

KREATE

Kreate's Interim Report: Revenue grew 30% - investments in growth weakened profitability

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Kreate Group Plc

Interim Report January–March 2023

28 April 2023 08:30 a.m. EEST

This release is a summary of Kreate Group's Interim Report January–March 2023. 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 grew 30% - investments in growth weakened profitability January–March in brief

- Order backlog amounted to EUR 265.7 (208.8) million
- Revenue grew compared to the reference period, amounting to EUR 65.8 (50.4) million
- The year-on-year change in revenue was 30.5% (31.6%)
- EBITDA was EUR 1.0 (2.1) million, amounting to 1.5 (4.2) per cent of revenue
- EBITA was EUR -0.4 (1.1) million, amounting to -0.6 (2.2) per cent of revenue
- Earnings per share were EUR -0.08 (0.07)
- Free cash flow from operating activities was EUR -3.3 (-1.2) million
- Interest-bearing net debt was EUR 38.0 (23.1) million
- Guidance unchanged: Kreate estimates that its revenue will remain at the 2022 level (2022: EUR 273.9 million) and EBITA (2022: EUR 8.8 million) will increase compared to 2022.

Development of the operating environment

The estimates of both the Confederation of Finnish Construction Industries and the Ministry of Finance's RAKSU construction trends group for 2023 are gloomy. Both estimate a decline of around 3–4 per cent for the construction industry as a whole. In its economic assessment issued at the end of March, the Confederation of Finnish Construction Industries estimated that housing construction will decrease by up to 20 per cent in 2023, while the decline in infrastructure construction will be 2 per cent. The overall situation is boosted by growth expectations of 1.5 per cent in repair projects and nearly 1 per cent in business premises and industrial construction. The economic assessment forecasts that the economic cycle in construction is now close to the bottom and will slowly turn towards growth, while production will continue to decline for a while longer.

Housing construction is weighed down by a sharp contraction in housing projects started, which is due to higher-than-expected interest rates and an increase in supply. In the infrastructure construction segment, transport infrastructure construction is estimated to slow down; on the other hand, however, the stabilisation of cost development is expected to support projects from a financial perspective. The Confederation of Finnish Construction Industries estimates that the time of stable growth is now over and that the operating environment will be affected by a scarcity of projects going forward and disruptions in tendering. However, a record amount of construction has been done in Finland in recent years and it has been relatively cheap, as costs and interest rates have been low. Despite the drop being forecast now, construction is overall at a good level in Finland.

Due to the changes in the operating environment that can even occur rapidly, it is challenging to make long-term forecasts concerning infrastructure construction, and the developments may vary from negative to positive between the different infrastructure segments. The decline in housing construction according to the forecasts will be particularly reflected in the foundation construction market. On the other hand, growth is expected in the repair construction sector, which is presumed to balance out the foundation and special foundation construction market. Although the threat of a recession, rapidly progressing inflation and rising interest rates affect the profitability of the construction industry, many industrial investments are also planned, the possible start of which in the current year would balance out the infrastructure construction market, where a slight decline is expected. According to the investment survey conducted by the Confederation of Finnish Industries in January 2023, industrial investments are expected to grow by 7 per cent this year, amounting to EUR 9.6 billion. The forest industry, energy industry, mining industry and various projects related to the green transition may, if started, keep the infrastructure construction volume high and bring continuity to the market.

Despite the decline in infrastructure construction forecast for 2023, the long-term outlook of infrastructure construction in Finland is stable. In Sweden, too, the house construction segment and house sales have been on the decline as the house prices have fallen more than in Finland. In spite of the reductions in total volume, favourable developments continue in the Swedish infrastructure market; in particular, the rock engineering and concrete construction market, which demands special expertise and suits Kreate, will continue to be very strong in the next few years.

The 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 their operations 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. Some infrastructure projects may be postponed due to fiscal austerity measures, while the maintenance backlog of infrastructure keeps growing. Finland's NATO membership may also result in increased infrastructure construction needs nationwide. Urbanisation, the infrastructure maintenance backlog and public sector projects are expected to continue to drive growth in the future.

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. 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.

Overall, Kreate believes that the structural engineering and transport infrastructure construction markets that are relevant for demanding infrastructure construction will decline in 2023 compared to the level in 2022. However, Kreate's situation is made better by the company's strategic specialisation in demanding infrastructure projects and good order backlog, some of which extends into the coming years.

Key figures

EUR million	1-3/2023	1-3/2022	1-12/2022
Order backlog	265.7	208.8	306.9
Revenue	65.8	50.4	273.9
Year-on-year change in revenue, %	30.5	31.6	15.3
EBITDA	1.0	2.1	13.6
EBITDA, %	1.5	4.2	5.0
EBITA	-0.4	1.1	8.8
EBITA, %	-0.6	2.2	3.2
Operating profit	-0.4	1.0	8.6
Operating profit, %	-0.7	2.1	3.2
Result for the period	-0.7	0.6	5.6
Capital employed	79.9	64.9	75.9
Return on capital employed, %	9.9	17.4	12.5
Return on equity, %	10.3	19.9	13.8
Net investments in operating activities	-3.2	-1.8	-4.2
Free cash flow from operating activities	-3.3	-1.2	3.5
Net working capital	5.6	0.5	4.7
Net debt	38.0	23.1	33.4
Net debt/EBITDA, rolling 12 months	3.0	1.6	2.5

Net debt/EBITDA, rolling 12 months pro forma*	3.1		2.4
Equity ratio, %	32.1	38.2	31.6
Earnings per share, diluted, €	-0.08	0.07	0.63
<i>Earnings per share, undiluted, €</i>	-0.08	0.07	0.64
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Personnel at the end of the period	455	379	447
Personnel on average	453	378	416

*) The pro forma for the reporting period includes the EBITDA of the acquisition from April 1 to August 31, 2022

President & CEO Timo Vikström:

“It is characteristic of the Finnish and Swedish infrastructure market that the most productive activities are concentrated in the period from late spring to late autumn. In addition to the seasonal variation typical of infrastructure construction, Kreate’s result in the first quarter reflects the investments made to grow our railway business and Swedish operations. We are investing in areas which have the most stable market growth among Kreate’s operating areas. Kreate’s first quarter revenue rose to a higher level than in the reference period, amounting to EUR 65.8 (50.4) million. As expected, EBITA was weaker than in the reference period, with the strengthening of the railway construction and Swedish operations increasing fixed costs compared to the reference period. A significant portion of the company's profitability for the review period consists of large projects in relatively early stages that include normal risk reserves. If these risks are not realized, they will be recognized as revenue in later stages of the projects. This reduced relative profitability in the reporting period.

The slowdown in construction, and especially in house construction, resulted in more intense competition and an increase in the number of providers in infrastructure construction in the first quarter. Tougher competition may be reflected in the relative profitability of companies in the construction industry in 2023. At Kreate, however, we proceeded in line with our strategy and adhered to the prerequisites for profitable construction in our tendering. We acted in the same way as in the crises that have affected the construction industry in recent years, avoiding unnecessary or uncontrollable risks when acquiring projects. Our choice is sustainable, even though it may affect the accumulation of the order backlog during the year.

Despite the increased competition, we won smaller transport infrastructure and foundation construction projects and a few private sector projects during the reporting period as well as started the construction of an embankment to increase environmental safety at Neste’s Kilpilahti port. In this large-scale project, we will use three different technologies to build a 520-metre embankment, a bentonite mat structure, general lighting as well as other infrastructure in the area. The project is a good demonstration of our strong technical competence, which is put into practice in projects like this requiring special construction where the contractor’s commitment and participation in the planning stage streamlines the construction schedule and ensures sensible construction solutions. Our specialisation in demanding infrastructure construction provides background support for the profitability of our operations even in more challenging situations.

As a counterweight to the challenging operating environment, I am going to highlight some positive things we accomplished in the first quarter. We met with our investors face-to-face at the Annual General Meeting and published a more extensive report on our sustainability efforts than before as part of the annual review. During this year, we will continue to develop the sustainability goals and metrics as part of the process of updating our strategy, which is starting. We also intend to deepen our personnel's competence on sustainability, which will provide excellent support not only for the development of our business, but also for our opportunities to be actively involved in the green transition. According to some estimates, a total of around EUR 100 billion will be invested in the green transition by 2050. In the long run, this volume of investments in Finnish industry which is needed to implement the climate goals will have a positive effect on the infrastructure construction market as well.

Our significant, large projects continued as planned and we continue to build in 2023 with confidence, even though the construction volumes are on the decline and public sector infrastructure projects face uncertainty due to the pressure to put austerity measures in place. The uncertainty of the public sector is balanced out by the opportunities offered by the green transition and the progress of the industrial projects that are starting. With our professional staff, we will continue to pursue a profitable growth track in line with our strategy. Our order backlog, which is at a good level, and the stabilisation of cost development support the realisation of our goal.”

Result guidance for 2023 (published on 31 January 2023)

Kreate estimates that its revenue will remain at the 2022 level (2022: EUR 273.9 million) and EBITA (2022: EUR 8.8 million) will increase compared to 2022.

Justifications: Kreate's high order backlog at the beginning of 2023 supports the positive development of revenue, but the general economic situation may affect the accumulation of the new order backlog during the year. In addition to the order backlog, Kreate's specialisation in demanding construction as well as the stable infrastructure construction market support EBITA growth in 2023.

Kreate Group's financial reporting

Kreate Group Plc will publish the financial reports for 2023 as follows:

- Half-year report for January–June 2023: 19 July 2023
- Interim report for January–September 2023: 25 October 2023

Webcast event for analysts and media

A live webcast for analysts and media will be held today, 28 April 2023, at 11:00 a.m. The event will be held 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/2023-q1-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/>.

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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 274 million in 2022 and the company has over 450 employees. Kreate Group is listed on Nasdaq Helsinki.

Attachments

- [Download announcement as PDF.pdf](#)
- [Kreate Group Interim Report January–March 2023.pdf](#)