

# Honkarakenne

## Result Comment – 4 September 2017



### SHARE

Company	Honkarakenne
Price	2,80
Price as of	31.8.2017
High/Low 12m	2,81 / 1,25

### COMPANY DATA

Market Cap. Current	17,2
EV current	21,4
No. of shares (out)	6,147
No. of shares (dil)	6,147

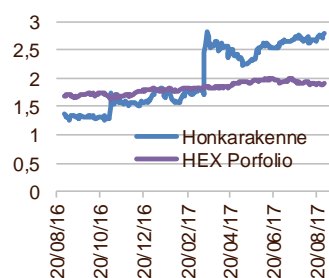
### SHAREHOLDERS

AKR-Invest	16,3 %
Saarelainen Oy	10,0 %
Norvestia	6,9 %
Nordea Small Cap	4,1 %
Freefloat	67,0 %

### STOCK DATA

Bloomberg	HONBS FH
CALENDAR	
Next report date	n.a.
AGM	7.Apr.2017

### SHARE PRICE



### ANALYST

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### Honkarakenne tapping into construction boom in Finland

1H17 report was clearly better than we expected in terms of sales, profitability and order backlog. The turnaround was due to increasing sales in Finland, which was driven by log houses for day cares, care homes for elderly and residential homes. The new main owner (AKR-Invest, Mr. Arimo Ristola) gave new equity worth of € 1.5m to the company and changed the company strategy to include more construction services into Honkarakenne's offering in Finland.

- 1H17 sales was € 17.9m vs. our estimate of € 16.1m. As Russia and Global divisions' sales were as we expected, the positive sales deviation came from almost € 2m higher than expected 1H17 sales in Finland. The sales surprise resulted in a proportionate EBIT surprise of € 1m.
- The earlier references for day care log houses yielded new orders: March 16<sup>th</sup> Honkarakenne announced 34 log day care centers worth of € 6.9m, June 29<sup>th</sup> Honkarakenne announced care home for elderly worth of € 3.3m, and August 22<sup>nd</sup> first of five day cares worth of € 2.6m. We estimate these orders to generate sales of € 2m in 2017, € 11m in 2018 and € 5m in 2019.
- Order backlog at the end of 1H17 was € 22.5m (growth of 29% yoy and 25% qoq), which clearly is higher than the typical € 16-18m during the recent three years. During the last six years only 2Q13 had higher order backlog of € 23.3m. The order backlog grew 7% yoy without the above mentioned Finnish non-residential projects indicating good residential house demand.
- Tight financing situation was resolved by the € 1.5m directed equity offering to AKR-Invest in March (1m new shares at € 1.5 per share). At the end of 1H17 equity ratio stood at 38% and net gearing at 54%, which are clearly better than 31% and 86% in 1H16. Focus is back on the business outlook.
- The new board has only 4 members, one of which, Timo Kohtamaki, has been CEO for Lemminkäinen. We think the new owner, and the new board, is focusing in tapping the potential in Finland: low interest rates has resulted a boom in the Finnish construction sector. We also think Honkarakenne has a good position in the non-residential projects (less competition than in residential houses) due to Honkarakenne's recent innovations of "modular design", "zero corner" and "non-settling log", which enable Honkarakenne to design, manufacture and construct large very demanding non-residential projects. The main argument for log are aesthetics and air quality (no mold).
- The outlook outside Finland remains as previously: Russian economy is growing and offers good business opportunities for Honkarakenne. China potential is there and Honkarakenne now has own sales employees in China. The short term potential is, however, in the hot Finnish construction sector.
- In this update we have particularly changed our estimates for the Finnish division amid the success in mold free log construction, which so far has attracted three big orders for day cares and care homes for elderly.

### Figures in €m

	2013	2014	2015	2016	2017e	2018e	2019e
Sales	48,2	45,5	39,1	36,1	<b>45,1</b>	57,8	60,6
Sales growth	4,3 %	-5,6 %	-14,1 %	-7,7 %	<b>25,0 %</b>	28,1 %	4,7 %
EBITDA	0,8	0,0	1,0	1,0	<b>3,5</b>	6,7	7,3
EBITDA margin	1,7 %	0,1 %	2,4 %	2,7 %	<b>7,7 %</b>	11,5 %	12,0 %
<b>EBIT</b>	<b>-1,7</b>	<b>-2,2</b>	<b>-1,1</b>	<b>-0,8</b>	<b>1,9</b>	<b>5,0</b>	<b>5,4</b>
EBIT margin	-3,5 %	-4,7 %	-2,7 %	-2,2 %	<b>4,2 %</b>	8,6 %	8,9 %
PTP	-1,7	-2,5	-1,6	-1,2	<b>1,9</b>	5,0	5,5
EPS	-0,25	-0,32	-0,16	-0,24	<b>0,24</b>	0,64	0,70
DPS	0,00	0,00	0,00	0,00	<b>0,05</b>	0,25	0,35
Yield	0,0 %	0,0 %	0,0 %	0,0 %	<b>1,8 %</b>	8,9 %	12,5 %
P/E	-10,9	-6,2	-9,7	-7,7	<b>11,8</b>	4,4	4,0
EV/EBIT	-13,3	-9,4	-15,5	-20,1	<b>10,3</b>	3,5	2,9
EV/EBITDA	28,3	597,3	17,2	16,4	<b>5,5</b>	2,6	2,1
EV/Sales	0,5	0,4	0,4	0,4	<b>0,4</b>	0,3	0,3
P/B	1,5	1,4	1,2	1,7	<b>1,9</b>	1,3	1,1
ROE	-13 %	-20 %	-12 %	-20 %	<b>18 %</b>	35 %	30 %
ROCE	-6 %	-9 %	-5 %	-4 %	<b>12 %</b>	27 %	25 %
Net Gearing	56 %	92 %	81 %	75 %	<b>22 %</b>	1 %	-11 %
FCF/share	-0,18	-0,28	0,28	-0,01	<b>0,29</b>	0,34	0,51

Source: Bloomberg, S-Bank (FIM)

Note: S-Bank has made an agreement with the company this study concerns according to which it receives compensation for the research service provided. S-Bank does not provide any investment recommendation for the share.

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### Deviation table

Deviation	1H17	1H17e	Actual vs.	2017e	2017e
	Actual	FIM	FIMe	FIM	Guidance
Sales	17,9	16,1	11 %	45,1	2017 sales will increase
EBITDA	0,7	-0,4	n.m.	3,5	
EBITDA-%	3,9 %	-2,2 %	6,1ppt	7,7 %	
EBIT excl. one-off items	-0,2	-1,1	82 %	1,8	
EBIT-% excl. one-off items	-1,1 %	-6,9 %	5,7ppt	3,9 %	
PTP	-0,1	-1,3	89 %	1,9	2017 pre-tax-profit
EPS	-0,08	-0,30	74 %	0,24	will increase
DPS	0,00	0,00	n.m.	0,05	

Source: S-Bank (FIM) estimates

Sales exceeded our expectation by € 1.8m due to strong sales in Finland.

EBIT was € 1.0m better than we expected, which is in line with the strong sales and ca. 50% gross margin.

### Estimate changes after the 1H17 report

Estimate revisions m€	2017e	2017e	Chg.	2018e	2018e	Chg.
	Old	New	%	Old	New	%
Sales	39,4	45,1	15 %	43,0	57,8	35 %
EBITDA	2,0	3,5	76 %	3,1	6,7	118 %
EBITDA-%	5,0 %	7,7 %	2,7ppt	7,1 %	11,5 %	4,4ppt
EBIT excl. one-off items	0,4	1,8	375 %	1,4	5,0	265 %
EBIT-% excl. one-off items	0,9 %	3,9 %	3ppt	3,2 %	8,6 %	5,4ppt
PTP	0,1	1,9	2133 %	1,1	5,0	347 %
EPS	0,01	0,24	1660 %	0,18	0,64	252 %
DPS	0,00	0,05	n.m.	0,05	0,25	400 %

Source: S-Bank (FIM) estimates

After a positive surprise from 1H17 and the increase in order backlog, we have raised our estimates as follows:

### Guidance for 2017

Guidance for 2017 is:

sales will be higher and pretax profit will be better than in 2016.

**1H17:** Honkarakenne sees 2017 net sales higher than in 2016 and pretax profit better than in 2016.

**4Q16:** Honkarakenne sees 2017 net sales higher than in 2016 and pretax profit better than in 2016.

**1-2-3Q16:** Honkarakenne sees 2016 net sales below the level of 2015 (€ 39.1m) and pretax profit excluding one-off items is also seen to be below the level in 2015 (i.e. pretax profit 2016 will be below € -0.8m).

**4Q15:** Honkarakenne sees 2016 net sales at the same level as in 2015 and pretax profit is seen to improve from 2015 due to the measures taken last year.

Source: S-Bank (FIM)

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GROUP (EURm)	2015	1Q16	2Q16	3Q16	4Q16	2016	1Q17e	2Q17e	3Q17e	4Q17e	2017e	2018e
Net sales	39,1	4,6	9,9	11,3	10,3	36,1	4,7	13,2	14,6	12,6	45,1	57,8
Grow th, y/y	-14,1 %	-20,7 %	-16,1 %	-2,6 %	4,0 %	-7,7 %	2,2 %	33,3 %	29,6 %	22,2 %	25,0 %	28,1 %
Grow th, q/q	0,0 %	-53,5 %	115,2 %	14,1 %	-8,8 %	0,0 %	-54,4 %	180,9 %	11,0 %	-14,1 %	0,0 %	0,0 %
Depreciation	-2,0	-0,5	-0,5	-0,4	-0,4	-1,8	-0,4	-0,4	-0,4	-0,4	-1,6	-1,7
<b>EBIT</b>	<b>-1,1</b>	<b>-1,8</b>	<b>-0,3</b>	<b>1,0</b>	<b>0,3</b>	<b>-0,8</b>	<b>-1,5</b>	<b>1,4</b>	<b>1,6</b>	<b>0,4</b>	<b>1,9</b>	<b>5,0</b>
EBIT margin	-2,7 %	-39,1 %	-3,0 %	8,8 %	2,9 %	-2,2 %	-31,9 %	10,6 %	10,6 %	3,4 %	4,2 %	8,6 %
Net financials	-0,5	-0,1	-0,3	-0,1	-0,1	-0,5	0,0	0,0	0,0	0,0	-0,1	-0,1
Associates profit	-0,1	0,0	0,0	0,0	0,2	0,2	0,0	0,0	0,0	0,1	0,1	0,2
PTP	-1,6	-1,9	-0,6	0,9	0,4	-1,2	-1,5	1,4	1,5	0,5	1,9	5,0
Taxes	0,6	0,0	0,0	-0,2	0,0	-0,3	0,0	-0,3	-0,3	-0,1	-0,4	-1,1
Minority 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
Net profit	-1,0	-1,9	-0,7	0,7	0,4	-1,4	-1,5	1,0	1,2	0,4	1,5	3,9
EPS Adjusted	-0,2	-0,3	-0,1	0,1	0,1	-0,2	-0,2	0,2	0,2	0,1	0,2	0,6
<b>BALANCE SHEET (EURm)</b>												
Intangibles	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Goodw ill	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Tangibles	11,4	11,0	10,4	10,0	9,6	9,6	9,2	9,0	8,8	8,5	8,5	8,8
Inventory	4,2	4,9	5,1	4,7	4,0	4,0	5,0	5,1	6,0	5,0	5,0	6,4
Receivables	3,7	4,0	4,6	5,3	2,8	2,8	4,0	4,1	6,9	3,5	3,5	4,5
Cash	1,1	0,5	0,6	0,6	0,4	0,4	0,6	2,6	2,3	2,1	2,0	3,9
<b>Assets</b>	<b>24,9</b>	<b>24,7</b>	<b>24,0</b>	<b>23,7</b>	<b>19,9</b>	<b>19,9</b>	<b>21,9</b>	<b>23,9</b>	<b>27,0</b>	<b>22,1</b>	<b>22,1</b>	<b>26,7</b>
Equity	8,0	6,1	5,7	6,4	6,7	6,7	5,1	7,7	8,8	9,2	9,2	12,8
Pension liabilities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Long non-ib debt	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Long ib debt	4,5	4,8	2,4	2,2	4,5	4,5	4,0	3,0	3,0	3,0	3,0	3,0
Short ib debt	3,1	3,6	2,9	3,4	0,9	0,9	2,5	3,7	1,0	1,0	1,0	1,0
Short non-ib debt	4,9	4,4	5,6	5,2	4,5	4,5	4,5	4,3	6,7	5,5	5,5	6,0
Advances received	4,0	5,2	6,7	6,0	3,0	3,0	5,4	4,8	7,0	3,0	3,0	3,5
<b>Equity and liabilities</b>	<b>24,9</b>	<b>24,7</b>	<b>24,0</b>	<b>23,7</b>	<b>19,9</b>	<b>19,9</b>	<b>21,9</b>	<b>23,9</b>	<b>27,0</b>	<b>22,1</b>	<b>22,1</b>	<b>26,7</b>
Equity Ratio	31,9 %	24,7 %	23,8 %	27,0 %	33,4 %	33,4 %	23,4 %	32,0 %	32,7 %	41,7 %	41,8 %	48,1 %
Net Gearing	81,4 %	130,8 %	83,3 %	78,1 %	75,0 %	75,0 %	115,6 %	54,1 %	19,4 %	21,2 %	21,7 %	0,7 %
Net debt	6,5	8,0	4,8	5,0	5,0	5,0	5,9	4,1	1,7	2,0	2,0	0,1
ROE	-12,0 %					-19,9 %					18,4 %	35,5 %
ROCE	-5,2 %					-3,7 %					12,3 %	27,4 %

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DIVISIONS (EURm)	2015	1Q16	2Q16	3Q16	4Q16	2016	1Q17e	2Q17e	3Q17e	4Q17e	2017e	2018e
<b>Finland &amp; Baltics</b>												
Net sales	16,3	2,4	6,2	5,9	3,8	18,3	2,3	9,0	8,5	5,2	25,0	35,0
Grow th, y/y	-25,3 %	4,3 %	6,9 %	11,5 %	28,4 %	11,9 %	-4,2 %	45,2 %	44,1 %	36,8 %	36,6 %	40,2 %
Grow th, q/q	0,0 %	-18,9 %	158,3 %	-4,8 %	-35,6 %	0,0 %	-39,5 %	291,3 %	-5,6 %	-38,8 %	0,0 %	0,0 %
<b>EBIT (estimate)</b>	<b>-0,8</b>	<b>-1,0</b>	<b>0,3</b>	<b>0,5</b>	<b>0,1</b>	<b>-0,1</b>	<b>-0,9</b>	<b>1,5</b>	<b>1,0</b>	<b>0,0</b>	<b>1,5</b>	<b>4,0</b>
% of sales	-4,9 %	-41,7 %	4,8 %	8,5 %	2,8 %	-0,5 %	-39,1 %	16,1 %	11,8 %	-1,0 %	6,0 %	11,4 %
<b>Russia &amp; CIS</b>												
Net sales	12,0	0,9	1,2	3,6	4,6	10,2	0,9	1,3	3,9	4,9	11,0	11,8
Grow th, y/y	-16,1 %	-52,6 %	-52,0 %	38,4 %	-9,0 %	-14,6 %	0,0 %	8,3 %	7,5 %	8,8 %	7,5 %	7,5 %
Grow th, q/q	0,0 %	-82,0 %	33,3 %	199,9 %	26,4 %	0,0 %	-80,2 %	44,4 %	197,6 %	27,9 %	0,0 %	0,0 %
<b>EBIT (estimate)</b>	<b>0,6</b>	<b>-0,5</b>	<b>-0,4</b>	<b>0,4</b>	<b>0,3</b>	<b>-0,2</b>	<b>-0,4</b>	<b>-0,3</b>	<b>0,4</b>	<b>0,3</b>	<b>0,0</b>	<b>0,3</b>
% of sales	4,8 %	-55,6 %	-33,3 %	11,1 %	7,7 %	-1,5 %	-44,4 %	-23,1 %	10,3 %	6,1 %	0,0 %	2,5 %
<b>Global Markets</b>												
Net sales	10,8	1,3	2,5	1,9	1,9	7,6	1,5	2,9	2,3	2,4	9,1	10,9
Grow th, y/y	16,8 %	-18,8 %	-28,6 %	-48,8 %	-2,1 %	-29,3 %	15,4 %	16,0 %	20,0 %	28,4 %	20,0 %	20,0 %
Grow th, q/q	0,0 %	-33,0 %	92,3 %	-24,0 %	0,0 %	0,0 %	-21,1 %	93,3 %	-21,4 %	7,0 %	0,0 %	0,0 %
<b>EBIT (estimate)</b>	<b>0,0</b>	<b>-0,3</b>	<b>0,0</b>	<b>0,1</b>	<b>0,0</b>	<b>-0,2</b>	<b>-0,2</b>	<b>0,2</b>	<b>0,2</b>	<b>0,2</b>	<b>0,3</b>	<b>0,7</b>
% of sales	0,0 %	-23,1 %	0,0 %	5,3 %	-0,2 %	-2,6 %	-13,3 %	5,2 %	6,6 %	7,1 %	3,0 %	6,0 %

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### Peer group valuation

Peer	EV/EBITDA				Peer	EV/EBIT				Peer	P/E				Peer	EV/Sales	P/B
	2016	2017e	2018e	2019e		2016	2017e	2018e	2019e		2016	2017e	2018e	2019e		2017e	Latest
YIT	44,8 x	<b>13,2 x</b>	10,4 x	9,7 x	YIT	85,1 x	<b>14,4 x</b>	11,3 x	10,5 x	YIT	n.m.	<b>14,4 x</b>	11,0 x	9,9 x	YIT	<b>0,8 x</b>	1,8 x
Lehto Group	18,1 x	<b>12,7 x</b>	11,0 x	10,3 x	Lehto Group	19,0 x	<b>13,3 x</b>	11,5 x	10,7 x	Lehto Group	24,6 x	<b>17,2 x</b>	14,9 x	13,8 x	Lehto Group	<b>1,4 x</b>	6,5 x
Lemminkainen	7,5 x	<b>9,4 x</b>	7,9 x	7,6 x	Lemminkainen	11,4 x	<b>15,1 x</b>	11,9 x	11,0 x	Lemminkainen	15,8 x	<b>22,2 x</b>	15,2 x	14,0 x	Lemminkainen	<b>0,4 x</b>	2,0 x
SRV	21,5 x	<b>20,5 x</b>	12,5 x	8,6 x	SRV	28,5 x	<b>20,5 x</b>	13,7 x	9,2 x	SRV	19,5 x	<b>33,7 x</b>	12,0 x	6,8 x	SRV	<b>0,6 x</b>	1,0 x
JM	8,5 x	<b>7,0 x</b>	7,1 x	7,3 x	JM	8,6 x	<b>7,0 x</b>	7,1 x	7,3 x	JM	12,3 x	<b>9,3 x</b>	10,5 x	10,8 x	JM	<b>1,0 x</b>	3,5 x
Peab	10,8 x	<b>9,7 x</b>	9,6 x	9,3 x	Peab	14,9 x	<b>13,1 x</b>	13,0 x	12,6 x	Peab	15,5 x	<b>14,1 x</b>	14,5 x	14,2 x	Peab	<b>0,6 x</b>	2,9 x
NCC	10,4 x	<b>7,7 x</b>	7,9 x	7,6 x	NCC	15,8 x	<b>10,3 x</b>	10,8 x	10,2 x	NCC	2,8 x	<b>14,0 x</b>	14,3 x	13,4 x	NCC	<b>0,4 x</b>	4,4 x
Martela	5,2 x	<b>5,8 x</b>	6,0 x	6,1 x	Martela	7,6 x	<b>9,0 x</b>	9,2 x	9,3 x	Martela	11,3 x	<b>10,2 x</b>	9,5 x	9,4 x	Martela	<b>0,4 x</b>	1,7 x
Nibe	17,9 x	<b>14,4 x</b>	13,5 x	12,8 x	Nibe	23,1 x	<b>18,0 x</b>	16,7 x	15,7 x	Nibe	26,8 x	<b>21,4 x</b>	19,7 x	18,4 x	Nibe	<b>2,3 x</b>	3,1 x
Nobia	8,5 x	<b>8,2 x</b>	7,6 x	7,4 x	Nobia	10,5 x	<b>10,0 x</b>	9,2 x	8,9 x	Nobia	29,6 x	<b>13,4 x</b>	12,4 x	11,9 x	Nobia	<b>1,0 x</b>	3,8 x
Upper quartile	18,0 x	<b>13,1 x</b>	10,9 x	9,6 x	Upper quartile	22,1 x	<b>14,9 x</b>	12,7 x	10,9 x	Upper quartile	24,6 x	<b>20,4 x</b>	14,8 x	13,9 x	Upper quartile	<b>1,0 x</b>	3,7 x
Median	10,6 x	<b>9,6 x</b>	8,8 x	8,1 x	Median	15,3 x	<b>13,2 x</b>	11,4 x	10,3 x	Median	15,8 x	<b>14,3 x</b>	13,3 x	12,7 x	Median	<b>0,7 x</b>	3,0 x
Lower quartile	8,5 x	<b>7,9 x</b>	7,7 x	7,4 x	Lower quartile	10,7 x	<b>10,1 x</b>	9,6 x	9,2 x	Lower quartile	12,3 x	<b>13,5 x</b>	11,2 x	10,1 x	Lower quartile	<b>0,5 x</b>	1,8 x
Honkarakenne	16,4 x	<b>5,5 x</b>	2,6 x	2,1 x	Honkarakenne	n.m.	<b>10,3 x</b>	3,5 x	2,9 x	Honkarakenne	n.m.	<b>n.a.</b>	4,4 x	4,0 x	Honkarakenne	<b>0,4 x</b>	1,9 x
% to median	55 %	<b>-42 %</b>	-70 %	-74 %	% to median	n.m.	<b>-22 %</b>	-69 %	-72 %	% to median	n.m.	<b>n.a.</b>	-67 %	-68 %	% to median	<b>-40 %</b>	-37 %

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## Result Comment – 4 September 2017



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