

# AS MERKO EHITUS

## 12 months and Q4 2018 interim report

14 February 2019



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*Pärnu mnt 22 office building in Tallinn*



## Merko Ehitus 2018 sales revenue above EUR 400 million

- ❑ Q4 2018 revenue EUR 119m and in 12M EUR 418m, up 32% compared to 12M 2017
- ❑ More than half of revenue (52%) in 12 months earned outside Estonia; greatest growth in Latvia, supported by large contracts in progress
- ❑ Net profit of 2018 Q4 at EUR 7.0m and in 12M EUR 19.3m
- ❑ Secured order book at EUR 229m
- ❑ In Q4 2018 227 apartments sold, in 12M 2018 482 apartments sold
- ❑ The group continued to implement its long-term apartment development strategy by investing a total of EUR 38m in this field, including EUR 3m in new land plots.
- ❑ In 12 months eleven new development projects with 1032 apartments were started



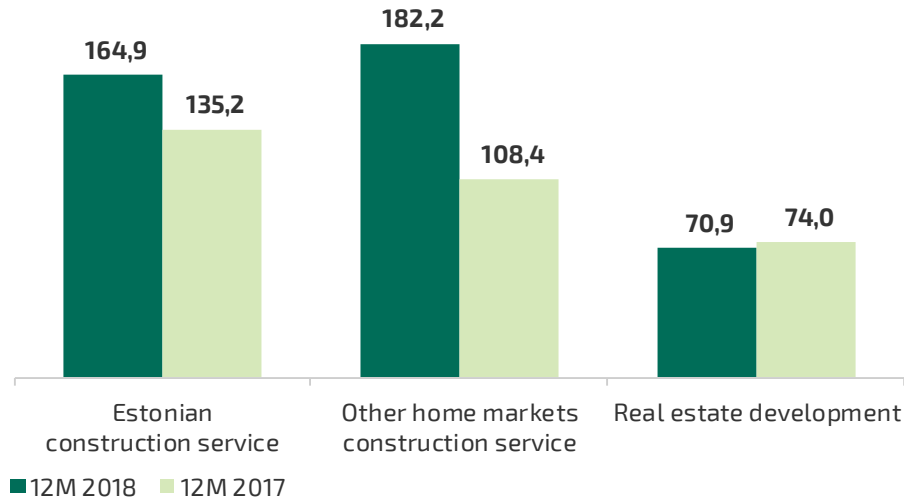
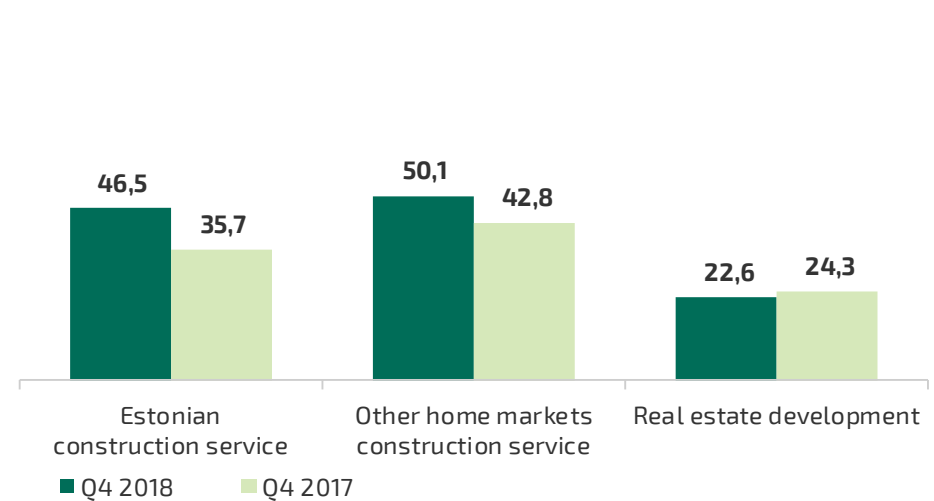
*Viimsi state upper secondary school*

# Merko Group Key Financial Highlights

<i>EUR million</i>	<b>12M 2018</b>	<b>12M 2017</b>	<b>Variance*</b>	<b>Q4 2018</b>	<b>Q4 2017</b>	<b>Variance*</b>
Revenue	<b>418.0</b>	317.6	+31.6%	<b>119.2</b>	102.8	+16.0%
EBITDA	<b>21.9</b>	22.2	-1.5%	<b>7.6</b>	11.2	-32.6%
EBITDA margin (%)	<b>5.2</b>	7.0		<b>6.3</b>	10.9	
Operating profit	<b>19.9</b>	19.5	+1.7%	<b>7.0</b>	10.7	-35.2%
Operating profit margin (%)	<b>4.8</b>	6.2		<b>5.8</b>	10.4	
Profit before tax	<b>19.8</b>	18.8	+5.3%	<b>7.1</b>	10.6	-32.5%
Net profit, attributable to equity holders of the parent	<b>19.3</b>	14.7	+31.6%	<b>7.0</b>	8.1	-13.5%
Earnings per share (EPS), in euros	<b>1.09</b>	0.83	+31.6%	<b>0.40</b>	0.46	-13.5%
Secured order book	<b>229.0</b>	344.4	-33.5%	<b>229.0</b>	344.4	-33.5%
Employees as at 31 December	<b>764</b>	757	+0.9%	<b>764</b>	757	+0.9%

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

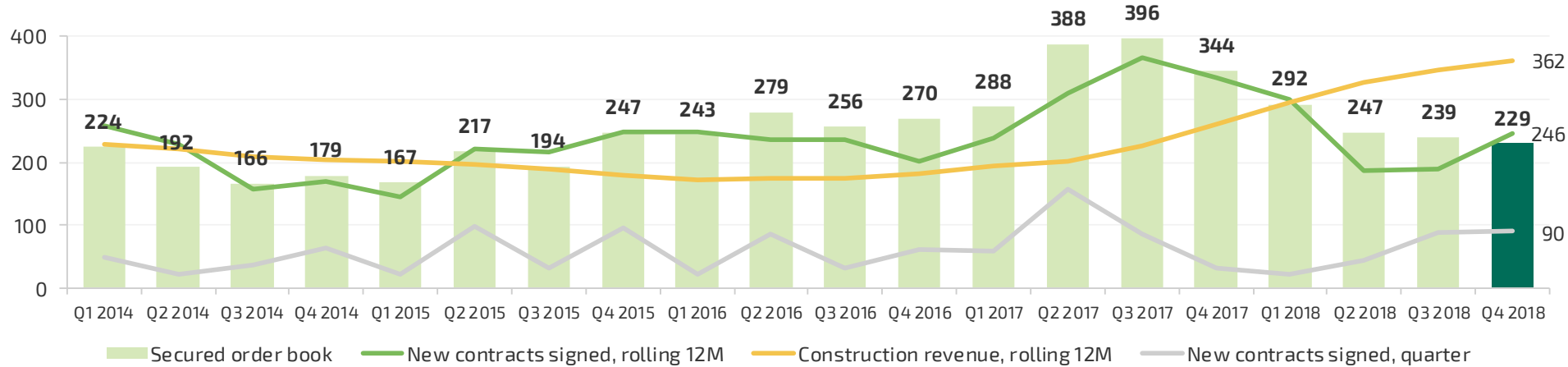
# Construction Service

**GROUP 12 MONTHS' REVENUE BY SEGMENTS**
*in million euros*

**GROUP QUARTERLY REVENUE BY SEGMENTS**
*in million euros*


- ❑ Group's revenue increased in all Baltic countries, doubling in Latvia
- ❑ Growth in revenue was supported by several major ongoing projects in Latvia and Estonia
- ❑ Problems of availability of building design and subcontracting resources exacerbated risks related to on-time completion of construction and financial risks
- ❑ Profitability of fixed price contracts under pressure due to increase in construction input prices
- ❑ Group participates in procurements for such objects where the risk-reward ratio matches our goals
- ❑ Rise in construction prices is slowing growth in the volume of new orders on the market

## SECURED ORDER BOOK

in million euros



- ❑ Secured order book EUR 229m (31.12.2017: EUR 344m).
- ❑ Private sector orders from projects in progress constitute 70% (31.12.2017: 86%)
- ❑ Total new contracts signed during 12M 2018: EUR 246m (12M 2017: EUR 335m)
- ❑ Launch of new commercial real estate projects is being slowed by the large volume of retail and office space accruing in recent years and the more complicated financing conditions

# Real Estate Development

## Group's central business line

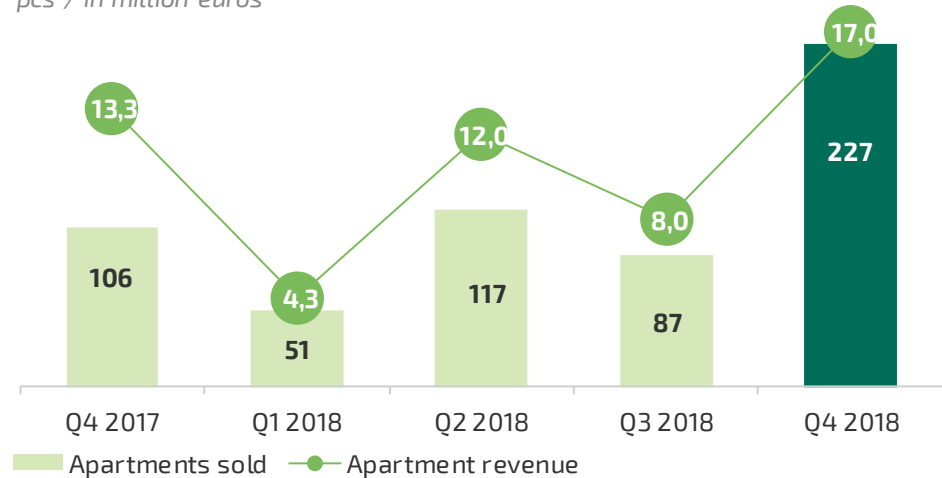
- ❑ 482 apartments, incl. 131 in joint venture, sold in 12M 2018 (12M 2017: 392, incl. 17 in joint venture)
- ❑ Revenue from sale of own developed apartments EUR 41m in 12M 2018 (12M 2017: EUR 47m)

In addition, there were 193 pre-sale agreements signed as of 31.12.2018 (311 on 31.12.2017)

- ❑ Construction of 1032 apartments launched during 12M 2018 (12M 2017: 496) and EUR 35m invested in apartment developments (12M 2017: EUR 48m)
- ❑ As of 31.12.2018, 989 apartments on active sale without pre-sale agreements, of which 12% completed
- ❑ Land plot acquisitions for EUR 3.0m in 12M 2018 (12M 2017: EUR 9.2m)
- ❑ Land plot portfolio of EUR 55m (31.12.2017: EUR 64m):
  - Estonia EUR 27m
  - Latvia EUR 27m
  - Lithuania EUR 1m

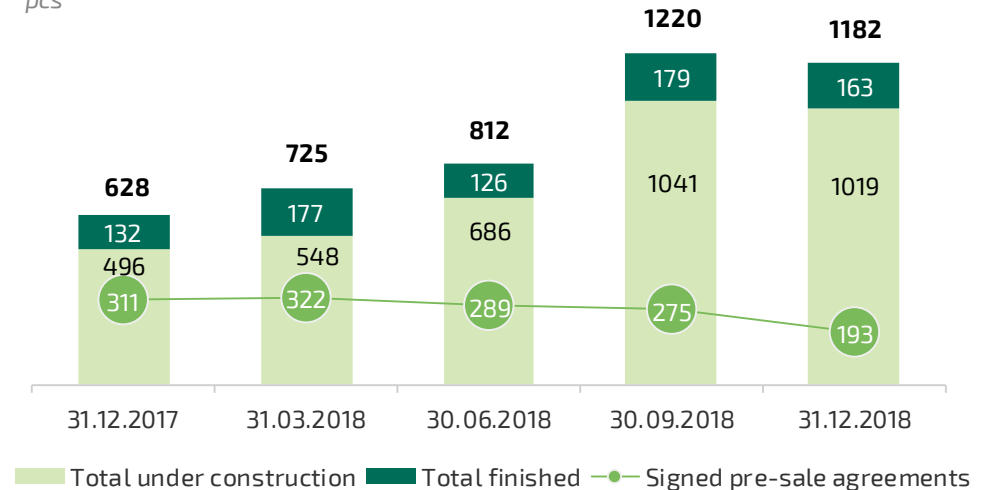
### APARTMENTS SOLD AND APARTMENT REVENUE

pcs / in million euros



### GROUP APARTMENTS INVENTORY

pcs



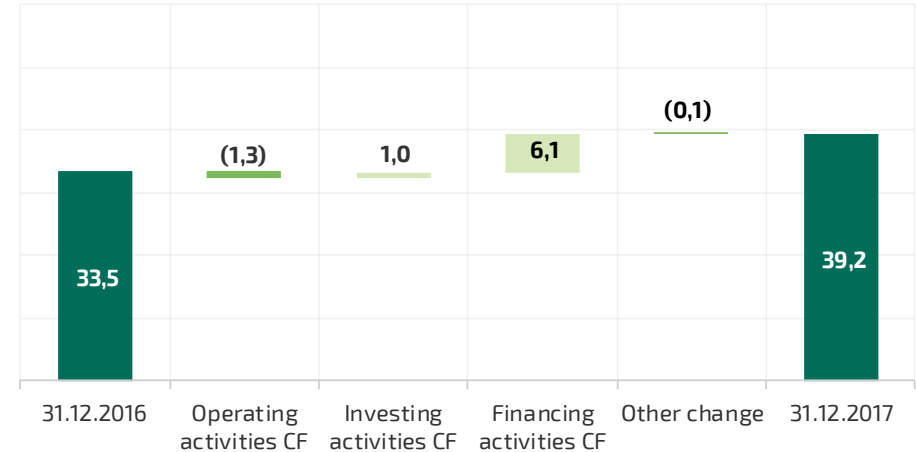
## CHANGE IN CASH AND CASH EQUIVALENTS

in million euros



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in million euros

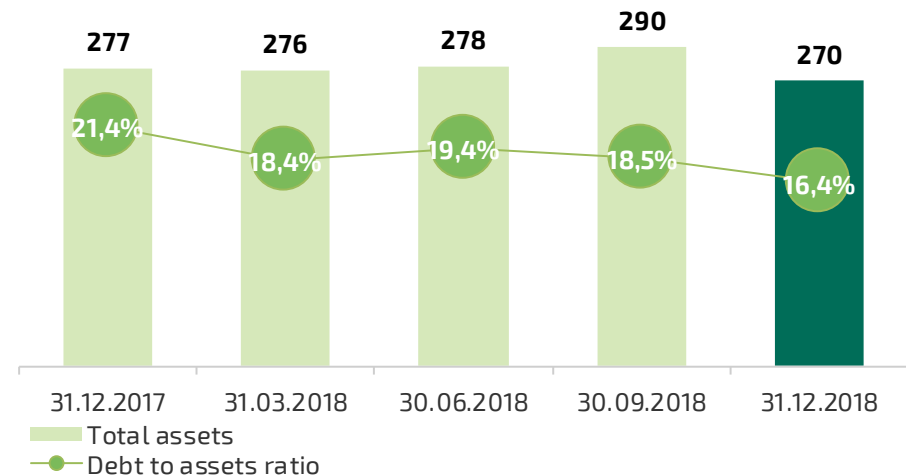


## Robust capitalization, high liquidity, low debt level

- ❑ Liquidity position maintained strong, cash at EUR 40m as at 31.12.2018 (31.12.2017: EUR 39m).
- ❑ Net debt amounted to EUR 4m and debt ratio at 16% (31.12.2017: EUR 20m and 21%). 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 (31.12.2017: 2.2x).
- ❑ Equity ratio at 49% (31.12.2017: 47%).

## TOTAL ASSETS AND DEBT TO ASSETS RATIO

in million euros / percentages



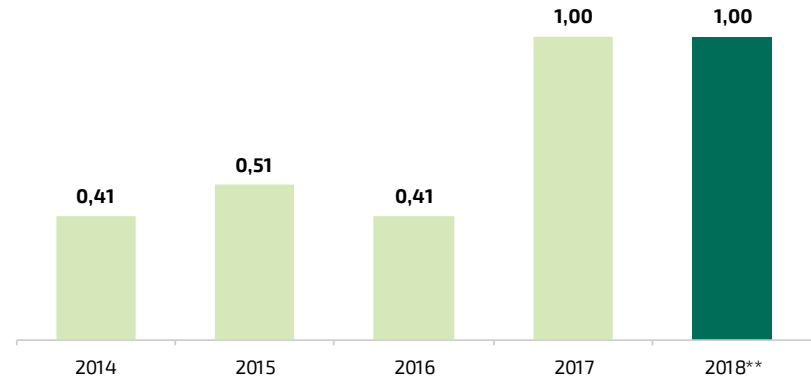


**The Management Board proposes to pay a total amount of EUR 17.7m as dividends (EUR 1.0 per share) in 2019**

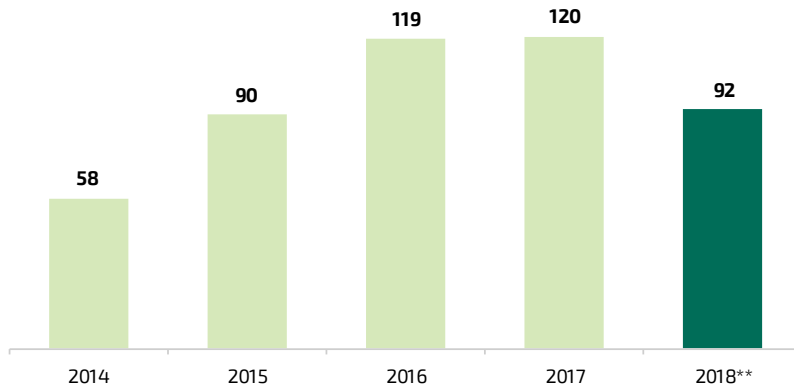
Based on Management Board proposal:

- 2018 dividend rate 92%
- 2018 dividend yield 10.9%  
(using share price of 9.20 euros as at 31.12.2018)

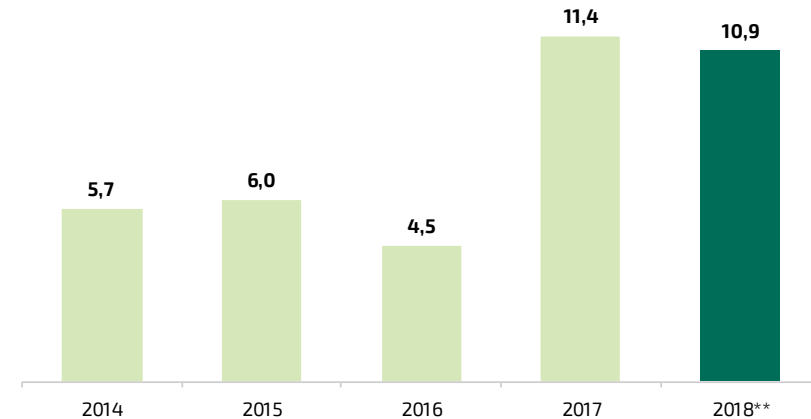
DIVIDEND PER SHARE  
in euros



DIVIDEND RATE  
percentages



DIVIDEND YIELD\*  
percentages

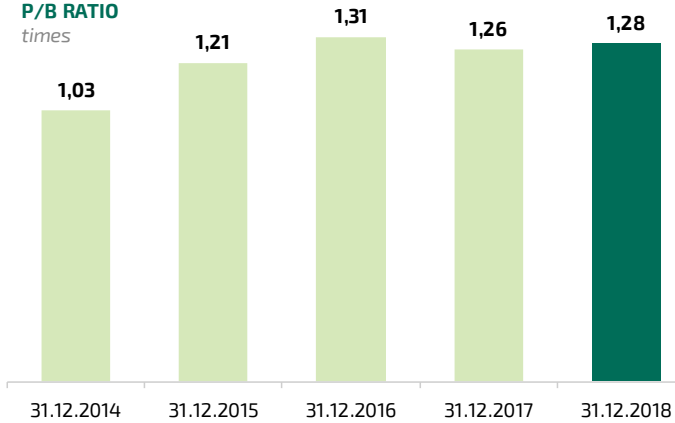


\* Using share price as at 31 December

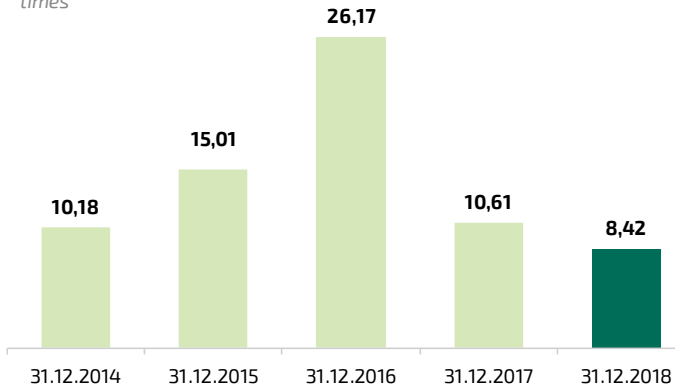
\*\* 2018 figures based on Management Board proposal

# Stock Exchange Overview

**P/B RATIO**  
times



**P/E RATIO**  
times



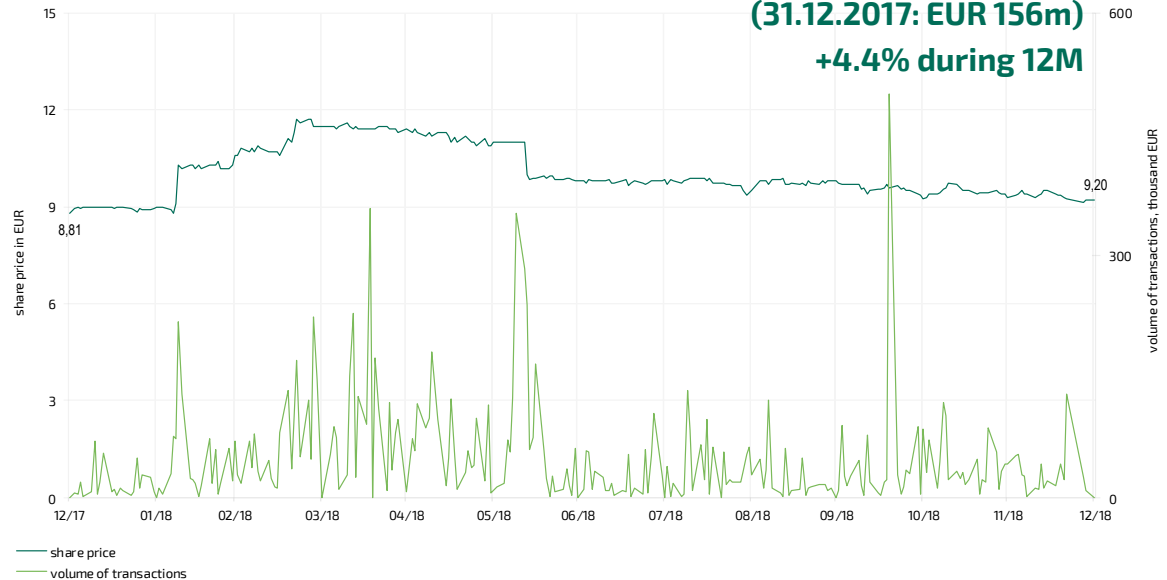
**12M 2018:** 4,299 transactions, turnover  
EUR 12.2 million  
(12M 2017: 2,203; EUR 4.7m)

**31.12.2018 (31.12.2017):**  
2,664 shareholders (2,040)

**Market Cap as at 31.12.2018: EUR 163m**

**(31.12.2017: EUR 156m)**

**+4.4% during 12M**



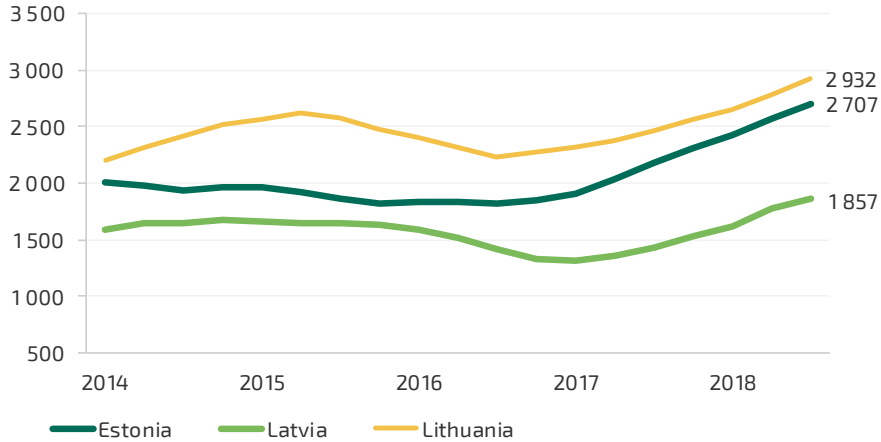
## Shareholders

	Number of shares	% of total 31.12.2018	% of total 30.09.2018	Variance
AS Riverito	12,742,686	71.99%	71.99%	-
ING Luxembourg S.A. AIF Account	670,695	3.79%	3.87%	(14,710)
Firebird Republics Fund Ltd	363,094	2.05%	2.05%	-
Firebird Avrora Fund Ltd	222,419	1.26%	1.26%	-
OÜ Midas Invest	210,680	1.19%	1.09%	18,180
SEB S.A. UCITS client assets	206,562	1.16%	1.31%	(24,431)
Skandinaviska Enskilda Banken AB, Swedish customers	159,559	0.90%	0.90%	-
State Street Bank and Trust Omnibus Account at Fund No OM01	153,018	0.87%	0.87%	-
SEB Elu- ja Pensionikindlustus AS	142,887	0.81%	0.81%	(1,000)
Firebird Fund L.P.	131,331	0.74%	0.74%	-
<b>Total largest shareholders</b>	<b>15,002,931</b>	<b>84.76%</b>	<b>84.89%</b>	<b>(21,961)</b>
Total others shareholders	2,697,069	15.24%	15.11%	21,961
<b>Total</b>	<b>17,700,000</b>	<b>100%</b>	<b>100%</b>	<b>-</b>

## BALTIC STATES CONSTRUCTION MARKETS (WITH OWN FORCES)

### ROLLING 12 MONTHS

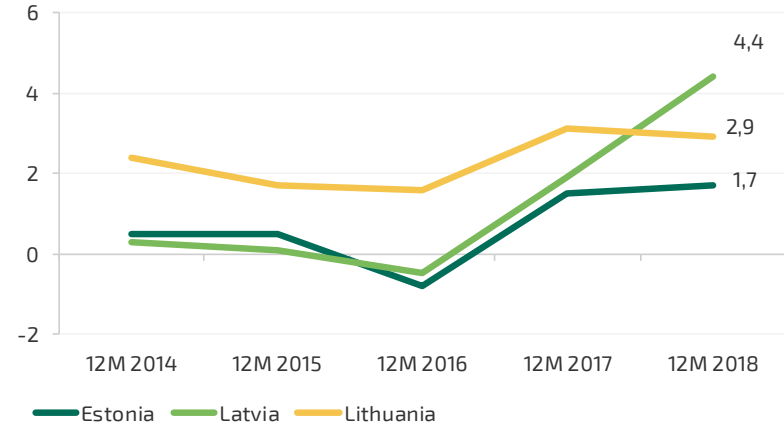
in million euros



Source: Local national statistical offices

## 12 MONTHS CHANGE IN CONSTRUCTION PRICE INDEX

percentages

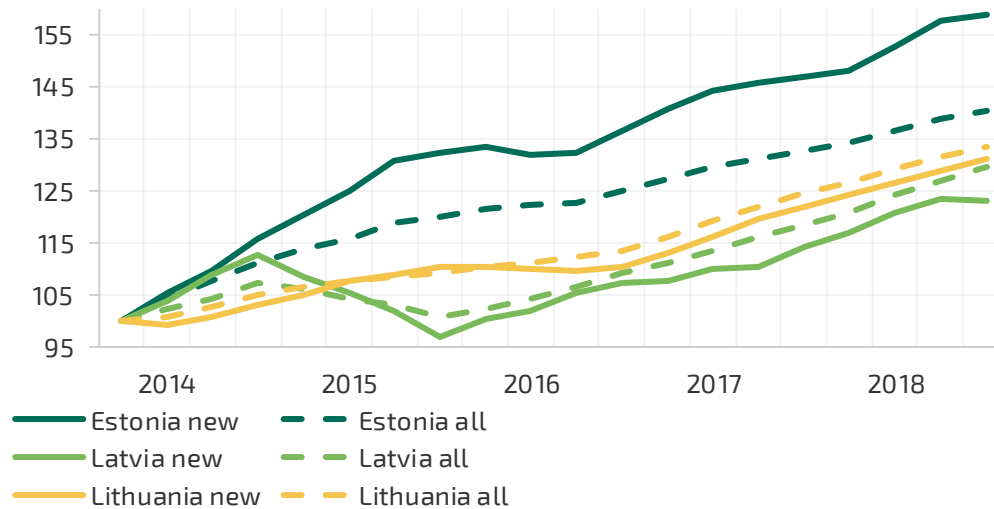


Source: Local national statistical offices

- ❑ In Estonia, construction volumes outstripped the booming years' peak in 2007 by about one-tenth; some caution is called for in regard to further developments
- ❑ Rapid growth in Latvia and Lithuania, but volumes lower by some one-quarter compared to the peak of previous booming years; compared to Estonia, more room for additional growth
- ❑ Last few years have been a highly active time in the Baltic construction sector: acute problem of finding sufficient number of high-quality subcontractors, prices rising
- ❑ Dynamics of public sector demand continues to be an important issue in the longer perspective, including the volume and timing of construction works related to Rail Baltica

## NEW AND ALL (dotted line) DWELLINGS QUARTERLY HOUSE PRICE INDEX

(4 QUARTER ROLLING AVERAGE) (2013=100)



- ❑ In Estonia, the number of permits for use issued for new residential units reached the level seen at the peak of the boom era
- ❑ In Lithuania, more use permits have been issued for new housing than at the height of 2008 for couple of years already
- ❑ Development sector in Latvia remains stable – no such major growth as in Estonia and Lithuania
- ❑ Clear trend of rising apartment prices in all three Baltic states; prices have risen at the same pace with personal incomes, so it does not in itself pose a risk to the general economic environment
- ❑ Supply of new apartments has increased: price level has stabilized and sales periods somewhat longer
- ❑ Success is defined by quality, location and the cohesiveness of the development area

## Construction for clients:

- ❑ Managing risks of large objects
- ❑ Preferred partner for private customers who value reliability and quality
- ❑ Clearer focus on construction tenders, efficiency of bidding resources
- ❑ Internal efficiency and cost savings, incl. with the help of technology. Expanding the usage area of building information modeling (BIM).
- ❑ Flexibility also to construct smaller objects
- ❑ Construction tenders for infrastructure facilities

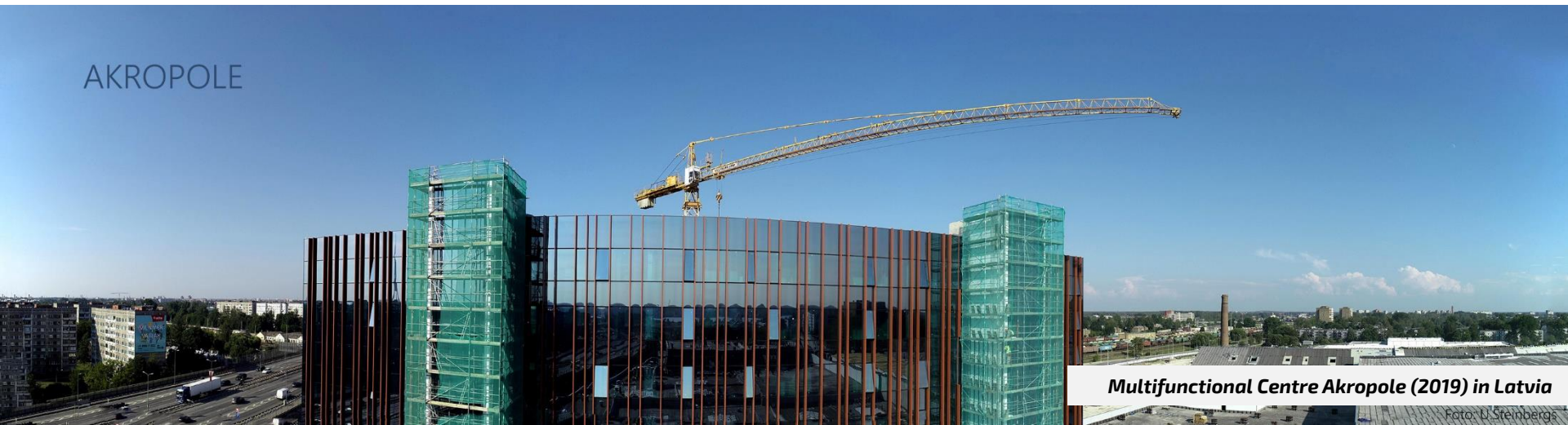
## Development of residential real estate:

- ❑ Selling the best apartments of their price range: to cover different segments. Product development, based on pricing
- ❑ Focus on the capitals of the Baltic states
- ❑ Integral development concept for large development areas
- ❑ Launch 650-700 new apartments a year and invest around EUR 60m, depending on receiving building permits

## To retain liquidity:

- ❑ Covering the needs of the construction service, ensuring investment capability

AKROPOLE



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%**)

## 2018 KEY FIGURES

Revenue **418.0 million** euros

Net profit **19.3 million** euros

**764** employees



**Andres Trink**

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