The course is set, only missing a tailwind

SRV's 2025 will still be driven by non-residential volumes while we expect that the residential pick-up will begin to reflect more in the numbers starting from 2026. Valuation is stretched on our estimates for 2024-2025 while the long-term potential remains high.

One of the leading construction companies in Finland

SRV develops and constructs residential and non-residential buildings with a focus on the Finnish growth centers. In 2023, SRV was the 6th largest construction company in Finland. The share of non-residential construction has increased for SRV due to the slower residential market during the recent years. In 2023, only 17% of the company's revenue was related to residential construction. Although SRV's project portfolio is currently focused on lower-margin non-residential contracting, the company has improved its operative margins by enhancing project control and managing cost inflation. Operative operating profit was only slightly positive for FY 2023 while for FY 2024, SRV guides operative operating profit of EUR 7-12m.

Expecting slight pick-up in residential starts during 2025

SRV's backlog was at near EUR 1.2b at the end of Q3/24, consisting almost entirely of non-residential contracting. SRV had no developer contracted units under construction. At the same time, it had 95 units completed and unsold. Typically, construction of a residential apartment building takes around one and half years to complete. Therefore, we estimate that the revenue from developer contracting in 2025E is solely driven by the sale of currently unsold units. Although we anticipate limited net sales from developer contracting, we project a slight increase in other residential sales next year driven by both contracting and development projects. Given that most of the current projects are lower risk contracting and co-development projects, the margin potential for 2025 remains modest. We now model net sales of EUR 780m and an operative EBIT of EUR 16.0m, resulting in a margin of 2.1% for 2025E.

HOLD with a TP of EUR 5.0

Our estimates for 2024E do not support the current pricing. For 2025E the valuation is neutral, yet the potential beyond 2025 remains high. Further evidence of the company's turnaround and pick-up in the residential construction market are needed for us to put greater emphasis on the long-term potential. With only small adjustments to our estimates, we keep our TP and recommendation intact.

Rating: Hold

Share price, EUR (Last trading day's closing price)	**4.83**
Target price, EUR	5.0
Latest change in recommendation	30-Jan-24
Latest report on company	25-Oct-24
Research paid by issuer:	YES
No. of shares outstanding, '000's	16 938
No. of shares fully diluted, '000's	16 938
Market cap, EURm	82
Free float, %	61.1 %
Exchange rate	1.0
Reuters code	SRV1V.HE
Bloomberg code	SRV1V FH
Average daily volume, EURm	
Next interim report	06-Feb-25
Web site	srv.fi/en/investors
Analyst	Atte Jortikka
E-mail	atte.jortikka@evli.com
Telephone	+358 400 543 725

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	770.1	-76.3	-9.9%	-67.8	-5.05	-0.8	0.2	-2.3	-105.1%	
2023	610.1	-6.8	-1.1%	-21.1	-0.90	-4.4	0.3	-29.6	-31.4%	
2024E	732.8	10.2	1.4%	-1.1	0.15	33.2	0.3	21.1	-1.3%	
2025E	780.0	16.0	2.1%	-2.6	0.43	11.4	0.3	13.7	-3.2%	0.06
2026E	859.9	26.4	3.1%	1.1	0.91	5.3	0.3	8.3	1.4%	0.27

Market cap, EURm	82	Gearing 2024E, %	71.1 %	CAGR EPS 2023-26, %	0.0 %
Net debt 2024E, EURm	134	Price/book 2024E	0.8	CAGR Sales 2023-26, %	12.1 %
Enterprise value, EURm	216	Dividend yield 2024E, %	0.0 %	ROE 2024E, %	2.3 %
Total assets 2024E, EURm	477	Tax rate 2024E, %	25.5 %	ROCE 2024E, %	3.7 %
Goodwill 2024E, EURm	2	Equity ratio 2024E, %	25.1 %	PEG, P/E 24/CAGR	0.3

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

Investment summary

SRV is one of the largest construction companies in Finland

SRV operates as a partner in property and construction projects and is the leading project management contractor in Finland. SRV was founded in 1987 and was publicly listed to the Helsinki stock exchange in 2007. The company employed roughly 800 professionals in 2023 and is headquartered in Espoo, Finland. SRV develops and constructs residential and non–residential buildings with a focus on the Finnish growth centers. According to data by Rakennuslehti, in 2023, SRV was the 6th biggest construction company in Finland.

Active in various types of construction

SRV focuses on both non–residential and residential new construction. Infrastructure and renovation construction formed 10% of the company's net sales in 2023. SRV's business model is based on the company's own project management model, the SRV approach. In the approach, construction work is procured from SRV's partners. In 2023, the company employed approximately 800 employees, yet there were roughly 18,000 workers from a network of roughly 3,300 subcontractors on SRV sites during the year.

Market has presented challenges during the last two years, yet is expected to improve beginning in 2025

Finnish total construction volumes declined by 16% in 2023 based on data by CFCI (The Confederation of Finnish Construction Industries, RT), the driver behind the strong decline was the very weak residential construction market where construction volumes fell 36% y/y. The deterioration in Finnish residential construction started already in 2022 as the building permits and starts began to decline driven by the geopolitical tensions and higher interest rates. The slump in the residential construction sector has affected SRV's residential volumes, resulting in only 85 developer–contracted units starting in 2022 and none in 2023. Furthermore, volumes for investor–sold projects and contracting have also dropped significantly. In 2024, construction volumes are expected to decline further 7% still driven by the weak residential market. In 2025, CFCI forecasts 4% growth in construction volumes with 15% growth in residential volumes.

Reaching the financial targets requires considerable help from the market

SRV released its strategic plan for the period 2024–2027 at the end of 2023. The focus on lifecycle–wise construction remains central to the strategy while at the same time, the company aims to be sustainably profitable. In connection with the strategy update, the company updated its long–term financial objectives. SRV aims to achieve the following targets by the end of 2027: Operative operating profit of at least EUR 50 million (earlier 6%) and revenue of EUR >900 million (earlier EUR 900 million). Our estimates for 2027 remain below the company's financial targets. Based on our assessment, reaching the net sales target is attainable provided that the market recovery surpasses our current projections. Nevertheless, we believe that achieving the profit target presents a greater challenge. While the company did not set a margin–based target for profitability, the target implies rather ambitious margin goal.

HOLD with a TP of EUR 5.0

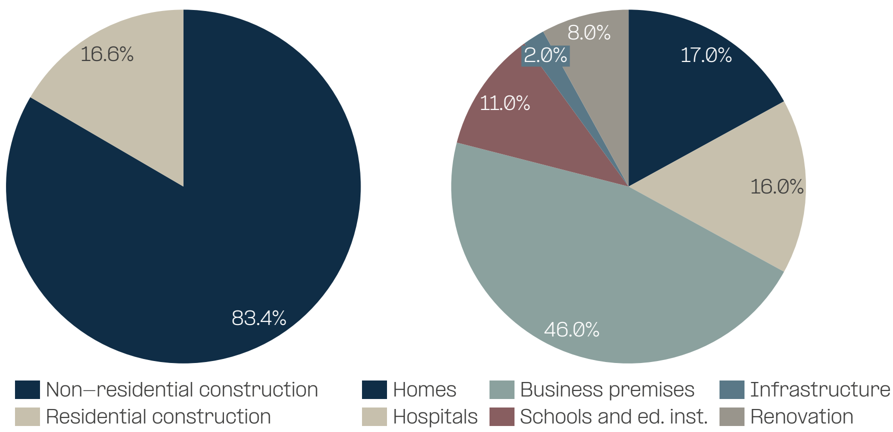
The near–term upside remains limited as the company's valuation looks stretched based on our estimates for 2024E. For 2025E, the valuation remains slightly elevated; however, based on 2026E estimates, SRV is valued at a discount relative to our Nordic construction company peer group and the company's historical multiple levels. In addition, the current pricing presents a discount to the value derived from our discounted cash flow valuation. In our view, further evidence of the company's turnaround and pick–up in the residential construction market are essential for the company's long–term value potential to unlock. Additionally, the lack of developer contracting projects that tie capital limits the downside yet also limits the short to mid–term upside as the company has limited number of units for sale and the potential pick–up in residential construction will affect SRV later compared to some of the competitors.

Company overview

SRV is one of the largest construction companies in Finland

SRV operates as a partner in property and construction projects and is the leading project management contractor in Finland. The company develops and constructs residential and non-residential buildings with a focus on the Finnish growth centers. According to data by Rakennuslehti, in 2023, SRV was the 6th biggest construction company in Finland, behind YIT, Skanska, Peab, Lujatalo and Destia. The company employed roughly 800 professionals in 2023 and is headquartered in Espoo, Finland. In 2023, SRV was active in 60 construction sites and employed approximately 3,300 subcontractors and 18,000 workers in total.

Figure 1: SRV revenue distribution by segment and construction revenue distribution by building type, as a % of total revenue, 2023



Source: SRV, Evli Research

Engaged in various forms of construction

The share of non-residential construction has increased for SRV due to the slower residential market. The company has won multiple larger public and private non-residential projects. SRV has been particularly active in public construction with multiple sizeable projects such as hospital, police station, prison and school projects. Besides new building construction, around 10% of SRV's revenue comes from infrastructure and renovation work. SRV's infrastructure offering consists of rock tunneling, earth works, foundation construction, route, industrial and water supply construction. SRV can serve as either a main contractor or a subcontractor on major projects. In renovation services, SRV conducts projects where the building requires extensive repair or a change of use. The company's renovation services follow its life-cycle based strategy as by upgrading the interiors and the building's technology, energy efficiency is significantly improved, and the carbon footprint of the building is reduced.

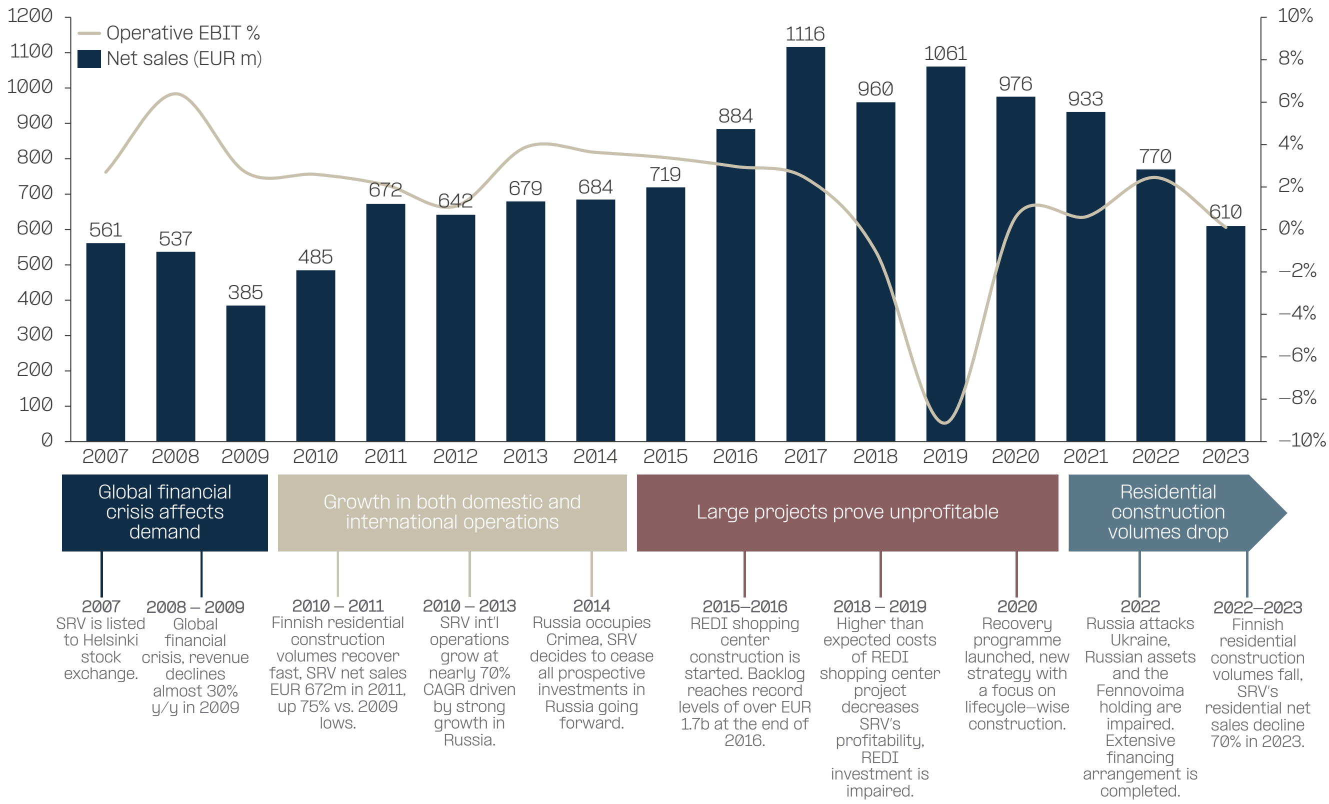
Founded in 1987, listed to Helsinki stock exchange in 2007

SRV was founded in 1987 and was publicly listed to the Helsinki stock exchange in 2007. The Finnish construction market was hit by the financial crisis in the years 2008–2009, shortly after SRV's public listing. Even with a nearly 30% revenue decline in 2009, the company kept a decent profitability level, achieving an EBIT margin of 2.7%. The Finnish construction market experienced a swift recovery after the financial crisis, but soon encountered another challenge with the European debt crisis. During the time, the company's strategic focus was on higher-margin developer contracting projects and international expansion especially in Russia. In 2014, after Russia's intervention in Ukraine, the company's focus shifted more towards profitable domestic operations in Finland's developing urban centers. In 2015, construction of the company's flagship REDI shopping center was started and in 2016, the company's backlog peaked at over EUR 1.7b driven especially by business construction projects in Finland.

A few major projects had a negative impact from 2018 to 2022

From 2018 to 2022, SRV faced a series of challenges. The company's involvement in certain large projects did not yield the desired results, which led to decreases in profitability. In 2018, the costs of the REDI shopping center project exceeded expectations, leading to a decline in EBIT by more than EUR 40m. The company also made an impairment of over EUR 70m for the REDI shopping center asset in 2019. More recently, the profitability of the Tampere Arena project did not meet expectations, resulting in a negative earnings impact of around EUR 20m upon completion in 2021. In 2022, the company encountered further difficulties following Russia's invasion of Ukraine, leading SRV to impair its assets in Russia and its holding in Fennovoima. Impairments of Russian assets and Fennovoima had an EUR 88m negative EBIT effect. In addition, write-downs of shareholder loans used to finance Russian associated companies amounted to EUR 42m affecting the FY 2022 financial expenses. SRV was able to improve its balance sheet situation after the impairments through an extensive financing arrangement during the first half of 2022 that included a rights issue, conversion of hybrid bonds, partial repurchase of previously issued notes, and an extension of revolving credit and project financing facility.

Figure 2: Overview of the company's history, net sales in EURm (lhs), operative EBIT margin in % (rhs), annual data



Source: SRV, Evli Research

Market sentiment has stayed sour during 2022–2023

Finnish total construction volumes declined by 16% in 2023 based on data by CFCI (The Confederation of Finnish Construction Industries RT), the driver behind the strong decline was the very weak residential construction market where construction volumes fell 36% y/y. The deterioration in Finnish residential construction started already in 2022 as the building permits and starts began to decline driven by the geopolitical tensions and higher interest rates. The European Central Bank increased its key interest rates in July 2022 for the first time in 11 years to curb the effect of inflation driven mostly by higher energy prices. The slump in the residential construction sector has affected SRV's residential volumes, resulting in only 85 developer–contracted units starting in 2022 and none in 2023. Furthermore, volumes for investor–sold projects and contracting have also dropped significantly.

Business model

SRV approach enables scaling of operations according to the market conditions

SRV is one of the Finland's leading project management contractors. The company operates in selected growth centers in Finland and is active in all the main types of construction. SRV's business model is based on the company's own project management model, the SRV approach. In the approach, construction work is procured from SRV's partners. In 2023, the company employed approximately 800 employees, yet there were roughly 18,000 workers from a network of roughly 3,300 subcontractors on SRV sites during the year. The business model enables the company to undertake large projects as it can utilize its large network of subcontractors based on the client's needs. On the flipside, the business model makes it reliant on the partner network. During strong market conditions, the subcontractors have more pricing power and availability of subcontractors may be limited. This potentially squeezes SRV's project margins and can affect the number of projects that the company can undertake. On the other hand, in difficult market conditions subcontractors have less pricing power which potentially increases SRV's project margins or at least alleviates the overall margin pressure from lower volumes.

Wide non–residential construction offering and expertise

SRV specializes in the construction of a diverse array of non–residential buildings, including for example business premises, healthcare facilities, and educational institutions. The company predominantly engages in alliance and project management contracts, which are characterized by overlapping development and construction phases and a shared distribution of financial risks and benefits with clients. Furthermore, SRV executes turnkey contracts—where it holds full responsibility—and lifecycle projects, which entail long–term maintenance contracts. The company also embarks on proprietary development projects for non–residential properties, transferring the projects to investors prior to the commencement of construction.

Most non–residential volumes come from different types of contracting projects

The majority of SRV's non–residential construction is conducted through contracting, mainly using project management and alliance contracts with non–fixed pricing. The most relevant contracting types for SRV explained:

- Project management: Cost–plus contracts where SRV provides the customer with its construction management capabilities. The fluctuation of construction costs does not have as large impact as in fixed price contracts as the difference between projects actual cost and target price is divided between the customer and the contractor.
- Turnkey: SRV is responsible for both design and construction of the building.
- Alliance: A co–operative model where the risks and benefits are shared among the participants. The project parties operate in a shared project organization. Relatively new contract type which is typically used in larger construction projects.
- Life–cycle: Primarily used for public sector projects where SRV's responsibilities include the implementation of the project and its maintenance over the long term.

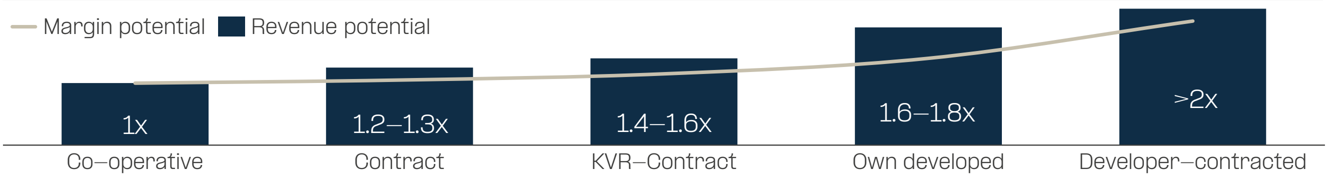
- Fixed price: Constructor commits to the project for a fixed total price, SRV bears the project's cost risks.

Developer–contracting is a higher risk, higher reward residential project type

SRV's residential portfolio includes development projects and developer–contracted projects in Finland, primarily targeting growth hubs. Additionally, the company undertakes some contracting projects selectively. In developer–contracting projects, SRV bears the risk throughout the project's lifecycle from land acquisition to the sale of the building. Unlike co–development projects, developer–contracting projects are not sold prior to construction start. Developer–contracting projects are therefore riskier as the company's capital is tied to the project and in addition, the company bears the risks involved with selling the project after completion. In developer–contracting projects, SRV recognizes revenue at the point of sale. The revenue recognition results in larger fluctuations between quarters compared to other project types where the revenue recognition is based on percentage of completion.

Figure 3: Overview of project types

				Distribution of risks			
Project types	Description	Revenue recognition	Working capital	Cost	Design	Capital, plots	Capital, sale
Developer–contracting	Developed by SRV, has not been sold when construction begins	When completed and sold	Large (plot reserve + constructi on)	SRV	SRV	SRV	SRV
Co–development	Developed by SRV, sold to an investor before construction begins	% of completion	Slight (plot reserve)	SRV	SRV	SRV	Client
Turnkey contract	Project planning and implementation by SRV at a fixed price	% of completion	Negative	SRV	SRV	Client	Client
Contracting	Traditional competitive and negotiated contracts	% of completion	Negative	SRV	Client	Client	Client
Co–operative contract	Alliance and project management contracting where financial risk and reward is shared	% of completion	Negative	Shared	Client	Client	Client



Source: SRV, Evli Rese

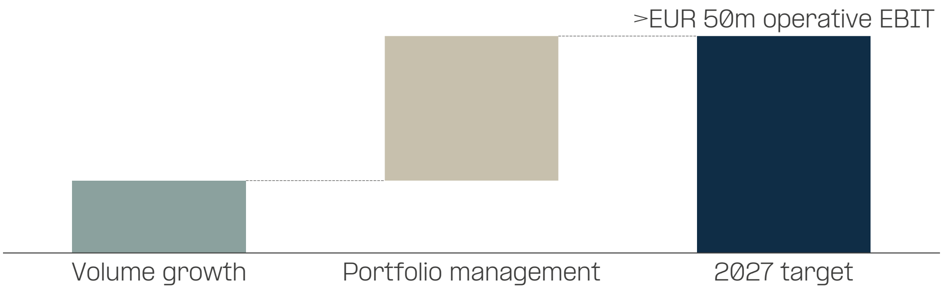
Strategy

SRV released its strategic plan for the period 2024–2027 at the end of 2023. The focus on lifecycle-wise construction remains central to the strategy while at the same time, the company aims to be sustainably profitable. In connection with the strategy update, the company updated its long-term financial objectives. SRV aims to achieve the following targets by the end of 2027:

- Operative operating profit of at least EUR 50 million (earlier 6%)
- Revenue > EUR 900 million (earlier EUR 900 million)

Figure 4: Illustration of elements needed to reach the EBIT target

Both volume growth and project portfolio management needed to reach the strategic targets

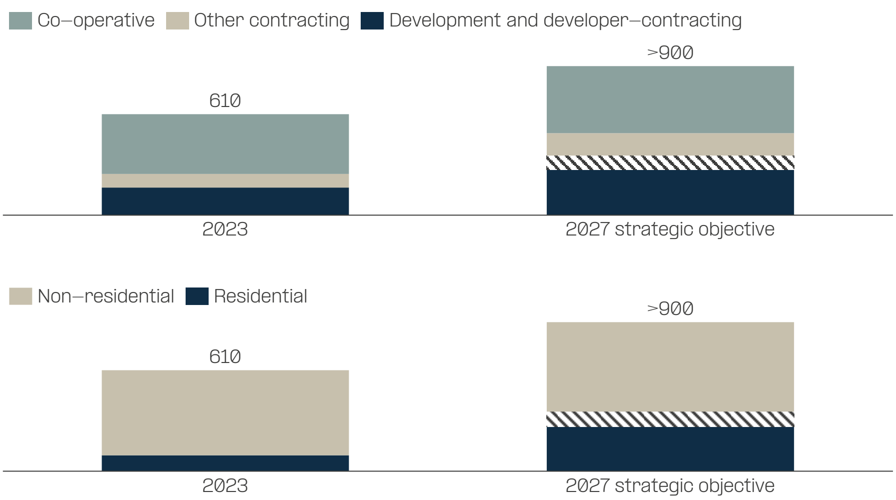


Source: SRV, Evli Research

Financial objectives are achieved by optimizing the company's project portfolio and improving risk management. The company aims to further solidify its market position in the co-operative non-residential projects where its order backlog is currently strong. Moreover, the company aims to grow in non-residential development projects and residential development and developer contracted projects. According to the company, the most important factor in reaching the operative EBIT of EUR >50m in 2027 is the portfolio structure. In 2023, a clear majority of the company's revenue came from non-residential co-operative contracting while only a small portion of revenue was from developer contracted and development projects. In addition, only roughly 15% of total revenue came from residential whereas the strategic objective is to increase the share to 30–40%.

Figure 5: Targets for project portfolio optimization

Target to increase development projects and developer contracting and residential construction to 30–40% of total sales



Source: SRV, Evli Research

Managing risks is crucial for reaching the targets

SRV's last ten year have been plagued by few larger projects where the project risks have realized resulting in suboptimal profitability and asset impairments. While the company looks to improve its profitability through project portfolio management and optimization, it will also focus on risk management. To improve risk management, SRV places a strong emphasis on its project selection strategy. Geographically, SRV seeks to become the leading co-operative contracting firm throughout Finland and focuses its developer contracting efforts on growth centers. By end-use, SRV aims to maintain a well-diversified portfolio of projects, spanning public, non-residential, industrial, infrastructure, and residential sectors. Projects exceeding EUR 100 million and renovation projects are mainly handled through co-operative contracting. Furthermore, SRV undertakes large and long-term development projects only if there is an exit strategy in place, typically in collaboration with an appropriate partner. In contrast to the company's history, SRV will utilize its own balance sheet mainly in residential projects, other types of development projects are expected to be sold to an investor prior to the start of construction. In terms of balance sheet risk, the capital tied into residential construction and plots should not exceed 50% of the balance sheet total (excl. IFRS 16) and a single project should not exceed one fifth of the total tied in capital.

Market conditions challenge the financial targets

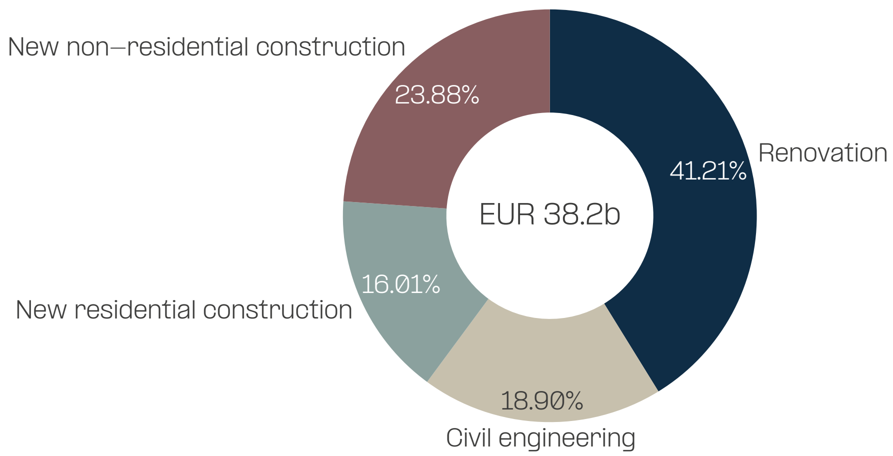
The two important drivers for the financial targets, volume growth and portfolio optimization depend on the market conditions. The target requires especially improved residential construction market conditions to reach the targeted portfolio composition. Historically, the company has been able to reach 30–40% share of total net sales for both development and developer contracted projects and residential construction. In addition, SRV kept net sales above EUR 900m consistently throughout 2017–2021. While SRV has historical evidence of operating at or above the target for net sales and project portfolio composition, the company's profitability has not reached operative EBIT levels of EUR >50m. Considering the lower limit of the current profitability goal, which is EUR 50m by the end of 2027, the operating EBIT margin would be approximately 5.5% given total net sales of EUR 900m. This is a slight decrease from the former operational margin target of 6%. While the company did not set a margin-based target for profitability, the current absolute EBIT target implies relatively ambitious margin goal. Historically, the company's largest Nordic peers have generally been able to reach EBIT margin levels of 3–4% on average. Looking at SRV's own historical operative margin levels, the margin has hovered around 2–3% on average. Considering the historical margin levels, reaching EUR 50m operative EBIT would require substantially higher net sales.

Market

Finnish construction market size is EUR ~38bn

According to data by CFCI, the total value of Finnish new building construction market in 2023 was EUR 15.2bn. The new construction market was slightly smaller than the renovation construction market which was roughly EUR 15.7bn in 2023 while it was substantially larger than the civil engineering market which was EUR 7.2bn. The total new building construction market is further divided into residential (EUR 6.1bn) and non-residential (EUR 9.1bn) new construction. The total construction market value fell 8% y/y from EUR 41.5bn in 2022 to EUR 38.2bn in 2023. The new construction market is more dependent on the overall economy and therefore the market is more volatile compared to the more stable renovation construction and civil engineering markets. The percentage share of renovation market of the total construction market has increased during the recent decades driven by the ageing building stock in Finland.

Figure 6: Finnish construction market by value, in % of total value 2023

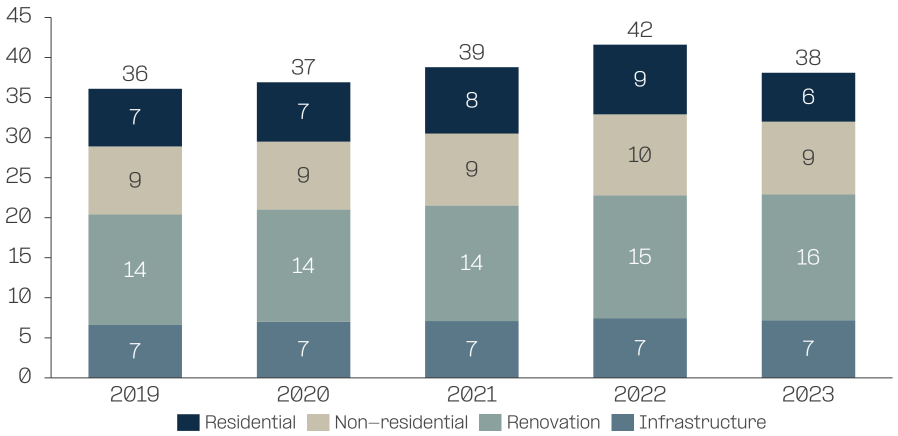


Source: CFCI, Evli Research

Residential and non-residential new construction markets fluctuate with the economy

The new construction markets for both residential and non-residential properties are heavily influenced by macroeconomic factors such as GDP growth, migration, interest rates, and consumer confidence. The residential new construction market is more directly impacted by consumer confidence and demand, which is affected by, for example, salary development and mortgage interest rates. The non-residential new construction market demand is influenced by investments from companies and the public sector. For example, the need for new office buildings is affected by the vacancy rate of the current office stock and the demand for industrial buildings is affected by overall investment activity. Both the residential and non-residential markets are also affected by investment demand, which is influenced by rental yield levels and investors' return requirements.

Figure 7: Finnish construction market value, by type of construction, in EURm, 2019–



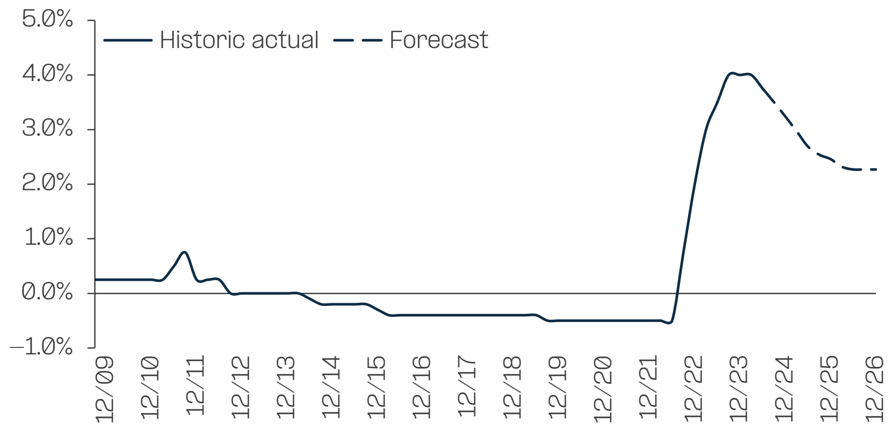
Source: CFCI, Evli Research

Residential construction market

ECB rate-cutting cycle has begun

According to Bank of Finland, the share of variable rate mortgages of total new mortgages in Finland between the year 2003–2023 has been on average between 84–89%. The share is high compared to for example Central European countries such as France, Germany, Belgium and the Netherlands where the percentage has been roughly 10–20%. Due to high share of variable rate mortgages, the average interest rate of mortgages in Finland has risen from the lowest in the Eurozone to sixth highest in less than two years. The ECB deposit facility rate stayed below zero from 2014 to 2022, ECB increased the rate by 50 bps in July 2022, first increase in 11 years. The rate increase of July 2022 was followed by several subsequent increases, reaching a peak in Autumn 2023 when the ECB raised its deposit facility rate to 4%. The interest rate increases were driven by inflation, which rose quickly due to factors such as supply chain disruptions, higher energy prices, and geopolitical tensions. The Euro area inflation was the highest during Q4/2022 as it was at approximately 10% level. The inflation has since calmed and is currently roughly 2%, largely in line with the 2% medium term inflation rate target of ECB. Due to lower inflation, in summer 2024, ECB lowered its deposit facility rate to 3.75%, first rate cut since 2019. While the ECB is currently on path to lower interest rates, it remains data dependent in case the inflation picks up again. Market pricing projections suggest that the ECB deposit rate will likely decrease closer to 2% between 2025 and 2026.

Figure 8: ECB deposit facility, historic and consensus forecast, quarterly



Source: Bloomberg, Evli Research

Demand for residential housing at a historically low level

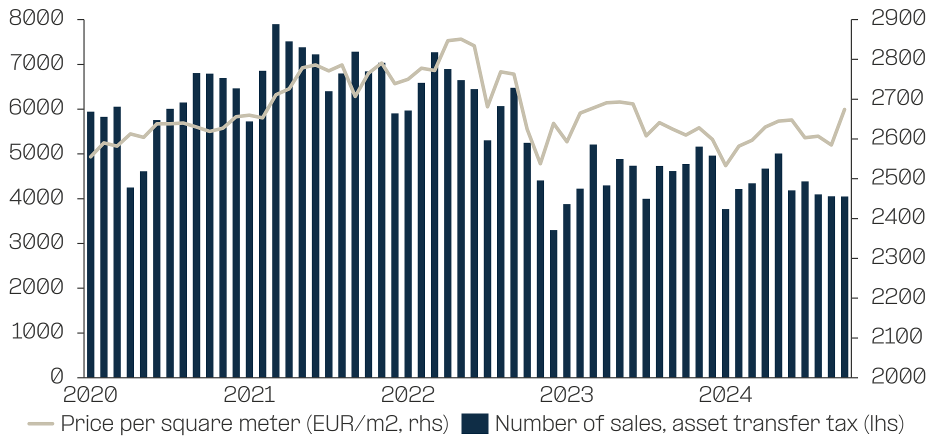
With interest rates as a main factor influencing the residential housing market, the volume of transactions has stayed low throughout 2023-2024. While the number of transactions for old residential housing decreased by 17% in 2022 and 20% in 2023, the decrease in new residential housing transactions has been harder as according to Federation of Real Estate Agency, the new housing transactions have decreased to fifth of 2021 volumes in 2023. In the first nine months of 2024, new household loans decreased year-on-year, and consumer intentions to buy a dwelling were lower than during the GFC.

No support from investment demand

Consumer confidence in purchasing homes remains low, and there is also a lack of support from investment demand. The primary factors contributing to decreased investment interest in residential developments are elevated interest rates and rising construction costs. Furthermore, the market faces an oversupply issue due to diminished demand, and rental prices have not yet risen adequately.

Price index of old dwellings bottomed during early 2024, transaction activity still low

Figure 9: Price index of old dwellings in housing companies (2020=100) and numbers of transactions, monthly data, 1/2020 – 10/2024



Source: Statistics Finland, Evli Research

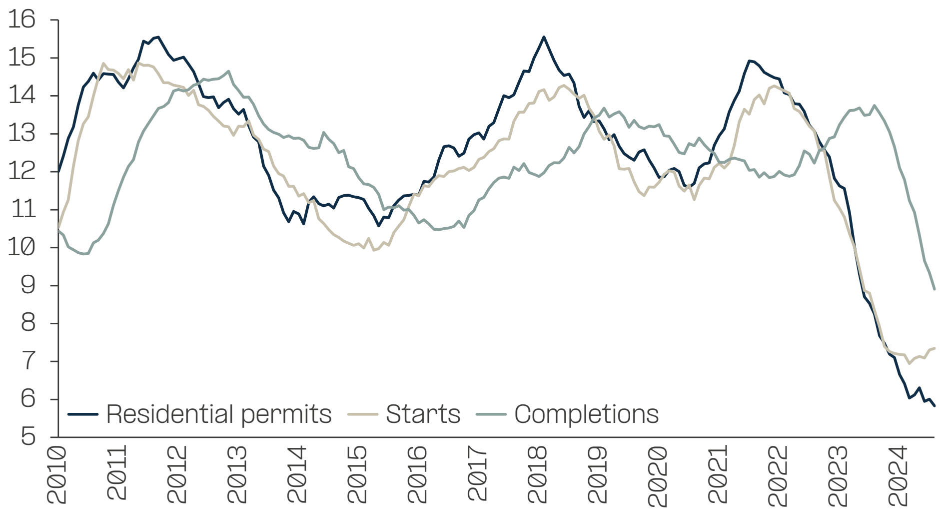
Plenty of unsold completed new residential stock

Although there are indications of increased housing market activity with the decline in mortgage rates, the new residential construction sector remains sluggish. According to data gathered by YIT, on the supply side, roughly 4300 new self-developed residential units will be completed in 2024. Of the completions, only slightly over half are already sold before completion. In 2025, roughly 1700 units will be completed of which only roughly a third are already sold.

Resi permits continue freefall, slight uptick in starts aided by Ara

Residential building permits are still declining while residential building starts have started to increase. The increase in residential building starts is driven by starts by the Housing Finance and Development Centre of Finland (Ara). Ara is a government agency that grants state aid for housing and construction. During the late 2010s, the share of Ara housing production was roughly one fifth of total volume in Finland. The share has been larger during slowdowns such as the GFC, when the share of Ara funded housing was roughly 60% of total volume in 2009. In addition, after the Euro crisis, the share increased to 30% while in 2023 it was over 40% of total volumes.

Figure 10: Residential building permits, starts and completions, moving annual total in millions of m3



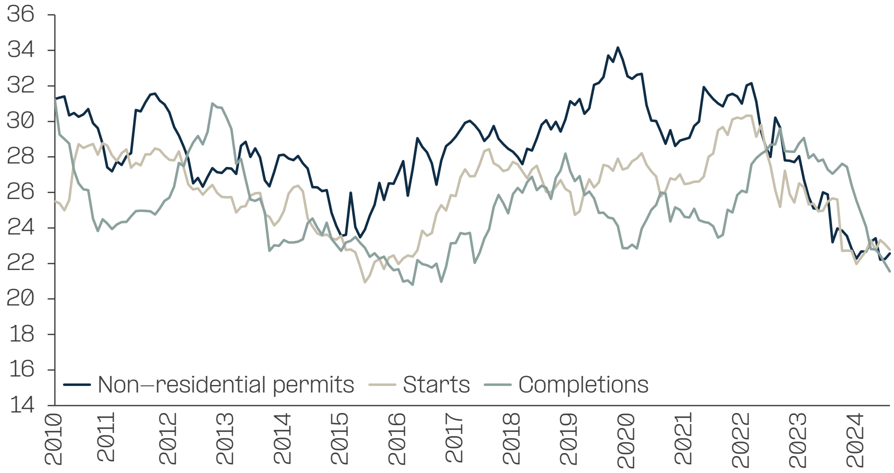
Source: Statistics Finland, Evli Research

Non-residential construction market

A variety of non-residential categories helps reduce volatility

In 2023, roughly half of the non-residential building completions volume in Finland comprised of industrial building and warehouse completions. Other major non-residential building types measured by completion volume were public service buildings (~20% share) and commercial and office buildings (~15% share). The industrial building and warehouse construction market is driven by the industrial investments made in Finland. Based on the data by Confederation of Finnish Industries, the construction investments have been approximately 10-20% of total annual industrial investments in Finland during the recent years. The public service building market is driven by public investments and is less cyclical compared to industrial and commercial building markets. Roughly 10% of the current building stock in Finland is owned and managed by the state. Currently the largest public service building subsector by completion volume is educational buildings while the buildings for institutional care and assembly buildings are similar size.

Figure 11: Non-residential building permits, starts and completions, moving annual total in millions of m3

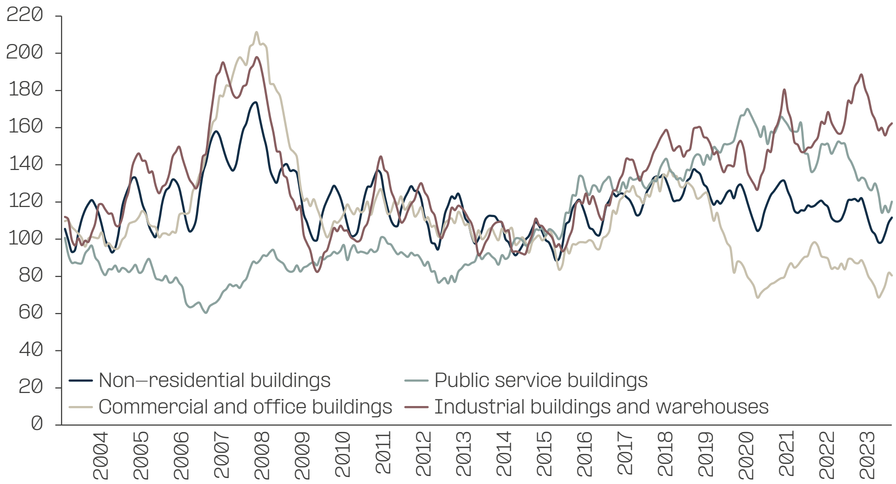


Source: Statistics Finland, Evli Research

Non-residential has fared better compared to residential market

While the same headwinds e.g. cost of financing and construction cost inflation affect non-residential construction, it has fared better than residential construction. Business construction does not react to changes in interest rates nearly as strongly as residential construction. During the period of low interest rates, long-term housing loans, housing company loans, and other financing arrangements increased the residential construction demand, volumes and house prices. While non-residential construction has fared better during the period of higher interest rates, the volumes decreased by 2% in 2023 according to data by the Confederation of Finnish Construction Industries. The industrial and warehouse building volumes have increased during the recent years while the public service building construction volumes have decreased from the peaks of 2020. The Finnish office building volumes have decreased since 2013-2014 excluding strong office building completion volumes in 2020 driven by high number of starts during 2018-2019.

Figure 12: Volume index of non-residential newbuilding (2015=100) by month



Source: Statistics Finland, Evli Research

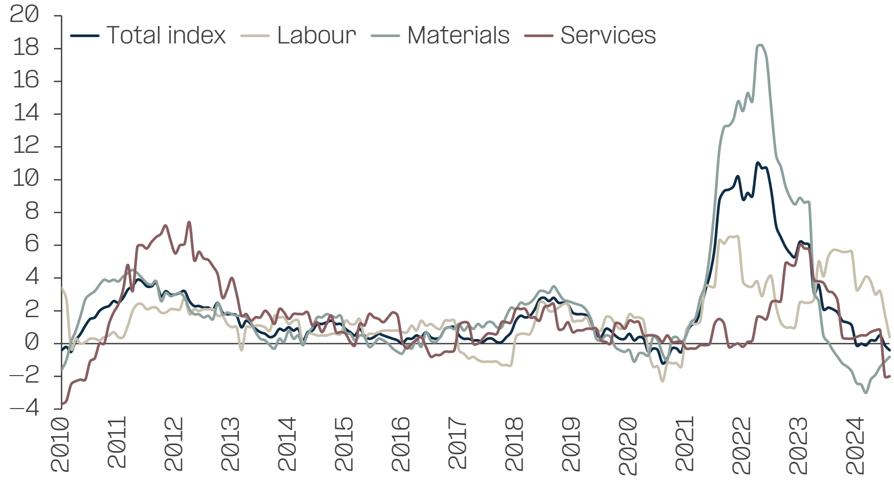
Cost development

Construction cost inflation has slowed down, yet prices stay at high level

The construction sector was affected by the cost inflation witnessed during 2021–2022 caused by the COVID-19 crisis and the war in Ukraine. The construction cost index was 10.2% higher at the end of 2021 compared to end of 2020 and 5.3% higher at the end of 2022 compared to end of 2021. The main driver behind the increase was material cost inflation as the construction materials cost index grew almost 15% y/y in 2021 while it grew 8.5% y/y in 2022. Notable materials that were the main driver behind the material costs inflation during 2021–2022 included roofing materials, steel structures, heat insulation and frame structures. While the construction cost inflation has slowed down, the prices have generally stayed at the elevated levels. Materials costs have decreased slightly during 2024 while for example salary costs have kept increasing.

Figure 13: Total construction cost index and cost subcategories, y/y % changes

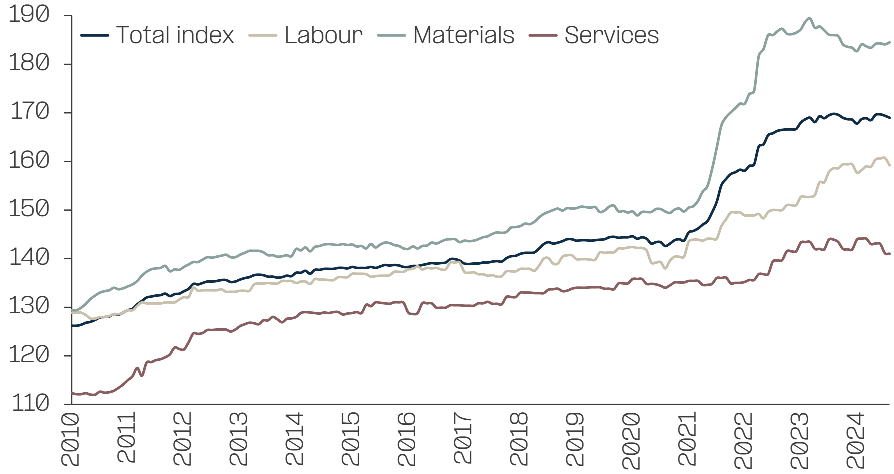
Construction cost inflation peaked in 2022…



Source: Statistics Finland, Evli Research

Figure 14: Total construction cost index and cost subcategories

…while inflation has slowed down, costs stay at historically high level



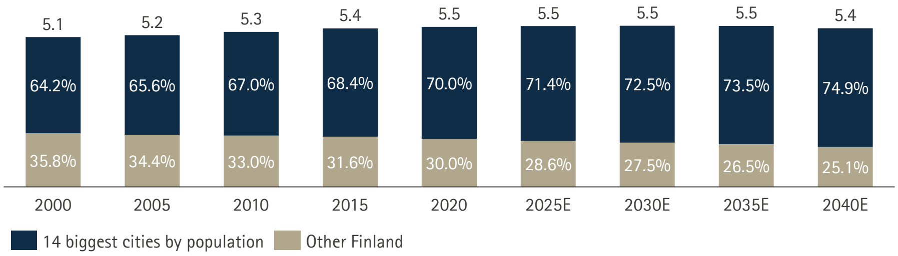
Source: Statistics Finland, Evli Research

Long-term trends

Urbanisation

The Finnish population has grown by roughly 0.3% p.a. on average from 2000 to 2020. The share of population living in the 14 biggest cities grew from roughly 64% in 2000 to 70% in 2020. The largest population growth during the period was witnessed in Oulu (+32%), Helsinki (+23%), Tampere (+22%) and Jyväskylä (+20% population growth). The urbanization trend will continue as according to the VTT estimate, the population is estimated to increase by approximately 16% in the Helsinki metropolitan area and the share of population living in the 14 biggest cities will increase from 70% in 2020 to roughly 75% in 2040.

Figure 15: Share of 14 biggest cities out of total Finnish population 2000–2040E, population in millions

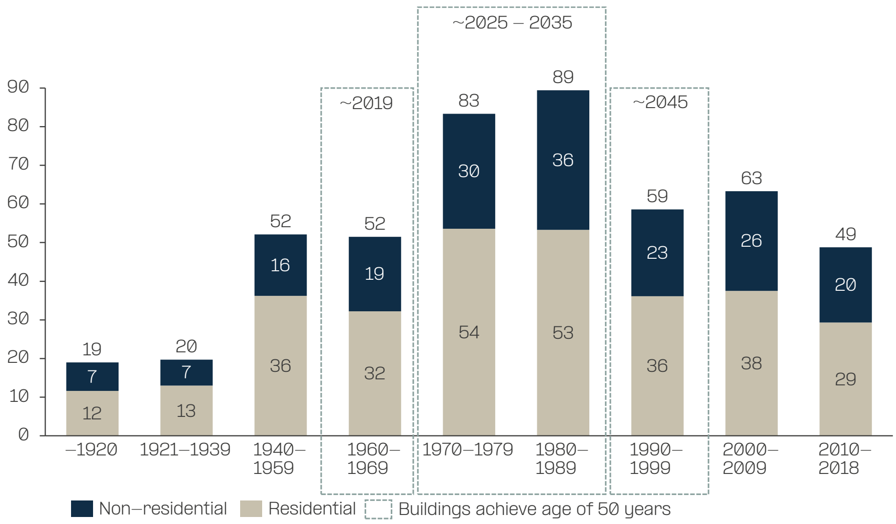


Source: Statistics Finland, VTT, Evli Research

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 1960's 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 16: Finnish building stock by construction year, million m2

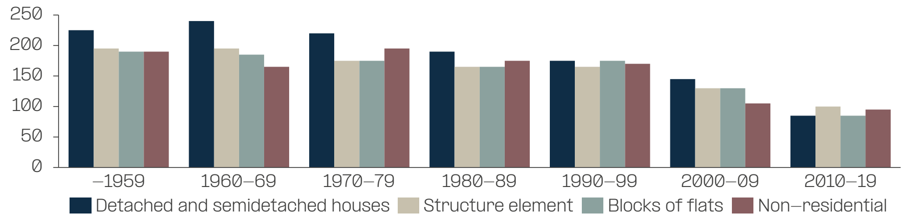


Source: Consti, Evli research

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. The energy efficiency of both residential and non-residential new buildings has already improved drastically during the 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 comparing 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 17: Finnish building stock by construction year, building type and average heating energy consumption, in kWh/m2



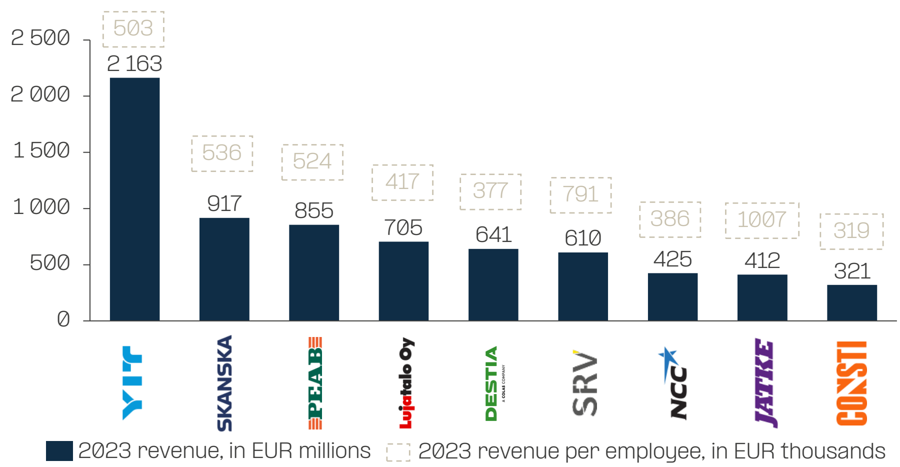
Source: VTT, Evli research

Competitors

SRV is the 6th biggest construction company in Finland

In 2023, YIT led the Finnish construction market with sales around EUR 2.2b, while SRV ranked sixth with sales of EUR 610m. SRV had the second highest revenue per employee among Finland's ten largest construction companies, attributed to its business model. The high revenue per employee figure is a result of the SRV model and the high reliance of subcontractor network. In addition to SRV, Jatke stands out among the ten largest construction firms in Finland for its high net sales per own employee figure. According to 2023 data, Jatke achieves net sales exceeding EUR 1 million per own employee.

Figure 18: Finland's largest construction companies by 2023 net sales, in EURm



Source: Rakennuslehti, Evli Research

Competition varies by construction segment

SRV is active in all the main construction segments: new building, renovation and infrastructure construction. New building construction is clearly the focus of the company as nearly 90% of the company's revenue comes from the segment. Similarly to SRV, most of the large construction companies active in Finland (YIT, Skanska, PEAB) are active in all of the main segments. Among the top ten construction firms in Finland, besides the major all-rounders, there are two specialists: Destia, which focuses exclusively on infrastructure construction, and Consti, which specializes in renovation projects, from which it derives majority of its revenue.

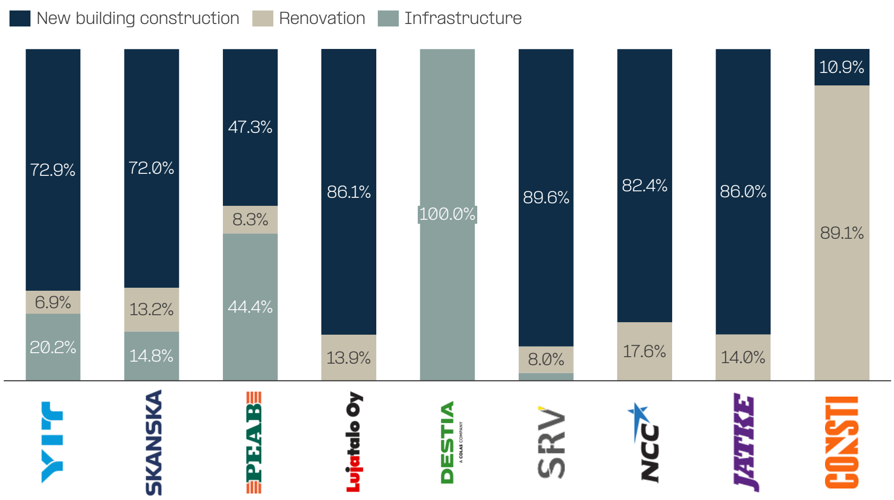
SRV has ~5% share of the Finnish new building construction market

SRV is the fifth largest new building construction company in Finland. The Finnish new building market is dominated by large construction companies from both Finland (YIT, Lujatalo) and Sweden (Skanska, PEAB). According to our analysis, the ten largest new building construction companies take roughly one third of the total Finnish new building construction market

Renovation construction market is more fragmented

SRV's position among the renovation construction has changed throughout the years as renovation is not the company's focus area and the volumes fluctuate between the years. Besides large Nordic construction companies, 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 60% while for large companies the share was only 30%. According to our analysis, the largest construction renovation companies held little under 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.

Figure 19: Net sales composition of the largest Finnish construction companies, as % of total net sales



Source: Finder, company presentations, Rakennuslehti, Evli Research

Infrastructure construction is not a focus area for SRV

According to data by Rakennuslehti, SRV was not among the 40 largest infrastructure construction companies in Finland based on 2023 revenue figures. Like renovation, infrastructure is not the company's main focus and the revenue from infrastructure projects varies annually. SRV provides for example rock tunnelling and rock construction services and earthworks and foundation construction. Similarly to other construction segments, infrastructure construction market includes large players such as YIT, Destia, GRK, PEAB, NRC, Kreate and Skanska. The market has several medium-sized players which typically focus on certain niches of the infrastructure market.

SRV competes with wide service offering and unique project management approach

SRV operates in all the main construction segments in Finland with a focus on new building construction. SRV's unique project management approach sets it apart from its competitors and has contributed to its reputation as a strong project developer. SRV has a strong reference list of demanding building projects in Finland which differentiates it from many competitors. As the company's business model is based on the SRV approach and strong utilization of its subcontractor network, the company can adjust to changes in demand faster than some of its main competitors. Leveraging the subcontractor network can enhance the company's pricing power in a challenging market environment.

Figure 20: Finnish construction market overview divided into main categories of construction

	Residential & non-residential building construction	Renovation construction	Infrastructure construction
Market size 2023	EUR 15b	EUR 16b	EUR 7b
SRV market share	Top-5, <5%	11th, <1%	>40th, <1%
Main competitors	YIT, SKANSKA, PEAB, NCC, Lujatalo Oy, JATKE, POHJOLA RAKENNUS, Fira	CONSTI, YIT, Lujatalo Oy, NCC, SKANSKA, PEAB, Rakennus Ahola (Rakennus Oy Antti J. Ahola), Renevo	YIT, DESTIA (A COLAS COMPANY), GRK, PEAB, NRC Group, KREATE (THE FUTURE IS BUILT TODAY), SKANSKA, TERRAWISE

Source: CFCI, company materials, Evli Research

Financial performance

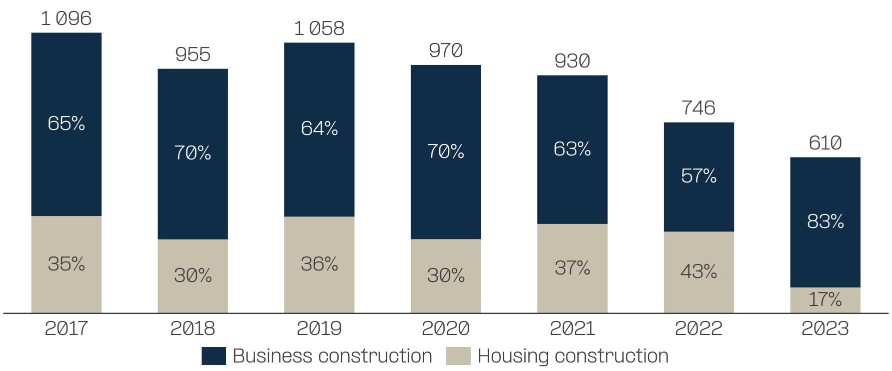
The performance has trailed SRV's financial objectives during the recent years

The company's revenue and profitability has been decreasing since 2017, primarily due to difficulties with specific large projects in its portfolio and declining order backlog. In 2017, the company achieved its highest ever revenue of EUR 1116m, compared to an average of EUR 600–700m prior to 2017. As earlier mentioned, SRV targets revenue of over EUR 900m and operative operating profit of at least EUR 50m by the end of 2027. In 2023, SRV's revenue fell to EUR 610m, down from EUR 770m the year before. SRV's operating profit in 2023 was still negative while the operative EBIT was just positive at EUR 1.1m, with an operative operating margin of 0.2%. In addition to revenue and profitability objectives, SRV aims to distribute a dividend equaling 30–50% of the annual result, while considering the outlook and capital needs of the company.

Revenue

Since 2023, SRV has operated as a single segment, whereas previously its business was divided into the Construction and Investments segments. The Investments segment ceased to exist after the segment's capital employed committed in Russia was almost entirely written down in April 2022 after Russia attacked Ukraine in early 2022. SRV's construction revenue consists of construction project deliveries. As earlier illustrated, the company's revenue recognition depends on the project type, for example in co-development and contracting projects, revenue is recognized as percentage of completion. In developer contracting, the revenue is recognized at the point of sale. During 2023, almost 100% of net sales was recognized over time.

Figure 21: SRV's annual construction revenue divided to business & housing construction 2017–2023, in EUR m & in %



Source: SRV, Evli Research

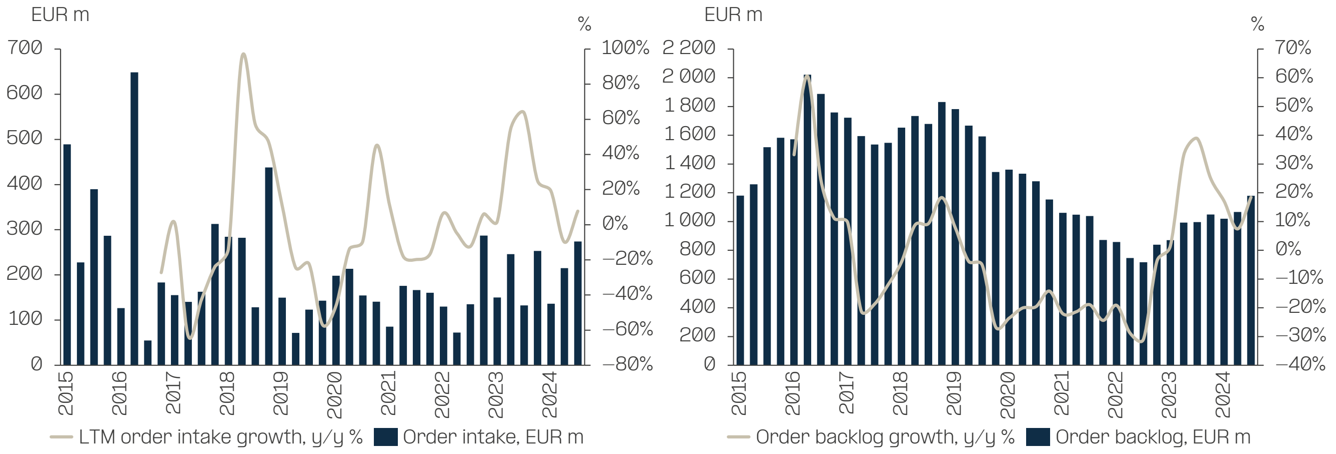
The share of different building types of total revenue fluctuates y/y

Most of the company's revenue comes currently from business construction as in 2023, 83% of construction revenue was related to business construction. Looking at the building types, business premises were the company's largest source of revenue, accounting for approximately 46% of total revenue. The proportion of revenue generated by different types of buildings fluctuates year to year, yet the proportion of revenue from housing has historically been around one-third of the total. With the current weak housing construction market, the portion fell to only 17% of total sales. The non-residential building types are more volatile as for example the share of business premises and hospitals has fluctuated between 16–46% and 9–37% respectively during 2017–2023. The proportion of revenue generated by different types of non-residential buildings changes due to the company's focus on specific segments and because of large orders received in certain building types. In 2023, the share of different non-residential building types as percentage of revenue increased across the board as hospitals increased to 16% (10%), business premises to 46% (35%) and schools and educational institutions to 11% (7%) of total net sales. As mentioned, SRV aims to increase the share of revenue accounted for by housing construction to 30-40% of total net sales. The target aligns with historical figures, making it feasible, although reaching the target depends significantly on market conditions.

Order backlog reached its peak in Q2 2016

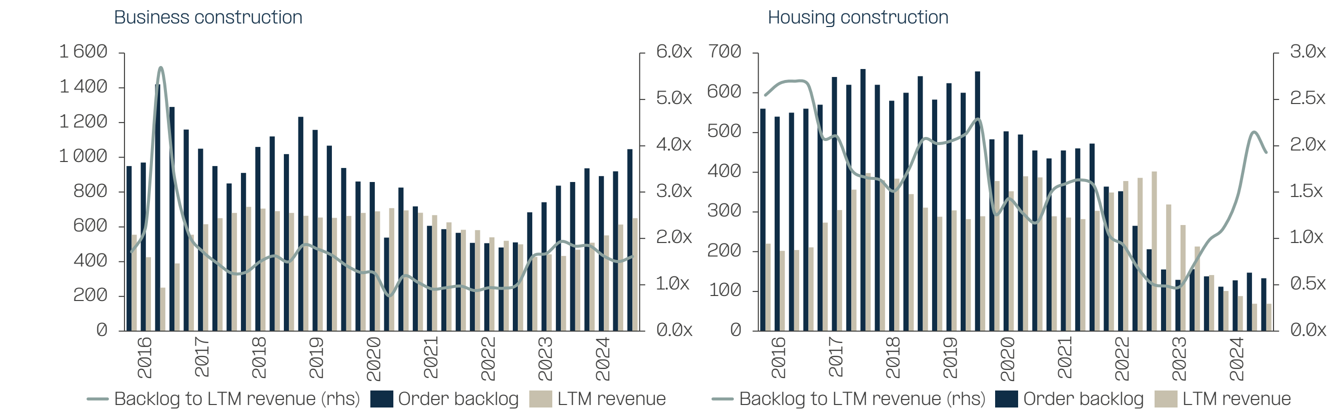
SRV's order backlog reached its highest point at over 2 billion euros in Q2/2016. However, since the peak of Q2/2016 the backlog declined until H2/22 from which it started to grow driven by the growth in non-residential backlog. At the end of 2023, backlog stood at slightly over 1 billion euros, up 25% y/y.

Figure 22: SRV's order intake & backlog development, quarterly, Q1 2015 – Q3 2024



Source: SRV, Evli Research

Figure 23: Backlog and revenue development by construction type, in EUR m, quarterly, Q4 2015 – Q3 2024

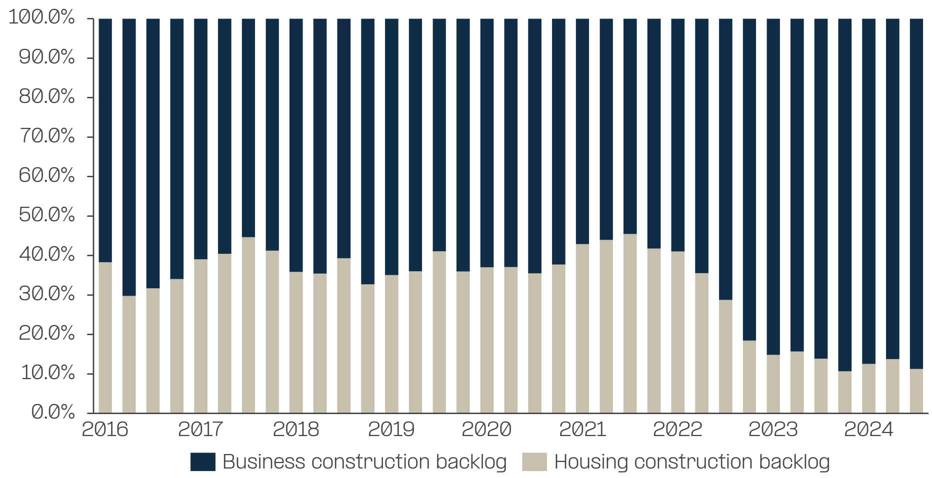


Source: SRV, Evli Research

Tighter control on project tendering was launched during Q4 2019

In 2019, as part of its overall recovery plan, the company implemented stricter criteria for selecting projects. By limiting the proportion of high-risk projects in its portfolio, the company has been focusing on steady volumes and profitable projects. This can be seen in the company's order backlog for both residential and non-residential construction. The backlog for non-residential construction dropped from EUR 900-1400m during 2016-2019 to EUR 500-800m during 2020-2022. A similar trend can be seen in the backlog for residential construction, which decreased from EUR 400-600m during 2016-2019 to EUR 200-400m during 2020-2022. More recently, the backlog in residential construction has decreased further due to the weak market conditions as mentioned before.

Figure 24: Backlog composition per quarter, as % of total backlog

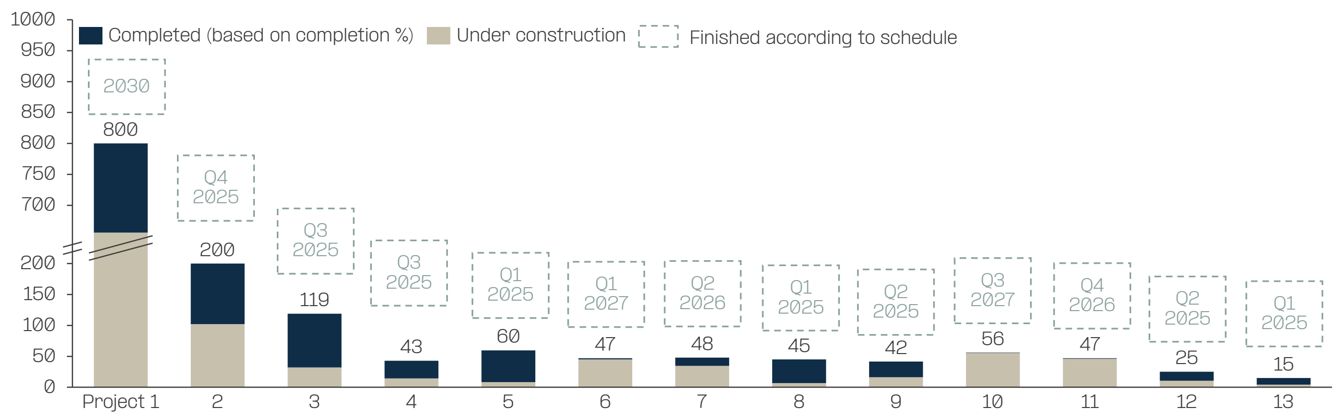


Source: SRV, Evli Research

Most of the current largest non-residential projects are public

Based on the Q3/24 report, SRV had 13 larger non-residential contracting projects ongoing in addition to one office development project at the end of September. The company's largest non-residential project is the Laakso Joint Hospital worth approximately EUR 800 million in total, and which is being recognized in SRV's order backlog in stages between 2022 and 2030. Out of the EUR 800 million, the orders recorded in SRV's order backlog amount to a total of EUR 670 million at the end of Q3/24. Other larger non-residential contracting projects include HUS Jorvi Hospital and Oulu Main Police Station and Oulu Prison. Looking at the projects by type, 11 of the 13 non-residential projects are public while two, the Kerto timber mill for Metsä Wood and factory building for Okmetic are industrial projects. SRV is also developing The Horisontti office building as a development project in addition to the larger business premise contracting projects.

Figure 25: Largest ongoing business construction contracting projects, in EUR m

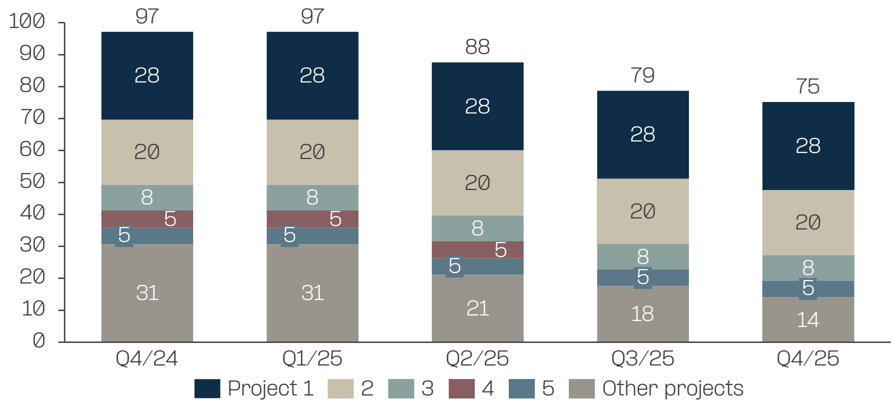


Source: SRV, Evli Research

The largest projects bring in the majority of non-residential net sales

Historically, the largest non-residential projects have formed the majority of the company's non-residential net sales. As earlier said, the revenue recognition is based on percentage of completion. Assuming a steady rate of completion, the current largest non-residential projects listed in the company's financial reports should bring EUR 70-100m of net sales per quarter during 2024-2025.

Figure 26: Revenue recognition of the company's largest non-residential contracting projects, assuming steady recognition, in EUR m

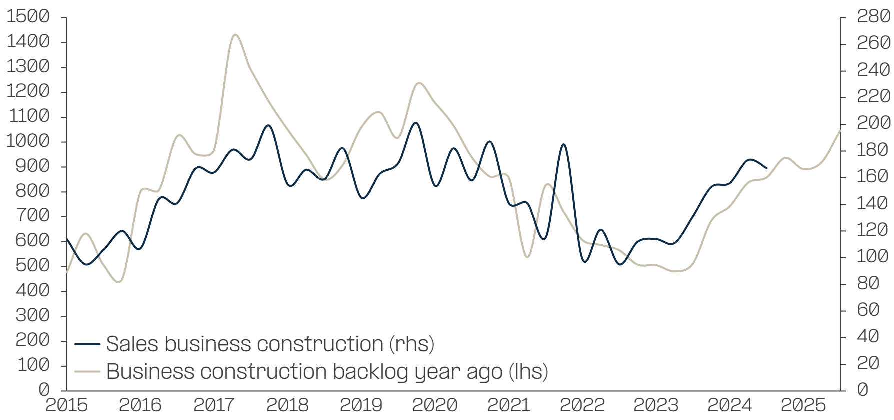


Source: SRV, Evli Research

Backlog is a leading indicator for non-residential net sales

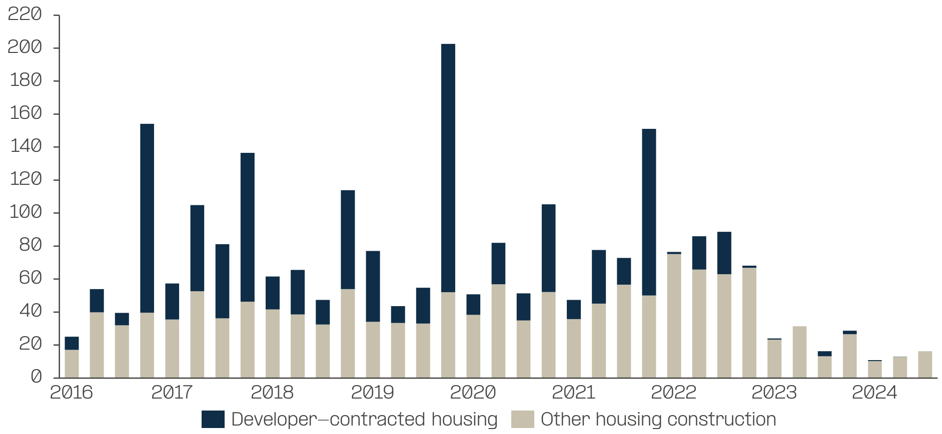
Due to the revenue recognition based on the percentage of completion, the business construction backlog works as a leading indicator for the segments net sales. According to our analysis, there is approximately 3-4 quarter lag before the changes in the backlog total begin to affect net sales.

Figure 27: Business construction net sales (rhs) vs. backlog one year ago (lhs), quarterly data, in EUR m



Source: SRV, Evli Research

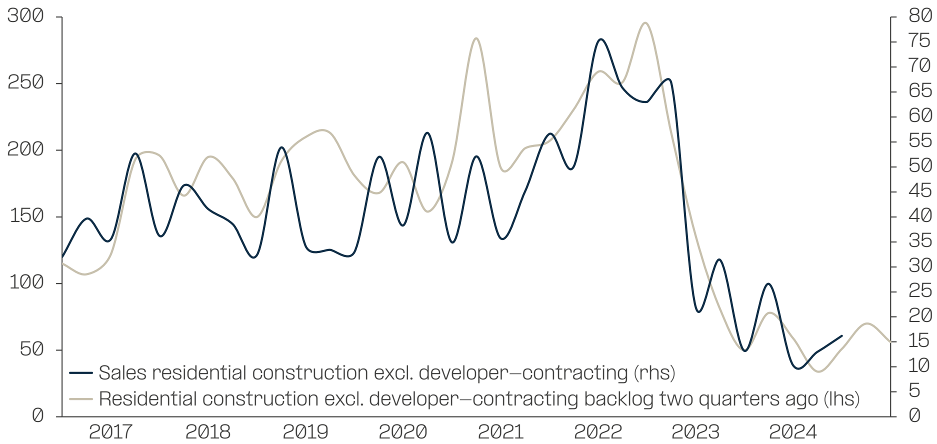
Figure 28: Residential construction net sales, divided to developer–contracted residential and other residential net sales, per quarter, Q1/2016 – Q3/2024



Developer contracting causes fluctuations in residential revenue recognition

Historically the company's net sales from residential construction have been relatively volatile quarter–on–quarter due to the lumpiness of revenue recognition of developer–contracted units. Now, as the share of developer–contracted housing has decreased, the residential backlog works better as a leading indicator for net sales yet for example sales of unsold developer–contracted units can increase the sales periodically more than the backlog data would suggest. Excluding the developer–contracted units from net sales and backlog, we can see that the residential net sales typically lag the backlog by a few quarters.

Figure 29: Residential construction excl. developer contracting net sales (rhs) vs. backlog two quarters ago (lhs), quarterly



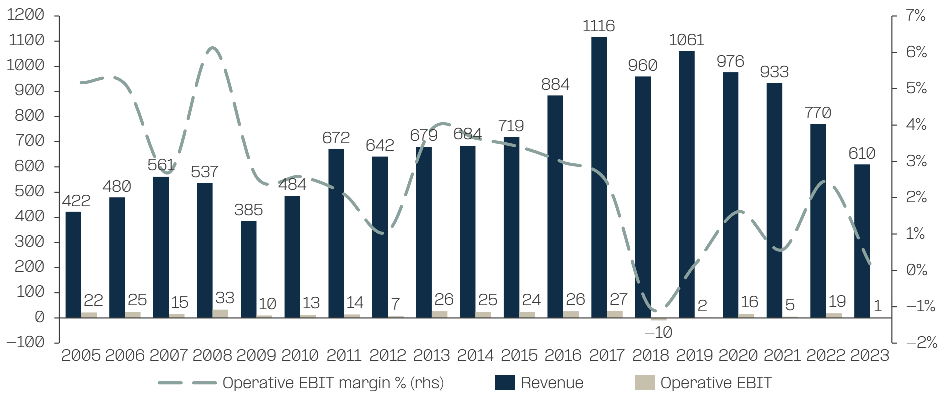
Source: SRV, Evli Research

Profitability

Project risks were realized during the latter part of last decade

SRV's profitability began to weaken during 2017 as the operating profit was affected by the weakened rouble exchange rate which had a negative effect of EUR 11.7 million for the international operations segment. In 2018, the largest construction projects in the company's history, REDI shopping centre, was opened to public. The REDI shopping centre project was implemented as a fixed cost project and because of the strong Finnish construction market, the construction costs were higher than expected and the negative impact of REDI for the total 2018 result was roughly EUR 41m. In 2019, the company experienced a significant decline in operating profit, reaching a negative EUR 93 million, primarily due to substantial impairments to assets including a EUR 71 million impairment of investment in the REDI joint venture in Q4 2019. Additionally, the operating profit was affected by reduced margins in projects such as the REDI Majakka residential tower. Due to the challenges and operational issues encountered by the company, a recovery program was initiated in 2019. The focus of the recovery program was on organization and culture reformation, lightening of balance sheet, strengthening cash flow and cost savings. In 2020, SRV's operative EBIT and cash flow returned to positive, yet the profitability was still clearly below the levels seen pre-2017. During 2021-2022 the company's profitability was affected first by the negative earnings impact of Tampere Arena in 2020 (around EUR 20m) and then, in 2022, by impairment of its Russia investments (EUR 99.7m negative EBIT effect). Despite the negative effects from the Russian asset impairments, the company's operative operating profit amounted to EUR 18.9m or 2.5% margin. In 2023, the company's operative operating profit decreased to EUR 1.1 million, representing 0.2% of total net sales. Despite the less-than-ideal project mix, the company maintained a positive operating EBIT. A significant portion of the net sales was derived from lower-margin cooperative business construction. While the lower-margin cooperative construction is lower-margin by nature, it is also lower risk as the project risks are spread between the participants.

Figure 30: Revenue & EBIT EUR m (lhs), EBIT margin % (rhs), annual, 2005-2023

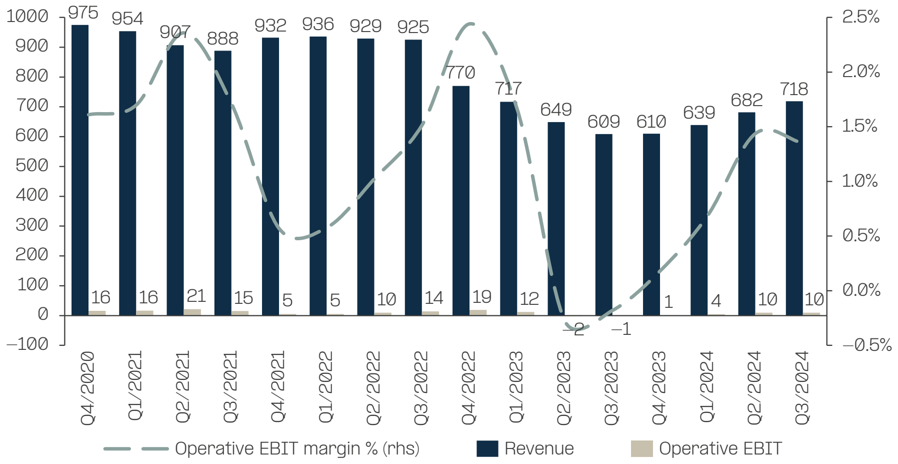


Source: SRV, Evli Research

Steps into right direction starting from H2/23

Despite a backlog focused on lower-margin non-residential construction, SRV has improved its operative margins by enhancing project control and managing cost inflation while securing material availability. Furthermore, SRV has successfully avoided issues with larger projects that have led to multiple negative earnings surprises in recent years. While the operative performance has improved, the market cycle has affected volumes negatively, which has led to decline in profitability. Compared to SRV's historical profitability, the current profitability levels remain modest.

Figure 31: LTM revenue & operative EBIT EUR m (lhs), operative EBIT margin % (rhs), quarterly, Q4 2020– Q3/2024

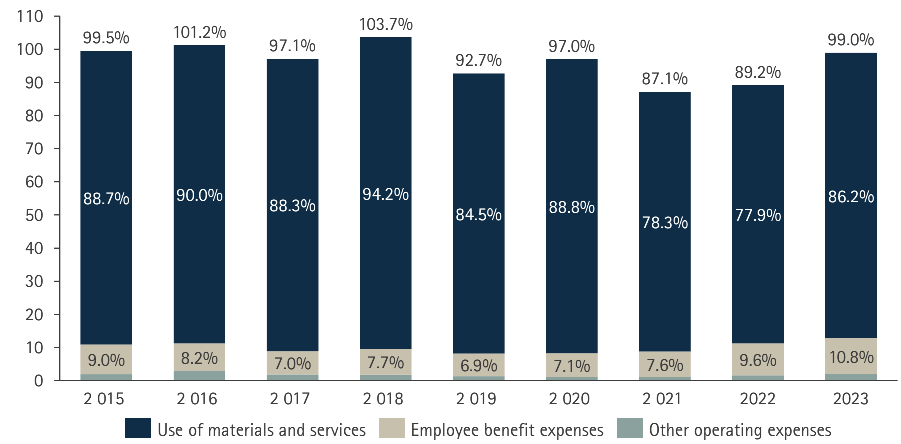


Source: SRV, Evli Research

Majority of SRV's cost base is variable

In 2023, the company employed roughly 800 people, yet there were around 18,000+ workers from a network of over 3,300 subcontractors working on SRV sites during the year. Due to the company's business model, most of its operational expenses are for materials and services. Because of the heavy reliance on subcontractors, the company's ability to negotiate costs depends on market conditions. In addition to subcontracting, procurement is important for the company and the cost of construction materials affects SRV's profit margins. Construction cost volatility affects projects that are implemented using fixed prices. Most of the company's current projects are either alliance or project management contracts, which reduces risk as the cost risks are shared among the project participants.

Figure 32: Main OPEX items 2015–2023, % of revenue



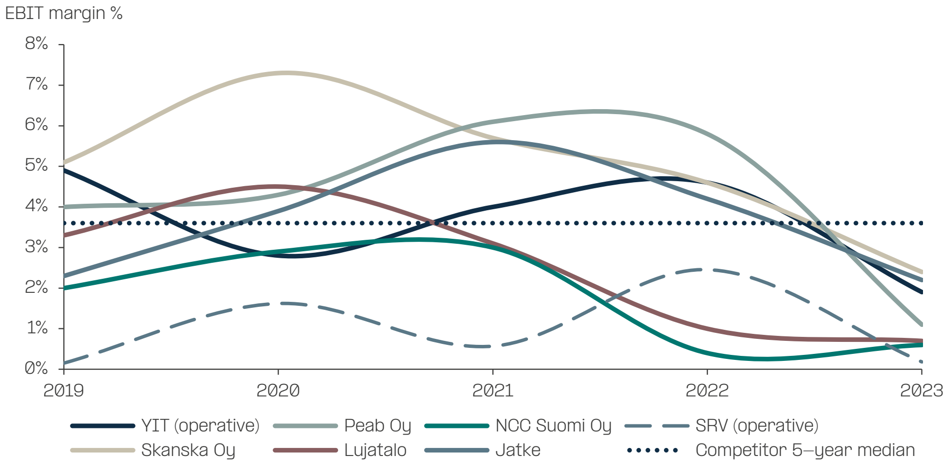
Source: SRV, Evli Research

Profitability comparison

SRV's profitability has lagged its main competitors during the recent years

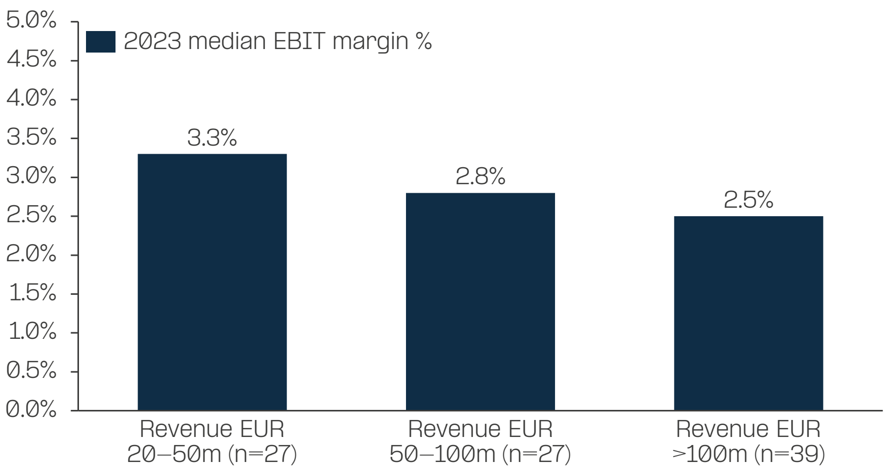
In 2023, the largest Finnish new building construction companies included SRV, YIT, Skanska, PEAB, Lujatalo, NCC, and Jatke. SRV's profitability has lagged that of its main competitors during the last five years. During the relatively good market conditions of 2019–2022, the company's largest competitors operated at roughly 3–4% EBIT margin. In 2023, the median EBIT margin of the six largest new construction companies in Finland decreased as the worsened market conditions and especially low residential volumes started to affect the profitability of operations. The aggregate EBIT margin of Finland's hundred largest construction companies (incl. renovation and infrastructure construction companies) in 2023 was 2.8%. Smaller construction companies outperformed their larger peers in terms of profitability as companies in the EUR 20–50m revenue range had median EBIT margin of 3.3%, while companies in the EUR 50–100m revenue category had median EBIT margin of 2.8% and the largest companies, in the EUR >100m category had median margin of 2.5% in 2023.

Figure 33: Competitor profitability comparison, 2018–2023, EBIT %



Source: Rakennuslehti, Asiakastieto, Factset, Evli Research

Figure 34: Median EBIT margin 2023 for Finnish construction companies categorized based on 2023 net sales



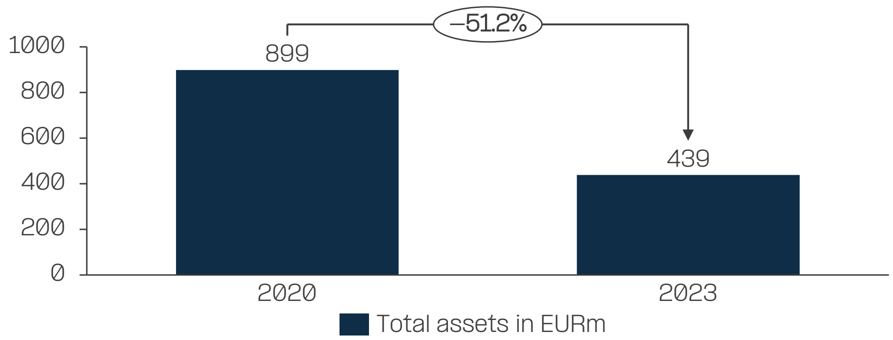
Source: Rakennuslehti, Asiakastieto, Evli Research

Balance sheet

SRV's balance sheet has slimmed down

In recent years, SRV has significantly reduced the risks on its balance sheet by discontinuing the Investments segment and withdrawing from larger development projects in Finland as well as investments in Russia and the Baltics. The company's current emphasis is on residential and non-residential contracting, development, and developer-contracted projects, which require less capital compared to previous larger investments. As a result of these actions and strategic redirection, the company's total assets in the balance sheet have more than halved and net debt, excluding IFRS 16, is at a very low level.

Figure 35: SRV total assets at the end of the FY, 2020 vs. 2023, in EUR m



Source: SRV, Evli Research

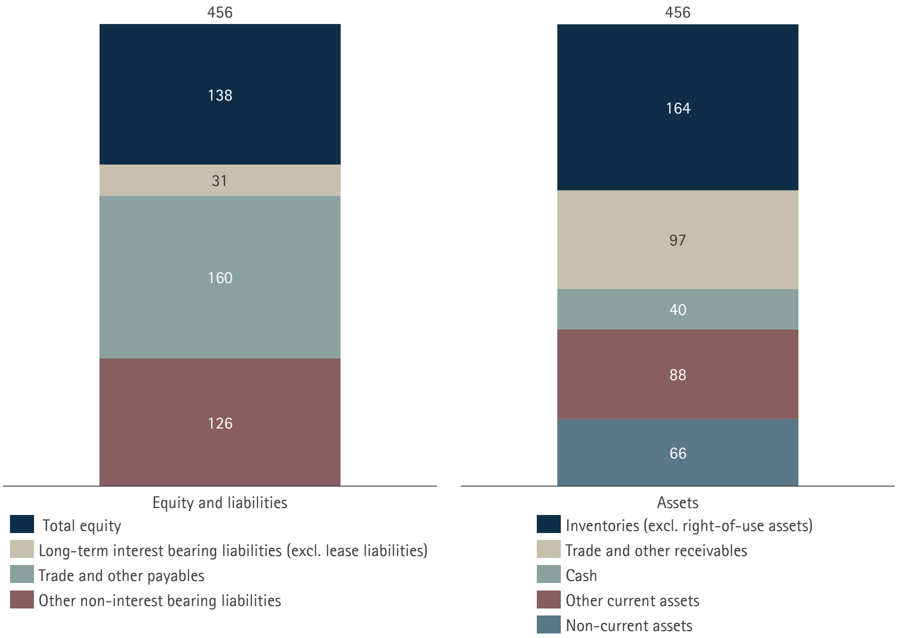
The business model requires limited amount of fixed asset investments

Most of the company's asset base consists of working capital items. Inventories (excl. right-of-use asset inventories) are roughly one third of the total assets. Land areas and plot-owning companies and work in progress inventory form most of the inventories excl. right-of-use assets. SRV's work in progress inventory consists of the cost of construction work and plot for uncompleted construction projects that are not yet expensed. Land areas and plot-owing companies comprise the costs of development stage projects. In addition to these inventory items, the company's shares in completed housing corporations and real estate companies form a smaller part of the inventory excl. right-of-use asset inventory. The right-of-use assets inventory was EUR 88m at the end of Q3/24, or roughly a third of the total inventory mass, the right-of-use assets inventory are related to leased plots. Trade and other receivables, along with inventories, constituted the second largest asset category on the company's balance sheet, accounting for approximately one-fifth of the total assets. Fixed asset investments have historically been low, roughly EUR 2-5m per annum during 2015-2023, due to the company's business model. Non-current assets were less than 20% of total assets at the end of Q3/24. The majority of the company's non-current assets consists of deferred tax assets.

EUR 16m receivable from the Torihotelli contract

In Q1/22 SRV suspended the construction of the Torihotelli contract in Oulu due to payment difficulties of the client. The company that developed the hotel was declared bankrupt during the same year. SRV has about EUR 16m receivables due from the bankrupt company, secured by a mortgage on the property under construction and pledges on certain other assets. After the bankruptcy of the development company, SRV has advanced the project's planning and the leasing of the premises during the period when construction has been at a standstill. The target schedule for the commencement of construction is the turn of the year, with completion expected in 2025. Construction works will begin after the signing of the agreement with a new investor partner. During 2024, SRV has made rental agreements for the hotel, restaurant and other premises with different parties. The rental agreements support with the currently ongoing negotiations with the potential investor partners.

Figure 36: Balance sheet composition, at the end of Q3/24, in EUR m



Source: SRV, Evli Research

The financing arrangement in the first half of 2022 improved SRV's financial standing

During spring 2022, SRV completed an extensive financing arrangement where it drastically improved its balance sheet situation. The arrangement consisted of a rights issue, conversion of hybrid bonds, partial repurchase of previously issued notes and extension of revolving credit and project financing facility. The financing agreement was done mainly as a result of the impairments made to Russian assets after the Russian attack to Ukraine in February. As a result of the financing arrangement, the total number of shares outstanding nearly doubled from roughly 380m shares outstanding to over 677m shares outstanding. In July 2022, SRV executed a 40:1 reverse share split after which the number of the shares outstanding dropped to the current 17m shares outstanding. At the end of 2023, the company had roughly EUR 33.3m of interest–bearing debt outstanding, excluding the effect of IFRS 16. Including the leases, the interest–bearing debt was at EUR 139m. In addition to the interest–bearing liabilities, the company had EUR 33.5m (nominal value of EUR 57.1m) of hybrid bonds in its equity as a result of the conversion of the unsecured callable fixed rate notes in connection with the financing arrangement. The conversion was executed by amending the terms and conditions of the notes with the inclusion of a special right to convert the notes into shares if the company does not redeem them before 30th of June 2026. If converted, the number of shares would increase by 14.3 million shares or by approximately 84% compared to the current number of shares outstanding (hybrid bonds have nominal value of EUR 57.1m with EUR 4.0 per share conversion price). Hybrid bonds have an annual coupon rate of 4.875%. We adjust for the effect of the annual coupon rate in our calculation of adj. P/E.

Estimates

Guidance for FY24 was specified in connection with the Q3 report

SRV's net sales during the first nine months of the fiscal year were EUR 536.7m, growing 25% y/y. In terms of profitability, the company has retained positive EBIT throughout the fiscal year and EBIT for the first nine months amounted to EUR 7.3m. Profitability has improved drastically y/y as during 1–9/2023, operative EBIT amounted to EUR –1.3m. With three quarters of the fiscal year in the books, SRV specified its outlook for 2024:

- Full-year consolidated revenue for 2024 is expected to amount to EUR 620–750m (revenue in 2023: EUR 610.0 million).
- Operative operating profit is expected to improve amount to EUR 7–12m (operative operating profit in 2023: EUR 1.1 million).

In line with the updated guidance, we estimate net sales of EUR 733m and operative operating profit of EUR 10.2m for 2024E. We expect slight y/y revenue growth for Q4/24 driven by continued growth in non-residential while we expect residential net sales to decline. For Q4 operative EBIT, we forecast EUR 3.0m with margin of 1.5%. Although we project revenue growth, we anticipate that profitability will remain comparable to last year's figures due to the anticipated sales mix.

No help from developer-contracted housing in 2025E

At the end of Q3/24, SRV had no developer contracted units under construction. At the same time, it had 95 developer contracted units completed and unsold. Typically, construction of a more complex residential apartment building takes at least one and a half years to complete. Therefore, we estimate that the revenue from developer contracting in 2025E is solely driven by the sale of currently unsold units. We expect that the company is able to sell slightly over half of the unsold units in 2025. While we model only a relatively small contribution from the developer contracting side in 2025, we estimate a pick-up in contracting and development projects from the levels seen in 2024. The company has already been able to increase the units under construction especially on the contracting side during 2024. SRV's non-residential order backlog was at EUR 1047m at the end of Q3/24 while the total backlog was at EUR 1180m. Driven by the robust non-residential backlog, we expect continued non-residential revenue growth for 2025E. We've raised our non-residential revenue growth estimate slightly and now project a group wide 4% increase for 2025E to EUR 780m based on our backlog-driven estimate model. As most of the current active projects are lower risk contracting and co-development projects, the project margin potential for 2025 remains low. We model operative EBIT of EUR 16.0m with a margin of 2.1% for 2025E.

Residential sales growth to pick-up in 2026E

We expect that in 2025, the market will start to absorb the current inventory of unsold apartments, and the new starts will weight on the second half of the year. In line with this, we estimate that SRV will be able to start developer contracted housing projects in 2025 which will lead to pick-up in residential net sales in 2026. First indications of developer-contracting starts can already be seen in the market and SRV has currently one project in public pre-marketing where slightly less than half of the units are already reserved. We model net sales of EUR 860m for 2026E, with a 10% annual growth rate, driven by an 82% y/y increase in residential sales from low levels. With higher share of residential construction of total net sales, we forecast operative EBIT of EUR 26m with a margin of 3.1% for 2026E.

Developer contracted projects tie in capital

The capital requirements of SRV depend largely on the composition of the project portfolio. In developer-contracting, the company's capital is tied to plot reserve and construction of the building. In co-development projects, SRV's capital is invested in plot reserves. Conversely, contracting requires minimal assets and has negative working capital. As we project growth in residential developer contracting for 2026–2027E, we model increase in NWC. While we expect some tied in capital in terms of plot reserves and working capital, SRV should continue to operate with more asset light balance sheet compared to history as the company's strategy has shifted away from the longer-term co-ownership projects.

Target for operating profit is ambitious

In the Capital Markets Day 2023, SRV announced new long-term financial objectives that it aims to achieve by the end of 2027:

- Revenue: EUR >900m
- Operative operating profit of at least EUR 50 million (earlier 6%)
- Dividend policy: 30–50% of the annual result

Our estimates for 2027 remain below the company's financial targets. In our view, the net sales target could be reached if the market pick-ups faster than we expect. Our current estimate for 2027 net sales lies just short of the lower end of the company's target. The company's EBIT target for 2027 is high when compared to the company's historical track record. We model EBIT of EUR 31m for 2027, notably lower than the company's target. With our net sales estimate of EUR 894m for 2027, EUR 50m of EBIT would equal to margin of 5.6%. During 2010's the company's EBIT margin hovered around 2–4% p.a. and reaching 6% would in our view require better market conditions than we currently expect that would drive faster revenue growth and/or improved sales mix that would include higher margin developer contracted projects.

Table 1: Estimate summary

SRV	2022	Q1/'23	Q2/'23	Q3/'23	Q4/'23	2023	Q1/'24	Q2/'24	Q3/'24	Q4/'24E	2024E	2025E	2026E
Revenue	**770.1**	**138.3**	**142.4**	**146.9**	**181.8**	**609.3**	**167.0**	**186.3**	**183.5**	**196.0**	**732.8**	**780.0**	**859.9**
change, %	*-17.4%*	*-27.5%*	*-32.6%*	*-21.4%*	*0.3%*	*-20.9%*	*20.8%*	*30.8%*	*24.9%*	*7.8%*	*20.3%*	*6.4%*	*10.3%*
Revenue – Business construction	427.2	113.9	111.0	130.5	153.1	508.5	156.1	173.3	167.2	175.0	671.6	698.5	712.4
change, %	*-26.5%*	*15.4%*	*-8.2%*	*36.9%*	*36.3%*	*19.0%*	*37.1%*	*56.1%*	*28.1%*	*14.3%*	*32.1%*	*4.0%*	*2.0%*
Revenue – Housing construction	319.1	24.0	31.4	16.3	28.7	100.4	10.9	13.0	16.2	15.4	61.1	81.0	147.0
change, %	*-8.5%*	*-68.6%*	*-63.4%*	*-81.6%*	*-57.9%*	*-68.5%*	*-54.6%*	*-58.6%*	*-0.6%*	*-46.3%*	*-39.1%*	*32.6%*	*81.5%*
Operative operating profit	**18.8**	**-2.0**	**-3.9**	**4.6**	**2.4**	**1.1**	**1.3**	**1.5**	**4.5**	**3.0**	**10.2**	**16.0**	**26.4**
-margin	*2.4%*	*-1.4%*	*-2.7%*	*3.1%*	*1.3%*	*0.2%*	*0.8%*	*0.8%*	*2.5%*	*1.5%*	*1.4%*	*2.1%*	*3.1%*
Operating profit	**-76.4**	**-2.0**	**-3.7**	**-4.9**	**3.1**	**-7.5**	**1.3**	**1.5**	**4.5**	**3.0**	**10.2**	**16.0**	**26.4**
-margin	*-9.9%*	*-1.4%*	*-2.6%*	*-3.3%*	*1.7%*	*-1.2%*	*0.8%*	*0.8%*	*2.5%*	*1.5%*	*1.4%*	*2.1%*	*3.1%*
Net financials	-2.7	-2.5	-2.5	-1.6	-2.5	-9.0	-0.7	-1.4	-2.8	-2.0	-6.9	-7.0	-7.2
Pre-tax profit	**-79.1**	**-4.4**	**-6.2**	**-6.5**	**0.7**	**-16.5**	**0.5**	**0.1**	**1.7**	**1.0**	**3.3**	**9.0**	**19.3**
Income taxes	-6.5	1.3	0.8	0.0	-1.4	0.7	0.0	0.1	-0.8	-0.2	-0.7	-1.8	-3.9
Non-controlling interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net earnings	**-85.7**	**-3.1**	**-5.4**	**-6.5**	**-0.7**	**-15.8**	**0.5**	**0.2**	**1.0**	**0.8**	**2.6**	**7.2**	**15.4**

Source: SRV, Evli Research estimates

Valuation

We retain our HOLD rating and our target price of EUR 5.0. The near-term upside remains limited as the company's valuation looks stretched based on our estimates for 2024E. In 2025E the valuation returns to more neutral levels while based on 2026E estimates, SRV is priced at a notable discount compared to our Nordic construction company peer group. In addition, the current pricing presents a discount to the value derived from our discounted cash flow valuation. In our view, further evidence of the company's turnaround and pick-up in the residential construction market are essential for the company's long-term value potential to unlock.

Peer group consists of Nordic construction companies

Our peer group includes Nordic construction companies that are active in various forms of construction. The peer group consist of companies of which some are SRV's direct competitors such as YIT, Skanska, NCC, and Peab. To broaden the scope of the peer group, we have also added Consti despite its focus on renovation segment due to the contracting led business model. We also include JM and Bonava which focus on residential development and developer contracting.

EV/Sales at historically low levels

During the last 10-year period, SRV has been priced at approximately 0.5x FWD EV/Sales, roughly in line with the peer group. SRV is currently priced at 0.3x EV/Sales based on our estimates for 2024-2025E, significantly below the company's own historical multiple levels. In addition to the discount compared to own historical levels, the peer group is priced at FWD EV/Sales of 0.5-0.6x on average and the current discount to peer group is approximately 30-35% while on average the discount has been approximately 25% (10-year average). Historically, the discount can be explained by the company's issues with profitability. In our view, the main reason for the current steeper discount based on the sales multiple is the company's project portfolio that generates volumes yet has a lower margin potential.

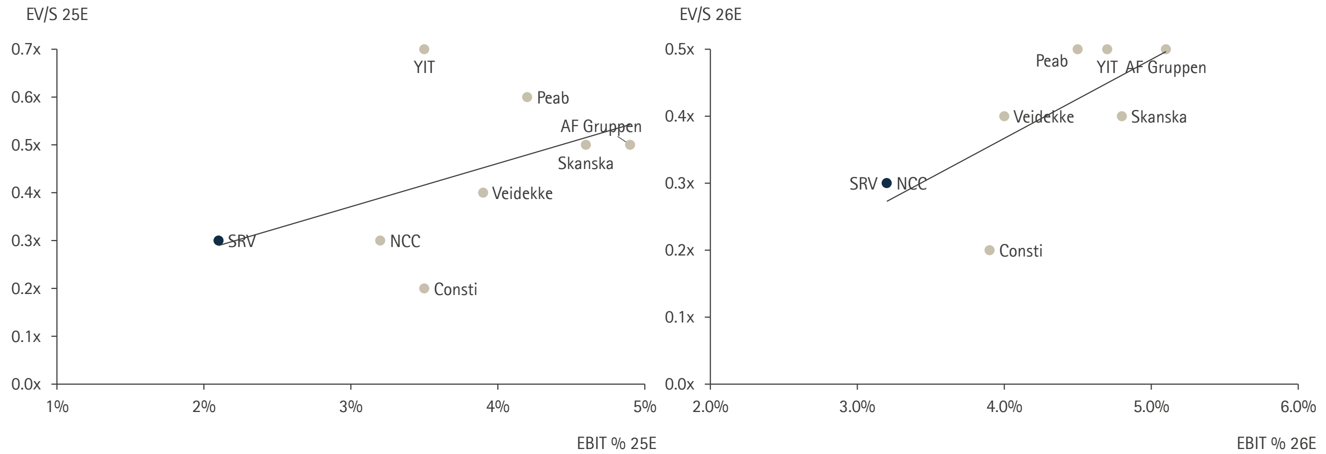
Earnings based multiples remain high in the short-term

Based on estimates for 2024-2025E, SRV is valued at EV/EBIT of 21-14x. The company's 10-year average EV/EBIT is 14x (excluding outliers), while the peer group has been valued at approximately 12x. The elevated historical FWD EV/EBIT multiple for SRV is attributable to the company's persistent profitability challenges in recent years. We regard the historical sector average EV/EBIT of 12x as a more sustainable benchmark within the industry in normal market conditions. Currently, the peer group multiples are marginally elevated for the 2024-2025E period due to the current cycle phase. While on relative terms SRV's earnings-based valuation is elevated for 2024E, the 2025E EV/EBIT multiple of 14x based on our estimates is already a more neutral level given the peer group valuation. In 2026E, the EV/EBIT multiple falls to 8x which is approximately 30% lower than the peer group average. In terms of P/E, the company's FWD P/E during the last 10-year period (excl. outliers) has been at approximately 12x, roughly in line with the peer group average. For 2025E, SRV is priced at 16x adj. P/E based on our estimates. For 2026E, adj. P/E falls to 6x which is 50% lower than the peer group average. While the long-term potential remains high as illustrated by the earnings-based multiples, the visibility into earnings beyond 2025 is limited.

DCF indicates high long–term potential

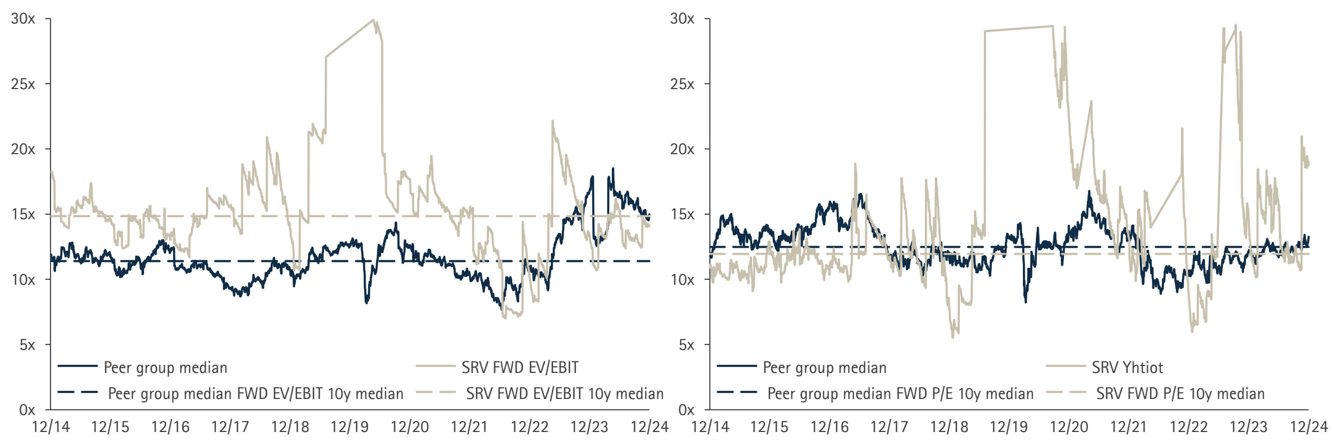
DCF analysis illustrates the long–term potential of the company as we expect the market to normalize in the medium to long term. We forecast SRV reaching EBIT of EUR 31m in 2027E with net sales of EUR 894m resulting in EBIT margin of 3.5%. As commented earlier, our estimates for both net sales and EBIT is at a lower level compared SRV's financial targets (revenue of EUR >900m and operative operating profit of at least EUR 50 million). In the long–term, we estimate sales growth to fall to 2% and EBIT margin to remain steady at 3.0%, approximately in line with the company's historic normalized margin level. With WACC of 10.0%, our DCF points towards a fair value of approximately EUR 8.1 per share, considerably higher than the current market pricing. Although the fair value suggests significant upside, we are cautious due to the limited clarity regarding market recovery.

Figure 37: EV/Sales (y–axis) and EBIT margin (x–axis) 2025E (lhs) & 2026E (rhs), excluding outliers



Source: Factset, Evli Research

Figure 38: Historic FWD EV/EBIT (lhs) & P/E (rhs) SRV vs. Peer group median, 2014–2024, excluding outliers



Source: Factset, Evli Research

Table 2: Peer group summary

Company name	MCAP	EV/EBITDA			EV/EBIT			P/E*		
	MEUR	24	25	26	24	25	26	24	25	26
YIT	519	20.3x	16.3x	12.0x	37.4x	23.0x	15.3x			16.7x
Skanska	8516	11.0x	9.8x	9.2x	14.3x	12.1x	11.1x	16.4x	13.7x	12.7x
NCC	1391	7.0x	7.0x	7.0x	11.8x	11.4x	11.3x	11.8x	10.9x	10.6x
Peab	2005	9.6x	9.1x	8.4x	15.8x	14.7x	12.9x	13.7x	12.9x	11.1x
JM AB	960	42.8x	30.1x	19.3x	40.4x	31.0x	19.3x	36.6x	20.8x	11.8x
Bonava	230	37.9x	24.3x	19.5x	24.0x	25.9x	19.8x			
AF Gruppen	1374	10.5x	8.2x	7.6x	17.3x	11.9x	10.8x	24.2x	16.4x	14.9x
Consti	81	6.1x	5.6x	5.0x	8.4x	7.5x	6.4x	11.1x	9.5x	8.1x
Veidekke	1614							15.1x	14.5x	13.7x
Peer Group Average	1854	18.2x	13.8x	11.0x	21.2x	17.2x	13.4x	18.4x	14.1x	12.5x
Peer Group Median	1374	10.8x	9.5x	8.8x	16.6x	13.4x	12.1x	15.1x	13.7x	12.3x
SRV (Evli est.)	82	13.1x	9.5x	6.3x	21.1x	13.7x	8.3x		16.3x	6.1x
SRV prem./disc. to peer median		*21 %*	*1 %*	*-28 %*	*27 %*	*2 %*	*-32 %*		*19 %*	*-50 %*

**SRV P/E adj. for hybrid bond coupon rate*

Source FactSet, Evli Research

Investment risks

Construction market risk

The construction market is cyclical and the demand for all segments of new construction are heavily affected by the macroeconomic environment. The residential new construction market is more directly impacted by consumer confidence and demand, which is driven by for example salary development and mortgage interest rates. The non-residential new construction market demand is influenced by investments from companies and the public sector, office vacancy rates, interest rates and investor yield requirements among other things. SRV's portfolio is quite well diversified among the main new construction segments, yet the company is focused on new construction and less cyclical renovation construction is less than 10% of the company's total revenue.

Developer-contracting involves balance sheet risk

In developer-contracting projects, SRV bears the risk throughout the project's lifecycle from land acquisition to the sale of the building. Unlike co-development projects, the developer-contracting projects are not sold to investors prior to construction start. Developer-contracting projects are therefore riskier as the company's capital is tied to the project and in addition, the company bears the risks involved with selling the project after completion. The current risk level is minimal, as developer-contracted housing constitutes only a minor portion of the company's project portfolio. SRV has also implemented new parameters to mitigate the risks as the capital tied into residential construction and plots should not exceed 50% of the balance sheet total (excl. IFRS 16) and a single project should not exceed one fifth of the total tied in capital.

Project risk

Construction is project driven by nature. Construction projects include various risks including delays and cost overruns. In projects where SRV recognizes revenue based on sale of units, delays in completion delay the recognition of revenue and operating profit. Alliance and project management contracts entail a lower result-related risk for the company as the customer carries a notable share of the liability if project costs rise. The company is active in own on-balance sheet construction operations such as developer contracted housing construction and co-ownership projects such as Tampere deck and arena. In developer-contracted housing projects, SRV bears the risks involved in both the sale and construction of the housing units. SRV is active in various demanding residential and non-residential construction projects. The larger and demanding projects include various technically challenging structures which increases the risk for potential defects in construction. In addition to possible errors in SRV's own operations, the company is also responsible for defects caused by subcontractors. Errors concerning planning, procurement and quality of work may be claimed from SRV during the construction and guarantee period (in certain building structures even after the guarantee period).

Supply chain and cost risk

The availability and cost of personnel, subcontractors and materials is essential for the company's operations and profitability. Due to the company's business model and the SRV approach, the company relies heavily on subcontractors. In 2023, the aggregate number of workers on the company's sites amounted to roughly 18,000, while SRV's own employees amounted to only roughly 800 employees. In a heated construction market, the availability and costs of both subcontractors and materials increase, this can lead to negative effects on the company's project margins and delays in the projects. Additionally, financial stability is critically important when selecting subcontractors, especially in a weak construction market like the current situation in Finland where many subcontractors are facing financial difficulties.

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	4.83	PV of Free Cash Flow	131	Long-term growth, %	2.0 %	Risk-free interest rate, %	2.25 %
DCF share value	8.1	PV of Horizon value	139	WACC, %	10 %	Market risk premium, %	5.8 %
Share price potential, %	68.4 %	Unconsolidated equity	0	Spread, %	0.5 %	Debt risk premium %	3.8 %
Maximum value	9.2	Marketable securities	40	Minimum WACC, %	9.5 %	Equity beta coefficient	1.40
Minimum value	7.2	Debt - dividend	-172	Maximum WACC, %	10.5 %	Target debt ratio, %	20 %
Horizon value, %	51.5 %	Value of stock	138	No. of shares, Mn	16.9	Effective tax rate, %	20 %

DCF valuation, EURm	2023	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	TERMINAL
Net sales	610	733	780	860	894	921	940	958	978	997	1 017	1 037
Sales growth (%)	*-20.8%*	*20.1%*	*6.4%*	*10.3%*	*4.0%*	*3.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*	*2.0%*
Operating income (EBIT)	-7	10	16	26	31	32	33	29	29	30	31	31
Operating income margin %	*-1.1%*	*1.4%*	*2.1%*	*3.1%*	*3.5%*	*3.5%*	*3.5%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
+ Depreciation+amort.	6	6	7	8	9	9	9	9	9	9	9	
EBITDA	-1	17	23	35	40	41	42	38	38	39	40	
- Paid taxes	-1	-3	-3	-5	-6	-6	-7	-6	-6	-6	-6	
- Change in NWC	9	1	-7	-12	-5	-4	-3	-3	-3	-3	-3	
NWC / Sales, %	*17.6%*	*14.5%*	*14.5%*	*14.5%*	*14.5%*	*14.5%*	*14.5%*	*14.5%*	*14.5%*	*14.5%*	*14.5%*	
+ Change in other liabs	-4											
- Operative CAPEX	-3	-4	-7	-5	-4	-4	-4	-4	-4	-5	-5	
opCAPEX / Sales, %	*3.1%*	*1.5%*	*1.3%*	*1.3%*	*1.1%*	*1.0%*	*0.9%*	*0.9%*	*0.8%*	*0.8%*	*0.5%*	
- Acquisitions												
+ Divestments												
- Other items	0											
= FCFF	0	12	6	13	24	26	28	25	25	26	26	330
= Discounted FCFF		12	6	11	18	18	17	14	13	12	11	139
= DFCF min WACC		12	6	11	18	18	18	14	13	12	11	155
= DFCF max WACC		12	6	11	18	18	17	14	12	11	10	126

INTERIM FIGURES

EVLI ESTIMATES, EURm	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024Q1	2024Q2	2024Q3	2024Q4E	2024E	2025E	2026E
Net sales	138.3	143.1	146.9	181.8	610.1	167.0	186.3	183.5	196.0	732.8	780.0	859.9
EBITDA	-0.6	-1.6	-3.5	4.5	-1.2	2.7	3.7	5.8	4.4	16.5	23.0	34.6
EBITDA margin (%)	*-0.4%*	*-1.1%*	*-2.4%*	*2.5%*	*-0.2%*	*1.6%*	*2.0%*	*3.2%*	*2.2%*	*2.3%*	*2.9%*	*4.0%*
EBIT	-2.0	-3.0	-4.9	3.1	-6.8	1.3	1.5	4.5	3.0	10.2	16.0	26.4
EBIT margin (%)	*-1.5%*	*-2.1%*	*-3.3%*	*1.7%*	*-1.1%*	*0.8%*	*0.8%*	*2.5%*	*1.5%*	*1.4%*	*2.1%*	*3.1%*
Net financial items	-2.5	-2.5	-1.6	-2.5	-9.0	-0.7	-1.4	-2.8	-2.0	-6.9	-7.0	-7.2
Pre-tax profit	-4.5	-5.5	-6.5	0.7	-15.8	0.5	0.1	1.7	1.0	3.3	9.0	19.3
Tax	1.3	0.8		-1.4	0.7		0.1	-0.8	-0.2	-0.8	-1.8	-3.9
Tax rate (%)	*28.9%*	*14.6%*		*200.3%*	*4.4%*		*-100.0%*	*44.1%*	*20.0%*	*25.5%*	*20.0%*	*20.0%*
Net profit	-3.5	-4.7	-6.5	-0.7	-15.4	0.5	0.2	1.0	0.8	2.5	7.2	15.4
EPS	-0.21	-0.28	-0.38	-0.04	-0.90	0.03	0.01	0.06	0.05	0.15	0.43	0.91
EPS adj. (diluted)	-0.21	-0.28	-0.38	-0.04	-0.90	0.03	0.01	0.06	0.05	0.15	0.43	0.91
Dividend per share											0.06	0.27

SALES, EURm	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024Q1	2024Q2	2024Q3	2024Q4E	2024E	2025E	2026E
Group	138.3	143.1	146.9	181.8	610.1	167.0	186.3	183.5	196.0	732.8	780.0	859.9
Total	138.3	143.1	146.9	181.8	610.1	167.0	186.3	183.5	196.0	732.8	780.0	859.9

SALES GROWTH, Y/Y %	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024Q1	2024Q2	2024Q3	2024Q4E	2024E	2025E	2026E
Group	-27.5%	-32.3%	-21.4%	0.4%	-20.8%	20.8%	30.2%	24.9%	7.8%	20.1%	6.4%	10.3%
Total	-27.5%	-32.3%	-21.4%	0.4%	-20.8%	20.8%	30.2%	24.9%	7.8%	20.1%	6.4%	10.3%

EBIT, EURm	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024Q1	2024Q2	2024Q3	2024Q4E	2024E	2025E	2026E
Group	-2.0	-3.0	-4.9	3.1	-6.8	1.3	1.5	4.5	3.0	10.2	16.0	26.4
Total	-2.0	-3.0	-4.9	3.1	-6.8	1.3	1.5	4.5	3.0	10.2	16.0	26.4

EBIT margin %	2023Q1	2023Q2	2023Q3	2023Q4	2023	2024Q1	2024Q2	2024Q3	2024Q4E	2024E	2025E	2026E
Group	-1.5%	-2.1%	-3.3%	1.7%	-1.1%	0.8%	0.8%	2.5%	1.5%	1.4%	2.1%	3.1%
Total	-1.5%	-2.1%	-3.3%	1.7%	-1.1%	0.8%	0.8%	2.5%	1.5%	1.4%	2.1%	3.1%

INCOME STATEMENT, EURm	2019	2020	2021	2022	2023	2024E	2025E	2026E
Sales	1 061.0	975.5	932.5	770.1	610.1	732.8	780.0	859.9
Sales growth (%)	10.5%	-8.1%	-4.4%	-17.4%	-20.8%	20.1%	6.4%	10.3%
EBITDA	-3.1	20.4	4.5	-67.0	-1.2	16.5	23.0	34.6
EBITDA margin (%)	-0.3%	2.1%	0.5%	-8.7%	-0.2%	2.3%	2.9%	4.0%
Depreciation	-90.0	-18.9	-6.3	-9.3	-5.6	-6.3	-7.0	-8.2
EBITA	-93.1	1.5	-1.8	-76.3	-6.8	10.2	16.0	26.4
Goodwill amortization / writedown								
EBIT	-93.1	1.5	-1.8	-76.3	-6.8	10.2	16.0	26.4
EBIT margin (%)	-8.8%	0.2%	-0.2%	-9.9%	-1.1%	1.4%	2.1%	3.1%
Reported EBIT	-14.7	1.5	-1.8	-76.3	-6.8	10.2	16.0	26.4
EBIT margin (reported) (%)	-1.4%	0.2%	-0.2%	-9.9%	-1.1%	1.4%	2.1%	3.1%
Net financials	-29.3	-29.4	-18.6	-2.7	-9.0	-6.9	-7.0	-7.2
Pre-tax profit	-122.4	-27.9	-20.4	-79.0	-15.8	3.3	9.0	19.3
Taxes	18.7	2.9	0.5	-6.6	0.7	-0.8	-1.8	-3.9
Minority shares	0.7	2.3						
Net profit	-28.8	-27.1	-21.4	-85.7	-15.4	2.5	7.2	15.4
Cash NRIs								
Non-cash NRIs	78.4							
BALANCE SHEET, EURm								
Assets								
Fixed assets	122	120	122	15	18	20	24	25
Goodwill	2	2	2	2	2	2	2	2
Right of use assets	149	130	82	84	96	99	97	99
Inventory	372	355	227	163	157	176	195	215
Receivables	204	155	143	103	89	106	113	125
Liquid funds	28	97	68	45	40	37	39	43
Total assets	913	899	686	448	439	477	508	546
Liabilities								
Shareholders' equity	95	170	150	113	105	108	115	129
Minority interest	-2	-4						
Convertibles	83	15	15	34	34	34	34	
Lease liabilities	150	136	89	92	106	99	97	99
Deferred taxes	3	3	1	1	0	0	0	0
Interest bearing debt	300	250	149	34	33	38	45	81
Non-interest bearing current liabilities	244	285	243	148	138	176	195	215
Other interest-free debt	21	21	15	7	3	3	3	3
Total liabilities	914	899	686	449	439	477	508	546
CASH FLOW, EURm								
+ EBITDA	-3	20	5	-67	-1	17	23	35
- Net financial items	-29	-29	-19	-3	-9	-7	-7	-7
- Taxes	-1	-2	-2	-2	0	-1	-2	-4
- Increase in Net Working Capital	-75	107	98	11	9	1	-7	-12
+/- Other	98	-49	-13	50	0			
= Cash flow from operations	-11	46	69	-10	-2	10	7	12
- Capex	-26	2	45	-58	-19	-11	-10	-11
- Acquisitions		-5						
+ Divestments		29						
= Free cash flow	-37	72	114	-68	-21	-1	-3	1
+/- New issues/buybacks	-67	100	5	49	8			
- Paid dividend							1	5
+/- Other	39	-103	-148	-4	8	-2	5	4
Change in cash	-65	69	-29	-23	-6	-3	2	4

KEY FIGURES	2020	2021	2022	2023	2024E	2025E	2026E
M-cap	155	139	65	67	82	82	82
Net debt (excl. convertibles)	289	170	80	99	100	103	137
Enterprise value	456	325	178	200	216	218	218
Sales	976	933	770	610	733	780	860
EBITDA	20	5	-67	-1	17	23	35
EBIT	2	-2	-76	-7	10	16	26
Pre-tax	-28	-20	-79	-16	3	9	19
Earnings	-27	-21	-86	-15	2	7	15
Equity book value (excl. minorities)	170	150	113	105	108	115	129

Valuation multiple	2020	2021	2022	2023	2024E	2025E	2026E
EV/Sales	0.5	0.3	0.2	0.3	0.3	0.3	0.3
EV/EBITDA	22.4	72.2	-2.7	-173.7	13.1	9.5	6.3
EV/EBITA	304.1	-180.4	-2.3	-29.6	21.1	13.7	8.3
EV/EBIT	304.1	-180.4	-2.3	-29.6	21.1	13.7	8.3
EV/OCF	9.9	4.7	-17.7	-105.2	21.6	29.8	18.2
EV/FCF	5.5	3.4	-3.2	-558.8	18.6	34.3	16.8
P/FCFR	0.1	0.0	-1.0	-3.2	-75.2	-31.2	73.0
P/E	-5.7	-6.5	-0.8	-4.4	33.2	11.4	5.3
P/BV	0.9	0.9	0.6	0.6	0.8	0.7	0.6
Target EV/EBITDA					13.2	9.6	6.4
Target EV/EBIT					21.4	13.8	8.4
Target EV/FCFF					-200.9	-84.3	197.4
Target P/BV					0.8	0.7	0.7
Target P/E, diluted	-6.5	-18.0	-1.0	-5.7	34.4	11.8	5.5

Per share measures	2020	2021	2022	2023	2024E	2025E	2026E
Number of shares (million)	9.43	9.43	16.98	16.98	16.94	16.94	16.94
Number of shares (diluted, million)	9.43	9.43	16.98	16.98	16.94	16.94	16.94
EPS	-2.88	-2.27	-5.05	-0.90	0.15	0.43	0.91
Operating cash flow per share	4.91	7.31	-0.59	-0.11	0.59	0.43	0.71
Free cash flow per share	7.64	12.08	-3.99	-1.24	-0.06	-0.15	0.07
Book value per share	17.99	15.88	6.64	6.20	6.36	6.79	7.63
Dividend per share						0.06	0.27
Dividend payout ratio, %						15.0%	30.0%
Dividend yield, %						1.3%	5.7%
FCF yield, %	46.4%	81.7%	-105.1%	-31.4%	-1.3%	-3.2%	1.4%

Efficiency measures	2020	2021	2022	2023	2024E	2025E	2026E
ROE	-20.5%	-13.4%	-65.3%	-14.1%	2.3%	6.5%	12.6%
ROCE	0.9%	0.7%	-21.4%	-2.5%	3.7%	5.6%	8.8%

Financial ratios	2020	2021	2022	2023	2024E	2025E	2026E
Inventories as % of sales	36.4%	24.4%	21.1%	25.8%	24.0%	25.0%	25.0%
Receivables as % of sales	15.8%	15.4%	13.3%	14.5%	14.5%	14.5%	14.5%
Non-int. bearing liabilities as % of sales	29.2%	26.1%	19.2%	22.7%	24.0%	25.0%	25.0%
NWC/sales, %	23.1%	13.7%	15.1%	17.6%	14.5%	14.5%	14.5%
Operative CAPEX/Sales, %	-0.2%	-4.8%	7.5%	3.1%	1.5%	1.3%	1.3%
CAPEX/sales (incl. acquisitions), %	-0.6%	-4.8%	7.5%	3.1%	1.5%	1.3%	1.3%
FCFF/EBITDA	4.1	21.5	0.8	0.3	0.7	0.3	0.4
Net Debt/EBITDA, book-weighted	14.2	37.8	-1.2	-86.3	6.1	4.5	3.9
Debt/equity, market-weighted	1.6	1.1	0.5	0.5	0.5	0.5	1.0
Equity ratio, book-weighted	0.2	0.3	0.4	0.4	0.4	0.4	0.3
Gearing, %	159.8%	103.0%	55.0%	71.6%	71.1%	69.4%	105.6%

COMPANY DESCRIPTION: SRV is a Finnish project management contractor that develops and builds commercial and business premises, residential units as well as infrastructure and logistics projects.

INVESTMENT CASE: SRV's road has been bumpy in the past few years and earnings have been weak despite good demand. The current slower residential construction market presents challenges yet several factors support the company including a healthy balance sheet, low amount of unsold developer contracted units and a solid backlog of lower-risk business construction projects. With the revised strategy, SRV aims towards sustainable profitability driven by increasing the share accounted for by housing construction and especially by housing and business premises construction based on in-house project development in a controlled manner.

OWNERSHIP STRUCTURE	SHARES	EURm	%
As Pontos Baltic	2 877 709	13.899	17.0 %
Ilmarinen Mutual Pension Insurance Company	1 942 246	9.381	11.5 %
Kolpi Investments Oy	1 446 353	6.986	8.5 %
Havu Capital Oy	957 562	4.625	5.7 %
OP Life Assurance Company Ltd	771 547	3.727	4.6 %
Tungelin Investments Oy	654 055	3.159	3.9 %
Lareale Investments Oy	654 055	3.159	3.9 %
Varma Mutual Pension Insurance Company	483 611	2.336	2.9 %
Pohjola Insurance Ltd	394 650	1.906	2.3 %
Nordea Life Assurance Finland Ltd.	371 510	1.794	2.2 %
Ten largest	10 553 298	50.972	62.3 %
Residual	6 384 512	30.837	37.7 %
Total	16 937 810	81.810	100%

EARNINGS CALENDAR

February 06, 2025	FY 2024 Results

OTHER EVENTS

COMPANY MISCELLANEOUS

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IR:	

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 / Shareholder's 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 rate per year
ROE, % Profit before extraordinary items and taxes – income taxes / Shareholders' equity + minority interest + 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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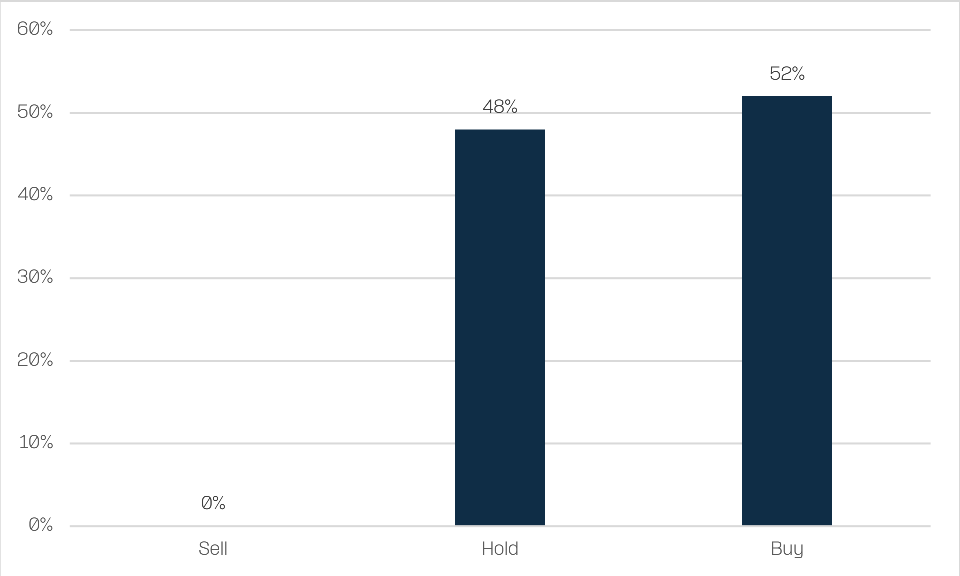

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Name(s) of the analyst(s): Atte Jortikka

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