

Company AS MERKO EHITUS
Type Company Release
Category Management interim statement or quaterly financial report
Disclosure time 13 Feb 2020 07:30:00 +0200

Attachments:

- MerkoEhitu-10003184111-en.pdf (<http://oam.fi.ee/en/download?id=4329>)
- MerkoEhitu-10003184112-en.pdf (<http://oam.fi.ee/en/download?id=4330>)
- MerkoEhitu-10003184114-et.pdf (<http://oam.fi.ee/en/download?id=4331>)
- MerkoEhitu-10003184115-et.pdf (<http://oam.fi.ee/en/download?id=4332>)

Currency

Title 2019 12 months and IV quarter consolidated unaudited interim report

COMMENTARY FROM MANAGEMENT

Merko Ehitus posted revenue of EUR 99 million and net profit of EUR 9.3 million in Q4 of 2019, close to a one-third gain over the same period a year ago. In Q4, the revenue generated by the real estate development business area more than doubled compared to 2018 and made up approximately 47% of the group's revenue as a whole. In 2019, the 12-month revenue of Merko Ehitus was EUR 327 million and net profit was EUR 16.3 million. As discussed with the supervisory board, the group's management board proposes to pay shareholders 0.60 euros per share as dividends.

The fourth quarter of Merko Ehitus was expected to be strong. The professional work of the group companies' teams and timely completion of apartment development projects contributed to the result. The forecasts of group's management were somewhat exceeded as some apartment development projects were completed earlier than planned and sales were faster thanks to greater interest from buyers.

The decline in annual sales revenue by about one fifth was expected because of the extra-ordinarily high comparison base of 2018, which included the construction of some very large shopping centres in Tallinn and Riga. The group's smaller secured order book also reflects the situation on the market: fewer commercial real estate sites are being built because competition is stiffer, construction prices have risen and financing conditions have become more complicated. The price competition on the main contracting market continues to be tight. So it is all the more gratifying to note that in spite of the lower revenue, we were able to improve profitability through a more precise selection of construction projects and the team's effectiveness. The year's net profit



figure was impacted by significantly higher income tax expenses compared to 2018 in connection with the payment of dividends. The group's profit before taxes for the 12 months was EUR 20.3 million and increased by 2.8% from the year before.

The proportion of the real estate development business area has continued to increase, and in Q4 it made up close to 47% of the entire group's revenue. The real estate development business area's sales revenue was EUR 46.5 million in Q4 and totalled EUR 70.1 million for the 12 months. In Q4, Merko sold a total of 276 apartments, 482 for the entire year, and the respective figures for commercial areas sold were 13 and 24. The apartment market in Tallinn, Riga and Vilnius is stable and our focus continues to be on large development areas where we can establish an integral residential environment and launch and build development projects stage by stage based on demand.

In 2019, the group Invested EUR 87.4 million into new and ongoing development projects and started construction of a total of 368 new apartments in the Baltics. The largest projects were the Uus-Veerenni, Lahekalda and Pikaliiva residential projects in Tallinn; in Riga, the Gaiņezers and Viesturdrīzs developments; and, in Vilnius, the Vilnelės slėnis and Rinktinės Urban developments.

Q4 2019 revenue of Merko Ehitus was EUR 99 million (Q4 of 2018: EUR 119 million), EBITDA was EUR 10.2 million (Q4 of 2018: 7.6 million), and net profit was EUR 9.3 million (Q4 of 2018: EUR 7.0 million). In Q4 2019, Merko subsidiaries signed new agreements worth EUR 42 million and the volume of new contracts over the 12 months of 2019 stood at EUR 170 million. As of 31 December 2019, the group's secured order book amounted to EUR 141 million, compared to EUR 229 million on the same date in the previous year.

The largest projects in progress in Q4 in Estonia were the construction of Terminal D parking house at the Tallinn passenger port, Türi Basic School, the student home for Rakvere Vocational School and the commercial building at Pärnu mnt 186, as well as the reconstruction of the Aaspere-Haljala road section. In Latvia, the largest projects in progress were the construction of the Pinki school building and dormitory, Lidl's logistics centre, Alfa shopping centre, and Laima chocolate factory, as well as the reconstruction of the Riga Technical University Civil Engineering Faculty building. In Lithuania, the larger projects were the construction of Neringa Hotel, Quadrum office building, and a private school in Vilnius.

OVERVIEW OF THE IV QUARTER AND 12 MONTHS RESULTS

PROFITABILITY

2019 12 months' profit before tax was EUR 20.3 million and for Q4 2019 it was EUR 10.0 million (12M 2018: EUR 19.8 million and Q4 2018: EUR 7.1 million),



which brought the profit before tax margin to 6.2% (12M 2018: 4.7%).

Net profit attributable to equity holders of the parent in 12 months 2019 was EUR 16.3 million (12M 2018: EUR 19.3 million) and Q4 2019 net profit attributable to equity holders of the parent was EUR 9.3 million (Q4 2018: EUR 7.0 million). 12 months' net profit margin was 5.0% (12M 2018: 4.6%). 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

Q4 2019 revenue was EUR 99.2 million (Q4 2018: EUR 119.2 million) and 12 months' revenue was EUR 326.8 million (12M 2018: EUR 418.0 million). 12 months' decreased by 21.8% compared to same period last year. The share of revenue earned outside Estonia in 12 months 2019 was 48.3% (12M 2018: 51.5%).

SECURED ORDER BOOK

As at 31 December 2019, the group's secured order book was EUR 141.4 million (31 December 2018: EUR 229.0 million). In 12 months 2019, group companies signed new contracts in the amount of EUR 169.6 million (12M 2018: EUR 246.4 million). In Q4 2019, new contracts were signed in the amount of EUR 42.0 million (Q4 2018: EUR 89.4 million).

REAL ESTATE DEVELOPMENT

In 12 months 2019, the group sold a total of 482 apartments (incl. 47 apartments in a joint venture); in 12 months 2018, the group sold 482 apartments as well (incl. 131 apartments in a joint venture). The group earned a revenue of EUR 63.8 million from sale of own developed apartments in 12 months 2019 and EUR 41.3 million in 12 months 2018. In Q4 of 2019 a total of 276 apartments (incl. 11 apartments in a joint venture) were sold compared to 227 apartments (incl. 84 apartments in a joint venture) in Q4 2018, and earned a revenue of EUR 43.6 million from sale of own developed apartments (Q4 2018: EUR 17.0 million).

CASH POSITION

At the end of the reporting period, the group had EUR 24.7 million in cash and cash equivalents, and equity of EUR 130.3 million (46.2% of total assets). Comparable figures as at 31 December 2018 were EUR 40.0 million and EUR 131.8 million (48.9% of total assets), respectively. As at 31 December 2019, the group had net debt of EUR 39.0 million (31 December 2018: EUR 4.2 million).

PROPOSAL FOR DISTRIBUTION OF PROFITS

As discussed with the Supervisory Board, the Management Board proposes to distribute to shareholders EUR 10.6 million in dividends (0.60 euro per share) from retained earnings in 2020. This is equivalent to a 65% dividend rate for 2019.



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
unaudited
in thousand euros

	2019 12 months	2018 12 months	2019 IV quarter	2018 IV quarter
Revenue	326,779	418,011	99,159	119,243
Cost of goods sold	(291,958)	(384,962)	(85,235)	(107,978)
Gross profit	34,821	33,049	13,924	11,265
Marketing expenses	(4,260)	(3,285)	(1,634)	(803)
General and administrative expenses	(12,988)	(12,304)	(4,147)	(3,721)
Other operating income	2,983	3,527	1,243	1,050
Other operating expenses	(1,318)	(1,115)	(96)	(838)
Operating profit	19,238	19,872	9,290	6,953
Finance income/costs	1,085	(97)	722	176
incl. finance income/costs from sale of subsidiary and liquidation	-	(62)	-	(3)
finance income/costs from joint venture	1,766	653	921	379
interest expense	(656)	(652)	(185)	(200)
foreign exchange gain (loss)	-	5	-	6
other financial income (expenses)	(25)	(41)	(14)	(6)
Profit before tax	20,323	19,775	10,012	7,129



Corporate income tax expense	(3,833)	(375)	(850)	(206)
Net profit for financial year	16,490	19,400	9,162	6,923
incl. net profit attributable to equity holders of the parent	16,270	19,343	9,267	7,031
net profit attributable to non-controlling interest	220	57	(105)	(108)
Other comprehensive income, which can subsequently be classified in the income statement				
Currency translation differences of foreign entities	13	(6)	23	(37)
Comprehensive income for the period	16,503	19,394	9,185	6,886
incl. net profit attributable to equity holders of the parent	16,281	19,324	9,279	6,981
net profit attributable to non-controlling interest	222	70	(94)	(95)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	0.92	1.09	0.52	0.40

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
unaudited
in thousand euros

31.12.2019 31.12.2018

ASSETS



Current assets		
Cash and cash equivalents	24,749	39,978
Trade and other receivables	50,413	76,183
Prepaid corporate income tax	104	224
Inventories	166,226	117,992
	241,492	234,377
Non-current assets		
Investments in joint venture	2,498	732
Other long-term loans and receivables	11,094	10,391
Investment property	14,047	13,771
Property, plant and equipment	11,919	9,715
Intangible assets	777	671
	40,335	35,280
TOTAL ASSETS	281,827	269,657
LIABILITIES		
Current liabilities		
Borrowings	20,725	19,900
Payables and prepayments	69,585	77,016
Income tax liability	812	381
Short-term provisions	7,976	8,100
	99,098	105,397
Non-current liabilities		
Long-term borrowings	43,001	24,266



Deferred income tax liability	1,682	1,481
Other long-term payables	3,491	2,179
	48,174	27,926
 TOTAL LIABILITIES	 147,272	 133,323
 EQUITY		
Non-controlling interests	4,217	4,577
Equity attributable to equity holders of the parent		
Share capital	7,929	7,929
Statutory reserve capital	793	793
Currency translation differences	(710)	(721)
Retained earnings	122,326	123,756
	130,338	131,757
TOTAL EQUITY	134,555	136,334
 TOTAL LIABILITIES AND EQUITY	 281,827	 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 (<https://group.merko.ee/en/>)) group consists of



AS Merko Ehitus Eesti in Estonia, SIA Merks in Latvia, UAB Merko Statyba in Lithuania and Peritus Entreprenør AS in Norway. Besides providing construction service as a main contractor, the group's other major area of activity is apartment development. As at the end of 2019, the group employed 694 people, and the group's revenue for 2019 was EUR 327 million.

