

Company AS MERKO EHITUS  
Type Company Release  
Category Half-yearly financial report  
Disclosure time 06 Aug 2020 08:00:00 +0300

Attachments:

- MerkoEhitu-10004010421-en.pdf (<http://oam.fi.ee/en/download?id=4782>)
- MerkoEhitu-10004010423-et.pdf (<http://oam.fi.ee/en/download?id=4783>)

Currency

Title 2020 6 months and II quarter consolidated unaudited interim report

COMMENTARY FROM MANAGEMENT

Merko Ehitus posted revenue of EUR 74 million and a net profit of EUR 6.2 million in Q2 of 2020. The respective six month figures were EUR 130 million and EUR 8.2 million. In 6 months of 2020, Merko sold 369 apartments, and the 6-month revenue generated by the real estate development segment grew more than four times compared to the same period last year, making up 40 % of the group's revenue. During the first six months of the year, the group companies concluded new construction contracts worth EUR 175 million, which is twice as much as a year ago.

The sale of apartments in the second quarter exceeded the management's spring expectations, which due to the pandemic restrictions took a sudden turn for the negative. Yet the restrictions did not significantly impact the second-quarter delivery of apartments sold under preliminary contracts signed before the pandemic. Merko sold the most apartments in Vilnius and at the moment, the market for apartments in all three Baltic capitals is moderate. Activity levels are not as high as they were before the crisis but the price level has remained stable. The increase in revenue from real estate development had a positive impact on the growth of net profit in Q2 as well. The sale of apartments may vary significantly by quarter, depending on the time during which development projects were completed and authorisations for use were obtained.

The group's volume of construction contracts has grown 38% compared to a year ago, and over the first six months of the year, group signed 175 million euros worth of new construction contracts, which is approximately twice as much as a year ago. Based on the diminished economic outlook, a large share of orders from private sector customers has been postponed and public contracts are prevalent among new orders.



Despite the positive results in the second quarter, the impacts caused by the pandemic are gradually becoming more apparent in the construction and real estate sector, and because of this, the outlook for the market developments in the second half of the year and 2021 are likely to be moving in a negative direction. The group companies have implemented cost-cutting measures to ensure efficient and flexible operations during and after the crisis. The market as a whole has been supported by the response from banking in terms of payment moratoria and more broadly in ensuring availability of credit.

Over six months, Merko Ehitus Group sold 369 apartments and 4 commercial units (6 months 2019: 100 apartments and 6 commercial units). The revenue figure for the real estate development segment in the first half of 2020 saw fourfold growth year-over-year, making up 40.1% of the group's total revenue (6 months 2019: 7.9%). Merko's biggest projects in Tallinn are the Uus-Veerenni, Lahekalda and Pikaliiva residential projects; in Riga, the Gai?ezers and Viesturdrzs developments; and, in Vilnius, the Vilneles slenis and Rinktin?s Urban developments. In spring, the group halted the launch of new development projects for three months due to risks related to the pandemic. At the end of the period, the third stage of construction and sales of the Uus-Veerenni project in Tallinn was started.

Merko Ehitus posted revenue of EUR 73.9 million in Q2 of 2020 (Q2 2019: EUR 77.4 million), an EBITDA of EUR 7.7 million (Q2 2019: EUR 5.3 million), and net profit of EUR 6.2 million (Q2 2019: EUR 1.7 million). In 6 months 2020, the group companies entered into new contracts totalling EUR 175.1 million and, for Q2 alone, EUR 87.8 million (Q2 2019: EUR 53.8 million).

As of 30 June 2020, the group had a secured order book balance of EUR 236.7 million (30 June 2019: EUR 172.1 million). The largest projects in progress in Q2 in Estonia were the construction of the Tallinn Music and Ballet School, the Arte Gymnasium, Terminal D parking house at the Tallinn passenger port, the high-voltage power cables in Tallinn, T?ri Basic School, the reconstruction of Aaspere-Haljala road section, the public water supply and sewerage pipeline in Kohila Parish and a data centre in Harju County. In Latvia, the biggest projects in progress were construction of the school building and dormitory in Pinki, Lidl logistics centre and the renovation of the Riga Technical University Civil Engineering Faculty building. In Lithuania, the construction of Hotel Neringa and the Kaunas district police headquarter building were in progress.

## OVERVIEW OF THE II QUARTER AND 6 MONTHS RESULTS

### PROFITABILITY

2020 6 months' profit before tax was EUR 8.8 million and Q2 2020 was EUR 6.7 million (6M 2019: EUR 7.5 million and Q2 2019 was EUR 4.5 million), which brought the profit before tax margin to 6.8% (6M 2019: 4.9%).

Net profit attributable to equity holders of the parent in 6 months 2020 was EUR 8.2 million (6M 2019: EUR 4.5 million) and Q2 2020 net profit attributable to equity holders of the parent was EUR 6.2 million (Q2 2019: EUR 1.7 million). 6



months net profit margin was 6.3% (6M 2019: 2.9%). Compared to 6 months 2020, the net profitability of 2019 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. In 2020, the group did not pay dividends.

#### REVENUE

Q2 2020 revenue was EUR 73.9 million (Q2 2019: EUR 77.4 million) and 6 months' revenue was EUR 129.7 million (6M 2019: EUR 154.2 million). 6 months' revenue decreased by 15.9% compared to same period last year. The share of revenue earned outside Estonia in 6 months 2020 was 50.3% (6M 2019: 57.0%).

#### SECURED ORDER BOOK

As at 30 June 2020, the group's secured order book was EUR 236.7 million (30 June 2019: EUR 172.1 million). In 6 months 2020, group companies signed new contracts in the amount of EUR 175.1 million (6M 2019: EUR 86.0 million). In Q2 2020, new contracts were signed in the amount of EUR 87.8 million (Q2 2019: EUR 53.8 million).

#### REAL ESTATE DEVELOPMENT

In 6 months 2020, the group sold a total of 369 apartments (incl. 2 apartments in a joint venture); in 6 months 2019, the group sold 100 apartments (incl. 33 apartments in a joint venture). The group earned a revenue of EUR 46.0 million from sale of own developed apartments in 6 months 2020 and EUR 9.2 million in 6 months 2019. In Q2 of 2020 a total of 236 apartments (all in own developments) were sold, compared to 37 apartments (incl. 4 apartment in a joint venture) in Q2 2019, and earned a revenue of EUR 27.4 million from sale of own developed apartments (Q2 2019: EUR 4.7 million).

#### CASH POSITION

At the end of the reporting period, the group had EUR 23.7 million in cash and cash equivalents, and equity of EUR 138.4 million (50.3% of total assets). Comparable figures as at 30 June 2019 were EUR 14.0 million and EUR 118.5 million (41.2% of total assets), respectively. As at 30 June 2020, the group's net debt stood at EUR 34.2 million (30 June 2019: EUR 48.7 million).

#### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	2020	2019	2020	2019	2019
	6 months	6 months	II quarter	II quarter	12 months
Revenue	129,733	154,202	73,861	77,357	326,779
Cost of goods sold	(113,250)	(139,532)	(62,852)	(68,893)	(291,958)



Gross profit	16,483	14,670	11,009	8,464	34,821
Marketing expenses	(1,873)	(1,784)	(925)	(933)	(4,260)
General and administrative expenses	(5,393)	(6,241)	(2,588)	(3,117)	(12,988)
Other operating income	1,122	1,230	614	529	2,983
Other operating expenses	(1,252)	(253)	(1,189)	(218)	(1,318)
Operating profit	9,087	7,622	6,921	4,725	19,238
Finance income/costs	(310)	(97)	(211)	(180)	1,085
incl. finance income/costs from joint venture	92	203	2	(19)	1,766
interest expense	(330)	(286)	(158)	(151)	(656)
foreign exchange gain (loss)	(4)	(4)	(4)	(4)	-
other financial income (expenses)	(68)	(10)	(51)	(6)	(25)
Profit before tax	8,777	7,525	6,710	4,545	20,323
Corporate income tax expense	(786)	(2,888)	(648)	(2,813)	(3,833)
Net profit for financial year	7,991	4,637	6,062	1,732	16,490
incl. net profit attributable to equity holders of the parent	8,175	4,453	6,156	1,675	16,270
net profit attributable to non-controlling					



interest	(184)	184	(94)	57	220
Other comprehensive income, which can subsequently be classified in the income statement					
Currency translation differences of foreign entities	(128)	29	60	(3)	13
Comprehensive income for the period	7,863	4,666	6,122	1,729	16,503
incl. net profit attributable to equity holders of the parent	8,044	4,480	6,221	1,672	16,281
net profit attributable to non-controlling interest	(181)	186	(99)	57	222
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	0.46	0.25	0.35	0.09	0.92

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
unaudited  
in thousand euros

30.06.2020 30.06.2019 31.12.2019

ASSETS

Current assets

Cash and cash equivalents	23,728	13,980	24,749
Trade and other receivables	44,790	72,561	50,413
Prepaid corporate income tax	91	94	104
Inventories	161,534	162,829	166,226



	230,143	249,464	241,492
Non-current assets			
Investments in joint venture	2,590	935	2,498
Other long-term loans and receivables	14,504	11,418	11,094
Investment property	13,988	14,115	14,047
Property, plant and equipment	12,996	11,255	11,919
Intangible assets	686	727	777
	44,764	38,450	40,335
TOTAL ASSETS	274,907	287,914	281,827
LIABILITIES			
Current liabilities			
Borrowings	28,011	31,786	20,725
Payables and prepayments	63,243	88,748	69,585
Income tax liability	912	2,854	812
Short-term provisions	5,915	6,276	7,976
	98,081	129,664	99,098
Non-current liabilities			
Long-term borrowings	29,900	30,921	43,001
Deferred income tax liability	1,650	1,556	1,682
Other long-term payables	2,858	2,473	3,491
	34,408	34,950	48,174
TOTAL LIABILITIES	132,489	164,614	147,272



## EQUITY

Non-controlling interests	4,036	4,763	4,217
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	(841)	(694)	(710)
Retained earnings	130,501	110,509	122,326
	138,382	118,537	130,338
TOTAL EQUITY	142,418	123,300	134,555
TOTAL LIABILITIES AND EQUITY	274,907	287,914	281,827

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

Priit Roosimägi  
Head of Group Finance Unit  
AS Merko Ehitus  
+372 650 1250  
[priit.roosimagi@merko.ee](mailto:priit.roosimagi@merko.ee) (<mailto:priit.roosimagi@merko.ee>)

AS Merko Ehitus ([group.merko.ee](http://group.merko.ee) (<http://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.

