EVLI

SRV

Construction & Engineering/Finland, June 5, 2023
Company report

Weathering the storm

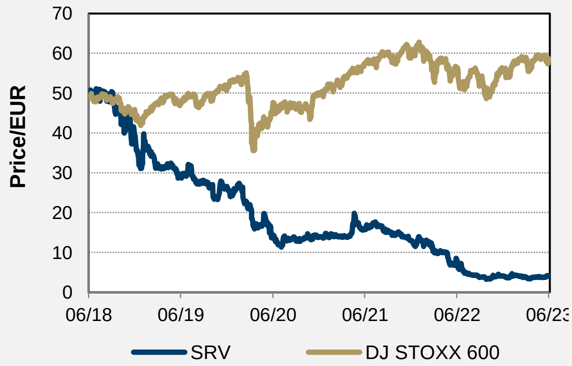
We see SRV as well positioned to weather the storm driven by the company's healthy, low-risk project backlog and low amount of unsold completed units in its balance sheet. Despite the long-term potential driven by the projected turnaround, we continue to see the short-term potential for the stock limited. We retain our HOLD-rating and adjust our target price to EUR 4.4 (4.1).

Leading project management contractor in Finland
SRV is a leading Finnish project management contractor and one of the largest house builders in the Helsinki Metropolitan Area. SRV business model is largely based on the company's own project management model, the SRV approach. The SRV approach relies heavily on the company's subcontractor network, financing and other partners. In 2022, SRV was the 5th largest construction company in Finland measured by revenue.

Weak market hampers turnaround
Due to the prevailing high inflation and interest rate environment, the construction volumes are expected to decrease in 2023, primarily driven by a decline in residential construction. SRV's construction margins have slowly improved during the last two years yet we expect profitability to stay at low levels during 2023 driven by low residential volumes. Despite lower volumes in the higher margin potential residential development projects, we see that the company is able to weather the current storm well as majority of its backlog consists of lower risk non-residential contracting projects. In addition, SRV has low amount of unsold developer contracted units in its balance sheet.

HOLD with a target price of EUR 4.4 (4.1)
On our estimates, the near-term valuation upside remains limited. SRV trades at a premium to its Nordic construction peer companies based on our 2023E multiples, yet, when looking at 2024E P/E and EV/EBIT multiples, the valuation appears neutral. The current valuation is significantly below the 2025E peer group multiples and the value derived from our discounted cash flow valuation, yet we see it currently justified because of the company's track record during the last years and the low visibility for the projected turnaround in profitability.

Rating HOLD



Share price, EUR (Last trading day's closing price)	4.10
Target price, EUR	4.4
Latest change in recommendation	03-Feb-22
Latest report on company	28-Apr-23
Research paid by issuer:	YES
No. of shares outstanding, '000's	16,982
No. of shares fully diluted, '000's	16,982
Market cap, EURm	70
Free float, %	78.9
Exchange rate	1.000
Reuters code	SRV1V.HE
Bloomberg code	SRV1V FH
Average daily volume, EURm	0.06
Next interim report	20-Jul-23
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
2021	932.5	-1.8	-0.2%	113.9	-2.27	-6.5	0.3	-180.4	81.7	0.00
2022	770.1	-76.3	-9.9%	-67.8	-5.05	-0.8	0.2	-2.3	-105.1	0.00
2023E	624.2	6.2	1.0%	-3.4	-0.09	-46.9	0.3	30.0	-4.9	0.00
2024E	720.7	16.4	2.3%	-2.1	0.36	11.4	0.3	11.5	-3.0	0.11
2025E	826.4	27.1	3.3%	-3.5	0.93	4.4	0.2	7.2	-5.1	0.28

Market cap, EURm	70	Gearing 2023E, %	57.8	CAGR EPS 2022-25, %	0.0
Net debt 2023E, EURm	117	Price/book 2023E	0.6	CAGR sales 2022-25, %	2.4
Enterprise value, EURm	187	Dividend yield 2023E, %	0.0	ROE 2023E, %	-1.3
Total assets 2023E, EURm	414	Tax rate 2023E, %	71.6	ROCE 2023E, %	2.3
Goodwill 2023E, EURm	2	Equity ratio 2023E, %	44.2	PEG, P/E 23/CAGR	0.0

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

Investment summary

Leading project management contractor in Finland

SRV is a leading Finnish project management contractor and one of the largest house builders in the Helsinki Metropolitan Area. SRV, established in 1987, went public on the Helsinki stock exchange in 2007. The company is headquartered in Espoo, Finland. SRV business model is largely based on the company's own project management model, the SRV approach. The SRV approach relies heavily on the company's subcontractor network, financing and other partners. In 2022, the company employed 900 employees, yet there were over 23000 workers from a network of roughly 3800 subcontractors on SRV sites during the year.

Fifth largest construction company in Finland

In 2022, SRV was the fifth largest construction company in Finland, with sales amounting to approximately EUR 770 million. Roughly 55% of the company's revenue was generated from business construction, while roughly 41% came from residential construction. The company has a significant presence in the non-residential construction sector within the Helsinki Metropolitan area. According to statements from the company, it commands an 80 percent market share in the construction of skyscrapers exceeding 100 meters in height in Finland. Aside from new building construction, SRV is also involved in infrastructure and renovation construction. According to Rakennuslehti data, SRV ranked as the 17th largest infrastructure construction company and the 7th largest renovation construction company in Finland in 2021.

Recent years have proved to be challenging

The recent years have been challenging for SRV as the company has moved from one challenge to another. One of the primary causes for the decline in performance has been the setbacks experienced in several significant projects. In the first half of 2022, following Russia's attack on Ukraine, the company had to impair its Russian shopping center assets, resulting in a total impairment of EUR 160 million. To restore the company's financial health, SRV completed a financing arrangement that 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 construction market is expected to slow down

Both the non-residential and residential new construction markets are expected to slow down during 2023. The number of housing starts in Finland has risen from below 30,000 per year after the European debt crisis, to nearly 50,000 per year prior to the COVID-19 crisis. After a temporary slowdown due to COVID-19, residential construction picked up again, but began to decrease again in the second half of 2021 due to increased costs and uncertainty caused by the Ukrainian war. According to forecasts by CFCI (the Confederation of Finnish Construction Industries, RT), residential new construction volumes are expected to decrease by 10% in 2023. For non-residential construction, CFCI forecasts slight volume increase of roughly 1% in 2023. Infrastructure construction volumes are expected to continue to decline in 2023 while renovation construction market is expected to grow slightly.

HOLD with a target price of EUR 4.4

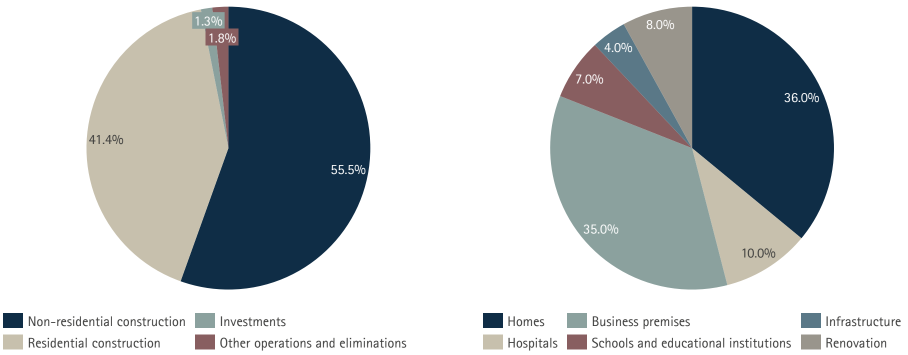
We retain our HOLD-rating and adjust our target price to EUR 4.4 (4.1) driven by slight upward adjustments to our estimates for SRV's non-residential construction. On our estimates, the near-term valuation upside remains limited. SRV trades at a premium to its Nordic construction peer companies based on our 2023E multiples, yet, when looking at 2024E EV/EBIT and P/E, the valuation appears neutral. The current valuation is significantly below the 2025E peer group multiples and the value derived from our discounted cash flow valuation, yet we see it currently justified because of the company's track record during the last years and the low visibility for the projected turnaround in profitability. In our view, evidence of the company's turnaround and sustainable return to higher volume and margin levels are essential for the company's long-term value potential to unlock.

Company overview

SRV is one of the largest construction companies in Finland

SRV is a Finnish construction company that focuses on Finland's developing growth centers next to good transport links. The company is a leading Finnish project management contractor and one of the largest house builders in the Helsinki Metropolitan Area. According to data by Rakennuslehti, in 2022, SRV was the 5th biggest construction company in Finland, behind YIT, Skanska, Peab and Lujatalo. The company employed roughly 900 professionals in 2022 and is headquartered in Espoo, Finland.

Figure 1: SRV revenue distribution by segments and construction revenue distribution by construction type, as a % of total revenue, 2022



Source: SRV, Evli Research

In April 2023, SRV adopted a new segment structure where the group will be reported as a single segment. The segment change was expected due to the company's exit from the Russian market where most of its business reported under the Investments segment were located. Prior to the segment change, in 2022, SRV revenue was divided into two segments, Construction and Investments. In 2022, nearly 97% of the company's revenue was from construction operations. Construction revenue is further divided into residential and non-residential. Residential construction revenue was roughly 41% of total revenue in 2022 while non-residential was approximately 55%. In 2022, the primary sources of construction revenue for SRV were business premises and residential homes. Aside from these, SRV was involved in constructing hospitals, schools, and educational institutions. Furthermore, SRV participated in infrastructure projects and renovations, in addition to new building construction.

Strong market position in the Helsinki Metropolitan Area

The company has a strong market position as one of the Helsinki Metropolitan Area's largest house builders. In addition to strong position in house building, SRV is also the market leader in non-residential construction contracting in the area. Roughly three fourths of the company's revenue is from the Helsinki Metropolitan Area. One of the advantages for SRV is the ability to implement demanding construction projects. SRV has an impressive track record of executing large-scale projects in both residential and non-residential construction in the Helsinki Metropolitan Area, as well as other urban centres in Finland. With its references and expertise, the company has been successful in attracting clients and securing challenging large projects. Recent examples of these projects include the Okmetic factory building located in Vantaa and the new ward building at Jorvi Hospital in Espoo.

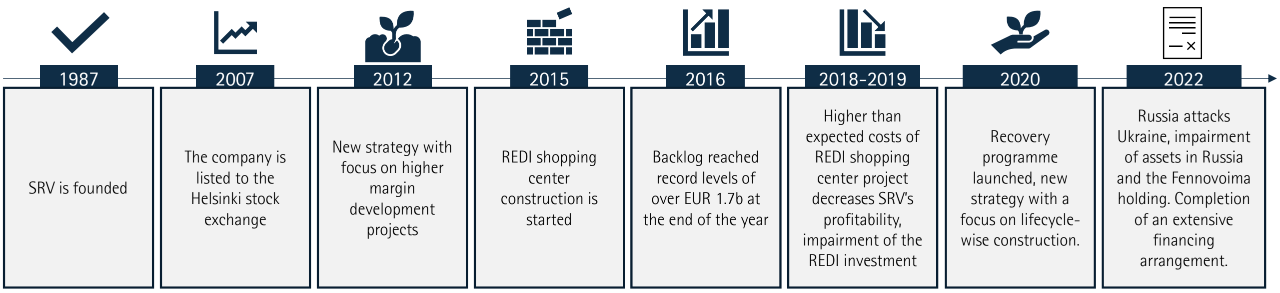
Founded in 1987, listed to Helsinki stock exchange in 2007

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. Despite a significant drop in revenue of nearly 30% in 2009, the company managed to maintain a respectable level of profitability, with an EBIT margin of 2.7% for that year. The Finnish construction market experienced a quick recovery following the financial crisis, but soon thereafter faced another crisis in the form of 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 Russian intervention in Ukraine, the company's focus shifted more towards profitable domestic operations in Finland's developing urban centres. 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.

SRV has moved from one challenge to another during the recent years

Over the past five years, SRV has moved from one challenge to another. The company's involvement in certain large projects have not yielded the desired results, which has 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 faced additional challenges when Russia attacked Ukraine, and as a result, SRV impaired its assets in Russia and the Fennovoima holding. Impairments of Russia holdings amounted to almost EUR 46m and impairment of Fennovoima to over EUR 13m. 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



Source: SRV, Evli Research

Business model

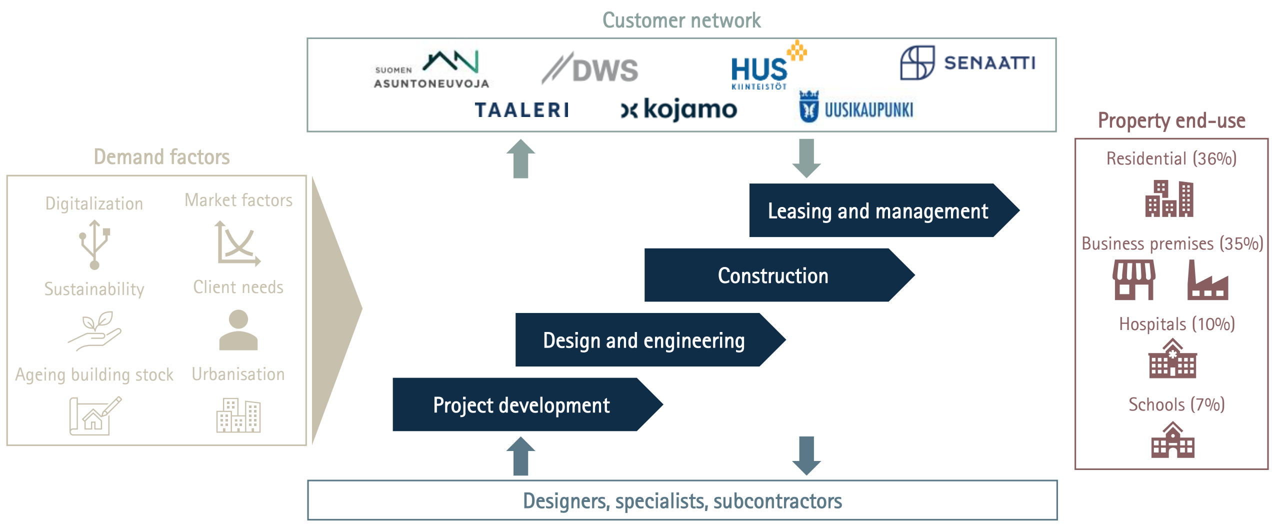
Wide variety of construction services with a focus on the Finnish growth centers

SRV is active in both residential and non-residential construction. In 2022, over 55% of the company's total revenue comprised of non-residential construction. In addition to buildings, the company's non-residential construction segment consists of construction services offered for infrastructure projects. Geographically SRV focuses on Finnish urban growth centers and is one of the largest house builders in the Helsinki Metropolitan Area. SRV offers wide variety of project types in its construction operations ranging from lower risk construction contracting to higher risk long-term development projects.

SRV approach enables scaling of operations according to the market conditions

SRV's business model is largely based on the company's own project management model, the SRV approach. The SRV approach relies heavily on the company's subcontractor network, financing and other partners. In 2022, the company employed approximately 900 employees, yet there were over 23,000 workers from a network of roughly 3,800 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 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.

Figure 3: SRV Approach illustration



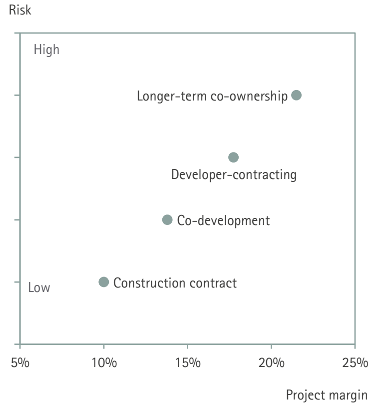
Source: SRV, Evli Research

Figure 4: Overview of project stages and types

Project process stages	Project development	Design and engineering	Construction	Leasing and management
Process stage description	+ SRV develops projects based on megatrends, the relevant operating environment and its customer's demands + Can be initiated by customer or SRV	+ Project is designed based on the customers demands + SRV utilizes its cost knowledge to find the best and the most cost-efficient solutions for the project	+ The work is implemented in accordance wit the set parameters and customer demands + SRV acts as the main contractor	+ Leasing and management of the property + Maintenance and services based on owner/user needs

Project types	Description	Revenue recognition	Responsibility
Longer-term co-ownership	Developed and owned by SRV and a partner	When sold	Longer-term development and co-ownership
Developer-contracting	Developed by SRV, has not been sold when construction begins	When completed and sold	Total responsibility with short-term ownership
Co-development	Developed by SRV, sold to an investor before construction begins	% of completion	Agreed additional responsibility and outside ownership
Construction contract	Initiated by customers, SRV acts as the main implementing party	% of completion	Construction

Risk and profitability profile by project type (illustrative)



Source: SRV, Evli Research

Developer-contracting projects offer higher margins with balance sheet exposure

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 when compared to other project types where the revenue recognition is based on percentage of completion.

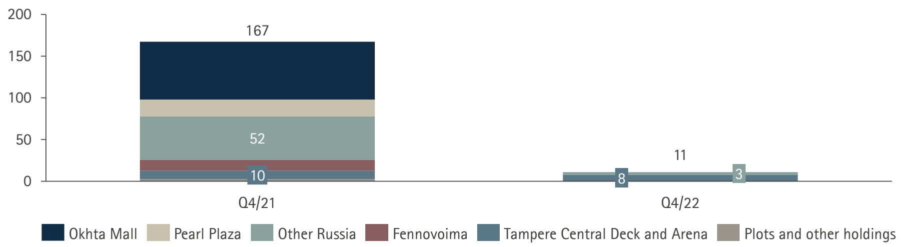
Co-development projects are sold to investors prior to construction start

Co-development projects are developed by the company but sold to investor prior to construction start, SRV doesn't bear balance sheet risk. As the co-development projects are less risky, the project margin potential is also lower when compared to developer contracting and longer-term development projects where SRV bears balance sheet risk. In co-development projects, revenue is recognized on basis of percentage of completion.

SRV is currently exiting from Russia and selling its co-ownership assets

Longer-term co-ownership projects are projects where SRV acts as a co-investor with different investor partners under an agreed joint venture form. The longer-term co-ownership projects were in 2022 reported under the Investments segment. Most of the company's longer-term co-ownership properties are located in Russia and were written down during the first half of 2022. The company is currently seeking to exit from the country, in November 2022, SRV was able to sell its stake in the Okhta Mall for EUR 4.3m. In addition to Russian assets, Tampere Central Deck and Arena is a longer-term co-ownership project.

Figure 5: SRV Capital employed on investments Q4 2021 vs. Q4 2022, in EUR m



Source: SRV, Evli Research

Contracting is a lower risk and lower margin business

In addition to co-development, developer-contracting and longer-term co-ownership, the company delivers contracting projects. Contracting projects do not tie capital and therefore there is no balance sheet risk involved. The company acts as the main contractor and revenue is recognized based on the percentage of project completion, with different contract types such as fixed-price, project management, turnkey and alliance contracts being used. 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.

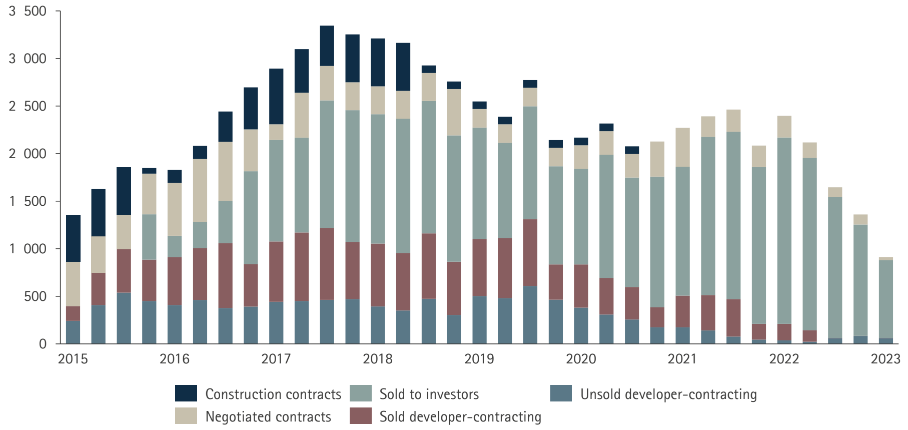
SRV is one of the largest house builders in the HMA

Residential construction was roughly 41% of the company's total sales during 2022 and 15% of the total backlog at the end of Q1 2023. One of the company's current strategic programs is to establish housing construction as the main driver of its profitability. SRV seeks to expand and intensify the operations that relate to housing construction during the current strategy period 2021-2024. SRV is currently one of the largest house builders in the HMA as most of the company's residential construction revenue comes from projects in the area. Most of the company's residential housing projects are either co-development or developer contracted projects which offers potential for higher margins when comparing to contracting. Although SRV primarily focuses on co-development and developer-contracted projects in residential construction, the company also selectively offers housing construction contracts.

The share of residential developer-contracting has decreased

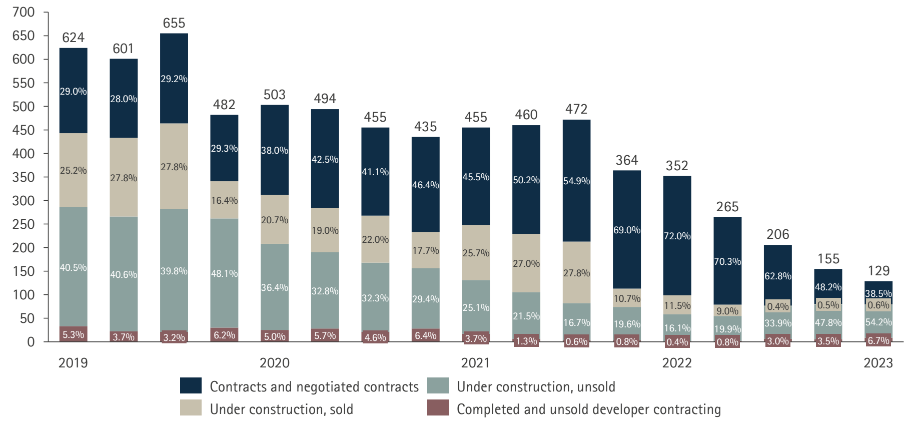
SRV has reduced its involvement in developer-contracting, as currently around 90% of the housing units under construction are co-development projects that have been sold to investors before the start of construction. Before 2020, approximately 30-50% of the units under construction were developer-contracting projects.

Figure 6: SRV residential units in construction by type of project, in units, quarterly, Q1 2015 - Q1 2023



Source: SRV, Evli Research

Figure 7: SRV housing construction backlog composition in total EUR m & categories as a percentage out of total, quarterly, Q1 2019 – Q1 2023



Source: SRV, Evli Research

Non-residential construction is the majority of SRV's revenue

Non-residential construction was roughly 55% of the company's total sales during 2022 and 86% of the total backlog at the end of 2022. Construction of business premises was the largest part of the company's non-residential construction revenue in 2022. In addition to business premises, hospital and school projects are important for SRV's non-residential business. Alliance and project management contracting projects make the most of the company's non-residential projects. Most of SRV's own business premise projects are co-development projects but the company has historically implemented selected developer-contracted projects.

Renovation & infrastructure are the company's smallest non-residential construction subcategories

Renovation construction is a small part of the company's overall business as in 2022, it was only 8% of the group's total revenue. According to data by Rakennuslehti, SRV was the 7th biggest renovation construction company in Finland during 2021. Historically, SRV's renovation construction revenue has hovered around EUR 20-25m, the company has been more active in renovation during 2021-2022 as there were several larger renovation projects ongoing. Most of the company's renovation projects are carried out utilizing co-operative contract types. Infrastructure construction is the smallest subcategory of the company's construction segment. Infrastructure construction revenue varies between the years and is dependent on for example the governments existing and planned infrastructure projects. According to data by Rakennuslehti, SRV was the 17th largest infrastructure construction company in Finland during 2021.

Strategy

The company's current strategy is based on lifecycle-wise construction

SRV updated its strategy during early 2021 for the strategy period 2021-2024. The current strategy is based on lifecycle-wise construction where together with its partners, the company seeks to create a lifecycle-wise reality, where solutions related to construction ensure well-being, financial value and the benefit of users, residents and environment. One example of the lifecycle-wise construction is the company's public lifecycle projects in which SRV can secure upkeep and maintenance contracts up to 20 years after the construction is completed. The upkeep and maintenance contracts increase the earnings visibility and have higher margin potential when comparing to the company's project business.

Aim to increase effectiveness and improve risk management

Throughout the strategy period 2021-2024, the company aims to increase its effectiveness, the improvements are done to internal processes and procurement. In 2021, SRV already invested in development of the processes and cooperation between its internal units. The focus in 2021 was to increase the efficiency and cooperation between planning, procurement, cost control and production units. During the second half of 2022, SRV held change negotiations that resulted in personnel reductions of a total of 33.5 person-years, in addition, 30 people were laid off. With the negotiations, the company aims for EUR 6-8m cost savings together with other measures. In 2023, SRV aims to continue improving its efficiency by focusing on improving the quality of its project implementation operations and increasing the degree of its control over the projects. In addition to increase in effectiveness, the company aims to improve its risk management capabilities by increasing the share of low-risk project management and alliance contracts and increasing its risk management know-how throughout the organization. The company has already secured substantial alliance and project management contracts such as the alliance projects for Laakso and Jorvi Hospitals.

Higher margin residential projects to drive the profitability

The share of housing construction of the total construction segment revenue has hovered around 30-40% during the recent years. The company focuses its housing construction business on Finland's developing urban centres located next to good transport links, SRV is one of the biggest house builders in the Helsinki Metropolitan Area. The attainable project margins for developer contracted and co-development housing projects are higher when compared to the lower risk yet lower margin non-residential contracting projects. In addition to the high margin potential of residential development projects, SRV aims to enhance profitability further. One example of the ways that the company aims to improve its profitability in the housing segment is by higher usage of prefabricated building parts. SRV has also made an overhaul to its management system which included changes to project phases requiring decision-making and the requirements related to project progression. With the overhauled management system, the company aims to achieve improved project margins as the projects are implemented more efficiently.

Target to achieve leading market position in the business premises market

Over half of the company's construction segment revenue is related to non-residential construction. Majority of the non-residential construction revenue in 2022 comprised of business premise construction. In business premise construction, SRV delivers projects suitable for the needs of different companies and organizations, both public and private. With the new strategy, the company aims to achieve a leading market position in the most important geographies. One of the key strategic approaches to achieve the goal is to introduce lifecycle-wise construction to the private sector business premise projects.

Financial targets

The updated financial targets for the strategy period 2023-2026:

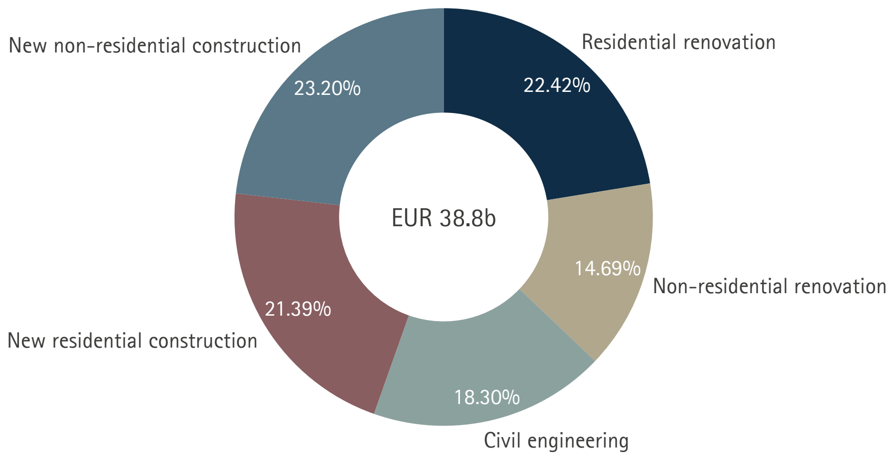
- Revenue: EUR 900m by the end of 2026
- Operative operating profit: 6% by the end of 2026
- Dividend distribution target at 30-50% of the annual result while taking into account the outlook and capital needs of the company

Market

Finnish construction market size is roughly EUR 38.8bn

According to data by CFCI, the total value of Finnish new construction market in 2021 was EUR 17.3bn. New construction market is slightly larger than the renovation construction market which was roughly EUR 14.5bn in 2021 and substantially larger than the civil engineering market which was roughly EUR 7.1bn in 2021. The total new construction market is further divided into residential (EUR 8.5bn) and non-residential (EUR 9.0bn) new construction. The total construction market grew over 5% y/y from EUR 36.9bn in 2020 to EUR 38.8bn in 2021. The Finnish construction market has enjoyed strong growth after the financial crisis as it has grown at a faster rate than the Finnish GDP. The new construction market is more dependent on the overall economy and therefore the market is more volatile when comparing 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 8: Finnish construction market by value, in % of total value 2021



Source: CFCI, Evli Research

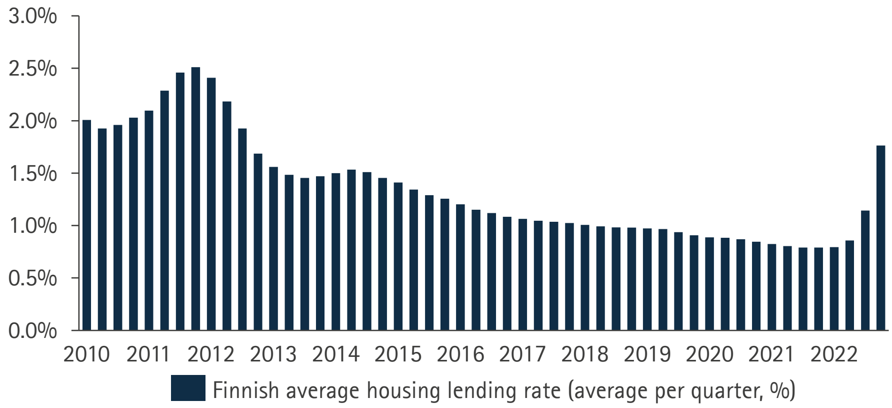
Residential and non-residential new construction markets fluctuate with the economy

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. Both the residential and non-residential markets are also affected by investment demand, which is influenced by rental yield levels and investors' return requirements. In 2009, according to data by Statistics Finland, the construction turnover index decreased by almost 14% y/y. After the financial crisis, the Finnish construction sector took a hit from the European debt crisis as the construction turnover index decreased 1.7% in 2013 and grew only 1.3% in 2014. From year 2014 onwards, the new construction market in Finland has enjoyed strong growth backed by improving economy and low interest rate environment. More recently, the market took a hit from the COVID-19 pandemic as according to CFCI, the Finnish residential new residential construction volumes decreased by 7.9% y/y and non-residential 4.1% y/y respectively during 2020.

Central banks are increasing rates to tame inflation

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 has been followed by six increases and the deposit facility rate is currently at 3.25%. Both the Federal Reserve in the United States and the ECB in Europe have increased interest rates in 2022 to curb inflation. The Finnish CPI grew by 7.9% y/y in April 2023 driven largely by higher cost of energy, heating and interest rates on housing loans. The current Eurozone inflation is roughly 7%, clearly above the medium-term ECB inflation target of 2%.

Figure 9: Finnish average interest on new housing loans, in percentage %, quarterly, 2010-2022

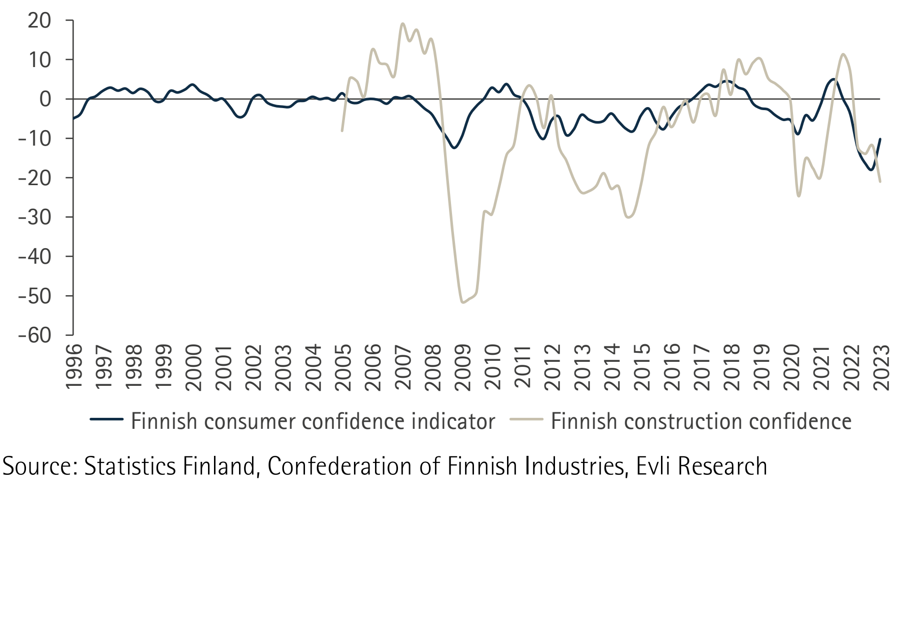


Source: Bank of Finland, Evli Research

Finnish consumer and construction confidence at low levels

As a result of the increased uncertainty due to the war in Ukraine, high inflation and higher interest rates, both the Finnish construction and consumer confidence have been declining from the first half of 2022 and are currently at low levels. As an illustration, the Finnish consumer confidence during Q2-Q4 2022 was at a lower level compared to that observed during the financial crisis. Construction confidence has experienced a even further decline in early 2023 when compared to the confidence levels witnessed in Q4 2022.

Figure 10: Finnish construction & consumer confidence index, quarterly, Q1 1996 – Q1 2023

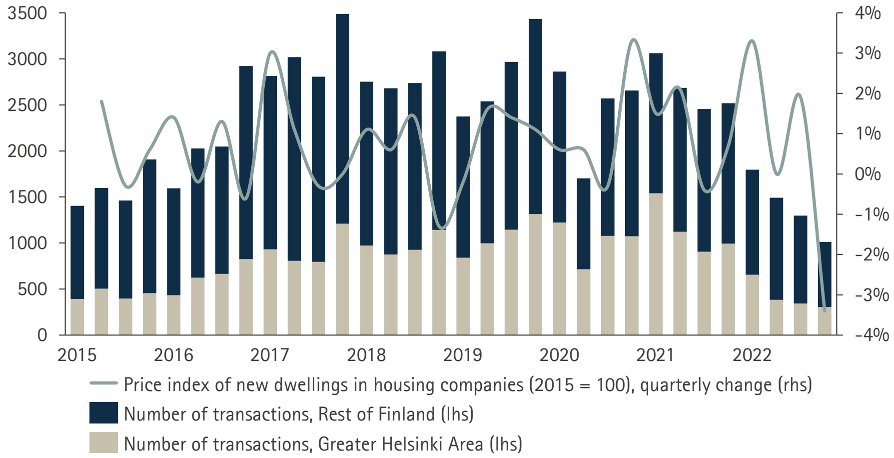


Source: Statistics Finland, Confederation of Finnish Industries, Evli Research

Housing starts have stayed above the long-term housing need during the recent years

The long-term annual housing need in Finland is approximately 30-35k housing units, the housing starts in 2022 were at roughly 38k housing units which is approximately 10-30% above the long-term need. The strong housing market development during the recent years has been driven by the housing demand in the Helsinki Metropolitan Area and other growth centers in Finland. According to the Finnish Ministry of Finance, there is an anticipation of a decrease in housing starts, with projected numbers of 33-34k in 2023 and 31-33k in 2024. On the other hand, the CFCI predicts a more substantial decline in housing starts, with estimates of 27k in 2023 and 31k in 2024.

Figure 11: Price index & number of transactions of new dwellings in housing companies, by quarter, 2015-2022

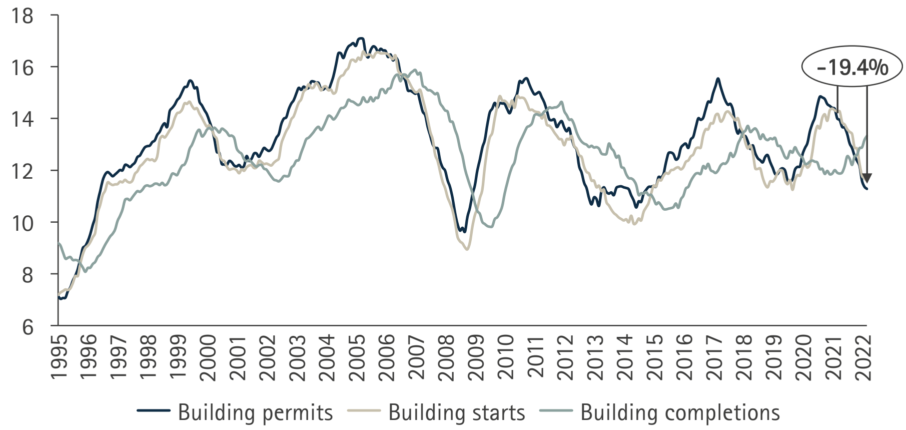


Source: Statistics Finland, Evli Research

Sales volumes and prices started to decline during H2 2022

The Finnish housing market has experienced a noticeable decline in the second half of 2022, with both sales volumes and prices of new houses decreasing due to high inflation and increasing interest rates. According to Statistics Finland, sales volumes for new housing in the Helsinki metropolitan area were down nearly 70% year-over-year in Q4 2022 (with a 60% decrease nationwide). Although new housing prices increased year-over-year in Q4, the prices started to decline quarter on quarter. During Q1 2023, the prices for new dwellings in housing companies bounced back quarter on quarter in the HMA yet were still down year on year.

Figure 12: Residential building permits, starts and completions, in LTM million m3, monthly, 12/1995 – 02/2023



Source: Statistics Finland, Evli Research

Figure 13: Residential building permits, starts and completions by type of building, LTM m3, 02/2023 y/y

	Permits	Starts	Completions
Detached and semi-detached houses	-29.7%	-17.7%	+6.2%
Block of flats	-10.8%	-21.4%	+14.9%
Other	-22.0%	+52.9%	+146.6%
Total residential	-19.4%	-18.8%	11.9%

Source: Statistics Finland, Evli Research

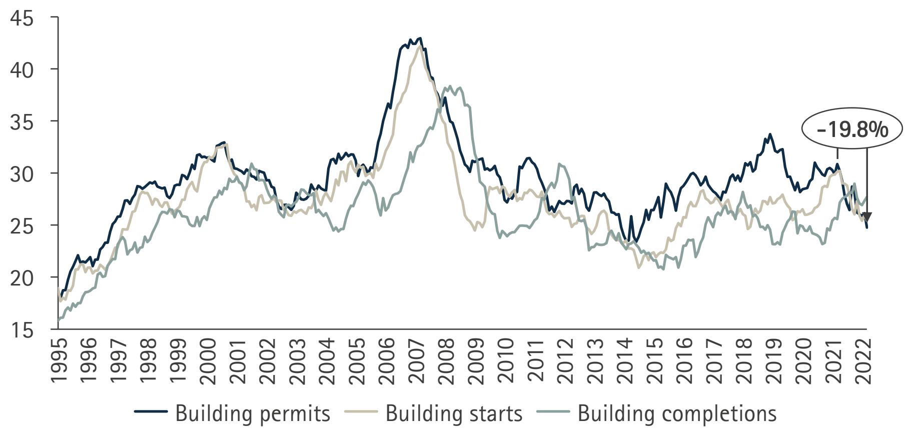
Residential completions up y/y, permits and starts have declined

Residential permits have been declining from the second half of 2021 and were down 19.4% y/y at the end of February 2023 (LTM volume measured as m3). The apartment building permits declined by roughly 11% y/y while detached and semi-detached house permits declined by roughly 30% y/y. Based on the development of the new building permits and starts, the residential construction starts are expected to fall going forward from the high levels witnessed during the recent years.

Industrial buildings and warehouses the biggest non-residential category by completions in 2022

In 2022, over 40% 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 (~20% 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 the public investments and is less cyclical when comparing 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 in terms of completion volume. The strongest growth in completion volume has been witnessed in the institutional care subsector where the completion volume has over doubled during the last five years. 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. The office building starts have started to increase from the lows seen during 2020 driven by the changes in office requirements post COVID-19. The recovery witnessed in commercial building starts has stopped during the second half of 2022 because of the current economic uncertainty.

Figure 14: Non-residential building permits, starts and completions, in million m3, rolling LTM



Source: Statistics Finland, Evli Research

Figure 15: Non-residential building permits, starts and completions by type of building, LTM m3, 02/2023 y/y

	Permits	Starts	Completions
Commercial and office buildings	-11.0%	-12.8%	+22.4%
Public service buildings	-5.0%	-27.8%	-2.1%
Industrial buildings and warehouses	-20.4%	-8.6%	+24.2%
Other non-residential buildings	-39.6%	-22.8%	-19.7%
Total non-residential	-19.8%	-15.7%	+8.4%

Source: Statistics Finland, Evli Research

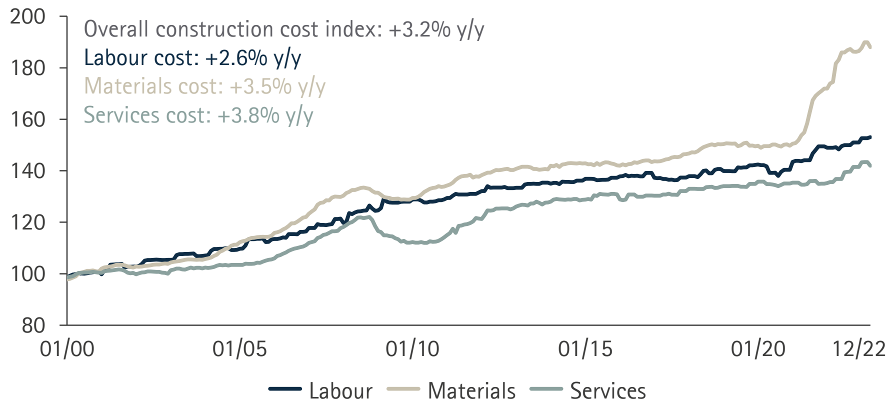
The non-residential building completions are still at a relatively high level compared to previous years as the LTM volumes in February 2023 were up 8.4% y/y driven by commercial, office, industrial and warehouse building completions. Similarly to the residential market, the falling permit and start volumes point towards a slowdown in the non-residential construction market. The year-over-year decline of approximately 20% in LTM non-residential permits can be attributed to reductions in permits across all non-residential building categories.

Cost development

Construction costs have increased rapidly driven by increased material costs

The construction sector has been affected by the cost inflation witnessed during the last two years caused by the COVID-19 crisis and the war in Ukraine. The construction cost index has increased 16% from 12/2020 to 12/2022, led by rise in building materials cost where the cost index has risen 24.6% during the period.

Figure 16: Total construction cost index (2000 = 100) Finland by segment, monthly, 01/2000 – 04/2023

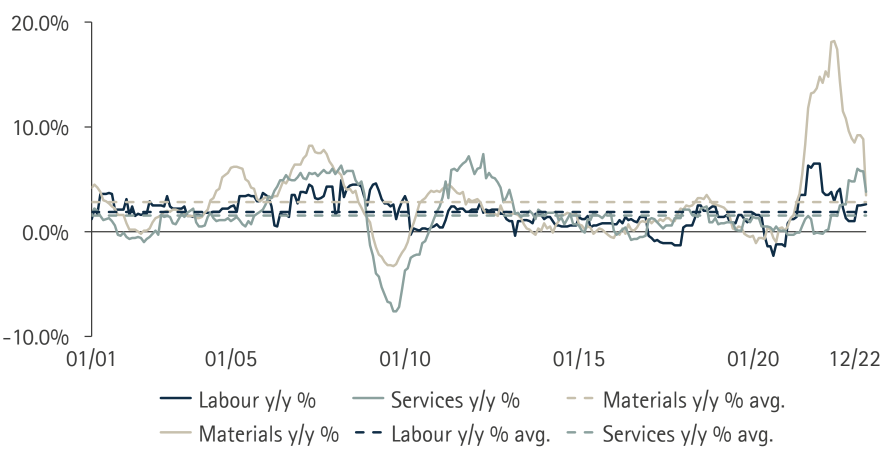


Source: Statistics Finland, Evli Research

Labour and services cost y/y growth closer to long-term average, materials substantially higher

The cost for labour and services in the construction sector has increased roughly 1.9% and 1.5% y/y respectively over the last 20 years. Cost of materials has increased roughly 2.1% y/y before the price rally that started during the second half of 2021. In April 2023, cost for labour and services in the construction sector grew 2.6% and 3.8% y/y respectively, both at a higher rate than the historic average. The construction materials cost increased 3.5% which is also higher than the long-term average of roughly 2.1% (excl. the recent price rally). The cost increase in materials during the last two years has been wide-ranging, with the biggest increases being the cost of steel structures, heat insulation material and roofing materials. Margin pressure due to cost increase is felt most in projects with fixed price payment models and long lead times. The construction material costs are still at a high level, yet the y/y growth has slowed down. The construction service costs have started to increase during the latter part of 2022 while the labour cost growth has slowed down.

Figure 17: Total construction cost index y/y growth by segment, 2000 = 100



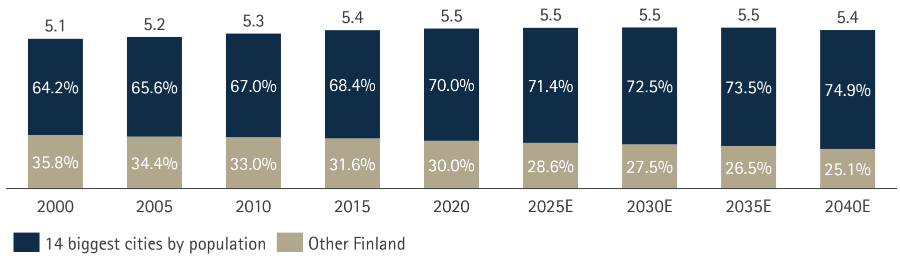
Source: Statistics Finland, Evli Research

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 18: Share of 14 biggest cities out of total Finnish population 2000-2040E, population in millions

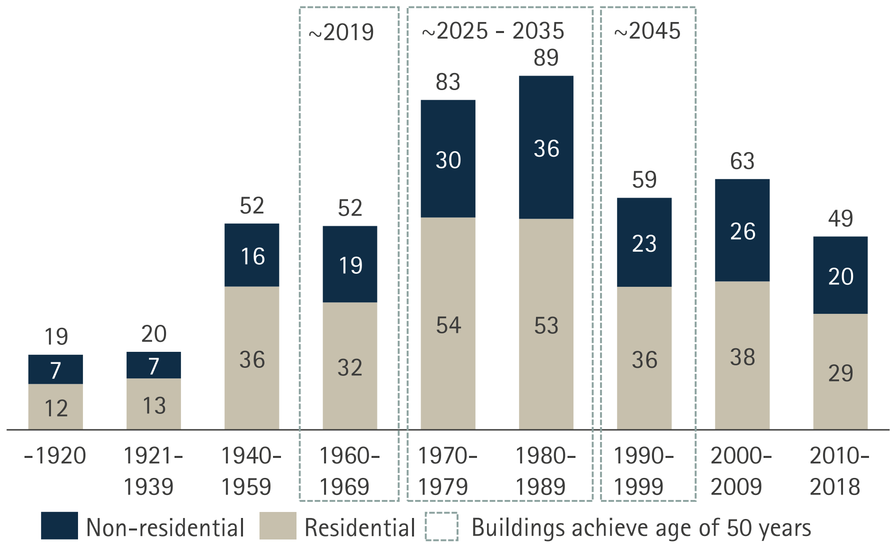


Source: Statistics Finland, VTT, Evli Research

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 19: Finnish building stock by construction year, million m2

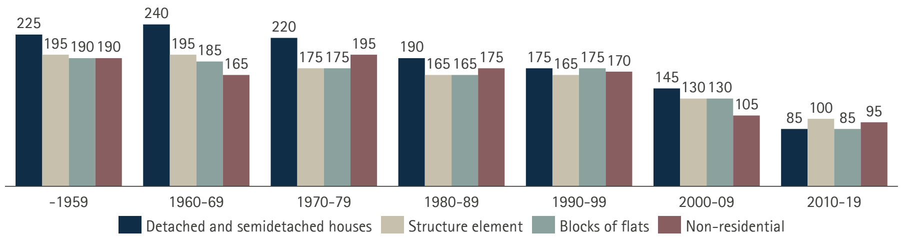


Source: Consti, Evli research

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 20: Finnish building stock by construction year, building type and average heating energy consumption, in kWh/m2



Source: VTT, Evli research

Market outlook

Finnish construction confidence is currently below the long-term average level

According to the Confederation of Finnish Industries, the construction confidence indicator was at -28 in April 2023, down from -18 in March 2023. Finland's construction confidence remains the second lowest in Europe and is currently significantly below the long-term average level of -6. The confidence took a turn for the worse during early 2022 as the war started in Ukraine, the war has increased the overall uncertainty and costs for construction projects and complicates tendering processes as cost development is difficult to forecast. The decline continued during the second half of 2022 as the interest rates increased at rapid rate.

The housing market is expected to slow down from a relatively high level

The number of housing starts in Finland has risen from below 30,000 per year after the European debt crisis, to nearly 50,000 per year prior to the COVID-19 crisis. After a temporary slowdown due to COVID-19, construction picked up again, but began to decrease again in the second half of 2021 due to increased costs and uncertainty caused by the war in Ukraine. According to forecasts by CFCI, residential new construction volumes are expected to decrease by 20% in 2023, with housing starts projected to fall to 27,000 units, a decline of more than 40% from the 2021 high of 47,000 units. With the large decrease, the housing starts are expected to be below the long-term average of 35,000 units for 2023. For 2024, CFCI expects a volume decrease of 10% while the housing starts are expected to already increase to 31,000 units from 27,000 units in 2023.

Figure 21: Housing starts and completions vs. long-term Finnish housing demand forecast, # of dwellings started and completed, LTM monthly data

Source: Statistics Finland, VTT, Evli Research

Non-residential construction expected to support the overall market

Despite the anticipated significant slowdown in residential construction in 2023, the Finnish market for non-residential construction is expected to remain relatively unaffected. According to CFCI, it is expected that the volumes of non-residential building construction will increase by roughly 0.9% in 2023. The major non-residential building type permits have declined less than residential permits in 2022 and the non-residential permits and starts were at a relatively high level during 2021. In 2022, the non-residential building starts were at high level for all the major non-residential building categories, yet the start volumes began to decline across the board y/y during H2 of 2022. Although there was a slight deceleration in starts throughout 2022, market participants anticipate that the most significant drop in non-residential permits and starts has already occurred.

Infrastructure volumes to continue decline, renovation growing slightly

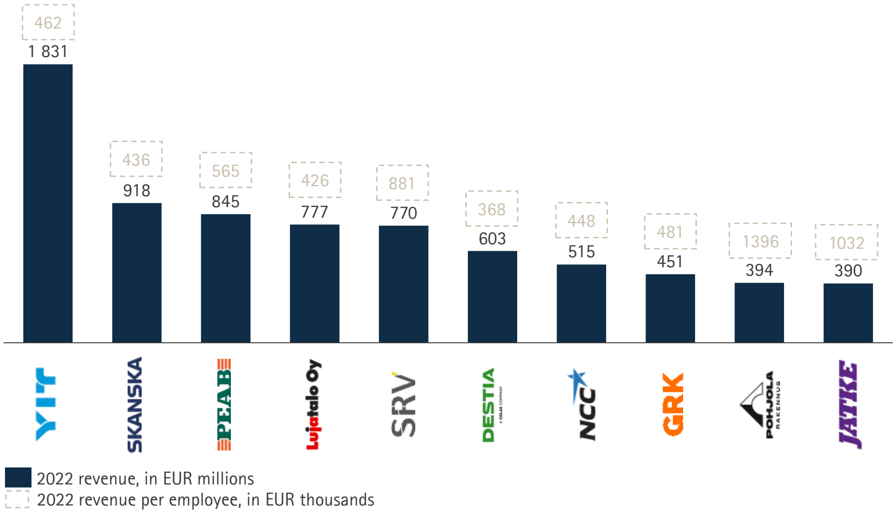
The total renovation construction market has historically grown roughly 1-2% p.a. According to CFCI, the renovation market grew 4.8% in 2021. Despite the expected slowdown in the new construction market, the renovation construction market growth is expected to stay at roughly 1-2% p.a during 2023-24. For infrastructure construction, both CFCI and RAKSU predict that the volumes will continue to decrease during 2023.

Competition

SRV is the 5th biggest construction company in Finland

YIT was the Finnish construction market leader with sales of roughly EUR 1.8b in 2022, SRV was the 5th biggest with sales of roughly EUR 770m in 2022. When looking at the revenue per employee, SRV had the third highest figure of the Finland's ten largest construction companies in 2021. The high revenue per employee figure is a result of the company's business model and the high reliance of subcontractor network. Besides SRV, Pohjola Rakennus and Jatke are the only companies among the ten largest construction companies in Finland that have higher reliance on subcontractors. Based on the data by Rakennuslehti, both Pohjola Rakennus and Jatke generate over EUR 1 million of revenue per own employee.

Figure 22: Ten largest construction companies in Finland by revenue, 2022 revenue in EUR millions



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, NCC) are active in all of the main segments. In addition to the large construction companies, there are many smaller players that focus on certain segments within the construction market.

Figure 23: SRV's main competitors by construction segment

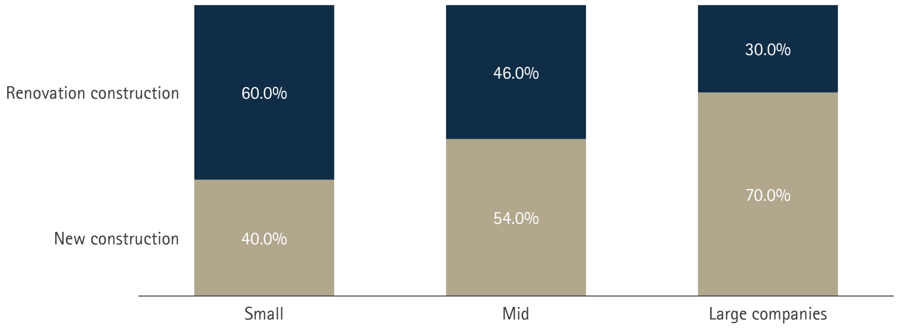
	Residential & non-residential building construction	Renovation construction	Infrastructure construction
Market size	EUR 17b	EUR 14b	EUR 8b
SRV market position, market share (2021)	Top-5, ~5%	7th, <1%	17th, <1%
Main competitors	YIT, SKANSKA, PEAB, NCC, Lujatalo Oy, LEHTO, POHJOLA RAKENNUS, JATKE	CONSTI, YIT, Lujatalo Oy, NCC, SKANSKA, PEAB, Rakennus Ahola, Renevo	YIT, DESTIA, GRK, PEAB, NRC Group, KREATE, SKANSKA, TerraWise

Source: Rakennuslehti, company material, Evli Research

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

SRV is the fifth largest new construction company in Finland. The Finnish new building market is dominated by large construction companies from both Finland (YIT, Lujatalo, Lehto, Pohjola) and Sweden (Skanska, PEAB, NCC). According to our analysis, the ten largest new building construction companies take one third of the total Finnish new building construction market. According to data by Statistics Finland, 70% of the building projects conducted by large companies in 2021 were related to new construction while the same figure was only 40% for small companies.

Figure 24: Shares of renovation building and newbuilding of all building projects by enterprise size, in percentage, 2020



Source: Statistics Finland, Evli Research

Renovation construction market is more fragmented

SRV was the 7th largest renovation construction company in Finland in 2021. 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 in 2021.

Infrastructure construction is not a focus area for SRV

SRV is the 17th largest infrastructure construction company in Finland based on 2021 revenue figures. Infrastructure is not the company's main focus and the revenue from infrastructure projects varies annually. 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 niche of the infrastructure market. In addition to large and medium-sized players, there are also smaller players in the 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. In addition, 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. The utilization of the subcontractor network improves the company's pricing power in weak market environment.

Financial performance

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

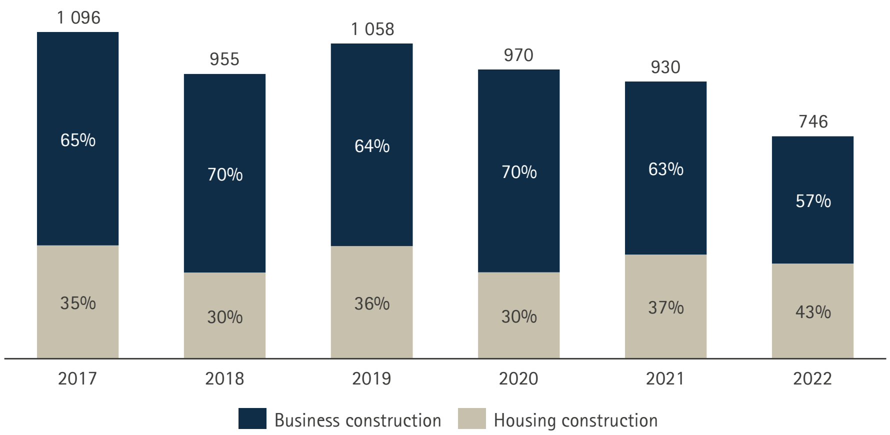
The company's revenue and profitability has been decreasing since 2017, primarily due to difficulties with specific large projects in its portfolio and declining order backlog. In 2017, the company achieved its highest ever revenue of EUR 1116m, compared to an average of EUR 600-700m prior to 2017. In 2022, SRV's revenue was at EUR 770m, down from EUR 932m the year prior. SRV's aims to achieve revenue of EUR 900m by the end of 2026. In terms of profitability, the company's EBIT margin has typically hovered around 2-4%, during the recent years, the margin has suffered because of higher-than-expected project costs and impairments. SRV's operating profit in 2022 was still negative yet the operative EBIT margin improved to 2.5% from 0.6% in 2021. The company's goal for the 2023-2026 strategy period is to achieve an operative operating profit margin of 6% by the end of the period. In addition to revenue and profitability objectives, SRV aims to distribute a dividend equaling 30-50% of the annual result, while taking into account the outlook and capital need of the company.

Revenue

Most of SRV's revenue comes from business construction

In 2022, SRV's revenue was divided into two segments, construction and investments. During 2022, only 1.3% of the company's total revenue came from the investments segment. In April 2023, the company announced that it adopts a new segment structure where the group will be reported as a single segment. SRV's construction revenue consists of construction project deliveries. 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 and longer-term co-ownership projects, the revenue is recognized mainly at the point of sale. During 2022, roughly 90% of the company's construction revenue was recognized over time, while approximately 7% was recognized at a point in time (3% other).

Figure 25: SRV's annual construction revenue divided to business & housing construction 2017-2022, in EUR m & in %



Source: SRV, Evli Research

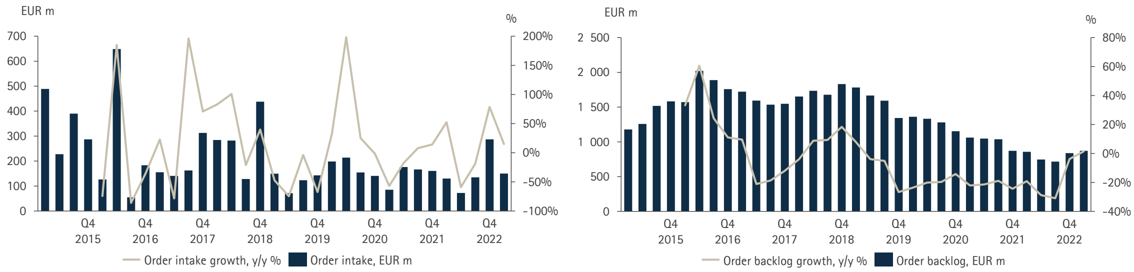
The share of different building types of total revenue fluctuates y/y

Most of the company's revenue comes from business construction as in 2022, 57% of construction revenue was related to business construction. When looking at the building types, home building was the company's largest source of revenue, accounting for approximately 36% of total revenue. The proportion of revenue generated by different types of buildings fluctuates year to year, but the proportion of revenue from homes has consistently been around one-third of the total. The non-residential building types are more volatile as for example the share of business premises and hospitals has fluctuated between 16-34% and 9-37% respectively during 2017-2022. 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 2020, the company's share of revenue from hospital construction increased from 19% in 2019 to 37% as the company completed projects such as the new central hospital in Central Finland and were building others like the Bridge Hospital in Helsinki. In 2021, the share of revenue from business premises increased as the company initiated several large business premise projects.

Order backlog reached its peak in Q2 2016

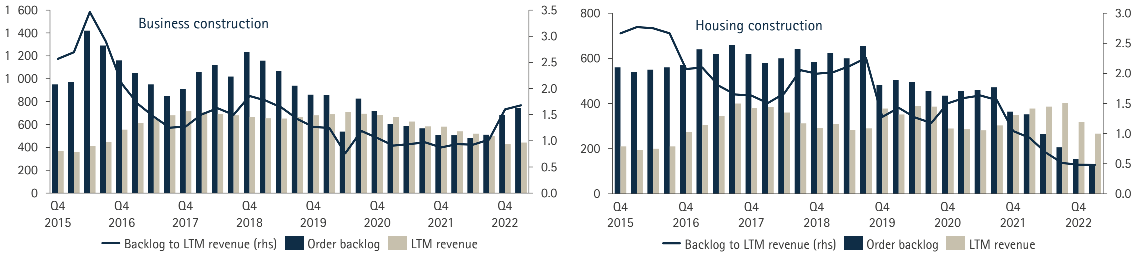
SRV's order backlog reached its highest point at over 2 billion euros in Q2 2016. However, since then the backlog has been decreasing. In Q1 2023, the backlog stood at EUR 871m, a slight increase of roughly 1.5% from the previous year. In the period of 2020-2022, the company's average intake of new orders was around EUR 150m euros per quarter. In Q1 2023, the company signed new agreements worth EUR 150m, an increase of approximately 15% compared to the previous year.

Figure 26: SRV's order intake & backlog development, quarterly, Q1 2015 – Q1 2023



Source: SRV, Evli Research

Figure 27: Backlog and revenue development by construction type, in EUR m, quarterly, Q4 2015 – Q1 2023

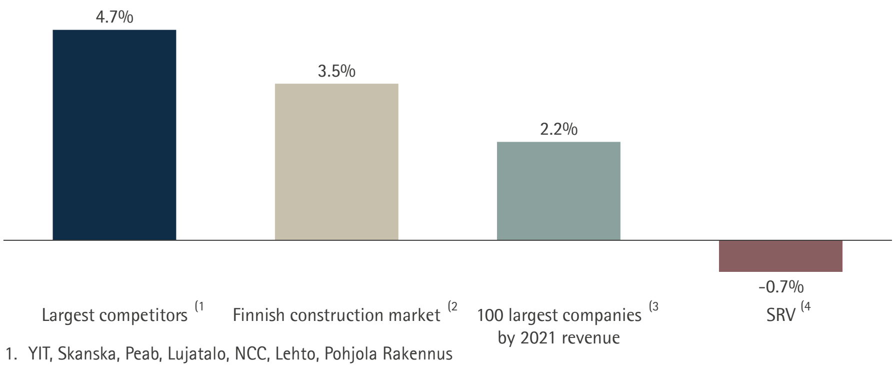


Source: SRV, Evli Research

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 has 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 has decreased from EUR 400-600m during 2016-2019 to EUR 200-400m during 2020-2022. The decline in the residential construction backlog has been particularly steep during the recent quarters, in Q4 2022, the residential backlog decreased by 57.5% compared to the previous year.

Figure 28: Growth comparison, 2018-2021 CAGR %



1. YIT, Skanska, Peab, Lujatalo, NCC, Lehto, Pohjola Rakennus
2. Data by CFCI
3. Measured if 2018 revenue data available
4. SRV construction revenue development

Source: Factset, Asiakastieto, Evli Research

SRV's revenue has been declining while the market has grown

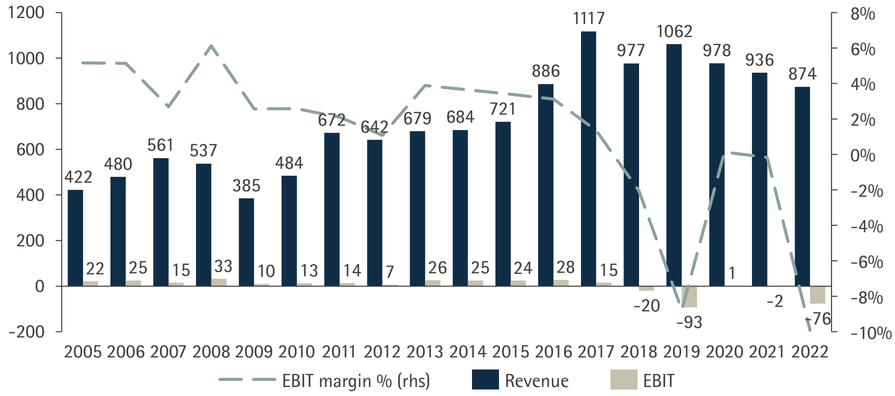
The Finnish construction market has grown at roughly 3.5% CAGR during 2018-2021. Simultaneously the revenue of SRV's largest competitors has increased by 4.7% p.a. driven by both organic and inorganic growth. For example, YIT acquired Lemminkäinen in 2018 which resulted in strong growth for YIT's Finnish operations. The 100 largest Finnish construction companies measured by 2021 revenue grew at roughly 2.2% CAGR during 2018-2021. SRV's revenue decreased during the period due to the reduced volumes mainly resulting from stricter control on project tendering.

Profitability

Large projects have affected SRV's profitability negatively

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. Because of the impairments and operational difficulties the company faced, a recovery program was launched in 2019. The recovery programme was launched with a short-term goal of ensuring that the company's operative EBIT and cash flow are positive for 2020 and that the profitability returns to 2017 (operative EBIT margin of 2.6%) level in 2021. The focus of the recovery program was on organization and culture reformation, lightening of balance sheet, strengthening cash flow and cost savings.

Figure 29: Revenue & EBIT EUR m (lhs), EBIT margin % (rhs), annual, 2005-2022



Source: SRV, Evli Research

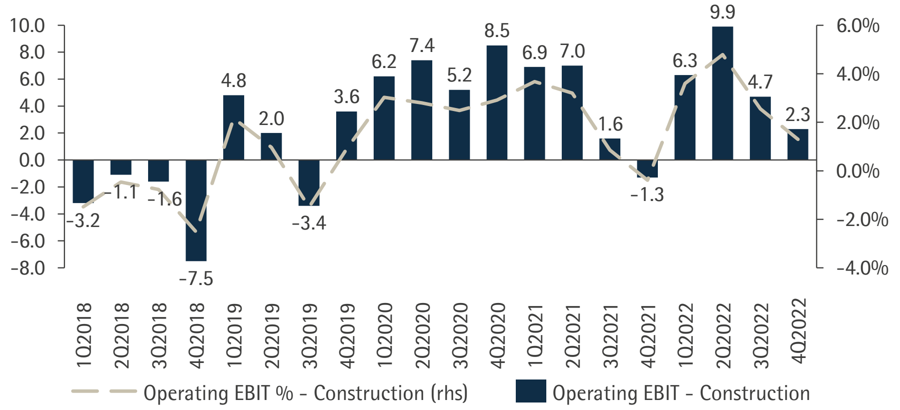
The profitability has stayed at a low level during 2020-2022

In 2020, SRV's operative EBIT and cash flow returned to positive, but the profitability was still clearly below the levels seen pre-2017. In 2021, the company's profitability declined slightly from 2020 as the Tampere Arena construction project resulted in a negative earnings impact of around EUR 20 million. In 2022, the company's profitability was heavily affected by the impairment of its Russia investments (EUR 99.7m negative EBIT effect), the company's operative operating profit amounted to EUR 18.9m or 2.5% margin, up from EUR 5.3m and 0.6% margin (operative operating profit excludes effect of FX changes, gains and losses of associated companies and joint ventures as well as income and expenses from FX hedging and other items affecting comparability). The company has been able to turn around the operative margin levels with improved controllability of projects and by keeping cost inflation under control while ensuring the availability of materials in a cost inflationary environment. Furthermore, SRV has successfully avoided issues with larger projects that have led to multiple negative earnings surprises in recent years.

Majority of SRV's cost base is variable

In 2022, the company employed roughly 900 people, yet there were around 23,000+ workers from a network of over 3,800 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. The growing Finnish construction market has resulted in increased negotiation power for subcontractors and providers of construction materials. Recent price increases in construction materials have affected project margins, as some projects were started before the price increases. Most of the company's current projects are either alliance or project management contracts, which reduces price risk as the cost risks are shared among the project participants.

Figure 30: Construction segment operative operating profit & margin, Q1 2018 – Q4 2022

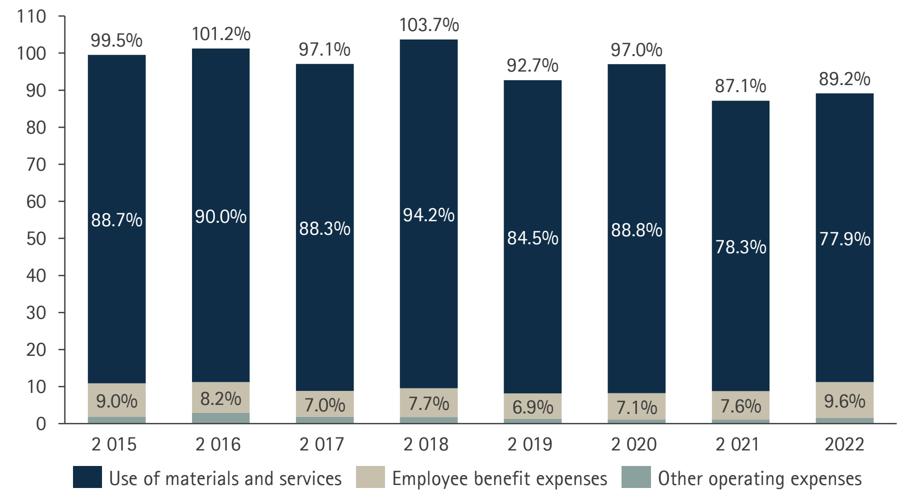


Source: SRV, Evli Research

Construction EBIT has improved steadily from the 2018 lows

SRV's construction segment operating profit has largely rebounded from the lows experienced in 2018 when the company faced challenges with higher-than-anticipated costs for the REDI shopping center project. The company was able to improve its construction segment operational EBIT year-over-year throughout 2020 despite the COVID-19 pandemic, particularly in the business construction segment. In 2021, the completion of the Tampere Arena construction project resulted in a negative earnings impact of approximately 20 million euros. However, in 2022, the company's construction segment has seen a resurgence in operational EBIT levels, as both housing and business construction have performed well. The improved profitability in construction during 2022 was driven by higher volumes in housing construction and improved margins in non-residential construction.

Figure 31: Main OPEX items 2015-2021, % of revenue



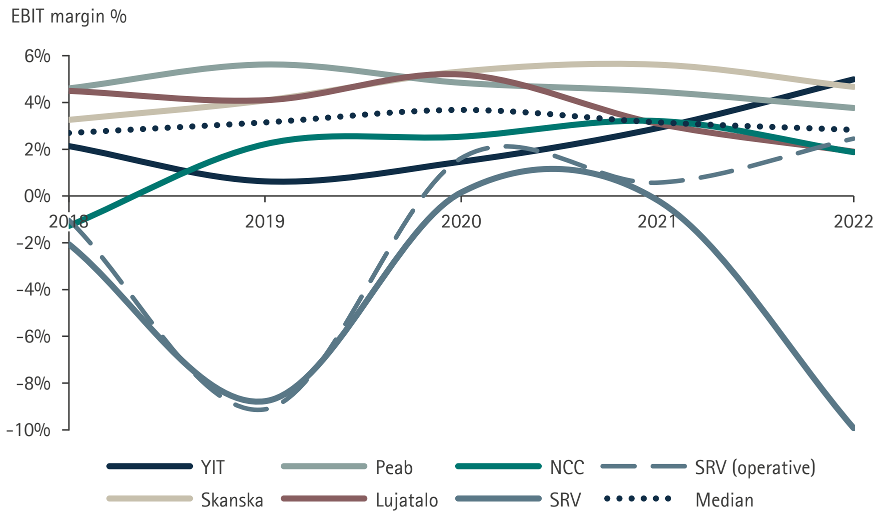
Source: SRV, Evli Research

Profitability comparison

SRV's profitability has lagged its peers during the recent years

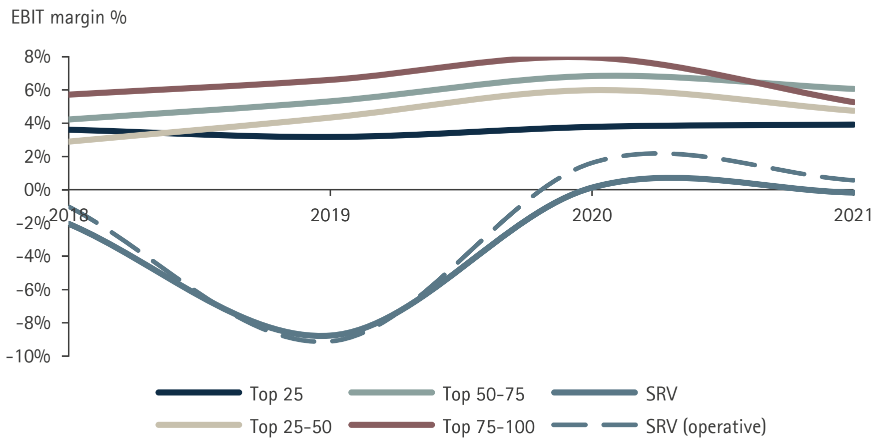
As a result of the issues SRV has faced during the last years, its profitability has lagged its main competitors. In 2022, the largest construction companies active in Finland were able to reach median operating margin of roughly 4% while SRV's operative operating margin was at 2.5%. In addition to the main competitors, we gathered profitability data for a broader Finnish construction company group. When looking at the 100 largest construction companies (active in both building and infrastructure construction) in Finland during 2021, the median operating margin was approximately 4%. The median margin has hovered around 4-5% during 2018-2021 for the same company group. Notable is that based on the data, the smaller companies have outperformed the larger companies by roughly 1-2 p.p. during 2018-2021 when looking at the aggregate operating margins. Possible reason for the outperformance is that the smaller companies are often more agile, operate with lean organizations and have relatively small fixed asset base and therefore have benefited from the Finnish construction industry volume growth during the last few years.

Figure 32: Main competitor profitability comparison, 2018-2022, EBIT %



Source: Asiakastieto, Factset, Evli Research

Figure 33: Finnish construction companies categorized based on 2021 revenue, 2018-2021, EBIT %



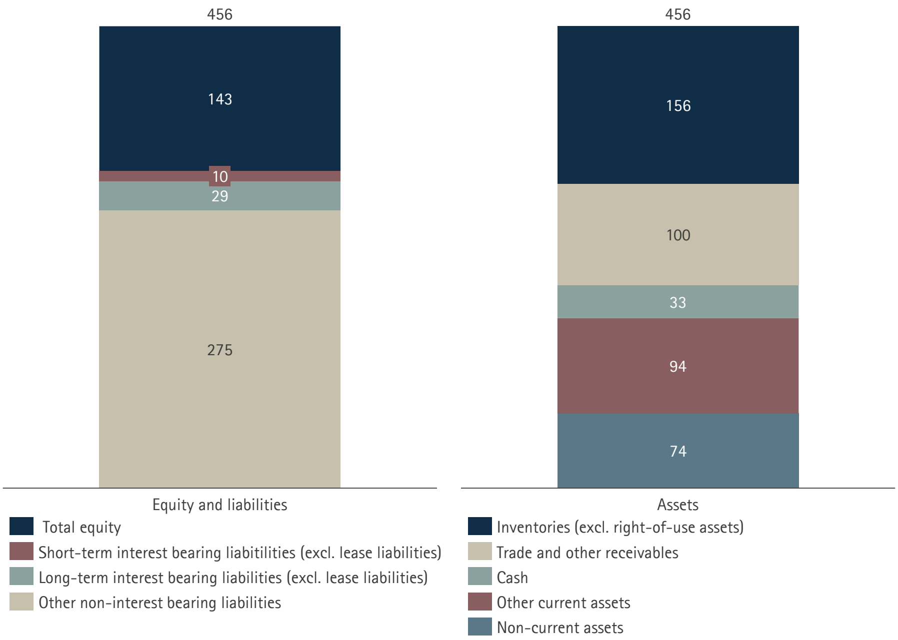
Source: Asiakastieto, Rakennuslehti, Factset, Evli Research

Balance sheet

The business model requires limited amount of fixed asset investments

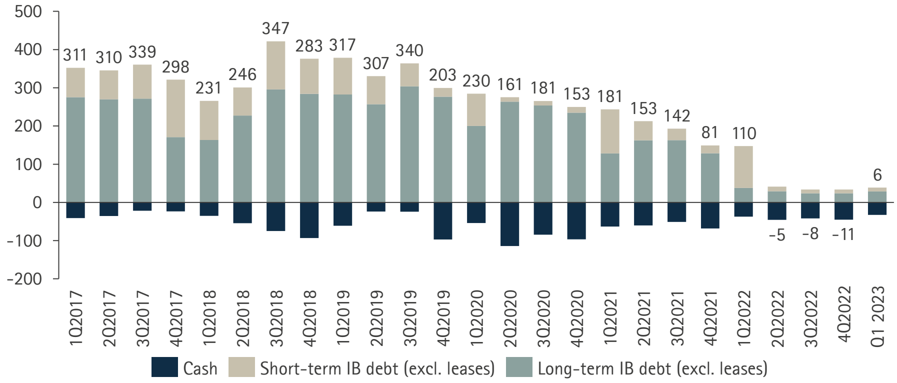
Most of the company's asset base consists of working capital items. Inventories (excl. right of use assets inventories) are roughly one third of the total assets. Approximately half of the total inventory at the end of 2021 was work in progress inventory, while the other half was composed of land areas and plot-owning companies. 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 comprises costs of development stage projects. 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 2015-2022, due to the company's business model. Prior to the Russia asset impairments, the company had EUR 167m (roughly 40% of total capital employed) of capital employed to its longer-term investment co-ownership assets. At the end of Q4 2022, the company had only EUR 10.9m (roughly 4% of total capital employed) of capital employed in its investment segment. The amount of capital investments has fluctuated y/y, in 2015, SRV made over EUR 100m of investments as the REDI project tied up the company's capital. During the last five years, the purchase of investments has been less than EUR 5m per year.

Figure 34: Balance sheet composition Q1 2023, in EUR m



Source: SRV, Evli Research

Figure 35: Net-debt (excl. leases), in EUR m, quarterly, Q1 2017 – Q1 2023

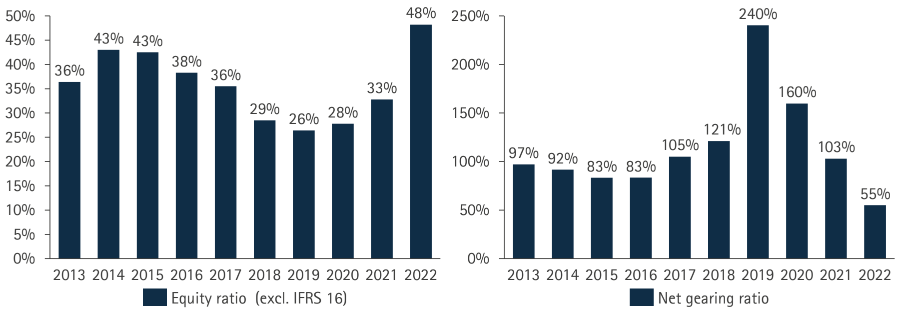


Source: SRV, Evli Research

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 380 thousand shares outstanding to over 677 thousand shares outstanding. At the end of 2022, the company had roughly EUR 34m of interest-bearing liabilities outstanding. In addition to the interest-bearing liabilities, the company had EUR 33.5m 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 84% when comparing to 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%.

Figure 36: Equity (lhs) & gearing (rhs) ratios, in %, 2013-2022



Source: SRV, Evli Research

Estimates

2023 guidance points towards lower volumes driven by slowdown in housing construction

The Finnish new construction market is expected to contract in 2023 driven by lower volumes across the board but especially in the residential construction segment. SRV has currently low amount of developer contracted housing projects under construction and the non-residential projects will be the main driver for 2023. The company's outlook for 2023 is the following:

- Consolidated revenue for 2023 is expected to decrease compared to 2022 (revenue in 2022: EUR 770.1 million).
- Operative operating profit is expected to be positive, but lower than the operative operating profit for 2022 (operative operating profit in 2022: EUR 18.9 million).

The share of developer contracting expected to shrink further

During 2015-2020 SRV had roughly 800-1200 developer contracted housing units under construction. The developer contracted housing sales has hovered around EUR 100-200m per year, depending on the amount of housing units recognized as income. During 2022, the company recognized 196 housing units as income with reported sales of EUR 48.4m. SRV has currently 62 developer-contracted housing units under construction, with 45 completed yet unsold. The developer-contracted units under construction are located in Pasila, Helsinki with an expected completion date of early 2024. The average housing unit takes approximately 18 months to finish and therefore the developer contracted sales are expected to remain low during 2023.

Co-development and contracting projects are the main drivers for housing construction in 2023

SRV recognized revenue from its co-development and contracting projects depending on the percentage of completion. The company has currently 850 housing units (at the end of Q1 2023) under construction where the revenue recognition is based on completion. Housing construction revenue excl. developer contracting has been roughly EUR 130-190m per year and the company has had roughly 1500-2200 units under construction. Most of the units under construction (excl. developer contracting) currently are sold to investors, under 5% are contracting projects. Both the co-development and contracting projects have lower margin potential when comparing to developer contracting projects but are less risky and do not tie company's capital. We estimate that like the developer contracting housing construction activity, the co-development and contracting housing construction activity will be low during 2023.

Relatively strong business construction backlog drives non-residential revenue in 2023

SRV's non-residential backlog was EUR 742m at the end of Q1 2023, up 47% y/y. SRV has secured multiple large non-residential projects during 2022 and 2023. Large projects include the factory building for Okmetic in Vantaa (EUR 45m), Horisontti office skyscraper in Kalasatama and office tower to Keilaniemi (if actualized, over EUR 250m). In addition to business construction projects, the company has secured multiple public building projects that include Jorvi hospital new ward building (SRV's portion of the project roughly EUR 200m), Vantaa and Oulu police stations and prisons (EUR 77m and 107m respectively) and other public building projects such as Kuopio library and swimming facilities in Lempäälä and Tapiola. Most of the company's non-residential construction projects are conducted with lower risk alliance and project management contracts. In alliance and project management contracts, the customer carries a significant share of the project risk in the event that project costs rise above the predetermined level. We estimate that the company can grow its business construction revenue in 2023 driven by the relatively strong business construction backlog.

Profitability expected to remain low during 2023 driven by the sales mix

The company is currently active in projects that have a lower margin potential, these include contracting and co-development projects which both have revenue recognition as percentage of completion. As earlier mentioned, SRV is currently constructing only 62 developer contracted housing units, in addition, the company impaired almost all of the long-term co-ownership projects during H1 2022, in addition to some plot holdings in Russia, the company's only co-ownership project currently is Tampere Deck and Arena. As most of the current active projects are lower risk contracting and co-development projects, the project margin potential for 2023 is low, on the other hand, the project mix is low-risk and well positioned for the weaker market sentiment as SRV doesn't hold unsold developer contracted units in its balance sheet. Because of the lower volumes and lower margin project mix, we estimate EBIT of EUR 6.2m for 2023 with a margin of 1.0%. SRV guidance for profitability in 2023 is wide as the company expects operative operating profit to be positive, but lower than in 2022 (operative operating profit in 2022: EUR 18.9m). Our estimate for 2023 EBIT of EUR 6.2m is below the implied guidance middle point of roughly EUR 9.5m.

Expecting non-residential construction to remain the main driver for 24-25E

We keep our estimates for the recovery of housing construction business fairly conservative. We estimate a slight improvement in 2024, mostly coming from revenue recognition of units currently under construction and unsold inventory. In addition to developer contracted units, for 2024, we estimate that there is slightly higher activity level in co-development housing projects compared to this year. We currently estimate a larger recovery for residential construction volumes for SRV in 2025, yet the residential revenue is still expected to be at a notably lower level when compared to 2022. Similarly to 2023, we expect the non-residential construction momentum to support the company's revenue growth throughout 2024-2025 as we estimate the company's non-residential backlog growth to continue q/q during the remainder of 2023. We expect margin improvement in 2024 and 2025 mainly driven by the higher volumes in both non-residential and residential construction. With the higher volumes, we expect that the operative EBIT margin will recover to 2.3% in 2024 and to 3.3% in 2025.

Long-term targets remain ambitious

With the Q4 2022 results, the company announced new long-term financial objectives that it aims to achieve by the end of 2026:

- Revenue: EUR 900m
- Operative operating profit margin: 6%
- Dividend 30-50% of the annual result

In our view the company's long-term targets are quite ambitious and require substantial growth in higher margin businesses such as developer contracted housing construction. The revenue target of EUR 900m requires CAGR of 4% for 2022-2026. Our estimate for 2026 revenue is EUR 843m, roughly 7% below the company's target. The company's margin target for 2026 is high when comparing to the company's historical track record. During 2010's the company's EBIT margin hovered around 2-4% p.a. and reaching 6% would in our view require good market conditions coupled with larger share of projects where the company's project margin is within 10-20%. We estimate EBIT margin of 3.5% for 2026 which is substantially lower when compared to the target.

Table 1: Estimate summary, figures in EUR m

SRV	2020	2021	Q1/'22	Q2/'22	Q3/'22	Q4/'22	2022	Q1/'23	Q2/'23E	Q3/'23E	Q4/'23E	2023E	2024E	2025E
Revenue	**975.6**	**932.6**	**190.7**	**211.4**	**186.8**	**181.4**	**770.4**	**138.3**	**156.1**	**146.0**	**183.8**	**624.2**	**720.7**	**826.4**
change, %	*-8.0%*	*-4.4%*	*1.9%*	*-3.0%*	*-2.3%*	*-46.1%*	*-17.4%*	*-27.5%*	*-26.1%*	*-21.9%*	*1.3%*	*-19.0%*	*15.5%*	*14.7%*
Revenue - Business construction	**680.7**	**581.4**	**98.7**	**120.9**	**95.3**	**112.3**	**427.2**	**113.9**	**130.0**	**114.4**	**151.4**	**509.6**	**586.0**	**644.6**
change, %	*0.1%*	*-14.6%*	*-29.8%*	*-14.2%*	*-17.3%*	*-39.2%*	*-26.5%*	*15.4%*	*7.5%*	*20.0%*	*34.8%*	*19.3%*	*15.0%*	*10.0%*
Revenue - Housing construction	**289.3**	**348.8**	**76.5**	**85.9**	**88.6**	**68.1**	**319.1**	**24.0**	**25.8**	**31.2**	**32.1**	**113.0**	**133.1**	**180.1**
change, %	*-23.4%*	*20.6%*	*61.7%*	*10.7%*	*21.7%*	*-54.9%*	*-8.5%*	*-68.6%*	*-70.0%*	*-64.8%*	*-52.9%*	*-64.6%*	*17.8%*	*35.4%*
Operative operating profit	**15.8**	**5.3**	**4.9**	**9.8**	**3.9**	**1.1**	**19.7**	**-2.0**	**1.2**	**2.4**	**4.6**	**6.2**	**16.4**	**27.1**
-margin	*1.6%*	*0.6%*	*2.6%*	*4.6%*	*2.1%*	*0.6%*	*2.6%*	*-1.4%*	*0.8%*	*1.6%*	*2.5%*	*1.0%*	*2.3%*	*3.3%*
Operating profit	**1.5**	**-1.7**	**-85.7**	**10.1**	**5.5**	**-6.2**	**-76.3**	**-2.0**	**1.2**	**2.4**	**4.6**	**6.2**	**16.4**	**27.1**
-margin	*0.2%*	*-0.2%*	*-44.9%*	*4.8%*	*2.9%*	*-3.4%*	*-9.9%*	*-1.4%*	*0.8%*	*1.6%*	*2.5%*	*1.0%*	*2.3%*	*3.3%*
Net financials	-29.4	-18.6	-42.8	43.6	0.3	-3.8	-2.7	-2.5	-1.5	-1.5	-1.5	-7.0	-7.1	-7.4
Pre-tax profit	**-28.0**	**-20.3**	**-128.5**	**53.7**	**5.8**	**-10.0**	**-79.0**	**-4.4**	**-0.3**	**0.9**	**3.1**	**-0.8**	**9.3**	**19.7**
Income taxes	2.9	0.5	-4.8	-2.4	-0.4	1.1	-6.5	1.3	0.1	-0.2	-0.6	0.6	-1.9	-3.9
Non-controlling interest	2.3	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	**-22.8**	**-19.9**	**-133.3**	**51.3**	**5.3**	**-8.9**	**-85.6**	**-3.1**	**-0.2**	**0.7**	**2.5**	**-0.2**	**7.4**	**15.7**
EPS*	**-0.15**	**-2.26**	**-14.02**	**5.36**	**0.29**	**-0.54**	**-8.91**	**-0.20**	**-0.03**	**0.02**	**0.13**	**-0.09**	**0.36**	**0.85**

*incl. tax adjusted hybrid interest

Source: SRV, Evli Research

Valuation

HOLD with a target price of EUR 4.4

We retain our HOLD rating and adjust our target price to EUR 4.4 (4.1). On our estimates, the near-term valuation upside remains limited. SRV trades at a premium to its Nordic construction peer companies based on our 2023E multiples, yet, when looking at 2024E EV/EBIT and P/E, the valuation appears neutral. The current valuation is significantly below the 2025E peer group multiples and the value derived from our discounted cash flow valuation, yet we see it currently justified because of the company's track record during the last years and the low visibility for the projected turnaround in profitability. In our view, evidence of the company's turnaround and return to higher volume and margin levels are essential for the company's long-term value potential to unlock.

Peer group consists of Nordic construction and property development companies

The peer group consist of companies of which some are SRV's direct competitors These direct competitors, namely YIT, Lehto, Skanska, NCC, and Peab, are all engaged in the new construction sector in Finland. To broaden the scope of the peer group, we have added JM, Bonava, AF Gruppen, and Veidekke, along with companies that operate in the same markets as SRV. These companies are property developers and construction firms operating in Nordic countries excluding Finland. The companies have similar business models and profitability and cash flow profiles.

Valuation appears neutral on our 2024E estimates

Based on the 2022 FY operative EBIT, SRV is valued at roughly 9x EV/EBIT or at an approximately 20% discount to its main peers. Based on our projections for 2023, SRV is trading at a premium when compared to its peer companies. However, when considering the 2024 estimated multiples, the valuation of the company appears neutral in comparison to its peers. In our view, the premium in 2023E multiples is justified driven by the estimated improvement in earnings in 2024 and 2025. Alongside analyzing peer multiples, the valuation can be regarded as neutral when examining the historical multiple levels of both SRV and its peer group. Our current long-term estimates for the company are below the company's long-term targets, especially in terms of profitability. According to our long-term projections, the absolute valuation appears appealing and holds high long-term potential if the company can sustain a level of profitability even close to its long-term target rate. Even though we see long-term potential, the current low visibility to the projected turnaround and the weak residential construction sentiment lowers the short-term potential for the stock. On the other hand, the company's current balance sheet situation and lack of high-risk projects and developer contracting projects that tie capital limits the downside in case the turnaround doesn't materialize as we estimate. We see that growth in higher margin segments and improved project portfolio are essential for the company's long-term potential to unlock.

Table 2: Peer group summary table

Company name	Market capitalization	EV/EBITDA			EV/EBIT			P/E			EV/Sales		
	mEUR	23	24	25	23	24	25	23	24	25	23	24	25
YIT	442	18.4x	12.6x	9.8x	25.0x	16.2x	12.6x	22.4x	11.1x	8.2x	0.6x	0.6x	0.6x
Lehto Group	18		10.5x	8.8x		21.4x	14.5x		12.1x	5.1x	0.4x	0.4x	0.4x
Skanska	5074	7.6x	6.9x	6.5x	10.6x	9.0x	8.3x	11.4x	9.9x	9.2x	0.4x	0.4x	0.4x
NCC	801	4.6x	4.5x	4.5x	8.1x	8.0x	7.8x	7.0x	7.0x	6.9x	0.2x	0.2x	0.2x
Peab	1050	8.3x	8.3x	8.0x	13.2x	13.3x	12.8x	7.4x	7.4x	7.1x	0.5x	0.5x	0.5x
JM AB	759	16.3x	18.1x	16.4x	15.4x	16.7x	16.2x	8.9x	9.9x	8.9x	1.6x	1.8x	1.7x
Bonava	176	9.9x	26.3x	19.3x	10.1x	27.5x	20.0x	4.1x	39.7x	11.9x	0.7x	1.1x	1.0x
AF Gruppen	1249	8.9x	7.3x	7.0x	12.4x	9.5x	9.0x	17.9x	13.8x	13.1x	0.5x	0.5x	0.5x
Veidekke	1204	5.0x	4.6x	4.4x	8.4x	7.6x	7.2x	13.2x	12.2x	11.9x	0.3x	0.3x	0.3x
Peer group average	**1197**	**9.9x**	**11.0x**	**9.4x**	**12.9x**	**14.4x**	**12.1x**	**11.5x**	**13.7x**	**9.1x**	**0.6x**	**0.7x**	**0.6x**
Peer group median	**801**	**8.6x**	**8.3x**	**8.0x**	**11.5x**	**13.3x**	**12.6x**	**10.2x**	**11.1x**	**8.9x**	**0.5x**	**0.5x**	**0.5x**
SRV (Evli est.)	**70**	**15.9x**	**8.8x**	**6.0x**	**30.2x**	**11.6x**	**7.2x**	**-47.8x**	**11.6x**	**4.5x**	**0.3x**	**0.3x**	**0.2x**
SRV prem./disc. to peer median		85.45%	6.23%	-24.77%	>100%	-12.16%	-42.44%	neg.	6.78%	-47.61%	-41.17%	-49.25%	-52.92%

Figure 37: P/E (lhs) & EV/EBIT (rhs), 12-month forward, SRV vs. Peer group median

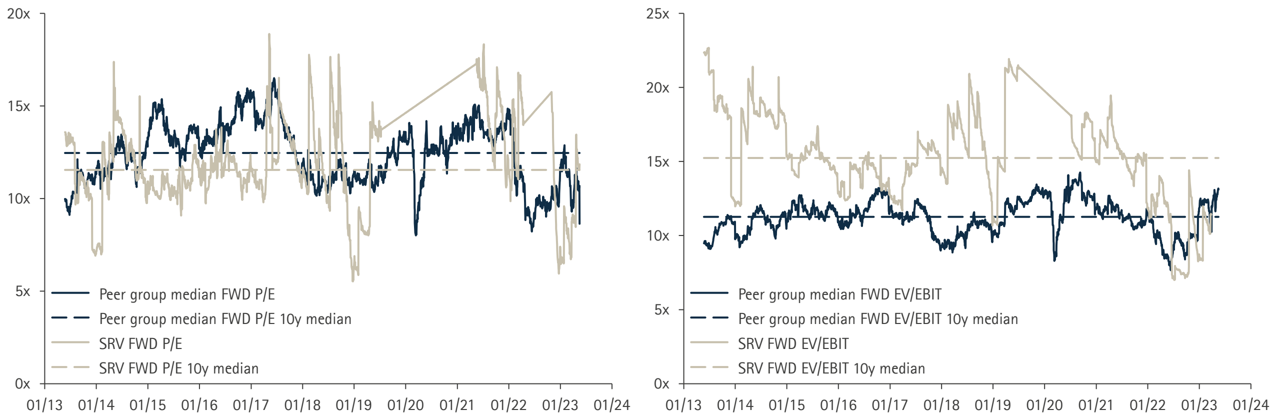
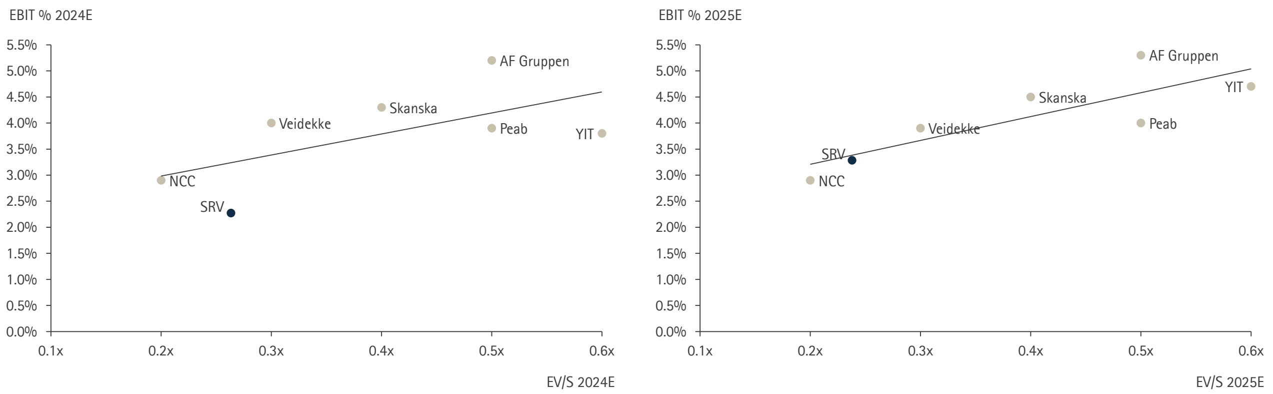


Figure 38: EV/S (x-axis) and EBIT margin (y-axis) 2024E (lhs) & 2025E (rhs), excluding outliers



Source: Factset, Evli Research

Investment risks

Market risk

The new construction market is highly cyclical and the demand for all segments of new construction is 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, 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. SRV has mitigated the risk by changing the composition of its portfolio as the company's lower risk project management and alliance contracts currently forma a larger share of the total project portfolio.

Construction 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 2022, the aggregate number of workers on the company's sites amounted to roughly 23,000, while SRV's own employees amounted to only roughly 900 white collar 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.

VALUATION RESULTS		BASE CASE DETAILS		VALUATION ASSUMPTIONS		ASSUMPTIONS FOR WACC	
Current share price	4.10	PV of Free Cash Flow	111	Long-term growth, %	2.0	Risk-free interest rate, %	2.25
DCF share value	8.88	PV of Horizon value	154	WACC, %	9.5	Market risk premium, %	5.8
Share price potential, %	116.6	Unconsolidated equity	0	Spread, %	0.5	Debt risk premium, %	3.5
Maximum value	10.1	Marketable securities	45	Minimum WACC, %	9.0	Equity beta coefficient	1.30
Minimum value	7.8	Debt - dividend	-159	Maximum WACC, %	10.0	Target debt ratio, %	20
Horizon value, %	58.2	Value of stock	151	Nr of shares, Mn	17.0	Effective tax rate, %	20

DCF valuation, EURm	2022	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	Horizon
Net sales	770	624	721	826	843	860	877	894	912	931	950	969
Sales growth, %	*-17.4*	*-18.9*	*15.5*	*14.7*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*	*2.0*
Operating income (EBIT)	-76	6	16	27	30	30	31	31	32	33	33	34
Operating income margin, %	*-9.9*	*1.0*	*2.3*	*3.3*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*	*3.5*
+ Depreciation+amort.	9	6	5	5	6	6	6	6	6	6	6	
EBITDA	-67	12	22	33	35	36	36	37	38	38	39	
- Paid taxes	-2	-1	-3	-5	-6	-6	-6	-6	-6	-7	-7	
- Change in NWC	11	-3	-8	-19	-11	-3	-3	-3	-3	-3	-4	
NWC / Sales, %	*15.1*	*19.1*	*17.6*	*17.7*	*18.7*	*18.7*	*18.7*	*18.7*	*18.7*	*18.7*	*18.7*	
+ Change in other liabs	5	0	0	0	0	0	0	0	0	0	0	
- Operative CAPEX	-52	-1	-2	-2	-2	-2	-2	-2	-2	-2	-2	
opCAPEX / Sales, %	*7.5*	*0.7*	*0.8*	*0.7*	*0.7*	*0.7*	*0.6*	*0.6*	*0.6*	*0.6*	*0.6*	
- Acquisitions	0	0	0	0	0	0	0	0	0	0	0	
+ Divestments	0	0	0	0	0	0	0	0	0	0	0	
- Other items	50	-1	-1	0	0	0	0	0	0	0	0	
= FCFF	-55	6	7	6	16	25	25	26	26	26	27	367
= Discounted FCFF		6	6	5	12	16	15	14	13	12	11	154
= DFCF min WACC		6	6	5	12	17	16	15	14	13	12	172
= DFCF max WACC		6	6	5	11	16	15	14	13	12	11	138

INTERIM FIGURES

EVLI ESTIMATES, EURm	2022Q1	2022Q2	2022Q3	2022Q4	2022	2023Q1	2023Q2E	2023Q3E	2023Q4E	2023E	2024E	2025E
Net sales	190.7	211.4	186.9	181.1	770.1	138.3	156.1	146.0	183.8	624.2	720.7	826.4
EBITDA	-84.4	11.4	6.8	-0.8	-67.0	-0.6	2.6	3.8	6.0	11.8	21.7	32.6
EBITDA margin (%)	*-44.3*	*5.4*	*3.6*	*-0.4*	*-8.7*	*-0.4*	*1.7*	*2.6*	*3.3*	*1.9*	*3.0*	*3.9*
EBIT	-85.7	10.1	5.5	-6.2	-76.3	-2.0	1.2	2.4	4.6	6.2	16.4	27.1
EBIT margin (%)	*-44.9*	*4.8*	*2.9*	*-3.4*	*-9.9*	*-1.4*	*0.8*	*1.6*	*2.5*	*1.0*	*2.3*	*3.3*
Net financial items	-42.8	43.6	0.3	-3.8	-2.7	-2.5	-1.5	-1.5	-1.5	-7.0	-7.1	-7.4
Pre-tax profit	-128.5	53.7	5.8	-10.0	-79.0	-4.5	-0.3	0.9	3.1	-0.8	9.3	19.7
Tax	-4.8	-2.4	-0.5	1.1	-6.6	1.3	0.1	-0.2	-0.6	0.6	-1.9	-3.9
Tax rate (%)	*-3.7*	*4.5*	*8.6*	*11.0*	*-8.4*	*28.9*	*20.0*	*20.0*	*20.0*	*71.6*	*20.0*	*20.0*
Net profit	-133.6	50.8	5.0	-7.9	-85.7	-3.5	-0.5	0.4	2.2	-1.5	6.1	15.7
EPS	-7.87	2.99	0.29	-0.47	-5.05	-0.21	-0.03	0.02	0.13	-0.09	0.36	0.93
EPS adjusted (diluted no. of shares)	-7.87	2.99	0.29	-0.47	-5.05	-0.21	-0.03	0.02	0.13	-0.09	0.36	0.93
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.11	0.28
SALES, EURm												
Group	190.7	211.4	186.9	181.1	770.1	138.3	156.1	146.0	183.8	624.2	720.7	826.4
Total	190.7	211.4	186.9	181.1	770.1	138.3	156.1	146.0	183.8	624.2	720.7	826.4
SALES GROWTH, Y/Y %												
Group	*1.9*	*-3.0*	*-2.2*	*-46.1*	*-17.4*	*-27.5*	*-26.1*	*-21.9*	*1.5*	*-18.9*	*15.5*	*14.7*
Total	*1.9*	*-3.0*	*-2.2*	*-46.1*	*-17.4*	*-27.5*	*-26.1*	*-21.9*	*1.5*	*-18.9*	*15.5*	*14.7*
EBIT, EURm												
Group	-85.7	10.1	5.5	-6.2	-76.3	-2.0	1.2	2.4	4.6	6.2	16.4	27.1
Total	-85.7	10.1	5.5	-6.2	-76.3	-2.0	1.2	2.4	4.6	6.2	16.4	27.1
EBIT margin, %												
Group	*-44.9*	*4.8*	*2.9*	*-3.4*	*-9.9*	*-1.4*	*0.8*	*1.6*	*2.5*	*1.0*	*2.3*	*3.3*
Total	*-44.9*	*4.8*	*2.9*	*-3.4*	*-9.9*	*-1.4*	*0.8*	*1.6*	*2.5*	*1.0*	*2.3*	*3.3*

INCOME STATEMENT, EURm	2018	2019	2020	2021	2022	2023E	2024E	2025E
Sales	959.9	1,061.0	975.5	932.5	770.1	624.2	720.7	826.4
Sales growth (%)	*-13.8*	*10.5*	*-8.1*	*-4.4*	*-17.4*	*-18.9*	*15.5*	*14.7*
EBITDA	-14.6	-3.1	20.4	4.5	-67.0	11.8	21.7	32.6
EBITDA margin (%)	*-1.5*	*-0.3*	*2.1*	*0.5*	*-8.7*	*1.9*	*3.0*	*3.9*
Depreciation	-5.3	-90.0	-18.9	-6.3	-9.3	-5.6	-5.3	-5.5
EBITA	-19.9	-93.1	1.5	-1.8	-76.3	6.2	16.4	27.1
Goodwill amortization / writedown	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	-19.9	-93.1	1.5	-1.8	-76.3	6.2	16.4	27.1
EBIT margin (%)	*-2.1*	*-8.8*	*0.2*	*-0.2*	*-9.9*	*1.0*	*2.3*	*3.3*
Reported EBIT	-19.9	-14.7	1.5	-1.8	-76.3	6.2	16.4	27.1
EBIT margin (reported) (%)	*-2.1*	*-1.4*	*0.2*	*-0.2*	*-9.9*	*1.0*	*2.3*	*3.3*
Net financials	-17.5	-29.3	-29.4	-18.6	-2.7	-7.0	-7.1	-7.4
Pre-tax profit	-37.4	-122.4	-27.9	-20.4	-79.0	-0.8	9.3	19.7
Taxes	6.1	18.7	2.9	0.5	-6.6	0.6	-1.9	-3.9
Minority shares	1.1	0.7	2.3	0.0	0.0	0.0	0.0	0.0
Net profit	-34.1	-28.8	-27.1	-21.4	-85.7	-1.5	6.1	15.7
Cash NRIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-cash NRIs	0.0	78.4	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET, EURm								
Assets								
Fixed assets	273	122	120	122	15	14	14	15
Goodwill	2	2	2	2	2	2	2	2
Right of use assets	173	149	130	82	84	84	84	83
Inventory	438	372	355	227	163	153	173	198
Receivables	122	204	155	143	103	87	94	107
Liquid funds	93	28	97	68	45	37	42	49
Total assets	1,120	913	899	686	448	414	446	492
Liabilities								
Shareholder's equity	191	95	170	150	113	111	117	131
Minority interest	-3	-2	-4	0	0	0	0	0
Convertibles	45	83	15	15	34	34	34	34
Lease liabilities	174	150	136	89	92	84	84	83
Deferred taxes	5	3	3	1	1	1	1	1
Interest bearing debt	375	300	250	149	34	37	45	57
Non-interest bearing current liabilities	304	244	285	243	148	120	139	159
Other interest-free debt	9	21	21	15	7	7	7	7
Total liabilities	1,120	914	899	686	449	414	446	492
CASH FLOW, EURm								
+ EBITDA	-15	-3	20	5	-67	12	22	33
- Net financial items	-17	-29	-29	-19	-3	-7	-7	-7
- Taxes	-1	-1	-2	-2	-2	1	-2	-4
- Increase in Net Working Capital	56	-75	107	98	11	-3	-8	-19
+/- Other	2	98	-49	-13	50	-1	-1	0
= Cash flow from operations	26	-11	46	69	-10	1	4	2
- Capex	-15	-26	1	45	-58	-4	-6	-6
- Acquisitions	0	0	-5	0	0	0	0	0
+ Divestments	0	0	29	0	0	0	0	0
= Free cash flow	11	-37	72	114	-68	-3	-2	-4
+/- New issues/buybacks	-12	-67	100	5	49	0	0	0
- Paid dividend	-4	0	0	0	0	0	0	-2
+/- Other	75	39	-103	-148	-4	-5	8	12
Change in cash	70	-65	69	-29	-23	-9	6	6

KEY FIGURES	2019	2020	2021	2022	2023E	2024E	2025E
M-cap	81	155	139	65	70	70	70
Net debt (excl. convertibles)	422	289	170	80	84	86	91
Enterprise value	584	456	325	178	187	189	194
Sales	1,061	976	933	770	624	721	826
EBITDA	-3	20	5	-67	12	22	33
EBIT	-93	2	-2	-76	6	16	27
Pre-tax	-122	-28	-20	-79	-1	9	20
Earnings	-107	-27	-21	-86	-1	6	16
Equity book value (excl. minorities)	95	170	150	113	111	117	131
Valuation multiples							
EV/sales	0.6	0.5	0.3	0.2	0.3	0.3	0.2
EV/EBITDA	-188.5	22.4	72.2	-2.7	15.8	8.7	6.0
EV/EBITA	-6.3	304.1	-180.4	-2.3	30.0	11.5	7.2
EV/EBIT	-6.3	304.1	-180.4	-2.3	30.0	11.5	7.2
EV/OCF	-54.5	9.9	4.7	-17.7	176.3	52.4	79.7
EV/FCFF	-15.2	5.5	3.4	-3.2	31.3	25.5	31.2
P/FCFE	-0.1	0.1	0.0	-1.0	-20.3	-33.2	-19.8
P/E	-0.8	-5.7	-6.5	-0.8	-46.9	11.4	4.4
P/B	0.9	0.9	0.9	0.6	0.6	0.6	0.5
Target EV/EBITDA	*0.0*	*0.0*	*0.0*	*0.0*	*16.2*	*9.0*	*6.1*
Target EV/EBIT	*0.0*	*0.0*	*0.0*	*0.0*	*30.8*	*11.8*	*7.4*
Target EV/FCF	*0.0*	*0.0*	*0.0*	*0.0*	*-56.1*	*-92.7*	*-56.6*
Target P/B	*0.0*	*0.0*	*0.0*	*0.0*	*0.7*	*0.6*	*0.6*
Target P/E	*0.0*	*0.0*	*0.0*	*0.0*	*-50.3*	*12.2*	*4.7*
Per share measures							
Number of shares	2,136	9,429	9,429	16,982	16,982	16,982	16,982
Number of shares (diluted)	2,136	9,429	9,429	16,982	16,982	16,982	16,982
EPS	-50.19	-2.88	-2.27	-5.05	-0.09	0.36	0.93
Operating cash flow per share	-5.02	4.91	7.31	-0.59	0.06	0.21	0.14
Free cash flow per share	-17.29	7.64	12.08	-3.99	-0.20	-0.12	-0.21
Book value per share	44.34	17.99	15.88	6.64	6.55	6.92	7.73
Dividend per share	0.00	0.00	0.00	0.00	0.00	0.11	0.28
Dividend payout ratio, %	0.0	0.0	0.0	0.0	0.0	30.0	30.0
Dividend yield, %	0.0	0.0	0.0	0.0	0.0	2.6	6.8
FCF yield, %	-45.6	46.4	81.7	-105.1	-4.9	-3.0	-5.1
Efficiency measures							
ROE	-74.9	-20.5	-13.4	-65.3	-1.3	5.4	12.7
ROCE	-12.1	0.9	0.7	-21.4	2.3	6.0	9.3
Financial ratios							
Inventories as % of sales	35.1	36.4	24.4	21.1	24.5	24.0	24.0
Receivables as % of sales	19.2	15.8	15.4	13.3	14.0	13.0	13.0
Non-interest bearing liabilities as % of sales	23.0	29.2	26.1	19.2	19.2	19.2	19.2
NWC/sales, %	31.3	23.1	13.7	15.1	19.1	17.6	17.7
Operative CAPEX/sales, %	2.5	-0.2	-4.8	7.5	0.7	0.8	0.7
CAPEX/sales (incl. acquisitions), %	2.5	-0.6	-4.8	7.5	0.7	0.8	0.7
FCFF/EBITDA	12.4	4.1	21.5	0.8	0.5	0.3	0.2
Net debt/EBITDA, book-weighted	-136.2	14.2	37.8	-1.2	7.1	4.0	2.8
Debt/equity, market-weighted	3.7	1.6	1.1	0.5	0.5	0.6	0.8
Equity ratio, book-weighted	21.2	22.3	27.5	40.3	44.2	41.9	40.6
Gearing, %	240.4	159.8	103.0	55.0	57.8	56.9	55.3

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. Fluctuations in construction material prices and availability have been a cause for concern. Additional woes have been brought by the geopolitical developments to the company's holdings in Russia, and the company initiated a series of measures to improve its balance sheet. Strenghtening the order backlog and improving the profitability of construction operations remain key drivers for the company's success.

OWNERSHIP STRUCTURE	SHARES	EURm	%
As Pontos Baltic	2,877,709	11.799	16.9%
Ilmarinen Mutual Pension Insurance Company	1,942,246	7.963	11.4%
Kolpi Investments Oy	1,446,353	5.930	8.5%
Havu Capital Oy	957,562	3.926	5.6%
OP Life Assurance Company Ltd	758,547	3.110	4.5%
Tungelin Investments Oy	654,055	2.682	3.9%
Lareale Investments Oy	654,055	2.682	3.9%
Varma Mutual Pension Insurance Company	483,611	1.983	2.8%
Pohjola Insurance Ltd	394,650	1.618	2.3%
Nordea Life Assurance Finland Ltd.	344,510	1.412	2.0%
Ten largest	10,513,298	43.105	62%
Residual	6,469,045	26.523	38%
Total	16,982,343	69.628	100%

EARNINGS CALENDAR	
July 20, 2023	Q2 report
October 26, 2023	Q3 report
OTHER EVENTS	
March 27, 2023	AGM

COMPANY MISCELLANEOUS	
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IR:	

DEFINITIONS

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

Important Disclosures

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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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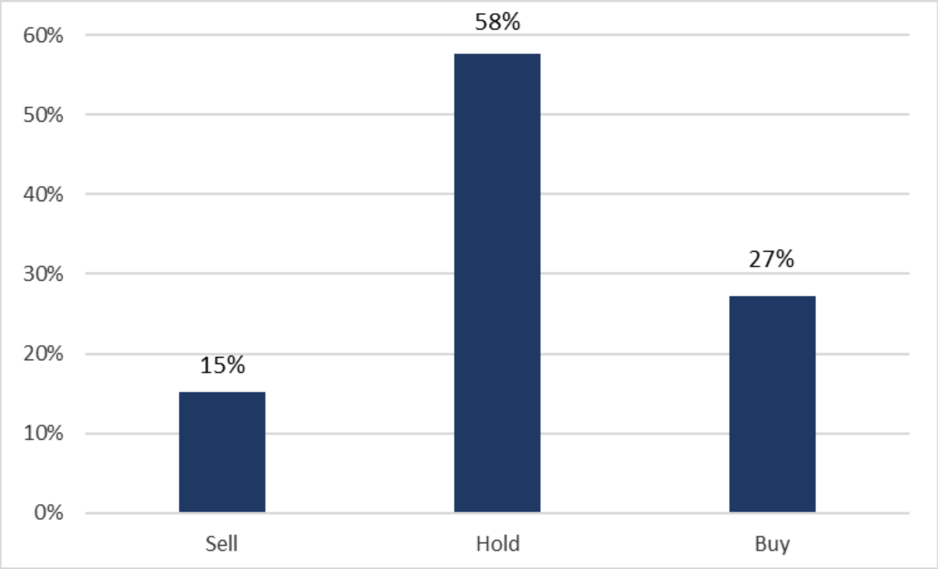

The graph above shows the distribution of ERP's recommendations of companies under coverage in 11th of May 2020. If recommendation is not given, it is not mentioned here.

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

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