

KREATE

Kreate's Half-year report January-June 2022: revenue and result grew in the first half – order backlog remains on high level

27.7.2022 08:30:00 EEST | Kreate Group Oyj | Half Year financial report

Kreate Group Plc Half-year report January-June 2022 27 July 2022 08:30 a.m. EEST

This release is a summary of Kreate Group's Half-year report January-June 2022. The complete Half-year report is attached, and also available on the company's website at <https://kreate.fi/en/investor/releases-and-reports/reports/>.

Kreate's Half-year report January-June 2022: revenue and result grew in the first half – order backlog remains on high level

April-June in brief

- Order backlog amounted to EUR 204.4 (157.5) million
- Revenue grew compared to the reference period, amounting to EUR 67.0 (52.9) million
- EBITDA was EUR 3.5 (3.4) million, amounting to 5.3 (6.3) per cent of revenue
- EBITA was EUR 2.4 (2.5) million, amounting to 3.6 (4.7) per cent of revenue
- Earnings per share were EUR 0.19 (0.20)
- Free cash flow from operating activities was EUR -0.4 (-3.7) million
- Interest-bearing net debt was EUR 29.4 (27.4) million
- Financial guidance remains unchanged: revenue and EBITA are growing compared to 2021

January-June in brief

- Revenue grew compared to the reference period, amounting to EUR 117.4 (91.2) million
- EBITDA was EUR 5.6 (5.1) million, amounting to 4.8 (5.5) per cent of revenue
- EBITA was EUR 3.5 (3.4) million, amounting to 3.0 (3.7) per cent of revenue
- Earnings per share were EUR 0.26 (0.17)
- Free cash flow from operating activities was EUR -1.6 (-3.6) million

Development in operating environment

The May economic assessment by the Confederation of Finnish Construction Industries states that construction is estimated to maintain a 2% growth rate in 2022. This estimate stands even though the impacts of Russia's offensive war in Ukraine are also reflected in the construction sector's operating environment. The end of 2021 saw the launch of several construction projects, and tendering remained at a good level in Q1 2022, which has contributed to the growth of construction companies' order backlog.

It is estimated that, as the year progresses and the war is prolonged, the outlook will suffer and the impacts increase. The highest uncertainties are related to the increase in costs due to the weaker availability of raw materials, delays in ongoing production, and postponement of investments. It is estimated that construction will decrease by a couple of per cent in the following year as new construction projects are delayed and investments are postponed. However, as the global situation fluctuates, the outlook can change quickly, and the assessment of a downturn in the following year is based on the current situation.

The construction industry and project profitability are affected by availability constraints and price challenges in terms of materials as well as the growing energy, fuel and raw material costs, among others. On the other hand, at the end of the first half, there were some positive signals of the prices evening out and, for example, steel price, which was high, even showed signs of decreasing. The development of costs and the cyclic nature of the costs evened out towards the end of the first half.

The Confederation of Finnish Construction Industries estimates that, in the infrastructure construction market, the growth in 2022 stands at 1.5 per cent and will decrease in the following year due to the combined effect of the rapid increase in costs, reduction in rail projects and municipalities' weak capacity for investments. Early in the year, the government and largest cities launched projects as in previous years, but the cuts made in the Ministry of Transport and Communications' budget are estimated to affect investments in major transport projects already during the current year. As government projects amount to 20% of the entire infrastructure construction market, cuts will have a limited impact on the total market. At the same time, the progress with industrial investments and the good level of other tendering activities will balance any government cuts in the infrastructure market.

Despite the weaker outlook in the government's infrastructure construction, the National Transport System Plan is expected to bring long-term developments exceeding individual governments' terms in office to the development of the transport network. The Plan involves a 12-year action programme, which includes actions by the government and municipalities and a government funding programme for the transport system. However, the municipalities' growing share of construction costs remains problematic; this may mean, at worst, that projects are not executed and the condition of the road and street network and railways will continue to deteriorate. The slowing down of economic growth does not support rapid growth in construction, and the demand for construction services is affected by the resilience of the state economy and its transformative capacity.

Any possible stimulus activities from the public sector and the transition away from Russian energy and raw materials will also create markets and opportunities for infrastructure actors. The infrastructure projects subjected to cuts in the near future are likely to start in the longer term, as the maintenance backlog keeps growing. Urbanisation, the infrastructure maintenance backlog and public sector projects are expected to continue to drive growth.

In its strategy, Kreate has chosen its business functions according to areas of structural engineering and transport infrastructure construction that will grow in the long term in line with the megatrends. Specialisation in demanding and versatile infrastructure is significantly more sustainable across business cycles than focusing on basic infrastructure construction.

Accordingly, Kreate estimates that, overall, the market for suitable structural engineering and transport infrastructure construction in 2022 will remain around the level of the previous year.

Key figures

| EUR million | 4-6/2022 | 4-6/2021 | 1-6/2022 | 1-6/2021 | 1-12/2021 |
|--|----------|----------|----------|----------|-----------|
| Order backlog | | | 204.4 | 157.5 | 202.8 |
| Revenue | 67.0 | 52.9 | 117.4 | 91.2 | 237.6 |
| Year-on-year change in revenue, % | 26.6 | -8.8 | 28.7 | -15.5 | 1.0 |
| EBITDA | 3.5 | 3.4 | 5.6 | 5.1 | 14.2 |
| EBITDA, % | 5.3 | 6.3 | 4.8 | 5.5 | 6.0 |
| EBITA | 2.4 | 2.5 | 3.5 | 3.4 | 10.5 |
| EBITA, % | 3.6 | 4.7 | 3.0 | 3.7 | 4.4 |
| Operating profit | 2.4 | 2.4 | 3.4 | 3.3 | 10.4 |
| Operating profit, % | 3.5 | 4.6 | 2.9 | 3.6 | 4.4 |
| Result for the period | 1.6 | 1.8 | 2.3 | 1.4 | 6.9 |
| | | | | | |
| Capital employed | | | 68.5 | 63.0 | 62.0 |
| Return on capital employed, % | | | 16.0 | 15.7 | 17.8 |
| Return on equity, % | | | 20.9 | 16.6 | 20.4 |
| Net investments in operating activities | -1.0 | -2.1 | -2.8 | -2.8 | -4.9 |
| Free cash flow from operating activities | -0.4 | -3.7 | -1.6 | -3.6 | 4.0 |
| Net working capital | | | 3.6 | -0.3 | -0.0 |
| Net debt | | | 29.4 | 27.4 | 20.9 |
| Net debt/EBITDA, rolling 12 months | | | 2.0 | 2.1 | 1.5 |
| Equity ratio, % | | | 31.6 | 33.4 | 38.6 |
| | | | | | |
| Earnings per share, € | 0.19 | 0.20 | 0.26 | 0.17 | 0.80 |
| - | | | | | |

| | | | | | |
|------------------------------------|-----|-----|-----|-----|-----|
| Personnel at the end of the period | | | 424 | 412 | 385 |
| Personnel on average | 407 | 396 | 393 | 390 | 392 |

President & CEO Timo Vikström:

“As expected, Kreate’s revenue and operating profit in the first half of the year grew above the reference period. The strong order backlog contributed to this. Revenue for the first half of 2022 was EUR 117.4 (91.2) million and operating profit was EUR 3.4 (3.3) million. The order backlog remained at a high level and amounted to EUR 204.4 (157.5) million at the end of the reporting period.

At the end of H1, cash flow became stronger, even though it was still negative in Q2. Cash flow’s development was affected front end weighted procurement and investments for ensuring the progress of projects and minimising the risks related to profitability. On the other hand, relative profitability was impacted by multi-year projects in which risk management measures were already being implemented based on the increase in costs driven by the COVID-19 pandemic. These projects are ending this year, and their opportunities and risks have been considered according to the best knowledge. However, due to the increase in construction costs caused by Russia’s offensive war, negotiations will be necessary in long-term projects. Through systematic anticipatory measures and constructive dialogue with customers, we have reduced future risks and contributed to keeping our profitability at a good level. In new projects, the increase in cost level can be addressed even better than before as the development of prices has evened out.

Our order backlog reached record-high levels in Q1, and its growth was stable also in April-June. Our rail unit won several contracts, the largest of which were over five million contracts for the new traffic sites between Oulu and Kontiomäki and the Juurikorpi passing place along the extensive Kouvola-Kotka-Hamina railway project. In Hervanta, Tampere, we launched a transport infrastructure and bridge project worth EUR 7.5 million. In April-June, we started new foundation and concrete construction projects with a total value of approximately EUR 15 million. The largest of these is the approximately EUR 6 million project for renovating the railway station tunnel in Pieksämäki. In April, we also started the construction of flood protection for Mustapuro stream and the renovation of the Itäväylä road bridges, which grew our order backlog by EUR 6 million. The contract for renovating the Kirjalansalmi and Hessundinsalmi bridges along Highway 180, with a value of more than EUR 100 million, is expected to move into the execution stage and enter the order backlog during the second half of 2022.

In addition to our order backlog, we strengthened our organisation with strategically important recruitments particularly in the rail, bridge and special foundation construction segments. Despite the lack of skilled labour across the entire construction industry, Kreate was an attractive employer, and we managed to improve our competitiveness with strategic hiring decisions. In addition to hiring new experts, it is equally important to maintain the high professional skill and occupational well-being of our current employees. We strengthened our employees’ competence through diverse training sessions and on the job learning and offered individual well-being coaching, among other things.

In the spring, Kreate established the subsidiary Kreate Infra Sverige Ab in Sweden, which will support our internationalisation efforts in line with our strategy. Sweden will become a new cornerstone for Kreate’s operations that will complement the current offering. During the reporting period, Christian Jonsson started in the position of the company’s CEO. He has strong experience in specialised infrastructure construction and business management. The Swedish infrastructure market is twice as large as the market in Finland, and it offers Kreate – a leading infrastructure builder that focuses on competence – excellent opportunities for growth. In the coming years, the Swedish market is expected to still grow faster than the Finnish market.

In tendering, we have been more diligent in our assessments with a view to minimise project risks in a situation where the cost level has grown and there is little visibility. Risk assessments help us consider cost effects in tendering as well as project execution. With our high order backlog and flexible cost structure, we can avoid unnecessary risks in project acquisition which, in turn, supports keeping our profitability on a good level. Moreover, we have continued protecting the profitability of our operations with index conditions and advance purchases as well as price negotiations with clients and subcontractors.

Despite the cyclic nature of the cost level, the market shows signs of stabilisation, and visibility has improved. The market has adapted, and new ways of manufacturing and acquiring products and materials have emerged. With the increase in supply, the rise of construction material costs has slowed and even a slight decrease in prices has occurred in some product segments.

Although a slight decrease is expected in the government’s infrastructure construction budget, industrial investments appear to continue moderately actively for now. Moreover, in the longer term, the move to alternative energy sources will provide opportunities for taking action and improvement in the infrastructure construction market. This year as well, our organisation’s improved technical strength and steadily developing order backlog support our target of remaining on a profitable growth track in line with our strategy.”

Result guidance for 2022 (published on 26 January 2022)

Kreate estimates that its revenue (2021: EUR 237.6 million) and EBITA (2021: EUR 10.5 million) will grow compared to 2021.

Justifications:

Kreate's strong order backlog and specialisation in demanding construction as well as the stable infrastructure construction market support the company's strategic growth forecast.

Kreate Group's financial reporting

Kreate Group Plc will publish the financial reports in 2022 as follows:

- Interim report for January–September 2022: 26 October 2022

Webcast event for analysts and media

A live webcast for analysts and media will be held today, 27 July 2022, at 11:00 a.m. The event will be in Finnish. President & CEO Timo Vikström and Chief Financial Officer Mikko Laine will be presenting at the event. The webcast can be followed live in Finnish at <https://kreate.videosync.fi/q2-2022-tulosjulkistus>. A recording of the webcast will be made available later at <https://kreate.fi/sjoittajille/tiedotteet-ja-raportit/raportit-ja-esitykset/> and a summary in English will become available at <https://kreate.fi/en/investor/releases-and-reports/reports/>.

Kreate Group Plc
Kirsi-Marjut Dickman
Communications Manager

Distribution: Nasdaq Helsinki, key media, kreate.fi/en

Contacts

- Mikko Laine, CFO, Kreate Group Oyj, +358 50 599 9201, mikko.laine@kreate.fi
- Timo Vikström, President & CEO, Kreate Group Oyj, +358 400 740 057, timo.vikstrom@kreate.fi

About Kreate Group Oyj

Kreate Group is one of the leading infrastructure construction companies in Finland. The company offers solutions for bridges, roads and railways, environmental and ground engineering, circular economy and geotechnical needs. As a specialist in demanding projects, Kreate focuses on comprehensive quality and cost-effectiveness. The group's revenue was approximately EUR 238 million in 2021 and the company has over 400 employees. Kreate Group is listed on Nasdaq Helsinki.

Attachments

- [Download announcement as PDF.pdf](#)
- [Kreate Group Half-year report 1-6-2022.pdf](#)