

Honkarakenne

Result Comment – 19 February 2018



SHARE

Company	Honkarakenne
Price	3,70
Price as of	19.2.2018
High/Low 12m	3,99 / 1,7

COMPANY DATA

Market Cap. Current	22,7
EV current	22,7
No. of shares (out)	6,147
No. of shares (dil)	6,056

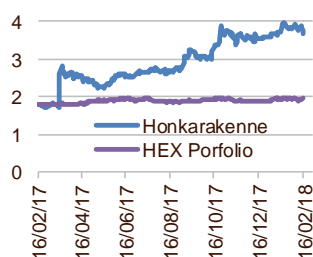
SHAREHOLDERS

AKR-Invest	16,3 %
Saarelainen Oy	9,9 %
Norvestia	5,2 %
Nordea Small Cap	4,1 %
Freefloat	67,2 %

STOCK DATA

Bloomberg	HONBS FH
CALENDAR	
Next report date	9.8.2018
AGM	13.Apr.2018

SHARE PRICE



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Business in Finland even stronger than we expected

2H17 slightly missed our greatly elevated expectations. The weakness came from Russian and Global divisions, while the business in Finland was slightly stronger than our estimate. Order backlog of € 23m also slightly missed our estimate of € 24m. Overall, Honkarakenne is clearly turning around and the business in Finland is gaining momentum. Our main uncertainty is the profitability Honkarakenne is able to pocket with its new business model of own construction.

- 2H17 sales was € 25.5m vs. our estimate of € 27.2m. 2H17 sales grew 18% yoy, but missed our estimate by 6%. Looking at the divisions: 2H17 Russia was € 9.4m vs. our estimate of € 11.0m, Global was € 8.3m vs. our estimate of € 9.1m, but Finland was € 25.8m vs. our estimate of € 25.0m. 2017 sales in Russia declined by 8%, Global grew by 8% and Finland grew by 41%.
- Honkarakenne comments Russian sales to remain as bleak, but is more optimistic on Global sales. Main focus, however, is in Finland, which obviously is red hot. Order backlog of € 23m is 41% higher yoy (vs. 1H17 29% yoy), which is mainly due to the stream of orders announced in 2017 (34 log day care centers worth of € 6.9m, care home for elderly worth of € 3.3m, five day cares each worth of € 2.6m). Taking away these big orders, order backlog grew by 11% (vs. 1H17 7%), indicating growth to accelerate.
- We estimate these big orders to generate sales of € 2m in 2017, € 11m in 2018 and € 5m in 2019. Further, we have assumed Honkarakenne to receive new big orders for € 5m in 2019 and € 7m in 2020, which would keep the Finnish sales at ca. € 36m level assuming 5% growth in residential sales.
- After the € 1.5m directed equity offering to AKR-Invest in March (1m new shares at € 1.5 per share) and the black figures in 2H17 Honkarakenne's equity ratio is 51% and net gearing 5%, which are very healthy numbers. This may be a factor encouraging potential customers to place orders to Honkarakenne, which possibly was seen as a risky supplier with its weak balance sheet. Honkarakenne decided not to pay any dividends vs. our estimate of 5 cents. As the business outlook is good and capex was as we expected (€ 0.5m), we believe Honkarakenne will start paying dividends.
- At this point it's clear that the sales and order backlog are growing amid the construction boom in Finland, Honkarakenne's strong brand, technical innovations (e.g. modular design, zero corner and non-settling log) and possibly due to stronger balance sheet of Honkarakenne. What remains to be seen is the profitability level of Honkarakenne's own construction projects, as 2017 did not include those and as we expect own construction to generate € 9m worth of sales in 2018 (i.e. Attendo & Ipanala 1–5 projects).
- In this update we have slightly adjusted our estimates down due to the slight miss compared to our very high expectations. Despite this, the outlook for Honkarakenne is very positive and the case is essentially intact.

Figures in €m

	2014	2015	2016	2017	2018e	2019e	2020e
Sales	45,5	39,1	36,1	43,4	55,8	58,3	60,6
Sales growth	-5,6 %	-14,1 %	-7,7 %	20,2 %	28,6 %	4,4 %	4,0 %
EBITDA	0,0	1,0	1,0	3,3	6,3	7,1	7,9
EBITDA margin	0,1 %	2,4 %	2,7 %	7,7 %	11,3 %	12,2 %	13,1 %
EBIT	-2,2	-1,1	-0,8	1,7	4,5	5,2	5,7
EBIT margin	-4,7 %	-2,7 %	-2,2 %	3,9 %	8,1 %	9,0 %	9,5 %
PTP	-2,5	-1,6	-1,2	1,7	4,6	5,5	6,1
EPS	-0,32	-0,16	-0,24	0,15	0,59	0,69	0,77
DPS	0,00	0,00	0,00	0,00	0,25	0,35	0,40
Yield	0,0 %	0,0 %	0,0 %	0,0 %	6,8 %	9,5 %	10,8 %
P/E	-6,2	-9,7	-7,7	24,4	6,3	5,3	4,8
EV/EBIT	-9,4	-15,5	-20,1	13,5	5,1	3,8	3,2
EV/EBITDA	597,3	17,2	16,4	6,8	3,6	2,8	2,3
EV/Sales	0,4	0,4	0,4	0,5	0,4	0,3	0,3
P/B	1,4	1,2	1,7	2,5	1,8	1,5	1,3
ROE	-20 %	-12 %	-20 %	12 %	33 %	30 %	29 %
ROCE	-9 %	-5 %	-4 %	11 %	26 %	26 %	27 %
Net Gearing	92 %	81 %	75 %	6 %	0 %	-19 %	-25 %
FCF/share	-0,28	0,28	-0,01	0,36	0,05	0,70	0,55

Source: Bloomberg, S-Bank (FIM)

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Deviation table

Sales was lower than we expected due to Russia and Global sales.

EBIT was € 0.2m lower than we expected due to lower sales.

Deviation	2H17	2H17e	Actual vs.	2018e	2018e
	Actual	FIM	FIMe	FIM	Guidance
Sales	25,5	27,2	-6 %	55,8	2018 sales will increase
EBITDA	2,6	2,8	-6 %	6,3	
EBITDA-%	10,2 %	10,2 %	0ppt	11,3 %	
EBIT excl. one-off items	1,8	2,0	-11 %	4,5	
EBIT-% excl. one-off items	6,9 %	7,2 %	-0,4ppt	8,1 %	
PTP	1,8	2,0	-11 %	4,6	2018 pre-tax-profit
EPS	0,22	0,26	-15 %	0,59	will increase
DPS	0,00	0,05	-100 %	0,25	

Source: S-Bank (FIM) estimates

Estimate changes after the 2H17 report

After the small sales miss and marginally lower than expected order backlog, we have adjusted our 2018 sales estimate down by € 2m and EBIT by € 0.5m.

There will be no dividends from 2017, but we believe 2018 to be a year to restart paying dividends.

Estimate revisions m€	2017e	2017	Chg.	2018e	2018e	Chg.
	Old	Actual	%	Old	New	%
Sales	45,1	43,4	-4 %	57,8	55,8	-3 %
EBITDA	3,5	3,3	-4 %	6,7	6,3	-5 %
EBITDA-%	7,7 %	7,7 %	0ppt	11,5 %	11,3 %	-0,2ppt
EBIT excl. one-off items	1,8	1,5	-13 %	5,0	4,5	-9 %
EBIT-% excl. one-off items	3,9 %	3,5 %	-0,4ppt	8,6 %	8,1 %	-0,5ppt
PTP	1,9	1,7	-9 %	5,0	4,6	-8 %
EPS	0,24	0,15	-38 %	0,64	0,59	-8 %
DPS	0,05	0,00	-100 %	0,25	0,25	0 %

Source: S-Bank (FIM) estimates

Guidance for 2018

Guidance for 2018 is:

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

2H17: 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	1Q18e	2Q18e	3Q18e	4Q18e	2018e	2019e
Net sales	36,1	4,7	13,2	13,9	11,6	43,4	7,6	15,9	17,2	15,2	55,8	58,3
Grow th, y/y	-7,7 %	2,2 %	33,3 %	22,7 %	13,0 %	20,2 %	60,6 %	20,3 %	23,7 %	31,0 %	28,6 %	4,4 %
Grow th, q/q	0,0 %	-54,4 %	180,9 %	5,0 %	-16,1 %	0,0 %	-35,1 %	110,3 %	8,0 %	-11,1 %	0,0 %	0,0 %
Depreciation	-1,8	-0,4	-0,4	-0,4	-0,5	-1,7	-0,5	-0,5	-0,5	-0,5	-1,8	-1,9
EBIT	-0,8	-1,5	1,4	1,2	0,6	1,7	-0,6	1,6	2,0	1,6	4,5	5,2
EBIT margin	-2,2 %	-31,9 %	10,9 %	8,7 %	4,7 %	3,9 %	-7,9 %	9,8 %	11,4 %	10,5 %	8,1 %	9,0 %
Net financials	-0,5	0,0	0,0	0,0	0,0	-0,1	0,0	0,0	0,0	0,0	0,0	0,0
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	-0,6	1,5	1,9	1,7	4,6	5,5
Taxes	-0,3	0,0	-0,3	-0,3	-0,2	-0,8	0,0	-0,4	-0,5	-0,2	-1,0	-1,2
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	-0,6	1,2	1,5	1,6	3,6	4,3
EPS Adjusted	-0,2	-0,2	0,2	0,1	0,1	0,1	-0,1	0,2	0,2	0,3	0,6	0,7
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
Goodwill	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,0	0,0	0,0
Tangibles	9,6	9,2	9,0	8,8	8,5	8,5	8,6	8,6	8,7	8,7	8,7	9,3
Inventory	4,0	5,0	5,1	5,7	5,3	5,3	6,0	6,2	7,1	6,9	6,9	7,2
Receivables	2,8	4,0	4,1	6,5	2,6	2,6	3,0	5,0	8,0	4,0	4,0	4,2
Cash	0,4	0,6	2,6	2,3	3,1	3,1	1,5	0,9	0,5	2,5	2,5	4,4
Assets	19,9	21,9	23,9	26,3	22,1	22,1	21,6	23,1	26,8	24,5	24,5	27,5
Equity	6,7	5,1	7,7	8,5	9,0	9,0	8,4	9,6	11,1	12,7	12,7	15,4
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	2,5	2,5	2,0	2,0	1,0
Short ib debt	0,9	2,5	3,7	1,0	1,2	1,2	1,2	1,5	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	5,1	5,5	4,9	4,9	6,0
Advances received	3,0	5,4	4,8	7,0	3,5	3,5	4,0	4,0	4,0	4,0	4,0	4,2
Equity and liabilities	19,9	21,9	23,9	26,3	22,1	22,1	21,6	23,1	26,8	24,5	24,5	27,5
Equity Ratio	33,4 %	23,5 %	32,0 %	32,4 %	40,9 %	40,9 %	39,1 %	41,6 %	41,4 %	51,8 %	51,8 %	56,0 %
Net Gearing	75,0 %	115,4 %	54,1 %	19,8 %	6,2 %	6,2 %	26,0 %	32,5 %	47,4 %	0,0 %	0,0 %	-19,2 %
Net debt	5,0	5,9	4,1	1,7	0,6	0,6	2,2	3,1	5,3	0,0	0,0	-2,9
ROE	-19,9 %					11,6 %					33,3 %	30,5 %
ROCE	-3,7 %					11,2 %					25,7 %	26,5 %

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DIVISIONS (EURm)	2016	1Q17	2Q17	3Q17	4Q17	2017	1Q18e	2Q18e	3Q18e	4Q18e	2018e	2019e
Finland & Baltics												
Net sales	18,3	2,3	9,0	8,5	6,0	25,8	5,0	11,5	11,5	7,9	35,8	36,1
Grow th, y/y	11,9 %	-4,2 %	45,2 %	44,1 %	56,6 %	40,7 %	115,2 %	27,6 %	34,8 %	33,5 %	39,1 %	0,7 %
Grow th, q/q	0,0 %	-39,5 %	291,3 %	-5,6 %	-30,0 %	0,0 %	-16,8 %	131,9 %	-0,2 %	-30,7 %	0,0 %	0,0 %
EBIT (estimate)	-0,1	-0,9	1,5	1,0	0,4	2,0	-0,1	1,6	1,6	1,0	4,1	4,0
% of sales	-0,5 %	-39,1 %	16,1 %	11,8 %	6,7 %	7,6 %	-2,0 %	13,9 %	14,0 %	12,6 %	11,4 %	11,1 %
Russia & CIS												
Net sales	10,2	0,9	1,3	3,3	3,9	9,4	1,0	1,4	3,4	4,3	10,1	10,9
Grow th, y/y	-14,6 %	0,0 %	8,3 %	-8,3 %	-14,3 %	-8,3 %	11,1 %	7,7 %	3,0 %	10,4 %	7,5 %	7,5 %
Grow th, q/q	0,0 %	-80,2 %	44,4 %	153,9 %	18,1 %	0,0 %	-74,4 %	40,0 %	142,9 %	26,6 %	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 %	-14,3 %	5,9 %	7,0 %	0,0 %	4,0 %
Global Markets												
Net sales	7,6	1,5	2,9	2,1	1,8	8,3	1,6	3,0	2,3	3,0	9,9	11,4
Grow th, y/y	-29,3 %	15,4 %	16,0 %	8,6 %	-5,9 %	8,6 %	6,7 %	3,4 %	11,5 %	67,8 %	20,0 %	15,0 %
Grow th, q/q	0,0 %	-21,1 %	93,3 %	-28,9 %	-13,3 %	0,0 %	-10,5 %	87,5 %	-23,3 %	30,4 %	0,0 %	0,0 %
EBIT (estimate)	-0,2	-0,2	0,1	0,1	0,0	0,0	-0,2	0,2	0,2	0,3	0,4	0,8
% of sales	-2,6 %	-13,3 %	4,8 %	4,8 %	0,0 %	0,5 %	-12,5 %	5,0 %	6,5 %	10,0 %	4,0 %	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	31,6 x	9,0 x	7,6 x	7,3 x	YIT	21,5 x	11,6 x	9,2 x	8,8 x	YIT	23,9 x	11,7 x	9,8 x	9,4 x	YIT	0,5 x	1,6 x
Lehto Group Oyj	16,7 x	9,4 x	8,8 x	8,3 x	Lehto Group Oyj	12,2 x	9,8 x	9,1 x	7,9 x	Lehto Group Oyj	15,9 x	12,9 x	12,0 x	10,4 x	Lehto Group Oyj	1,0 x	6,0 x
SRV	12,9 x	11,7 x	7,8 x	6,7 x	SRV	16,2 x	13,0 x	8,4 x	7,2 x	SRV	33,0 x	10,3 x	5,5 x	4,3 x	SRV	0,5 x	0,7 x
JM	6,6 x	6,3 x	7,0 x	6,9 x	JM	5,2 x	6,3 x	7,0 x	7,6 x	JM	6,6 x	8,8 x	9,9 x	10,7 x	JM	0,8 x	2,2 x
Peab	9,1 x	8,0 x	7,8 x	7,7 x	Peab	11,0 x	10,9 x	10,6 x	10,7 x	Peab	11,3 x	12,5 x	12,3 x	12,5 x	Peab	0,5 x	2,2 x
NCC	7,4 x	6,8 x	5,9 x	5,4 x	NCC	13,5 x	9,6 x	7,9 x	7,2 x	NCC	17,3 x	13,3 x	10,8 x	9,9 x	NCC	0,3 x	3,1 x
Martela	3,7 x	5,3 x	5,4 x	5,0 x	Martela	n.m.	9,4 x	8,3 x	7,7 x	Martela	n.m.	11,3 x	8,8 x	7,9 x	Martela	0,3 x	1,2 x
Nibe	17,8 x	13,7 x	13,0 x	12,8 x	Nibe	18,6 x	17,3 x	16,1 x		Nibe	22,4 x	20,9 x	19,6 x	17,2 x	Nibe	2,2 x	3,2 x
Nobia	7,2 x	7,1 x	6,8 x	6,6 x	Nobia	8,8 x	8,7 x	8,3 x	7,9 x	Nobia	11,8 x	11,9 x	11,4 x	10,7 x	Nobia	0,9 x	2,7 x
Upper quartile	16,7 x	9,4 x	7,8 x	7,7 x	Upper quartile	16,8 x	11,6 x	9,2 x	8,2 x	Upper quartile	22,8 x	12,9 x	12,0 x	10,7 x	Upper quartile	0,9 x	3,1 x
Median	9,1 x	8,0 x	7,6 x	6,9 x	Median	12,9 x	9,8 x	8,4 x	7,8 x	Median	16,6 x	11,9 x	10,8 x	10,4 x	Median	0,5 x	2,2 x
Lower quartile	7,2 x	6,8 x	6,8 x	6,6 x	Lower quartile	10,4 x	9,4 x	8,3 x	7,5 x	Lower quartile	11,7 x	11,3 x	9,8 x	9,4 x	Lower quartile	0,5 x	1,6 x
Honkarakenne	6,8 x	3,6 x	2,8 x	2,3 x	Honkarakenne	13,5 x	5,1 x	3,8 x	3,2 x	Honkarakenne	24,4 x	6,3 x	5,3 x	4,8 x	Honkarakenne	0,4 x	1,8 x
% to median	-25 %	-55 %	-63 %	-67 %	% to median	5 %	-49 %	-55 %	-59 %	% to median	47 %	-47 %	-51 %	-54 %	% to median	-20 %	-19 %

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