

KREATE

Kreate's Interim Report: Revenue and order backlog grew to record levels - cost inflation brought down operating profit

26.10.2022 08:30:00 EEST | Kreate Group Oyj | Interim report (Q1 and Q3)

Kreate Group Plc

Interim Report January-September 2022

26 October 2022 08:30 a.m. EEST

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

Kreate's Interim Report: Revenue and order backlog grew to record levels - cost inflation brought down operating profit

July-September in brief

- Order backlog amounted to EUR 284.2 (202.8) million
- Revenue grew compared to the reference period, amounting to EUR 73.3 (70.6) million
- Year-on-year change in revenue was 3,9% (8,0%)
- EBITDA was EUR 4.2 (5.1) million, amounting to 5.7 (7.2) per cent of revenue
- EBITA was EUR 3.0 (4.1) million, amounting to 4.1 (5.8) per cent of revenue
- Earnings per share were EUR 0.23 (0.34)
- Free cash flow from operating activities was EUR -10.1 (-0.2) million
- Interest-bearing net debt was EUR 46.8 (28.1) million
- Guidance updated 30th of September: Revenue will grow and amount to EUR 250-260 million. EBITA will decrease to a level of EUR 8.5-9.5 million.

January-September in brief

- Revenue grew compared to the reference period, amounting to EUR 190.8 (161.8) million
- Year-on-year change in revenue was 17,9% (-6,6%)
- EBITDA was EUR 9.8 (10.1) million, amounting to 5.2 (6.3) per cent of revenue
- EBITA was EUR 6.5 (7.5) million, amounting to 3.4 (4.6) per cent of revenue
- Earnings per share were EUR 0.49 (0.52)
- Free cash flow from operating activities was EUR -11.7 (-3.8) million

Development of the operating environment

In its October assessment, the Confederation of Finnish Construction Industries repeated its earlier estimate of 2% growth in construction for 2022. The growth forecast for this year is supported by the construction industry's good existing work backlog that resulted from the large number of projects started in late 2021 and early 2022. Starting from the second quarter, the impacts of Russia's attack on Ukraine and the high level of inflation, rise of interest rates and financial imbalance which accelerated during the latter half of the year have also affected the construction industry's operating environment.

With the changes in the operating environment and the degraded outlook, construction is expected to decline by two per cent in 2023. The slowing down of multi-storey construction, delays in infrastructure investments and the downturn in the economy of the government and municipalities will, in particular, contribute to the decline. However, Finland has been at a higher level than the rest of Europe in terms of construction investments for a long time, and an estimated decrease of 10% in housing construction in 2023, for example, will bring it closer to the longer-term normal level. As regards infrastructure construction, the Confederation of Finnish Construction Industries lowered its earlier estimate and predicted that earth and water construction will take a turn towards a 2% decline in 2022 and to contract by 2% next year due to rapid cost increases, a reduction of the government's transport infrastructure investments and the municipalities' weak capabilities for investment. As other areas of construction decline, repair projects are estimated to keep growing. The outlook may change rapidly, and the estimate of a moderate decline for next year contains the assumption that cost inflation stabilises and that the financial markets continue to operate normally. According to the forecast of the Confederation of Finnish Construction Industries, construction will return to growth in 2024.

In January–September, the construction industry and project profitability were affected by availability constraints and price challenges in terms of materials as well as the growing energy, fuel and raw material costs. On the other hand, towards the end of H1, there were clear positive signals of the material price levels stabilising. Even though the prices remain at a high level, the development and cyclicity of costs continued to stabilise during the third quarter, while also increasing predictability in tendering.

Early in the year, the government and largest cities continued to launch projects as in previous years, but the cuts made in the Ministry of Transport and Communications' budget have already affected investments in major transport projects already during the current year. Furthermore, scheduling challenges in projects led by the government have created pressure in the activity planning of construction companies. The cuts will have a limited impact on the total market, since government projects amount to about 20% of the entire infrastructure construction market. At the same time, the progress with repair projects and investments in trade and industry will balance any government cuts in the infrastructure market. Railway construction also seems to remain at a good level for the time being.

Despite the weaker government economy and outlook of infrastructure construction, the National Transport System Plan is expected to continue bring long-term developments exceeding individual governments' terms in office to the development of the transport network. However, the municipalities' growing share of construction costs remains problematic; this may mean that projects are not executed and the condition of the road and street network and railways as well as the light rail network will continue to deteriorate. At the moment, the market outlook is that only the largest cities will continue their investments in construction. An economic downturn does not support the rapid increase of construction needs or the reduction of the maintenance backlog. The construction industry remains ready to drive economic growth, but the demand for construction is also largely affected by the stakeholders' ability to renew themselves and the tolerance of the government's economy.

Any possible stimulus activities from the public sector and the transition away from fossil fuels towards renewable energy alternatives 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 and downturns than focusing on basic infrastructure construction. The regularly starting projects in the private sector, especially in the fields of industry and trade, create demand for an actor like Kreate. Furthermore, Kreate's expansion into Sweden, which has an infrastructure market twice the size of Finland's, offers opportunities for growth in the technically demanding infrastructure construction projects in the Greater Stockholm area, for example.

Despite the slowdown in public sector tendering during the third quarter, Kreate estimates that the overall market for suitable structural construction and transport infrastructure construction in 2022 will remain around the level of the previous year.

Key figures

EUR million	7-9/2022	7-9/2021	1-9/2022	1-9/2021	1-12/2021
Order backlog			284.2	202.8	202.8
Revenue	73.3	70.6	190.8	161.8	237.6
Year-on-year change in revenue, %	3.9	8.0	17.9	-6.6	1.0
EBITDA	4.2	5.1	9.8	10.1	14.2
EBITDA, %	5.7	7.2	5.2	6.3	6.0
EBITA	3.0	4.1	6.5	7.5	10.5
EBITA, %	4.1	5.8	3.4	4.6	4.4
Operating profit	2.9	4.1	6.3	7.3	10.4
Operating profit, %	4.0	5.8	3.3	4.5	4.4
Result for the period	2.1	3.1	4.4	4.5	6.9

Capital employed			88.0	66.7	62.0
Return on capital employed, %			12.1	15.3	17.8
Return on equity, %			17.0	15.6	20.4
Net investments in operating activities	-0.8	-0.6	-3.7	-3.5	-4.9
Free cash flow from operating activities	-10.1	-0.2	-11.7	-3.8	4.0
Net working capital			17.0	3.8	-0.0
Net debt			46.8	28.1	20.9
Net debt/EBITDA, rolling 12 months			3.4	2.1	1.5
Net debt/EBITDA, rolling 12 months pro forma			3.1		
Equity ratio, %			29.7	32.3	38.6
Earnings per share, €	0.23	0.34	0.49	0.52	0.80
Personnel at the end of the period			450	392	385
Personnel on average	428	398	403	392	392

President & CEO Timo Vikström:

“In the third quarter, we took systematic and efficient steps on our strategic path to growth. In September, we both executed a business acquisition and extended our expertise in railway construction with electric railway and safety device business areas. The business acquisition reinforces our foothold in Sweden and adds opportunities for building profitable business on the Swedish infrastructure market, which is twice the size of Finland’s. Our expansion into electric railways and safety devices, for its part, reinforces our expertise in railway construction. Projects are becoming more multifaceted, as the green transition and digitalisation are being accelerated and both people and goods are more and more moving onto rails and around them. Strengthening our position and expertise as the infrastructure builder for technically demanding locations further reinforces our competitiveness, and both our investments will support revenue growth and profitability going forward.

At the end of the reporting period, we reported that we are lowering our EBITA guidance for the current financial year and specifying our revenue growth forecast. Even though our strong order backlog, specialisation in demanding construction and the stable infrastructure construction market have supported the company’s revenue and order backlog as expected, the impacts of cost inflation within our operating environment are partially unavoidable. Long-term projects started in earlier years that are not bound to an index and, in particular, the increase in fuel costs and energy prices will impact the development of EBITA and relative profitability more than estimated during the current financial year. However, for the projects started this year, we have been able to account for changes in the cost level better than earlier, and cost inflation is not expected to affect the next year’s results in the long-term projects.

Kreate’s net sales of the third quarter rose to a higher level compared to the comparison period, and the operating result decreased. Revenue for the January–September was EUR 190.8 (161.8) million and operating profit was EUR 6.3 (7.3) million. In addition to seasonal variation that is typical to the industry, net working capital and cash flow were negatively impacted by ongoing large projects, some of which will enter the handover stage during the rest of the year. Furthermore, front-end-weighted acquisitions made in order to improve profitability will continue to have a positive impact on net working capital. In addition to the increase in net working capital, net debt was increased by the loan taken out for the corporate acquisition.

Our order backlog grew by EUR 120 million due to the alliance project for renovating the Kirjalansalmi and Hessundinsalmi bridges along Highway 180, which entered the execution stage at the end of the reporting period. The largest bridge project in Kreate’s history, which is also technically challenging, is an excellent example of our strong competence and competitiveness. Furthermore, we grew our order backlog by EUR 11 million by winning transport infrastructure construction projects, the largest of which is the pre-construction of Haakoninlahti and Koirasaari in Helsinki that will start

during the last quarter of 2022. This brought our order backlog to a record level of EUR 284.2 (202.8) million, which also brings added predictability to future years.

At the moment, the impact of external factors on the development of the construction market is stronger than it has been in decades. The increase of interest rates, high level of inflation, an imbalance in the public finances and many other factors have made Finland's position more difficult in the international competition for investments and slowed down public sector tendering activities domestically. For years, the construction industry has been the driver of growth in the Finnish economy, and it continues to hold the keys to continuing the positive development in the future. In order to ensure this, however, all stakeholders in the construction cluster need to make an effort.

Where there is a will, there is also a way to improve the situation. Fluent zoning, functional legislation and an enabling financial market can keep housing costs in check even in a declining housing market. A sufficient level of housing production would also reflect positively on the foundation and special foundation construction markets. Finland's logistics capabilities, safety and competitiveness, for their part, can be ensured by creating functional financing models for large traffic investments and ensuring a sufficient level of investment for basic transport infrastructure maintenance. The increase in energy efficiency and reduction in emissions required by the green transition are popular topics, and in construction, they can be achieved by means of the circular economy, smart land use and investments in energy-efficient repair construction.

With the right mindset and genuine cooperation, construction can continue to act as a growth driver in the Finnish economy. Despite the uncertainty on the global stage, our outlook on the future is positive: The projects regularly starting on the private sector provide opportunities for a company like us that specialises in demanding infrastructure construction, and our strong expertise gives us fairly good prerequisites for succeeding even on a more challenging market."

Result guidance for 2022 (published on 30 September 2022)

Kreate estimates that the company's revenue (2021: EUR 237.6 million) will grow compared to 2021 and will be approximately EUR 250-260 million. EBITA (2021: EUR 10.5 million) will decrease to a level of EUR 8.5-9.5 million.

Justifications:

Kreate's strong order backlog and specialisation in demanding construction as well as the stable infrastructure construction market have supported the company's revenue and order backlog as expected. The Highway 180 Kirjalansalmi and Hessundinsalmi bridge renovation project, which will launch in Q4, is already increasing the revenue for 2022 and is an excellent example of Kreate's strong expertise and competitiveness.

The changes in the operating environment due to cost inflation, which are particularly reflected in increased fuel costs and energy prices, as well as the earlier long-term projects that are not bound to an index will impact the development of EBITA and relative profitability more than estimated during the 2022 financial year. Long-term projects or general cost inflation are not expected to impact the result in 2023. In the contracts signed in 2022, attempts have been made to take the changes in the cost level into account better than before through contractual means.

Furthermore, the company's accelerated strategic expansion to the electric railway and safety device business, which was announced in September, will result in one-time costs in 2022. However, the investments made at this time will enable the more effective implementation of growth plans in railway construction in the coming years.

Previous 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

The planned publication date for Kreate Group Plc's financial statements bulletin in 2023

Financial statement bulletin for 2022: 31 January 2023

Webcast event for analysts and media

A live webcast for analysts and media will be held today, 26 October 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/2022-q3-tulosjulkistus>. A recording of the webcast will be made available later at <https://kreate.fi/sijoittajille/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 Interim Report Q3-2022.pdf](#)