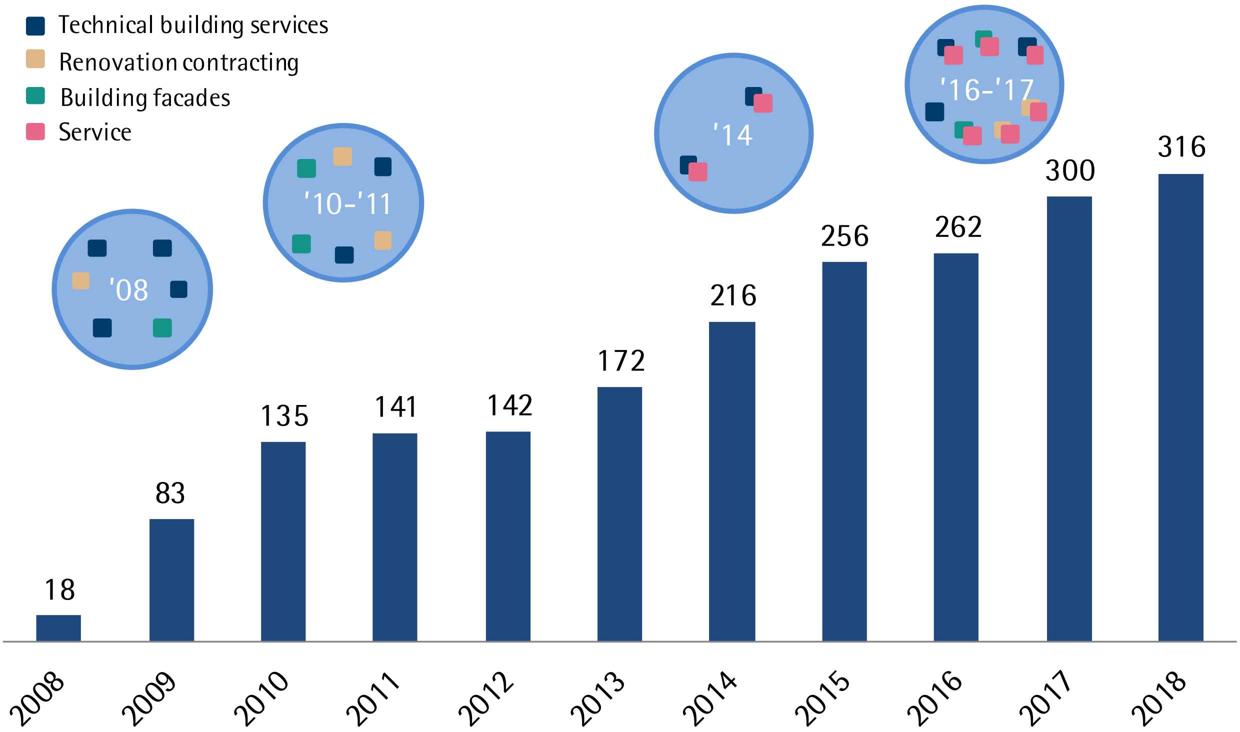
Consti estimates that is operating result for 2019 will improve compared to 2018, when the operating result was EUR -2.1m.

M&A activity

Acquisitions have been an integral part of Consti's growth

Consti has formed through a series of small and medium sized acquisitions. Consti has in our view had a mostly successful track-record in acquiring and integrating companies. Acquisitions at least in later years have focused more on smaller, less complex acquisitions of employees and customers to strengthen the company's offering geographically or provided services. Consti made no acquisitions during 2018, with valuations more challenging but also likely due to a weakened position for using company shares as payment for the transactions. Growth is currently also not the main priority for Consti which also has limited acquisitions.

Figure 7: Consti's acquisitions by segment



Source: Consti, Evli

Fragmented market offering growth potential

The Finnish renovation market is still fragmented and provides opportunities for further acquisitions. We do not anticipate near-term M&A activity but any future acquisitions would in our view be bolt-on acquisitions to strengthen the offering in selected specialty renovation services and completing the offering geographically. Consti has through acquisitions made during 2016-2017 also sought to expand its service business, which provides higher margin potential compared to typical renovation projects, and would in our view also be and area of interest in possible future acquisitions.

Eyes on acquisitions but unlikely to act in the near-term

Consti has been able to complete the acquisitions at generally favourable terms, with the purchase prices for the acquired objects having been in the range of 2.0-5.0x EBITDA. M&A criteria and valuation requirements have formerly limited the available acquisition objects for Consti to some tens of companies. We expect Consti to continue to keep an eye on possible acquisition objects, but also see that Consti's financing situation, both through the current lowered share price levels and cash position/debt capacity remain a limiting factor to increased M&A activity.

Market overview

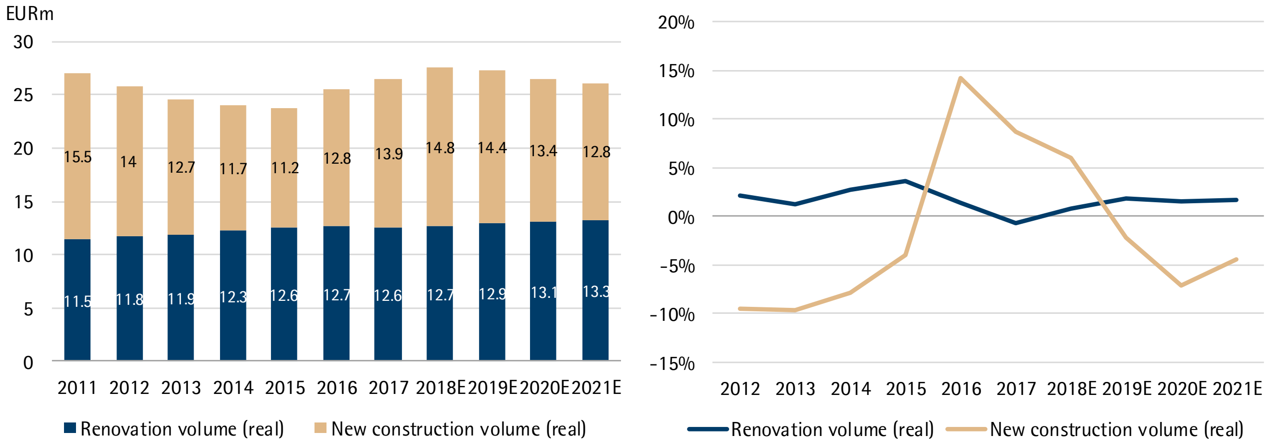
Finnish renovation market approx. 13 billion

The building construction volume, including renovation and new construction, amounted to EUR 27bn in 2017. Renovation accounted for approximately half of the volume, at EUR 13.1bn. The growth in the renovation market volume in 2017 amounted to 1.8%. Growth in volume in the renovation market is expected to continue at a CAGR between 2018-2020 of around 1.6 %[2]. The geographically largest markets are the Helsinki and Uusimaa region and Tampere region, followed by other growth centers. The for Consti relevant share of the renovation market is approx. EUR 5.5-6.0bn.

Renovation market less cyclical

In the Finnish construction market, renovation is the most stable sector. Growth rates have been historically lower compared to the levels witnessed during certain years in the new building market but during downturns the sector has been much more resilient towards growth declines. While the renovation market has grown rather steadily and every year during the period from 2011 up until 2018E, the new construction volumes fell some 28% from 2011 to 2015 only to rebound some 32% by 2018E. The renovation market is however an industry with rather low barriers to entry, which typically keeps competition rather tough and margins low.

Figure 8: Finnish construction market volumes and yearly changes in volume



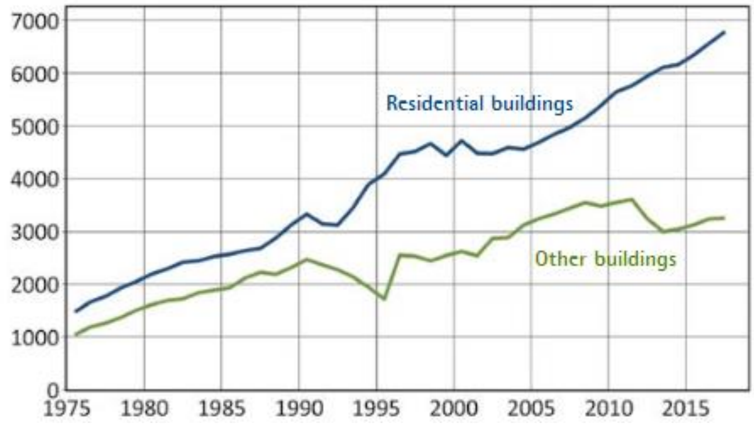
Source: Euroconstruct, The Confederation of Finnish Construction Industries (via Consti)

Strong market conditions in the main target market

The renovation market can be split into residential buildings and other buildings. Demand has been strong especially within residential buildings (mainly among housing corporations). Demand in the non-residential sector (offices, commercial building etc.) has been relatively stable. Geographically, demand has developed favorably especially in Southern Finland and large growth centers. In rural areas, market development has been modest due to weak building stock growth and lower house prices. Migration has been a determinant for regional growth in new construction but also supports renovation growth. According to Statistics Finland the population growth of the four largest cities in Finland (Helsinki, Espoo, Vantaa, and Tampere) amounted to 20,400, while population growth of the 18 largest cities combined was only slightly larger. The trend of migration to the largest cities has been recurring and we expect this to support continued faster renovation growth in key growth centres.

[2] Euroconstruct, The Confederation of Finnish Construction Industries (via Consti)

Figure 9: Renovation volume by building type (EURm)



Source: The Confederation of Finnish Construction Industries

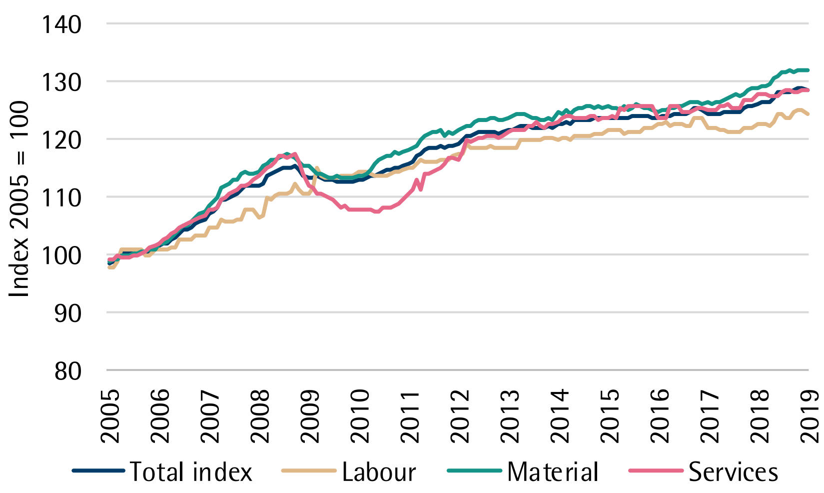
Housing co-operatives growth expectations strongest for Helsinki

According to the Finnish Real Estate Federations renovation barometer (autumn 2018) renovation activities among housing co-operatives are expected to see slight growth. Growth expectations are strongest for the Helsinki metropolitan area but also positive for other main regions. Renovation activities among apartment blocks in 2018 focused around pipelines and sewerage, wet rooms, rooftops, and garden constructions while expectations are also for increased needs for renovations relating to building exteriors.

Cost inflation picked up in recent years

Cost inflation has picked up in the construction sector during 2017-2018. Labour and material costs have been picking up to greater extent, increasing 2.4% and 2.6% y/y respectively during 2018. In Consti's case, the main cost inflation comes from wages (mainly supervisors and white-collar employees), while material costs are limited compared to new building construction. Consti's projects are typically relatively short, which lowers the risk of the cost inflation.

Figure 10: Finnish construction market volumes and yearly changes in volume

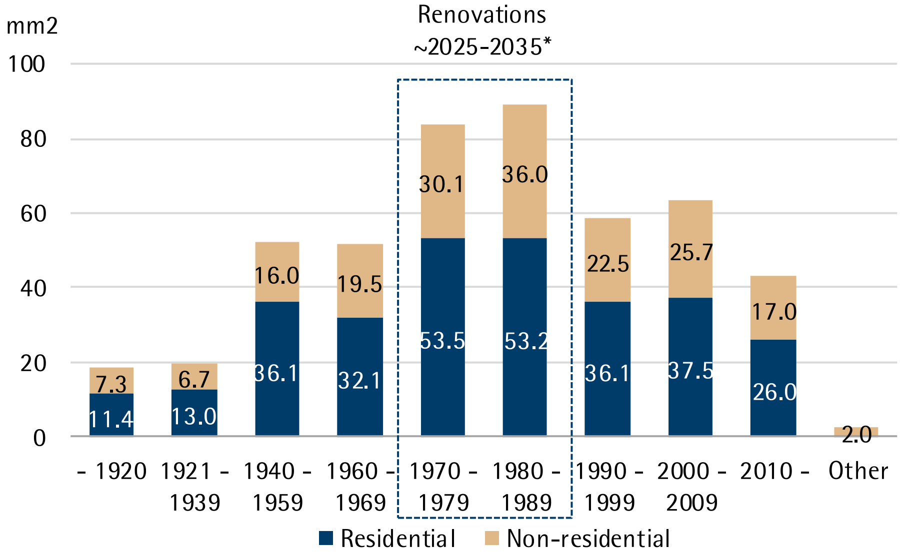


Source: Statistics Finland

Ageing building stock supports renovation volumes in the short and long-term

The growth in renovation volumes is supported by the aging building stock. Currently the building stock that has been built during 1960-70's is under renovation and therefore the current volume outlook is favorable. An even larger building stock is to be renovated when the 1980's building stock comes to renovation age during the next decade. These large building stocks are located especially in the Helsinki and Tampere region.

Figure 11: Building base in Finland



*Based on buildings achieving average age of ~50 years
Source: Statistics Finland, Consti

Migration to growth centers continues

Migration to growth centers has continued in Finland. This creates a need for new building but also renovation in the long-term. According to Statistics Finland, the migration focuses on Southern Finland (incl. Helsinki, Espoo & Vantaa), South West (incl. Turku), Tampere region and Lahti region. Consti has a low exposure to new building construction and projects are typically electrification and HVAC installation projects. Denser city structures drive urbanization especially in large growth centers. For instance, residential construction has in recent years focused more on apartment buildings, which in renovations is the main target market for Consti.

Energy efficiency becoming more important also in renovation

Buildings continue to account for a large proportion of the total energy consumption, currently at around 40%. The EU-target is that all new buildings must be nearly zero energy buildings by 2020. The EU also has a separate target for renovations - EU countries must make energy efficiency improving renovations to at least 3% of the total floor area of buildings owned and occupied by central government. In Finland, new requirements demand that in connection with building conversions and technical systems renovations, companies should increase the energy efficiency of renovated buildings. Energy efficiency is relatively weak, especially among the building stock constructed in 1970'-1980', which supports Consti's demand in the long-term. Consti often improves buildings energy efficiency in connection with renovation projects.

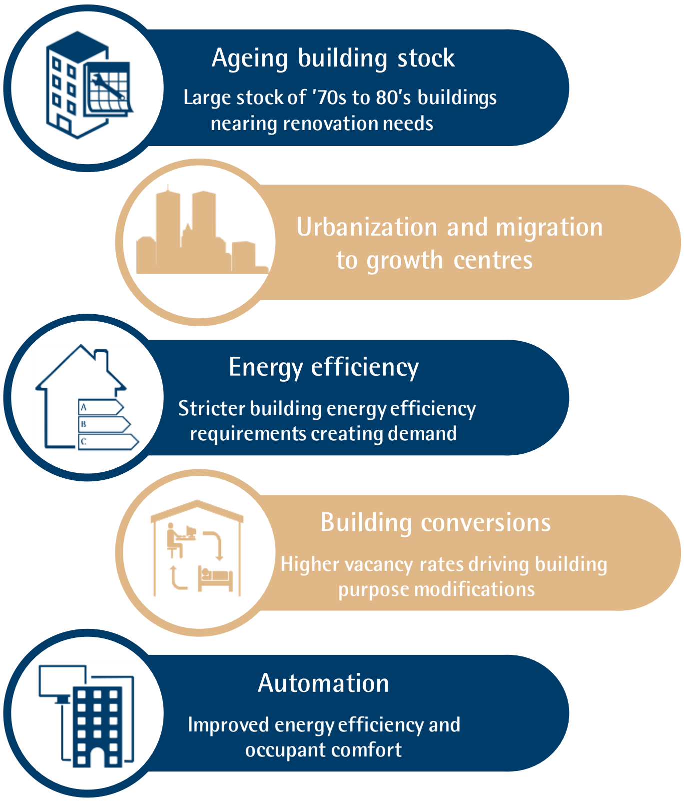
High office vacancy rates offering building purpose modification opportunities

Building purpose modification projects in Finland are largely concentrated to the office and industrial building sector. Typical completed conversions have in the near past been from offices to hotels/apartments. Vacancy rates in the office sector are at a relatively high level and when comparing to other Nordic capital cities the vacancy rates in the Helsinki Metropolitan area are substantially higher. More efficient use of facilities is a growing trend especially in the office sector, which affects the rates negatively.

Building automation - potential in the long-term

Increasing automation is expected to support especially new technical installations market in the construction sector. Improving control of heating, ventilation and air conditioning improves living conditions but also lowers energy consumption. Consti still has a low exposure to the building automation market, where large Building installations and service companies like Caverion and Are have a strong position in the market.

Figure 12: Long-term renovation market growth drivers in Finland



Source: Evli

Ageing building stock the strongest driver

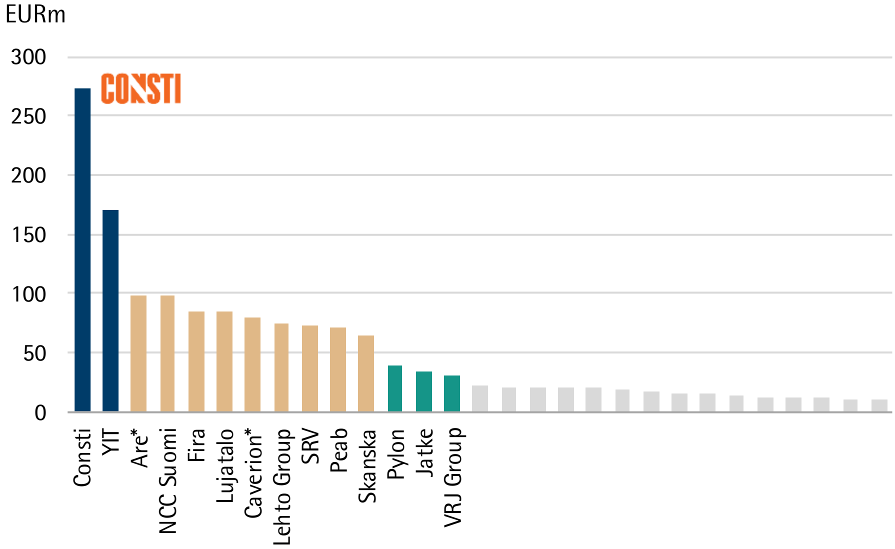
We see that the most important long-term market driver for Consti is the ageing building stock. Currently renovations focus on the 60's building stock but the even larger building stocks, built during the 70's and 80's "boom years", will come under renovation in the future. Residential buildings in particular are in some regions in relatively poor condition. Urbanization and migration to growth centers have an impact on Consti's markets as the company's sales are generated mainly from the Finnish growth centers. Energy efficiency, building conversions and automation also have a positive but, in our view, more limited impact on demand for Consti's services.

Competitive landscape

Consti largest in the fragmented renovation sector

Consti is the largest renovation company in Finland, with a market share of approximately 4%. Larger competitors include construction companies YIT and NCC and building installations and services companies Are and Caverion. These companies do not publish exact sales and profitability figures from their renovation activities. Are and Caverion offer technical building services to both new construction and renovation projects and have offering similar to Consti. The large listed construction companies are also to a smaller but increasing extent exposed to the renovation markets. YIT took a big leap in its renovation exposure with the acquisition of Lemminkäinen. NCC falls just short of having over EUR 100m revenue from renovation activities after a ~25% decrease in revenue from 2016 (Rakennuslehti).

Figure 13: Market structure of the Finnish renovation sector (2017)



*Building installations and services companies estimated at 25% of revenue
Source: Rakennuslehti, company reports, Evli research

Presence of largest construction companies in the renovation sector still limited

The renovation sector has seen some moves from new building focused construction companies in recent years, with YIT's acquisition of Lemminkäinen being the most notable. Lehto Group increased its presence in the renovation market by acquiring medium-sized Wareco in 2016 but has during 2018 announced plans to scale down on its unprofitable renovation activities. The combined revenue from renovation activities of the 10 largest companies in the field in 2017 amounted to around EUR 1.1bn, corresponding to below 10% of the total renovation sector.

Competitive service landscape

In the service business, Consti's largest competitors include for instance Caverion, ISS and Lassila & Tikanoja, who offer technical maintenance for different types of buildings. According to its listed competitors, demand for technical maintenance in Finland is expected to be strong in the long-term. Consti's has formerly sought to increase its presence in the technical repair and maintenance market. Currently 13% of Consti's sales are generated from service business.

Bravida has grown through acquisitions

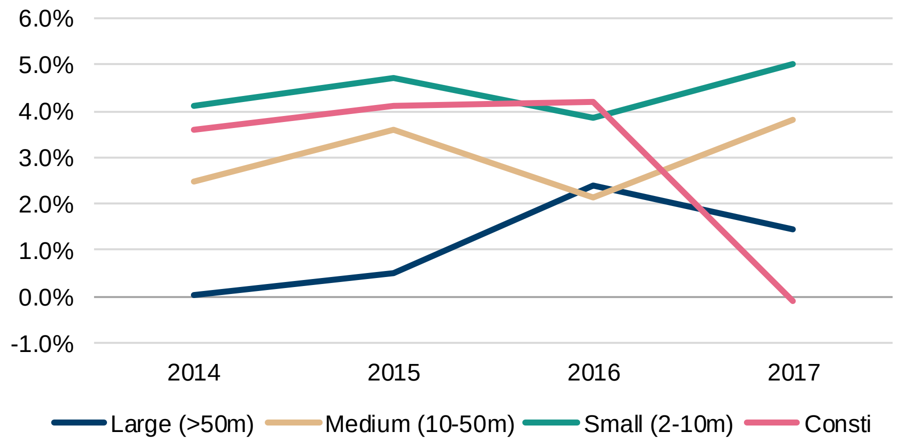
The large publicly traded Nordic Building installations and service company, Bravida, entered the Finnish market in 2015 and has enlarged its operations through acquisitions. Bravida operates mainly in new HVAC and electrical installations market but has also exposure to the Finnish renovation market. Bravida strengthened its position in Finland by acquiring technical services provider Adison during 2018.

Median renovation EBIT margins in past years in between 2-5%

We compared Consti's profitability (EBIT-margin) against local Finnish renovation companies. For the smaller and medium sized companies (2017 revenue of EUR 2-10m and 10-50m respectively) we have included companies that according to our estimates generate a majority of their revenue from renovation activities. As Consti is the only large company (revenue >50m) with revenue nearly exclusively from renovation activities, the large competitors include mainly construction companies more active within new building construction but also have notable renovation services and the comparison to the larger firms may as such be inaccurate. The comparison would suggest that smaller renovation companies are able to generate better margins, which could be a result of smaller renovation companies focusing on specific segments in the renovation market (pipeline renovation, façade repairs or other renovation contracting etc.) without undertaking any larger, more complex projects, but possibly also smaller company's dividend over salary preferences. The boom in construction in recent years has also improved the pricing power of subcontractors, which is likely reflected in the improving margins among smaller companies.

Consti has been able to achieve margins comparable to the comparison firms during 2014-2016, falling clearly below median EBIT-margins in 2017 due to underperforming projects. In our view EBIT-margins for renovation companies in the range of 3-5% should be considered healthy. Renovation companies that have achieved margins clearly above the range usually also have some form of product sales along with the renovation activities, for instance building materials. Consti's size along with being a publicly traded company compared to the smaller competitors should increase confidence among the customers but differentiation in the sector is rather challenging. Furthermore, renovation is an industry with low barriers to entry, which typically keeps competition rather tough and margins low.

Figure 14: EBIT-margin comparison of Finnish renovation companies (median)



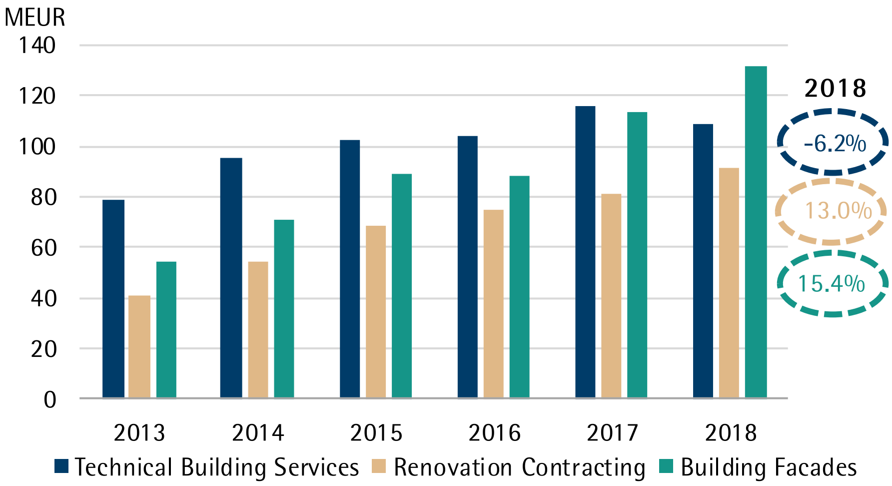
Source: Asiakastieto, Evli. Comparison includes 70 companies with combined revenue of ~EUR 2bn (2017).

Financial performance

Rapid growth phase slowing down, still above market growth pace

Consti has been growing rapidly since its establishment in 2008, with a sales CAGR of over 30%, driven by acquisitions. Growth in the renovation market during the period has on average amounted to around 2%. Sales CAGR during 2016-2018 amounted to approx. 7%, as M&A activity slowed down, with the average organic growth during the period near 5 %. Net sales in 2018 amounted to EUR 315.8m, growing 5.2% y/y, of which 3.4% was organic growth. Sales in Technical Building Services declined y/y due to re-organization within the segment, along with adoption of new operating models and stricter tendering processes, while the other business segments saw double-digit growth.

Figure 15: Net sales development by segment



Source: Consti

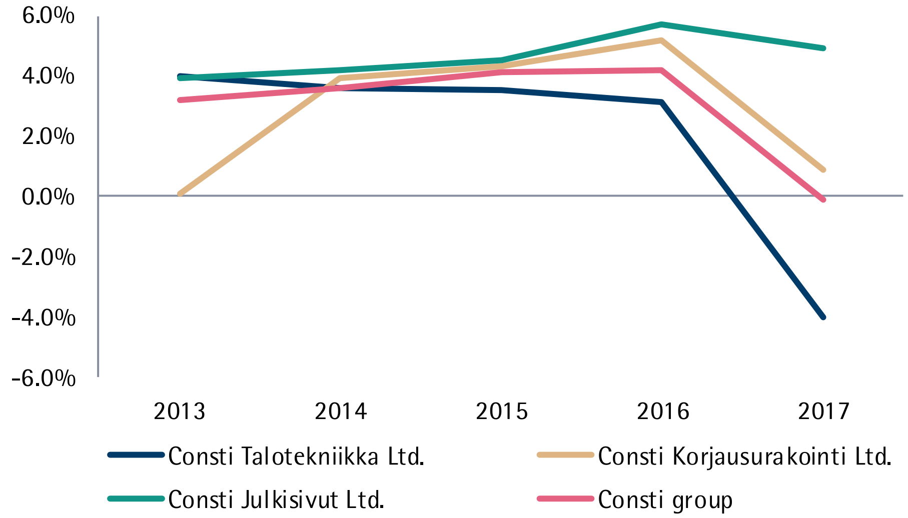
Profitability weakness due to project management and execution related problems

Consti's profitability has been negative during the past two years, after several years of healthy profitability and margin improvements. Profitability has been burdened by problems relating to project management and execution in a number of projects but also increased pricing competition. Consti's profitability during 2018 was negative, with EBIT of EUR -2.1m (EUR -0.4m) and an EBIT-margin of -0.7% (-0.1%). Profitability in 2018 was burdened in particular by two demanding building purpose modification projects, that we estimate to have had a combined negative impact on 2018 earnings of EUR 6-8m. One project (Hotel St. George) has been completed but is under arbitration proceedings and the other project is expected to be completed during H1/2019. According to Consti the margins have remained at healthy levels when excluding the few worst performing projects.

Building Facades (excl. housing repair unit) best performing segment by profitability

We compared Consti's profitability (EBIT-margin) between reporting segments based on the financial statements of the companies under Consti Group. In the comparison, the best-performing segment has been Building Facades (Consti Julkisivut Oy), where the company has faced less competition especially from major Nordic construction and Building installations and service companies. Building Facades (Consti Julkisivut Oy) has been generating EBIT-margins between 4.0-6.0% in the past couple of years. We expect the profitability to have been lower in 2018 due to weaker performance of the housing repair unit within building Facades. Consti's Technical Building Services segment (Consti Talotekniikka Oy) has been generating an EBIT-margin between some 3.0-4.0%, with the exception of the past two years. Consti's Renovation Contracting segment (Korjausurakointi Oy) has been able to substantially improve margins up until the recent weaker years.

Figure 16: Conti's EBIT-margin by subsidiary

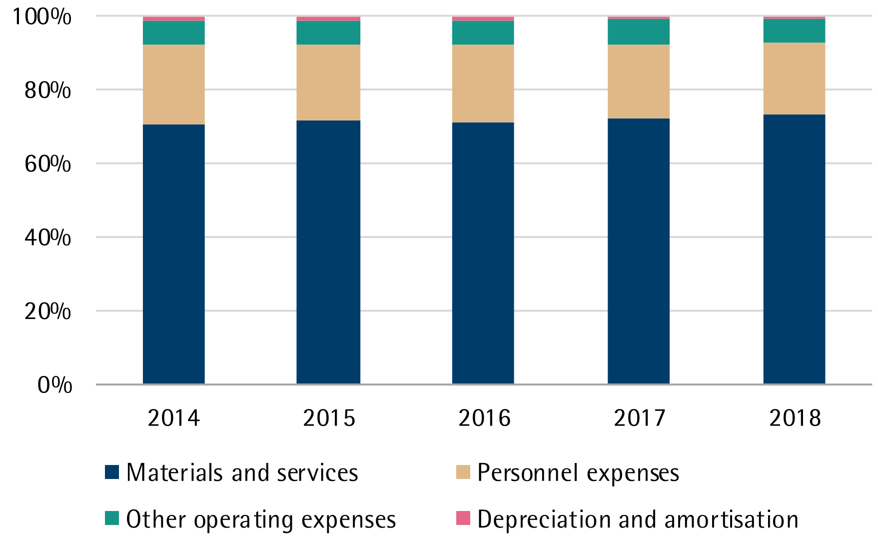


Source: Consti, Asiakastieto. Technical Building Services: mainly Consti Talotekniikka Ltd., Building Facades: mainly Consti Julkisivut Ltd., and Renovation Contracting: mainly Consti Korjausurakointi Ltd.

Actions to improve profitability taken – further actions ahead

Consti has been taking actions to improve profitability during 2017 and 2018. The Technical Building Services area was reorganized into three delivery processes from the beginning of 2018. Margin requirements were increased and tendering criteria for the offered projects have also been tightened. Consti has also been implementing common operating models throughout the group to improve project management. In Q4/2018 Consti further announced the launch of a program to improve profitability and the renewal of its segment reporting structure. With the program Consti intends to move towards a more customer-oriented organization structure with improved worksite management and more efficiently organized internal support services. The program is estimated to cause costs of around EUR 0.5m in 2019 but deliver annual cost savings of EUR 2m from 2020 onwards.

Figure 17: Consti's cost structure



Source: Consti

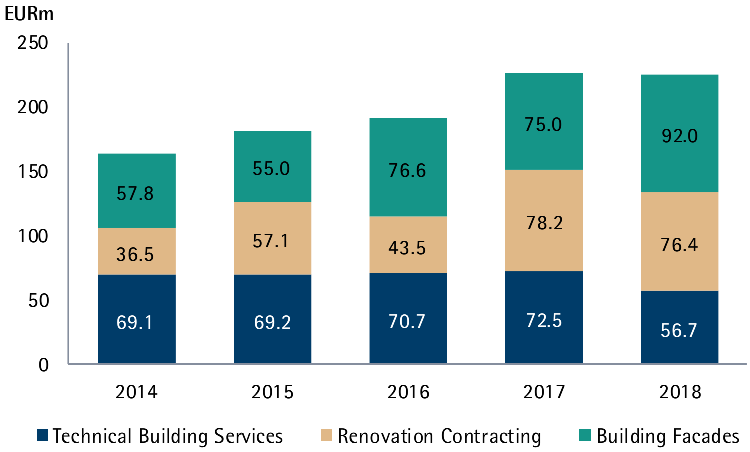
Low operating leverage due to high share of variable costs

The majority of Consti's costs are variable and include construction materials, project employees' wages and other costs. The high share of variable costs highlights the importance of the procurement function and the weaker profitability during 2017-2018 has been largely a result of higher project costs. The number of own employees is somewhat low compared to project needs, of which nearly half are white-collar workers, and as such the use of subcontractors is extensive. Due to high variable costs, the company is able to adjust its cost structure relatively well depending on volumes. However, Consti has a low share of fixed costs, mainly including facility (rented offices) and personnel expenses and as a result the operating leverage is relatively low. During 2017-2018 new construction volumes have surged, which has put pressure also on the renovation sector through wage inflation and improved pricing power of subcontractors. Signs of the construction boom slowing down were seen in late 2018 and several construction firms have already indicated expectations of decreasing cost pressure. According to Consti's management any decreases in the relative cost for products and services from suppliers can be reflected in Consti's own projects relatively fast.

Short order book reduces visibility

Consti's order book at the end of 2018 amounted to EUR 225.1m, at similar levels to the previous year end. The stricter project tendering processes have had an impact on the order book of Technical Building Services, which saw declines in 2018. The turnover of Consti's order book is relatively fast due to fewer large multi-year projects and a large number of shorter projects, which has a reductive effect on visibility of sales development. A good market situation has supported the order book especially in Building Facades. The order book of Renovation Contracting has been somewhat volatile due to the segment focusing on non-residential renovation, where demand fluctuates more compared to residential renovation. Consti has received several significant renovation projects in particular during 2017 but also 2018, that have supported the order book.

Figure 18: Order book development by segment



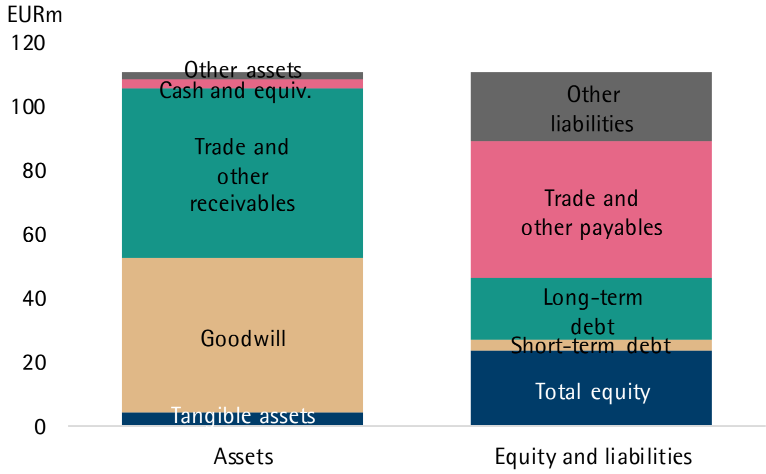
Source: Consti

Balance sheet relatively strong, high goodwill from acquisition-driven growth strategy

Due to the business model, Consti is relatively asset-light compared to its listed developer-contracting oriented Nordic construction company peers. Consti's net working capital (NWC) remains negative, at EUR -9.8m at the of 2018, supported by advance payments of projects. The free cash flow in 2018 amounted to EUR -7.1m, affected by the weakened result and the change in NWC of EUR 6.3m in 2018, largely due to tie up of capital from the Hotel St. George project. Consti's net debt at the end of 2018 amounted to EUR 19.6m and the gearing was at 83.6%, increasing from 47.7% in 2017 mainly due to the increase in net debt. The equity ratio was 25.4%. Consti has post-Q4 issued an EUR 3.2m hybrid bond with an interest rate of 12.0 percent. As a result of acquisitions, Consti has goodwill of EUR 48.6m in the balance sheet, amounting to some

44% of the total balance sheet and 208% of the total equity. In its history, the company has not reported any significant goodwill write-downs.

Figure 19: Conti's balance sheet composition (2018)

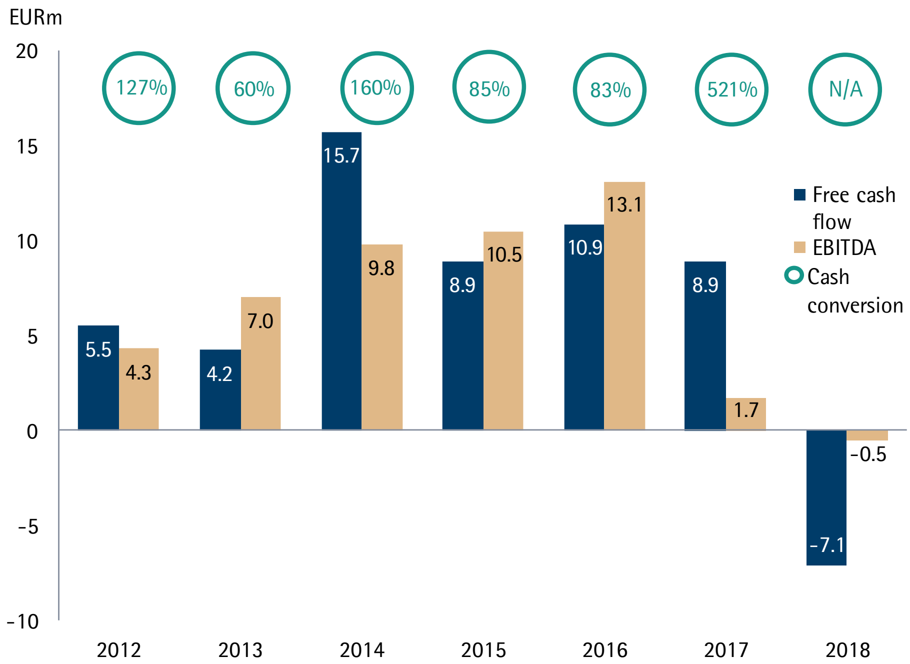


Source: Consti

Good historical cash generation ability

Consti has had a strong track record of generating cash. Consti's long term target for the cash conversion ratio is to exceed 90%. Consti has been able to achieve ratios near or above the target a majority of times. Consti's free cash flow in 2018 was negative mainly due to capital tied up in the Hotel St. George project. Capex requirements in the renovation project business are limited through a lesser need for heavy machinery and in Consti's case further by the fact that a larger part of machinery is rented.

Figures 20: Consti's cash conversion



Source: Consti

Estimates

Sales growth estimate 2.2% (CAGR) for '18-'21E

We expect sales growth to be limited and estimate a sales CAGR of 2.2% during 2018-2021E, slightly above the expected market growth. We expect Consti to focus on improving profitability and growth to slow down as such. Consti has also adopted stricter bidding criteria, which has had an effect on pipeline renovations in particular, and which we expect to continue to show during 2019. Consti's order backlog in Q4/2018 was also on par with the comparison period, but Consti's management still expects more activity in 2019 compared to the previous year. This is supported by the significant orders signed during Q1/2019.

Expect margin improvement but project risks still remain

We expect Consti's profitability to improve in 2019 and estimate an EBIT-margin of 2.2% in 2019E. Profitability will be aided by the finishing of unprofitable projects, although we remain somewhat conservative to profitability development, compared to pre-2017 achieved EBIT-margins of over 4%, as a few of the are projects still on-going and risks for further exceeding costs exist. The overall margins in the renovation sector have likely been impacted by growth in the new building volumes in recent years due to increased pricing power of subcontractors and suppliers but should be able to recover as new building volume growth is expected to decline. This should further aid in the availability of skilled subcontractors and as such also project execution. The organizational changes will also result in cost savings, targeted at around EUR 2m, to be achieved in full as of 2020.

Table 2: Estimates summary

Consti	2017	Q1/'18	Q2/'18	Q3/'18	Q4/'18	2018	Q1/'19E	Q2/'19E	Q3/'19E	Q4/'19E	2019E	2020E	2021E
Housing Companies		17.9	25.1	28.9	32.4	104.3	17.2	24.3	27.5	31.4	100.4	102.0	104.0
Corporations		26.0	33.1	33.2	42.0	134.3	28.0	35.0	35.5	44.0	142.5	145.0	147.5
Public Sector		3.0	3.8	4.0	7.2	18.0	4.0	4.5	4.5	7.0	20.0	21.0	21.5
Building Technology		17.9	20.1	16.8	20.4	75.2	18.2	21.5	17.0	20.5	77.2	79.0	80.5
Eliminations		-2.5	-4.5	-4.0	-5.1	-16.1	-3.0	-4.0	-4.0	-5.0	-16.0	-16.0	-16.5
Net sales	**300.2**	**62.3**	**77.8**	**78.9**	**96.8**	**315.8**	**64.4**	**81.3**	**80.5**	**97.9**	**324.1**	**331.0**	**337.0**
change, %	*14.8%*	*8.7%*	*-1.3%*	*1.4%*	*12.1%*	*5.2%*	*3.4%*	*4.5%*	*2.0%*	*1.2%*	*2.6%*	*2.1%*	*1.8%*
Operating profit	**-0.4**	**-0.2**	**1.7**	**-1.4**	**-2.2**	**-2.2**	**0.1**	**1.5**	**2.5**	**3.0**	**7.1**	**11.2**	**12.3**
-margin, %	*-0.1%*	*-0.4%*	*2.1%*	*-1.8%*	*-2.3%*	*-0.7%*	*0.2%*	*1.8%*	*3.1%*	*3.1%*	*2.2%*	*3.4%*	*3.6%*

Source: Consti, Evli research

Valuation

HOLD (BUY) with a target price of EUR 6.0

We base our valuation on our mainly Nordic construction and building installations and services peer groups, as we do not identify a comparable renovation sector focused peer group. Consti trades at a 22%/31% discount on 2019E EV/EBIT to the groups respectively. Although we consider that the less cyclical renovation sector and a favourable demand outlook would warrant valuation closer to the construction companies, Consti's risk profile has been elevated due to internal project management issues and the on-going arbitration proceedings in the Hotel St. George project. As such we consider a discount justifiable. We value Consti at 9.2x 2019E EV/EBIT for a target price of EUR 6.0 and downgrade to HOLD (BUY).

At a discount to the construction and building installations and service peer groups

We have compared Consti's valuation against both a mainly Nordic construction sector and building installations and service peer group, as Consti in our view has no directly comparable local peers and Consti's main listed competitors operate in both of these sectors. We consider the construction companies a closer comparable due to the higher share of project type business, while the building installations and services companies typically have a higher share of recurring business through service contracts. Compared to the peer groups, Consti is clearly a smaller player, but operates within the less cyclical renovation sector, where margins are typically also lower compared to for instance new building construction. Compared to both the construction companies and building installations and services companies Consti trades at a significant discount on our estimates.

Table 3: Consti's peer groups

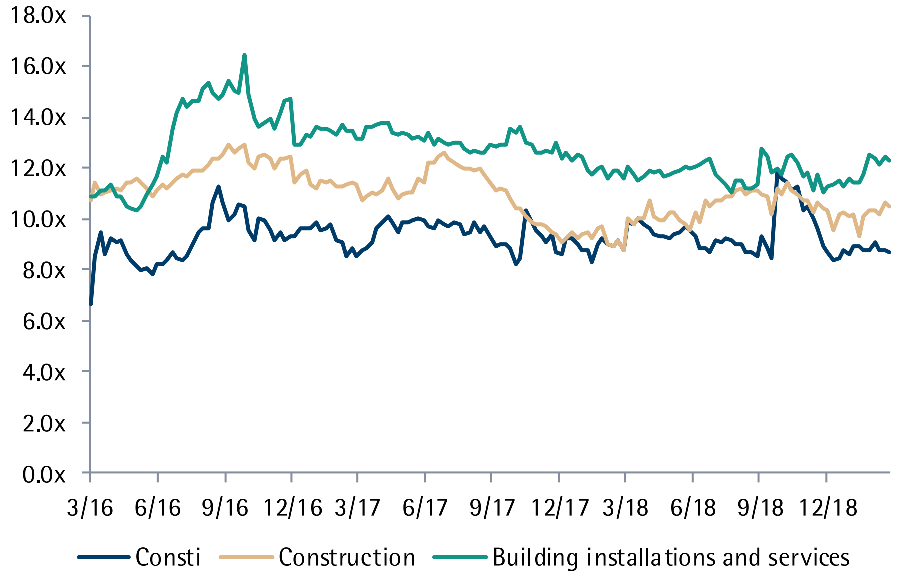
	MCAP	EV/EBITDA		EV/EBIT		P/E		Div. yield	
Construction companies	MEUR	19E	20E	19E	20E	19E	20E	19E	20E
YIT	1083	7.1x	7.3x	8.7x	9.2x	7.9x	8.6x	5.8 %	6.2 %
SRV Yhtiöt	103	13.6x	11.1x	16.1x	12.7x	11.0x	7.4x	2.9 %	3.7 %
Lehto Group	249	6.7x	6.1x	7.4x	6.6x	7.7x	6.8x	5.8 %	6.6 %
Skanska	6991	9.6x	9.1x	11.8x	11.0x	13.9x	12.9x	4.1 %	4.4 %
NCC	1484	7.5x	6.0x	11.5x	8.3x	14.4x	10.3x	4.2 %	5.3 %
Peab	2231	8.5x	8.4x	11.2x	11.0x	11.2x	11.1x	5.5 %	5.7 %
JM	1207	9.9x	9.8x	10.2x	9.9x	10.6x	10.4x	6.1 %	6.0 %
Veidekke	1231	7.6x	7.1x	11.6x	10.4x	11.3x	10.4x	5.8 %	6.0 %
Peer Group Average	1822	**8.8x**	**8.1x**	**11.0x**	**9.9x**	**11.0x**	**9.7x**	**5.0 %**	**5.5 %**
Peer Group Median	1219	**8.1x**	**7.9x**	**11.3x**	**10.1x**	**11.1x**	**10.4x**	**5.6 %**	**5.8 %**
Consti (Evli est.)	**44**	**5.6x**	**3.6x**	**8.8x**	**5.0x**	**9.2x**	**5.5x**	**4.5 %**	**7.1 %**
Consti prem./disc. to peer median		*-31%*	*-54%*	*-22%*	*-50%*	*-17%*	*-47%*		

Source Bloomberg, Evli Research

	MCAP	EV/EBITDA		EV/EBIT		P/E		Div. yield	
Building installations and services companies	EUR	19E	20E	19E	20E	19E	20E	19E	20E
Caverion	784	7.8x	6.6x	14.8x	11.0x	18.0x	13.7x	2.7 %	4.0 %
Bravida Holding	1554	12.5x	12.2x	13.4x	13.1x	16.3x	15.9x	2.8 %	3.1 %
MITIE Group	642	6.2x	5.9x	8.5x	7.8x	8.3x	7.4x	2.7 %	2.7 %
ISS	5038	9.3x	8.6x	12.8x	11.5x	14.8x	13.1x	4.0 %	4.1 %
Bilfinger	1347	6.5x	4.9x	9.3x	6.5x	14.7x	10.2x	3.4 %	4.0 %
Peer Group Average	1873	**8.5x**	**7.6x**	**11.8x**	**10.0x**	**14.4x**	**12.1x**	**3.1 %**	**3.6 %**
Peer Group Median	1347	**7.8x**	**6.6x**	**12.8x**	**11.0x**	**14.8x**	**13.1x**	**2.8 %**	**4.0 %**
Consti (Evli est.)	**44**	**5.6x**	**3.6x**	**8.8x**	**5.0x**	**9.2x**	**5.5x**	**4.5 %**	**7.1 %**
Consti prem./disc. to peer median		*-28%*	*-45%*	*-31%*	*-54%*	*-38%*	*-58%*		

Source Bloomberg, Evli Research

Figure 21: Historical forward 12-month EV/EBIT



Source: Factset

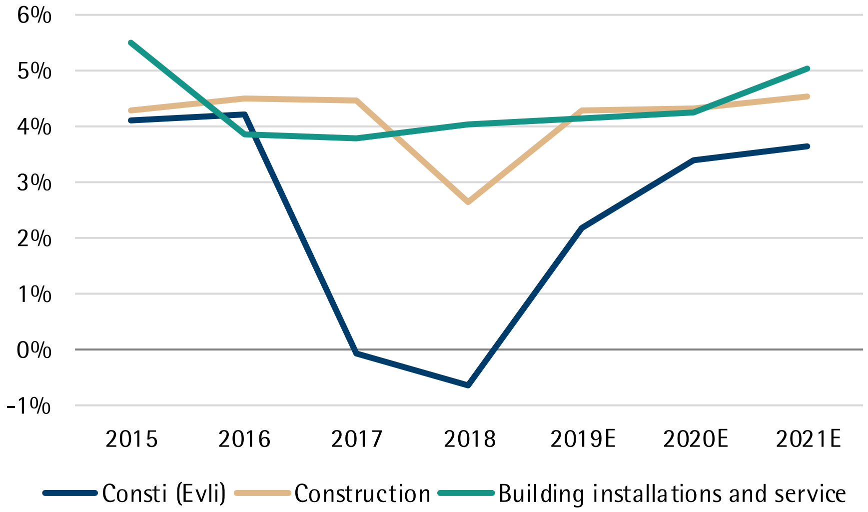
Valuation historically below peers

Consti has historically traded on an average discount of 17 % and 26% to the construction peers and building installations and services peers respectively, on forward 12-month EV/EBIT multiples, although the discount at least to the construction companies has decreased slightly. Valuation multiples in the construction sector have partly been affected by a weaker demand outlook and profitability challenges after having witnessed several boom years. The demand situation in the renovation sector however remains favourable and a weakened demand situation in new building construction supports Consti by alleviating some of the pressure from subcontractors and suppliers pricing power. Renovation as an industry however does have low barriers to entry, keeping competition higher and margins relatively low, which will likely be impacted further by construction companies seeking to strengthen their position in the renovation sector as building construction volumes decline. Also, the upside potential in margins in the sector is clearly lower compared to for instance developer based residential construction.

View on renovation sector remains positive – company specific risks related to Consti

Due to the defensive nature of the renovation sector with a steadily increasing demand, despite a tougher competitive situation and a more limited margin potential, valuation closer to the construction peers would in our view be justifiable. However, in Consti's case several factors have increased the risks relating to future performance. Consti has had project management and execution related issues, which partly relate to more complex renovation projects of older buildings and thereto related surprise factors. Some of the projects are still on-going and expected to be completed during 2019. Another significant uncertainty is the arbitration proceeding relating to the Hotel St. George project, in which both involved parties have made claims against the other party. No decisions in the case have been made, but an unfavourable ruling could have a significant negative impact on future cash flows. Consti has taken the disagreement into consideration in its financial reporting.

Figure 22: EBIT-margin comparison



Source: Factset, Consti, Evli Research

Internal problems impacted on Consti's margins, construction companies also saw declines in 2018

Consti's EBIT-margin tumbled in 2017 and remained weak in 2018. Profitability among construction firms also fell in 2018, driven partly by increased construction costs, but is expected to rebound in 2019. Profitability of the building installations and services companies has remained relatively stable in recent years, likely reflecting the more recurring nature of the services business.

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	5.60	PV of Free Cash Flow	68	Long-term growth, %	1.2	Risk-free interest rate, %	2.25
DCF share value	14.00	PV of Horizon value	66	WACC, %	8.6	Market risk premium, %	5.8
Share price potential, %	150.0	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	3.3
Maximum value	15.2	Marketable securities	3	Minimum WACC, %	8.1	Equity beta coefficient	1.15
Minimum value	12.9	Debt - dividend	-27	Maximum WACC, %	9.1	Target debt ratio, %	30
Horizon value, %	49.2	Value of stock	110	Nr of shares, Mn	7.9	Effective tax rate, %	20

DCF valuation, EURm	2018	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	Horizon
Net sales	316	324	331	337	344	349	354	359	365	370	375	379
Sales growth, %	*5.2*	*2.6*	*2.1*	*1.8*	*2.0*	*1.5*	*1.5*	*1.5*	*1.5*	*1.5*	*1.2*	*1.2*
Operating income (EBIT)	-2	7	11	12	14	14	14	14	15	15	13	13
EBIT margin, %	*-0.7*	*2.2*	*3.4*	*3.6*	*4.0*	*4.0*	*4.0*	*4.0*	*4.0*	*4.0*	*3.5*	*3.5*
+ Depreciation+amort.	2	4	4	5	5	5	5	5	5	5	5	
- Income taxes	0	-1	-2	-2	-3	-3	-3	-3	-3	-3	-3	
- Change in NWC	-7	1	0	0	0	0	0	0	0	0	0	
NWC / Sales, %	*-2.5*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	*-2.7*	
+ Change in other liabs	1	0	0	0	0	0	0	0	0	0	0	
- Capital Expenditure	-5	-4	-5	-5	-5	-5	-5	-5	-5	-5	-5	-5
Investments / Sales, %	*1.6*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*	*1.4*
- Other items	0	0	0	0	0	0	0	0	0	0	0	
= Unlevered Free CF (FCF)	-11	6	9	10	11	11	11	12	12	12	11	147
= Discounted FCF (DFCF)		6	8	8	8	8	7	7	6	6	5	66
= DFCF min WACC		6	8	8	8	8	7	7	6	6	5	74
= DFCF max WACC		6	8	8	8	7	7	6	6	6	5	59

INTERIM FIGURES

EVLI ESTIMATES, EURm	2018Q1	2018Q2	2018Q3	2018Q4	2018	2019Q1E	2019Q2E	2019Q3E	2019Q4E	2019E	2020E	2021E
Net sales	62	78	79	97	316	64	81	81	98	324	331	337
EBITDA	0	2	-1	-2	0	1	3	4	4	11	16	17
EBITDA margin (%)	*0.3*	*2.7*	*-1.3*	*-1.8*	*-0.1*	*1.7*	*3.1*	*4.4*	*4.1*	*3.5*	*4.7*	*5.0*
EBIT	0	2	-1	-2	-2	0	2	3	3	7	11	12
EBIT margin (%)	*-0.4*	*2.2*	*-1.8*	*-2.2*	*-0.7*	*0.2*	*1.8*	*3.1*	*3.1*	*2.2*	*3.4*	*3.6*
Net financial items	0	0	0	0	-1	0	0	0	0	-1	-1	-1
Pre-tax profit	0	2	-2	-2	-3	0	1	2	3	6	10	11
Tax	0	0	0	0	1	0	0	0	-1	-1	-2	-2
Tax rate (%)	*18.9*	*19.7*	*20.0*	*17.4*	*17.9*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*
Net profit	0	1	-1	-2	-2	0	1	2	2	5	8	9
EPS	-0.04	0.16	-0.17	-0.25	-0.30	-0.01	0.12	0.22	0.27	0.61	1.02	1.16
EPS adjusted (diluted no. of shares)	-0.04	0.16	-0.17	-0.25	-0.30	-0.01	0.12	0.22	0.27	0.61	1.02	1.16
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.40	0.58
SALES, EURm												
Elimination	-2	-4	-4	-5	-16	-3	-4	-4	-5	-16	-16	-16
Housing Companies	18	25	29	32	104	17	24	28	31	100	102	104
Corporations	26	33	33	42	134	28	35	36	44	143	145	148
Public Sector	3	4	4	7	18	4	5	5	7	20	21	22
Building Technology	18	20	17	20	75	18	21	17	21	77	79	81
Total	62	78	79	97	316	64	81	81	98	324	331	337
SALES GROWTH, Y/Y %												
Technical Building Services	*-100.0*	*-100.0*	*-100.0*	*-100.0*	*-100.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Renovation	*-100.0*	*-100.0*	*-100.0*	*-100.0*	*-100.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Building Facades	*-100.0*	*-100.0*	*-100.0*	*-100.0*	*-100.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Elimination	*53.0*	*97.5*	*15.1*	*53.8*	*50.4*	*22.0*	*-10.2*	*0.1*	*-2.7*	*-0.3*	*0.0*	*3.1*
Housing Companies	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*-3.7*	*-3.2*	*-5.0*	*-3.2*	*-3.8*	*1.6*	*2.0*
Corporations	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*7.7*	*5.6*	*7.0*	*4.8*	*6.1*	*1.8*	*1.7*
Public Sector	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*33.0*	*17.7*	*11.6*	*-2.1*	*11.0*	*5.0*	*2.4*
Building Technology	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*1.8*	*6.5*	*1.3*	*0.7*	*2.6*	*2.4*	*1.9*
Total	*8.7*	*-1.3*	*1.4*	*12.1*	*5.2*	*3.4*	*4.5*	*2.0*	*1.2*	*2.6*	*2.1*	*1.8*
EBIT, EURm												
Group	0	2	-1	-2	-2	0	2	3	3	7	11	12
Total	0	2	-1	-2	-2	0	2	3	3	7	11	12
EBIT margin, %												
Total	*-0.4*	*2.2*	*-1.8*	*-2.2*	*-0.7*	*0.2*	*1.8*	*3.1*	*3.1*	*2.2*	*3.4*	*3.6*

INCOME STATEMENT, EURm	2014	2015	2016	2017	2018	2019E	2020E	2021E
Sales	216	256	262	300	316	324	331	337
Sales growth (%)	*25.6*	*18.6*	*2.1*	*14.8*	*5.2*	*2.6*	*2.1*	*1.8*
Costs	-206	-244	-248	-298	-316	-313	-315	-320
Reported EBITDA	10	13	13	2	0	11	16	17
Extraordinary items in EBITDA	0	0	0	0	0	0	0	0
EBITDA margin (%)	*4.5*	*4.9*	*5.0*	*0.6*	*-0.1*	*3.5*	*4.7*	*5.0*
Depreciation	-2	-2	-2	-2	-2	-4	-4	-5
EBITA	8	11	11	0	-2	7	11	12
Goodwill amortization / writedown	0	0	0	0	0	0	0	0
Reported EBIT	8	11	11	0	-2	7	11	12
EBIT margin (%)	*3.6*	*4.1*	*4.2*	*-0.1*	*-0.7*	*2.2*	*3.4*	*3.6*
Net financials	-5	-4	-1	-1	-1	-1	-1	-1
Pre-tax profit	3	6	10	-1	-3	6	10	11
Extraordinary items	0	-2	0	0	0	0	0	0
Taxes	-1	-1	-2	0	1	-1	-2	-2
Minority shares	0	0	0	0	0	0	0	0
Net profit	2	3	8	-1	-2	5	8	9
BALANCE SHEET, EURm								
Assets								
Fixed assets	7	6	6	5	8	8	9	9
% of sales	*3*	*2*	*2*	*2*	*3*	*3*	*3*	*3*
Goodwill	44	43	44	49	49	49	49	49
% of sales	*20*	*17*	*17*	*16*	*15*	*15*	*15*	*14*
Inventory	1	1	1	1	1	1	1	1
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Receivables	35	36	39	36	53	49	50	51
% of sales	*16*	*14*	*15*	*12*	*17*	*15*	*15*	*15*
Liquid funds	10	4	9	10	3	10	11	11
% of sales	*5*	*2*	*4*	*3*	*1*	*3*	*3*	*3*
Total assets	96	91	98	101	115	118	119	121
Liabilities								
Equity	1	25	30	25	23	28	34	40
% of sales	*0*	*10*	*11*	*8*	*7*	*9*	*10*	*12*
Deferred taxes	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Interest bearing debt	55	21	21	22	27	29	23	17
% of sales	*25*	*8*	*8*	*7*	*8*	*9*	*7*	*5*
Non-interest bearing current liabilities	40	43	46	52	62	58	59	60
% of sales	*18*	*17*	*18*	*17*	*20*	*18*	*18*	*18*
Other interest free debt	0	0	0	0	0	0	0	0
% of sales	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total liabilities	96	91	98	101	115	118	119	121
CASH FLOW, EURm								
+ EBITDA	10	13	13	2	0	11	16	17
- Net financial items	-5	-4	-1	-1	-1	-1	-1	-1
- Taxes	0	-1	-2	0	0	-1	-2	-2
- Increase in Net Working Capital	8	2	0	8	-7	1	0	0
+/- Other	0	-2	0	-1	0	0	0	0
= Cash flow from operations	12	7	11	9	-8	10	13	14
- Capex	-2	-1	-3	-1	-5	-4	-5	-5
- Acquisitions	0	0	0	-4	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Net cash flow	9	6	8	3	-13	5	8	9
+/- Change in interest-bearing debt	-1	-33	0	0	5	2	-6	-6
+/- New issues/buybacks	0	21	0	1	0	0	0	0
- Paid dividend	0	0	-3	-4	0	0	-2	-3
+/- Change in loan receivables	1	0	0	1	1	0	0	0
Change in cash	9	-6	5	1	-6	7	0	0

KEY FIGURES	2015	2016	2017	2018	2019E	2020E	2021E
M-cap	73	112	66	43	44	44	44
Net debt	17	12	12	24	18	12	6
Enterprise value	91	125	78	67	62	56	50
Sales	256	262	300	316	324	331	337
EBITDA	13	13	2	0	11	16	17
EBIT	11	11	0	-2	7	11	12
Pre-tax	6	10	-1	-3	6	10	11
Earnings	5	8	-1	-2	5	8	9
Book value	25	30	25	23	28	34	40
Valuation multiples							
EV/sales	0.4	0.5	0.3	0.2	0.2	0.2	0.1
EV/EBITDA	7.2	9.5	45.3	-144.0	5.6	3.6	3.0
EV/EBITA	8.6	11.4	-207.0	-31.4	8.8	5.0	4.1
EV/EBIT	8.6	11.4	-207.0	-31.4	8.8	5.0	4.1
EV/operating cash flow	7.0	10.8	9.1	-8.8	5.9	4.1	3.5
EV/cash earnings	12.4	11.9	273.3	-54.9	7.0	4.5	3.7
P/E	13.6	14.1	-61.0	-18.5	9.2	5.5	4.8
P/E excl. goodwill	13.6	14.1	-61.0	-18.5	9.2	5.5	4.8
P/B	3.0	3.8	2.6	1.8	1.6	1.3	1.1
P/sales	0.3	0.4	0.2	0.1	0.1	0.1	0.1
P/CF	5.7	9.7	7.7	-5.7	4.2	3.2	3.0
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*9.2*	*5.3*	*4.3*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*9.8*	*5.9*	*5.2*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*1.7*	*1.4*	*1.2*
Per share measures							
Number of shares	7,615	7,621	7,621	7,858	7,858	7,858	7,858
Number of shares (diluted)	7,615	7,621	7,621	7,858	7,858	7,858	7,858
EPS	0.70	1.05	-0.14	-0.30	0.61	1.02	1.16
EPS excl. goodwill	0.70	1.05	-0.14	-0.30	0.61	1.02	1.16
Cash EPS	0.96	1.38	0.04	-0.15	1.13	1.58	1.74
Operating cash flow per share	1.69	1.52	1.12	-0.97	1.34	1.73	1.85
Capital employed per share	5.51	5.48	4.90	5.98	5.92	5.91	5.89
Book value per share	3.22	3.89	3.32	2.98	3.59	4.36	5.12
Book value excl. goodwill	-2.49	-1.90	-3.06	-3.21	-2.59	-1.82	-1.06
Dividend per share	0.39	0.54	0.00	0.00	0.25	0.40	0.58
Dividend payout ratio, %	55.4	51.5	0.0	0.0	40.9	39.2	50.0
Dividend yield, %	4.1	3.7	0.0	0.0	4.5	7.1	10.4
Efficiency measures							
ROE	42.8	29.5	-3.9	-9.6	18.6	25.7	24.5
ROCE	21.0	22.7	-0.6	-4.2	13.4	19.9	21.7
Financial ratios							
Capex/sales, %	0.5	1.0	1.7	1.6	1.4	1.4	1.4
Capex/depreciation excl. goodwill,%	66.0	87.6	36.4	302.9	107.4	102.0	101.7
Net debt/EBITDA, book-weighted	1.4	0.9	7.0	-50.8	1.6	0.8	0.4
Debt/equity, market-weighted	0.3	0.2	0.3	0.6	0.7	0.5	0.4
Equity ratio, book-weighted	31.4	34.8	28.8	24.9	23.9	28.7	33.4
Gearing	0.71	0.41	0.48	1.01	0.65	0.35	0.15
Number of employees, average	890	935	1,079	1,046	1,077	1,088	1,099
Sales per employee, EUR	287,810	279,704	278,222	301,876	300,789	304,185	306,633
EBIT per employee, EUR	11,819	11,708	-347	-2,032	6,590	10,293	11,192

COMPANY DESCRIPTION: Consti, listed on the Helsinki stock exchange in 2015, is one of the leading renovation and technical service companies in Finland. Consti has a comprehensive service offering covering technical building services, residential pipeline renovation, renovation contracting, building facade repair and maintenance, and other renovation and technical services for demanding residential and non-residential properties. Consti was established in 2008 to meet the growing need for repair and construction work.

INVESTMENT CASE:

OWNERSHIP STRUCTURE	SHARES	EURm	%
Ilmarinen Mutual Pension Insurance Company	780,451	4.371	9.9%
Evli Finnish Small Cap Fund	479,200	2.684	6.1%
Danske Invest Finnish Institutional Equity Fund	425,818	2.385	5.4%
Korkeela Esa Sakari	411,600	2.305	5.2%
Kivi Risto Juhani	375,300	2.102	4.8%
OP-Finland Small Firms Fund	307,977	1.725	3.9%
Kalervo Markku	297,900	1.668	3.8%
Korkeela Antti Petteri	276,894	1.551	3.5%
Aktia Capital Investment Fund	185,850	1.041	2.4%
Mutual Fund eQ Nordic Small Cap	181,624	1.017	2.3%
Ten largest	3,722,614	20.847	47%
Residual	4,135,653	23.160	53%
Total	7,858,267	44.006	100%

EARNINGS CALENDAR	
April 26, 2019	Q1 report
July 26, 2019	Q2 report
October 25, 2019	Q3 report
OTHER EVENTS	
April 02, 2019	AGM

COMPANY MISCELLANEOUS	
CEO: Esa Korkeela	Hopeatie 2, 6. krs, 00440 Helsinki, Finland
CFO: Joni Sorsanen	Tel: +358 10 288 6000
IR: Ismo Heikkilä	

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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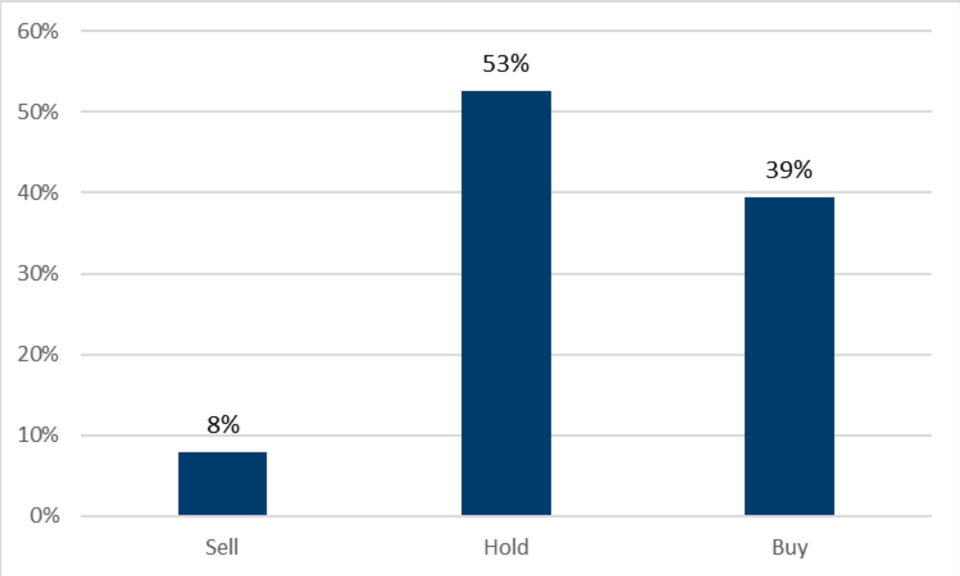
Investment recommendations are defined as follows:

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 timer per year.



The graph above shows the distribution of ERP's recommendations of companies under coverage in 1st of February 2019. If recommendation is not given, it is not mentioned here.

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

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