EVLI

CONSTI

Construction & Engineering/Finland, May 20, 2024
Company report

Short-term headwinds mask the potential

Consti's backlog for 2024 coupled with a robust balance sheet protects it from short-term market turbulence while the long-term case backed by fundamental market trends remains intact. We retain BUY-rating with a TP of EUR 12.0.

Market leader in renovation with a wide service offering

Consti is a construction service company focused on renovation construction and building technology contracting and services. Consti is the largest Finnish renovation construction company with net sales of EUR 321m in 2023. Consti focuses on the Finnish growth centers and majority of total revenue comes from the Helsinki metropolitan area. Consti serves a wide range of customers, both private and public. While it is the market leader in housing company renovations, due to its size and expertise, it can also conduct larger multi-year projects that many of its smaller renovation focused peers are not able to manage.

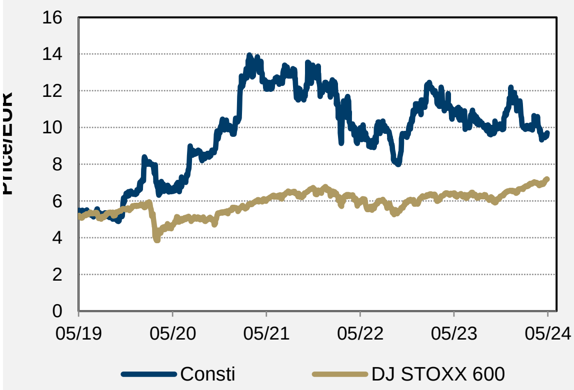
Revised strategy targets sales of roughly EUR 400m in 2027

Consti was able to solidify its profitability to a good level during the latest strategy period from 2021 to 2023. With the Q4 2023 report, Consti announced its updated strategy for the strategy period from 2024 to 2027 which builds on the success of the predecessor. Consti aims to have four equally strong business areas with total net sales amounting to roughly EUR 400m at the end of the strategy period. This is achieved by growing faster than the market in both the construction and building technology markets. Consti's long-term target for profitability stays unchanged at the 5% EBIT margin. We have made only slight estimate adjustments. Our estimates remain below the company's targets, reaching the net sales target would require a sales CAGR of almost 6% p.a., which is notably higher than the expected market growth, especially given the estimated weaker 2024E.

Undervalued and overlooked

Consti is currently priced at 7-5x EV/EBIT and 10-8x P/E, trading at a discount to both its peer group and the company's own historic multiple levels. Backing the undemanding valuation, the company's stock offers an over 6% dividend yield at the current price level based on our estimates going forward. We retain our rating at BUY with a TP of EUR 12.0.

Rating: BUY



Share price, EUR (Last trading day's closing price)	9.70
Target price, EUR	12.0
Latest change in recommendation	26-Jul-21
Latest report on company	26-Apr-24
Research paid by issuer:	YES
No. of shares outstanding, '000's	7,794
No. of shares fully diluted, '000's	7,794
Market cap, EURm	76
Free float, %	45.9
Exchange rate EUR	1.000
Reuters code	CONSTI.HE
Bloomberg code	CONSTI FH
Average daily volume, EURm	0.1
Next interim report	19-Jul-24
Web site	investor.consti.fi

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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
2022	305.2	11.5	3.8%	15.2	1.10	10.2	0.3	7.9	17.6	0.60
2023	320.6	12.3	3.9%	8.6	1.16	9.8	0.3	7.1	9.7	0.70
2024E	317.7	10.6	3.4%	7.1	1.00	9.7	0.2	6.9	9.4	0.60
2025E	332.6	12.8	3.8%	8.4	1.23	7.9	0.2	5.4	11.1	0.74
2026E	345.3	14.4	4.2%	8.7	1.42	6.8	0.2	4.6	11.6	0.85

Market cap, EURm	76	Gearing 2024E, %	-5.9	CAGR EPS 2023-26, %	7.0
Net debt 2024E, EURm	-3	Price/book 2024E	1.7	CAGR sales 2023-26, %	2.5
Enterprise value, EURm	73	Dividend yield 2024E, %	6.2	ROE 2024E, %	18.5
Total assets 2024E, EURm	121	Tax rate 2024E, %	20.0	ROCE 2024E, %	17.5
Goodwill 2024E, EURm	49	Equity ratio 2024E, %	35.8	PEG, P/E 24/CAGR	0.7

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

Investment summary

Construction service company focused on renovation

Consti is a construction service company focused on renovation construction and building technology contracting and services. The company was founded in 2008 and was listed in 2015 on the Helsinki stock exchange. Consti operates solely in Finland with a focus on Finnish growth centers, the company employs roughly 1000 professionals. Consti's customers include housing companies, corporations, public sector and real estate investors.

Aiming for EUR ~400m net sales by 2027 with the revised strategy

Consti has returned to profitable growth path after it faced challenges related to project execution and management during 2017-2018 that led to negative earnings development. With the Q4 2023 report, Consti announced its updated strategy for the strategy period 2024-2027. The company's vision remains unchanged; Consti aims to be its customer's number one partner and expert in multiple types of construction. Consti targets to have four equally strong business areas with total net sales amounting to roughly EUR 400m at the end of the strategy period. This is achieved by growing faster than the market in both the construction and building technology markets.

Asset-light business model

Consti operates solely on a contracting basis and doesn't participate in on-balance sheet construction operations, the business doesn't require substantial tangible asset investments as most of the costs are OPEX related to employees and materials. Additionally, the company's working capital is negative because of the advance payments received from projects. The beforementioned factors lead to strong cash flow generation, during 2021-2023, Consti's cash conversion ratio totaled 91.2%, meeting the long-term financial target of >90% In terms of capital efficiency, Consti has consistently exceeded 20% ROCE and 15% ROI for the last two fiscal years.

Finnish renovation construction market has grown at a leisurely pace

The total value of Finnish renovation construction market in 2023 was around EUR 15b of which residential renovation was around EUR 9b. The renovation construction market is slightly smaller than the new construction market. The Finnish renovation construction market has historically grown roughly 1-2% per annum. The Confederation of Finnish Construction Industries predicts that the Finnish renovation construction market will shrink by 1% in 2024 and then resume growth with a 1% increase in 2025. Main competitors include large generalist construction companies such as YIT, Peab, NCC, Skanska, smaller renovation construction focused companies such as Remount, Rakennus Ahola, Pylon and building technology companies such as Are, Caverion and Bravida. Besides the larger players, the market is fragmented as companies with below EUR 10m of revenue control the majority of the market.

Current order book supports Consti through 2024

Consti's order backlog decreased roughly 3.7% y/y in Q1 2024, at the same time, the company's order intake fell 38.0% y/y. The order book is still healthy as it is clearly above the historic average order book size, yet the current tougher market clearly shows in order intake where the number of orders booked within a quarter has decreased for the last three quarters y/y. As a larger part of the end of Q1/24 backlog will be recognized during the last three quarters when compared to Q1/23, Consti must succeed in winning tenders to fill in the 2025 capacity.

BUY with a target price of EUR 12.0

We retain our BUY rating and target price of EUR 12.0. While the company has historically traded at a slight discount to the peer group, we find the current wide discount unjustified because of the company's focus on more defensive renovation construction, strong track record for the last few years and robust balance sheet position which can handle short-term headwinds. In addition to a substantial discount when compared to peer companies, Consti currently trades well below its own historical average multiple levels and fair value derived from our DCF. Backing the undemanding valuation, the company's stock offers an over 6% dividend yield at the current price level based on our estimates going forward.

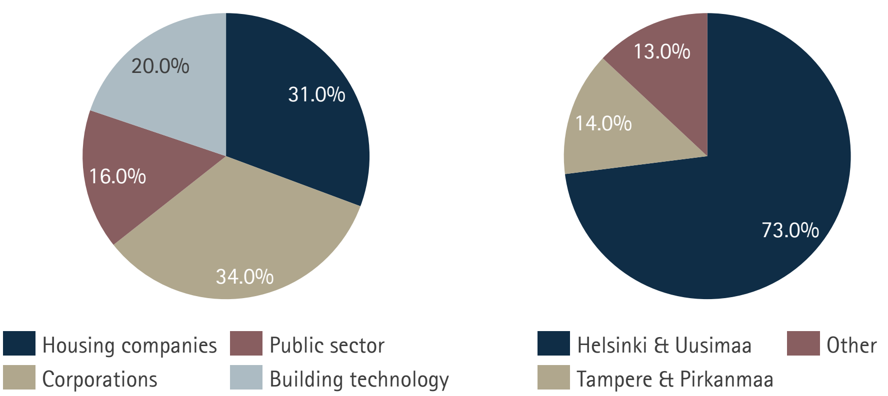
Company overview

Consti offers renovation, technical building and selected new construction services in Finland. The company's customers include housing companies, corporations, investors and the public sector. Consti offers services solely in Finland focusing on the Finnish growth centers located in south and southwest of Finland. Consti Oyj was founded in 2008 and is headquartered in Helsinki, Finland. The company employs roughly 1000 professionals.

Consti's service offering is wide with a focus on renovation

Consti provides a variety of construction services; these include renovation contracting, pipeline and façade renovation, building technology services and new building construction. The company also offers building service and maintenance in addition to projects. The company's revenue is fairly balanced across the main segments: corporations, housing companies, building technology and the public sector. In 2023, the largest segments by revenue were corporations and housing companies, which both made up about a third of total sales. The most significant geography by revenue was Helsinki and the Uusimaa area, which accounted for roughly 3/4 of the company's total revenue.

Figure 1: Consti operating segments & locations by % of total revenue, 2023

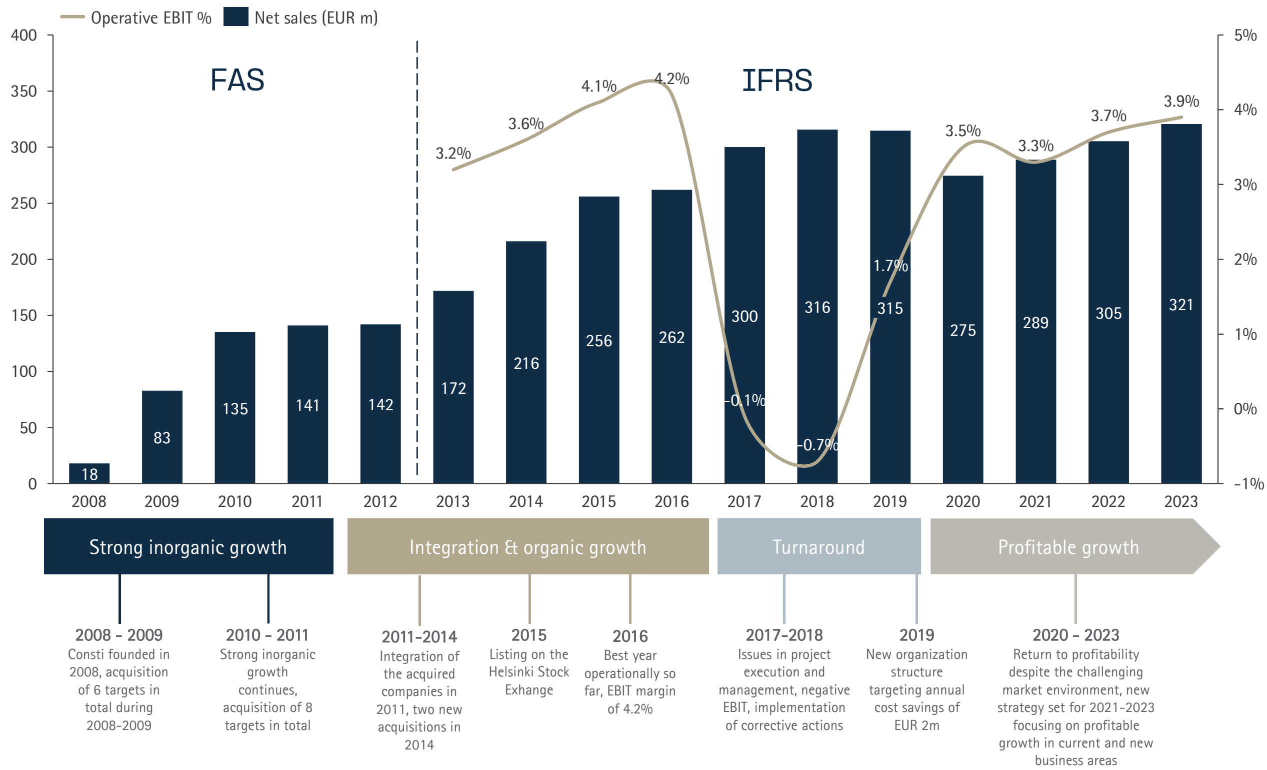


Source: Consti, Evli Research

Public sector was the largest customer segment in 2023

Consti serves a wide range of customers, both private and public, which reduces the company's exposure to economic fluctuations. Consti's customers include housing companies, corporations, public sector and real estate investors. The largest customer segment varies depending on the company's project split in a given year, and it has been different for each of the past three fiscal years. In 2023, Consti's biggest customer segment by revenue was the public sector. This was because of the company's ongoing large public sector projects, such as school and hospital projects. For the private sector customers, revenue from real estate investors fell by nearly 20% driven by reduced demand for the customer group.

Figure 2: Consti's history



Source: Consti, Evli Research

The company has grown through acquisitions

Consti was originally founded in 2008 as the company acquired two building technology companies Koja Tekniikka Oy and Mansen Putki Oy. Private equity company Intera Partners and the company's management were the owners of the newly formed company. Before going public in 2015, the company expanded rapidly through acquisitions; in 2009, Consti entered the renovation construction market by acquiring six targets. Between 2008 and 2014, Consti acquired 16 targets altogether and increased its revenue from EUR 18m in 2008 to EUR 216m in 2014. After going public, the company has made several smaller add-on acquisitions.

Project risks were realized in 2017-2018

Consti went public on the Helsinki Stock Exchange in 2015 and achieved an EBIT margin of 4.2% in FY 2016, the highest year for profitability so far. The company encountered difficulties in 2017 and 2018 as its profitability was reduced by a few non-performing projects, initiated in 2016 and early 2017. In H2 2017, Consti began to take corrective actions, yet in 2018, the unprofitable projects still had a significant negative impact on profitability and EBIT remained negative. In 2019, the corrective actions started to pay off as the company's profitability improved gradually. Even though the projects still had a negative influence on profitability, all business areas were already profitable in 2019.

Turnaround was swift

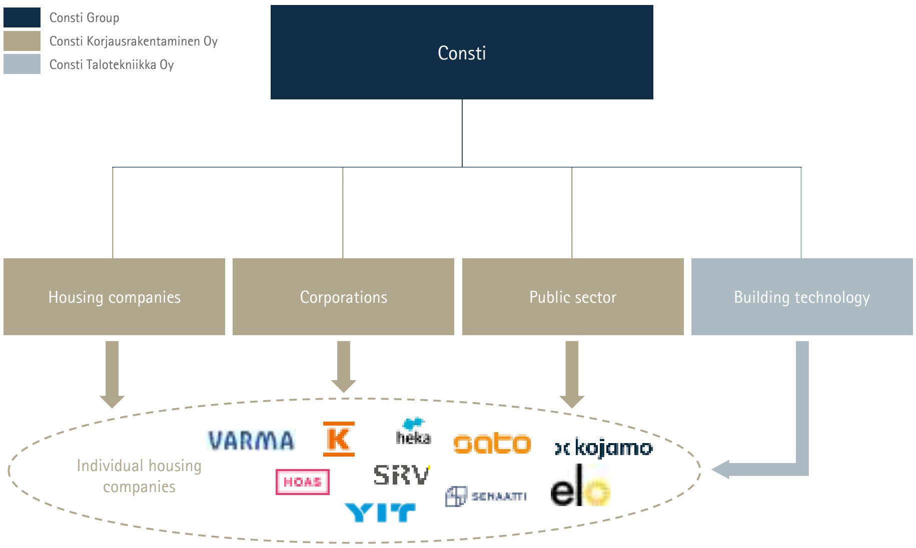
From 2020 onwards, the company's margins have returned close to levels witnessed pre-2017 despite challenging market conditions and cost inflation. In 2023, Consti reached EBIT margin of 3.9%, third highest FY in terms of profitability to date. Despite being helped by the divestment of the relining business, profitability was at a rather impressive level considering the progressive weakening of renovation construction market throughout the year and the increase in construction costs.

Business model

Consti offers a wide variety of construction services

Consti offers a wide variety of renovation and new construction contracting services for customers and operates purely on a contracting basis. Consti's customer base is well diversified and includes housing companies, corporations, real estate investors and the public sector. Because of the wide customer base, Consti has the ability to work in a variety of property types ranging from basic residential and commercial buildings to special properties such as hospitals and industrial buildings.

Figure 3: Consti's customer focused organization structure



Source: Consti, Evli Research

Four different operating segments with centralized support functions

In 2019, Consti updated its organization structure to match the customer needs and increase efficiency. Before 2019, the organization was divided into segments based on the job type, in the current organization model, the business is divided to four different operating segments: housing companies, corporations, public sector and building technology. The updated organization model is customer-oriented; it eases purchasing of Consti's services as all the services are located under one roof for each operating segment. The support functions are centralized, which improves group-wide efficiency.

Segment description by typical job and customer type:

Housing companies

- Pipeline renovations, façade renovations and roof renovations for housing companies

Corporations

- Renovations, comprehensive renovations, project development for real estate investors and other corporations

Public sector

- Renovation of properties owned by public sector customers, work sites include for example schools, day care centers hospitals, office spaces and city rental houses

Building technology

- Building technology contracting, service and maintenance for a wide variety of customers (excl. housing company pipeline renovations)

Service offering improves profitability and is non-cyclical by nature

Consti's service business was 12% of total net sales in 2023, down from 14% in 2022. The main reason behind the decline was the sale of Consti's property-related relining business in September 2023. The company offers services in all of its business areas, and most of the company's staff in the service business work in the building technology segment. The service business consists of small-scale service projects and upkeep and maintenance services. The offering includes services such as

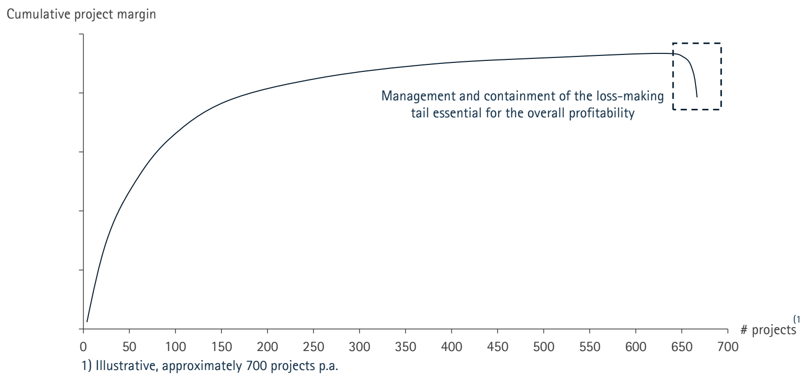
- Building technology services: maintenance, repair and installation services, such as ventilation maintenance, HVAC system repairs, energy efficiency projects, small scale electrical work
- Building façade cleaning and maintenance painting of building exteriors and staircases, façade sealing, balcony repairs and painting
- Small-scale building repairs, such as window repairs, renewal of lobbies and inspection of premises

The service business grew strongly at almost 20% CAGR during 2014-2017, the growth has been slower since, as the service revenue has stayed at roughly EUR 40-45m during 2018-2023. The service segment is profitable and reduces the cyclicality of Consti's business as the contracts offered are often longer-term service and maintenance contracts.

Project deliveries form most of net sales

The majority of the company's revenue is generated from renovation construction project deliveries. The median project size relative to the company's revenue is small, yet roughly 1/3 of the total revenue comprises of project revenue from larger, over EUR 1m projects. The company has not published data regarding the number of projects and project value during the recent years, yet based on historic published figures, we estimate that the median project size is roughly EUR 200k while average project size is over EUR 1m, and the company is active in roughly 700 projects annually. While a large part of the project portfolio consists of smaller project sizes, the company is active in larger non-residential projects such as schools, hospitals and shopping centers.

Figure 4: Illustration of Consti's project margin whale curve

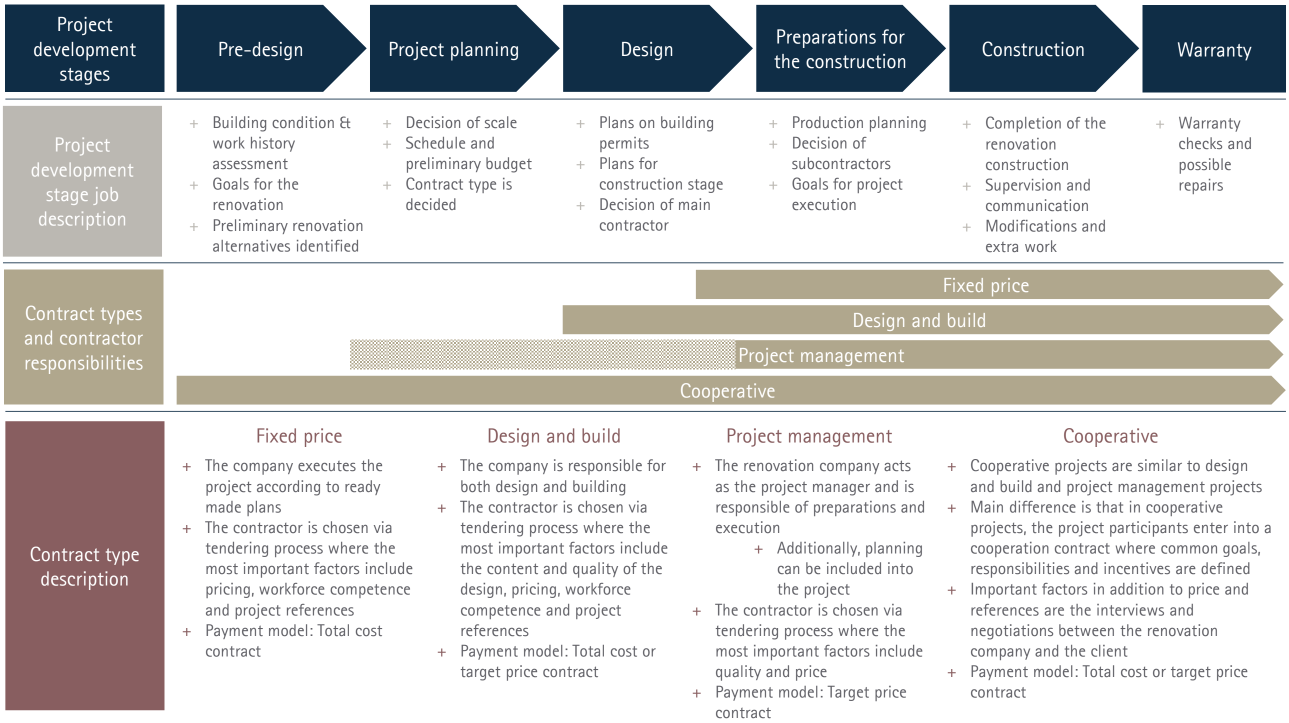


Source: Consti, Evli Research

Project profitability is secured through successful tendering and project management

Consti earns its revenue mainly from projects and services that are tendered, which makes project selection and tendering important for the group's profitability. The decision to participate in a tendering process is based on the risks and the benefits involved with a certain project; Consti has internal procedures which determine in which tenders the company participates in. One of the most important factors in the tender process is the company's tender calculation; errors and misjudgments in the tender calculation will have an immediate impact on the project margin. Through successful tender calculation and risk management, the number of loss-making projects decreases, and the negative effect of a loss-making project can be covered by other profitable projects. Project management is important during the project execution phase and the management of costs, schedule and quality during the actual project are important for both profitability and customer satisfaction. Consti's current tendering approach is rather conservative, and we expect that the company is able to manage the loss-making tail of its project margin whale curve successfully.

Figure 5: Renovation construction project development stages and contract types relevant for the company

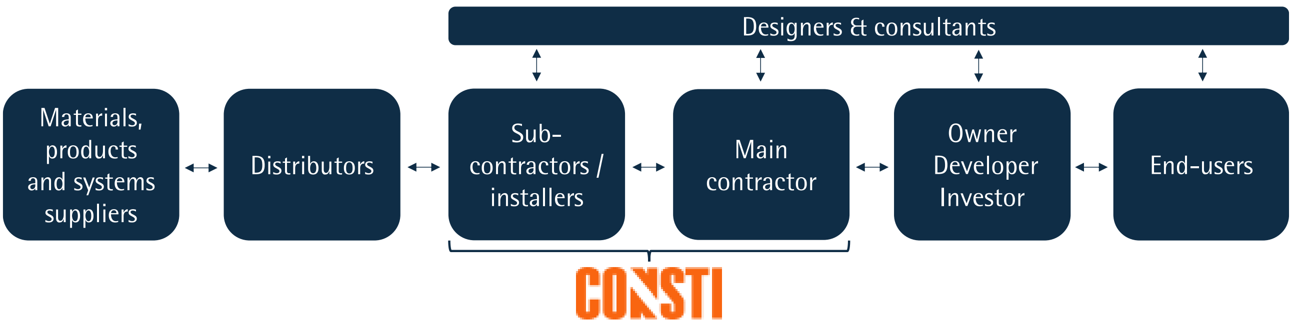


Source: Consti, Evli Research

Most of the revenue comes from fixed price main and subcontracts

Similarly to new construction, there are multiple different contract types and payment models in renovation construction. Consti is active in three types of contracts by payment model; fixed price contracts, target price contracts and cost + fee contracts. In fixed price contracts, the project is executed by the contractor according to the client's ready-made plans. The renovation contractor doesn't take part in the planning phase as the contractors' main responsibilities are preparatory work for the project execution, completion of the renovation work and the warranty period. Consti operates as the main contractor in most of its residential renovation construction projects, in non-residential building technology projects Consti operates mostly as a subcontractor. The normal warranty period length for the company is roughly two years.

Figure 6: Consti's position in the renovation construction value chain



Source: Consti investor presentations, Evli Research

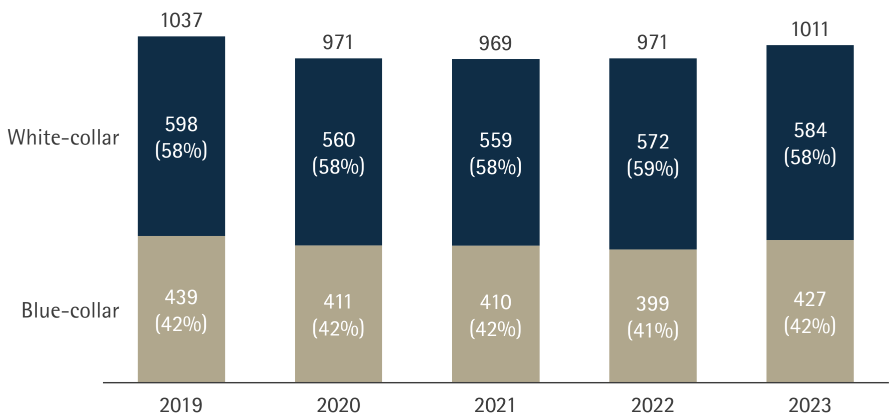
The business model allows strong cash flow generation and capital efficiency

Consti operates solely on a contracting basis and doesn't participate in on-balance sheet construction operations. The business model is labor-intensive, and the operations do not require substantial tangible investments. As a result, the company has strong cash flow generation and the ability to operate with an asset light balance sheet. The company's working capital is negative because of the advance payments received from the projects. As a result of the low capital requirements, despite relatively low margins, the company's return on capital is high. The company's return on investment has hovered round 15-25% during 2022-2023 while the company's own return on capital employed has hovered around 20-30% (calculated by dividing rolling 12-month adj. EBIT dived by capital employed where the capital employed includes tangible and intangible assets (excl. IFRS 16) + net working capital).

Personnel is the company's biggest asset

Consti has an approximate workforce of 1000 professionals, with just over half being blue-collar workers and about 40% being white-collar. Of these 1000 employees, approximately two-thirds work within the Housing Companies and Building Technology segments, while the remaining third are in the Public Sector and Corporations segments. Comparing employee count against revenue per segment reveals that the Corporations and Public Sector segments rely more on subcontractors. In contrast, Consti's own employees are more heavily engaged in the Housing Company and Building Technology segments. The company's capacity to draw and retain both skilled subcontractors and own workers is crucial, given that its greatest asset is its personnel. The construction sector has faced a shortage of skilled labour in recent years amid rising demand. However, with demand now easing, workforce availability has risen. This is expected to enhance the company's ability to engage quality workers and subcontractors in the future. Consti has been able to improve its main personnel related KPI's: permanent personnel turnover ratio has decreased from 16.0% in FY 2022 to 11.2% in FY 2023, average absence rate has decreased from 7.3% in 2022 to 5.7% and LTIFR from 16 in 2022 to 10 in 2023.

Figure 7: Consti's position in the renovation construction value chain



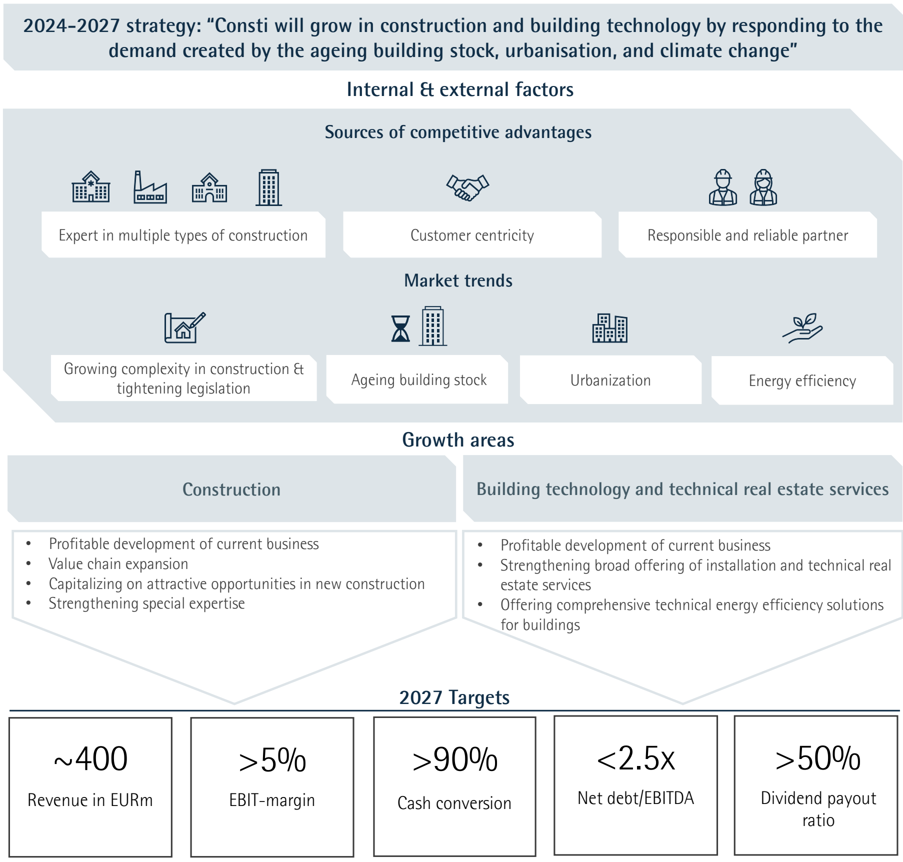
Source: Consti investor presentation, Evli Research

Strategy

Revised strategy for 2024-2027

With the Q4 2023 report, Consti announced its updated strategy for the strategy period from 2024 to 2027. In the updated strategy, the company's vision remains unchanged; Consti aims to be its customer's number one partner and expert in multiple types of construction. Consti aims to have four equally strong business areas with total net sales amounting to roughly EUR 400m at the end of the strategy period. This is achieved by growing faster than the market in both the construction and building technology markets. While the net sales target of roughly EUR 400m in 2027 was given out, the long-term financial goals remain unchanged incl. target to grow faster than the market. With targeted net sales of EUR 400m at the end of 2027 and the company's long-term profitability target of EBIT % >5%, Consti targets to have EBIT of EUR >20m in 2027 in absolute terms.

Figure 8: Consti's revised strategy 2024-2027



Source: Consti, Evli Research

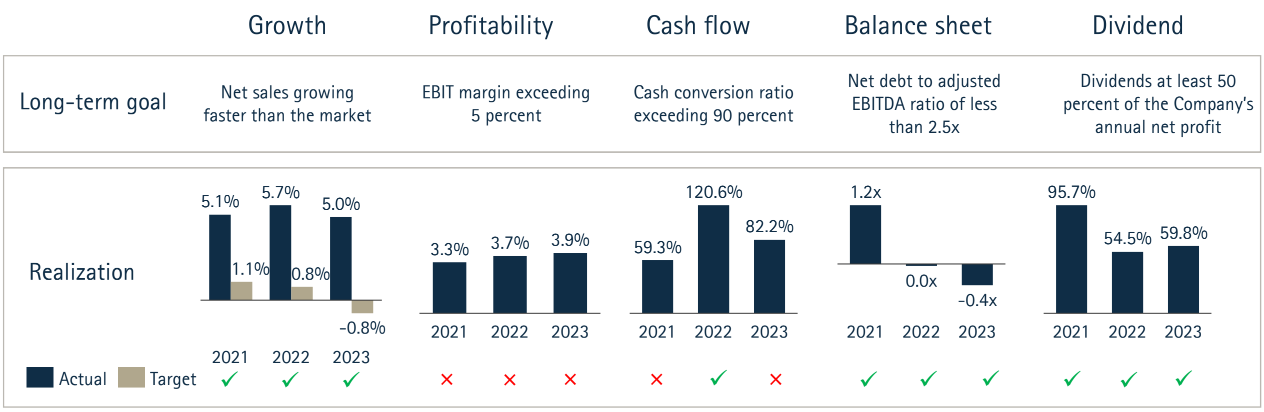
Strategy builds on the success of the prior

The company achieved most of its financial targets during the strategy period 2021-2023, showing an effective strategy implementation during the period. As part of its strategy, Consti grew into new market segments, and its net sales from the new construction market rose to around 20% during this period. Moreover, the company improved relative profitability by reinforcing its service business and extending its presence in the renovation construction value chain. The new strategy is a refinement of the previous one, as it relies on mostly the same components.

Consti has not been able to reach its profitability target

Despite reaching the majority of the financial targets during the last strategy period, Consti has not been able to reach the profitability target of EBIT margin exceeding 5%. In 2016, the company was able to reach EBIT margin of 4.2% which is the company's history's highest. The turnaround program implemented in 2019 was successful as the company has been able to return to profitability after two years of suboptimal performance during 2017-2018. The current profitability level is still far from the target level as in 2023, the company reached adjusted EBIT margin of 3.9%, up from 3.7% in 2022. The profitability target remains unchanged for the strategy period 2024-2027. The company aims to have roughly EUR 400m of net sales at the end of 2027, with the long-term profitability target unchanged at EBIT % >5% this would imply EBIT of EUR >20m.

Figure 9: Long-term financial targets vs. actualized figures



Source: Consti, Evli Research

Other targets include targets for cash flow, financial structure, and dividend

Other long-term financial targets include a cash conversion ratio of over 90%, net debt to adjusted EBITDA less than 2.5x and dividend distribution of at least 50% of the company's annual net profit. Consti has been able to reach these targets regularly, mainly driven by the asset light business model. The cash conversion ratio is affected by changes in net working capital, which fluctuates as a result of the project portfolio. Consti's cash conversion ratio fell below target in 2023, however, in 2021-2023 the cash conversion ratio was 91.2%.

Market

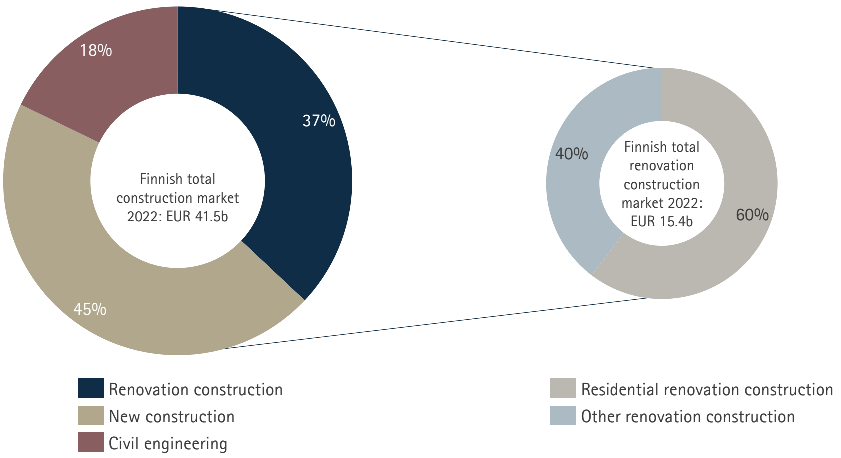
Finnish renovation construction market size is roughly EUR 15bn

The total value of the Finnish renovation construction market in 2022 was EUR 15.4bn. The renovation construction market is smaller than the new construction market which was roughly EUR 18.6 bn in 2022. The percentage share of the renovation market of the total construction market has increased during the recent decades driven by the ageing building stock in Finland. When compared to other Nordic and European countries where the renovation construction has traditionally comprised 50-70% of the total construction market, the share of renovation in Finland is still relatively small. The renovation construction market has historically grown at a slow pace and been relatively stable when compared to new construction. According to the Confederation of Finnish Construction Industries (Rakennusteollisuus, CFCI), the Finnish construction market grew 3.4% in 2022 and declined 11.0% in 2023 driven mostly by shifts in new construction. CFCI expects that the renovation construction market declined by 4.0% in 2023 while it expects the market to continue to decline by 1.0% in 2024. The main drivers behind the decline in renovation volumes for 2023 were cost inflation (both through construction materials and salaries), lower consumer purchasing power and tighter financing environment. Although the CFCI expects renovation volumes to continue to decrease, the expected slowdown is substantially smaller than for new construction where CFCI expects that housing construction volumes will decrease by further 22% in 2024 after a 38% drop in 2023.

Renovation construction is more complex than new construction

Even though there is overlap, new construction and renovation construction markets have fundamental differences. The renovation construction market is harder to grasp as there are multiple different services and niches within the renovation construction market which have different dynamics. According to Consti, its renovation service offering includes roughly 30 separate identifiable services. Renovation construction projects are often complex, and the projects are relatively small in size. The work is usually being performed close to customers as the buildings are in use during the renovation work. In addition, old buildings have special features and surprises which make planning in advance more difficult. Because of the complexity and relatively small median project sizes, larger construction companies tend to focus on new construction where the projects are bigger and the processes more standardized. Moreover, renovation construction necessitates unique expertise, and the methods employed in new construction cannot be directly applied to renovation work.

Figure 10: Finnish total construction market & renovation construction market value in 2022



Source: CFCI, Evli Research

Renovation construction market is further divided to commercial and residential renovation

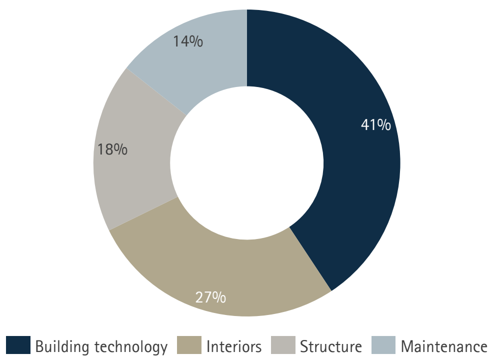
The renovation construction market can be further divided into residential and other renovation construction. Residential renovation construction is roughly 60% (or EUR 9.3b) and other renovation construction is roughly 40% (or EUR 6.1b) of the total renovation market. Residential renovation construction comprises of renovation construction of residential buildings such as block of flats, structure elements and detached and semidetached houses. Other renovation construction comprises of renovation construction of service, commercial, office and industrial/warehouse buildings.

Renovation construction consists of different subsectors

The renovation construction market includes several different subsectors and construction activities. The market is traditionally divided into subsectors including building technology, structure, interiors and maintenance. Different renovation construction subsectors explained:

- Building technology: includes renovation of building technology such as HVAC (heating, ventilation and air conditioning) and MEP (mechanical, electrical and plumbing).
- Structure: includes renovation of building structure such as façade, balconies and windows
- Interiors: includes renovation of the building's interior
- Maintenance: includes property management and maintenance

Figure 11: Renovation construction market value by type of activity, 2020



Source: Forecon, Evli Research

Building technology has been the largest and fastest growing subsector in renovation construction

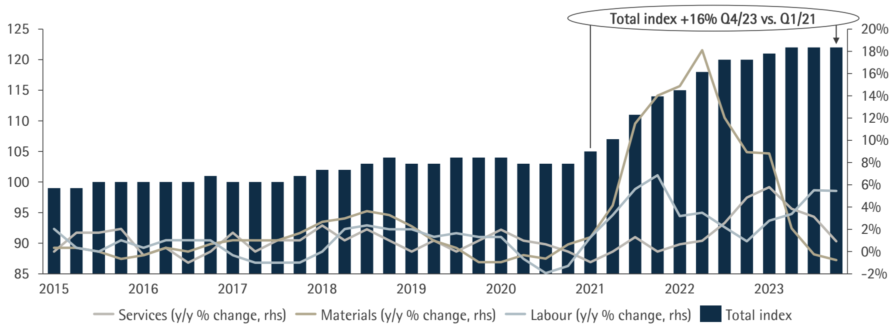
According to Forecon, building technology was the biggest renovation construction subsector in 2020. While the total renovation construction market has grown 1-2% p.a. on average, the building technology subsector has grown by roughly 4-5%. Similarly to building technology, building structure renovation has enjoyed strong growth which is expected to continue as many of the structural parts are expected to be renovated in the near future. The interior renovation subsector has the slowest growth and most of the interior renovation need was fulfilled in the early 2000s especially in the small residential building segment.

Cost development

Construction cost increase has slowed down, yet the costs remain high

The construction sector has been affected by the cost inflation witnessed during the last two years caused by the COVID-19 crisis and the war in Ukraine. The construction cost inflation has been material prices driven as the material costs started to increase in 2021.

Figure 12: Total construction cost index Finland by segment, 2000 = 100

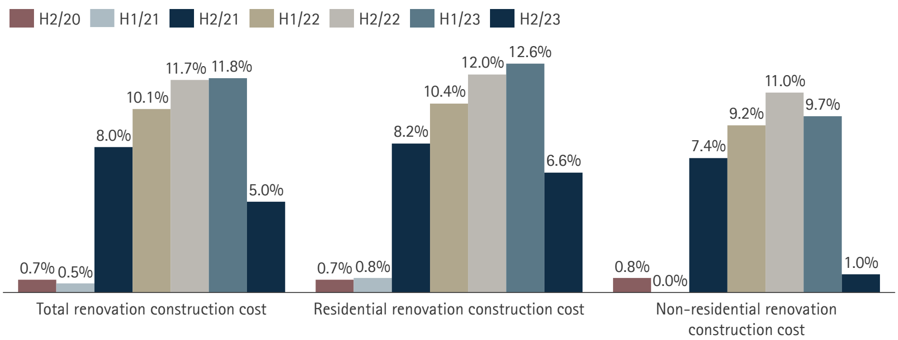


Source: Statistics Finland, Evli Research

Material costs rose sharply during 2021-2022

The cost for labour, services and materials in the construction sector have increased roughly 1-2% p.a. during the 2000's. In 2021, the index for construction materials increased over 15% y/y while in 2022, the index grew roughly 8% y/y. At the same time, growth in services and labour was substantially slower as the services index grew roughly 5% during 2021-2022 and labour index grew 8%. The main driver behind the construction cost inflation during 2021-2022 was construction materials. The cost increase in materials has been wide-ranging, with the biggest increases in the cost of steel structures, heat insulation material and roofing materials. In 2023, the growth has slowed down for services and materials while labour cost index has increased by roughly 5%. Services have increased by approximately 1% while the materials cost index has declined by nearly 1%. Margin pressure due to cost inflation is generally felt mostly in projects with fixed price payment models and long lead times. Consti's typical project lead time is relatively short. On the other hand, Consti's costs are more heavily related to labour when compared to new construction companies where the projects require more materials.

Figure 13: Renovation construction cost y/y growth, in percentage %



Source: CFCI, Evli Research

Renovation construction cost inflation has slowed down during the H2/23

According to data by Statistics Finland, the renovation construction costs kept growing 5.0% y/y during H2/23. The cost inflation slowed down notably from H1/23 when the costs increased 11.8% y/y. The inflation has slowed down in both residential and non-residential, yet in non-residential the increase was only 1% y/y during the second half of last year.

Market growth drivers

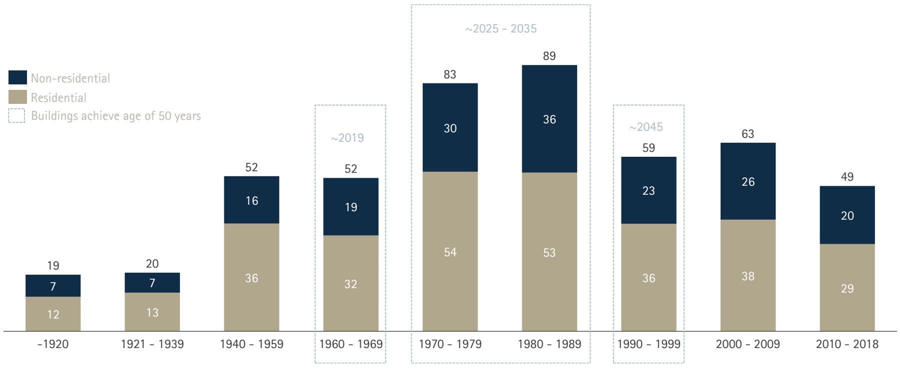
The long-term drivers remain unchanged

The market for renovation construction is driven by necessity, making it less susceptible to market fluctuations compared to new construction. The key long-term factors influencing renovation remain largely consistent, with the aging infrastructure of Finland being the most crucial. Additional factors encompass energy efficiency, building purpose modification, and urbanization.

Ageing building stock

The value of Finnish residential building stock in 2021 was EUR 480b, the majority of the wealth in Finland is tied to the housing market. Most of the current Finnish residential building stock has been constructed in the 1970s and 1980s. Prior to the migration to the Finnish growth centers during the 1960s and 1970s, most of the residential buildings were single dwelling and double dwelling houses. The buildings built in the 1960s, 1970s and 1980s are mostly blocks of flats which are currently starting to reach the age of 50 years.

Figure 14: Finnish building stock by construction year, million m2

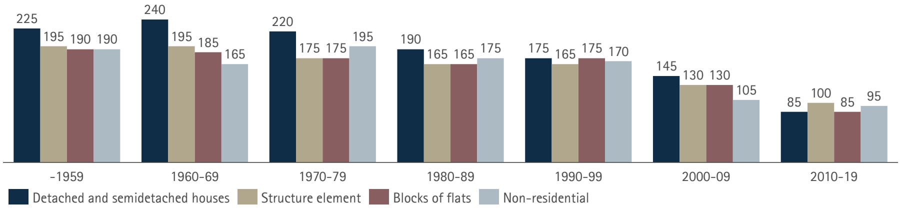


Source: Consti, Evli Research

Energy efficiency

Housing accounts for roughly 20% of the energy usage in Finland. Two thirds of the energy used in housing is used for heating purposes. Most of the buildings in Finland are not energy efficient; reliance on fossil fuels for heating and cooling, use of old technologies and wasteful appliances are the main reasons for the subpar energy efficiency. In October 2020, the European Commission launched its Renovation Wave initiative that intends to double Europe's renovation rate during 2020-2030. The European Commission has singled out renovation of both public and private buildings as an essential action to reach the climate goals. The initiative is part of a larger plan to make the continent carbon neutral by 2050. The energy efficiency of both residential and non-residential new buildings has already improved drastically during recent decades. There are significant improvements to the energy consumption already when comparing building stock constructed during 2010-19 to the building stock constructed in the 1990s and 2000s. According to the data by VTT, the average energy consumption is over 10% smaller in building stock built during 1990s when compared to building stock built during 1960s. The difference is even more drastic when comparing to modern buildings as the average energy consumption is over 50% less in building stock built during 2010s when comparing to building stock built during 1960s.

Figure 15: Finnish building stock by construction year, building type and average heating energy consumption, in kWh/m2 p.a.

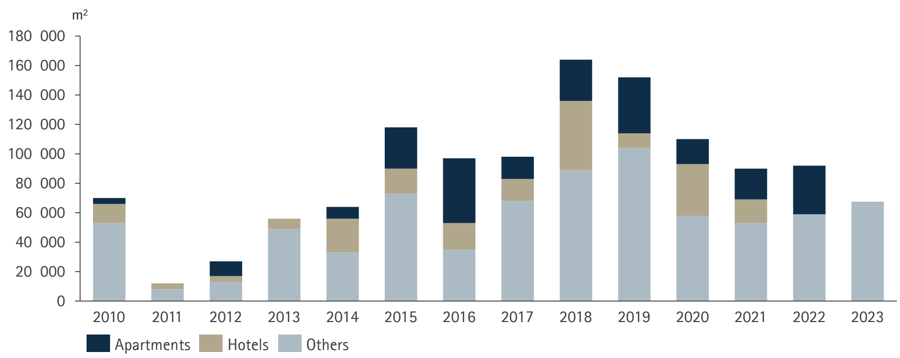


Source: VTT, Evli Research

Building purpose modification

The need for building purpose modification and changes is driven by urbanization, changes in working life and ageing population. In addition to the long-term underlying growth drivers, the coronavirus pandemic further increased the importance of building purpose modification as a driver for renovation construction. The pandemic has brought new ideas for both living and working and these ideas are expected to be implemented through renovation and new construction of residential and non-residential buildings in the coming years. Common building modifications include change of use, extension, and partial demolition. According to data collected by KTI and RPT, office building purpose modifications have increased in the Helsinki metropolitan area from 20 000 – 70 000 annual square meters during 2010-2014 to approximately 100 000 annual square meters during 2015-2023. According to Rakli, the Helsinki metropolitan area office building vacancy rate was 14.6% at the end of 2023, up 2% from 12.6% at the end of 2022. Compared to other Nordic capitals, Helsinki has a relatively high office vacancy rate. The vacancy rates for office buildings in Stockholm, Oslo and Copenhagen have hovered around 5-10% post COVID-19 according to data by CBRE. The higher vacancy rates in Helsinki increase the demand for building purpose modifications.

Figure 16: Office building purpose modification in the Helsinki metropolitan area, from office to residential/hotel/other use, 2010-2022, by rentable area in m2



Source: KTI Rakennushankeseuranta, RPT Byggfakta Oy, Evli Research

Urbanisation

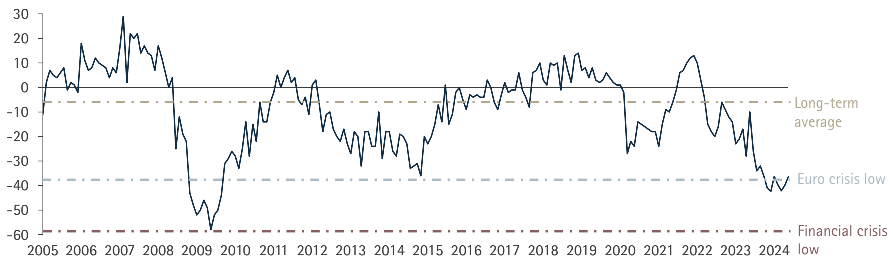
Similarly to the new construction market, the renovation construction market is concentrated to the Finnish growth centers and other urban regions. According to CFCI, almost 80% of the current apartment building stock is located in the ten fastest growing regions measured by population growth. In addition to the existing building stock, urbanization increases the demand for building purpose modifications as the population becomes denser in the urban regions.

Market outlook

Finnish construction confidence currently near the Euro crisis low's

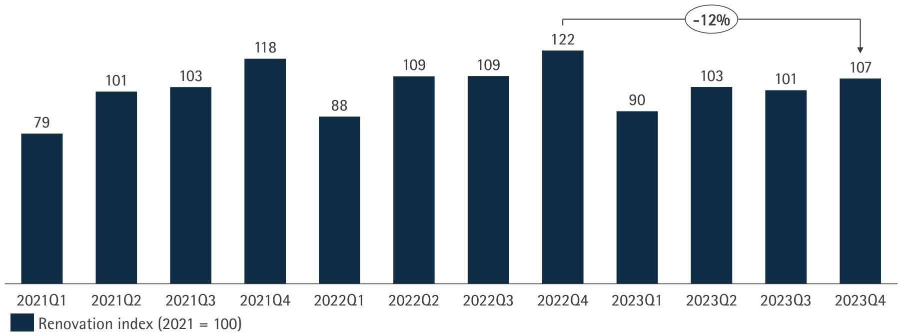
According to the Confederation of Finnish Industries, the construction confidence indicator increased to -36.5 in April 2024, up q/q from -40.1 in March 2024. Construction confidence is currently clearly below the long-term average level of -7 and near the lows of the Euro crisis. The construction confidence took a turn for the worse during early 2022 as the war started in Ukraine. The war increased the overall uncertainty and costs for construction projects. In 2023, the higher interest rates began to affect the construction market coupled with the higher costs. While the Finnish construction confidence is still currently the lowest among the EU countries, the confidence has started to slowly improve from the lows of -42.3 seen in November 2023.

Figure 17: Construction confidence indicator Finland



Source: Confederation of Finnish Industries, Evli Research

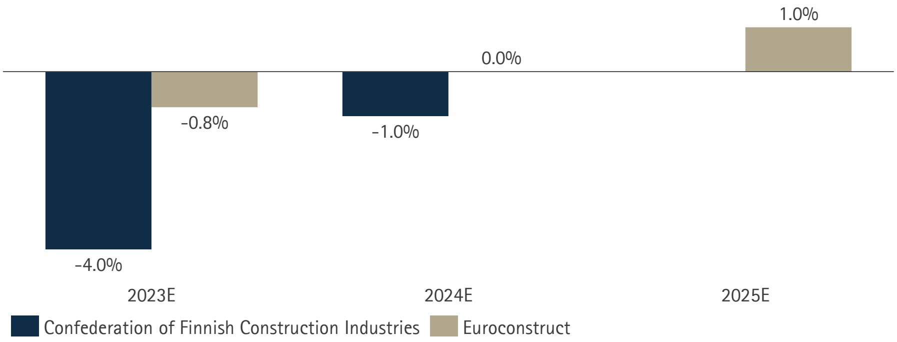
Figure 18: Finnish renovation construction trend indicator, index 2021 = 100



Source: Statistics Finland, Evli Research

Statistics Finland's data indicates a drop in the value of renovation construction by 12% during Q4/23, while in Q3 the decline was 7%. The CFCI's estimated an 11% contraction in the total construction market volumes in 2023, mainly due to a slowdown in the housing construction sector while renovation volumes declined by 4%. This downward trend is expected to persist into 2024, with Finnish total construction volumes projected to decrease by an additional 5% while renovation is expected to continue to decline by 1% in 2024. The total renovation construction market has typically seen an annual growth of about 1-2%. The expected decline in renovation construction is driven by the beforementioned reasons, namely construction cost inflation and tighter financing environment.

Figure 19: Total renovation construction market estimated y/y growth/decline 2023–2024, in percentage

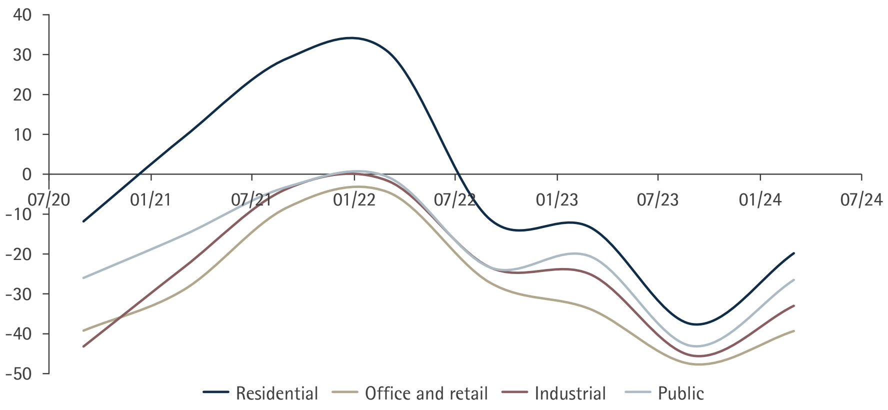


Source: CFCI, Euroconstruct, Consti, Evli Research

Estimates differ yet we expect 2024E to remain slow

The estimates for Finnish renovation construction volumes differ slightly between different estimators yet we expect that 2024 will remain rather slow for the overall market. According to a survey study conducted by the Finnish Association of HVAC Technical Contractors (Talotekniikkaliitto), the renovation market outlook has worsened across all the main segments. Although the overall forecast may seem bleak, it's important to note that there are significant geographical disparities. It is anticipated that the metropolitan area of Helsinki and its surrounding regions will perform better in comparison to the more rural areas. Despite the geographic differences, overall market growth is seen to continue in 2025. While the outlook seems gloomy, the expected development of the Finnish renovation building technology market has improved slightly at the start of 2024.

Figure 20: Expected development of the Finnish renovation building technology market during the next 6 months



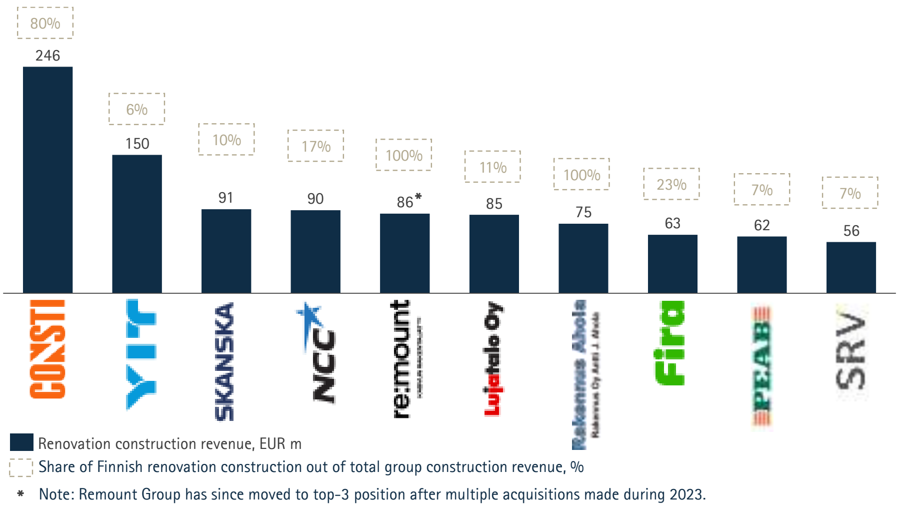
Source: Finnish Association of HVAC Technical Contractors, Evli Research

Competition

Consti is the largest renovation construction company in Finland

The Finnish renovation construction market is fragmented. Conti's market share of the total professional renovation construction market is roughly 2%. The aggregate revenue of the largest renovation construction companies (revenue EUR 15m or greater, excl. building technology contractors) in Finland amounted to 1.4b in 2022. Consti is the largest renovation construction company in Finland, the company's revenue was roughly 60% higher than the second biggest renovation construction company YIT (excl. building technology companies). Other large companies in the market include Skanska, NCC, Remount Group, Lujatalo, Rakennus Ahola, Fira, Peab and SRV. Most of the biggest companies in renovation construction are large construction generalist companies that do not focus on renovation construction. For example, the share of YIT's Finnish renovation construction business of the company's total revenue is only roughly 5%.

Figure 21: Ten largest Finnish renovation construction companies by revenue in 2022, in EUR m



Source: Rakennuslehti, Asiakastieto, Evli Research

Figure 22: Renovation construction market overview (excl. companies with EUR <10m revenue), 2022 data

	Large construction companies	Smaller construction and renovation companies	Large building technology contractors	CONSTI
Description	Large Nordic construction companies, share of Finnish renovation construction of total revenue small	Small renovation construction companies, annual revenue EUR ~10-60m	Large building technology contractors, annual estimated renovation revenue EUR ~40-115m	Finland's leading renovation construction company
Renovation revenue growth (2022, %)	1.2%	29.2%	6.8%[2]	4.1%[3]
Renovation revenue share of total group (2022, %)	9.5%	~80-100%	~25%[2]	80.5%
Profitability (EBIT 2022, %)	3.6%[1]	4.2%	3.7%[2]	3.7%
Market share (2022, %)	~4%	~4%	~2%[2]	~2%
Example companies	YIT, PEAB, NCC, SKANSKA, SRV, Lujatalo Oy	re:mount, PYLON, Rakennus Ahola, VENUE, RESTOK, NHK, UH Rakennus, Muorak	Are, Caverion, bravida, QMG	

1. Calculated from the construction segment including new construction.
2. Building technology contractors estimated business mix: 25 % renovation / 25% new building / 50% maintenance & management, profitability based on total group profitability.
3. Growth for the total group

Source: Rakennuslehti, investor presentations, Evli Research

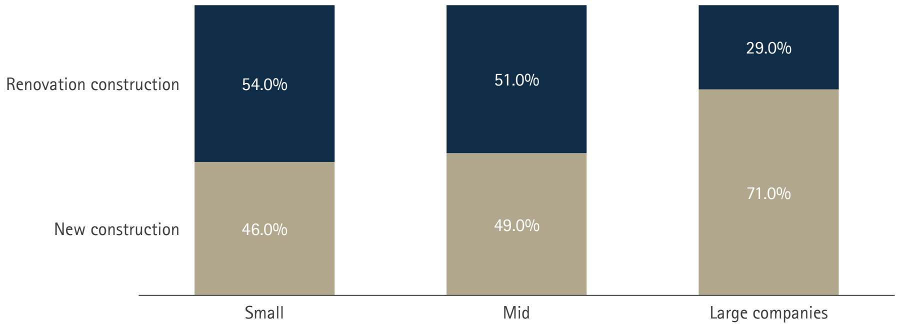
Building technology contractors are substantial part of the renovation construction market

Building technology is the largest subsector in renovation construction. In addition to large construction companies and smaller renovation focused construction companies, Consti competes with building technology contractors such as Are, Caverion, QMG and Bravida. In 2022, Consti's building technology unit was the 6th biggest building technology contractor by revenue (EUR 69.1m) in Finland, still clearly behind the largest building technology contractor Are (total group revenue EUR 473m in 2022). The building technology contractors do not publish financial figures for the renovation construction segment, Consti has estimated that the business mix for building technology contractors is roughly: 25 % renovation, 25% new building and 50% maintenance & management. Based on this, we assume that both Are and Caverion are among the five largest renovation construction companies in terms of revenue.

Small and agile renovation construction pure plays compete with the larger players

Besides the large Nordic construction companies and the building technology companies, there are many small to mid-size companies that focus on renovation construction. Of the ten largest renovation construction companies in Finland, three specialize in renovation construction: Consti, Rakennus Ahola and Remount Group. Companies that focus on renovation construction but are outside the top 10 include for example U-H Rakennus, Järki-Saneeraus and KTC Group. These companies are often agile, operate with lean organizations and have relatively small fixed asset base. Because of the beforementioned reasons, the small to mid-size Finnish renovation construction pure plays may have higher margins when compared to the larger players.

Figure 23: Shares of renovation building and newbuilding of all building projects by enterprise size, in percentage, 2022



Source: Statistics Finland, Evli Research

Rest of the renovation market served by numerous smaller operators

The large construction companies tend to focus on new construction and larger and more demanding renovation projects whereas residential renovation has been historically dominated by smaller renovation companies in Finland. Most of the renovation construction market is served by smaller companies that typically employ 1-5 persons. According to Statistics Finland, the share of renovation construction of all construction projects for smaller companies was roughly 54% while for large companies the share was 29%. According to data collected by Rakennuslehti, the largest construction renovation companies held roughly 10% market share (excl. building technology contractors). The rest of the professional renovation market is dominated by companies that had less than EUR 15m renovation construction revenue.

Service market is fragmented

The service business comprised roughly 12% of Consti's total revenue in 2023. Like the renovation construction market, the Finnish building services market is fragmented. The main competitors in building services include various renovation construction companies, building technology companies and companies that focus on building services. Larger companies that focus on building services include for example ISS and Lassila & Tikanoja.

Competition is fierce in the company's main markets

Consti primarily operates in the renovation construction sector within Finland's growth hubs. These regions are the most competitive markets for renovation construction in the country. Most renovation construction firms have asset-light balance sheets, and the sector has no definitive entry barriers. The prevalent competition strategy in this sector is pricing, resulting in relatively low profit margins. In addition to pricing, factors such as service offerings, reputation, and past references play a crucial role in securing project bids. The competition may increase further if the demand slows down in new construction as the construction companies reallocate capacity to the more stable renovation construction sector. Conversely, the need for specialized knowledge in the field of renovation construction reduces the level of competition from companies primarily focused on new construction.

Consti competes with wide service offering throughout the construction value chain

Consti's position in the market allows it to compete with both small and agile renovation construction pure plays and larger construction companies. On one hand, the company's service offering is significantly wider when compared to smaller renovation construction companies that tend to focus on certain renovation construction niches or segments. On the other hand, the company can deliver smaller projects that are not big enough for the large construction companies operating in the market. In addition to beforementioned factors, Consti has a good reputation as the market's leading player in the renovation growth markets in Finland.

Financial performance

Consti's turnaround has been successful

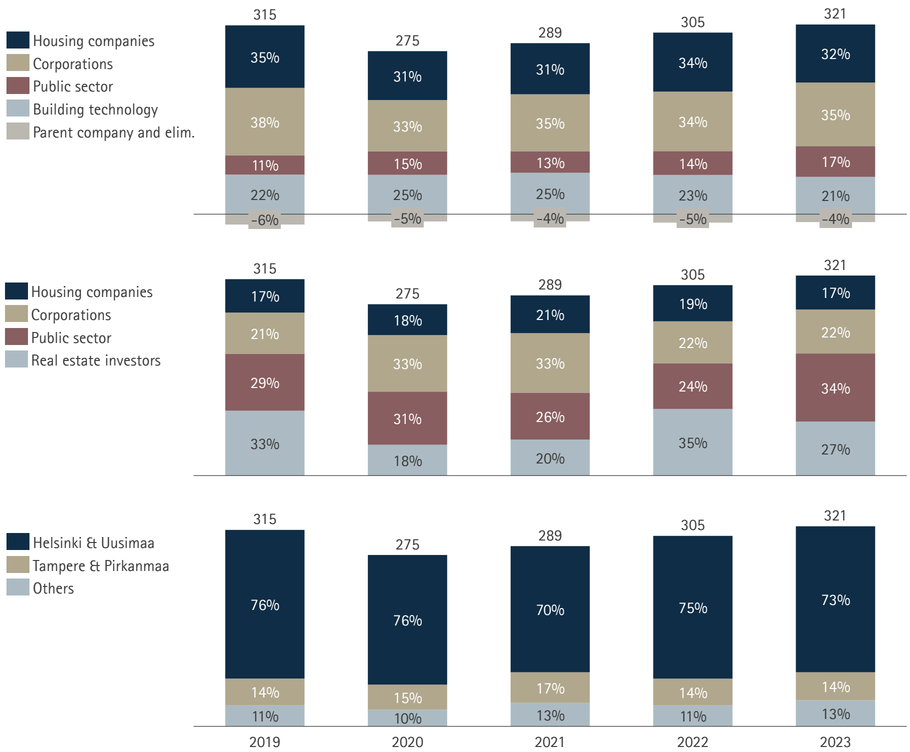
Between 2017 and 2019, Consti encountered operational issues that had negative impact on its profitability. The primary challenges during the period were linked to project management and execution. In response to these problems, the company put corrective actions into place during 2017-2018, which started to yield positive results in 2019. Even in the face of economic uncertainty during 2020-2023, the company has successfully rebounded its EBIT margin to above 3% level. This, along with limited capital requirements, has led to strong returns on capital employed. The current profitability is still below the company's long-term target of over 5%, yet the biggest problems related to project management and execution seem to be history.

Revenue

Revenue consists of project deliveries and services

Consti's revenue is generated from project deliveries and services offered to a variety of clients including housing companies, corporations, real estate investors, and the public sector. This revenue is broken down into four operational segments: housing companies, corporations, public sector, and building technology. The service revenue, which has consistently accounted for 12-16% of total sales between 2018 and 2023, is included in the segment revenue data. The majority of the company's revenue comes from project deliveries and services provided in the Finnish growth centers. The Uusimaa region is the company's most significant geographical market, contributing to 73% of total sales in 2023. Seasonality also plays a role in the company's revenue generation, with the latter half of the fiscal year typically producing the highest revenue, primarily due to the execution of façade renovation projects during the warmer months of spring to autumn.

Figure 24: Development of net sales by operating segment, client type and geography, 2019-2023

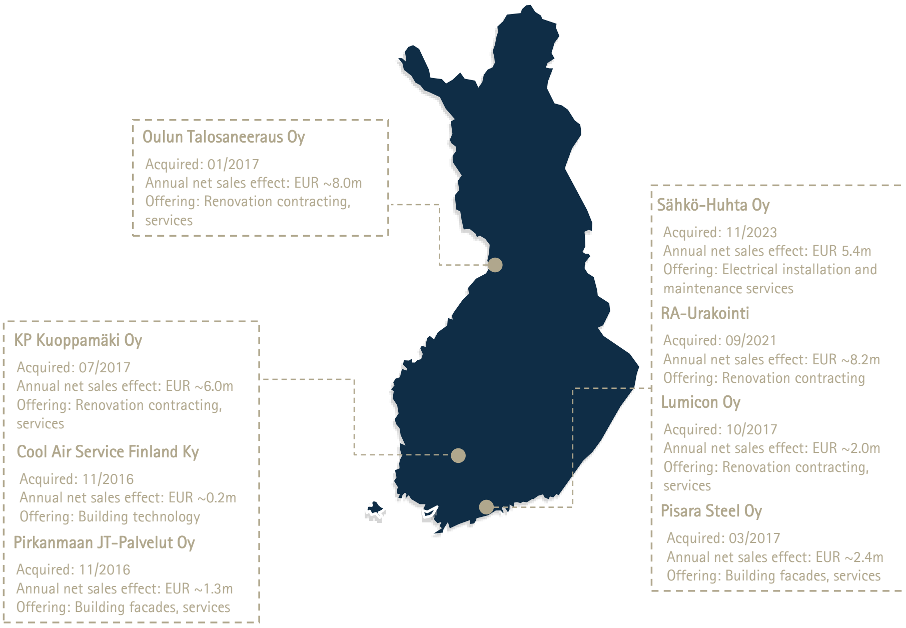


Source: Consti, Evli Research

From strong inorganic growth to bolt-on acquisitions supporting profitable growth

Due to the fragmented nature of the Finnish renovation construction market, Consti has been able to boost its growth through M&A. Before the initial public offering in 2015, the company grew aggressively through acquisitions; during 2008-2014 Consti acquired 16 targets in total and grew its revenue from EUR 18m in 2008 to EUR 216m in 2014. After the initial public offering, the company has been less active on the M&A front. The post IPO acquisitions have been bolt-on by nature and the logic has been to support the company's current operations and offerings in the regions of focus.

Figure 25: Post IPO acquisition summary



Source: Consti, Evli Research

Revenue growth has slowed down partly because of the focus on profitability

Consti's post IPO growth has been both organic and inorganic by nature. Both organic and inorganic growth were strong during 2016-2018 as the company made several bolt-on acquisitions and at the same time grew organically. The strong growth numbers were reached partly at the expense of profitability as number of the projects started in 2016 and 2017 proved to be problematic and as a result, the company posted negative operating profit for both 2017 and 2018. Starting from 2019, Consti has focused on more disciplined tendering processes which has resulted in slower organic growth yet more profitable operations. The company did not acquire companies during the period as it struggled with problems related to profitability. In 2021, the company completed its first acquisition since 2017 as it acquired RA-Urakointi which focuses on façade renovations and interior renovations of apartment and row housing companies. In 2021, RA-Urakointi was able to reach revenue of EUR 8.2m.

Sähkö-Huhta Oy the latest addition with net sales effect of roughly EUR 5m

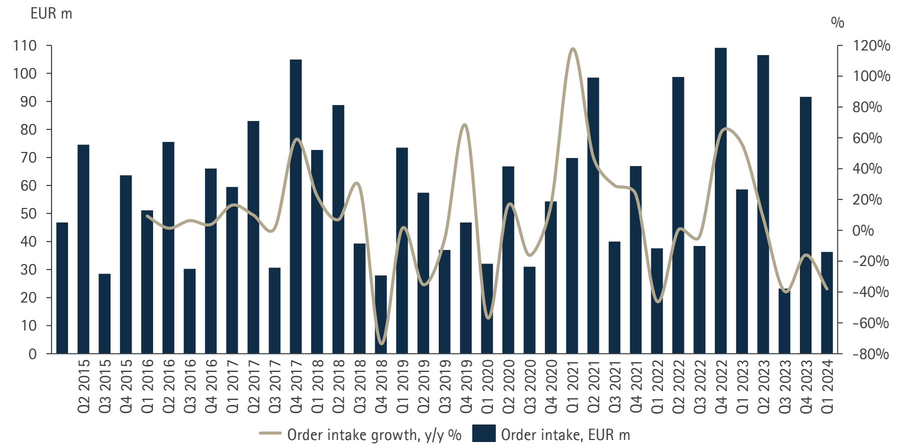
During Q4 2023, Consti strengthened its position in electrical installation and maintenance services by acquiring Sähkö-Huhta Oy. According to Consti, Sähkö-Huhta Oy specializes in electrotechnical services, the extensive service offering also includes lighting design, installation of information network cabling systems, fiber networks and antenna systems as well as solutions for charging electric cars. Sähkö-Huhta operates in the Greater Helsinki area with approximately 40 employees and net sales of EUR 5.4m in 2022. According to data by Asiakastieto, the company's EBIT in 2023 was roughly EUR 0.4m with EBIT margin of 7.5% which is higher than that of Consti's. The acquisition follows the company's post-IPO acquisition strategy as it is a bolt-on addition to support Consti's service business. The acquisition has a great strategic fit as one of Consti's strategic goals is to grow in the building technology related maintenance and real estate service business.

Order backlog still at healthy levels

Consti's order intake has decreased year-on-year for the last three quarters as the company has continued its selective and disciplined tendering in a challenging market. In addition to lower demand, as new construction volumes have dropped the competition has intensified. Order intake continued to decline y/y during Q1 as it fell 38%, the major reason for lower order intake was lack of larger orders as the Q1 order intake consisted of several small and mid-sized projects. While order intake has declined, the order backlog is still at a healthy level as the backlog in Q1 2024 was EUR 244m. Nevertheless, it appears that the order backlog has reached its peak, at least for the time being.

Figure 26: Order intake by quarter, EUR m, Q1/2015 - Q1/2024

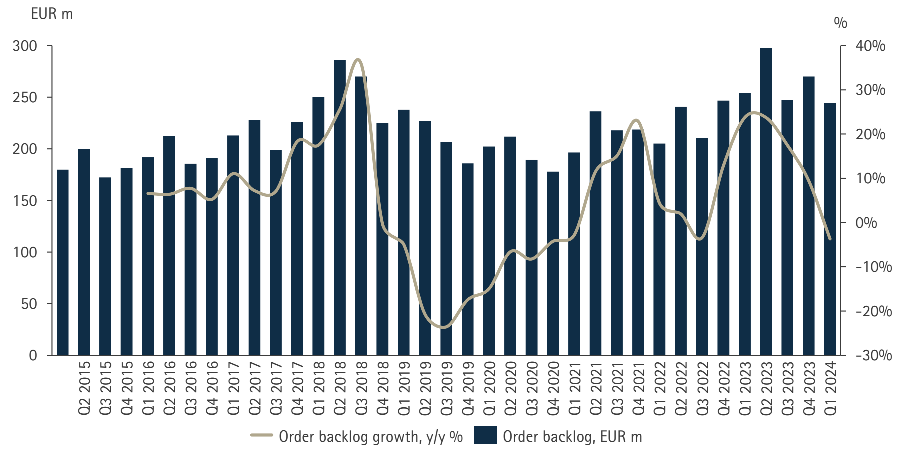
Order intake was slower during H2/23 and Q1/24



Source: Consti, Evli Research

Figure 27: Order backlog by quarter, EUR m, Q1/2015 – Q1/2024

Order backlog hit its peak in Q2/23, at least for now

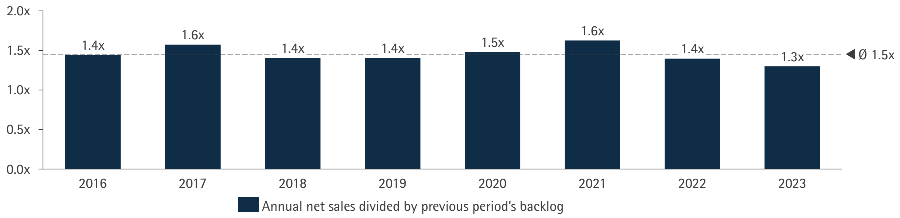


Source: Consti, Evli Research

Consti's order backlog is relatively short

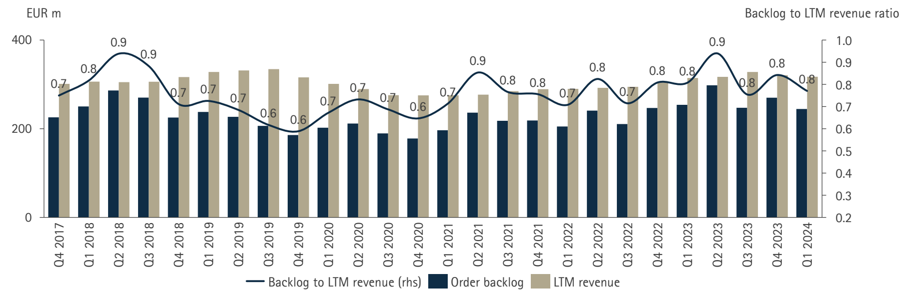
Similar to revenue, Consti's order intake and backlog are affected by seasonality. Consti's order intake is usually the strongest during the second quarter of the fiscal year driven by the housing company decision making regarding renovations. Consti's order book is relatively short, which decreases the visibility for long-term development. Historically, Consti's annual net sales represented roughly 1.3-1.6x the ending backlog of the previous year. In 2023, the multiplier was lower as the backlog of 12/22 was more evenly distributed to following years as a result of some of the larger multiyear projects in the backlog.

Figure 28: Net sales divided by previous period's ending backlog, 2016-2023



Source: Consti, Evli Research

Figure 29: Order backlog and LTM revenue, EUR m, Q4 2017 – Q1 2024



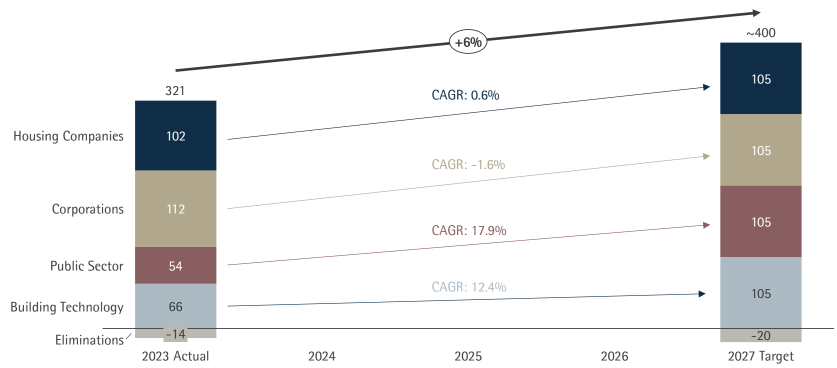
Source: Consti, Evli Research

Target to have EUR 400m of net sales by the end of 2027

In connection with the Q4 2023 report, Consti provided a new revenue target for the strategy period. The current target is to have net sales of roughly EUR 400m by the end of 2027. The long-term target stays intact as the company aims to increase net sales faster than the market. The new 2027 revenue target is based on the aim of having four equally strong business areas. We believe that achieving EUR 400m by 2027 is a difficult target, but we also believe that Consti has a strong position to grow faster than the renovation construction market overall. The company has focused on higher growth geographies within Finland as most of Consti's revenue comes from HMA. Additionally, the growth is boosted by continuous expansion to new business areas such as new construction and expanding within the value chain by adding project development and design capabilities and strengthening service and maintenance business. Moreover, the fragmented renovation construction market presents opportunities for inorganic growth. Consti has been active on the M&A front during its history, and we see likely that it will keep acquiring companies if/when potential targets are identified at reasonable prices.

Figure 30: Crude illustration of roughly EUR 400m 2027 net sales target with four equally strong business areas, eliminations at 5% of total net sales

Having four equally strong business areas at the end of 2027 with net sales of roughly EUR 400m requires growth from Public Sector and Building Technology



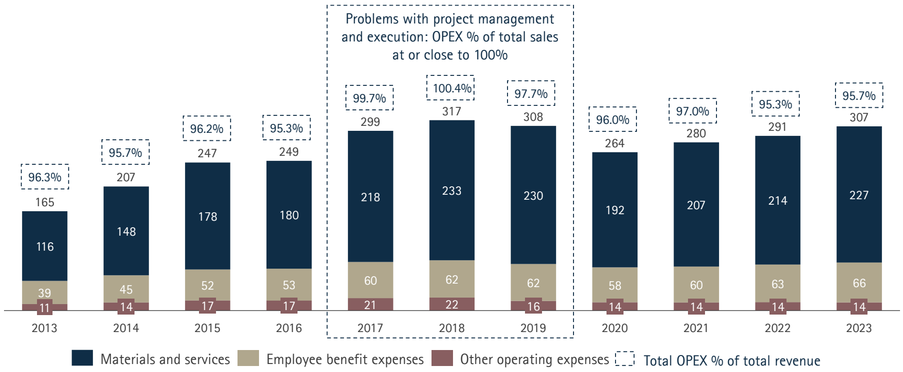
Source: Consti, Evli Research

Profitability

Consti's operating expenses consists of materials and employee benefit expenses

Most of the company's cost base is variable in nature, variable costs include materials, services and employee benefit expenses related to project workers. Fixed costs include expenses related to the company's office premises, marketing, administration and employee benefits related to Consti's white-collar employees. Materials and services are clearly the biggest cost item and present roughly three fourths of the company's total OPEX. Employee benefit expenses are roughly one fifth and other operating expenses roughly 5% of the total OPEX.

Figure 31: OPEX development, in EUR m, 2013-2023

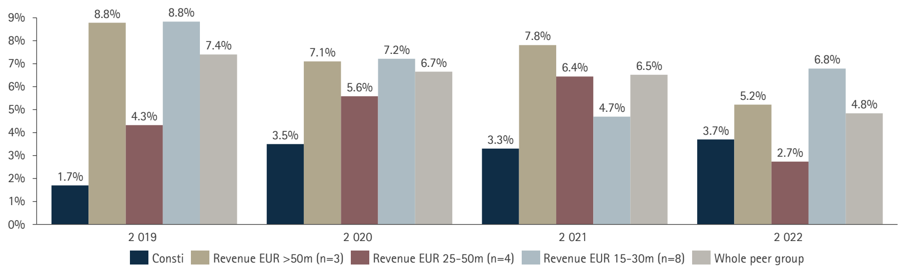


Source: Consti, Evli Research

Total OPEX historically roughly 95 - 97% of total revenue

The historical cost figures show that the total operating costs have stayed relatively flat at 95 - 97% when compared to total net sales. The clear outliers are the years 2017-2019 when the company faced internal issues. The problems affected the relative share of materials and services expenses the most, which increased to 72 - 74% of total revenue. In 2022, Consti was able to reduce operating expenses as percentage of revenue across the board and in total, the costs were 95.3% of revenue, down from 97.0% in 2021. In 2023, the operating costs as percentage of net sales increased slightly y/y driven by cost inflation for materials and services and salaries.

Figure 32: Aggregate EBIT margin % for renovation construction companies, divided to groups by 2022 renovation construction revenue (excl. large construction & building technology companies)



Source: Evli Research

Consti's margins have lagged those of the other renovation focused peers

In recent years, Consti's profitability has lagged behind that of the larger Finnish renovation firms (2022 revenue EUR 15-100m), Consti trailed the peer group's margin by roughly 1% in 2022. Some of the large companies that generated over EUR 50m in renovation construction revenue in FY 2022 have been among the most profitable between 2019 and 2022. Smaller renovation construction firms like U-H Rakennus, Järki-Saneeraus and KTC Group have also performed well, consistently achieving EBIT margins well above 5%. A contributing factor to these higher margins is their operation within specific niches using lean organizations and a relatively small fixed asset base. Collectively, Finnish renovation construction firms with revenues between EUR 15-100m saw a decrease in their EBIT margin from 6.5% in 2021 to 4.8% in 2022. We see that this reduction in average profitability is indicative of the impact of the cost inflationary environment.

The company's long-term profitability target is ambitious yet within reach

Consti aims for a long-term profitability goal of achieving an EBIT margin exceeding 5%. With the revenue target of roughly EUR 400m by the end of 2027, the company's EBIT margin target implies EBIT of at least EUR 20m. As Consti's EBIT was at EUR 12.3m in 2023, the target implies EBIT CAGR of at least roughly 13% while revenue is targeted to grow by approximately 6% p.a. According to our study, the largest general construction firms in the market have operated at an EBIT margin of less than 5%. However, as depicted in Figure 32, companies specializing in renovation construction have managed to achieve an EBIT margin of more than 5%. Consti's main markets are fiercely competed, and pricing is still arguably the key factor in winning project bids, which puts pressure on margins in the sector. In our view, Consti has the following ways to improve profitability towards the long-term profitability target:

1. Increase in volumes (target to grow faster than the market, 2027 net sales target of roughly EUR 400m in 2027) & containment and/or reduction of fixed costs: Margin expansion through the containment of fixed costs which then multiplies the impact of growth on profitability.

2. Optimizing sales mix: Relative increase in higher margin segments. Higher margin segments in Consti's portfolio include for example the service and maintenance business.
    - Services 12% of total sales in 2023, higher margin business when compared to projects.
    - Expansion in the value chain and strengthening capabilities in for example project development, design management and energy efficiency could be margin additive.

3. Improving project management and procurement: Improved margins through standardized and improved management of risk, cost and production. Centralized and disciplined procurement activities.
    - Materials and services over 70% of OPEX, 67-69% of OPEX pre-2017.

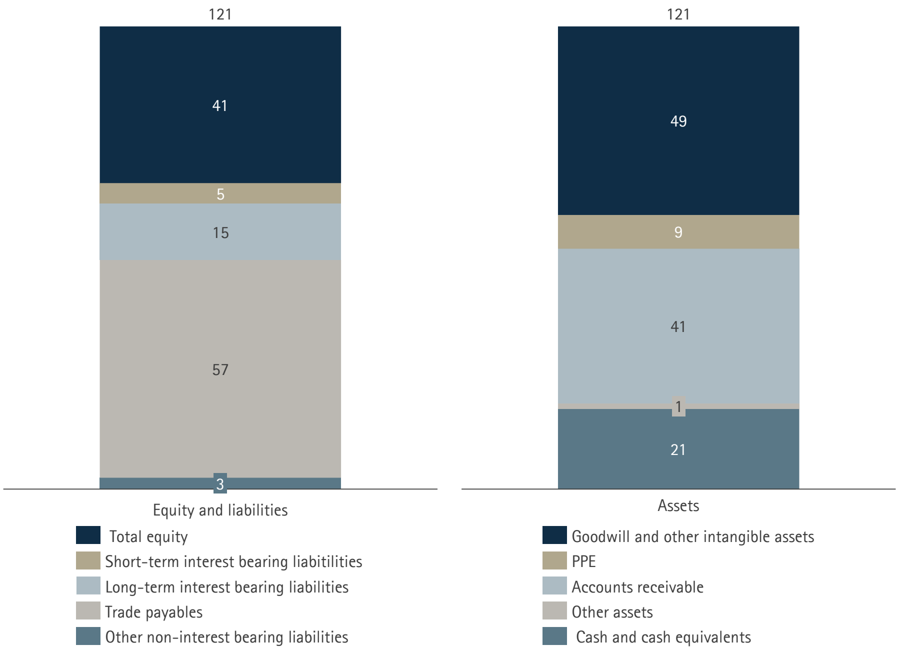
The company has optimized its operations during the last few years and although there is still some further leeway to increase profitability by optimization, it is unlikely to provide very significant margin gains. In our view, reaching over 5% EBIT margin sustainably would require higher volumes and optimized sales mix. The percentage of service business of total sales has hovered around 12-16% during 2016-2022, the service business has a higher margin when compared to project business and therefore increasing the share would improve group wide margins. Moreover, for instance expanding in the renovation construction value chain could increase the margin if done by targeting profitable segments.

Balance sheet

The company's assets consists mostly of goodwill and working capital items

Due to the labor-intensive business model, Consti operates with a relatively light balance sheet. The company's balance sheet consists of mostly goodwill and accounts receivable on the asset side. Goodwill has been accumulated over the years as a result of the numerous acquisitions. Goodwill represents roughly 40% of the total assets, the company has not reported any significant goodwill write-downs. Another major asset item is accounts receivable, which is roughly 35% of total assets. At the end of Q4 2023, other tangible assets consisting of PPE and other assets were roughly EUR 10m or 8% of total assets, cash balance was at EUR 21m.

Figure 33: Company balance sheet composition at the end of FY 2023

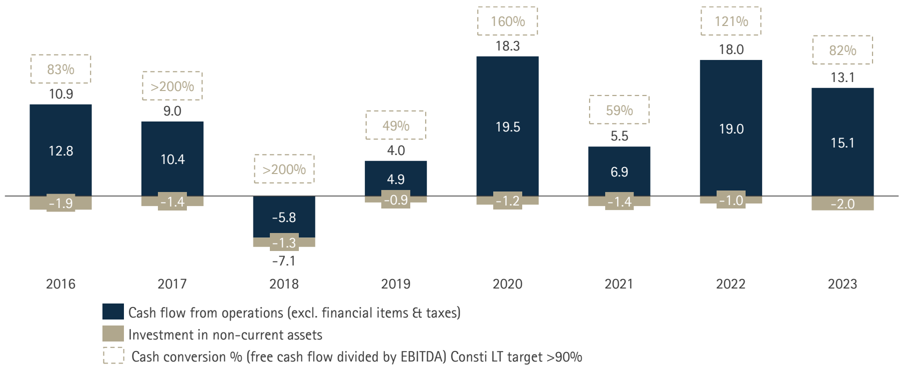


Source: Consti, Evli Research

Consti's liabilities consists of interest-bearing liabilities and working capital items

At the end of 2023, the company's net debt incl. IFRS 16 was negative EUR 0.9m. The majority of Consti's bank loans have maturity in 2026 while there are smaller repayments for 2024-2025. The company's working capital is negative mainly because of the advances received from the projects. Consti's net working capital was near record-low levels at the end of 2023 at EUR -18.7m as a result of disciplined steering throughout the company. The company's long-term balance sheet structure target is net debt to adjusted EBITDA <2.5x. Consti has reached the target for capital structure during 2020-2022.

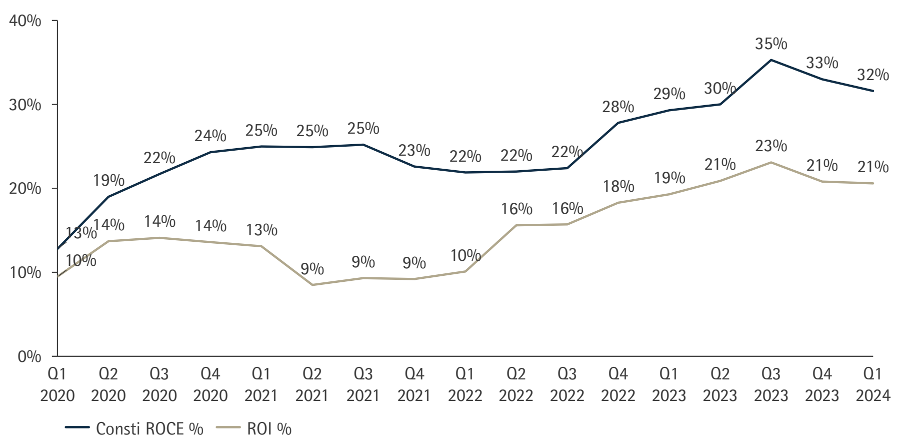
Figure 34: Consti's free cash flow development



Cash conversion target was met during 2021-2023

The company's cash conversion is strong as the business doesn't require substantial tangible asset investments. In 2023, the cash conversion was 82.2% vs. the company's long-term target of >90%. While Consti did not reach its cash conversion target in 2023, in 2021-2023, the company was able to reach cash conversion of 91.2%, slightly above the target.

Figure 35: ROI and ROCE % quarterly, Q1/2020 – Q1/2024



Source: Consti, Evli Research

Estimates

Guidance stands unchanged for 2024 after the first quarter

Consti's seasonally slow Q1 brought no real surprises as net sales beat our estimates by a small margin while EBIT was only slightly lower than estimated, driven mainly by higher-than-expected PPA amortization. Consti's financial guidance remains unchanged:

- "Consti estimates that its operating result for 2024 will be in the range of EUR 9–12 million."

The financial guidance was introduced in connection with the company's Q4/23 report. Compared to EBIT of EUR 12.3m in 2023, the guidance middle-point implies EBIT decline of nearly 15%. Excluding the gain on sale of property-related relining business in 2023, the 2024 financial guidance middle-point implies EBIT decline of 7%.

Market presents some challenges in 2024 while backlog supports the development

Consti's backlog peaked at the end of Q2 2023 at nearly EUR 300m. The order intake has declined y/y for the last three quarters starting from Q3/23. The LTM order intake was down 15.5% y/y at the end of Q1/24. With the slower order intake, the backlog stood at EUR 244.4m at the end of Q1/24, down 3.7% y/y, yet still at healthy levels. The current backlog supports 2024 revenue development well as in absolute and relative terms, a larger share of March 2024 order backlog will be recognized in revenue within the next nine months compared to March 2023 backlog. Consti acquired Sähkö-Huhta Oy at the end of November 2023, historically, Sähkö-Huhta's revenue has remained at the level of EUR 4-5m, in 2022, the company's revenue was EUR 5.4m. The acquired company will support Consti's building technology segment growth in 2024E. While Consti's current backlog supports its net sales for the remainder of the year, we expect the company's disciplined tendering activities coupled with intensified competition to affect new project starts during the remainder of 2024. We estimate FY 2024E revenue of EUR 317.7m with a slight y/y decline of 0.9%. With the expected lower volumes, and slight EBIT miss for Q1, our EBIT estimate for 2024E stands at EUR 10.6m, slightly above guidance middle point with a margin of 3.4% (2023E margin 3.5% excl. the sale of relining business).

Q2-Q4/24 tendering has to be successful to fill in the 2025 capacity

The current consensus is that the Finnish renovation construction volumes will return to slight growth territory from 2025 onwards. The estimate is backed by overall improving market conditions, the prevailing megatrends offering tailwind and needs based nature of renovation. While the market is likely to give some tailwind, Consti needs to be successful in winning projects during the last nine months of 2024. As said earlier, a larger part of the end of Q1/24 backlog will be recognized during the last three quarters when compared to Q1/23. Therefore, Consti has to succeed in winning tenders to fill in the 2025 capacity. We expect continued strong development for Public Sector and Building Technology segments in 2025 as larger multi-year public projects are expected to boost sales. With the expected revenue growth of 4.7% to EUR 332.6m, we estimate that Consti will achieve EBIT of EUR 12.8m with an EBIT margin of 3.8%. To reach our 2025 net sales estimate, Consti should have a backlog in the ballpark of roughly EUR 200 – 250m at the end of 2024 based on the historical revenue to year-end backlog data.

M&A likely to play a part in the future

The Finnish renovation construction market is fragmented and offers inorganic growth options for the company. Consti's post IPO acquisitions have been bolt-on by nature and the logic has been to support the company's current operations and offerings in the regions of focus. According to our analysis, the post IPO acquisitions have been made at notably lower valuation multiples when comparing to Consti's own trading multiples and the company has historically been successful in the integration of the targets. We do not include M&A potential in our estimates, but we see it likely that the company will keep making bolt-on acquisitions in the future. We anticipate that the potential future acquisitions will remain small in size, yet larger acquisitions, for instance in the revenue range of EUR 20-30m, could be feasible and would aid in achieving the company's goal of about EUR 400m net sales in 2027.

Long-term estimates remain below Consti's targets for both net sales and profitability

Consti targets to grow its net sales faster than the market while EBIT margin is targeted to exceed 5%. With the updated strategy, the company gave a net sales target of more than EUR 400m by the end of 2027. Our current estimate for 2027E net sales is EUR 354m with an EBIT margin of 4.2%. As commented earlier, reaching sales of at least EUR 400m by the end of 2027 would require a net sales CAGR of almost 6% p.a., which is notably higher than the market growth especially given the expected weaker 2024E. While we model slower revenue growth than Consti targets, for example larger acquisitions or more favorable market conditions than we currently estimate would help to reach the revenue target. Our long-term estimates are also below the company's long-term profitability target of EBIT-margin exceeding 5%. We argue that reaching over 5% EBIT-margin sustainably would require reaching the net sales target for 2027 which we do not currently model, in addition to improved higher margin project mix.

Table 1: Estimate summary

Consti	2022	Q1/'23	Q2/'23	Q3/'23	Q4/'23	2023	Q1/'24	Q2/'24E	Q3/'24E	Q4/'24E	2024E	2025E
Housing Companies	104.0	20.4	27.3	29.5	25.2	102.4	15.2	24.3	28.1	25.2	92.8	96.5
Corporations	104.9	26.3	25.6	32.1	28.1	112.2	20.2	20.5	25.7	28.1	94.5	102.1
Public Sector	42.1	9.9	10.0	14.7	19.8	54.3	16.0	14.0	14.7	17.8	62.4	63.6
Building Technology	69.1	14.8	16.2	17.9	16.9	65.7	18.0	21.0	21.5	21.9	82.5	84.9
Eliminations	-14.9	-2.4	-3.4	-4.3	-3.9	-14.0	-3.9	-3.2	-3.6	-3.7	-14.4	-14.6
Net sales	**305.2**	**68.9**	**75.7**	**89.9**	**86.1**	**320.6**	**65.5**	**76.6**	**86.3**	**89.3**	**317.7**	**332.6**
change, %	*5.7%*	*15.2%*	*3.6%*	*13.8%*	*-7.8%*	*5.0%*	*-4.9%*	*1.2%*	*-4.0%*	*3.8%*	*-0.9%*	*4.7%*
Operating profit	**11.5**	**0.7**	**3.0**	**4.8**	**3.9**	**12.3**	**0.2**	**2.8**	**3.3**	**4.4**	**10.6**	**12.8**
-margin, %	*3.8%*	*1.0%*	*4.0%*	*5.3%*	*4.5%*	*3.9%*	*0.3%*	*3.6%*	*3.8%*	*4.9%*	*3.4%*	*3.8%*
Adj. Op. profit	**11.5**	**0.7**	**3.0**	**4.8**	**3.9**	**12.3**	**0.2**	**2.8**	**3.3**	**4.4**	**10.6**	**12.8**
-margin, %	*3.8%*	*1.0%*	*4.0%*	*5.3%*	*4.5%*	*3.9%*	*0.3%*	*3.6%*	*3.8%*	*4.9%*	*3.4%*	*3.8%*
Net financials	-1.0	-0.3	-0.3	-0.2	-0.2	-1.0	-0.3	-0.2	-0.2	-0.2	-0.9	-0.7
Pre-tax profit	**10.4**	**0.4**	**2.8**	**4.5**	**3.7**	**11.4**	**0.0**	**2.6**	**3.1**	**4.2**	**9.8**	**12.0**
Income taxes	-1.9	-0.1	-0.6	-0.9	-0.8	-2.4	0.0	-0.5	-0.6	-0.8	-2.0	-2.4
Net earnings	**8.5**	**0.3**	**2.2**	**3.6**	**2.9**	**9.0**	**0.0**	**2.0**	**2.5**	**3.3**	**7.8**	**9.6**

Source: Consti, Evli Research estimates

Valuation

BUY with a target price of EUR 12.0

We retain our BUY-rating and target price of EUR 12.0. Consti trades at a wide discount to its peer group which we find unjustified because of the company's focus on more defensive renovation construction, strong track record for the last few years and robust balance sheet position which can handle possible short-term troubles. The current market environment is challenging, yet the company's backlog is at a strong level for the remainder of FY 2024. In the long-term, we continue to find the secular trends favorable for the investment case. We do not put emphasis on absolute valuation at present, yet our DCF indicates a substantial upside despite our long-term estimates being lower when compared to Consti's own targets. Backing the undemanding valuation, the company's stock offers an over 6% dividend yield at the current price level based on our estimates going forward.

Consti has no direct public peer companies

There are no direct publicly listed peers for Consti. Our peer group consists of generalist construction companies, building technology companies and building service and maintenance companies. While most of Consti's revenue comes from renovation construction, larger generalist construction companies tend to focus on new construction. In addition, large public generalist construction companies do developer contracting while Consti focuses on contracting. On the other hand, building technology companies such as Bravida and Instalco generate roughly half of their revenue through service contracts and have therefore higher earnings visibility and less project-related risks. Building service and maintenance companies generate the majority of their revenue through service agreements and therefore have even higher earnings visibility in addition to slightly different end markets.

- Generalist construction companies – Similar in profitability, active in various different construction segments including both new and renovation construction. Conduct both contracting and own development.
- Building technology companies – Comparable to Consti's building technology unit which comprises roughly 20-25% of the company's total revenue p.a.
- Building service and maintenance companies – Higher earnings visibility (Consti 2023 service revenue roughly 12% of total sales), different end markets.

Trading at a substantial discount when compared to peers ...

Consti trades at 7-5x EV/EBIT and 10-8x P/E based on our estimates for 2024-2025E. Compared to the peer group, Consti is currently trading at roughly 30-50% discount on our estimates for 2024-2025E based on EV/EBITDA, EV/EBIT and P/E multiples. We find the wide discount unwarranted. When looking at the past three years, Consti's growth has been stronger and margins higher when compared to the peer group average. Consti's healthy margins coupled with strong cash flow generation capability has led to higher return figures and free cash flow yield when compared to peers. In addition, most of the company's project revenue is related to renovation construction whereas most of the peer companies focus on more cyclical new construction. The renovation market offers interesting structural long-term growth trends, and we also see the renovation construction market faring better in the short-term as the market is expected to decline slightly in 2024 whereas the new construction volumes are expected to decrease more led by new residential construction.

... and to own historic multiple levels

Historically, Consti has been valued at approximately 9-11x P/E (1st-3rd quartile based on data since IPO) and 8-10x EV/EBIT. Before the company faced operational issues in 2017, P/E multiple hovered around 11x and EV/EBIT at around 10x. Based on our current estimates for 2024-2025E, Consti is priced at 7-5x EV/EBIT and 10-8x P/E presenting a substantial discount when compared to these historical valuation levels.

Figure 36: Historical FWD P/E (lhs) & EV/EBIT (rhs) vs. peer group median 05/20-05/24

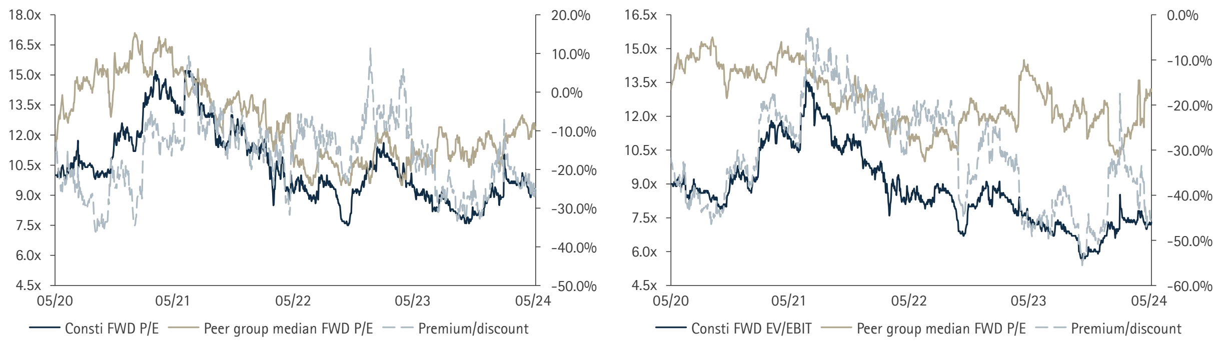
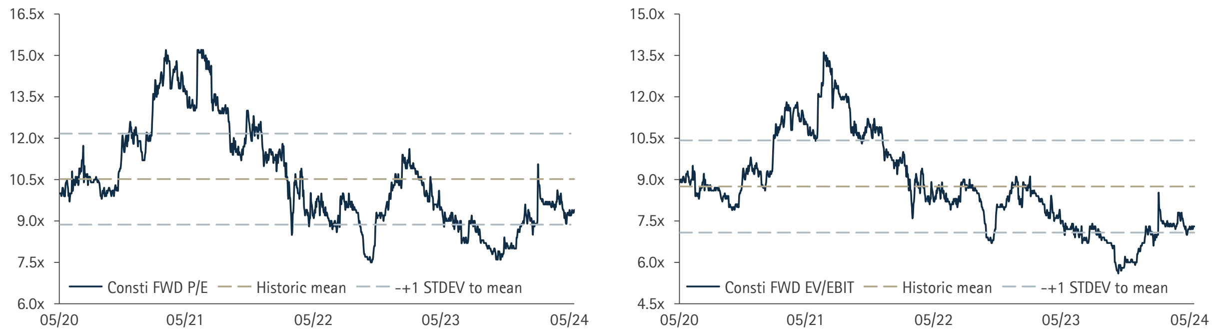


Figure 37: Historical FWD P/E (lhs) & EV/EBIT (rhs) 05/20-05/24



... in addition to fair value

We base our valuation of Consti on the company's own historic multiple levels and relative peer group multiples, additionally our DCF implies a notable discount to fair value from the current price levels. We model Consti reaching 4.2% EBIT margin in 2027E with net sales of EUR 354m resulting in EBIT of EUR 15m. As commented earlier, our long-term estimates are at a lower level when compared to Consti's own targets. Consti targets net sales of roughly EUR 400m in 2027 and the long-term profitability target stands at >5% EBIT. Beyond the current strategy period, we model revenue growth of 1.5% y/y with an EBIT margin of 3.5%. With WACC of 9.2%, our DCF points towards a fair value of approximately EUR 20 per share, considerably higher than the current market pricing.

Table 2: Peer group

Company name	Market capitalization	EV/EBITDA			EV/EBIT			P/E		
	mEUR	24	25	26	24	25	26	24	25	26
YIT	498	18.9x	16.6x	12.1x	47.2x	22.3x	15.7x		52.2x	15.5x
SRV Yhtiot	111	14.0x	9.3x	7.0x	20.3x	12.1x	8.9x	29.2x	10.8x	6.5x
Skanska	6741	10.0x	8.8x	8.4x	13.1x	11.1x	10.3x	13.6x	11.7x	10.9x
NCC	1166	6.0x	5.9x	5.9x	10.5x	10.0x	9.7x	10.0x	9.5x	9.3x
Peab	1551	10.2x	9.7x	8.9x	17.5x	16.1x	14.3x	13.5x	12.4x	10.7x
JM AB	1152	45.7x	32.8x	22.0x	41.5x	33.6x	22.2x	36.4x	22.7x	14.4x
Veidekke	1355							13.1x	12.6x	12.1x
Bravida Holding	1444	9.0x	8.1x	7.7x	12.5x	10.7x	10.0x	14.5x	11.9x	10.9x
MITIE Group	1887	6.4x	6.8x	6.4x	8.3x	8.7x	7.9x	11.2x	11.1x	10.0x
ISS A/S	3257	6.3x	5.9x	5.7x	8.6x	8.0x	7.6x	8.9x	7.8x	7.0x
Bilfinger	1892	5.2x	4.6x	4.3x	7.4x	6.3x	5.7x	12.3x	10.3x	9.4x
Instalco	875	10.5x	9.6x	8.9x	16.7x	14.4x	12.6x	16.6x	13.4x	11.3x
Peer group average	**1871**	**12.9x**	**10.7x**	**8.8x**	**18.5x**	**13.9x**	**11.3x**	**16.3x**	**15.5x**	**10.7x**
Peer group median	**1887**	**10.0x**	**8.8x**	**7.7x**	**13.1x**	**11.1x**	**10.0x**	**13.5x**	**11.8x**	**10.8x**
Consti (Evli est.)	**77**	**5.1x**	**4.2x**	**3.6x**	**6.9x**	**5.4x**	**4.6x**	**9.7x**	**7.9x**	**6.8x**
Consti prem./disc. to peer median		*-48.6%*	*-52.8%*	*-53.6%*	*-47.8%*	*-50.9%*	*-54.0%*	*-28.3%*	*-33.2%*	*-36.8%*

Source Factset, Evli Research

Investment risks

Project risks are part of renovation construction

The majority of Consti's revenue is generated via project deliveries, the projects involve several risks which, if realized, would have a substantial effect on the company's profitability. Consti minimizes these risks with disciplined tendering process and strong emphasis on project management and execution. The company's project risks realized during 2017-2019 as it had multiple problematic projects which ultimately led to negative profitability. The company has improved its processes since, and it has been able to return to profitability. We see that even though Consti has put an emphasis on the management of project risks, there is still potential for further project risk realization. In our view, the project risks are part of the renovation construction market as old buildings have special features and surprises which make project planning in advance difficult.

High-cost environment puts pressure for margins and demand

The construction sector has been affected by the cost inflation witnessed during the last two years caused by the COVID-19 crisis and the war in Ukraine. The construction cost index has increased 16.6% from 08/2020 to 08/2022, led by rise in building materials cost where the cost index has risen 24.8% during the period. The current cost inflationary environment can delay renovation projects' starts as clients are more likely to postpone the projects due to the high project costs. The development can ultimately lead to margin pressure if the cost level doesn't normalize as the contractors have to decrease their prices to match the demand.

Slowdown in new construction increases competition in the renovation construction market

Even though the renovation construction market is relatively stable, it is not immune to possible slowdowns in the economy. Both the Finnish new and renovation construction are expected to decline in 2024. The market environment is especially grim for residential new construction where CFCI estimates 22% volume decline y/y in 2024. The decline especially in residential new construction could increase the competition in the renovation construction market as the large construction companies are likely to reallocate their capacity to match the development. The competition in renovation has already intensified and if the residential new construction market remains weaker for longer, it could make the competition even more fierce. On the other hand, during recent years, the construction sector has suffered from a lack of suitable employees and the expected slowdown in new construction could increase the availability of employees for the company.

Availability and retention of quality workforce

Consti's capacity to draw and retain both skilled subcontractors and its own workers is crucial, given that its greatest asset is its personnel. The company's ability to hire and retain a quality workforce might be hindered by for example heated construction cycle. Consti has been able to manage its workforce successfully during the recent years, as it has been able to improve its main personnel related KPI's: permanent personnel turnover ratio has decreased from 16.0% in FY 2022 to 11.2% in FY 2023, average absence rate has decreased from 7.3% in 2022 to 5.7% and LTIFR from 16 in 2022 to 10 in 2023.

Integration of the acquired targets

Consti's post IPO acquisitions have been bolt-on by nature and the logic has been to support the company's current operations and offerings in the regions of focus. While we see no immediate risk in the integration of the recently acquired targets, M&A acts as one tool to expand into profitable niches in the renovation construction value chain and to reach the company's target of roughly EUR 400m in 2027. While the recent acquisitions have been smaller in size, we do not rule out Consti acquiring larger companies in the future. Especially if sizeable, the integration of the acquired companies presents a potential for risk.

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	9.70	PV of Free Cash Flow	87	Long-term growth, %	1.0	Risk-free interest rate, %	2.25
DCF share value	20.48	PV of Horizon value	77	WACC, %	9.2	Market risk premium, %	5.8
Share price potential, %	111.1	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	3.3
Maximum value	21.8	Marketable securities	21	Minimum WACC, %	8.7	Equity beta coefficient	1.15
Minimum value	19.3	Debt - dividend	-26	Maximum WACC, %	9.7	Target debt ratio, %	20
Horizon value, %	46.9	Value of stock	160	Nr of shares, Mn	7.8	Effective tax rate, %	20

DCF valuation, EURm	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	Horizon
Net sales	321	318	333	345	354	359	365	370	376	381	385	389
Sales growth, %	*5.0*	*-0.9*	*4.7*	*3.8*	*2.5*	*1.5*	*1.5*	*1.5*	*1.5*	*1.5*	*1.0*	*1.0*
Operating income (EBIT)	12	11	13	14	15	14	13	13	13	13	13	14
Operating income margin, %	*3.9*	*3.4*	*3.8*	*4.2*	*4.2*	*4.0*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*
+ Depreciation+amort.	4	4	4	4	5	5	5	5	5	5	6	
EBITDA	16	14	17	19	20	19	18	18	18	19	19	
- Paid taxes	-2	-2	-3	-3	-3	-3	-3	-3	-3	-3	-3	
- Change in NWC	1	0	0	-1	0	0	0	0	0	0	0	
NWC / Sales, %	*-4.9*	*-4.9*	*-4.6*	*-4.1*	*-4.1*	*-4.1*	*-4.1*	*-4.1*	*-4.1*	*-4.1*	*-4.1*	
+ Change in other liabs	0	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-2	-1	-2	-2	-2	-2	-2	-2	-2	-2	-2	
opCAPEX / Sales, %	*1.5*	*1.3*	*1.4*	*1.6*	*1.4*	*1.4*	*1.5*	*1.5*	*1.5*	*1.5*	*1.5*	
- 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	0	0	0	0	0	0	0	0	0	0	0	
= FCFF	13	11	12	12	15	15	14	14	14	14	14	179
= Discounted FCFF		10	10	10	11	10	8	8	7	7	6	77
= DFCF min WACC		10	11	10	11	10	8	8	7	7	7	86
= DFCF max WACC		10	10	10	11	10	8	7	7	6	6	69

INTERIM FIGURES

EVLI ESTIMATES, EURm	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024Q1	2024Q2E	2024Q3E	2024Q4E	2024E	2025E	2026E
Net sales	68.9	75.7	89.9	86.1	320.6	65.5	76.6	86.3	89.3	317.7	332.6	345.3
EBITDA	1.5	3.9	5.7	4.8	16.1	1.3	3.7	4.2	5.3	14.2	16.6	18.7
EBITDA margin (%)	*2.1*	*5.2*	*6.3*	*5.6*	*5.0*	*2.0*	*4.8*	*4.9*	*5.9*	*4.5*	*5.0*	*5.4*
EBIT	0.7	3.0	4.8	3.9	12.3	0.2	2.8	3.3	4.4	10.6	12.8	14.4
EBIT margin (%)	*1.0*	*4.0*	*5.3*	*4.5*	*3.9*	*0.3*	*3.6*	*3.8*	*4.9*	*3.4*	*3.8*	*4.2*
Net financial items	-0.3	-0.3	-0.2	-0.2	-1.0	-0.3	-0.2	-0.2	-0.2	-0.9	-0.7	-0.6
Pre-tax profit	0.4	2.8	4.5	3.7	11.4	0.0	2.6	3.1	4.2	9.8	12.0	13.8
Tax	-0.1	-0.6	-0.9	-0.8	-2.4	0.0	-0.5	-0.6	-0.8	-2.0	-2.4	-2.8
Tax rate (%)	*20.0*	*20.0*	*20.0*	*22.2*	*20.7*	*20.9*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*	*20.0*
Net profit	0.3	2.2	3.6	2.9	9.0	0.0	2.0	2.5	3.3	7.8	9.6	11.1
EPS	0.04	0.28	0.47	0.37	1.16	0.00	0.26	0.32	0.43	1.00	1.23	1.42
EPS adjusted (diluted no. of shares)	0.04	0.28	0.47	0.37	1.16	0.00	0.26	0.32	0.43	1.00	1.23	1.42
Dividend per share	0.00	0.00	0.00	0.00	0.70	0.00	0.00	0.00	0.00	0.60	0.74	0.85
SALES, EURm												
Housing Companies	20.4	27.3	29.5	25.2	102.4	15.2	24.3	28.1	25.2	92.8	96.5	98.4
Corporations	26.3	25.6	32.1	28.1	112.2	20.2	20.5	25.7	28.1	94.5	102.1	105.2
Public Sector	9.9	10.0	14.7	19.8	54.3	16.0	14.0	14.7	17.8	62.4	63.6	66.8
Building Technology	14.8	16.2	17.9	16.9	65.7	18.0	21.0	21.5	21.9	82.5	84.9	90.0
Elimination	-2.4	-3.4	-4.3	-3.9	-14.0	-3.9	-3.2	-3.6	-3.7	-14.4	-14.6	-15.1
Total	68.9	75.7	89.9	86.1	320.6	65.5	76.6	86.3	89.3	317.7	332.6	345.3
SALES GROWTH, Y/Y %												
Housing Companies	*30.9*	*7.6*	*-3.5*	*-22.3*	*-1.5*	*-25.3*	*-11.0*	*-5.0*	*0.0*	*-9.4*	*4.0*	*2.0*
Corporations	*30.3*	*5.7*	*20.4*	*-16.8*	*6.9*	*-23.1*	*-20.0*	*-20.0*	*0.0*	*-15.7*	*8.0*	*3.0*
Public Sector	*-9.9*	*6.2*	*56.1*	*59.4*	*28.8*	*62.0*	*40.0*	*0.0*	*-10.0*	*15.0*	*2.0*	*5.0*
Building Technology	*-7.9*	*-8.4*	*9.9*	*-11.7*	*-4.9*	*21.8*	*30.0*	*20.0*	*30.0*	*25.4*	*3.0*	*6.0*
Elimination	*-16.7*	*-6.6*	*9.2*	*-12.3*	*-6.1*	*59.9*	*-4.8*	*-17.1*	*-3.8*	*2.9*	*1.2*	*3.8*
Total	*15.2*	*3.6*	*13.8*	*-7.7*	*5.0*	*-4.9*	*1.2*	*-4.0*	*3.7*	*-0.9*	*4.7*	*3.8*
EBIT, EURm												
Group	0.7	3.0	4.8	3.9	12.3	0.2	2.8	3.3	4.4	10.6	12.8	14.4
Total	0.7	3.0	4.8	3.9	12.3	0.2	2.8	3.3	4.4	10.6	12.8	14.4
EBIT margin, %												
Total	*1.0*	*4.0*	*5.3*	*4.5*	*3.9*	*0.3*	*3.6*	*3.8*	*4.9*	*3.4*	*3.8*	*4.2*

INCOME STATEMENT, EURm	2019	2020	2021	2022	2023	2024E	2025E	2026E
Sales	314.8	274.6	288.8	305.2	320.6	317.7	332.6	345.3
Sales growth (%)	*-0.3*	*-12.8*	*5.1*	*5.7*	*5.0*	*-0.9*	*4.7*	*3.8*
EBITDA	8.1	11.4	9.2	15.0	16.1	14.2	16.6	18.7
EBITDA margin (%)	*2.6*	*4.2*	*3.2*	*4.9*	*5.0*	*4.5*	*5.0*	*5.4*
Depreciation	-3.5	-3.2	-3.5	-3.5	-3.7	-3.6	-3.9	-4.2
EBITA	4.6	8.2	5.7	11.5	12.3	10.6	12.8	14.4
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	4.6	8.2	5.7	11.5	12.3	10.6	12.8	14.4
EBIT margin (%)	*1.5*	*3.0*	*2.0*	*3.8*	*3.9*	*3.4*	*3.8*	*4.2*
Reported EBIT	4.6	8.2	5.7	11.5	12.3	10.6	12.8	14.4
EBIT margin (reported) (%)	*1.5*	*3.0*	*2.0*	*3.8*	*3.9*	*3.4*	*3.8*	*4.2*
Net financials	-1.2	-1.0	-1.1	-1.0	-1.0	-0.9	-0.7	-0.6
Pre-tax profit	3.4	7.2	4.6	10.4	11.4	9.8	12.0	13.8
Taxes	-0.7	-1.6	-0.9	-1.9	-2.4	-2.0	-2.4	-2.8
Minority shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	2.5	5.6	3.7	8.5	9.0	7.8	9.6	11.1
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	4	3	3	4	5	4	5	6
Goodwill	49	49	50	50	49	49	49	49
Right of use assets	3	2	6	4	5	6	6	6
Inventory	1	1	1	1	1	1	1	1
Receivables	50	49	41	44	41	40	43	47
Liquid funds	10	24	18	21	21	21	22	23
Total assets	117	129	119	123	121	121	126	132
Liabilities								
Shareholder's equity	26	30	32	36	41	43	48	54
Minority interest	0	0	0	0	0	0	0	0
Convertibles	3	3	0	0	0	0	0	0
Lease liabilities	4	2	5	4	5	6	6	6
Deferred taxes	0	0	0	0	0	0	0	0
Interest bearing debt	25	27	27	20	15	13	10	7
Non-interest bearing current liabilities	56	63	52	60	57	57	59	62
Other interest-free debt	0	0	0	0	0	0	0	0
Total liabilities	117	129	119	123	121	121	126	132
CASH FLOW, EURm								
+ EBITDA	8	11	9	15	16	14	17	19
- Net financial items	-1	-1	-1	-1	-1	-1	-1	-1
- Taxes	0	-1	-1	1	-2	-2	-2	-3
- Increase in Net Working Capital	-3	8	-3	4	1	0	0	-1
+/- Other	0	0	1	-2	0	0	0	0
= Cash flow from operations	4	18	5	17	13	11	13	14
- Capex	-4	-3	-7	-2	-5	-4	-5	-5
- Acquisitions	0	0	-1	0	0	0	0	0
+ Divestments	0	0	0	0	0	0	0	0
= Free cash flow	0	15	-3	15	9	7	8	9
+/- New issues/buybacks	0	0	1	-1	1	0	0	0
- Paid dividend	0	-1	-3	-4	-5	-5	-5	-6
+/- Other	6	0	-1	-8	-4	-2	-3	-2
Change in cash	7	14	-6	3	0	0	1	1

KEY FIGURES	2020	2021	2022	2023	2024E	2025E	2026E
M-cap	79	95	86	88	76	76	76
Net debt (excl. convertibles)	5	14	4	-1	-3	-6	-9
Enterprise value	87	109	90	88	73	69	66
Sales	275	289	305	321	318	333	345
EBITDA	11	9	15	16	14	17	19
EBIT	8	6	11	12	11	13	14
Pre-tax	7	5	10	11	10	12	14
Earnings	6	4	8	9	8	10	11
Equity book value (excl. minorities)	30	32	36	41	43	48	54
Valuation multiples							
EV/sales	0.3	0.4	0.3	0.3	0.2	0.2	0.2
EV/EBITDA	7.6	11.9	6.0	5.4	5.1	4.2	3.6
EV/EBITA	10.6	19.1	7.9	7.1	6.9	5.4	4.6
EV/EBIT	10.6	19.1	7.9	7.1	6.9	5.4	4.6
EV/OCF	4.9	23.3	5.2	6.5	6.5	5.3	4.7
EV/FCFF	5.2	32.9	5.2	6.9	6.8	5.8	5.4
P/FCFE	5.2	-30.6	5.7	10.3	10.7	9.0	8.7
P/E	14.2	25.9	10.2	9.8	9.7	7.9	6.8
P/B	2.6	3.0	2.4	2.2	1.7	1.6	1.4
Target EV/EBITDA	*0.0*	*0.0*	*0.0*	*0.0*	*6.4*	*5.2*	*4.5*
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*8.5*	*6.8*	*5.8*
Target EV/FCF	*0.0*	*0.0*	*0.0*	*0.0*	*12.9*	*10.4*	*9.7*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*2.2*	*1.9*	*1.7*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*11.9*	*9.7*	*8.5*
Per share measures							
Number of shares	7,858	7,858	7,735	7,794	7,794	7,794	7,794
Number of shares (diluted)	7,858	7,858	7,735	7,794	7,794	7,794	7,794
EPS	0.71	0.47	1.10	1.16	1.00	1.23	1.42
Operating cash flow per share	2.27	0.60	2.25	1.73	1.45	1.69	1.82
Free cash flow per share	1.93	-0.40	1.96	1.10	0.91	1.08	1.12
Book value per share	3.87	4.08	4.68	5.27	5.58	6.21	6.89
Dividend per share	0.40	0.45	0.60	0.70	0.60	0.74	0.85
Dividend payout ratio, %	56.3	96.4	54.6	60.5	60.0	60.0	60.0
Dividend yield, %	4.0	3.7	5.4	6.2	6.2	7.6	8.8
FCF yield, %	19.2	-3.3	17.6	9.7	9.4	11.1	11.6
Efficiency measures							
ROE	19.7	11.8	24.9	23.3	18.5	20.9	21.7
ROCE	13.7	9.1	18.4	20.3	17.5	20.4	22.2
Financial ratios							
Inventories as % of sales	0.2	0.3	0.3	0.2	0.2	0.2	0.2
Receivables as % of sales	17.9	14.3	14.4	12.7	12.7	13.0	13.5
Non-interest bearing liabilities as % of sales	23.1	18.0	19.6	17.8	17.8	17.8	17.8
NWC/sales, %	-4.9	-3.4	-4.9	-4.9	-4.9	-4.6	-4.1
Operative CAPEX/sales, %	1.0	2.4	0.7	1.5	1.3	1.4	1.6
CAPEX/sales (incl. acquisitions), %	1.0	2.0	0.7	1.5	1.3	1.4	1.6
FCFF/EBITDA	1.5	0.4	1.1	0.8	0.7	0.7	0.7
Net debt/EBITDA, book-weighted	0.4	1.5	0.3	-0.1	-0.2	-0.4	-0.5
Debt/equity, market-weighted	0.3	0.3	0.2	0.2	0.2	0.1	0.1
Equity ratio, book-weighted	26.1	26.9	29.4	33.9	35.8	38.4	40.8
Gearing, %	14.1	44.1	10.7	-2.3	-5.9	-12.9	-17.2

COMPANY DESCRIPTION: Consti 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 residential and non-residential properties. Consti was established in 2008 to meet the growing need for repair and construction work.

INVESTMENT CASE: Consti should seek to maintain the achieved healthier levels of profitability after a period of weaker profitability during previous 2017-2019 driven by a number of weak margin projects. The backlog is still at healthy levels which supports near-term development. The long-term market outlook remains favourable due to among other things a large aging building stock, and the renovation market is expected to see steady low single-digit growth.

OWNERSHIP STRUCTURE	SHARES	EURm	%
Lujatalo Oy	792,825	7.690	10.2%
Heikintorppa Oy	750,000	7.275	9.6%
Wipunen Varainhallinta Oy	750,000	7.275	9.6%
Fennia Life Insurance Company Ltd	520,524	5.049	6.7%
Korkeela Esa Sakari	477,931	4.636	6.1%
Kivi Risto Juhani	392,354	3.806	5.0%
Kalevo Markku	298,967	2.900	3.8%
Varma Mutual Pension Insurance Company	172,000	1.668	2.2%
Drumbo Oy	150,000	1.455	1.9%
Norvier Oy	106,463	1.033	1.4%
Ten largest	4,411,064	42.787	57%
Residual	3,382,903	32.814	43%
Total	7,793,967	75.601	100%

EARNINGS CALENDAR	
July 19, 2024	Q2 report
October 25, 2024	Q3 report

OTHER EVENTS

COMPANY MISCELLANEOUS	
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CFO: Joni Sorsanen	Tel: +358 10 288 6000
IR: Ismo Heikkilä	

DEFINITIONS

P/E Price per share / Earnings per share	**EPS** Profit before extraord. items and taxes– income taxes + minority interest / Number of shares
P/BV Price per share / Shareholders' equity + 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 Enterprise value / Sales	**FCF yield, %** Free cash flow / Market cap
EV/EBITDA Enterprise value / Earnings before interest, tax, depreciation and amortization	**Operative CAPEX/sales** Capital expenditure – divestments – acquisitions / Sales
EV/EBIT Enterprise value / Operating profit	**Net working capital** Current assets – current liabilities
Net debt Interest bearing debt – financial assets	**Capital employed/Share** Total assets – non-interest bearing debt / Number of shares
Total assets Balance sheet total	**Gearing** Net debt / Equity
Div yield, % Dividend per share / Price per share	**Debt/Equity, %** Interest bearing debt / Shareholders' equity + minority interest + taxed provisions
Payout ratio, % Total dividends / Earnings before extraordinary items and taxes – income taxes + minority interest	**Equity ratio, %** Shareholders' equity + minority interest + taxed provisions / Total assets – interest-free loans
ROCE, % Profit before extraordinary items + interest expenses+ other financial costs / Balance sheet total – 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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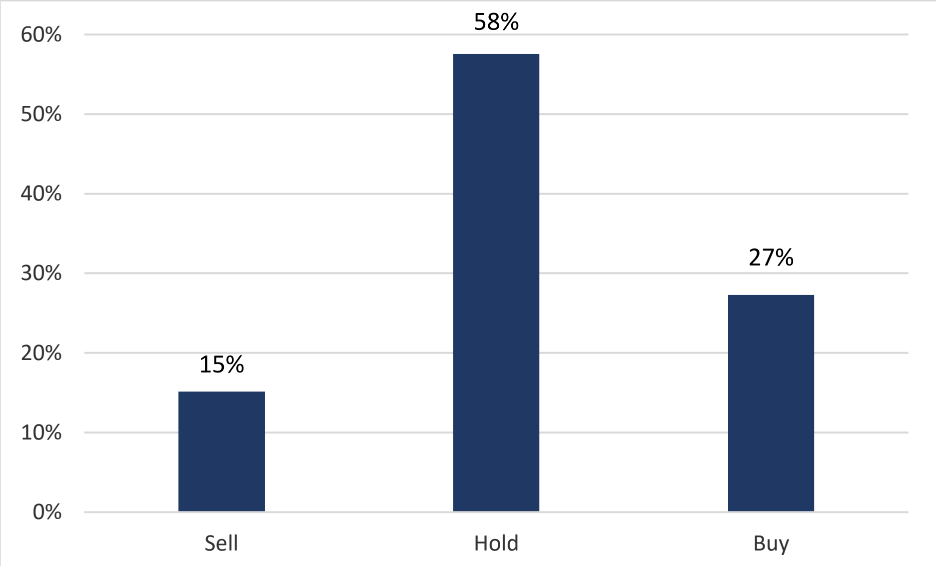

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Name(s) of the analyst(s): Jortikka

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