

Margins improving, volumes lacking

SRV's Q1 revenue was slightly below expectations but profitability beat our estimates. The continued positive margin development is essential while we remain rather dubious about construction volumes during 2021. We raise our target price to EUR 0.80 (0.64), BUY-rating intact.

Revenue slightly below estimates but good profitability

SRV's Q1 results were somewhat in line with expectations, as although revenue came in a bit short at EUR 187.1m (EUR 205.7m/196.0m Evli/Cons.), EBIT amounted to a rather solid EUR 5.2m (EUR 4.4m/3.2m Evli/cons.). The order backlog stood at EUR 1,061m (Q1/20: EUR 1,362m). Order intake was quite weak at EUR 85.4m but on a positive note these included new developer contracted housing units, with start-ups picking up again after the break during Q1-Q3/2020. The most positive news in our view was the continued improvement in the Construction segments EBIT-margins (Q1/21: 3.7%, Q1/20: 3.0%) and the already earlier announced approx. EUR 730m Laakso Joint Hospital alliance project, to which SRV was chosen to develop and build (not yet final).

Favourable margin development, volumes a slight concern

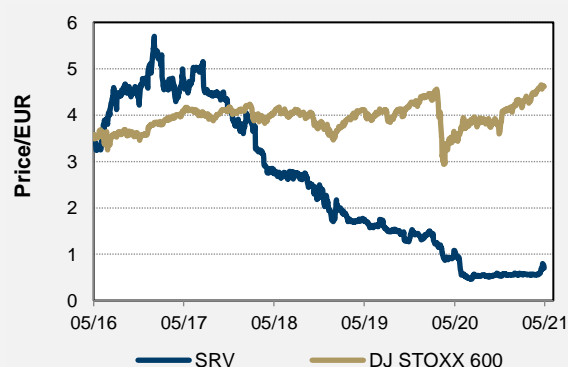
With the lower than expected revenue and rather meager order development we have lowered our 2021 sales estimates near the lower bound of the EUR 900-1,050m sales guidance. Although SRV anticipates improved order intake in Q2 along with the increase in completion of developer contracted housing units later on in 2021 a more conservative approach still appears warranted. On the current profitability track and even if revenue were to decline clearly the upper bound of the profitability guidance is well within reach assuming no major surprises in the Investments-segment.

BUY with a target price of EUR 0.80 (0.64)

Although construction volumes are a slight concern going forward, the main thing for SRV is that margins have continued to develop positively and even better than we had expected. We raise our target price to EUR 0.80 (0.64), BUY-rating intact.

Rating

BUY



Share price, EUR (Last trading day's closing price) 0.70

Target price, EUR 0.8

Latest change in recommendation 21-Jul-20

Latest report on company 05-Feb-21

Research paid by issuer: YES

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

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

Market cap, EURm 184

Free float, % 33.2

Exchange rate 1.000

Reuters code SRV1V.HE

Bloomberg code SRV1V FH

Average daily volume, EURm 0.06

Next interim report 21-Jul-21

 Web site srv.fi/en/investors

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BUY HOLD SELL

KEY FIGURES

| | Sales EURm | EBIT EURm | EBIT % | FCF EURm | EPS EUR | P/E (x) | EV/Sales (x) | EV/EBIT (x) | FCF yield % | DPS EUR |
|--------------------------|---------------|--------------|-------------------------|-------------|------------|------------|-----------------------|----------------|----------------|------------|
| 2019 | 1,061.0 | -93.1 | -8.8% | -36.9 | -1.80 | -0.8 | 0.6 | -6.3 | -45.6 | 0.00 |
| 2020 | 975.5 | 1.5 | 0.2% | 72.0 | -0.10 | -5.7 | 0.5 | 304.1 | 46.4 | 0.00 |
| 2021E | 904.3 | 23.9 | 2.6% | 37.4 | 0.01 | 51.2 | 0.5 | 18.7 | 20.3 | 0.00 |
| 2022E | 932.8 | 26.7 | 2.9% | -3.1 | 0.03 | 25.8 | 0.5 | 16.8 | -1.7 | 0.00 |
| 2023E | 970.7 | 32.1 | 3.3% | 64.3 | 0.05 | 14.3 | 0.5 | 13.6 | 34.9 | 0.01 |
| Market cap, EURm | | 184 | Gearing 2021E, % | | | 136.3 | CAGR EPS 2020-23, % | | | 0.0 |
| Net debt 2021E, EURm | | 267 | Price/book 2021E | | | 1.1 | CAGR sales 2020-23, % | | | -0.2 |
| Enterprise value, EURm | | 447 | Dividend yield 2021E, % | | | 0.0 | ROE 2021E, % | | | 2.1 |
| Total assets 2021E, EURm | | 837 | Tax rate 2021E, % | | | 6.7 | ROCE 2021E, % | | | 5.2 |
| Goodwill 2021E, EURm | | 2 | Equity ratio 2021E, % | | | 24.6 | PEG, P/E 21/CAGR | | | 0.5 |

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

| SRV | 2019 | Q1/'20 | Q2/'20 | Q3/'20 | Q4/'20 | 2020E | Q1/'21 | Q2/'21E | Q3/'21E | Q4/'21E | 2021E | 2022E | 2023E |
|-----------------------------------|--------------|---------------|---------------|---------------|---------------|--------------|---------------|----------------|----------------|----------------|--------------|--------------|--------------|
| Revenue | 1 060.9 | 208.1 | 265.1 | 209.9 | 292.5 | 975.6 | 187.1 | 232.1 | 255.1 | 230.0 | 904.3 | 932.8 | 970.7 |
| change, % | 10.6% | -6.5% | 27.8% | -7.6% | -27.6% | -8.0% | -10.1% | -12.4% | 21.5% | -21.4% | -7.3% | 3.2% | 4.1% |
| Operative operating profit | -103.8 | 4.3 | 0.5 | 5.6 | 5.3 | 15.8 | 4.8 | 5.8 | 7.9 | 5.0 | 23.5 | 26.7 | 32.1 |
| -margin | -9.8% | 2.1% | 0.2% | 2.7% | 1.8% | 1.6% | 2.6% | 2.5% | 3.1% | 2.2% | 2.6% | 2.9% | 3.3% |
| Adjustment items | 3.8 | 0.2 | 2.7 | -3.9 | -13.4 | -14.4 | 0.4 | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 |
| Operating profit | -93.0 | 4.5 | 3.3 | 1.7 | -8.0 | 1.5 | 5.2 | 5.8 | 7.9 | 5.0 | 23.9 | 26.7 | 32.1 |
| -margin | -8.8% | 2.2% | 1.2% | 0.8% | -2.7% | 0.2% | 2.8% | 2.5% | 3.1% | 2.2% | 2.6% | 2.9% | 3.3% |
| Net financials | -29.3 | -11.1 | -3.0 | -8.8 | -6.4 | -29.4 | -4.1 | -4.8 | -4.8 | -4.8 | -18.5 | -16.0 | -16.0 |
| Pre-tax profit | -122.4 | -6.6 | 0.2 | -7.0 | -14.5 | -28.0 | 1.1 | 1.0 | 3.1 | 0.2 | 5.4 | 10.7 | 16.1 |
| Income taxes | 18.7 | -1.0 | -0.3 | 0.2 | 4.0 | 2.9 | 0.5 | -0.2 | -0.6 | 0.0 | -0.4 | -2.1 | -3.2 |
| Non-controlling interest | -0.7 | 1.4 | 1.1 | -0.1 | 0.0 | 2.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net earnings | -104.4 | -6.2 | 1.0 | -6.9 | -10.5 | -22.8 | 1.6 | 0.8 | 2.5 | 0.2 | 5.0 | 8.6 | 12.9 |
| EPS rep.* | -1.82 | -0.11 | 0.02 | -0.01 | -0.05 | -0.15 | 0.00 | 0.00 | 0.01 | 0.00 | 0.02 | 0.03 | 0.05 |
| Construction | 2019 | Q1/'20 | Q2/'20 | Q3/'20 | Q4/'20 | 2020E | Q1/'21 | Q2/'21E | Q3/'21E | Q4/'21E | 2021E | 2022E | 2023E |
| Revenue | 1 057.6 | 204.8 | 264.1 | 209.1 | 292.0 | 970.0 | 187.8 | 231.0 | 254.0 | 228.9 | 901.7 | 930.0 | 968.4 |
| change, % | 10.7% | -7.7% | 27.8% | -7.4% | -27.6% | -8.3% | -8.3% | -12.5% | 21.5% | -21.6% | -7.0% | 3.1% | 4.1% |
| Business construction | 679.7 | 154.0 | 182.2 | 157.8 | 186.7 | 680.7 | 140.5 | 174.0 | 153.0 | 180.9 | 648.4 | 667.9 | 687.9 |
| change, % | 2.0% | 5.9% | 12.1% | -7.8% | -6.9% | 0.1% | -8.8% | -4.5% | -3.0% | -3.1% | -4.7% | 3.0% | 3.0% |
| Housing construction | 377.9 | 50.8 | 81.9 | 51.3 | 105.3 | 289.3 | 47.3 | 57.0 | 101.0 | 48.0 | 253.3 | 262.2 | 280.5 |
| change, % | 30.7% | -34.0% | 87.8% | -6.2% | -48.0% | -23.4% | -6.9% | -30.4% | 96.9% | -54.4% | -12.4% | 3.5% | 7.0% |
| Operative operating profit | | 5.5 | 7.4 | 3.7 | 8.5 | 25.1 | 6.9 | 8.0 | 10.1 | 7.8 | 32.8 | 35.3 | 38.7 |
| -margin | | 2.7% | 2.8% | 1.8% | 2.9% | 2.6% | 3.7% | 3.5% | 4.0% | 3.4% | 3.6% | 3.8% | 4.0% |
| Adjustment items | | 0.7 | 0.0 | 1.5 | 0.2 | 2.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Operating profit | 7.0 | 6.2 | 7.4 | 5.2 | 8.7 | 27.4 | 6.9 | 8.0 | 10.1 | 7.8 | 32.8 | 35.3 | 38.7 |
| -margin | 0.7% | 3.0% | 2.8% | 2.5% | 3.0% | 2.8% | 3.7% | 3.5% | 4.0% | 3.4% | 3.6% | 3.8% | 4.0% |
| Investments | 2019 | Q1/'20 | Q2/'20 | Q3/'20 | Q4/'20 | 2020E | Q1/'21 | Q2/'21E | Q3/'21E | Q4/'21E | 2021E | 2022E | 2023E |
| Revenue | 5.9 | 1.6 | 1.2 | 1.1 | 0.9 | 4.8 | 1.0 | 1.1 | 1.1 | 1.1 | 4.3 | 4.5 | 4.0 |
| change, % | 28.3% | 23.1% | -20.0% | -21.4% | -47.1% | -18.6% | -37.5% | -8.3% | 0.0% | 22.2% | -10.4% | 4.7% | -11.1% |
| Operative operating profit | -96.2 | -1.0 | -4.4 | 1.6 | -1.9 | -5.7 | -0.8 | -1.3 | -1.3 | -1.3 | -5.0 | -4.0 | -2.0 |
| Adjustment items | 3.8 | -0.5 | 2.7 | -5.4 | -13.6 | -16.8 | 0.4 | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 |
| Operating profit | -92.4 | -1.4 | -1.7 | -3.8 | -15.5 | -22.5 | -0.4 | -1.3 | -1.3 | -1.3 | -4.6 | -4.0 | -2.0 |
| Other operations and elim. | 2019 | Q1/'20 | Q2/'20 | Q3/'20 | Q4/'20 | 2020E | Q1/'21 | Q2/'21E | Q3/'21E | Q4/'21E | 2021E | 2022E | 2023E |
| Revenue | -2.6 | 1.6 | -0.2 | -0.3 | -0.3 | 0.8 | -1.7 | 0.0 | 0.0 | 0.0 | -1.7 | -1.7 | -1.7 |
| Operating profit | -7.6 | -0.2 | -2.4 | 0.3 | -1.3 | -3.5 | -1.3 | -0.9 | -0.9 | -1.5 | -4.6 | -4.6 | -4.6 |

*incl. tax adjusted hybrid interest

| SRV PEER GROUP | MCAP MEUR | EV/EBITDA | | | EV/EBIT | | | P/E | | |
|--------------------|--------------|-----------|-------|-------|---------|-------|-------|-------|-------|-------|
| | | 21 | 22 | 23 | 21 | 22 | 23 | 21 | 22 | 23 |
| Skanska | 9627 | 9.6x | 9.0x | 7.4x | 12.2x | 11.4x | 10.6x | 16.7x | 15.6x | 14.4x |
| Peab | 3619 | 11.9x | 11.0x | 10.3x | 17.1x | 15.4x | 14.0x | 16.7x | 15.2x | 14.0x |
| NCC | 1764 | 6.5x | 6.0x | 5.6x | 11.8x | 10.3x | 9.4x | 13.4x | 11.7x | 10.8x |
| AF Gruppen | 2151 | 9.8x | 8.7x | 7.5x | 13.6x | 12.0x | 10.2x | 22.0x | 19.9x | 17.0x |
| Veidekke | 1727 | 7.0x | 6.6x | 6.0x | 12.2x | 11.3x | 9.7x | 18.2x | 17.0x | 15.0x |
| JM | 2200 | 12.3x | 12.4x | 11.3x | 12.0x | 12.6x | 11.5x | 13.4x | 13.6x | 12.4x |
| YIT | 1020 | 10.0x | 8.6x | 8.0x | 13.4x | 11.1x | 10.1x | 12.9x | 10.1x | 8.9x |
| Bonava | 1118 | 12.9x | 9.6x | 9.5x | 13.3x | 9.8x | 9.6x | 15.5x | 10.9x | 10.8x |
| Lehto Group | 172 | 6.3x | 4.4x | 4.6x | 9.1x | 5.6x | 5.9x | 15.6x | 9.1x | 9.9x |
| Peer Group Average | 2355 | 9.6x | 8.5x | 7.8x | 12.7x | 11.0x | 10.1x | 16.1x | 13.7x | 12.6x |
| Peer Group Median | 1745 | 9.8x | 8.7x | 7.5x | 12.2x | 11.3x | 10.1x | 15.6x | 13.6x | 12.4x |
| SRV (Evli est.)* | 184 | 13.9x | 13.1x | 11.0x | 28.3x | 19.2x | 16.4x | 51.2x | 25.8x | 14.3x |

SRV prem./disc. to peer median

43% 51% 45% >100% 70% 62% >100% 89% 15%

Source FactSet, Evli Research. *EBIT: Operative operating profit

| VALUATION | | | | | | |
|---------------------------|------------------|------------|----------|------|-------------|-------------------------------------|
| | METRIC | Est., EURm | Multiple | EV | Per share | Comments |
| Construction | EV/EBIT | 33 | 12.2x | 400 | 1.52 | 2021E, construction peers |
| 4Daily | NPV | 5 | 1x | 5 | 0.02 | Exit '23, yld. 10 % |
| Okhta mall | NPV | 46 | 1x | 46 | 0.17 | Exit '23, yld. 10 % |
| Investments plots | BV | 54 | 0.8x | 43 | 0.16 | 2020 |
| Other assets | BV | 20 | 1x | 20 | 0.08 | 2020 Evli est. |
| Other operations | | -4.6 | 10x | -46 | -0.17 | 2021E EBIT |
| Net debt | | | | -196 | -0.74 | Q1/2021 incl. hybrid, excl. IFRS 16 |
| Equity value | SOTP | | | 273 | 1.04 | |
| Equity value | DCF | | | | 1.18 | |
| Peer multiples | EV/EBIT 21-22E | | | | 0.61-0.64 | |
| | EV/EBITDA 21-22E | | | | 0.66-0.71 | |
| Target price (EUR) | | | | | 0.80 | |

Source: Evli Research

| VALUATION RESULTS | BASE CASE DETAILS | VALUATION ASSUMPTIONS | ASSUMPTIONS FOR WACC | |
|--------------------------|----------------------------|-------------------------|--------------------------------|------|
| Current share price | 0.70 PV of Free Cash Flow | 300 Long-term growth, % | 2.0 Risk-free interest rate, % | 2.25 |
| DCF share value | 1.18 PV of Horizon value | 312 WACC, % | 7.8 Market risk premium, % | 5.8 |
| Share price potential, % | 68.9 Unconsolidated equity | 4 Spread, % | 0.5 Debt risk premium, % | 3.5 |
| Maximum value | 1.4 Marketable securities | 97 Minimum WACC, % | 7.3 Equity beta coefficient | 1.30 |
| Minimum value | 1.0 Debt - dividend | -401 Maximum WACC, % | 8.3 Target debt ratio, % | 50 |
| Horizon value, % | 51.0 Value of stock | 311 Nr of shares, Mn | 263.0 Effective tax rate, % | 20 |

| DCF valuation, EURm | 2020 | 2021E | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | Horizon |
|-----------------------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|
| Net sales | 976 | 904 | 933 | 971 | 990 | 1,010 | 1,030 | 1,051 | 1,072 | 1,093 | 1,116 | 1,138 |
| <i>Sales growth, %</i> | -8.1 | -7.3 | 3.2 | 4.1 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Operating income (EBIT) | 2 | 24 | 27 | 32 | 40 | 40 | 41 | 42 | 43 | 44 | 45 | 46 |
| <i>Operating income margin, %</i> | 0.2 | 2.6 | 2.9 | 3.3 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| + Depreciation+amort. | 19 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 | 8 |
| EBITDA | 20 | 32 | 34 | 40 | 48 | 48 | 49 | 50 | 51 | 52 | 53 | |
| - Paid taxes | -5 | -2 | -5 | -6 | -8 | -8 | -8 | -8 | -9 | -9 | -9 | |
| - Change in NWC | 107 | 24 | -6 | 1 | 6 | -4 | -4 | -4 | -4 | -4 | -5 | |
| <i>NWC / Sales, %</i> | 23.1 | 22.3 | 22.3 | 21.3 | 20.3 | 20.3 | 20.3 | 20.3 | 20.3 | 20.3 | 20.3 | |
| + Change in other liabs | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| - Operative CAPEX | -12 | -2 | -2 | -3 | -3 | -3 | -3 | -3 | -3 | -3 | -3 | |
| <i>opCAPEX / Sales, %</i> | -0.2 | -0.2 | 1.2 | 0.9 | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | |
| - Acquisitions | -5 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| + Divestments | 29 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| - Other items | -53 | -1 | -1 | 52 | 0 | 15 | 0 | 0 | 0 | 0 | 0 | |
| = FCFF | 83 | 51 | 19 | 84 | 43 | 49 | 34 | 35 | 35 | 36 | 36 | 644 |
| = Discounted FCFF | | 48 | 17 | 69 | 33 | 34 | 22 | 21 | 20 | 19 | 18 | 312 |
| = DFCF min WACC | | 49 | 17 | 69 | 33 | 35 | 23 | 22 | 21 | 19 | 18 | 357 |
| = DFCF max WACC | | 48 | 16 | 68 | 32 | 34 | 22 | 20 | 19 | 18 | 17 | 274 |

INTERIM FIGURES

| EVLI ESTIMATES, EURm | 2020Q1 | 2020Q2 | 2020Q3 | 2020Q4 | 2020 | 2021Q1 | 2021Q2E | 2021Q3E | 2021Q4E | 2021E | 2022E | 2023E |
|--------------------------------------|---------------|----------------|---------------|-----------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|
| Net sales | 208.1 | 265.1 | 209.8 | 292.5 | 975.5 | 187.1 | 232.1 | 255.1 | 230.0 | 904.3 | 932.8 | 970.7 |
| EBITDA | 6.5 | 5.1 | 3.5 | 5.3 | 20.4 | 6.7 | 7.7 | 9.8 | 7.9 | 32.1 | 34.3 | 40.0 |
| <i>EBITDA margin (%)</i> | <i>3.1</i> | <i>1.9</i> | <i>1.7</i> | <i>1.8</i> | <i>2.1</i> | <i>3.6</i> | <i>3.3</i> | <i>3.8</i> | <i>3.4</i> | <i>3.5</i> | <i>3.7</i> | <i>4.1</i> |
| EBIT | 4.5 | 3.3 | 1.7 | -8.0 | 1.5 | 5.2 | 5.8 | 7.9 | 5.0 | 23.9 | 26.7 | 32.1 |
| <i>EBIT margin (%)</i> | <i>2.2</i> | <i>1.2</i> | <i>0.8</i> | <i>-2.7</i> | <i>0.2</i> | <i>2.8</i> | <i>2.5</i> | <i>3.1</i> | <i>2.2</i> | <i>2.6</i> | <i>2.9</i> | <i>3.3</i> |
| Net financial items | -11.1 | -3.1 | -8.7 | -6.5 | -29.4 | -4.1 | -4.8 | -4.8 | -4.8 | -18.5 | -16.0 | -16.0 |
| Pre-tax profit | -6.6 | 0.2 | -7.0 | -14.5 | -27.9 | 1.1 | 1.0 | 3.1 | 0.2 | 5.4 | 10.7 | 16.1 |
| Tax | -1.0 | -0.3 | 0.2 | 4.0 | 2.9 | 0.5 | -0.2 | -0.6 | 0.0 | -0.4 | -2.1 | -3.2 |
| <i>Tax rate (%)</i> | <i>-15.2</i> | <i>157.9</i> | <i>2.9</i> | <i>27.6</i> | <i>10.4</i> | <i>-45.5</i> | <i>20.0</i> | <i>20.0</i> | <i>20.0</i> | <i>6.7</i> | <i>20.0</i> | <i>20.0</i> |
| Net profit | -9.9 | 1.0 | -7.3 | -11.0 | -27.1 | 1.2 | 0.4 | 2.1 | -0.2 | 3.6 | 7.1 | 12.9 |
| EPS | -0.04 | 0.00 | -0.03 | -0.04 | -0.10 | 0.00 | 0.00 | 0.01 | 0.00 | 0.01 | 0.03 | 0.05 |
| EPS adjusted (diluted no. of shares) | -0.04 | 0.00 | -0.03 | -0.04 | -0.10 | 0.00 | 0.00 | 0.01 | 0.00 | 0.01 | 0.03 | 0.05 |
| Dividend per share | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 |
| SALES, EURm | | | | | | | | | | | | |
| Construction | 204.9 | 264.1 | 209.0 | 292.0 | 970.0 | 187.8 | 231.0 | 254.0 | 228.9 | 901.7 | 930.0 | 968.4 |
| Investments | 1.6 | 1.2 | 1.1 | 0.9 | 4.8 | 1.0 | 1.1 | 1.1 | 1.1 | 4.3 | 4.5 | 4.0 |
| Other | 1.6 | -0.2 | -0.3 | -0.4 | 0.7 | -1.7 | 0.0 | 0.0 | 0.0 | -1.7 | -1.7 | -1.7 |
| Total | 208.1 | 265.1 | 209.8 | 292.5 | 975.5 | 187.1 | 232.1 | 255.1 | 230.0 | 904.3 | 932.8 | 970.7 |
| SALES GROWTH, Y/Y % | | | | | | | | | | | | |
| <i>Construction</i> | <i>-7.7</i> | <i>27.8</i> | <i>-7.5</i> | <i>-27.6</i> | <i>-8.3</i> | <i>-8.3</i> | <i>-12.5</i> | <i>21.5</i> | <i>-21.6</i> | <i>-7.0</i> | <i>3.1</i> | <i>4.1</i> |
| <i>Investments</i> | <i>23.1</i> | <i>-20.0</i> | <i>-21.4</i> | <i>-47.1</i> | <i>-18.6</i> | <i>-37.5</i> | <i>-8.3</i> | <i>0.0</i> | <i>22.2</i> | <i>-10.4</i> | <i>4.7</i> | <i>-11.1</i> |
| <i>Other</i> | <i>-366.7</i> | <i>-75.0</i> | <i>0.0</i> | <i>-55.6</i> | <i>-126.9</i> | <i>-206.2</i> | <i>-100.0</i> | <i>-100.0</i> | <i>-100.0</i> | <i>-342.9</i> | <i>0.0</i> | <i>0.0</i> |
| Total | -6.5 | 27.8 | -7.6 | -27.6 | -8.1 | -10.1 | -12.4 | 21.6 | -21.4 | -7.3 | 3.2 | 4.1 |
| EBIT, EURm | | | | | | | | | | | | |
| Construction | 6.2 | 7.3 | 5.2 | 8.7 | 27.4 | 6.9 | 8.0 | 10.1 | 7.8 | 32.8 | 35.3 | 38.7 |
| Investments | -1.4 | -1.7 | -3.8 | -15.5 | -22.4 | -0.4 | -1.3 | -1.3 | -1.3 | -4.3 | -4.0 | -2.0 |
| Other | -0.2 | -2.4 | 0.3 | -1.2 | -3.5 | -1.3 | -0.9 | -0.9 | -1.5 | -4.6 | -4.6 | -4.6 |
| Total | 4.5 | 3.3 | 1.7 | -8.0 | 1.5 | 5.2 | 5.8 | 7.9 | 5.0 | 23.9 | 26.7 | 32.1 |
| EBIT margin, % | | | | | | | | | | | | |
| <i>Construction</i> | <i>3.0</i> | <i>2.8</i> | <i>2.5</i> | <i>3.0</i> | <i>2.8</i> | <i>3.7</i> | <i>3.5</i> | <i>4.0</i> | <i>3.4</i> | <i>3.6</i> | <i>3.8</i> | <i>4.0</i> |
| <i>Investments</i> | <i>-89.4</i> | <i>-139.2</i> | <i>-345.5</i> | <i>-1,722.2</i> | <i>-466.7</i> | <i>-40.0</i> | <i>-118.2</i> | <i>-118.2</i> | <i>-118.2</i> | <i>-100.0</i> | <i>-88.9</i> | <i>-50.0</i> |
| <i>Other</i> | <i>-14.4</i> | <i>1,185.0</i> | <i>-100.0</i> | <i>300.0</i> | <i>-500.0</i> | <i>76.5</i> | | | | <i>270.6</i> | <i>270.6</i> | <i>270.6</i> |
| Total | 2.2 | 1.2 | 0.8 | -2.7 | 0.2 | 2.8 | 2.5 | 3.1 | 2.2 | 2.6 | 2.9 | 3.3 |

Construction & Engineering/Finland, April 30, 2021
Company update

| INCOME STATEMENT, EURm | 2016 | 2017 | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|------------------------------------------|-------------|-------------|--------------|-------------|-------------|-------------|------------|------------|
| Sales | 884.0 | 1,114.1 | 959.9 | 1,061.0 | 975.5 | 904.3 | 932.8 | 970.7 |
| <i>Sales growth (%)</i> | <i>22.9</i> | <i>26.0</i> | <i>-13.8</i> | <i>10.5</i> | <i>-8.1</i> | <i>-7.3</i> | <i>3.2</i> | <i>4.1</i> |
| EBITDA | 34.2 | 21.1 | -14.6 | -3.1 | 20.4 | 32.1 | 34.3 | 40.0 |
| <i>EBITDA margin (%)</i> | <i>3.9</i> | <i>1.9</i> | <i>-1.5</i> | <i>-0.3</i> | <i>2.1</i> | <i>3.5</i> | <i>3.7</i> | <i>4.1</i> |
| Depreciation | -6.6 | -5.7 | -5.3 | -90.0 | -18.9 | -8.2 | -7.6 | -7.8 |
| EBITA | 27.6 | 15.4 | -19.9 | -93.1 | 1.5 | 23.9 | 26.7 | 32.1 |
| Goodwill amortization / writedown | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 27.6 | 15.4 | -19.9 | -93.1 | 1.5 | 23.9 | 26.7 | 32.1 |
| <i>EBIT margin (%)</i> | <i>3.1</i> | <i>1.4</i> | <i>-2.1</i> | <i>-8.8</i> | <i>0.2</i> | <i>2.6</i> | <i>2.9</i> | <i>3.3</i> |
| Reported EBIT | 27.6 | 15.4 | -19.9 | -14.7 | 1.5 | 23.9 | 26.7 | 32.1 |
| <i>EBIT margin (reported) (%)</i> | <i>3.1</i> | <i>1.4</i> | <i>-2.1</i> | <i>-1.4</i> | <i>0.2</i> | <i>2.6</i> | <i>2.9</i> | <i>3.3</i> |
| Net financials | -11.3 | -10.7 | -17.5 | -29.3 | -29.4 | -18.5 | -16.0 | -16.0 |
| Pre-tax profit | 16.3 | 4.7 | -37.4 | -122.4 | -27.9 | 5.4 | 10.7 | 16.1 |
| Taxes | -2.1 | 1.2 | 6.1 | 18.7 | 2.9 | -0.4 | -2.1 | -3.2 |
| Minority shares | 0.0 | 0.2 | 1.1 | 0.7 | 2.3 | 0.0 | 0.0 | 0.0 |
| Net profit | 9.2 | 2.2 | -34.1 | -28.8 | -27.1 | 3.6 | 7.1 | 12.9 |
| Cash NRIs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-cash NRIs | 0.0 | 0.0 | 0.0 | 78.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| BALANCE SHEET, EURm | | | | | | | | |
| Assets | | | | | | | | |
| Fixed assets | 295 | 287 | 273 | 122 | 120 | 119 | 119 | 120 |
| Goodwill | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Right of use assets | 0 | 0 | 173 | 149 | 130 | 120 | 124 | 125 |
| Inventory | 400 | 419 | 438 | 372 | 355 | 329 | 340 | 354 |
| Receivables | 122 | 146 | 122 | 204 | 155 | 136 | 140 | 136 |
| Liquid funds | 55 | 24 | 93 | 28 | 97 | 90 | 92 | 96 |
| Total assets | 883 | 889 | 1,120 | 913 | 899 | 837 | 859 | 874 |
| Liabilities | | | | | | | | |
| Shareholder's equity | 252 | 240 | 191 | 95 | 170 | 173 | 180 | 193 |
| Minority interest | -2 | -2 | -3 | -2 | -4 | -4 | -4 | -4 |
| Convertibles | 45 | 45 | 45 | 83 | 15 | 15 | 15 | 0 |
| Lease liabilities | 0 | 0 | 174 | 150 | 136 | 120 | 124 | 125 |
| Deferred taxes | 4 | 5 | 5 | 3 | 3 | 3 | 3 | 3 |
| Interest bearing debt | 301 | 321 | 375 | 300 | 250 | 221 | 223 | 229 |
| Non-interest bearing current liabilities | 253 | 252 | 304 | 244 | 285 | 264 | 272 | 283 |
| Other interest-free debt | 14 | 18 | 9 | 21 | 21 | 21 | 21 | 21 |
| Total liabilities | 883 | 889 | 1,120 | 914 | 899 | 837 | 859 | 874 |
| CASH FLOW, EURm | | | | | | | | |
| + EBITDA | 34 | 21 | -15 | -3 | 20 | 32 | 34 | 40 |
| - Net financial items | -11 | -11 | -17 | -29 | -29 | -18 | -16 | -16 |
| - Taxes | -2 | 0 | -1 | -1 | -2 | 0 | -2 | -3 |
| - Increase in Net Working Capital | -15 | -44 | 56 | -75 | 107 | 24 | -6 | 1 |
| +/- Other | 15 | 2 | 2 | 98 | -49 | -1 | -1 | 52 |
| = Cash flow from operations | 21 | -33 | 26 | -11 | 46 | 36 | 8 | 74 |
| - Capex | -13 | -24 | -15 | -26 | 1 | 2 | -12 | -9 |
| - Acquisitions | 0 | 0 | 0 | 0 | -5 | 0 | 0 | 0 |
| + Divestments | 0 | 0 | 0 | 0 | 29 | 0 | 0 | 0 |
| = Free cash flow | 8 | -57 | 11 | -37 | 72 | 37 | -3 | 64 |
| +/- New issues/buybacks | 15 | -8 | -12 | -67 | 100 | 0 | 0 | 0 |
| - Paid dividend | -6 | -6 | -4 | 0 | 0 | 0 | 0 | 0 |
| +/- Other | 2 | 40 | 75 | 39 | -103 | -44 | 6 | -61 |
| Change in cash | 20 | -31 | 70 | -65 | 69 | -7 | 3 | 4 |

Construction & Engineering/Finland, April 30, 2021
Company update

| KEY FIGURES | 2017 | 2018 | 2019 | 2020 | 2021E | 2022E | 2023E |
|------------------------------------------------|--------|--------|--------|---------|---------|---------|---------|
| M-cap | 214 | 101 | 81 | 155 | 184 | 184 | 184 |
| Net debt (excl. convertibles) | 298 | 456 | 422 | 289 | 252 | 255 | 257 |
| Enterprise value | 555 | 601 | 584 | 456 | 447 | 450 | 438 |
| Sales | 1,114 | 960 | 1,061 | 976 | 904 | 933 | 971 |
| EBITDA | 21 | -15 | -3 | 20 | 32 | 34 | 40 |
| EBIT | 15 | -20 | -93 | 2 | 24 | 27 | 32 |
| Pre-tax | 5 | -37 | -122 | -28 | 5 | 11 | 16 |
| Earnings | 2 | -34 | -107 | -27 | 4 | 7 | 13 |
| Equity book value (excl. minorities) | 240 | 191 | 95 | 170 | 173 | 180 | 193 |
| Valuation multiples | | | | | | | |
| EV/sales | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| EV/EBITDA | 26.3 | -41.1 | -188.5 | 22.4 | 13.9 | 13.1 | 11.0 |
| EV/EBITA | 36.1 | -30.2 | -6.3 | 304.1 | 18.7 | 16.8 | 13.6 |
| EV/EBIT | 36.1 | -30.2 | -6.3 | 304.1 | 18.7 | 16.8 | 13.6 |
| EV/OCF | -17.1 | 23.5 | -54.5 | 9.9 | 12.5 | 53.8 | 6.0 |
| EV/FCFF | -10.6 | 26.3 | -15.2 | 5.5 | 8.8 | 24.0 | 5.2 |
| P/FCFE | -3.8 | 9.5 | -2.2 | 2.2 | 4.9 | -58.8 | 2.9 |
| P/E | 98.6 | -3.0 | -0.8 | -5.7 | 51.2 | 25.8 | 14.3 |
| P/B | 0.9 | 0.5 | 0.9 | 0.9 | 1.1 | 1.0 | 1.0 |
| Target EV/EBITDA | 0.0 | 0.0 | 0.0 | 0.0 | 14.8 | 13.9 | 11.6 |
| Target EV/EBIT | 0.0 | 0.0 | 0.0 | 0.0 | 19.8 | 17.8 | 14.4 |
| Target EV/FCF | 0.0 | 0.0 | 0.0 | 0.0 | 12.6 | -152.1 | 7.2 |
| Target P/B | 0.0 | 0.0 | 0.0 | 0.0 | 1.2 | 1.2 | 1.1 |
| Target P/E | 0.0 | 0.0 | 0.0 | 0.0 | 58.6 | 29.4 | 16.3 |
| Per share measures | | | | | | | |
| Number of shares | 59,500 | 59,581 | 59,581 | 263,017 | 263,017 | 263,017 | 263,017 |
| Number of shares (diluted) | 59,500 | 59,581 | 59,581 | 263,017 | 263,017 | 263,017 | 263,017 |
| EPS | 0.04 | -0.57 | -1.80 | -0.10 | 0.01 | 0.03 | 0.05 |
| Operating cash flow per share | -0.55 | 0.43 | -0.18 | 0.18 | 0.14 | 0.03 | 0.28 |
| Free cash flow per share | -0.96 | 0.18 | -0.62 | 0.27 | 0.14 | -0.01 | 0.24 |
| Book value per share | 4.03 | 3.21 | 1.59 | 0.64 | 0.66 | 0.69 | 0.73 |
| Dividend per share | 0.06 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 |
| Dividend payout ratio, % | 164.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 25.0 |
| Dividend yield, % | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.8 |
| FCF yield, % | -26.6 | 10.6 | -45.6 | 46.4 | 20.3 | -1.7 | 34.9 |
| Efficiency measures | | | | | | | |
| ROE | 0.9 | -15.8 | -74.9 | -20.5 | 2.1 | 4.0 | 6.9 |
| ROCE | 3.5 | -2.1 | -12.1 | 0.9 | 5.2 | 5.8 | 6.7 |
| Financial ratios | | | | | | | |
| Inventories as % of sales | 37.6 | 45.7 | 35.1 | 36.4 | 36.4 | 36.4 | 36.4 |
| Receivables as % of sales | 13.1 | 12.7 | 19.2 | 15.8 | 15.0 | 15.0 | 14.0 |
| Non-interest bearing liabilities as % of sales | 22.7 | 31.7 | 23.0 | 29.2 | 29.2 | 29.2 | 29.2 |
| NWC/sales, % | 28.0 | 26.7 | 31.3 | 23.1 | 22.3 | 22.3 | 21.3 |
| Operative CAPEX/sales, % | 2.2 | 1.5 | 2.5 | -0.2 | -0.2 | 1.2 | 0.9 |
| CAPEX/sales (incl. acquisitions), % | 2.2 | 1.5 | 2.5 | -0.6 | -0.2 | 1.2 | 0.9 |
| FCFF/EBITDA | -2.5 | -1.6 | 12.4 | 4.1 | 1.6 | 0.5 | 2.1 |
| Net debt/EBITDA, book-weighted | 14.1 | -31.2 | -136.2 | 14.2 | 7.8 | 7.4 | 6.4 |
| Debt/equity, market-weighted | 1.5 | 3.7 | 3.7 | 1.6 | 1.2 | 1.2 | 1.2 |
| Equity ratio, book-weighted | 35.5 | 23.6 | 21.2 | 22.3 | 24.6 | 24.8 | 24.0 |
| Gearing, % | 105.0 | 195.1 | 240.4 | 159.8 | 136.3 | 132.8 | 135.9 |

Construction & Engineering/Finland, April 30, 2021
Company update

COMPANY DESCRIPTION: SRV is a Finnish project management contractor that develops and builds commercial and business premises, residential units as well as infrastructure and logistics projects. The company is also an investor in and manager of several shopping centres. The company operates in Finland and Russia.

INVESTMENT CASE: SRV's road has been bumpy in the past few years and earnings have been in the red despite a construction boom and record high revenue levels. The expected slow-down in construction volumes should alleviate supply chain pressures and along with profitability improvement measures to be taken support bottom-line figures. Successful exits from developed shopping centres remain crucial in improving the company's balance sheet.

| OWNERSHIP STRUCTURE | SHARES | EURm | % |
|--------------------------------------------|-------------|---------|-------|
| As Pontos Capital | 47,306,787 | 33.115 | 18.0% |
| Ilmarinen Mutual Pension Insurance Company | 33,295,636 | 23.307 | 12.7% |
| Kolpi Investments Oy | 23,776,663 | 16.644 | 9.0% |
| OP Life Assurance Company Ltd | 18,089,359 | 12.663 | 6.9% |
| Pohjola Insurance Ltd | 15,896,954 | 11.128 | 6.0% |
| Havu Capital Oy | 15,741,398 | 11.019 | 6.0% |
| Tiiviste-Group Oy | 13,373,642 | 9.362 | 5.1% |
| Tungelin Investments Oy | 6,926,660 | 4.849 | 2.6% |
| Lareale Investments Oy | 6,926,660 | 4.849 | 2.6% |
| Kokkila Lauri | 6,494,422 | 4.546 | 2.5% |
| Ten largest | 187,828,181 | 131.480 | 71% |
| Residual | 75,189,160 | 52.632 | 29% |
| Total | 263,017,341 | 184.112 | 100% |

EARNINGS CALENDAR

July 21, 2021

Q2 report

October 28, 2021

Q3 report

OTHER EVENTS**COMPANY MISCELLANEOUS**

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Tarvonsalmenkatu 15, Espoo

CFO: Jarkko Rantala

Tel: +358 20 145 5200

IR:

DEFINITIONS

| | | | |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| P/E | $\frac{\text{Price per share}}{\text{Earnings per share}}$ | EPS | $\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$ |
| P/BV | $\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$ | DPS | Dividend for the financial period per share |
| Market cap | Price per share * Number of shares | OCF (Operating cash flow) | EBITDA – Net financial items – Taxes – Increase in working capital – Cash NRIs ± Other adjustments |
| EV (Enterprise value) | Market cap + net debt + minority interest at market value – share of associated companies at market value | FCF (Free cash flow) | Operating cash flow – operative CAPEX – acquisitions + divestments |
| EV/Sales | $\frac{\text{Enterprise value}}{\text{Sales}}$ | FCF yield, % | $\frac{\text{Free cash flow}}{\text{Market cap}}$ |
| EV/EBITDA | $\frac{\text{Enterprise value}}{\text{Earnings before interest, tax, depreciation and amortization}}$ | Operative CAPEX/sales | $\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$ |
| EV/EBIT | $\frac{\text{Enterprise value}}{\text{Operating profit}}$ | Net working capital | Current assets – current liabilities |
| Net debt | Interest bearing debt – financial assets | Capital employed/Share | $\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$ |
| Total assets | Balance sheet total | Gearing | $\frac{\text{Net debt}}{\text{Equity}}$ |
| Div yield, % | $\frac{\text{Dividend per share}}{\text{Price per share}}$ | Debt/Equity, % | $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$ |
| Payout ratio, % | $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$ | Equity ratio, % | $\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$ |
| ROCE, % | $\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$ | CAGR, % | Cumulative annual growth rate = Average growth per year |
| ROE, % | $\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$ | | |

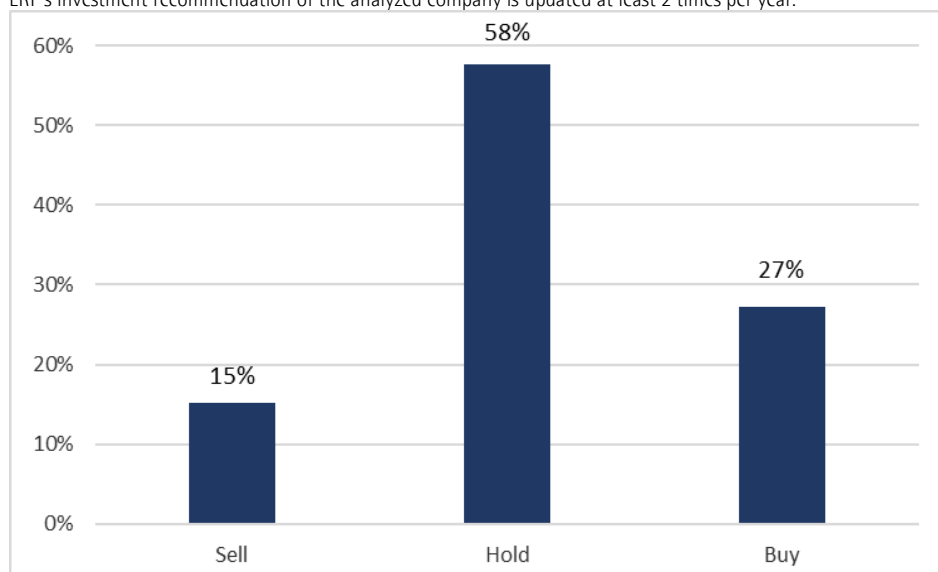
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Investment recommendations are defined as follows:

| Target price compared to share price | Recommendation |
|--------------------------------------|----------------|
| < -10 % | SELL |
| -10 – (+10) % | HOLD |
| > 10 % | BUY |

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

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