

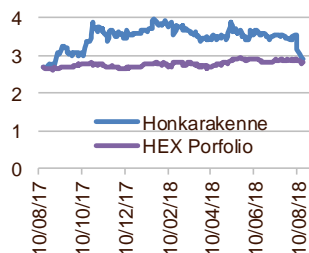
Honkarakenne

Result Comment – 20 August 2018



SHARE	
Company	Honkarakenne
Price	2,92
Price as of	17.8.2018
High/Low 12m	3,99 / 2,65
COMPANY DATA	
Market Cap. Current	17,9
EV current	17,5
No. of shares (out)	6,147
No. of shares (dil)	6,147
SHAREHOLDERS	
AKR-Invest	16,3 %
Saarelainen Oy	9,9 %
Norvestia	5,1 %
Nordea Small Cap	4,1 %
Freefloat	67,2 %
STOCK DATA	
Bloomberg	HONBS FH
CALENDAR	
Next report date	n.a.
AGM	13.Apr.2018

SHARE PRICE



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Project sales will accrue into sales later than we estimated

Sales and EBIT came in weaker than we expected, which was mainly due to timing issues in IFRS accounting applied to project sales. On the positive side, growth in order backlog was 33% yoy and excluding the previously announced big orders the growth was 12%, slightly higher than the healthy pace of 11% at the end of 2H17. In this update we have made changes to our model regarding the timing of sales and increasing spending, which affect our dividend estimates. Honkarakenne's 1H18 report does not answer to the main question about the profitability of the big projects and new business model of own construction.

- 1H18 sales of € 19,7m was 16% less than our estimate of € 23,4m and EBIT of € -0,7m was also clearly less than our estimate of € 1,0m. The deviations came from the Finnish division, where as Russia sales was € 0.2m better than we expected and Global sales missed our estimates by € 0.6m.
- Order backlog of € 30m was € 6m higher than our estimate of € 24m. In addition, advance payments in balance sheet were clearly higher compared to year ago. These indicate sales to accrue later than we had estimated.
- Looking at the order backlog, it's a positive that the growth excluding the big orders (i.e. the announced day care centers and care homes for the elderly) was 12% yoy, which is still a small acceleration from the healthy pace of 11% in 2H17 and particularly from the 7% in 1H17.
- Market situation in the main market Finland is very favorable for Honkarakenne: 1) growth in house volumes is accelerating, 2) log houses take more market share, 3) the average price of a log house is increasing, and 4) investor demand for non-residential assets remains as high, all of which are helped by the loose interest rate policy of ECB continuing by one year. As the top-line outlook seems solid, the main question lies in the execution efficiency of Honkarakenne's own construction business model.
- The first own construction projects are sold during 2H18: our estimates for own construction sales in 2H18 is € 7m, for 2019E € 9m and 2020E € 6m.
- After the 1H18 report we have made the following key changes to our model: 1) project sales accrue at the end of the project, 2) sales growth excluding the announced big projects is slightly raised, 3) profits, however, are cut due to increasing spending on marketing, new products (e.g. timber frame) and new IT systems (e.g. ERP and customer databases), and finally 4) dividend estimates are cut due to increasing spending.
- Overall, the investment case with Honkarakenne is intact, but obviously the 1H18 report did not reveal the earnings potential of Honkarakenne, as the projects will accrue into sales and profits slower than we had calculated. Positive indications of things to come are 1) booming order backlog, 2) new ambitious strategy stating to raise Honkarakenne into a new level, and 3) increasing spending and investments after several difficult years.

Figures in €m	2014	2015	2016	2017	2018e	2019e	2020e
Sales	45,5	39,1	36,1	43,4	55,5	61,0	61,6
Sales growth	-5,6 %	-14,1 %	-7,7 %	20,2 %	27,9 %	9,8 %	1,1 %
EBITDA	0,0	1,0	1,0	3,3	4,9	6,4	7,0
EBITDA margin	0,1 %	2,4 %	2,7 %	7,7 %	8,8 %	10,5 %	11,4 %
EBIT	-2,2	-1,1	-0,8	1,7	3,2	4,5	4,8
EBIT margin	-4,7 %	-2,7 %	-2,2 %	3,9 %	5,8 %	7,4 %	7,8 %
PTP	-2,5	-1,6	-1,2	1,7	3,2	4,7	5,1
EPS	-0,32	-0,16	-0,24	0,15	0,41	0,59	0,64
DPS	0,00	0,00	0,00	0,00	0,15	0,30	0,40
Yield	0,0 %	0,0 %	0,0 %	0,0 %	5,1 %	10,3 %	13,7 %
P/E	-6,2	-9,7	-7,7	24,4	7,1	4,9	4,5
EV/EBIT	-9,4	-15,5	-20,1	13,5	4,0	2,4	2,0
EV/EBITDA	597,3	17,2	16,4	6,8	2,6	1,7	1,4
EV/Sales	0,4	0,4	0,4	0,5	0,2	0,2	0,2
P/B	1,4	1,2	1,7	2,5	1,6	1,3	1,1
ROE	-20 %	-12 %	-20 %	12 %	25 %	28 %	26 %
ROCE	-9 %	-5 %	-4 %	11 %	17 %	19 %	19 %
Net Gearing	92 %	81 %	75 %	6 %	-44 %	-49 %	-51 %
FCF/share	-0,28	0,28	-0,01	0,36	0,92	0,43	0,46

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

Sales were lower than expected due to Finland and particularly due to timing of project sales.

EBIT missed our estimates due to sales miss. Profitability of the big orders remains to be seen.

Deviation	1H18	1H18e	Actual vs.	2018e	2018e
	Actual	FIM	FIMe	FIM	Guidance (unchanged)
Sales	19,7	23,4	-16 %	55,5	2018 sales will increase
EBITDA	-0,1	1,9	-103 %	4,9	
EBITDA-%	-0,3 %	7,9 %	-8,2ppt	8,8 %	
EBIT excl. one-off items	-0,7	1,0	-174 %	3,2	
EBIT-% excl. one-off items	-3,6 %	4,1 %	-7,6ppt	5,8 %	
PTP	-0,8	0,9	-180 %	3,2	2018 pre-tax-profit
EPS	-0,16	0,09	-274 %	0,41	will increase vs. 2017
DPS	0,00	0,00	n.m.	0,15	

Source: S-Bank (FIM) estimates

Estimate changes after the 1H18 report

We have made changes to the timing of how the big projects accrue into sales and profits.

Estimate revisions	2018e		Chg.	2019e		Chg.	
	m€	Old		New	Old		New
Sales		55,8	55,5	-1 %	58,3	61,0	5 %
EBITDA		6,3	4,9	-22 %	7,1	6,4	-10 %
EBITDA-%		11,3 %	8,8 %	-2,4ppt	12,2 %	10,5 %	-1,7ppt
EBIT excl. one-off items		4,5	3,2	-29 %	5,2	4,5	-14 %
EBIT-% excl. one-off items		8,1 %	5,8 %	-2,3ppt	9,0 %	7,4 %	-1,6ppt
PTP		4,6	3,2	-30 %	5,5	4,7	-15 %
EPS		0,59	0,41	-30 %	0,69	0,59	-15 %
DPS		0,25	0,15	-40 %	0,35	0,30	-14 %

Source: S-Bank (FIM) estimates

Guidance history

Guidance for 2018 is:

sales will be higher and pretax profit will be better than in 2017.

2H17 and 1H18: Honkarakenne sees 2018 net sales higher than in 2017 and pretax profit better than in 2017.

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)	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18e	4Q18e	2018e	2019e
Net sales	36,1	4,7	13,2	13,9	11,6	43,4	5,5	14,2	17,2	18,7	55,5	61,0
Grow th, y/y	-7,7 %	2,2 %	33,3 %	22,7 %	13,0 %	20,2 %	17,0 %	7,6 %	23,7 %	60,5 %	27,9 %	9,8 %
Grow th, q/q	0,0 %	-54,4 %	180,9 %	5,0 %	-16,1 %	0,0 %	-52,7 %	158,2 %	20,8 %	8,9 %	0,0 %	0,0 %
Depreciation	-1,8	-0,4	-0,4	-0,4	-0,5	-1,7	-0,3	-0,3	-0,5	-0,6	-1,7	-1,9
EBIT	-0,8	-1,5	1,4	1,2	0,6	1,7	-1,0	0,3	1,9	2,0	3,2	4,5
EBIT margin	-2,2 %	-31,9 %	10,9 %	8,7 %	4,7 %	3,9 %	-18,2 %	2,1 %	11,1 %	10,8 %	5,8 %	7,4 %
Net financials	-0,5	0,0	0,0	0,0	0,0	-0,1	0,0	0,0	0,0	0,0	-0,1	-0,1
Associates profit	0,2	0,0	0,0	0,0	0,1	0,1	0,0	0,0	0,0	0,2	0,2	0,2
PTP	-1,2	-1,5	1,4	1,2	0,6	1,7	-1,0	0,3	1,9	2,1	3,2	4,7
Taxes	-0,3	0,0	-0,3	-0,3	-0,2	-0,8	0,0	-0,3	-0,4	-0,1	-0,7	-1,0
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	-1,4	-1,5	1,1	0,9	0,5	0,9	-1,0	0,0	1,5	2,0	2,5	3,6
EPS Adjusted	-0,2	-0,2	0,2	0,1	0,1	0,1	-0,2	0,0	0,2	0,3	0,4	0,6
BALANCE SHEET (EURm)												
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	9,6	9,2	9,0	8,8	8,5	8,5	8,4	8,3	8,4	8,2	8,2	8,8
Inventory	4,0	5,0	5,1	5,7	5,3	5,3	6,0	5,7	7,1	6,8	6,8	7,5
Receivables	2,8	4,0	4,1	6,5	2,6	2,6	3,0	4,6	8,0	4,0	4,0	4,4
Cash	0,4	0,6	2,6	2,3	3,1	3,1	1,2	3,0	3,4	7,6	7,6	8,5
Assets	19,9	21,9	23,9	26,3	22,1	22,1	21,1	24,5	29,7	29,4	29,4	32,0
Equity	6,7	5,1	7,7	8,5	9,0	9,0	8,0	8,0	9,5	11,6	11,6	14,3
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	4,0	3,0	3,0	2,5	2,5	2,5	2,0	2,0	2,0	2,0	1,0
Short ib debt	0,9	2,5	3,7	1,0	1,2	1,2	1,2	0,5	3,3	0,5	0,5	0,5
Short non-ib debt	4,5	4,5	4,3	6,4	5,4	5,4	5,0	4,5	5,5	6,0	6,0	6,0
Advances received	3,0	5,4	4,8	7,0	3,5	3,5	4,0	8,9	8,9	8,9	8,9	9,8
Equity and liabilities	19,9	21,9	23,9	26,3	22,1	22,1	21,1	24,5	29,7	29,4	29,4	32,0
Equity Ratio	33,4 %	23,5 %	32,0 %	32,4 %	40,9 %	40,9 %	37,9 %	32,8 %	32,1 %	39,4 %	39,4 %	44,7 %
Net Gearing	75,0 %	115,4 %	54,1 %	19,8 %	6,2 %	6,2 %	30,8 %	-5,2 %	20,6 %	-43,8 %	-43,8 %	-49,1 %
Net debt	5,0	5,9	4,1	1,7	0,6	0,6	2,5	-0,4	2,0	-5,1	-5,1	-7,0
ROE	-19,9 %					11,6 %					24,6 %	28,1 %
ROCE	-3,7 %					11,2 %					16,8 %	19,1 %

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DIVISIONS (EURm)	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18	2Q18	3Q18e	4Q18e	2018e	2019e
Finland & Baltics												
Net sales	18,3	2,3	9,0	8,5	6,0	25,8	3,0	10,1	11,5	11,4	35,9	39,2
Grow th, y/y	11,9 %	-4,2 %	45,2 %	44,1 %	56,6 %	40,7 %	30,4 %	12,2 %	34,8 %	91,3 %	39,6 %	9,0 %
Grow th, q/q	0,0 %	-39,5 %	291,3 %	-5,6 %	-30,0 %	0,0 %	-49,6 %	236,7 %	13,4 %	-0,6 %	0,0 %	0,0 %
EBIT (estimate)	-0,1	-0,9	1,5	1,0	0,4	2,0	-0,5	0,5	1,6	1,4	3,0	3,3
% of sales	-0,5 %	-39,1 %	16,1 %	11,8 %	6,7 %	7,6 %	-16,7 %	5,0 %	14,0 %	12,4 %	8,4 %	8,4 %
Russia & CIS												
Net sales	10,2	0,9	1,3	3,3	3,9	9,4	1,0	1,6	3,4	4,1	10,1	10,9
Grow th, y/y	-14,6 %	0,0 %	8,3 %	-8,3 %	-14,3 %	-8,3 %	11,1 %	23,1 %	3,0 %	5,3 %	7,5 %	7,5 %
Grow th, q/q	0,0 %	-80,2 %	44,4 %	153,9 %	18,1 %	0,0 %	-74,4 %	60,0 %	112,5 %	20,7 %	0,0 %	0,0 %
EBIT (estimate)	-0,2	-0,4	-0,3	0,1	0,2	-0,5	-0,3	-0,2	0,2	0,3	0,0	0,4
% of sales	-1,5 %	-44,4 %	-23,1 %	3,0 %	3,8 %	-4,8 %	-30,0 %	-12,5 %	5,9 %	7,3 %	0,0 %	4,0 %
Global Markets												
Net sales	7,6	1,5	2,9	2,1	1,8	8,3	1,5	2,5	2,3	3,2	9,5	10,9
Grow th, y/y	-29,3 %	15,4 %	16,0 %	8,6 %	-5,9 %	8,6 %	0,0 %	-13,8 %	11,5 %	78,3 %	15,0 %	15,0 %
Grow th, q/q	0,0 %	-21,1 %	93,3 %	-28,9 %	-13,3 %	0,0 %	-16,1 %	66,7 %	-8,0 %	38,6 %	0,0 %	0,0 %
EBIT (estimate)	-0,2	-0,2	0,1	0,1	0,0	0,0	-0,2	0,0	0,1	0,3	0,2	0,8
% of sales	-2,6 %	-13,3 %	4,8 %	4,8 %	0,0 %	0,5 %	-13,3 %	0,0 %	4,3 %	9,4 %	2,1 %	7,0 %

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Peer group valuation

Peer	EV/EBITDA				Peer	EV/EBIT				Peer	P/E				Peer	EV/Sales	P/B
	2017	2018e	2019e	2020e		2017	2018e	2019e	2020e		2017	2018e	2019e	2020e		2018e	Latest
YIT	25,4 x	12,1 x	7,8 x	7,8 x	YIT	31,2 x	16,7 x	9,7 x	9,7 x	YIT	31,3 x	17,0 x	8,4 x	8,5 x	YIT	0,5 x	1,2 x
Lehto Group Oyj	7,7 x	7,7 x	6,9 x	6,7 x	Lehto Group Oyj	8,1 x	8,1 x	7,3 x	7,0 x	Lehto Group Oyj	9,2 x	9,4 x	8,4 x	8,0 x	Lehto Group Oyj	0,7 x	4,8 x
SRV	14,2 x	n.m.	11,6 x	11,9 x	SRV	16,6 x	n.m.	12,8 x	13,1 x	SRV	18,6 x	n.m.	7,2 x	7,4 x	SRV	0,6 x	0,8 x
JM	5,4 x	6,7 x	8,2 x	7,9 x	JM	5,4 x	6,7 x	8,2 x	8,0 x	JM	5,9 x	8,3 x	10,1 x	9,8 x	JM	0,8 x	2,0 x
Peab	8,6 x	8,4 x	8,3 x	8,2 x	Peab	11,8 x	11,5 x	11,4 x	11,2 x	Peab	11,1 x	12,1 x	11,8 x	11,5 x	Peab	0,5 x	2,2 x
NCC	8,8 x	9,3 x	6,8 x	6,3 x	NCC	13,2 x	14,5 x	9,2 x	8,4 x	NCC	14,2 x	14,6 x	10,4 x	9,4 x	NCC	0,3 x	3,6 x
Martela	7,8 x	5,2 x	4,4 x	3,9 x	Martela	n.m.	14,0 x	9,3 x	6,6 x	Martela	n.m.	24,9 x	12,4 x	8,0 x	Martela	0,2 x	1,1 x
Nibe	19,8 x	16,8 x	15,4 x	14,6 x	Nibe	25,3 x	20,8 x	19,1 x	18,0 x	Nibe	30,2 x	25,4 x	23,3 x	21,9 x	Nibe	2,7 x	3,1 x
Nobia	7,3 x	7,1 x	6,7 x	6,6 x	Nobia	9,0 x	8,8 x	8,3 x	8,3 x	Nobia	11,1 x	11,2 x	10,5 x	10,5 x	Nobia	0,9 x	2,8 x
Upper quartile	14,2 x	10,0 x	8,3 x	8,2 x	Upper quartile	18,8 x	15,1 x	11,4 x	11,2 x	Upper quartile	21,5 x	19,0 x	11,8 x	10,5 x	Upper quartile	0,8 x	3,1 x
Median	8,6 x	8,1 x	7,8 x	7,8 x	Median	12,5 x	12,8 x	9,3 x	8,4 x	Median	12,7 x	13,4 x	10,4 x	9,4 x	Median	0,6 x	2,2 x
Lower quartile	7,7 x	7,0 x	6,8 x	6,6 x	Lower quartile	8,8 x	8,6 x	8,3 x	8,0 x	Lower quartile	10,6 x	10,7 x	8,4 x	8,0 x	Lower quartile	0,5 x	1,2 x
Honkarakenne	6,8 x	2,6 x	1,7 x	1,4 x	Honkarakenne	13,5 x	4,0 x	2,4 x	2,0 x	Honkarakenne	24,4 x	7,1 x	4,9 x	4,5 x	Honkarakenne	0,2 x	1,6 x
% to median	-21 %	-68 %	-78 %	-82 %	% to median	7 %	-69 %	-74 %	-76 %	% to median	92 %	-47 %	-52 %	-52 %	% to median	-60 %	-30 %

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