



Reka Industrial Plc: Profitable growth

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January-September 2021

- The Group's turnover was EUR 118.3 million (EUR 86.7 million)
- EBITDA was EUR 9.1 million (EUR 6.4 million)
- Operating result was EUR 4.9 (2.7) million
- The result for the period was EUR 1.1 (0.2) million

Near-term outlook remains the same: In 2021 EBITDA (EUR million) is expected to improve, provided that predominant conditions due COVID-19 pandemic will not substantially affect to the company's capability to deliver. EBITDA will also be affected to what extent and how quickly we are able to pass on the continuous increase in material costs to sales prices as well as metal price fluctuations.

Figures in brackets refer to the same period a year earlier, unless otherwise stated. Reka Rubber, acquired in 2020, was merged with the Group on June 30, 2020.

Interim report is unaudited.

MANAGING DIRECTOR JUKKA POUTANEN:

In January-September, turnover increased significantly in both the cable and rubber industries. EBITDA has been improved despite the procurement and delivery capacity challenges of the industries.

In the cable industry, we have succeeded in serving our customers reliably despite ongoing sourcing challenges. In addition to the increase in turnover, this is reflected in the development of the cable industry's EBITDA. In January-September, turnover increased significantly. About half of the turnover increase in the cable business is explained by rising metal prices.

The impact of higher metal prices on the value of inventories and the net effect of metal and currency hedging supported the cable industry's EBITDA by approximately EUR 0.3 million, compensating sharply and unprecedentedly high acquisition costs, which can only be passed on to customer prices with a delay.

In the rubber industry, customer order volumes have grown strongly. The turnover of Polish production personnel has been high and the increase in production volumes has not been successful. Despite overtime and temporary labour, our delivery capacity has been poor, especially for Polish hose production. EBITDA is burdened by delivery capacity issues and additional costs. The main focus of the remedial measures is now on increasing the production capacity of hose production and streamlining the production process. Changes in production also improve the personnel situation. The prioritized measures will be completed mainly in the first quarter of 2022.

Cable business has made decision to increase production facilities space within Riihimäki factory. The additional space will be available in mid-2023.

The demand situation in both industries is good. COVID-19 and supply chain logistics have required a lot of effort to ensure material deliveries. Both material prices and costs of logistics have continued to rise strongly.

The Nordic cable market is growing and is expected to grow in the coming years. Our market share in Finland is strong and we aim to increase our market share in the other Nordic countries.

The rubber industry has a strong position in its selected market segments. Especially in construction equipment, the market share continues to grow. Enquiries in the truck industry have grown from before.

Green Bond funded projects have been taken forwards and new ones are ongoing. In the cable industry, investments have been made, specially to the projects relating to wind power and decreasing energy consumption. The rubber industry is currently working with customers on prototypes and pre-kits for products needed for electric commercial vehicles. Related volume deliveries will begin in 2023.

MAJOR EVENTS DURING THE FINANCIAL PERIOD

In January 2021 Reka Cables Ltd made an agreement of EUR 5.0 million loan limit. The limit is fixed term. There are covenant terms associated with the loan limit.

KEY FIGURES	1-9/2021	1-9/2020	1-12/2020
Turnover, EUR million	118.3	86.7	120.4
EBITDA, EUR million	9.1	6.4	9.4
Result for the period, EUR million	1.1	0.2	1.0
Earnings per share, EUR	0.19	0.03	0.16
Net cash provided by operating activities, EUR million	2.9	0.3	2.1

The entries of the IAS 19 defined benefit plan in the income statement are presented below the operating result as a separate item before the share of the result of associated companies. In this way, the development of Reka Industrial's business can be better monitored.

On 31 December 2020, Reka Industrial Group companies started preparations to remove the defined benefit plan in accordance with IAS 19. Within the new arrangement Reka Industrial Group companies are to pay a fixed (24 %) pension contribution and are not liable for any other obligations arising from the operations, liabilities, or financial situation of Reka Pension Fund. In the view of Reka Industrial Group management, the end result is a defined contribution plan for pensions. The new arrangement is estimated to be completed during year 2021.

COVID-19

The COVID-19 pandemic has not affected to the market demand in the cable segment. COVID-19 has caused additional costs and delivery delays as personnel has been more than usual on sick leave to eliminate the possible infection risk. The additional costs due COVID-19 pandemic is estimated to stress operating result of cable segment EUR 0.6 million from the beginning of the year. The additional costs have arisen from increased sick leave, overtime to replace them and additional staff, as well as increased freight costs due to the efforts to minimize delays due to sick leave through small and express deliveries.

The pandemic has reflected material procurement in both industries. Most of the materials have been able to be procured in time, but the shortages of raw materials, components and partly containers have brought additional work and challenges to sourcing. In the cable segment, material prices have even risen significantly in some cases. There is upward pressure on the prices of materials and components in the rubber segment. Logistic costs have risen clearly.

So far COVID-19 pandemic has not affected to the payment behaviour of the customers.

SEGMENTS

Reka Industrial's business segments are Cable Industry and Rubber Industry.

CABLE INDUSTRY

The Cable Industry's turnover for the review period was EUR 100.1 million (EUR 82.3 million, change 21.6 %). EBITDA was EUR 8.0 million (EUR 6.4 million, change 24.7 %).

Reka Cables Ltd's domestic sales volumes grew strongly compared to previous year. Export sales volumes also increased.

The industry's key raw materials are copper, aluminum and plastics. During the review period price variations of copper and aluminum have been significant. The prices of plastics have risen strongly, and availability has become more difficult.

At the beginning of the year the price of copper was EUR 6,308 per tonne and the price of aluminium was EUR 1,612 per tonne. At the end of September 2021, the price of copper was EUR 7,810 per tonne and the price of aluminum EUR 2,462 per tonne.

At its highest point, the daily price of copper during the review period was EUR 8,817 per tonne in May, and at its lowest in January, at EUR 6,430 per tonne. The price of aluminium has been at its highest in September, when it was EUR 2,507 per tonne, and its lowest in January, when it was EUR 1,609 per tonne.

Turnover for Nestor Cables Group, an associated company in the segment, in January-September 2021 was EUR 24.6 million (EUR 27.3 million). EBITDA was positive but lower than year before.

RUBBER SEGMENT

Rubber segment's turnover was EUR 18.3 million. EBITDA was EUR 1.4 million. Rubber segment's EBITDA is burdened by employee turnover, overtime, and express deliveries at the Polish production plant, as well as increased logistic costs. Reka Rubber was consolidated to the Group as of 30 June 2020.

Despite overtime and temporary labour, delivery capacity has been poor, especially for Polish hose production. Production volumes have been increased, but customer orders have grown even faster. In order to solve the situation and meet customer demand, hose production capacity will be increased and at the same time bottleneck process points will be developed with new technical solutions.

FINANCIAL POSITION

At the end of the review period, the balance sheet totalled at EUR 78.1 million. On 31 December 2020 the balance sheet totalled at EUR 73.2 million.

In January 2021 Reka Cables Ltd made an agreement of EUR 5.0 million loan limit. The limit is fixed term. There are covenant terms associated with the loan limit. At the end of September 2021, EUR 1.0 million of the loan limit was in use.

On September 30, 2021 the Group's interest-bearing loans excluding IFRS 16 leases were EUR 25.0 million (December 31, 2020 EUR 25.6 million). Of this amount EUR 17.4 million is long-term. Recourse related to financing of accounts receivables and included to interest-bearing loans was EUR 2.7 million in the end of September 2021 (December 31, 2020 EUR 1.5 million). Recourse arises in a situation where there is a delay in financing the accounts receivable at the end of the month or due to the customer's limit being met.

The Administrative Court has stated in its' decision in July 2021 that the subsidiary merge carried out in 2015 is not tax neutral. A total of EUR 1.3 million has been taken into account in the figures for the financial year following the decision of the Administrative Court. Tax and tax increase a total of EUR 1.1 million have been recorded in equity and other expenses in total EUR 0.2 million have been recorded through the income statement. Most of the amount has been paid and for the remaining EUR 0.5 million the company has agreed with the tax authority a payment schedule until June 2022. The company disagrees with the decision and has decided to seek a leave to appeal to the Supreme Administrative Court.

PERSONNEL

In January-September 2021, the Group employed an average of 552 (343) people. At the end of the review period, the personnel of the Group was 579 (496) employees.

RISKS AND UNCERTAINTY FACTORS

Reka Industrial's financial risks include currency, interest rate, commodity, liquidity, credit, and investment risks. Financial risks and the related protection measures are described in more detail in notes to the financial statements. The company's future risk factors are related to the development of its business segments.

In the cable segment, the most significant risks are related to market development, fluctuations of raw material prices and currencies as well as working capital management in various situations. During considerable seasonal changes, suppliers' terms of payment effect significantly on the ability to ensure competitive delivery times through sufficient inventories. Also, operation models are being developed in order to balance out the effects of seasonal changes on the load rates of factories. In cable business, COVID -19 pandemic has caused extra costs and delivery delays. It is difficult to estimate the effect of the pandemic for the future. The additional costs are expected to have also in year 2021.

In the cable segment of Reka Industrial the key raw materials are metals (copper and aluminum) and plastics. In the metals purchases partial price hedging is used with the aid of commodity derivatives. Important with metals are the development of both the dollar-denominated price and the USD / EUR exchange rate. Currency hedges are also made for the main selling currencies. Partial price fixing is used with electricity.

The financial situation in euro area and political uncertainties may have effect on purchase amount of the customers in rubber business as well to the start of new projects. COVID-19 pandemic has affected to the purchase amounts in customers in 2020 and it is difficult to estimate the effect of pandemic for the future.

The trade sanctions of USA increase of customs tariffs for the products as well Brexit can have negative effect on customer volumes in rubber industry. Also, the increased competition by Asian actors in euro area can have effect on customer's purchase decisions.

MAJOR EVENTS AFTER THE REVIEW PERIOD

There have not been any major events after the review period.

NEAR-TERM OUTLOOK

Near-term outlook: In 2021 EBITDA (EUR million) is expected to improve, provided that predominant conditions due COVID-19 pandemic will not substantially affect to the company's capability to deliver. EBITDA will also be affected to what extent and how quickly we are able to pass on the continuous increase in material costs to sales prices as well as metal price fluctuations.

In Hyvinkää 21.10.2021

Disclosure regulation

All comments in this report that do not refer to actual facts are future estimates. Such estimates include expectations concerning market trends, growth and profitability as well as statements including the words "believe", "assume" or "will be" or a similar expression. Since these estimates are based on current plans and estimates, they involve risks and uncertainty factors that may cause the actual results to differ substantially from current statements.

Among other things, such factors include 1) operating conditions, such as continued success in production and the ensuing efficiency benefits, availability and cost of production inputs, demand for new products and changes in circumstances affecting the acquisition of capital under acceptable conditions; 2) sector-specific circumstances, such as the intensity of demand for products, the competition, current and future market prices for the Group's products and related pricing pressures, the financial situation of the Group's customers and competitors and competitors' possible new products; and 3) the general economic situation, such as economic growth in the Group's main market areas and change in exchange rates and interest rates.

Figures in brackets refer to the same period a year earlier, unless otherwise stated.

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About Reka Industrial Oyj

Reka Industrial invests in modern society and reforms the industry that is the foundation of society. As an industrial family company, Reka Industrial is committed to developing the performance and sustainability of the companies it owns over the long term. Through the group's companies, we are involved in the transformation of the energy and vehicle industries. Reka Industrial class B shares are listed on the Nasdaq Helsinki Ltd.

Attachments

- [Download announcement as PDF.pdf](#)