

Work still to be done

SRV reported weaker than estimated Q3 results, as project margin woes pushed EBIT into the red. Progress is however being made and Q4 completions and potential Pearl Plaza divestment should further strengthen the balance sheet. We adjust our TP to EUR 0.7 (0.8), BUY-rating intact.

Q3 results well below our estimates

SRV reported Q3 results below our estimates. Revenue amounted to EUR 191.1m (EUR 261.1m/235m Evli/cons.), falling below our estimates due to the timing of recognition of income of the Loisto-project but also due to the lower activity in business construction showing more clearly. The operating profit fell to EUR -1.6m (EUR 5.3m/4.6m Evli/cons.), as the weak financial development of the Tampere Arena project and construction material costs and availability impacted on profitability. Actions to strengthen the balance sheet saw the IB net-debt decrease further by almost EUR 53m. In light of the weak Q3 SRV revised its guidance, expecting 2021 revenue of EUR 900-1,000m (prev. 900-1,050) and operative operating profit of EUR 16-21m (prev. 16-26m).

Further strengthening of balance sheet seen

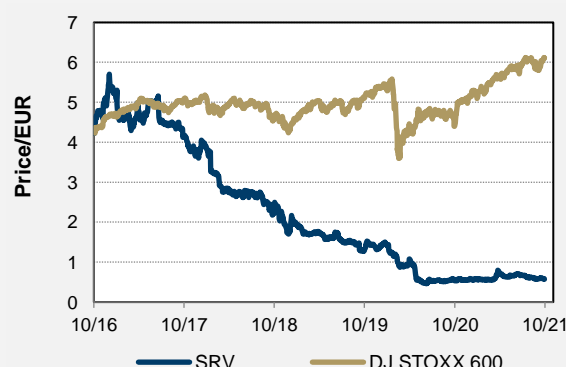
Our revenue estimates for 2021 remain rather unchanged, now at EUR 912.2m, as we were already near the lower end of the guidance range. Q4 will see a clear increase in housing construction revenue with the completion of Loisto. Our revised estimates put 2021 operative operating profit at EUR 17.2m (prev. 21.1m) with the weaker profitability in Q3. SRV targets to close a deal in regards to the divestment of Pearl Plaza during 2021, which together with housing completions in Q4, namely Loisto, would free up a considerable amount of capital and further strengthen the balance sheet.

BUY with a target price of EUR 0.7 (0.8)

With the setback in margins in Q3 and uncertainty from construction material availability and prices we lower our target price to EUR 0.7 (0.8) but retain our BUY-rating.

Rating

BUY



Share price, EUR (Last trading day's closing price) 0.57

Target price, EUR 0.7

Latest change in recommendation	21-Jul-20
Latest report on company	22-Jul-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	150
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	03-Feb-22
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	912.2	17.2	1.9%	32.5	0.01	101.8	0.5	24.3	21.7	0.00
2022E	938.5	27.5	2.9%	1.3	0.04	13.9	0.4	15.2	0.8	0.00
2023E	981.2	33.1	3.4%	72.2	0.07	8.2	0.4	12.1	48.2	0.02
Market cap, EURm	150		Gearing 2021E, %	140.6		CAGR EPS 2020-23, %		0.0		0.0
Net debt 2021E, EURm	272		Price/book 2021E	0.9		CAGR sales 2020-23, %		0.2		0.2
Enterprise value, EURm	418		Dividend yield 2021E, %	0.0		ROE 2021E, %		0.9		0.9
Total assets 2021E, EURm	843		Tax rate 2021E, %	13.3		ROCE 2021E, %		4.1		4.1
Goodwill 2021E, EURm	2		Equity ratio 2021E, %	24.1		PEG, P/E 21/CAGR		0.6		0.6

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/'21	Q3/'21	Q4/'21E	2021E	2022E	2023E
Revenue	1,060.9	208.1	265.1	209.9	292.5	975.6	187.1	218.0	191.1	316.0	912.2	938.5	981.2
change, %	10.6%	-6.5%	27.8%	-7.6%	-27.6%	-8.0%	-10.1%	-17.8%	-9.0%	8.0%	-6.5%	2.9%	4.5%
Operative operating profit	-103.8	4.3	0.5	5.6	5.3	15.8	4.8	5.7	-0.6	7.3	17.2	27.5	33.1
-margin	-9.8%	2.1%	0.2%	2.7%	1.8%	1.6%	2.6%	2.6%	-0.3%	2.3%	1.9%	2.9%	3.4%
Adjustment items	3.8	0.2	2.7	-3.9	-13.4	-14.4	0.4	0.6	-1.0	0.0	0.0	0.0	0.0
Operating profit	-93.0	4.5	3.3	1.7	-8.0	1.5	5.2	6.3	-1.6	7.3	17.2	27.5	33.1
-margin	-8.8%	2.2%	1.2%	0.8%	-2.7%	0.2%	2.8%	2.9%	-0.8%	2.3%	1.9%	2.9%	3.4%
Net financials	-29.3	-11.1	-3.0	-8.8	-6.4	-29.4	-4.1	-3.7	-2.8	-3.0	-13.6	-12.0	-10.0
Pre-tax profit	-122.4	-6.6	0.2	-7.0	-14.5	-28.0	1.1	2.6	-4.4	4.3	3.6	15.5	23.1
Income taxes	18.7	-1.0	-0.3	0.2	4.0	2.9	0.5	-0.5	0.4	-0.9	-0.5	-3.1	-4.6
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	2.1	-4.0	3.4	3.1	12.4	18.5
EPS rep.*	-1.82	-0.11	0.02	-0.01	-0.05	-0.15	0.00	0.01	-0.02	0.01	0.01	0.05	0.07
Construction	2019	Q1/'20	Q2/'20	Q3/'20	Q4/'20	2020E	Q1/'21	Q2/'21	Q3/'21	Q4/'21E	2021E	2022E	2023E
Revenue	1,057.6	204.8	264.1	209.1	292.0	970.0	187.8	218.5	188.0	315.9	910.2	939.3	982.5
change, %	10.7%	-7.7%	27.8%	-7.4%	-27.6%	-8.3%	-8.3%	-17.3%	-10.1%	8.2%	-6.2%	3.2%	4.6%
Business construction	679.7	154.0	182.2	157.8	186.7	680.7	140.5	140.9	115.2	150.9	547.5	563.9	580.8
change, %	2.0%	5.9%	12.1%	-7.8%	-6.9%	0.1%	-8.8%	-22.7%	-27.0%	-19.2%	-19.6%	3.0%	3.0%
Housing construction	377.9	50.8	81.9	51.3	105.3	289.3	47.3	77.6	72.8	165.0	362.7	375.4	401.7
change, %	30.7%	-34.0%	87.8%	-6.2%	-48.0%	-23.4%	-6.9%	-5.3%	41.9%	56.7%	25.4%	3.5%	7.0%
Operative operating profit		5.5	7.4	3.7	8.5	25.1	6.9	7.0	1.6	9.8	25.3	35.7	39.3
-margin		2.7%	2.8%	1.8%	2.9%	2.6%	3.7%	3.2%	0.9%	3.1%	2.8%	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	7.0	1.6	9.8	25.3	35.7	39.3
-margin	0.7%	3.0%	2.8%	2.5%	3.0%	2.8%	3.7%	3.2%	0.9%	3.1%	2.8%	3.8%	4.0%
Investments	2019	Q1/'20	Q2/'20	Q3/'20	Q4/'20	2020E	Q1/'21	Q2/'21	Q3/'21	Q4/'21E	2021E	2022E	2023E
Revenue	5.9	1.6	1.2	1.1	0.9	4.8	1.0	1.0	4.2	1.1	7.3	4.5	4.0
change, %	28.3%	23.1%	-20.0%	-21.4%	-47.1%	-18.6%	-37.5%	-16.7%	281.8%	22.2%	52.1%	-38.4%	-11.1%
Operative operating profit	-96.2	-1.0	-4.4	1.6	-1.9	-5.7	-0.8	-0.9	-1.6	-1.0	-4.3	-4.0	-2.0
Adjustment items	3.8	-0.5	2.7	-5.4	-13.6	-16.8	0.4	1.0	-1.0	0.0	0.4	0.0	0.0
Operating profit	-92.4	-1.4	-1.7	-3.8	-15.5	-22.5	-0.4	0.1	-2.6	-1.0	-3.9	-4.0	-2.0
Other operations and elim.	2019	Q1/'20	Q2/'20	Q3/'20	Q4/'20	2020E	Q1/'21	Q2/'21	Q3/'21	Q4/'21E	2021E	2022E	2023E
Revenue	-2.6	1.6	-0.2	-0.3	-0.3	0.8	-1.7	-1.5	-1.1	-1.0	-5.3	-5.3	-5.3
Operating profit	-7.6	-0.2	-2.4	0.3	-1.3	-3.5	-1.3	-0.8	-0.6	-1.5	-4.2	-4.2	-4.2

*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	9126	9.0x	9.3x	8.0x	11.3x	11.7x	11.0x	13.2x	13.9x	12.9x
Peab	3181	11.2x	10.5x	10.0x	17.0x	15.2x	14.3x	14.9x	13.3x	12.3x
NCC	1611	5.8x	5.6x	5.4x	10.1x	9.4x	9.0x	10.5x	10.1x	9.7x
AF Gruppen	2118	10.3x	9.0x	7.9x	14.1x	12.2x	10.4x	21.4x	18.9x	16.3x
Veidekke	1653	6.4x	6.0x	5.5x	11.0x	10.3x	8.9x	17.0x	15.7x	13.9x
JM	2531	13.9x	13.3x	12.3x	13.4x	13.1x	11.8x	15.1x	14.5x	13.1x
YIT	944	8.7x	7.5x	6.7x	10.7x	9.1x	8.1x	12.1x	9.6x	8.2x
Bonava	920	11.2x	9.0x	7.5x	11.3x	9.2x	7.7x	11.7x	9.1x	7.5x
Lehto Group	89	20.7x	8.1x	5.7x	195.5x	12.2x	7.4x		11.3x	5.8x
Peer Group Average	2231	10.8x	8.7x	7.7x	32.7x	11.4x	9.8x	14.5x	12.9x	11.1x
Peer Group Median	1632	10.3x	9.0x	7.5x	11.3x	11.7x	9.0x	14.1x	13.3x	12.3x
SRV (Evli est.)*	150	17.1x	12.2x	10.0x	28.3x	19.2x	16.4x	101.8x	13.9x	8.2x

SRV prem./disc. to peer median

66 % 36 % 33 % >100% 63 % 83 % >100% 5 % -33 %

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

VALUATION RESULTS	BASE CASE DETAILS	VALUATION ASSUMPTIONS	ASSUMPTIONS FOR WACC
Current share price	0.57 PV of Free Cash Flow	303 Long-term growth, %	2.0 Risk-free interest rate, %
DCF share value	1.23 PV of Horizon value	321 WACC, %	7.8 Market risk premium, %
Share price potential, %	115.8 Unconsolidated equity	4 Spread, %	0.5 Debt risk premium, %
Maximum value	1.4 Marketable securities	97 Minimum WACC, %	7.3 Equity beta coefficient
Minimum value	1.1 Debt - dividend	-401 Maximum WACC, %	8.3 Target debt ratio, %
Horizon value, %	51.4 Value of stock	324 Nr of shares, Mn	263.0 Effective tax rate, %

DCF valuation, EURm	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Horizon
Net sales	976	912	939	981	1,001	1,021	1,041	1,062	1,083	1,105	1,128	1,151
<i>Sales growth, %</i>	-8.1	-6.5	2.9	4.5	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Operating income (EBIT)	2	17	27	33	40	41	42	42	43	44	45	46
<i>Operating income margin, %</i>	0.2	1.9	2.9	3.4	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
+ Depreciation+amort.	19	7	7	7	7	7	7	7	7	7	7	7
EBITDA	20	24	34	40	47	48	49	50	51	51	52	
- Paid taxes	-5	-2	-5	-7	-8	-8	-8	-8	-9	-9	-9	
- Change in NWC	107	22	-6	0	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	-2	-2	-2	-3	-3	-3	-3	-3	
<i>opCAPEX / Sales, %</i>	-0.2	-0.2	1.1	0.9	0.6	0.6	0.6	0.6	0.6	0.5	0.5	
- 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	56	0	15	0	0	0	0	0	
= FCFF	83	41	19	87	43	48	34	34	35	35	36	639
= Discounted FCFF		41	18	74	34	35	23	22	20	19	18	321
= DFCF min WACC		41	18	75	34	36	24	22	21	20	19	367
= DFCF max WACC		40	18	73	33	35	22	21	20	19	17	283

INTERIM FIGURES

EVLI ESTIMATES, EURm	2020Q1	2020Q2	2020Q3	2020Q4	2020	2021Q1	2021Q2	2021Q3	2021Q4E	2021E	2022E	2023E
Net sales	208.1	265.1	209.8	292.5	975.5	187.1	218.0	191.1	316.0	912.2	938.5	981.2
EBITDA	6.5	5.1	3.5	5.3	20.4	6.7	8.2	-0.6	10.2	24.5	34.3	40.1
<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>3.8</i>	<i>-0.3</i>	<i>3.2</i>	<i>2.7</i>	<i>3.7</i>	<i>4.1</i>
EBIT	4.5	3.3	1.7	-8.0	1.5	5.2	6.3	-1.6	7.3	17.2	27.5	33.1
<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>2.9</i>	<i>-0.8</i>	<i>2.3</i>	<i>1.9</i>	<i>2.9</i>	<i>3.4</i>
Net financial items	-11.1	-3.1	-8.7	-6.5	-29.4	-4.1	-3.7	-2.8	-3.0	-13.6	-12.0	-10.0
Pre-tax profit	-6.6	0.2	-7.0	-14.5	-27.9	1.1	2.6	-4.4	4.3	3.6	15.5	23.1
Tax	-1.0	-0.3	0.2	4.0	2.9	0.5	-0.5	0.4	-0.9	-0.5	-3.1	-4.6
<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>9.1</i>	<i>20.0</i>	<i>13.3</i>	<i>20.0</i>	<i>20.0</i>
Net profit	-9.9	1.0	-7.3	-11.0	-27.1	1.2	1.7	-4.6	3.1	1.5	10.7	18.3
EPS	-0.04	0.00	-0.03	-0.04	-0.10	0.00	0.01	-0.02	0.01	0.01	0.04	0.07
EPS adjusted (diluted no. of shares)	-0.04	0.00	-0.03	-0.04	-0.10	0.00	0.01	-0.02	0.01	0.01	0.04	0.07
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	0.02
SALES, EURm												
Construction	204.9	264.1	209.0	292.0	970.0	187.8	218.5	188.0	315.9	910.2	939.3	982.5
Investments	1.6	1.2	1.1	0.9	4.8	1.0	1.0	4.2	1.1	7.3	4.5	4.0
Other	1.6	-0.2	-0.3	-0.4	0.7	-1.7	-1.5	-1.1	-1.0	-5.3	-5.3	-5.3
Total	208.1	265.1	209.8	292.5	975.5	187.1	218.0	191.1	316.0	912.2	938.5	981.2
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>-17.3</i>	<i>-10.0</i>	<i>8.2</i>	<i>-6.2</i>	<i>3.2</i>	<i>4.6</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>-16.7</i>	<i>281.8</i>	<i>22.2</i>	<i>52.1</i>	<i>-38.4</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>650.0</i>	<i>266.7</i>	<i>150.0</i>	<i>-857.1</i>	<i>0.0</i>	<i>0.0</i>
Total	-6.5	27.8	-7.6	-27.6	-8.1	-10.1	-17.8	-8.9	8.0	-6.5	2.9	4.5
EBIT, EURm												
Construction	6.2	7.3	5.2	8.7	27.4	6.9	7.0	1.6	9.8	25.3	35.7	39.3
Investments	-1.4	-1.7	-3.8	-15.5	-22.4	-0.4	0.1	-2.6	-1.0	-3.9	-4.0	-2.0
Other	-0.2	-2.4	0.3	-1.2	-3.5	-1.3	-0.8	-0.6	-1.5	-4.2	-4.2	-4.2
Total	4.5	3.3	1.7	-8.0	1.5	5.2	6.3	-1.6	7.3	17.2	27.5	33.1
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>3.2</i>	<i>0.9</i>	<i>3.1</i>	<i>2.8</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>10.0</i>	<i>-61.9</i>	<i>-90.9</i>	<i>-53.4</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>53.3</i>	<i>54.5</i>	<i>150.0</i>	<i>79.2</i>	<i>79.2</i>	<i>79.2</i>
Total	2.2	1.2	0.8	-2.7	0.2	2.8	2.9	-0.8	2.3	1.9	2.9	3.4

Construction & Engineering/Finland, October 29, 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	912.2	938.5	981.2
<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>-6.5</i>	<i>2.9</i>	<i>4.5</i>
EBITDA	34.2	21.1	-14.6	-3.1	20.4	24.5	34.3	40.1
<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>2.7</i>	<i>3.7</i>	<i>4.1</i>
Depreciation	-6.6	-5.7	-5.3	-90.0	-18.9	-7.3	-6.8	-7.0
EBITA	27.6	15.4	-19.9	-93.1	1.5	17.2	27.5	33.1
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	17.2	27.5	33.1
<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>1.9</i>	<i>2.9</i>	<i>3.4</i>
Reported EBIT	27.6	15.4	-19.9	-14.7	1.5	17.2	27.5	33.1
<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>1.9</i>	<i>2.9</i>	<i>3.4</i>
Net financials	-11.3	-10.7	-17.5	-29.3	-29.4	-13.6	-12.0	-10.0
Pre-tax profit	16.3	4.7	-37.4	-122.4	-27.9	3.6	15.5	23.1
Taxes	-2.1	1.2	6.1	18.7	2.9	-0.5	-3.1	-4.6
Minority shares	0.0	0.2	1.1	0.7	2.3	-0.2	-0.2	-0.2
Net profit	9.2	2.2	-34.1	-28.8	-27.1	1.5	10.7	18.3
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	121	125	126
Inventory	400	419	438	372	355	332	342	357
Receivables	122	146	122	204	155	137	141	137
Liquid funds	55	24	93	28	97	90	93	97
Total assets	883	889	1,120	913	899	843	863	881
Liabilities								
Shareholder's equity	252	240	191	95	170	171	182	200
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	121	125	126
Deferred taxes	4	5	5	3	3	3	3	3
Interest bearing debt	301	321	375	300	250	226	224	225
Non-interest bearing current liabilities	253	252	304	244	285	266	274	286
Other interest-free debt	14	18	9	21	21	21	21	21
Total liabilities	883	889	1,120	914	899	843	863	881
CASH FLOW, EURm								
+ EBITDA	34	21	-15	-3	20	24	34	40
- Net financial items	-11	-11	-17	-29	-29	-14	-12	-10
- Taxes	-2	0	-1	-1	-2	0	-3	-5
- Increase in Net Working Capital	-15	-44	56	-75	107	22	-6	0
+/- Other	15	2	2	98	-49	-2	-2	55
= Cash flow from operations	21	-33	26	-11	46	31	12	81
- Capex	-13	-24	-15	-26	1	1	-10	-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	32	1	72
+/- 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	-39	1	-68
Change in cash	20	-31	70	-65	69	-6	3	4

Construction & Engineering/Finland, October 29, 2021
Company update

KEY FIGURES	2017	2018	2019	2020	2021E	2022E	2023E
M-cap	214	101	81	155	150	150	150
Net debt (excl. convertibles)	298	456	422	289	257	255	254
Enterprise value	555	601	584	456	418	417	401
Sales	1,114	960	1,061	976	912	939	981
EBITDA	21	-15	-3	20	24	34	40
EBIT	15	-20	-93	2	17	27	33
Pre-tax	5	-37	-122	-28	4	15	23
Earnings	2	-34	-107	-27	1	11	18
Equity book value (excl. minorities)	240	191	95	170	171	182	200
Valuation multiples							
EV/sales	0.5	0.6	0.6	0.5	0.5	0.4	0.4
EV/EBITDA	26.3	-41.1	-188.5	22.4	17.1	12.2	10.0
EV/EBITA	36.1	-30.2	-6.3	304.1	24.3	15.2	12.1
EV/EBIT	36.1	-30.2	-6.3	304.1	24.3	15.2	12.1
EV/OCF	-17.1	23.5	-54.5	9.9	13.5	35.6	4.9
EV/FCFF	-10.6	26.3	-15.2	5.5	10.2	21.7	4.6
P/FCFE	-3.8	9.5	-2.2	2.2	4.6	118.9	2.1
P/E	98.6	-3.0	-0.8	-5.7	101.8	13.9	8.2
P/B	0.9	0.5	0.9	0.9	0.9	0.8	0.7
Target EV/EBITDA	0.0	0.0	0.0	0.0	18.5	13.1	10.8
Target EV/EBIT	0.0	0.0	0.0	0.0	26.3	16.4	13.1
Target EV/FCF	0.0	0.0	0.0	0.0	13.9	357.4	6.0
Target P/B	0.0	0.0	0.0	0.0	1.1	1.0	0.9
Target P/E	0.0	0.0	0.0	0.0	125.0	17.1	10.1
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	0.04	0.07
Operating cash flow per share	-0.55	0.43	-0.18	0.18	0.12	0.04	0.31
Free cash flow per share	-0.96	0.18	-0.62	0.27	0.12	0.00	0.27
Book value per share	4.03	3.21	1.59	0.64	0.65	0.69	0.76
Dividend per share	0.06	0.00	0.00	0.00	0.00	0.00	0.02
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	3.0
FCF yield, %	-26.6	10.6	-45.6	46.4	21.7	0.8	48.2
Efficiency measures							
ROE	0.9	-15.8	-74.9	-20.5	0.9	6.1	9.6
ROCE	3.5	-2.1	-12.1	0.9	4.1	5.9	6.8
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	1.1	0.9
CAPEX/sales (incl. acquisitions), %	2.2	1.5	2.5	-0.6	-0.2	1.1	0.9
FCFF/EBITDA	-2.5	-1.6	12.4	4.1	1.7	0.6	2.2
Net debt/EBITDA, book-weighted	14.1	-31.2	-136.2	14.2	10.5	7.4	6.3
Debt/equity, market-weighted	1.5	3.7	3.7	1.6	1.5	1.5	1.5
Equity ratio, book-weighted	35.5	23.6	21.2	22.3	24.1	24.9	24.7
Gearing, %	105.0	195.1	240.4	159.8	140.6	132.1	129.6

Construction & Engineering/Finland, October 29, 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. Fluctuations in construction material prices and availability are causing some concerns. Successful exits from developed shopping centres remain crucial in improving the company's balance sheet.

OWNERSHIP STRUCTURE	SHARES	EURm	%
As Pontos Capital	47,306,787	26.965	18.0%
Ilmarinen Mutual Pension Insurance Company	33,295,636	18.979	12.7%
Kolpi Investments Oy	23,776,663	13.553	9.0%
OP Life Assurance Company Ltd	17,234,049	9.823	6.6%
Pohjola Insurance Ltd	15,785,996	8.998	6.0%
Havu Capital Oy	15,741,398	8.973	6.0%
Etola Group	13,373,642	7.623	5.1%
Tungelin Investments Oy	6,926,660	3.948	2.6%
Lareale Investments Oy	6,926,660	3.948	2.6%
Kokkila Lauri	6,494,422	3.702	2.5%
Ten largest	186,861,913	106.511	71%
Residual	76,155,428	43.409	29%
Total	263,017,341	149.920	100%

EARNINGS CALENDAR

April 28, 2022	Q1 report
July 21, 2022	Q2 report
October 27, 2022	Q3 report
February 03, 2022	FY 2022 Results

OTHER EVENTS**COMPANY MISCELLANEOUS**

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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, %	$\frac{\text{Profit before extraordinary items and taxes} - \text{income taxes}}{\text{Shareholder's equity} + \text{minority interest} + \text{taxed provisions (average)}}$		

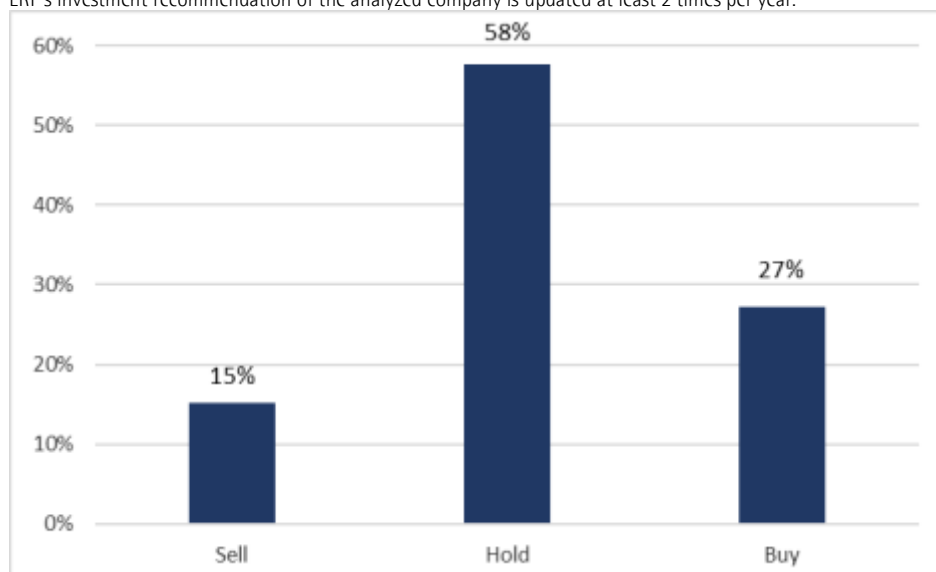
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Target price compared to share price	Recommendation
< -10 %	SELL
-10 – (+10) %	HOLD
> 10 %	BUY

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

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