

Moving in the right direction

Non-residential volumes supported the profitability in Q1/24 as we had expected. Non-residential will remain in the driver's seat especially for 2024E while we estimate residential to start contributing slowly during 2025E.

Profitability improved in Q1 y/y as expected

Revenue in Q1 was EUR 167.0m (EUR 138.3m in Q1/23), above our estimate of EUR 152.0m. Revenue grew 20.7% y/y. The revenue growth was stronger than expected in business construction where the revenue grew 37% while we estimated growth of 23% y/y. Housing construction revenue was at a very low level of EUR 10.9m as expected. With the higher total volumes, SRV's EBIT increased to EUR 1.3m, trailing only slightly our estimate of EUR 1.5m. While the market remains challenging in the residential side, the company believes that it will be possible to start up selected development or developer-contracted projects in the latter part of the year.

Non-residential will remain in the driver's seat

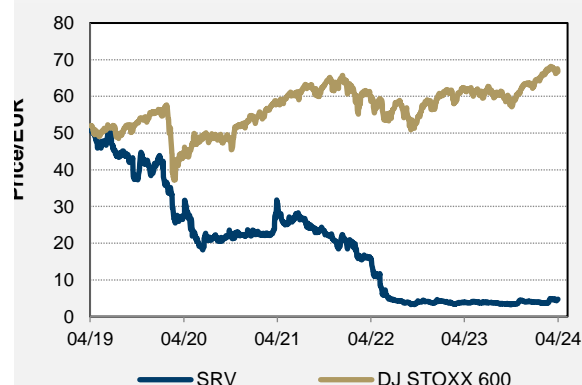
As we have commented earlier, the company's current non-residential backlog supports its volumes through 2024. SRV also has a substantial amount of won contracts and projects under preliminary contracts that have not yet been recognized in the company's backlog (EUR 933m 3/24 vs. EUR 715m 12/23). Profitability wise, the margins will remain modest in 2024 driven by the project mix. SRV had no developer-contracted housing units under construction during the first quarter and therefore we expect that the company's developer-contracted housing sales will comprise of the current unsold units during 2024-2025E. We have made only slight adjustments to our estimates for 2024E. We now estimate revenue of EUR 714m (prev. EUR 685) with operative EBIT of EUR 13.1 (prev. EUR 13.3m). For 2025E we have increased our estimates for other than developer-contracted residential sales.

HOLD with a TP of EUR 4.3 (prev. EUR 4.1)

SRV's Q1 was a step in the right direction. While the non-residential sales keep the margins modest for 2024E, the volumes provide a bridge into 2025E where we expect that housing sales (other than developer contracted) start to contribute slowly into the figures.

Rating

HOLD



Share price, EUR (Last trading day's closing price) 4.70
Target price, EUR 4.3

Latest change in recommendation 29-Jan-24
Latest report on company 18-Apr-24
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 80
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 18-Jul-24
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 |
|-------|---------------|--------------|-----------|-------------|------------|------------|-----------------|----------------|----------------|------------|
| 2022 | 770.1 | -76.3 | -9.9% | -67.8 | -5.05 | -0.8 | 0.2 | -2.3 | -105.1 | 0.00 |
| 2023 | 610.1 | -6.8 | -1.1% | -21.1 | -0.90 | -4.4 | 0.3 | -29.6 | -31.4 | 0.00 |
| 2024E | 714.2 | 13.1 | 1.8% | -23.6 | 0.31 | 15.2 | 0.3 | 18.0 | -29.6 | 0.00 |
| 2025E | 810.0 | 21.8 | 2.7% | -11.6 | 0.74 | 6.4 | 0.3 | 11.4 | -14.5 | 0.11 |
| 2026E | 860.1 | 29.6 | 3.4% | 6.7 | 1.11 | 4.2 | 0.3 | 8.2 | 8.4 | 0.33 |

| | | | | | |
|--------------------------|-----|-------------------------|------|-----------------------|------|
| Market cap, EURm | 80 | Gearing 2024E, % | 85.4 | CAGR EPS 2023-26, % | 0.0 |
| Net debt 2024E, EURm | 156 | Price/book 2024E | 0.7 | CAGR sales 2023-26, % | 12.1 |
| Enterprise value, EURm | 236 | Dividend yield 2024E, % | 0.0 | ROE 2024E, % | 4.9 |
| Total assets 2024E, EURm | 507 | Tax rate 2024E, % | 18.3 | ROCE 2024E, % | 4.4 |
| Goodwill 2024E, EURm | 2 | Equity ratio 2024E, % | 34.2 | PEG, P/E 24/CAGR | 0.2 |

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

Table 1: Peer group

| Company name | Market capitalization mEUR | EV/EBITDA | | | EV/EBIT | | | P/E | | | EV/Sales | | |
|---------------------------------------|-------------------------------|-----------|-------|-------|---------|-------|-------|-------|-------|-------|----------|------|------|
| | | 24 | 25 | 26 | 24 | 25 | 26 | 24 | 25 | 26 | 24 | 25 | 26 |
| YIT | 410 | 20.0x | 15.3x | 11.2x | 30.4x | 20.5x | 14.3x | 35.3x | 11.5x | 0.7x | 0.7x | 0.6x | |
| Skanska | 6360 | 7.8x | 7.1x | 6.9x | 10.4x | 9.1x | 8.5x | 12.6x | 11.2x | 10.6x | 0.4x | 0.4x | 0.4x |
| NCC | 1092 | 5.6x | 5.6x | 5.5x | 9.6x | 9.4x | 9.0x | 9.0x | 8.8x | 8.5x | 0.3x | 0.3x | 0.3x |
| Peab | 1389 | 10.0x | 9.3x | 8.7x | 17.5x | 15.7x | 14.1x | 13.6x | 11.9x | 10.3x | 0.6x | 0.6x | 0.6x |
| JM AB | 990 | 42.7x | 30.7x | 20.6x | 34.7x | 30.8x | 20.7x | 31.4x | 19.6x | 12.4x | 2.4x | 2.4x | 2.0x |
| Bonava | 264 | 27.2x | 52.0x | 14.9x | 27.8x | 54.1x | 15.0x | | | 34.1x | 1.0x | 1.3x | 0.9x |
| AF Gruppen | 1236 | 8.1x | 7.5x | 7.1x | 11.5x | 10.3x | 9.7x | 16.5x | 14.9x | 14.0x | 0.5x | 0.5x | 0.5x |
| Veidekke | 1288 | 5.2x | 5.1x | 4.9x | 8.8x | 8.4x | 8.1x | 13.2x | 12.7x | 12.1x | 0.3x | 0.3x | 0.3x |
| Peer group average | 1629 | 15.2x | 16.7x | 9.8x | 17.2x | 19.7x | 12.2x | 16.0x | 13.2x | 14.6x | 0.8x | 0.8x | 0.7x |
| Peer group median | 1164 | 9.1x | 8.4x | 7.9x | 14.5x | 13.0x | 11.9x | 13.4x | 12.7x | 11.8x | 0.5x | 0.5x | 0.5x |
| SRV (Evli est.) | 80 | 12.6x | 8.7x | 6.3x | 18.0x | 11.4x | 8.2x | 20.8x | 7.3x | 4.5x | 0.3x | 0.3x | 0.3x |
| <i>SRV prem./disc. to peer median</i> | | 39% | 3% | -20% | 24% | -13% | -31% | 55% | -43% | -62% | -39% | -42% | -44% |

SRV prem./disc. to peer median

Source FactSet, Evli Research

Valuation remains demanding on our 2024E estimates

With only slight updates to our 2024E estimates, the valuation remains demanding when compared to the Nordic construction company peer group. While 2024E valuation remains relatively high, the company trades at a discount to peers on 2025E EV/EBIT and P/E multiples. We base our valuation on 2024–2025E EV/EBITDA, EV/EBIT and P/E multiples. With slightly higher estimates for 2025E we increase our TP to EUR 4.3 (prev. EUR 4.1). Our new TP values SRV at roughly 11x EV/EBIT for 2025E, which we consider as a neutral level for the company as the level is roughly in line with the sector historic median levels.

Table 2: Estimate summary

| SRV | 2022 | Q1/'23 | Q2/'23 | Q3/'23 | Q4/'23 | 2023 | Q1/'24 | Q2/'24E | Q3/'24E | Q4/'24E | 2024E | 2025E | 2026E |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|-------|-------|-------|
| Revenue | 770.1 | 138.3 | 143.1 | 146.9 | 181.8 | 610.0 | 167.0 | 179.3 | 174.5 | 193.5 | 714.2 | 810.0 | 860.1 |
| change, % | -17.4% | -27.5% | -32.3% | -21.4% | 0.3% | -20.8% | 20.8% | 25.3% | 18.8% | 6.4% | 17.1% | 13.4% | 6.2% |
| Operative operating profit | 18.8 | -2.0 | -3.9 | 4.6 | 2.4 | 1.1 | 1.3 | 2.5 | 5.2 | 4.2 | 13.1 | 21.8 | 29.6 |
| -margin | 2.4% | -1.4% | -2.7% | 3.1% | 1.3% | 0.2% | 0.8% | 1.4% | 3.0% | 2.2% | 1.8% | 2.7% | 3.4% |
| Operating profit | -76.4 | -2.0 | -3.0 | -4.9 | 3.1 | -6.8 | 1.3 | 2.5 | 5.2 | 4.2 | 13.1 | 21.8 | 29.6 |
| -margin | -9.9% | -1.4% | -2.1% | -3.3% | 1.7% | -1.1% | 0.8% | 1.4% | 3.0% | 2.2% | 1.8% | 2.7% | 3.4% |
| Net financials | -2.7 | -2.5 | -2.5 | -1.6 | -2.5 | -9.0 | -0.7 | -2.0 | -2.0 | -2.0 | -6.7 | -6.5 | -5.8 |
| Pre-tax profit | -79.1 | -4.4 | -5.5 | -6.5 | 0.7 | -15.8 | 0.5 | 0.5 | 3.2 | 2.2 | 6.4 | 15.3 | 23.9 |
| Income taxes | -6.5 | 1.3 | 0.8 | 0.0 | -1.4 | 0.7 | 0.0 | -0.1 | -0.6 | -0.4 | -1.3 | -3.1 | -4.8 |
| Non-controlling interest | 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 | -85.7 | -3.1 | -4.7 | -6.5 | -0.7 | -15.1 | 0.5 | 0.4 | 2.5 | 1.8 | 5.1 | 12.2 | 19.1 |

Source: SRV, Evli Research

| VALUATION RESULTS | BASE CASE DETAILS | VALUATION ASSUMPTIONS | ASSUMPTIONS FOR WACC | |
|--------------------------|-----------------------------|-------------------------|--------------------------------|------|
| Current share price | 4.70 PV of Free Cash Flow | 148 Long-term growth, % | 2.0 Risk-free interest rate, % | 2.25 |
| DCF share value | 11.66 PV of Horizon value | 183 WACC, % | 9.5 Market risk premium, % | 5.8 |
| Share price potential, % | 148.0 Unconsolidated equity | 0 Spread, % | 0.5 Debt risk premium, % | 3.8 |
| Maximum value | 13.2 Marketable securities | 40 Minimum WACC, % | 9.0 Equity beta coefficient | 1.30 |
| Minimum value | 10.3 Debt - dividend | -172 Maximum WACC, % | 10.0 Target debt ratio, % | 20 |
| Horizon value, % | 55.2 Value of stock | 198 Nr of shares, Mn | 17.0 Effective tax rate, % | 20 |

| DCF valuation, EURm | 2023 | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E | 2033E | Horizon |
|-----------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|
| Net sales | 610 | 714 | 810 | 860 | 877 | 895 | 913 | 931 | 950 | 969 | 988 | 1,009 |
| <i>Sales growth, %</i> | -20.8 | 17.1 | 13.4 | 6.2 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Operating income (EBIT) | -7 | 13 | 22 | 30 | 33 | 34 | 35 | 35 | 36 | 37 | 38 | 38 |
| <i>Operating income margin, %</i> | -1.1 | 1.8 | 2.7 | 3.4 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 |
| + Depreciation+amort. | 6 | 6 | 7 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 | 9 |
| EBITDA | -1 | 19 | 29 | 38 | 42 | 43 | 44 | 45 | 45 | 46 | 47 | |
| - Paid taxes | -1 | -2 | -4 | -5 | -6 | -6 | -6 | -6 | -7 | -7 | -7 | |
| - Change in NWC | 9 | -9 | -8 | -8 | -3 | -3 | -3 | -3 | -3 | -3 | -3 | |
| <i>NWC / Sales, %</i> | 17.6 | 16.3 | 15.3 | 15.3 | 15.3 | 15.3 | 15.3 | 15.3 | 15.3 | 15.3 | 15.3 | |
| + Change in other liabs | -4 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| - Operative CAPEX | -3 | -3 | -7 | -4 | -4 | -4 | -4 | -4 | -4 | -4 | -5 | |
| <i>opCAPEX / Sales, %</i> | 3.1 | 3.6 | 2.9 | 1.6 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.5 | |
| - 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 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| = FCFF | 0 | 4 | 10 | 21 | 30 | 30 | 31 | 31 | 31 | 32 | 32 | 441 |
| = Discounted FCFF | | 4 | 9 | 16 | 21 | 20 | 18 | 17 | 16 | 14 | 13 | 183 |
| = DFCF min WACC | | 4 | 9 | 17 | 22 | 20 | 19 | 17 | 16 | 15 | 14 | 204 |
| = DFCF max WACC | | 4 | 8 | 16 | 21 | 19 | 18 | 16 | 15 | 14 | 13 | 164 |

INTERIM FIGURES

| EVLI ESTIMATES, EURm | 2023Q1 | 2023Q2 | 2023Q3 | 2023Q4 | 2023 | 2024Q1 | 2024Q2E | 2024Q3E | 2024Q4E | 2024E | 2025E | 2026E |
|--------------------------------------|-------------|-------------|-------------|--------------|-------------|------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Net sales | 138.3 | 143.1 | 146.9 | 181.8 | 610.1 | 167.0 | 179.3 | 174.5 | 193.5 | 714.2 | 810.0 | 860.1 |
| EBITDA | -0.6 | -1.6 | -3.5 | 4.5 | -1.2 | 2.7 | 3.9 | 6.6 | 5.6 | 18.7 | 28.6 | 38.4 |
| <i>EBITDA margin (%)</i> | <i>-0.4</i> | <i>-1.1</i> | <i>-2.4</i> | <i>2.5</i> | <i>-0.2</i> | <i>1.6</i> | <i>2.2</i> | <i>3.8</i> | <i>2.9</i> | <i>2.6</i> | <i>3.5</i> | <i>4.5</i> |
| EBIT | -2.0 | -3.0 | -4.9 | 3.1 | -6.8 | 1.3 | 2.5 | 5.2 | 4.2 | 13.1 | 21.8 | 29.6 |
| <i>EBIT margin (%)</i> | <i>-1.4</i> | <i>-2.1</i> | <i>-3.3</i> | <i>1.7</i> | <i>-1.1</i> | <i>0.8</i> | <i>1.4</i> | <i>3.0</i> | <i>2.2</i> | <i>1.8</i> | <i>2.7</i> | <i>3.4</i> |
| Net financial items | -2.5 | -2.5 | -1.5 | -2.4 | -9.0 | -0.7 | -2.0 | -2.0 | -2.0 | -6.7 | -6.5 | -6.5 |
| Pre-tax profit | -4.5 | -5.5 | -6.4 | 0.7 | -15.8 | 0.5 | 0.5 | 3.2 | 2.2 | 6.4 | 15.3 | 23.2 |
| Tax | 1.3 | 0.8 | 0.0 | -1.4 | 0.7 | 0.0 | -0.1 | -0.6 | -0.4 | -1.2 | -2.8 | -4.2 |
| <i>Tax rate (%)</i> | <i>28.9</i> | <i>14.5</i> | <i>0.0</i> | <i>200.3</i> | <i>4.4</i> | <i>0.0</i> | <i>20.0</i> | <i>20.0</i> | <i>20.0</i> | <i>18.3</i> | <i>18.3</i> | <i>18.3</i> |
| Net profit | -3.5 | -4.7 | -6.4 | -0.7 | -15.4 | 0.5 | 0.4 | 2.5 | 1.8 | 5.2 | 12.5 | 18.9 |
| EPS | -0.21 | -0.28 | -0.38 | -0.04 | -0.90 | 0.03 | 0.02 | 0.15 | 0.10 | 0.31 | 0.74 | 1.11 |
| EPS adjusted (diluted no. of shares) | -0.21 | -0.28 | -0.38 | -0.04 | -0.90 | 0.03 | 0.02 | 0.15 | 0.10 | 0.31 | 0.74 | 1.11 |
| 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 | 0.33 |
| SALES, EURm | | | | | | | | | | | | |
| Group | 138.3 | 143.1 | 146.9 | 181.8 | 610.1 | 167.0 | 179.3 | 174.5 | 193.5 | 714.2 | 810.0 | 860.1 |
| Total | 138.3 | 143.1 | 146.9 | 181.8 | 610.1 | 167.0 | 179.3 | 174.5 | 193.5 | 714.2 | 810.0 | 860.1 |
| SALES GROWTH, Y/Y % | | | | | | | | | | | | |
| Group | -27.5 | -32.3 | -21.4 | 0.4 | -20.8 | 20.8 | 25.3 | 18.8 | 6.4 | 17.1 | 13.4 | 6.2 |
| Total | -27.5 | -32.3 | -21.4 | 0.4 | -20.8 | 20.8 | 25.3 | 18.8 | 6.4 | 17.1 | 13.4 | 6.2 |
| EBIT, EURm | | | | | | | | | | | | |
| Group | -2.0 | -3.0 | -4.9 | 3.1 | -6.8 | 1.3 | 2.5 | 5.2 | 4.2 | 13.1 | 21.8 | 29.6 |
| Total | -2.0 | -3.0 | -4.9 | 3.1 | -6.8 | 1.3 | 2.5 | 5.2 | 4.2 | 13.1 | 21.8 | 29.6 |
| EBIT margin, % | | | | | | | | | | | | |
| Group | -1.4 | -2.1 | -3.3 | 1.7 | -1.1 | 0.8 | 1.4 | 3.0 | 2.2 | 1.8 | 2.7 | 3.4 |
| Total | -1.4 | -2.1 | -3.3 | 1.7 | -1.1 | 0.8 | 1.4 | 3.0 | 2.2 | 1.8 | 2.7 | 3.4 |

Construction & Engineering/Finland, April 26, 2024
Company update

| INCOME STATEMENT, EURm | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
|--|-------------|-------------|-------------|--------------|--------------|-------------|-------------|------------|
| Sales | 1,061.0 | 975.5 | 932.5 | 770.1 | 610.1 | 714.2 | 810.0 | 860.1 |
| <i>Sales growth (%)</i> | <i>10.5</i> | <i>-8.1</i> | <i>-4.4</i> | <i>-17.4</i> | <i>-20.8</i> | <i>17.1</i> | <i>13.4</i> | <i>6.2</i> |
| EBITDA | -3.1 | 20.4 | 4.5 | -67.0 | -1.2 | 18.7 | 28.6 | 38.4 |
| <i>EBITDA margin (%)</i> | <i>-0.3</i> | <i>2.1</i> | <i>0.5</i> | <i>-8.7</i> | <i>-0.2</i> | <i>2.6</i> | <i>3.5</i> | <i>4.5</i> |
| Depreciation | -90.0 | -18.9 | -6.3 | -9.3 | -5.6 | -5.6 | -6.8 | -8.8 |
| EBITA | -93.1 | 1.5 | -1.8 | -76.3 | -6.8 | 13.1 | 21.8 | 29.6 |
| Goodwill amortization / writedown | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | -93.1 | 1.5 | -1.8 | -76.3 | -6.8 | 13.1 | 21.8 | 29.6 |
| <i>EBIT margin (%)</i> | <i>-8.8</i> | <i>0.2</i> | <i>-0.2</i> | <i>-9.9</i> | <i>-1.1</i> | <i>1.8</i> | <i>2.7</i> | <i>3.4</i> |
| Reported EBIT | -14.7 | 1.5 | -1.8 | -76.3 | -6.8 | 13.1 | 21.8 | 29.6 |
| <i>EBIT margin (reported) (%)</i> | <i>-1.4</i> | <i>0.2</i> | <i>-0.2</i> | <i>-9.9</i> | <i>-1.1</i> | <i>1.8</i> | <i>2.7</i> | <i>3.4</i> |
| Net financials | -29.3 | -29.4 | -18.6 | -2.7 | -9.0 | -6.7 | -6.5 | -6.5 |
| Pre-tax profit | -122.4 | -27.9 | -20.4 | -79.0 | -15.8 | 6.4 | 15.3 | 23.2 |
| Taxes | 18.7 | 2.9 | 0.5 | -6.6 | 0.7 | -1.2 | -2.8 | -4.2 |
| Minority shares | 0.7 | 2.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | -28.8 | -27.1 | -21.4 | -85.7 | -15.4 | 5.2 | 12.5 | 18.9 |
| Cash NRIs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-cash NRIs | 78.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| BALANCE SHEET, EURm | | | | | | | | |
| Assets | | | | | | | | |
| Fixed assets | 122 | 120 | 122 | 15 | 18 | 20 | 25 | 25 |
| Goodwill | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Right of use assets | 149 | 130 | 82 | 84 | 96 | 114 | 126 | 129 |
| Inventory | 372 | 355 | 227 | 163 | 157 | 184 | 209 | 222 |
| Receivables | 204 | 155 | 143 | 103 | 89 | 104 | 117 | 125 |
| Liquid funds | 28 | 97 | 68 | 45 | 40 | 46 | 53 | 56 |
| Total assets | 913 | 899 | 686 | 448 | 439 | 507 | 569 | 597 |
| Liabilities | | | | | | | | |
| Shareholder's equity | 95 | 170 | 150 | 113 | 105 | 111 | 123 | 140 |
| Minority interest | -2 | -4 | 0 | 0 | 0 | 0 | 0 | 0 |
| Convertibles | 83 | 15 | 15 | 34 | 34 | 34 | 34 | 0 |
| Lease liabilities | 150 | 136 | 89 | 92 | 106 | 114 | 126 | 129 |
| Deferred taxes | 3 | 3 | 1 | 1 | 0 | 0 | 0 | 0 |
| Interest bearing debt | 300 | 250 | 149 | 34 | 33 | 55 | 61 | 90 |
| Non-interest bearing current liabilities | 244 | 285 | 243 | 148 | 138 | 171 | 203 | 215 |
| Other interest-free debt | 21 | 21 | 15 | 7 | 3 | 3 | 3 | 3 |
| Total liabilities | 914 | 899 | 686 | 449 | 439 | 507 | 569 | 597 |
| CASH FLOW, EURm | | | | | | | | |
| + EBITDA | -3 | 20 | 5 | -67 | -1 | 19 | 29 | 38 |
| - Net financial items | -29 | -29 | -19 | -3 | -9 | -7 | -6 | -6 |
| - Taxes | -1 | -2 | -2 | -2 | 0 | -1 | -3 | -4 |
| - Increase in Net Working Capital | -75 | 107 | 98 | 11 | 9 | -9 | -8 | -8 |
| +/- Other | 98 | -49 | -13 | 50 | 0 | 0 | 0 | 0 |
| = Cash flow from operations | -11 | 46 | 69 | -10 | -2 | 2 | 12 | 20 |
| - Capex | -26 | 1 | 45 | -58 | -19 | -26 | -23 | -13 |
| - Acquisitions | 0 | -5 | 0 | 0 | 0 | 0 | 0 | 0 |
| + Divestments | 0 | 29 | 0 | 0 | 0 | 0 | 0 | 0 |
| = Free cash flow | -37 | 72 | 114 | -68 | -21 | -24 | -12 | 7 |
| +/- New issues/buybacks | -67 | 100 | 5 | 49 | 8 | 0 | 0 | 0 |
| - Paid dividend | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -2 |
| +/- Other | 39 | -103 | -148 | -4 | 8 | 30 | 18 | -2 |
| Change in cash | -65 | 69 | -29 | -23 | -6 | 7 | 6 | 3 |

Construction & Engineering/Finland, April 26, 2024
Company update

| KEY FIGURES | 2020 | 2021 | 2022 | 2023 | 2024E | 2025E | 2026E |
|--|-------|--------|--------|--------|--------|--------|--------|
| M-cap | 155 | 139 | 65 | 67 | 80 | 80 | 80 |
| Net debt (excl. convertibles) | 289 | 170 | 80 | 99 | 123 | 135 | 163 |
| Enterprise value | 456 | 325 | 178 | 200 | 236 | 248 | 243 |
| Sales | 976 | 933 | 770 | 610 | 714 | 810 | 860 |
| EBITDA | 20 | 5 | -67 | -1 | 19 | 29 | 38 |
| EBIT | 2 | -2 | -76 | -7 | 13 | 22 | 30 |
| Pre-tax | -28 | -20 | -79 | -16 | 6 | 15 | 23 |
| Earnings | -27 | -21 | -86 | -15 | 5 | 13 | 19 |
| Equity book value (excl. minorities) | 170 | 150 | 113 | 105 | 111 | 123 | 140 |
| Valuation multiples | | | | | | | |
| EV/sales | 0.5 | 0.3 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 |
| EV/EBITDA | 22.4 | 72.2 | -2.7 | -173.7 | 12.6 | 8.7 | 6.3 |
| EV/EBITA | 304.1 | -180.4 | -2.3 | -29.6 | 18.0 | 11.4 | 8.2 |
| EV/EBIT | 304.1 | -180.4 | -2.3 | -29.6 | 18.0 | 11.4 | 8.2 |
| EV/OCF | 9.9 | 4.7 | -17.7 | -105.2 | 123.0 | 21.0 | 12.1 |
| EV/FCFF | 5.5 | 3.4 | -3.2 | -558.8 | 58.4 | 25.0 | 11.6 |
| P/FCFE | 0.1 | 0.0 | -1.0 | -3.2 | -3.4 | -6.9 | 11.9 |
| P/E | -5.7 | -6.5 | -0.8 | -4.4 | 15.2 | 6.4 | 4.2 |
| P/B | 0.9 | 0.9 | 0.6 | 0.6 | 0.7 | 0.6 | 0.6 |
| Target EV/EBITDA | 0.0 | 0.0 | 0.0 | 0.0 | 12.3 | 8.4 | 6.1 |
| Target EV/EBIT | 0.0 | 0.0 | 0.0 | 0.0 | 17.5 | 11.1 | 8.0 |
| Target EV/FCF | 0.0 | 0.0 | 0.0 | 0.0 | -9.7 | -20.8 | 35.3 |
| Target P/B | 0.0 | 0.0 | 0.0 | 0.0 | 0.7 | 0.6 | 0.5 |
| Target P/E | 0.0 | 0.0 | 0.0 | 0.0 | 13.9 | 5.8 | 3.9 |
| Per share measures | | | | | | | |
| Number of shares | 9,429 | 9,429 | 16,982 | 16,982 | 16,982 | 16,982 | 16,982 |
| Number of shares (diluted) | 9,429 | 9,429 | 16,982 | 16,982 | 16,982 | 16,982 | 16,982 |
| EPS | -2.88 | -2.27 | -5.05 | -0.90 | 0.31 | 0.74 | 1.11 |
| Operating cash flow per share | 4.91 | 7.31 | -0.59 | -0.11 | 0.11 | 0.70 | 1.18 |
| Free cash flow per share | 7.64 | 12.08 | -3.99 | -1.24 | -1.39 | -0.68 | 0.39 |
| Book value per share | 17.99 | 15.88 | 6.64 | 6.20 | 6.51 | 7.25 | 8.25 |
| Dividend per share | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.11 | 0.33 |
| Dividend payout ratio, % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 15.0 | 30.0 |
| Dividend yield, % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.3 | 7.1 |
| FCF yield, % | 46.4 | 81.7 | -105.1 | -31.4 | -29.6 | -14.5 | 8.4 |
| Efficiency measures | | | | | | | |
| ROE | -20.5 | -13.4 | -65.3 | -14.1 | 4.9 | 10.7 | 14.4 |
| ROCE | 0.9 | 0.7 | -21.4 | -2.5 | 4.4 | 6.6 | 8.4 |
| Financial ratios | | | | | | | |
| Inventories as % of sales | 36.4 | 24.4 | 21.1 | 25.8 | 25.8 | 25.8 | 25.8 |
| Receivables as % of sales | 15.8 | 15.4 | 13.3 | 14.5 | 14.5 | 14.5 | 14.5 |
| Non-interest bearing liabilities as % of sales | 29.2 | 26.1 | 19.2 | 22.7 | 24.0 | 25.0 | 25.0 |
| NWC/sales, % | 23.1 | 13.7 | 15.1 | 17.6 | 16.3 | 15.3 | 15.3 |
| Operative CAPEX/sales, % | -0.2 | -4.8 | 7.5 | 3.1 | 3.6 | 2.9 | 1.6 |
| CAPEX/sales (incl. acquisitions), % | -0.6 | -4.8 | 7.5 | 3.1 | 3.6 | 2.9 | 1.6 |
| FCFF/EBITDA | 4.1 | 21.5 | 0.8 | 0.3 | 0.2 | 0.3 | 0.5 |
| Net debt/EBITDA, book-weighted | 14.2 | 37.8 | -1.2 | -86.3 | 6.6 | 4.7 | 4.2 |
| Debt/equity, market-weighted | 1.6 | 1.1 | 0.5 | 0.5 | 0.7 | 0.8 | 1.1 |
| Equity ratio, book-weighted | 22.3 | 27.5 | 40.3 | 39.4 | 34.2 | 32.4 | 27.4 |
| Gearing, % | 159.8 | 103.0 | 55.0 | 71.6 | 85.4 | 85.9 | 116.5 |

Construction & Engineering/Finland, April 26, 2024
Company update

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. The current market environment presents challenges yet several factors support the company including a healthy balance sheet, low amount of unsold developer contracted units and a solid backlog of lower-risk business construction projects. With the revised strategy, SRV aims towards sustainable profitability driven by increasing the share accounted for by housing construction and especially by housing and business premises construction based on in-house project development in a controlled manner.

| OWNERSHIP STRUCTURE | SHARES | EURm | % |
|--|------------|--------|-------|
| As Pontos Baltic | 2,877,709 | 13.525 | 16.9% |
| Ilmarinen Mutual Pension Insurance Company | 1,942,246 | 9.129 | 11.4% |
| Kolpi Investments Oy | 1,446,353 | 6.798 | 8.5% |
| Havu Capital Oy | 957,562 | 4.501 | 5.6% |
| OP Life Assurance Company Ltd | 767,377 | 3.607 | 4.5% |
| Tungelin Investments Oy | 654,055 | 3.074 | 3.9% |
| Lareale Investments Oy | 654,055 | 3.074 | 3.9% |
| Varma Mutual Pension Insurance Company | 483,611 | 2.273 | 2.8% |
| Pohjola Insurance Ltd | 394,650 | 1.855 | 2.3% |
| Nordea Life Assurance Finland Ltd. | 382,510 | 1.798 | 2.3% |
| Ten largest | 10,560,128 | 49.633 | 62% |
| Residual | 6,422,215 | 30.184 | 38% |
| Total | 16,982,343 | 79.817 | 100% |

EARNINGS CALENDAR

July 18, 2024 Q2 report
October 24, 2024 Q3 report

OTHER EVENTS

March 27, 2023 AGM

COMPANY MISCELLANEOUS

CEO: Saku Sipola Tarvonsalmenkatu 15, Espoo
CFO: Jarkko Rantala Tel: +358 20 145 5200
IR:

DEFINITIONS

| | | | |
|-----------------------|--|---------------------------|---|
| P/E | $\frac{\text{Price per share}}{\text{Earnings per share}}$ | EPS | $\frac{\text{Profit before extraord. items and taxes} - \text{income taxes} + \text{minority interest}}{\text{Number of shares}}$ |
| P/BV | $\frac{\text{Price per share}}{\text{Shareholders' equity} + \text{taxed provisions per share}}$ | 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 | $\frac{\text{Capital expenditure} - \text{divestments} - \text{acquisitions}}{\text{Sales}}$ |
| 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 | $\frac{\text{Total assets} - \text{non-interest bearing debt}}{\text{Number of shares}}$ |
| 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, % | $\frac{\text{Interest bearing debt}}{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}$ |
| Payout ratio, % | $\frac{\text{Total dividends}}{\text{Earnings before extraordinary items and taxes} - \text{income taxes} + \text{minority interest}}$ | Equity ratio, % | $\frac{\text{Shareholders' equity} + \text{minority interest} + \text{taxed provisions}}{\text{Total assets} - \text{interest-free loans}}$ |
| ROCE, % | $\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial costs}}{\text{Balance sheet total} - \text{non-interest bearing debt (average)}}$ | CAGR, % | Cumulative annual growth rate = Average growth per year |

| | |
|--|--|
| <p>ROE, %</p> $\frac{\text{Profit before extraordinary items and taxes - income taxes}}{\text{Shareholder's equity + minority interest + taxed provisions (average)}}$ | |
|--|--|

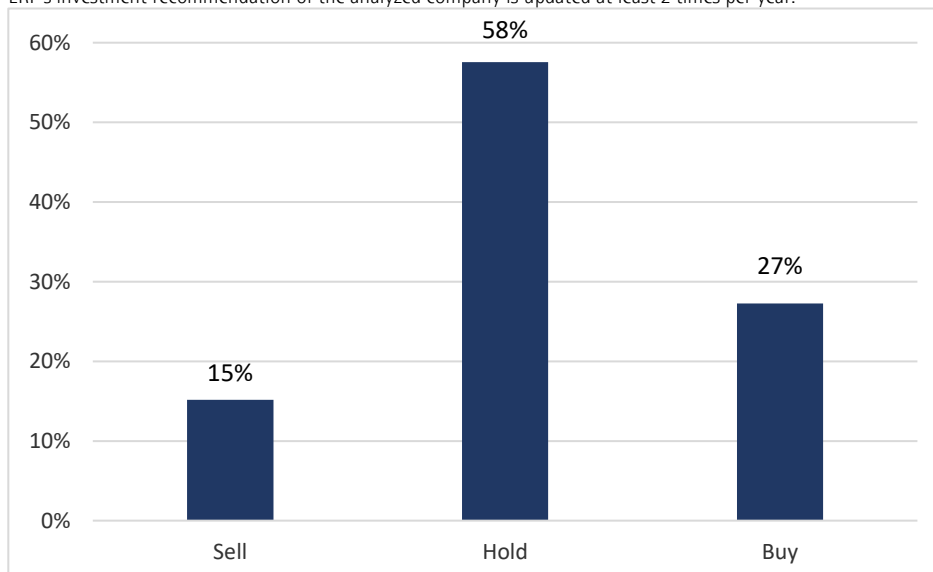
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Investment recommendations are defined as follows:

| | |
|--------------------------------------|----------------|
| Target price compared to share price | Recommendation |
| < -10 % | SELL |
| -10 – (+10) % | HOLD |
| > 10 % | BUY |

ERP's investment recommendation of the analyzed company is updated at least 2 times per year.



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

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