

Company AS MERKO EHITUS
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Attachments:

- MerkoEhitu-10001480591-en.pdf (<http://oam.fi.ee/en/download?id=3689>)
- MerkoEhitu-10001480592-en.pdf (<http://oam.fi.ee/en/download?id=3690>)
- MerkoEhitu-10001480594-et.pdf (<http://oam.fi.ee/en/download?id=3691>)
- MerkoEhitu-10001480595-et.pdf (<http://oam.fi.ee/en/download?id=3692>)

Currency

Title 2018 12 months and IV quarter consolidated unaudited interim report

COMMENTARY FROM MANAGEMENT

Merko Ehitus posted revenue of EUR 119.2 million in Q4 of 2018 and the 12-month revenue figure was EUR 418 million. The group's net profit for Q4 of 2018 was EUR 7 million and the 12-month net profit was EUR 19.3 million. Both the 12-month revenue as well as net profit grew by 32%, compared to 2017 figures. As discussed with the supervisory board, the group's management board proposes to pay shareholders a dividend of 92% of last year's profit, which amounts to 1 euro per share.

In recent years, the management of Merko Ehitus has implemented a strategy by which one-half of the group's business would be located outside Estonia. Also, investments into apartment development have been increased. 2018 was an exceptional year in regard to construction volumes, with the group's revenue on the upswing in all Baltic states, and doubling in Latvia. The growth in revenue was supported by several major ongoing projects in Latvia and Estonia on which construction work was completed in 2018 or is set to be completed in the first half of 2019. All of the group's countries and main areas of activity made a profit and the growth in revenue also increased the group's net profit.

Because of the rise in construction input prices and higher wages, the situation on the construction market continued to be complicated in 2018, especially in regard to contracts concluded by the group at a fixed price in earlier years. In addition, the problems of availability of building design and subcontracting resources exacerbated risks related to on-time completion of construction and financial risks. The rise in construction prices began slowing the growth in the volume of new orders on the market, which also resulted in stiffer competition between main contractors vying for construction orders and applied pressure on



profit margins. The launch of new commercial real estate projects is also now being slowed by the large volume of retail and office space accruing in recent years and the more complicated financing conditions. The group's secured order book shrank by about one-third in 2018, which will likely affect our construction volumes in 2019.

In addition to providing construction services to customers, a strategic business area for Merko Ehitus is apartment development, into which the group invested EUR 35 million in 2018. Last year, Merko launched the construction of a total of more than 1,000 new apartments in Tallinn, Riga and Vilnius, most of which will be completed in 2020. The largest projects are the Uus-Veerenni and Pikaliiva residential environments in Tallinn, the Gaižezers and Viesturdrīzs developments in Riga and the Vilneles slenis and Rinktinės Urban developments in Vilnius. In Q4 of 2018, Merko sold 227 apartments; for the entire year, sales totalled 482 apartments.

The apartment market in the Baltics in 2018 was stable and demand remained healthy. As the supply of new apartments has increased, the price level has stabilized and sales periods are somewhat longer. The trend can be expected to continue this year, especially in case of apartments in the above-average price segment. On the other hand, the apartment market is supported by low prime interest rates, high employment and economic growth. Large development areas occupy a more central position in the group's apartment development strategy, allowing to shape an integral living environment and launch development projects stage-by-stage in response to demand.

In Q4 of 2018, Merko Ehitus posted revenue of EUR 119.2 million with EBITDA of EUR 7.6 million and a net profit of EUR 7.0 million. For 2018 overall, sales revenue was EUR 418 million, EBITDA was 21.9 million and net profit was EUR 19.3 million. The growth of net profit was supported not only by the rise in revenue but the lower expense on income tax compared to 2017, as dividends were paid out in 2018 from dividends received from subsidiaries outside Estonia. At the same time, 2018 did not see real estate transactions of a one-off nature, which had a positive influence on the Q4 2017 profit.

In the 12 months of 2018, the group signed new contracts totalling EUR 246 million, and in Q4 alone, EUR 89 million, including for the design and construction of an office building at Pärnu mnt 186 in Tallinn and Tesla service centre in Oslo, the construction of a student home in Rakvere, laying of undersea cables under the Suur and Väike Vain straits in western Estonia, and road maintenance in the city of Tallinn.

As at 31 December 2018, Merko Ehitus group's secured order book amounted to EUR 229 million, compared to EUR 344 million as at the same date in the previous year. In Q4, the largest projects in progress in Estonia were T1 Mall of Tallinn shopping centre, Maakri Kvartal business complex, Öpiku Office Building tower B, Noblessner residential district, Tallink office building, and renovation and dredging work at the Port of Hundipea. In Latvia, the largest projects in progress were Akropole and Alfa shopping centres, Z-Towers business complex and



Ventspils Music School and Concert Hall; and in Lithuania, they were Hotel Neringa, Quadrum office building and two school buildings. In Norway, the biggest projects in progress in Q4 were the design and construction of Tesla customer service centre and renovation of an office building at Møllergata 23-25 in Oslo.

OVERVIEW OF THE IV QUARTER AND 12 MONTHS RESULTS

PROFITABILITY

Q4 2018 net profit was EUR 7.0 million (Q4 2017: EUR 8.1 million) and net profit margin 5.9% (Q4 2017: 7.9%). Net profit in 12 months 2018 was EUR 19.3 million (12M 2017: EUR 14.7 million), having increased by 31.6% compared to the same period last year. Net profit margin remained at the same level: 4.6% (12M 2017: 4.6%). In 2018, the group incurred EUR 2.6 million less corporate income tax costs.

Q4 2018 profit before tax was EUR 7.1 million (Q4 2017: EUR 10.6 million) and 12 months 2018 profit before tax was EUR 19.8 million (12M 2017: EUR 18.8 million), which brought the profit before tax margin to 4.7% (12M 2017: 5.9%).

REVENUE

Q4 2018 revenue was EUR 119.2 million (Q4 2017: EUR 102.8 million) and 12 months 2018 revenue was EUR 418.0 million (12M 2017: EUR 317.6 million). 12 months' revenue has increased by 31.6% compared to same period last year. The share of revenue earned outside Estonia in 12 months 2018 was 51.5% (12M 2017: 39.9%).

SECURED ORDER BOOK

As at 31 December 2018, the group's secured order book was EUR 229.0 million (31 December 2017: EUR 344.4 million). In 12 months 2018, group companies signed new contracts in the amount of EUR 246.4 million (12M 2017: EUR 334.9 million). In Q4 2018, new contracts were signed in the amount of EUR 89.4 million (Q4 2017: EUR 31.3 million).

REAL ESTATE DEVELOPMENT

In 12 months 2018, the group sold a total of 482 apartments (incl. 131 apartments in a joint venture); in 12 months 2017, the group sold 392 apartments (incl. 17 apartment in a joint venture). The group earned a revenue of EUR 41.3 million from sale of own developed apartments in 12 months 2018 and EUR 47.1 million in 12 months 2017. In Q4 of 2018, the group sold a total of 227 apartments (incl. 84 apartments in a joint venture); in Q4 of 2017, the group sold 106 apartments (incl. 16 apartment in a joint venture). The group earned a revenue of EUR 17.0 million from sale of own developed apartments in Q4 of 2018 and EUR 13.3 million in Q4 of 2017.

CASH POSITION

At the end of the reporting period, the group had EUR 40.0 million in cash and



cash equivalents, and equity EUR 131.8 million (48.9% of total assets). Comparable figures as at 31 December 2017 were EUR 39.2 million and EUR 130.2 million (47.0% of total assets), respectively. As at 31 December 2018, the group had net debt of EUR 4.2 million (31 December 2017: EUR 20.1 million).

PROPOSAL FOR DISTRIBUTION OF PROFITS

As discussed with the Supervisory Board, the Management Board proposes to distribute to shareholders EUR 17.7 million in dividends (1 euro per share) from retained earnings in 2019. This is equivalent to a 92% dividend rate for 2018.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	2018 12 months	2017 12 months	2018 IV quarter	2017 IV quarter
Revenue	418,011	317,598	119,243	102,791
Cost of goods sold	(384,962)	(286,747)	(107,978)	(88,638)
Gross profit	33,049	30,851	11,265	14,153
Marketing expenses	(3,285)	(3,215)	(803)	(795)
General and administrative expenses	(12,304)	(11,289)	(3,721)	(3,500)
Other operating income	3,527	3,793	1,050	1,148
Other operating expenses	(1,115)	(601)	(838)	(277)
Operating profit	19,872	19,539	6,953	10,729
Finance income/costs	(97)	(767)	176	(173)
incl. finance income/costs from sale of subsidiary and liquidation	(62)	14	(3)	14
finance income/costs from joint ventures	653	64	379	76
finance income/costs from other long-term investments	-	2	-	2
interest expense	(652)	(745)	(200)	(192)



foreign exchange gain (loss)	5	(1)	6	1
other financial income (expenses)	(41)	(101)	(6)	(74)
Profit before tax	19,775	18,772	7,129	10,556
Corporate income tax expense	(375)	(3,020)	(206)	(1,625)
Net profit for financial year	19,400	15,752	6,923	8,931
incl. net profit attributable to equity holders of the parent	19,343	14,694	7,031	8,133
net profit attributable to non-controlling interest	57	1,058	(108)	798
Other comprehensive income, which can subsequently be classified in the income statement				
Currency translation differences of foreign entities	(6)	(74)	(37)	(47)
Comprehensive income for the period	19,394	15,678	6,886	8,884
incl. net profit attributable to equity holders of the parent	19,324	14,637	6,981	8,099
net profit attributable to non-controlling interest	70	1,041	(95)	785
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	1.09	0.83	0.40	0.46

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
unaudited
in thousand euros

31.12.2018 31.12.2017

ASSETS

Current assets



Cash and cash equivalents	39,978	39,210
Trade and other receivables	76,183	75,844
Prepaid corporate income tax	224	492
Inventories	117,992	118,421
	234,377	233,967
Non-current assets		
Long-term financial assets	11,123	17,242
Deferred income tax assets	-	5
Investment property	13,771	15,719
Property, plant and equipment	9,715	9,665
Intangible assets	671	497
	35 280	43,128
TOTAL ASSETS	269,657	277,095
LIABILITIES		
Current liabilities		
Borrowings	19,900	24,218
Payables and prepayments	77,016	74,972
Income tax liability	381	413
Short-term provisions	8,100	4,569
	105,397	104,172
Non-current liabilities		
Long-term borrowings	24,266	35,138
Deferred income tax liability	1,481	1,259



Other long-term payables	2,179	1,789
	27,926	38,186
TOTAL LIABILITIES	133,323	142,358
EQUITY		
Non-controlling interests	4,577	4,567
Equity attributable to equity holders of the parent		
Share capital	7,929	7,929
Statutory reserve capital	793	793
Currency translation differences	(721)	(702)
Retained earnings	123,756	122,150
	131,757	130,170
TOTAL EQUITY	136,334	134,737
TOTAL LIABILITIES AND EQUITY	269,657	277,095

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.

Attachments

- * Merko_Ehitus_2018_12M_presentation (<https://ml-eu.globenewswire.com/Resource/Download/4df39dca-46b1-4f48-8da0-c9571a15194a>)
- * Merko_Ehitus_2018_12M_interim_report (<https://ml-eu.globenewswire.com/Resource/Download/2768f046-1dfa-4ca7-bd7d-54efea10f55d>)

