

Company AS MERKO EHITUS
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Attachments:

- MerkoEhitu-10002922781-en.pdf (<http://oam.fi.ee/en/download?id=4135>)
- MerkoEhitu-10002922782-en.pdf (<http://oam.fi.ee/en/download?id=4136>)
- MerkoEhitu-10002922784-et.pdf (<http://oam.fi.ee/en/download?id=4137>)
- MerkoEhitu-10002922785-et.pdf (<http://oam.fi.ee/en/download?id=4138>)

Currency

Title 2019 9 months and III quarter consolidated unaudited interim report

COMMENTARY FROM MANAGEMENT

Merko Ehitus posted revenue of EUR 73 million in Q3 and EUR 228 million for the first nine months of 2019. Sales revenue for nine months decreased year-over-year in Estonia and Latvia, increased significantly in Norway and stayed more or less the same in Lithuania. The profit before taxes in Q3 was EUR 2.8 million and for the first nine months EUR 10.3 million. The group's net profit attributable to equity holders of the parent in Q3 was EUR 2.5 million, and the nine-month net profit was EUR 7 million.

Due to the completion of major construction projects in progress over the last two years, the cooling off of the construction market and the fact that the group is placing its strategic focus more firmly on apartment development, revenue decreased by 24% compared to last year; while pre-tax earnings decreased by 18%. Considering the declining trend in the portfolio of construction contracts in the last 1.5 years, a drop in volumes was to be expected this year. Yet the civil engineering services area has fallen short of management expectations this year. The group has taken a clearer direction toward apartment development and providing main contracting services for construction on projects where the group's subsidiaries have competitive advantages, such as in the form of engineering and technical knowhow, construction and financial capability and long-term cooperative relations. Ensuring higher construction volumes is not a goal in its own right if it should come at the expense of larger contractual risks (unrealistic deadlines, contractual penalties, lack of clarity regarding the scope of contracting) or customer insolvency. Public-private partnership (PPP) projects also continue to be in the group's focus, and the greatest market activity in this area has thus far been seen in Lithuania.



Based on developments in the economy and the real estate market, the volume of construction orders in the Baltics is seeing an overall declining trend. The greater caution exercised by banks as to selection of customers and projects for financing and the growth in loan margins are also having an increasing impact on the construction market. The orders from the public sector have not managed to compensate for the decrease in the activity of private sector customers. This places main contractors in an increasingly difficult competitive situation and increases pressure on them to reduce costs. The decreasing level of construction activity may at some point also mean concessions in terms of input prices, though this has not yet occurred. Thus, general contractors are working in an environment where on the one hand they face pressure from customers (contract conditions) and on the other hand from subcontractors (expenses).

The group has continued investments in residential real estate development as planned. During 2019, Merko Ehitus has invested EUR 83 million into the real estate development business segment, of which close to EUR 65 million into building apartments and nearly EUR 19 million into acquiring new land for development in Lithuania and Estonia to ensure development capability in years to come. In Estonia, Latvia and Lithuania, the group currently has a total of more than 1,100 apartments in development. Considering the cycle for completion of apartment development projects, investments will start yielding results to a greater extent in the form of apartment sales starting in Q4 of this year and even more so next year. Sales and pre-sales of apartments are going according to plan. We see the new apartment markets remaining active at current levels in Tallinn and Vilnius, while in Riga, general activity continues to be lower. The group will continue focusing on the real estate development business segment on all three markets.

The biggest projects in Tallinn are the Uus-Veerenni, Lahekalda and Pikaliiva residential projects; in Riga, the Gai?ezers and Viesturd?rzs developments; and, in Vilnius, the Vilneles slenis and Rinktin?s Urban developments. In Q3, the group sold 106 apartments compared to 87 in the third quarter last year. At the end of September, there were a total of 123 apartments in the three Baltic states ready to be sold and not covered by pre-sale agreements.

The group's secured order book decreased by end of September 2019 to EUR 152 million, decreasing 36% compared to the level at the same time last year (EUR 239 million). EUR 128 million in new contracts were signed in the first nine months, this being 19% less than in the same period last year (EUR 157 million). The largest contracts in Q3 were signed, in Latvia, for the reconstruction of the Riga Technical University Civil Engineering Faculty building and the construction of college building and dormitory in Babites county in Pinki, and, in Tallinn, the construction of Terminal D parking house at the Tallinn passenger port. In addition to the abovementioned ones, the largest projects in progress were, in Estonia, reconstruction of the Aaspere-Haljala road section, construction of Türi Basic School, establishing water supply and sewerage piping for the Metsanurme, Kasemetsa and Üksnurme area, the commercial building at Pärnu mnt 186, construction of undersea electric power cables of Suur Väin and Väike Väin straits, student home for Rakvere Vocational School, as well as



reconstruction and dredging of the Port of Hundipea; in Latvia, construction of Lidl's logistics centre, Alfa shopping centre and Laima chocolate factory; and in Lithuania, Neringa Hotel, Quadrum office building, and a private school in Vilnius.

OVERVIEW OF THE III QUARTER AND 9 MONTHS RESULTS

PROFITABILITY

2019 9 months profit before tax was EUR 10.3 million and Q3 2019 was EUR 2.8 million (9M 2018: EUR 12.6 million and Q3 2018: EUR 5.6 million), which brought the profit before tax margin to 4.5% (9M 2018: 4.2%).

Net profit attributable to equity holders of the parent in 9 months 2019 was EUR 7.0 million (9M 2018: EUR 12.3 million) and Q3 2019 net profit attributable to equity holders of the parent was EUR 2.5 million (Q3 2018: EUR 5.6 million). 9 months net profit margin was 3.1% (9M 2018: 4.1%). Net profitability was influenced by, among other things, a significantly increased income tax expense: in Q2, the group's income tax expense on paid dividends was EUR 2.7 million greater than the year before. There was no income tax expense on the dividends paid in 2018 – the dividends were distributed from dividends paid by foreign subsidiaries to the parent.

REVENUE

Q3 2019 revenue was EUR 73.4 million (Q3 2018: EUR 115.1 million) and 9 months revenue was EUR 227.6 million (9M 2018: EUR 298.8 million). 9 months revenue has decreased by 23.8% compared to same period last year. The share of revenue earned outside Estonia in 9 months 2019 was 53.2% (9M 2018: 51.5%).

SECURED ORDER BOOK

As at 30 September 2019, the group's secured order book was EUR 152.2 million (30 September 2018: EUR 239.4 million). In 9 months 2019, group companies signed new contracts in the amount of EUR 127.6 million (9M 2018: EUR 157.0 million). In Q3 2019, new contracts were signed in the amount of EUR 41.6 million (Q3 2018: EUR 89.4 million).

REAL ESTATE DEVELOPMENT

In 9 months 2019, the group sold a total of 206 apartments (incl. 36 apartments in a joint venture); in 9 months 2018, the group sold 255 apartments (incl. 47 apartments in a joint venture). The group earned a revenue of EUR 20.2 million from sale of own developed apartments in 9 months 2019 and EUR 24.3 million in 9 months 2018. In Q3 of 2019 a total of 106 apartments (incl. 3 apartments in a joint venture) were sold compared to 87 apartments (incl. 13 apartments in a joint venture) in Q3 2018, and earned a revenue of EUR 10.9 million from sale of own developed apartments (Q3 2018: EUR 8.0 million).

CASH POSITION

At the end of the reporting period, the group had EUR 13.4 million in cash and cash equivalents, and equity of EUR 121.1 million (39.4% of total assets).



Comparable figures as at 30 September 2018 were EUR 23.9 million and EUR 124.8 million (43.1% of total assets), respectively. As at 30 September 2019, the group had net debt of EUR 71.0 million (30 September 2018: EUR 29.8 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

| | 2019 9 months | 2018 9 months | 2019 III quarter | 2018 III quarter | 2018 12 months |
|--|------------------|------------------|---------------------|---------------------|-------------------|
| Revenue | 227,620 | 298,768 | 73,418 | 115,118 | 418,011 |
| Cost of goods sold | (206,723) | (276,984) | (67,191) | (106,363) | (384,962) |
| Gross profit | 20,897 | 21,784 | 6,227 | 8,755 | 33,049 |
| Marketing expenses | (2,626) | (2,482) | (842) | (753) | (3,285) |
| General and administrative expenses | (8,841) | (8,583) | (2,600) | (2,919) | (12,304) |
| Other operating income | 1,740 | 2,477 | 510 | 782 | 3,527 |
| Other operating expenses | (1,222) | (277) | (969) | (172) | (1,115) |
| Operating profit | 9,948 | 12,919 | 2,326 | 5,693 | 19,872 |
| Finance income/costs | 363 | (273) | 460 | (102) | (97) |
| incl. finance income/costs from sale of subsidiary and liquidation | - | (59) | - | - | (62) |
| finance income/costs from joint venture | 845 | 274 | 642 | 48 | 653 |
| interest expense | (471) | (452) | (185) | (143) | (652) |
| foreign exchange gain (loss) | - | (1) | 4 | - | 5 |
| other financial income (expenses) | (11) | (35) | (1) | (7) | (41) |
| Profit before tax | 10,311 | 12,646 | 2,786 | 5,591 | 19,775 |



| | | | | | |
|--|---------|--------|-------|-------|--------|
| Corporate income tax expense | (2,983) | (169) | (95) | 32 | (375) |
| Net profit for financial year | 7,328 | 12,477 | 2,691 | 5,623 | 19,400 |
| incl. net profit attributable to equity holders of the parent | 7,003 | 12,312 | 2,550 | 5,643 | 19,343 |
| net profit attributable to non-controlling interest | 325 | 165 | 141 | (20) | 57 |
| Other comprehensive income, which can subsequently be classified in the income statement | | | | | |
| Currency translation differences of foreign entities | (10) | 31 | (39) | 3 | (6) |
| Comprehensive income for the period | 7,318 | 12,508 | 2,652 | 5,626 | 19,394 |
| incl. net profit attributable to equity holders of the parent | 7,002 | 12,343 | 2,552 | 5,647 | 19,324 |
| net profit attributable to non-controlling interest | 316 | 165 | 130 | (21) | 70 |
| Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR) | 0.40 | 0.70 | 0.14 | 0.32 | 1.09 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
unaudited
in thousand euros

30.09.2019 30.09.2018 31.12.2018



ASSETS

Current assets

| | | | |
|------------------------------|---------|---------|---------|
| Cash and cash equivalents | 13,355 | 23,868 | 39,978 |
| Trade and other receivables | 72,280 | 114,150 | 76,183 |
| Prepaid corporate income tax | 94 | 163 | 224 |
| Inventories | 183,056 | 116,601 | 117,992 |
| | 268,785 | 254,782 | 234,377 |

Non-current assets

| | | | |
|---------------------------------------|--------|--------|--------|
| Investments in joint venture | 1,577 | 353 | 732 |
| Other long-term loans and receivables | 10,590 | 10,707 | 10,391 |
| Deferred income tax assets | - | 5 | - |
| Investment property | 14,077 | 13,785 | 13,771 |
| Property, plant and equipment | 11,336 | 9,443 | 9,715 |
| Intangible assets | 777 | 593 | 671 |
| | 38,357 | 34,886 | 35,280 |

| | | | |
|--------------|---------|---------|---------|
| TOTAL ASSETS | 307,142 | 289,668 | 269,657 |
|--------------|---------|---------|---------|

LIABILITIES

Current liabilities

| | | | |
|--------------------------|---------|---------|---------|
| Borrowings | 41,750 | 17,758 | 19,900 |
| Payables and prepayments | 84,643 | 95,410 | 77,016 |
| Income tax liability | 309 | 306 | 381 |
| Short-term provisions | 7,675 | 7,755 | 8,100 |
| | 134,377 | 121,229 | 105,397 |



| | | | |
|---|---------|---------|---------|
| ----- | | | |
| Non-current liabilities | | | |
| ----- | | | |
| Long-term borrowings | 42,571 | 35,878 | 24,266 |
| ----- | | | |
| Deferred income tax liability | 1,589 | 1,370 | 1,481 |
| ----- | | | |
| Other long-term payables | 2,653 | 1,647 | 2,179 |
| ----- | | | |
| | 46,813 | 38,895 | 27,926 |
| ----- | | | |
| | | | |
| ----- | | | |
| TOTAL LIABILITIES | 181,190 | 160,124 | 133,323 |
| ----- | | | |
| | | | |
| ----- | | | |
| EQUITY | | | |
| ----- | | | |
| Non-controlling interests | 4,893 | 4,768 | 4,577 |
| ----- | | | |
| Equity attributable to equity holders of the parent | | | |
| ----- | | | |
| Share capital | 7,929 | 7,929 | 7,929 |
| ----- | | | |
| Statutory reserve capital | 793 | 793 | 793 |
| ----- | | | |
| Currency translation differences | (722) | (671) | (721) |
| ----- | | | |
| Retained earnings | 113,059 | 116,725 | 123,756 |
| ----- | | | |
| | 121,059 | 124,776 | 131,757 |
| ----- | | | |
| TOTAL EQUITY | 125,952 | 129,544 | 136,334 |
| ----- | | | |
| | | | |
| ----- | | | |
| TOTAL LIABILITIES AND EQUITY | 307,142 | 289,668 | 269,657 |
| ----- | | | |

Interim report and the investor presentation are attached to the announcement and are also published on NASDAQ Tallinn and Merko's web page (group.merko.ee (<http://group.merko.ee/en/>)).

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AS Merko Ehitus (group.merko.ee (<http://group.merko.ee/en/>)) group consists of Estonia's leading construction company AS Merko Ehitus Eesti, the Latvian-market-oriented SIA Merks, UAB Merko Statyba operating on the Lithuanian market, and the Norwegian construction company Peritus Entreprenør AS. Besides provision of construction service as a main contractor, the group's other major area of activity is apartment development. As at the end of 2018, the group employed 764 people, and the group's revenue for 2018 was EUR 418 million.

