

# Merko Ehitus AS

**MRK1T.TL**

Market cooling off, Order book down by 38%

Industrials | Estonia

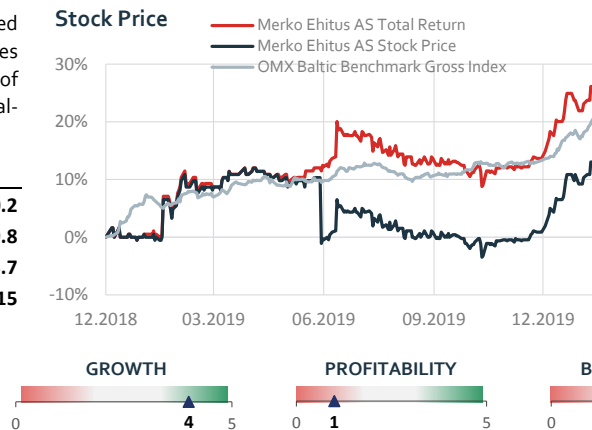
Merko Ehitus AS is an Estonia-based construction company. Through its subsidiaries the Company focuses on construction of buildings, facilities and roads, as well as real-estate development.

## Market data

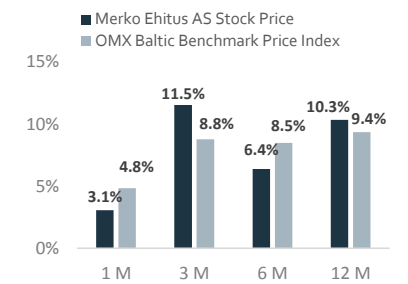
Price (€)	<b>10.2</b>
Market cap (mn €)	<b>179.8</b>
Free float (%)	<b>25.7</b>
Avg. daily volume - 30 days ('000 €)	<b>5.515</b>

## Alphinox Quantitative score

Score displays Company's financial conditions, growth pace and valuation based on latest results and stock price



## Stock Return



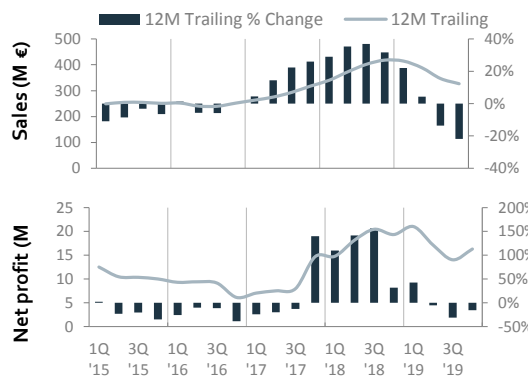
## Company Update

Q4 2019 revenue declined by 17% y/y to EUR 99m, while the full-year revenue was down by 22% y/y to EUR 327m. The decline came as expected as markets are cooling off after strong 2018 and the absence of large projects comparing to 2018 (construction of very large shopping centers in Tallinn and Riga) was also a factor. Main business indicator - secured orders - was down to EUR 141m, a 38% decline comparing to the figure a year ago. Fewer commercial real estate sites are being built because the competition is stiffer, construction prices have risen and financing conditions have become more complicated. Surprisingly that in spite of the significantly lower revenue, the company was able to improve operating profitability, citing "a more precise selection of construction projects and the team's effectiveness". Operating profit for 2019 declined by 3.2%, but the Operating margin increased to 5.9% (+110bps). However, FY Net profit declined by 16%, affected mainly by a significant increase in income tax expense (due to dividends paid in 2Q 2019).

## Growth

Sales	last Q	LTM	2018	2017
Company (M €)	99.2	327	418	318
Company	-17%	-22%	-5.8%	-11%
Sector*	1.7%	3.0%	1.7%	-0.8%
Baltic Market	1.5%	4.1%	7.7%	1.6%

Profit	last Q	LTM	2018	2017
Company (M €)	9.3	16.3	19.3	14.7
Company	32%	-16%	-18%	-19%
Sector*	-1.2%	-13%	-46%	-20%
Baltic Market	20%	-1.0%	5%	8%

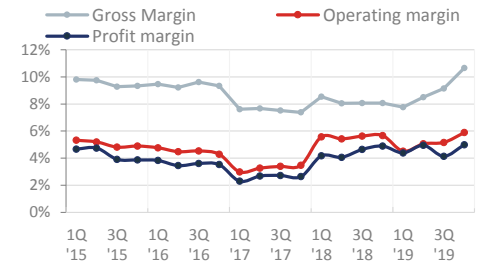
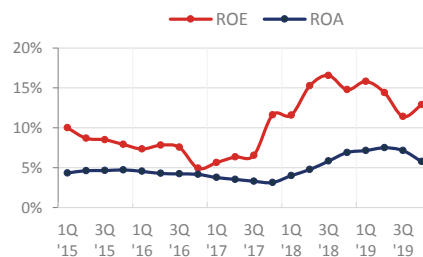


## Key performance indicators

	4Q '19	4Q '18
Secured Order Book, mn eur	141	229
		-38%
New contracts signed, mn eur	42	89
		-53%
Apartments under construction	859	1019
		-16%
Apartments sold	276	227
		+22%

## Profitability

Last 12M	ROE	ROA	GM	OPM	PM
Company	12.9%	5.8%	10.7%	5.9%	5.0%
Sector*	6.6%	2.5%	30.2%	1.4%	0.1%
Baltic Market	4.5%	1.8%	18.7%	2.7%	1.9%
3y average	ROE	ROA	GM	OPM	PM
Company	11.9%	5.2%	8.2%	4.7%	3.9%
Sector*	5.0%	2.4%	30.5%	2.3%	1.0%
Baltic Market	8.6%	4.1%	19.6%	4.9%	4.1%

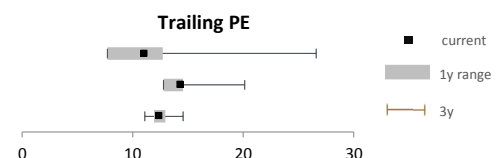


## Balance sheet & Cash flow

	last	Q-1	Q-2	Q-3	LTM	2018	2017		last	Q-1	Q-2	Q-3	LTM	2018	2017
Equity / Assets ratio	46%	39%	41%	49%	44%	49%	47%	Cash Flow to Debt	-19%	5%	1%	77%	16%	76%	-2%
Debt / Equity ratio	49%	70%	53%	32%	51%	34%	46%	CAPEX / Sales	2%	1%	1%	2%	1%	1%	10%
Cash ratio	0.25	0.10	0.11	0.31	0.19	0.38	0.38	FCF/OCF	119%	-150%	-369%	97%	-76%	100%	24%

## Valuation

	Last	1y avg	3y avg		last	1y avg	3y avg	
P/E	11.0	9.9	14.1	P/B	1.42	1.34	1.37	Company
EV/EBITDA	16.9	10.0	11.3	P/CF	-14.5	110	31.3	Sector
P/S	0.55	0.45	0.51	Dvd yield	9.8%	10.4%	8.5%	Market



\*Sector: average of respective GICS sector companies from NASDAQ OMX Baltic and NASDAQ OMX Nordic small cap indices, Market: NASDAQ OMX Baltic median

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