



# MERKO EHITUS

Construction, Engineering & Real Estate

18 March 2014

Riga, Latvia



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# Group In Brief



## Construction services:

- General construction
- Civil engineering
- Road construction

Own developed real estate projects

Operates in  
Estonia (81% of revenue),  
Latvia (17%) and  
Lithuania (2%)



Share quoted on  
Nasdaq OMX  
Tallinn since 1997



# Value Offering

**Integrated project management and general contracting service across the full life cycle of construction projects.**

- ❖ From idea to planning to engineering design to site works to warranty: full responsibility to deliver the project.
- ❖ We mainly contract subcontractors, but also use own workforce in concrete works, road construction, high-and medium voltage electrical engineering, external pipe networks.
- ❖ We invest in real estate and develop homes for sale directly to consumers.
- ❖ We provide co-financing and share project risks, also in PPP

## **Our differentiation:**

- ❖ Experienced project managers and engineers
- ❖ Experience and influence on subcontractor market
- ❖ New engineering and construction solutions
- ❖ Strong financial capability relative to peers



# MARKET OVERVIEW

# Baltic Construction Market

## 2013 growth +11.3% y-o-y

- ❖ Construction works with own resources totaled EUR 5,652m in Baltics representing an increase of 11.3% y-o-y (2012: EUR 5,076m and +13.1%).
- ❖ Strongest growth in Lithuania 15.9% (2012: -4.1%), in Latvia 10.4% (2012: 27.2%) and in Estonia 7.6% (2012: 24.5%).
- ❖ Lithuanian construction market the largest in Baltics with 37.3% (2012: 35.9%) share, followed closely by Estonia 35.4% (2012: 36.6%) and Latvia 27.3% (2012: 27.5%).

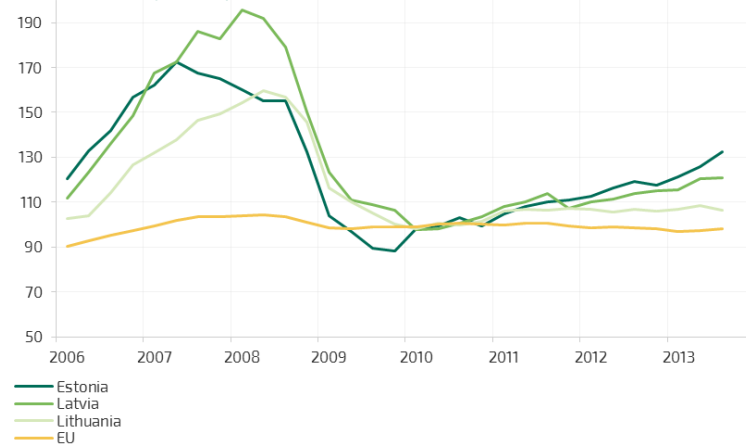
Merko's construction business market share:  
Estonia 6%, Latvia 2% and Lithuania less than 1%.  
Market is very fragmented.

Merko is the largest listed construction company in Baltics (followed by Nordecon and PST).

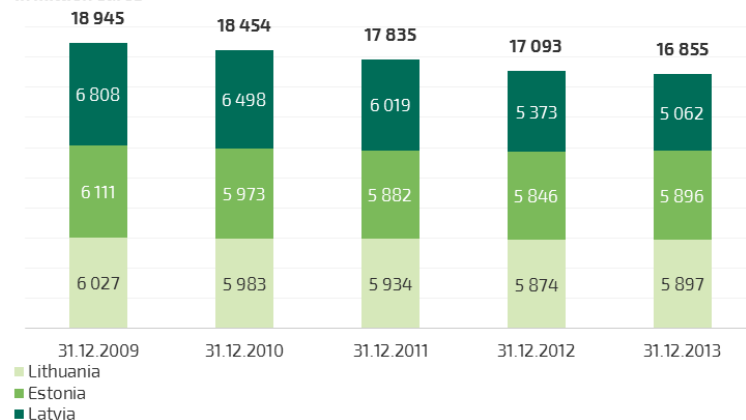


# Residential Real Estate Market Position

HOUSE PRICE INDEX (2010=100)



STOCK OF HOUSING LOANS  
in million euros



- ❖ Real estate prices (apartments) and transaction volumes have increased in all Baltic capitals during 2013.
- ❖ Balance of housing loans has continued to decrease in Latvia (-5,8%), Estonia and Lithuania have shown a slight increase (0,9% and 0,4% respectively). Favorable interest terms and consumer confidence has brought more people back to loan market to improve their living conditions.
- ❖ Latvian loan market still influenced by banks, who's real estate subsidiaries own a substantial portfolio of apartments and thus have significant influence on overall market and lending policies.
- ❖ Latvian market positively influenced by people from outside EU who invest in Latvian real estate to acquire a five-year residence permit.
- ❖ In Lithuania new apartments sold as „grey boxes“, i.e. without any finishing works or furnishings.

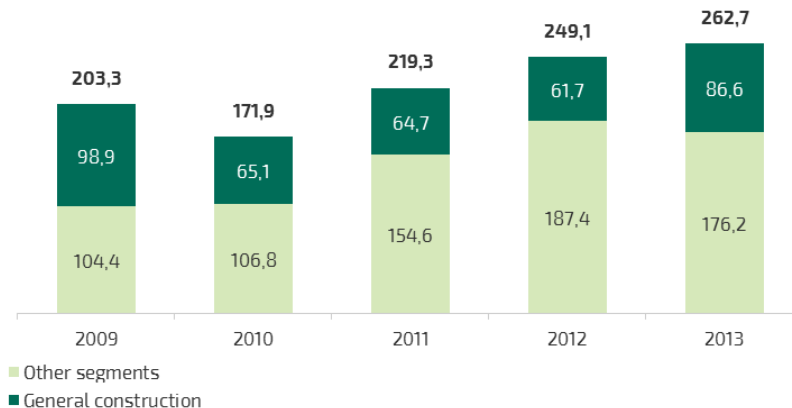
# BUSINESS ACTIVITIES



# General Construction



- ❖ Construction of buildings and facilities
- ❖ 33% of 2013 revenues (+40% y-o-y)
- ❖ Decrease since 2009 (2009: 43% of total revenues) due to increasing share of infra projects in recent years
- ❖ Markets: 

REVENUE  
in million euros

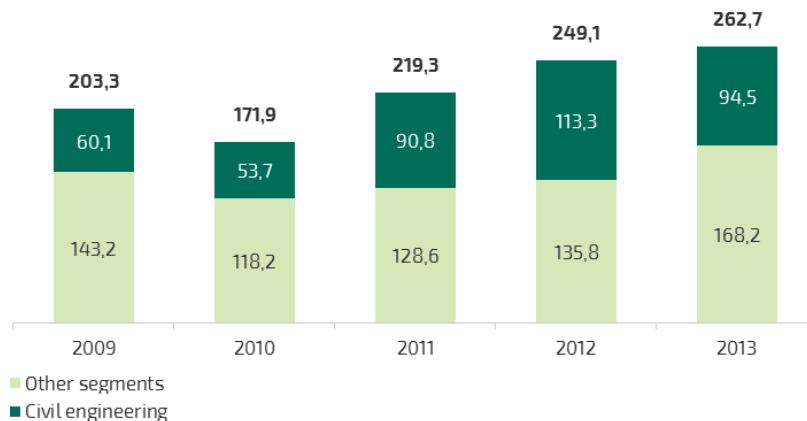


*Tornimäe residential building, 2007*

# Civil Engineering


- ❖ Infrastructure and engineering projects. Including water, environmental and electrical projects.
- ❖ 36% of 2013 revenues ( -17% y-o-y)
- ❖ EU funding is key
- ❖ Markets:  

REVENUE  
in million euros

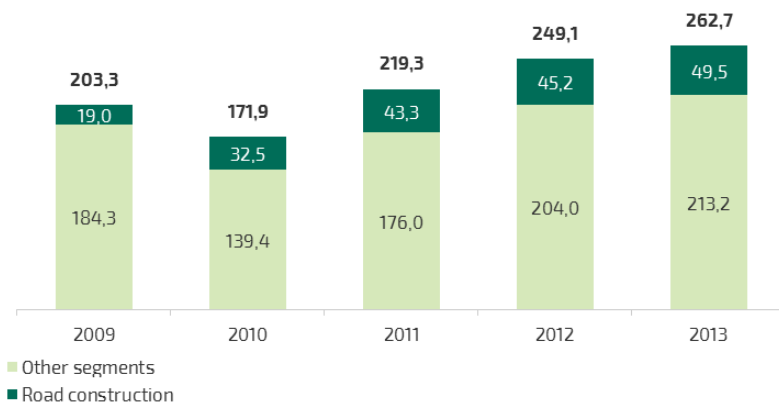


*Puurmani traffic knot, 2008*

# Road Construction

- ❖ Road construction and long-term road maintenance contracts
- ❖ 19% of 2013 revenues (+10% y-o-y)
- ❖ EU funding key
- ❖ Since 2010 large scale projects
- ❖ Market: 

REVENUE  
in million euros



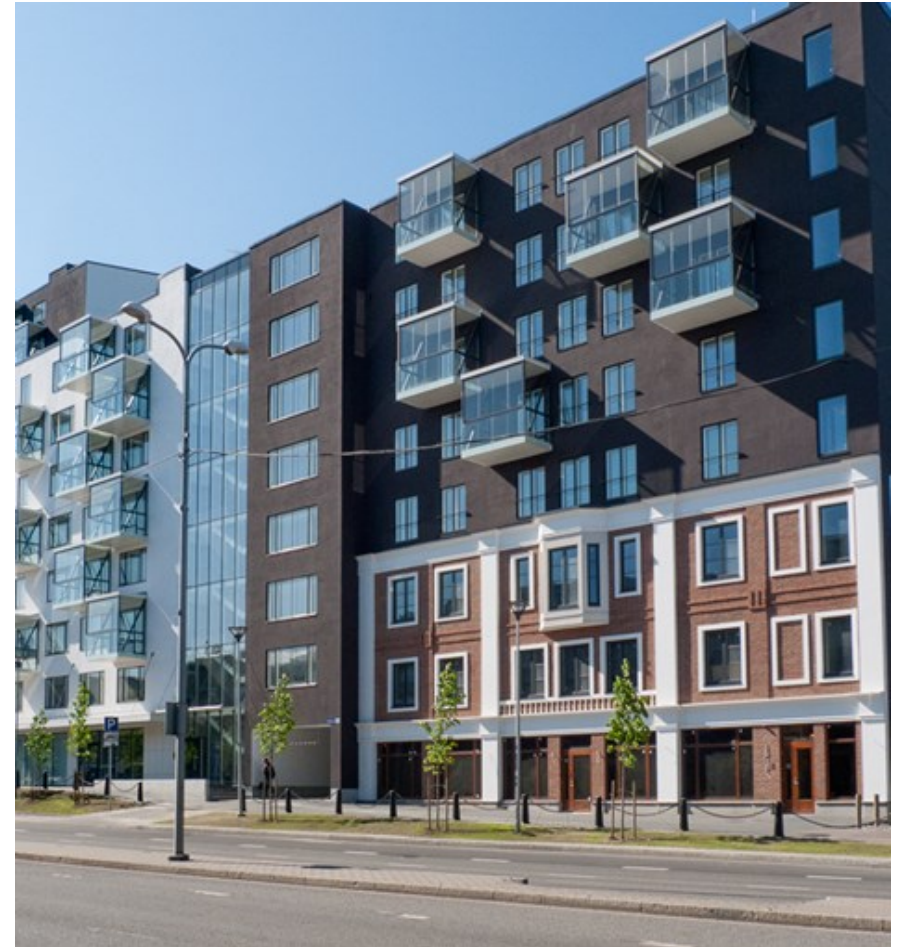
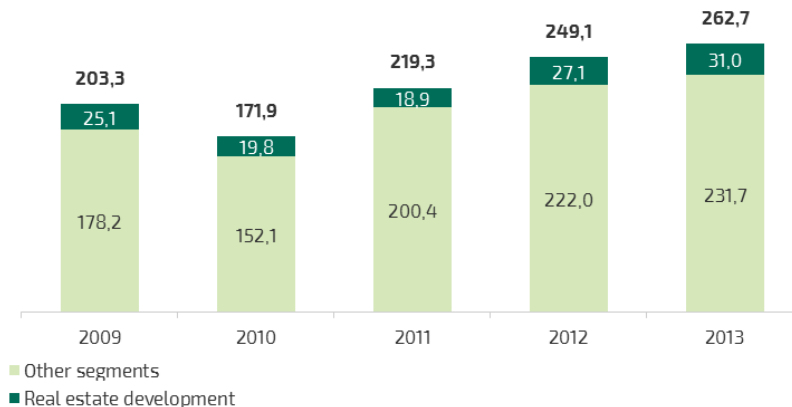
**Reconstruction of Ülemiste traffic junction, 2013**



# Real Estate Development

- ❖ Own development of residential apartments
- ❖ Merko has become the flagship of Baltics residential development
- ❖ 12% of 2013 revenues (+14% y-o-y)
- ❖ 2009-2011 downturn years
- ❖ Markets: 

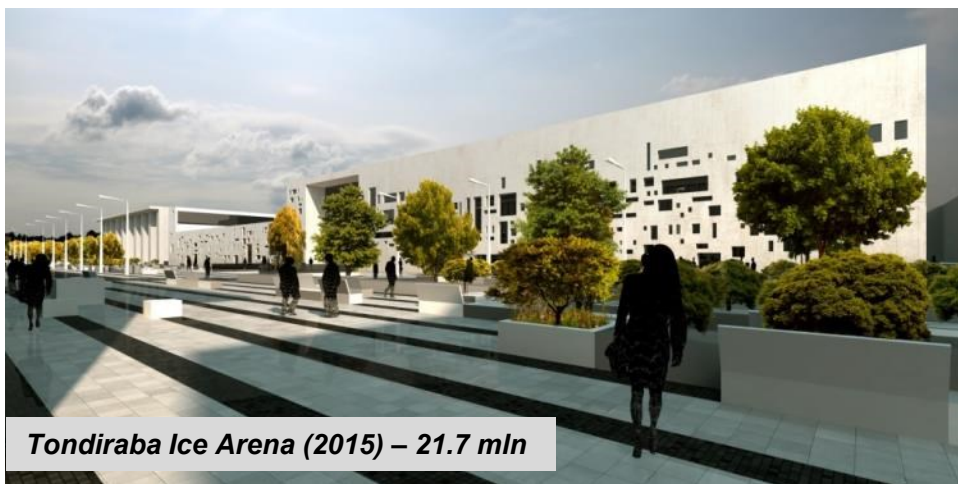
REVENUE  
in million euros



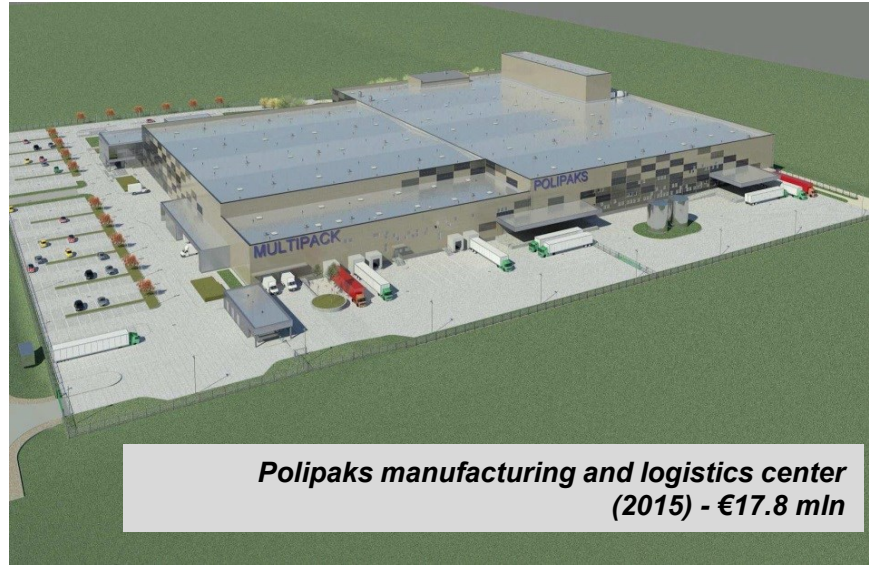
*Tartu mnt apartment buildings, 2012*



# 2014 Largest Projects In Progress Estonia



# 2014 Largest Projects In Progress Latvia





# 2014 Largest Projects In Progress Lithuania



# 2013 RESULTS



# 2013: Key Highlights

EUR millions	2013	2012	Variance
Revenue	262.7	249.1	+5.5%
Gross profit	22.7	17.9	+26.8%
Gross profit margin, %	8.6	7.2	+20.3%
EBITDA	15.1	11.4	+32.4%
Net profit, attributable to equity holders of the parent	10.4	7.6	+36.3%
Earnings per share (EPS), in euros	0.59	0.43	+36.4%
Secured order book	213.7	189.9	+12.5%
Employees	860	915	-6.0%

## The long-term financial objectives cover the period from 2013 till 2018:

- ❖ The minimum period average return on equity (ROE): 10%
- ❖ Dividend pay-out ratio: 50-70% of the annual profit
- ❖ Equity ratio: at least 40%

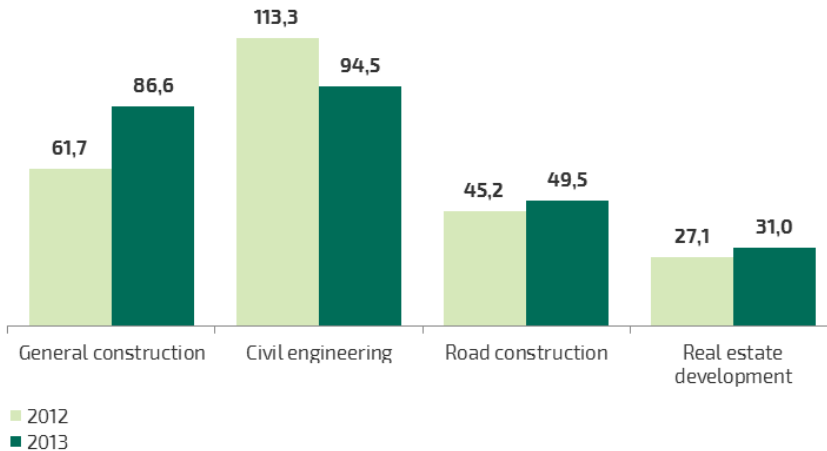
## 2013 actual:

- ❖ Annual return on equity (ROE): 8.8% (2012: 6.8%)
- ❖ Dividend pay-out ratio: 70% (2012: 70%)
- ❖ Equity ratio: 50.2% (2012: 52.0%)

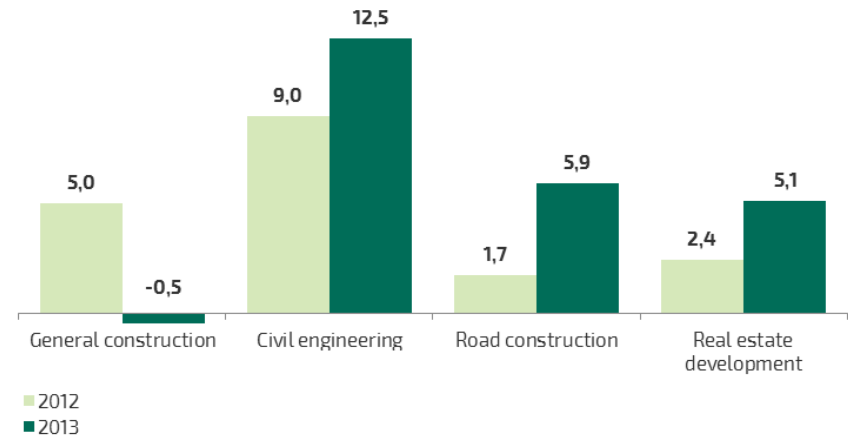
# Revenue & Gross Profit

## Improved y-o-y

REVENUE BY SEGMENT  
in million euros



GROSS PROFIT BY SEGMENT  
in million euros



### REVENUES

- ❖ The largest proportion of 2013 revenues still related to civil engineering projects financed with support from EU funds and state orders.
- ❖ 2013 private sector orders increased as ongoing trend.

### GROSS PROFIT

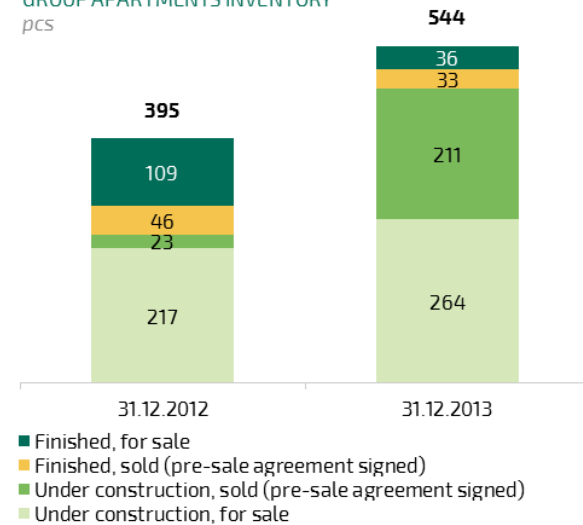
- ❖ Improved overall margin level from 7.2% to 8.6%.
- ❖ Positively impacted by road construction segment and real estate development segment however the general construction disappointed due to risks identified in the last quarter.

# Real Estate Development Apartments

APARTMENTS SOLD / APARTMENT REVENUE  
pcs / in million euros



GROUP APARTMENTS INVENTORY  
pcs

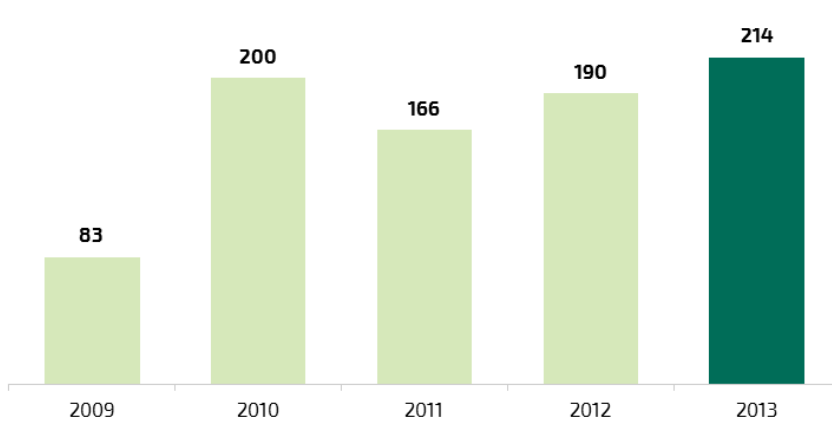


- ❖ 300 apartments on active sale (2012: 326).
- ❖ Construction of 409 apartments launched during 2013 (2012: 308 apartments).
- ❖ Keep the adequate level of inventory to meet the market demand.
- ❖ Focus to acquire new plots in Lithuania and Estonia.

# Stable Secured Order Book

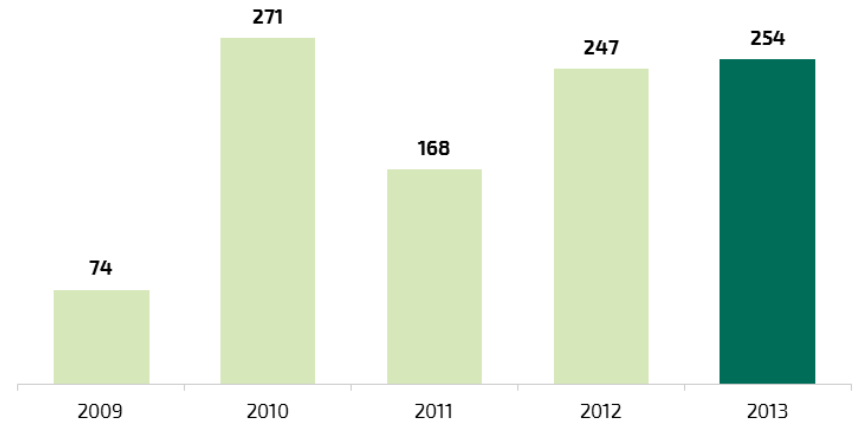
## SECURED ORDER BOOK

at the end of the period, in million euros



## NEW CONTRACTS SIGNED

during the period, in million euros

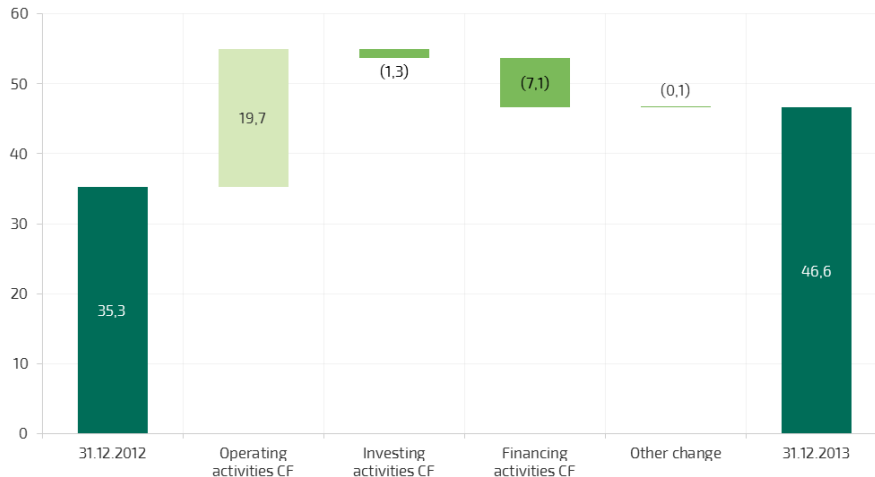


- ❖ Secured order book at EUR 213.7m (+12.5% compared to 2012).
- ❖ Order book is still dominated by public orders, however about half of new signed contracts during 2013 are related to private orders.
- ❖ Challenge for next 12 months to maintain the volume of new contracts.

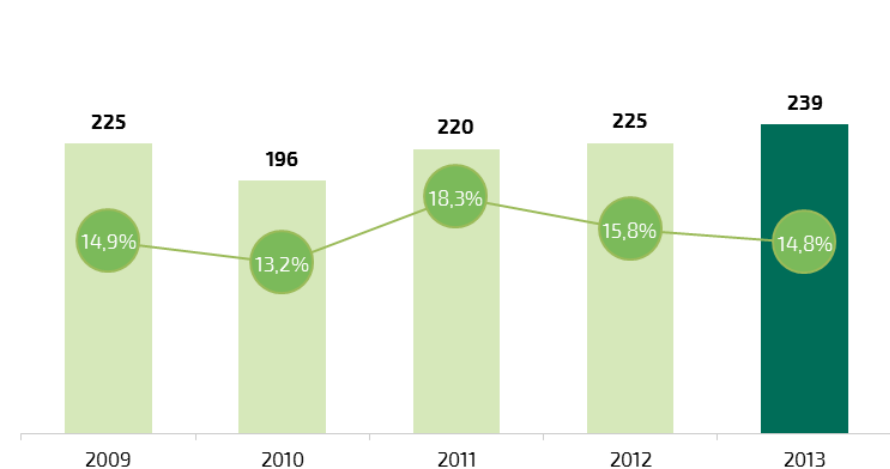


# Strong Balance Sheet and Cash Position

CHANGE IN CASH AND CASH EQUIVALENTS  
in million euros



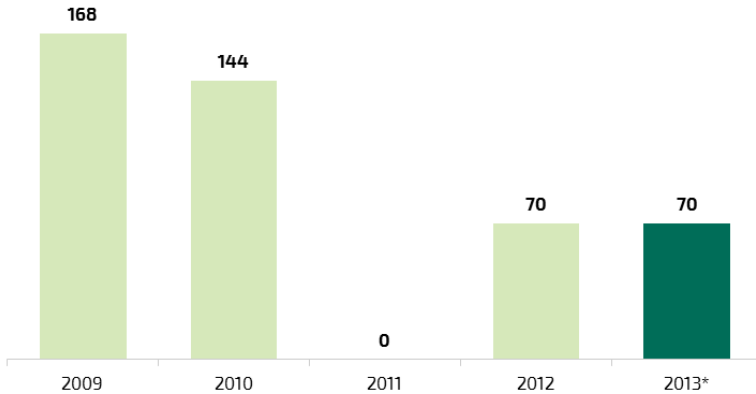
TOTAL ASSETS AND DEBT TO ASSETS RATIO  
in million euros / percentages



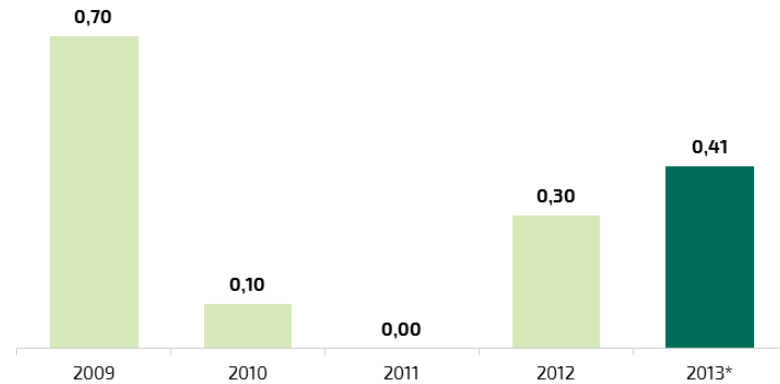
- ❖ Group's cash position at EUR 46.6m (31.12.2012: EUR 35.3m)
- ❖ The net debt amounted to EUR –11.2m and debt ratio is at a modest level of 14.8% (31.12.2012: EUR +0.2 and 15.8%)
- ❖ Current assets are at 2.0x current liabilities (31.12.2012: 2.1x)
- ❖ Equity at 50.9% (31.12.2012: 52.0%)

# Dividend proposal: EUR 0.41 per share 70% pay-out ratio

DIVIDEND RATE  
percentages

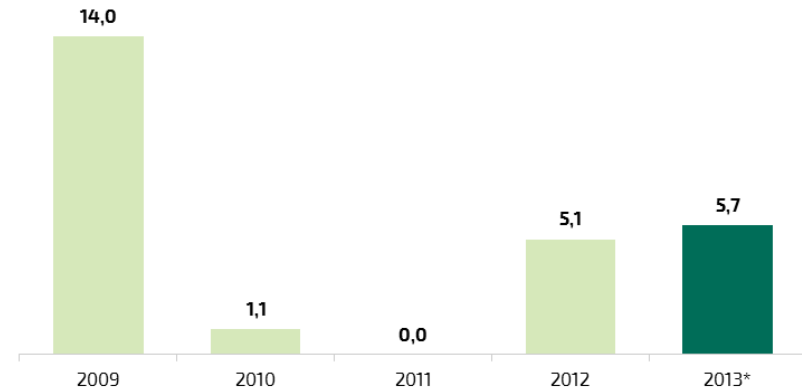


DIVIDEND PER SHARE  
in euros



- ❖ Dividend pay-out ratio according to long-term financial objectives: 50-70% of the annual profit.
- ❖ Dividend payment of EUR 5.3m in July 2013 (EUR 0.3 per share).
- ❖ The Management Board proposes to pay the shareholders the total amount of EUR 7.3 million as dividends (EUR 0.41 per share) in 2014.

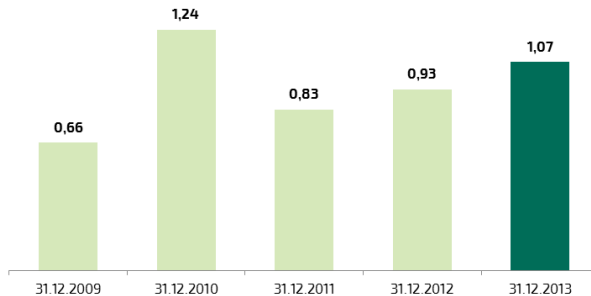
DIVIDEND YIELD  
percentages



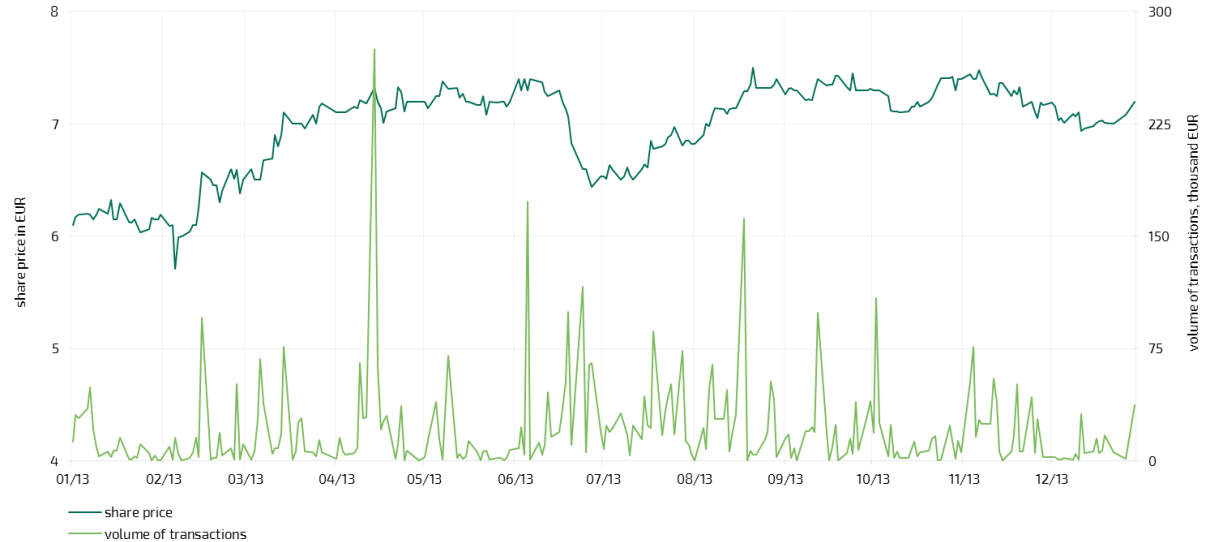
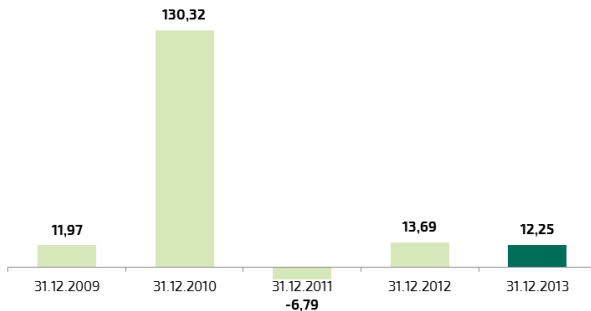
# Share Performance

- ❖ Market capitalization as at 31 December 2013 EUR 127.4m (31.12.2012: EUR 104,4m)
- ❖ The closing share price on 31 December 2013 EUR 7.20 (31.12.2012: EUR 5.90)

P/B RATIO  
times



P/E RATIO  
times



## Shareholders

Shareholders	No of shares	% of total 31.12.2013	% of total 31.12.2012	Variance
AS Riverito	12 742 686	71,99%	71,99%	-
ING Luxembourg S.A. AIF Account	974 126	5,50%	5,50%	-
Skandinaviska Enskilda Banken S.A.	481 379	2,72%	0,00%	481 379
Skandinaviska Enskilda Banken AB, Swedish clients	330 060	1,86%	5,07%	-566 804
Firebird Republics Fund Ltd	302 395	1,71%	1,71%	-
Gamma Holding OÜ	188 762	1,07%	0,92%	25 506
State Street Bank and Trust Omnibus Account a Fund No OM01	153 018	0,86%	0,86%	-
Clearstream Banking Luxembourg S.A. clients	141 262	0,80%	0,58%	38 765
Skandinaviska Enskilda Banken AB, Finnish clients	134 982	0,76%	0,71%	9 791
OÜ Midas Invest	131 185	0,74%	0,66%	14 130
<b>TOP 10 shareholders</b>	<b>15 579 855</b>	<b>88,01%</b>	<b>88,00%</b>	<b>2 767</b>
<b>Other shareholders</b>	<b>2 120 145</b>	<b>11,99%</b>	<b>12,00%</b>	<b>-2 767</b>
<b>Total shares</b>	<b>17 700 000</b>	<b>100,00%</b>	<b>100,00%</b>	

# **MARKET OUTLOOK AND 2014 FOCUS**

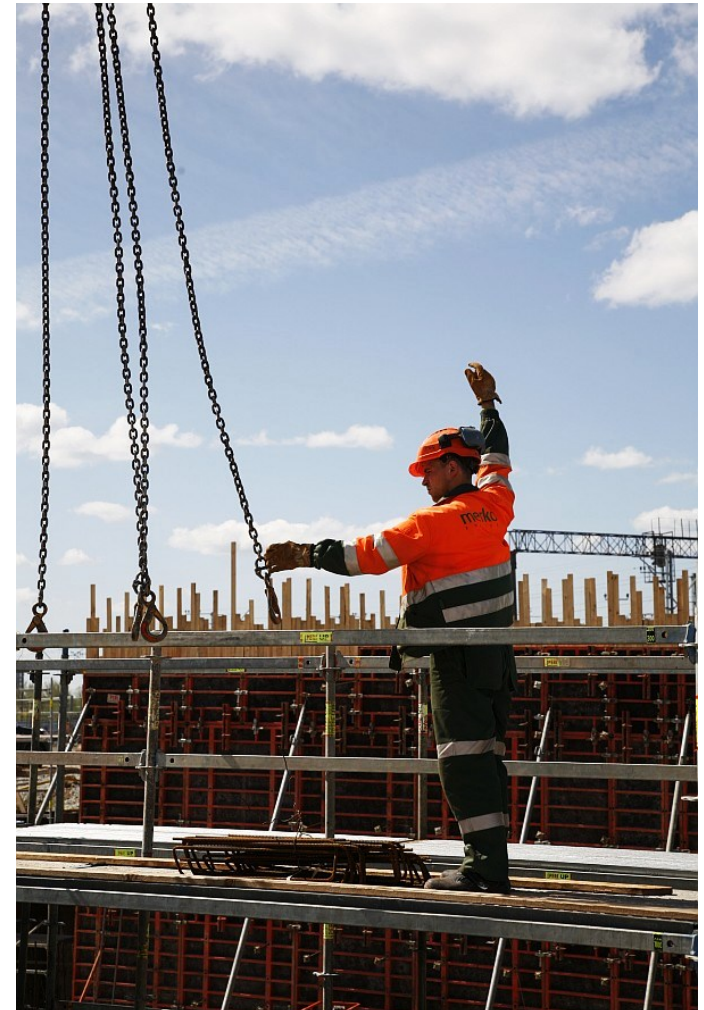


## Construction market

- ❖ A decrease of 10-15% y-o-y in construction volumes is expected in the Baltic States during 2014 and 2015.
- ❖ Continuing decrease of public sector procurements due to the end of EU funding period 2007-2013 and uncertainties around distribution of fund in EUs budget period 2014-2020.
- ❖ 2013 positive trends from private sector as the market has been picking up. Nevertheless the private sector will not be able to fully compensate the reduction of public procurements (especially external networks).
- ❖ Market has been turning increasingly competitive and aggressive on margins. This leads to a challenging position to keep the profitability levels.

## Property development

- ❖ Reasonable level of transactions and positive price movements due to low interest rates and limited supply of new flats during the last few years.
- ❖ Good potential to start new developments in all Baltic capitals. Supply of new apartments on sale to increase during 2014.
- ❖ Increased apartment offering in the future may bring about price stabilization and the prolongation of sales periods.



- ❖ Mitigation of project management risks
- ❖ Active positioning in residential real-estate. Improving quality and continuously introducing new and innovative housing solutions for consumers
- ❖ Work with private sector client relationships
- ❖ Improving efficiency. Structural changes and consolidation. Recruitment and competence development.
- ❖ Continuous search for new investment opportunities



# Contacts



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