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Kreate's half-year report: Revenue increased by 29% - order backlog remained at a high level

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Kreate Group Plc Half-year report January-June 2023 19 July 2023 08:30 a.m. EEST

This release is a summary of Kreate Group's Half-year report January-June 2023. 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: Revenue increased by 29% - order backlog remained at a high level

April-June in brief

- Order backlog amounted to EUR 264.9 (204.4) million, increase 29.6%
- Revenue grew compared to the reference period, amounting to EUR 85.7 (67.0) million
- The year-on-year change in revenue was 28.0% (26.6%)
- EBITDA was EUR 4.0 (3.5) million, amounting to 4.7 (5.3) per cent of revenue
- EBITA was EUR 2.6 (2.4) million, amounting to 3.0 (3.6) per cent of revenue
- Earnings per share were EUR 0.17 (0.19)
- Free cash flow from operating activities was EUR -1.7 (-0.4) million
- Interest-bearing net debt was EUR 39.1 (29.4) million
- Guidance updated on 6 July 2023: Kreate estimates that its revenue (2022: EUR 273.9 million) will be EUR 300-325 million. EBITA (2022: EUR 8.8 million) is estimated to be at the level of EUR 7.0-8.5 million.

January-June in brief

- Revenue grew compared to the reference period, amounting to EUR 151.6 (117.4) million
- The year-on-year change in revenue was 29.1% (28.7%)
- EBITDA was EUR 5.0 (5.6) million, amounting to 3.3 (4.8) per cent of revenue
- EBITA was EUR 2.2 (3.5) million, amounting to 1.4 (3.0) per cent of revenue
- Earnings per share were EUR 0.10 (0.26)
- Free cash flow from operating activities was EUR -1.6 (-1.6) million

Development of the operating environment

In looking at the Government Programme published by the Finnish Government, the infrastructure construction market can be expected to grow in the coming years, even though the outlook for the current year is more downbeat. Both the Confederation of Finnish Construction Industries and the Ministry of Finance's RAKSU construction trends group have estimated a drop of 3-4 per cent for the entire construction sector in 2023, but the gloomy situation in housing construction has recently stirred estimates of an even greater decline. The traditionally steady infrastructure construction segment is still estimated to fall by two per cent in 2023.

There is an acute need in Finland for the planning and construction of infrastructure that is functional and attracts foreign investments. New industrial and energy projects require not only the development of infrastructure locally, but also the improvement of transport infrastructure, especially in the north and on the west coast, in order to ensure accessibility and security of supply. Logistical reliability, which is important for business life, is achieved with a road and railway network, including bridges, that can be used safely. Furthermore, Finland's geopolitical position and NATO membership require adequate road, railway, airport and port infrastructure to Scandinavia and the northern Baltic Sea.

The Finnish Government intends to implement an extensive transport investment programme of nearly EUR 3 billion: A package of investments totalling approximately EUR 1.6 billion has been planned for developing the transport network and reducing the maintenance backlog, and rail transport will be made more competitive with a package of EUR 1.4 billion. The new Government Programme takes into account several infrastructure projects, such as improvements to main road 5 and main road 4, launching the one-hour Helsinki-Turku rail link project as well as multiple main line development projects. So far, only a few of the large projects in the long-term investment programme and the transport system plan have been launched, which has meant that the infrastructure maintenance backlog has further increased as well. The goal of the new

Government is to reverse the increase in the maintenance backlog and develop the infrastructure network in order to ensure Finland's accessibility, competitiveness and security of supply.

In addition to the state's infrastructure projects, the City of Vantaa has decided on the construction of an approximately 19-kilometre tram line, with the project estimated to start already in autumn 2024. There are several other similar plans in the Helsinki metropolitan area, Tampere and Turku for the next few years.

It is possible to apply for funding for the planning and construction of the infrastructure network from the military mobility package of the European Union's CEF financial instrument, but this must be done by September 2023. Due to Finland's NATO membership and geopolitical location, Finland has good grounds to receive funding of up to 50 per cent of the costs of planning and construction. The Government intends to make full use of the CEF project funding and plans to make proposals for projects in the 2023 supplementary budget process.

Willingness to invest is high in industry, but inflation and rising interest rates have contributed to the postponement of initiation decisions. Once realised, they will also boost the construction industry. Green transition investments will launch at the earliest in 2024 due to the long permit processes, and their total value is estimated at approximately EUR 100 billion. Not all of the planned green transition investments will go ahead as Finland is competing for them with other countries, but with the planned volumes being huge, the launch of even just some of them will create a significant market as well as opportunities for infrastructure operators.

Business premises and repair construction has remained approximately at the previous year's level, but housing construction has plummeted. Construction market expert company Forecon predicted in the spring that housing construction will decrease by more than 20 per cent in 2023. At the moment, new apartments are still being completed in large numbers, but in the meanwhile demand is sluggish, thereby causing an oversupply in the market for new apartments. The number of housing projects started has been reduced this year, which weakens the outlook for housing construction for 2024 as well. However, the slowdown in the rise in construction costs and even a slight drop in the prices of some materials is a positive signal.

The long-term outlook of infrastructure construction in Finland is stable and, with the realisation of the above-mentioned needs and plans, positive. In Sweden, the house construction segment and house sales were on the decline during the first quarter of the year as the house prices fell more than in Finland. In the second quarter, house sales have picked up in Sweden, and the decline in prices has come to a halt or turned upward in places. 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, is estimated to remain very strong in the next few years.

In its strategy, Kreate has chosen its business functions according to areas of structural engineering and transport infrastructure construction supported by the megatrends that will grow in the long term. 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 slightly in 2023 compared to the level in 2022. Kreate's strategic specialisation in demanding infrastructure projects and good order backlog will lead to revenue growth in 2023.

Key figures

EUR million	4-6/2023	4-6/2022	1-6/2023	1-6/2022	1-12/2022
Order backlog			264.9	204.4	306.9
Revenue	85.7	67.0	151.6	117.4	273.9
Year-on-year change in revenue, %	28.0	26.6	29.1	28.7	15.3
EBITDA	4.0	3.5	5.0	5.6	13.6
EBITDA, %	4.7	5.3	3.3	4.8	5.0
EBITA	2.6	2.4	2.2	3.5	8.8
EBITA, %	3.0	3.6	1.4	3.0	3.2
Operating profit	2.5	2.4	2.1	3.4	8.6

Operating profit, %	2.9	3.5	1.4	2.9	3.2
Result for the period	1.5	1.6	0.8	2.3	5.6
Capital employed			80.8	68.5	75.9
Return on capital employed, %			9.8	16.0	12.5
Return on equity, %			10.4	20.9	13.8
Net investments in operating activities	-1.1	-1.0	-4.3	-2.8	-4.2
Free cash flow from operating activities	1.7	-0.4	-1.6	-1.6	3.5
Net working capital			6.9	3.6	4.7
Net debt			39.1	29.4	33.4
Net debt/EBITDA, rolling 12 months			3.0	2.0	2.5
Net debt/EBITDA, rolling 12 months pro forma*			3.0		2.4
Equity ratio, %			28.2	31.6	31.6
Earnings per share, diluted, €	0.17	0.19	0.10	0.26	0.63
Earnings per share, undiluted, €	0.17	0.19	0.10	0.26	0.64
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Personnel at the end of the period			504	424	447
Personnel on average	460	407	424	393	416

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

President & CEO Timo Vikström:

“The first half of 2023 in the infrastructure construction industry was marked by steadiness offering no surprises – regardless of the drastic drop in housing construction, the deterioration of the economic situation and changes on the global stage, infrastructure construction – and especially focusing on technically challenging infrastructure – carried us through. We continued our targeted efforts in the management of working capital and cash flow in a challenging market environment, and we have succeeded well in managing liquidity and receivables. Tendering also picked up after the first quarter, and this was positively reflected in Kreate’s order backlog, which stood at EUR 264.9 (204.4) million at the end of the reporting period.

In the second quarter, we consistently won tenders in various types of construction. We took on several small contracts in bridge and transport infrastructure construction, and our foundation construction professionals started the construction of the Kokinniitty parking facility. In addition, our investments in railway construction are starting to show, with increases in the size and versatility of the projects won. We won three different contracts for the massive construction project between Kytömaa and Ainola in the Helsinki–Riihimäki rail project. Their total value is approximately EUR 18 million, and one is an electric railway contract that includes the planning stage.

Kreate’s revenue in the first half of 2023 was EUR 151.6 (117.4) million and EBITA decreased, amounting to EUR 2.2 (3.5) million. In July, we issued new result guidance, estimating that the revenue for 2023 will rise to between EUR 300 and 325 million and EBITA is estimated to be at the level of EUR 7.0–8.5 million. Our strong order backlog and systematic execution of projects, in some cases even faster than predicted, contribute to the growth in revenue. The persistently high inflation, wage development in the industry as well as changes in the total construction market have affected profitability. Moreover, in contrast to the estimate issued in 2022, some margin effects of projects not bound to an index from previous years were carried over to 2023. In railway construction, the postponement of projects estimated to start early in the year has strained the railway market during the first part of the year, weakening the volume and profitability of the railway construction business.

Finland is in a situation where both the internal and external accessibility should be improved as a matter of urgency. People and goods must be able to move smoothly, cost-effectively and with as low emissions as possible across the borders and within Finland. Mobility and security of supply are emphasised in crisis conditions. The improvement and construction of transport infrastructure has been inadequate for years. In order to secure the future, we should act immediately because the development and maintenance of infrastructure are vital to the functioning of our welfare society.

Green transition investments amounting to billions of euros have been featured a lot in the media, but there is still a long way to go before concrete construction projects are started. Currently, of projects related to the green transition, especially the construction of wind and solar power plants is progressing, but other countries are also competing for investments in the billions on hydrogen, for example. In addition to functional logistics, companies also need emission-free electricity, which places demands on improving the distribution network. In addition to investments in the green transition, there are investment plans in industry that will nevertheless have to wait for the cost level to stabilise, inflation to go down and the predictability of the interest rate environment to improve.

There would be things to build in the pipeline and there is sufficient interest in Finland, if only the plans could be turned into concrete projects. There are ways to get there if we just have the courage. The construction industry, which has acted as the driving force of the Finnish economy in the past as well, is ready to roll up its sleeves and get down to business. Bold calls and investment decisions by the decision-makers will open up opportunities for applying for the EU's CEF funding, for example, which closes in September. Finland's logistics capabilities, safety and competitiveness can be ensured by creating functional financing models for large traffic investments and ensuring a sufficient level of investment for basic transport infrastructure maintenance. If realised, bold infrastructure investments will also have a knock-on effect on the entire infrastructure construction industry.

For winning green transition projects for Finland as well as ensuring companies' reliability of operation, Finland's accessibility and security of supply require a great deal of construction. Building the future has a significant impact on employment, which will also be reflected positively in the state economy. We at Kreate continue to strengthen our special technical expertise and are ready to implement even the most challenging future investments. Our strategic focus on demanding construction will carry us through and keep us on a growth path in 2023 as well."

Result guidance for 2023 (published on 6 July 2023)

Kreate estimates that its revenue (2022: EUR 273.9 million) will be EUR 300–325 million. EBITA (2022: EUR 8.8 million) is estimated to be at the level of EUR 7.0–8.5 million.

Justifications: The strong order backlog and systematic execution of projects, in some cases even faster than predicted, have increased Kreate's revenue in the first half of the year. The same trend is expected to continue in the second half of the year as well, with which revenue is estimated to grow to a higher level than previously estimated.

At the same time, the persistently high level of inflation during the first part of the year, wage development in the industry as well as changes in the total construction market have affected profitability. Moreover, in contrast to the previous estimate, projects not bound to an index from previous years resulted in negative margin effects, weakening profitability in 2023. In railway construction, the postponement of projects estimated to start early in the year has strained the market and that has had a weakening effect on the estimated volume and profitability of this business.

Kreate Group's financial reporting

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

- 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, 19 July 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-q2-tulosjulkistus/>. A recording of the webcast will be made available later at <https://kreate.fi/en/investor/releases-and-reports/reports/> 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 Half year Report January-June 2023.pdf](#)