

# AS MERKO EHITUS

## 12 months and Q4 2017 interim report

08 February 2018



Aizkraukle substation in Latvia





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# Merko Group Key Highlights

**The last time sales revenue reached above EUR 300 million was 10 years ago**

- ❑ Revenue EUR 103m in Q4 and EUR 318m in 12M, up approx. 26% compared to 12M 2016.
- ❑ Revenue increased on all group's home markets, supported by large contracts in progress.
- ❑ Profitability from construction services remains under pressure. Shortage of workforce and stability of suppliers.
- ❑ Secured order book strong at EUR 344m (up 28% y-o-y). Increase in Latvia.
- ❑ 12M 2017 sold 392 apartments and launched construction of approx. 500 new apartments.
- ❑ The group continued to implement its long-term apartments development strategy by investing a total of EUR 58m, including EUR 9m in new land plots.



*T1 Mall of Tallinn shopping centre in Estonia*

# Merko Group Key Financial Highlights

<i>EUR million</i>	12M 2017	12M 2016	Variance	Q4 2017	Q4 2016	Variance
Revenue	317.6	252.0	+26.0%	102.8	78.6	+30.8%
EBITDA	22.2	11.2	+98.2%	11.2	2.8	+301.6%
EBITDA margin (%)	7.0	4.4		10.9	3.6	
Operating profit	19.5	7.7	+153.1%	10.7	1.6	+553.8%
Operating profit margin (%)	6.2	3.1		10.4	2.1	
Profit before tax	18.8	7.3	+157.9%	10.6	1.6	+575.8%
Net profit, attributable to equity holders of the parent	14.7	6.1	+140.0%	8.1	1.4	+477.9%
Earnings per share (EPS), in euros	0.83	0.35	+140.0%	0.46	0.08	+477.9%
Secured order book	344.4	269.6	+27.8%	344.4	269.6	+27.8%
Employees	755	797	-5.3%	755	797	-5.3%

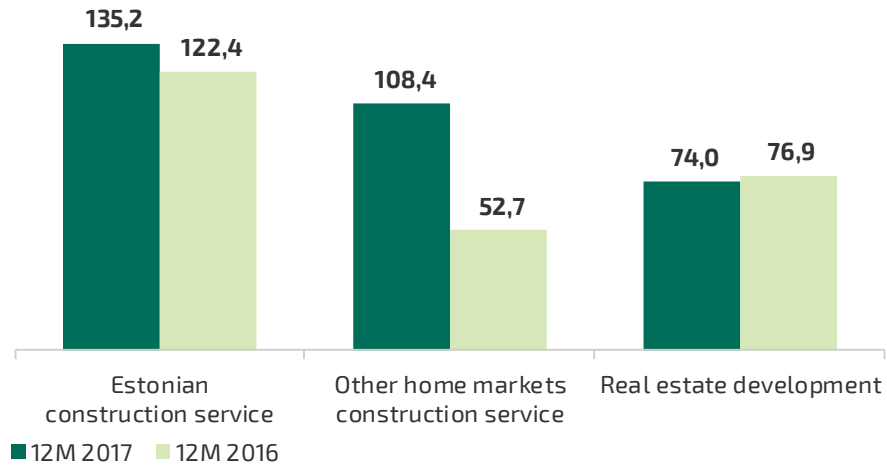
\* Variance calculated based on consolidated financial statements of interim reports.

# Business Review 12M and Q4 2017

## GROUP REVENUE BY SEGMENTS

in million euros

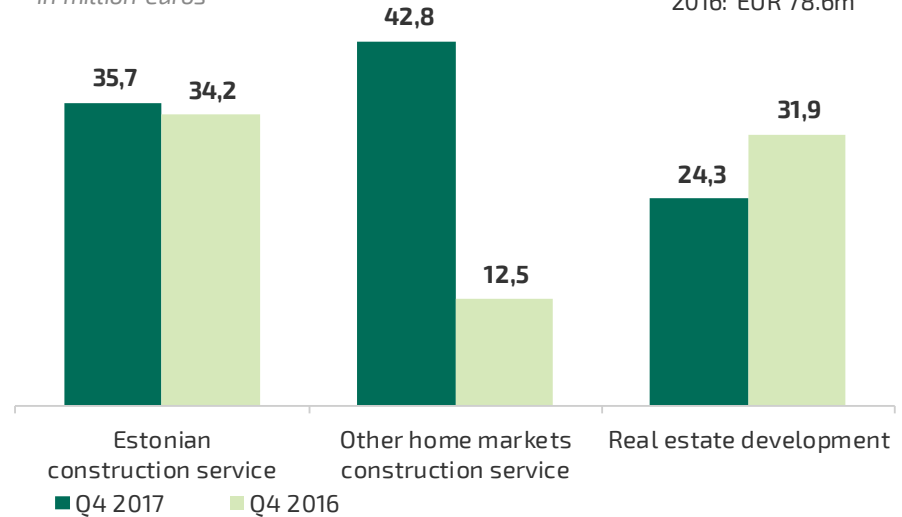
2017: EUR 317.6m  
2016: EUR 252.0m



## GROUP QUARTERLY REVENUE BY SEGMENTS

in million euros

2017: EUR 102.8m  
2016: EUR 78.6m



- ❑ The revenue increased above all due to the growth of construction contracts concluded with private sector customers
- ❑ Low volume of new orders for road and engineering works, unable to compete with the prices bid at public procurements
- ❑ Strong revenue growth in Latvia, supported by major construction contracts
- ❑ Profitability continues to be under pressure, as the construction market is still facing challenges in the rise of input prices and the lack of design development and subcontracting resources
- ❑ Price competition among general contractors is strong and the deadlines are ever tighter

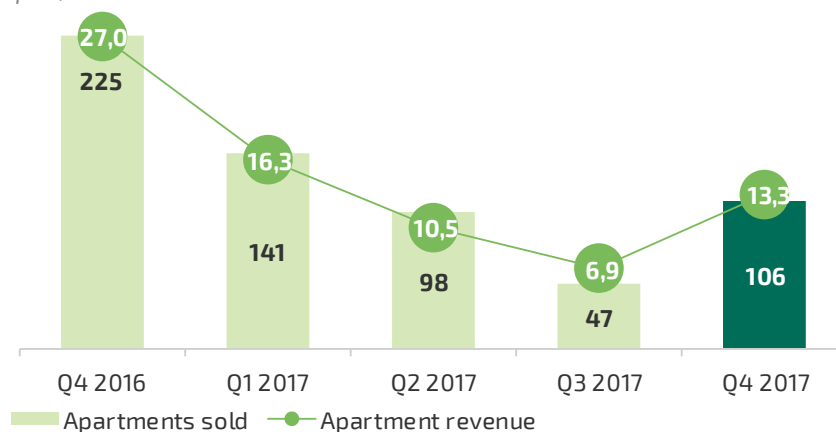
# Real Estate Development – Apartments

## Demand for Merko apartments is strong

- ❑ 392 apartments (incl. 17 in joint venture) sold for EUR 47m in 12M (12M 2016: 493, incl. 21 in joint venture, for EUR 57m). In addition, there are 311 pre-sale agreements signed as of 31.12.2017 (220 on 31.12.2016).
- ❑ Construction of 496 apartments launched during 12M 2017 (12M 2016: 344) and EUR 48m invested in apartment construction (12M 2016: EUR 54m).
- ❑ New land plots for real estate development acquired in amount of EUR 9m (EUR 19m in 2016), including:
  - ❑ Land plot in Riga in Q1 2017 for development of approx. 350 apartments;
  - ❑ Land plot in Tallinn in Q3 2017 (Paekalda) for development of more than 1,000 apartments (including land plots owned earlier at the same location).
- ❑ 317 apartments on active sale without pre-sale agreements, of which 45% in Estonia.
- ❑ During 12M 2017, sale of non-strategic land plots for EUR 5,2m in Estonia (12M 2016: EUR 9,2m).
- ❑ Solid land plot portfolio of EUR 64m in the end of 2017 (31.12.2016: EUR 63m).

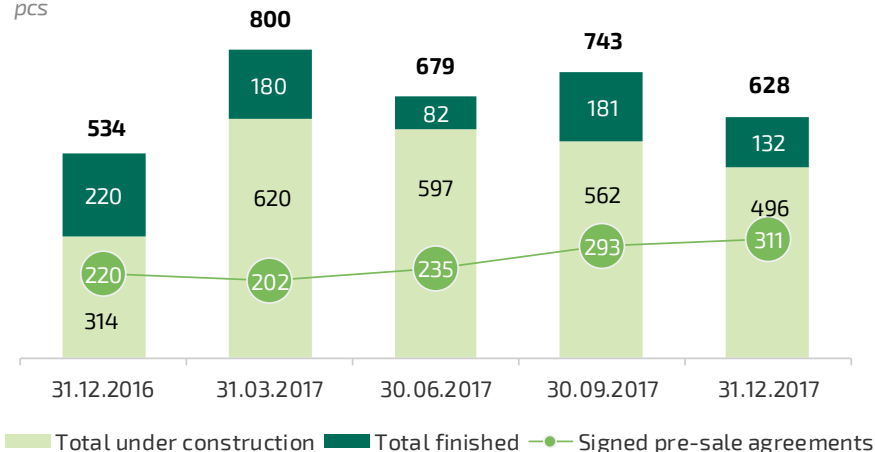
### APARTMENTS SOLD AND APARTMENT REVENUE

pcs / in million euros



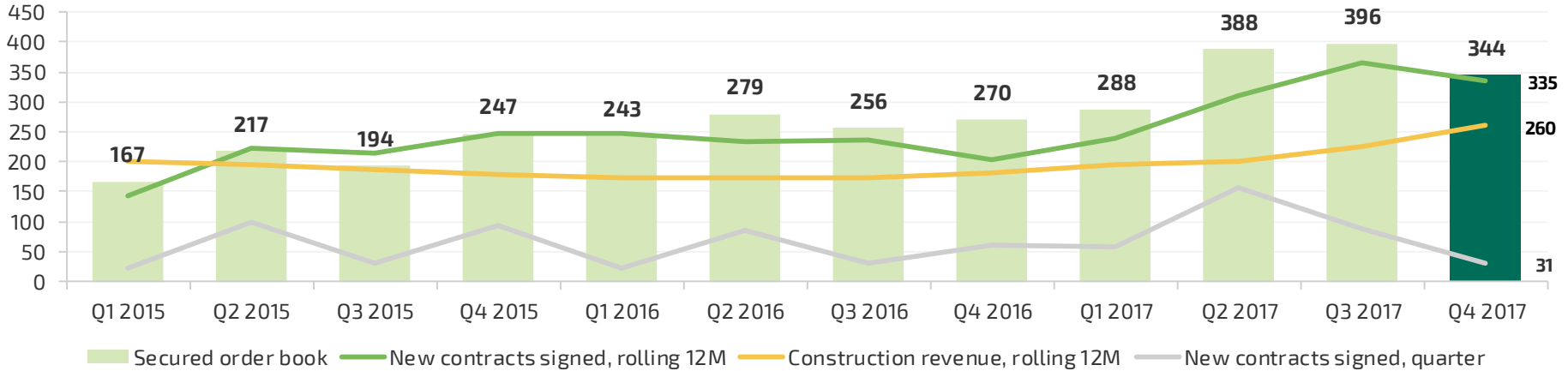
### GROUP APARTMENTS INVENTORY

pcs



## SECURED ORDER BOOK

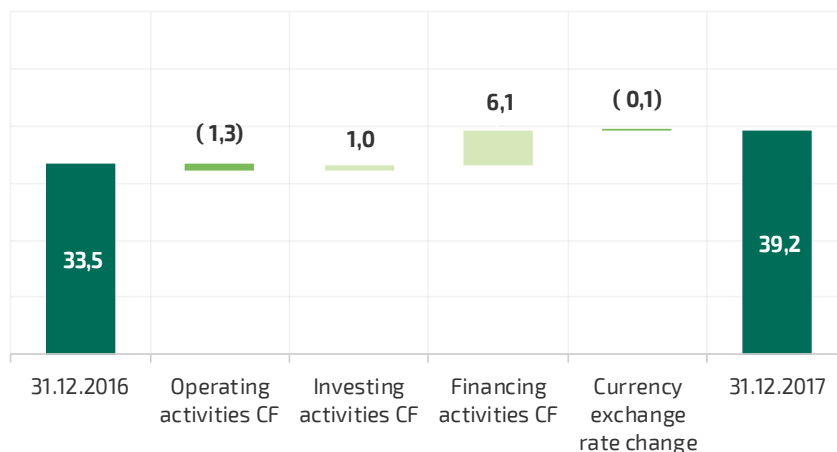
in million euros



- ❑ Secured order book strong at EUR 344m (31.12.2016: EUR 270m), +28% y-o-y.
- ❑ A very good level of new contracts in Latvia.
- ❑ Private sector orders from projects in progress constitute approximately 86% (31.12.2016: 70%)
- ❑ Total new contracts signed during 12M 2017: EUR 335m (12M 2016: EUR 202m)

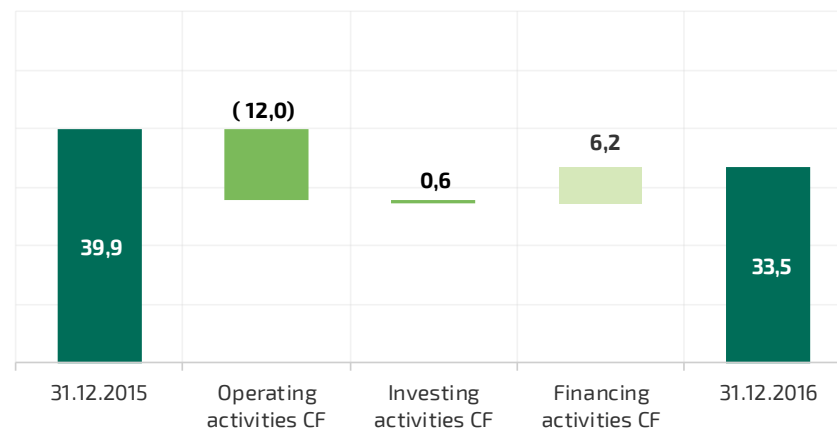
## CHANGE IN CASH AND CASH EQUIVALENTS

in million euros



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in million euros

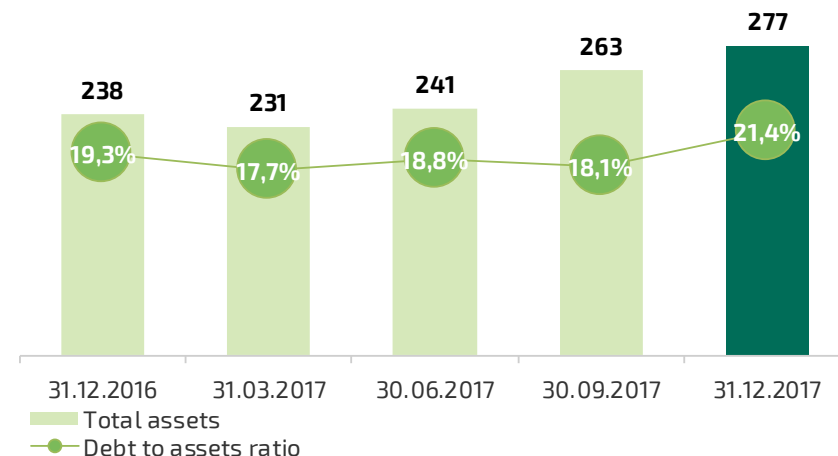


## Robust capitalization, high liquidity, low debt level

- ❑ Liquidity position maintained strong, cash at EUR 39m (31.12.2016: EUR 34m).
- ❑ Net debt amounted to EUR 20m and debt ratio at 21% (31.12.2016: EUR 13m and 19%). Group is self-funding a large proportion of its own development projects construction activities and has not used all its overdraft facilities.
- ❑ Current assets are at 2.2x current liabilities (31.12.2016: 2.9x).
- ❑ Equity at 47% (31.12.2016: 52%).

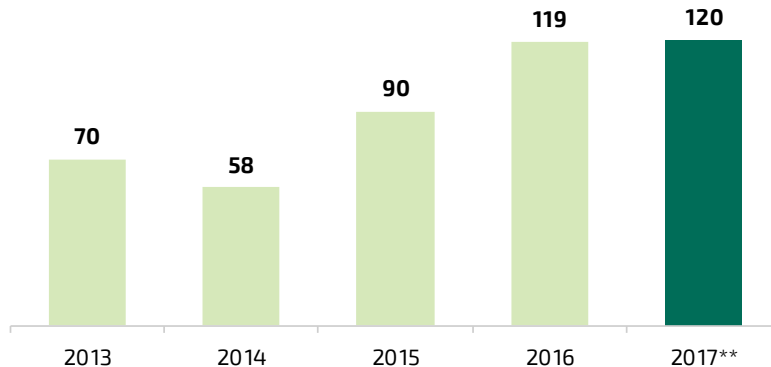
## TOTAL ASSETS AND DEBT TO ASSETS RATIO

in million euros / percentages

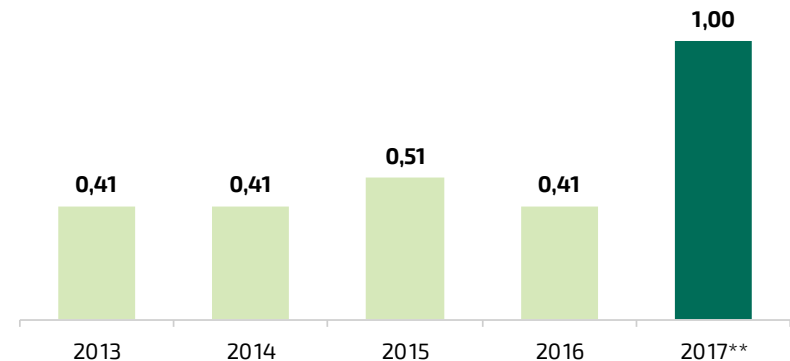




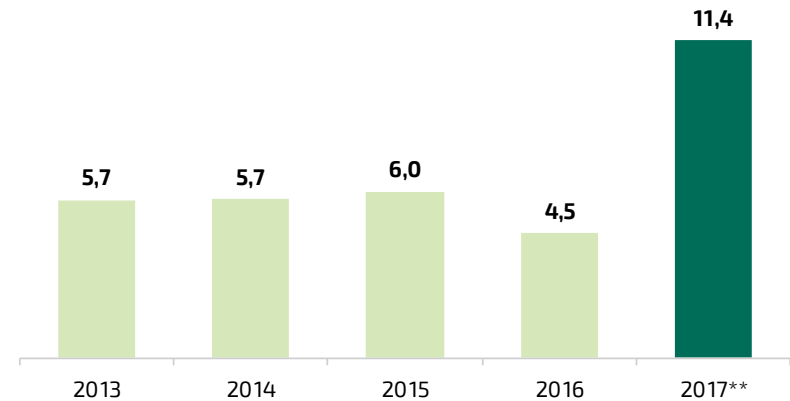
**DIVIDEND RATE**  
percentages



**DIVIDEND PER SHARE**  
in euros



**DIVIDEND YIELD \***  
percentages



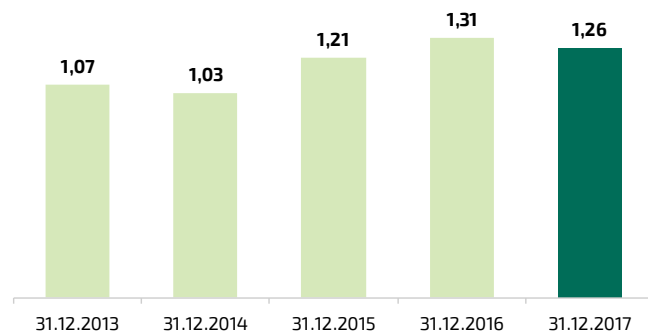
**The Management Board proposes to pay a total amount of EUR 17.7m as dividends (EUR 1.0 per share) in 2018**

- 2017 dividend rate of 120% and yield\* 11.4%.
- To pay in excess of the financial target of 50-70%, is reflecting the following factors:
  - Group's high equity ratio and moderate debt ratio
  - Low margins in construction sector, hampering group's overall profitability and return on equity

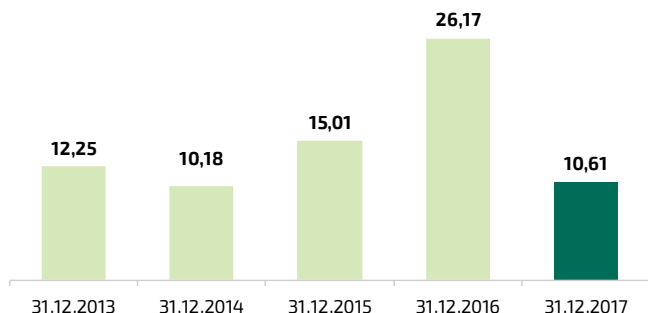
\* Using share price as at 31.12

\*\* 2017 figures based on Management Board proposal

P/B RATIO  
times



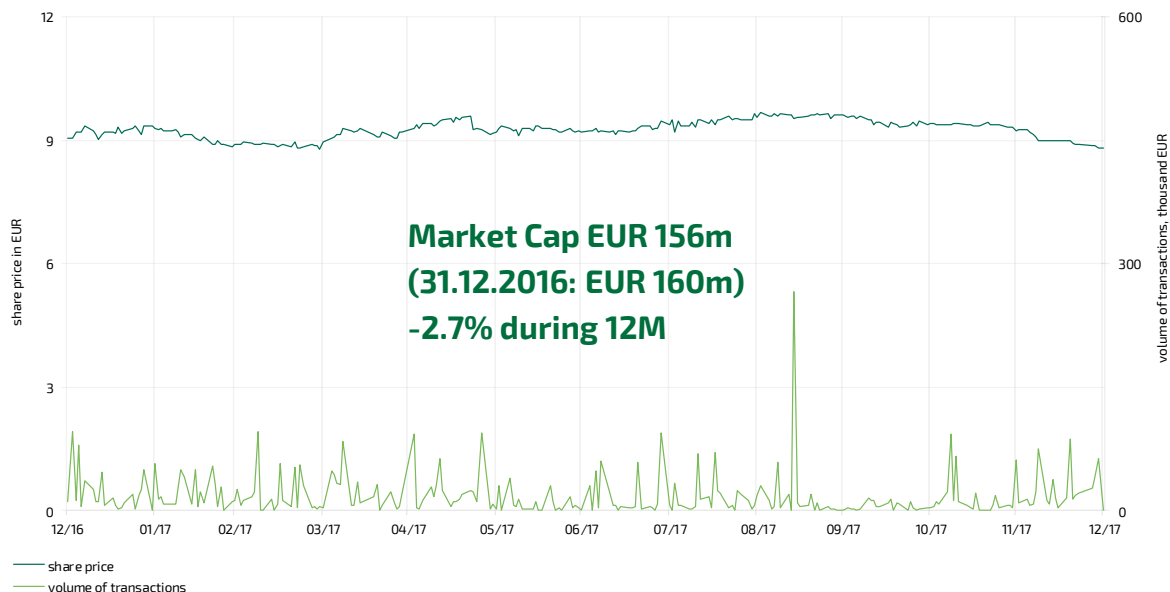
P/E RATIO  
times



**2017:** 2,203 transactions, turnover  
EUR 4.7 million (2016: 2,312; EUR 5.4m)

**31.12.2017 (31.12.2016):**  
2,040 shareholders (1,813)  
Market value EUR 156m (EUR 160m)

# Stock Exchange Overview

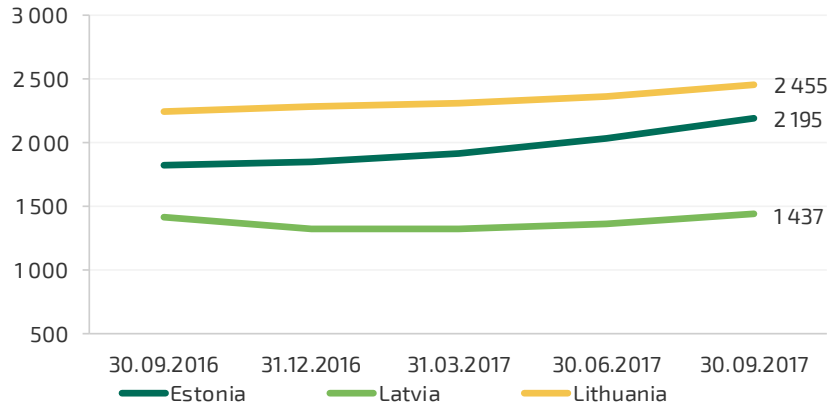


Shareholders	Number of shares	% of total 31.12.2017	% of total 30.09.2017	Variance
AS Riverito	12 742 686	71,99%	71,99%	-
ING Luxembourg S.A. AIF Account	974 126	5,50%	5,50%	-
Firebird Republics Fund Ltd	363 094	2,05%	2,05%	-
SEB S.A. UCITS client assets	232 222	1,31%	1,31%	-
Firebird Aurora Fund Ltd	220 519	1,25%	1,25%	-
Skandinaviska Enskilda Banken AB, Swedish customers	211 260	1,19%	1,19%	-
OÜ Midas Invest	163 025	0,92%	0,71%	37 500
State Street Bank and Trust Omnibus Account at Fund No OM01	153 018	0,86%	0,86%	-
SEB Elu- ja Pensionikindlustus AS	143 887	0,81%	0,81%	-
Firebird Fund L.P.	131 331	0,74%	0,74%	-
<b>Total largest shareholders</b>	<b>15 335 168</b>	<b>86,64%</b>	<b>86,43%</b>	<b>37 500</b>
Total others shareholders	2 364 832	13,36%	13,57%	(37 500)
<b>Total</b>	<b>17 700 000</b>	<b>100%</b>	<b>100%</b>	-

# Baltics' Construction Market

**BALTIC STATES CONSTRUCTION MARKETS (WITH OWN FORCES)  
ROLLING 12 MONTHS**

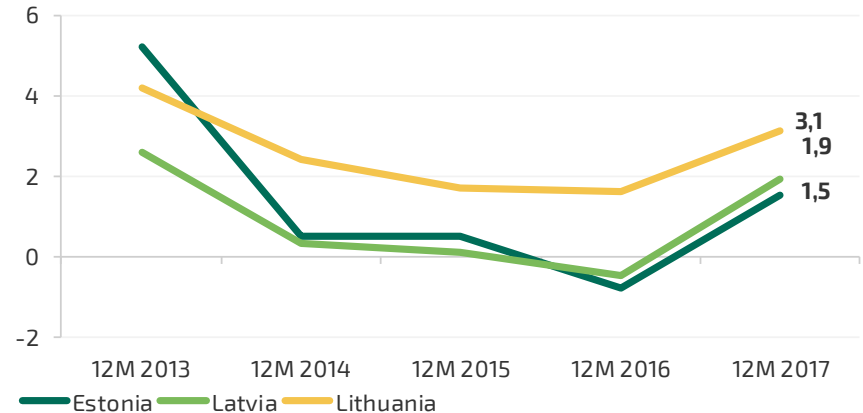
in million euros



Source: Local national statistical offices

**12 MONTHS CHANGE IN CONSTRUCTION PRICE INDEX**

percentages

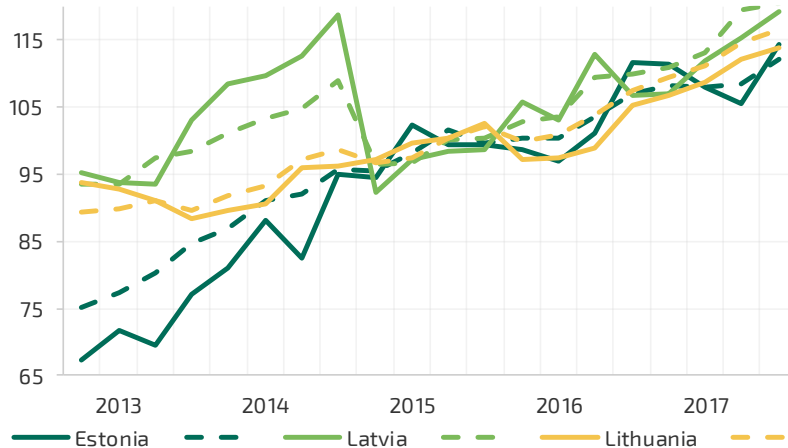


Source: Local national statistical offices

- ❑ **Estonia:** Housing construction remains active; development pace of commercial buildings is stabilising. Public procurements for buildings at a moderate pace. New road and infrastructure procurements have been launched.
- ❑ **Latvia:** construction volumes still weaker and growth slower than in the other two Baltic states; a number of construction procurements for business sector and public sector buildings are in progress. Several large-scale engineering works are still being planned, including railway infrastructure construction.
- ❑ **Lithuania:** demand for new commercial buildings is stabilising. Many new industrial and logistics buildings planned in the private sector. In public sector, procurements for buildings are being prepared. Bidding competition among general contractors is quite stiff.
- ❑ **Norway:** market is moderately active. Market activity varies by region. Large-scale public sector investments into infrastructure are planned.



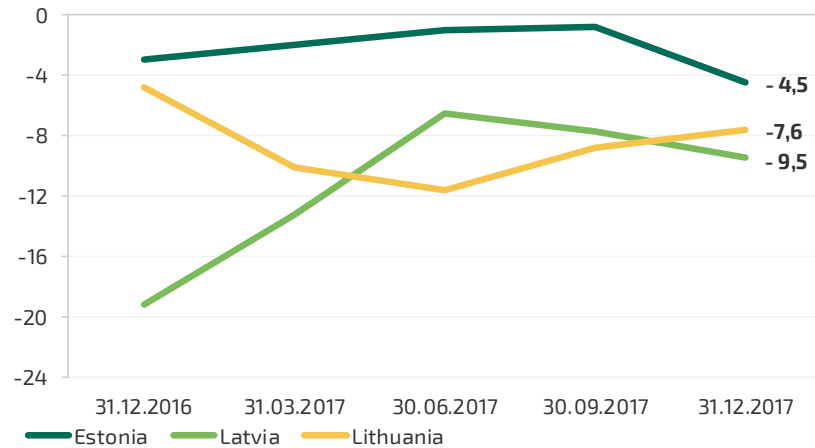
**NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX (2015=100)**



Source: Eurostat

**CONSUMER CONFIDENCE INDICATOR**

*difference between percentages of pos. and neg. responses*



Source: European Commission Directorate-General for Economic and Financial Affairs

- ❑ The rate of growth in Tallinn and Vilnius apartment markets is settling down, apartment market in Riga is characterised by lower activity level.
- ❑ The price rise seen in new developments tends to be tapering off in Estonia, but there is still an upward trend in all three Baltic states.
- ❑ The macroeconomic environment is still favourable for apartment buyers – economic growth has sped up, incomes and savings are increasing, loan interest rates are still low and bank loans available
- ❑ On the Norwegian housing market, price correction and lengthening of sales periods has taken place since spring 2017 after the rapid price rise of recent years.

## Estonian construction service

- ❑ Close cooperation with private customers
- ❑ Road and other infrastructure tenders
- ❑ Internal efficiency

## Other home markets construction service

- ❑ In Latvia, selective participation in tenders of buildings segment. Risk management of large projects
- ❑ In Lithuania, continuous focus on foreign customers; selectively increasing participation in the public procurement sphere
- ❑ In Norway, renovation works remain in focus, but also developing general contracting capability for construction of new buildings as the basis for revenue growth

## Real estate development

- ❑ Central business area
- ❑ Focus on keeping sufficient portfolio of land plots to ensure stable inventory of property development objects
- ❑ In 2018, plans to invest more than EUR 50m to apartment developments



Multifunctional Centre Akropole (2019) in Latvia

# AS Merko Ehitus Group in Brief



**AS Merko Ehitus is a construction and real estate development group operating in Estonia, Latvia, Lithuania and Norway**

## BUSINESS SEGMENTS

### ESTONIA

- General construction
- Civil engineering
- Electrical construction
- Road construction
- Residential real estate development and investments

### LATVIA

- General construction
- Civil engineering
- Electrical construction
- Residential real estate development and investments

### LITHUANIA

- General construction
- Residential real estate development and investments

### NORWAY

- General construction

**The construction company with the largest equity in the Baltics**, long-term capability to self-finance its projects

**A strong position on the Baltic construction market**, the leading residential real estate developer

International quality, environmental protection and occupational safety **certificates ISO 9001, ISO 14001, OHSAS 18001**

## SHARES

The shares are listed in the Main List of NASDAQ Tallinn since 1997.

The main shareholder is AS Riverito (**72%**)

## 2017 KEY FIGURES

Revenue **318 million** EUROS

Net profit **15 million** EUROS

**755** employees





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