

Company AS MERKO EHITUS
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Attachments:

- Merko_Ehitus_2023_6M_interim_report.pdf (<http://oam.fi.ee/en/download?id=7605>)
- Merko_Ehitus_2023_6k_vahearuanne.pdf (<http://oam.fi.ee/en/download?id=7606>)

Currency

Title 2023 6 months and II quarter consolidated unaudited interim report

COMMENTARY FROM MANAGEMENT

Q2 2023 revenue for Merko Ehitus was EUR 142 million and the H1 figure was EUR 217 million. Net profit in Q2 was EUR 13.6 million and net profit for the last six months was EUR 19.4 million. Merko delivered 512 apartments to new homeowners and 15 commercial units to businesses in H1.

According to the management of Merko Ehitus, the profit for the first half of the year was strong, as expected, since a number of apartment developments were completed, and pre-sold apartments were delivered to home-buyers. At the same time, the backstock of pre-sold apartments is nearing exhaustion and the market situation today is very different compared to 2020 and 2021. The pace of new apartment sales has dropped significantly, due to which also the launch of new developments by Merko group and on the Baltic market as a whole has slowed greatly. This in turn will mean fewer developments reaching completion and fewer apartments sold in the coming years. On the positive side, the situation on the apartment market has stabilized in the first half of the year, adjustment to the changes in the economic environment continues and market is seeing slightly more relaxed sentiment. Although there are currently fewer apartment buyers purchasing as an investment, new home purchase transactions are still being closed. However, a rapid change in demand is not seen in the near future and the launch of new projects is viewed cautiously. In the first half of the year, the group invested a total of EUR 56.5 million into developments in progress and new immovables.

In the first six months of 2023, the group companies entered into new construction contracts worth EUR 255 million, which was 32% more than in the comparison period, and the balance of secured order-book grew by approximately 29% as compared to the last year to EUR 418 million. In the sense of construction volumes, the group's secured order-book will to a certain extent



counterbalance the impacts of the apartment market decline in the next few years. At the same time, the operating environment in the construction sector remains unstable. Risk management is extremely important, as much as is possible given the high inflation and high interest rates, new regulations and administrative practices as well as the geopolitical situation.

In the first six months of the year, Merko delivered 512 apartments to new homeowners and 15 commercial units to businesses. As of the end of Q2, the group companies had 978 apartments on their balance sheets. Of apartments under construction, approximately 40% were covered by preliminary sale contracts. The largest apartment developments were Uus-Veerenni, Noblessner and Lahekald in Tallinn, Erminurme in Tartu, Viesturdarzs, Mezhpilseta and Magnolijas in Riga and Vilneles Skverai in Vilnius.

In Q2 of 2023, the largest sites under construction in Estonia were the Rae and Pelgulinna state gymnasiums, Hampton by Hilton and Hyatt hotel buildings, Arter Quarter and the infrastructure along the south-eastern border of the Republic of Estonia, Defence Forces buildings on Tapa base, a tram line between Old City Harbour and Rail Baltica Ülemiste passenger terminal and the first phase of Ülemiste terminal as well the renovation of Vana-Kalamaja Street. Projects in progress in Latvia were the GUSTAVS business centre and Elemental Business Centre office buildings. In Lithuania, wind farm infrastructure works and a substation in Kelm? region, and various buildings and infrastructure for NATO training centres.

OVERVIEW OF THE II QUARTER AND 6 MONTHS RESULTS

PROFITABILITY

2023 6 months' pre-tax profit was EUR 20.2 million and Q2 2023 was EUR 14.1 million (6M 2022: EUR 8.4 million and Q2 2022 was EUR 4.9 million), which brought the pre-tax profit margin to 9.3% (6M 2022: 5.4%).

Net profit attributable to shareholders for 6 months 2023 was EUR 19.4 million (6M 2022: EUR 7.2 million) and for Q2 2023 net profit attributable to shareholders was EUR 13.6 million (Q2 2022: EUR 4.2 million). 6 months net profit margin was 8.9% (6M 2022: 4.6%).

REVENUE

Q2 2023 revenue was EUR 141.6 million (Q2 2022: EUR 87.8 million) and 6 months' revenue was EUR 217.3 million (6M 2022: EUR 156.2 million). 6 months' revenue increased by 39.1% compared to same period last year. The share of revenue earned outside Estonia in 6 months 2023 was 30.6% (6M 2022: 53.8%).

SECURED ORDER BOOK

As of 30 June 2023, the group's secured order book was EUR 418.2 million (30 June 2022: EUR 322.9 million). In 6 months 2023, group companies signed contracts in the amount of EUR 254.8 million (6M 2022: EUR 193.3 million). In Q2 2023, new contracts were signed in the amount of EUR 84.4 million (Q2 2022: EUR 22.1 million).



REAL ESTATE DEVELOPMENT

In 6 months 2023, the group sold a total of 512 apartments; in 6 months 2022, the group sold 214 apartments. The group earned a revenue of EUR 80.5 million from sale of own developed apartments in 6 months 2023 and EUR 27.1 million in 6 months 2022. In Q2 of 2023 a total of 367 apartments were sold, compared to 88 apartments in Q2 2022, and earned a revenue of EUR 61.2 million from sale of own developed apartments (Q2 2022: EUR 11.6 million).

CASH POSITION

At the end of the reporting period, the group had EUR 9.8 million in cash and cash equivalents, and equity of EUR 186.0 million (51.3% of total assets). Comparable figures as of 30 June 2022 were EUR 16.8 million and EUR 156.7 million (41.5% of total assets), respectively. As of 30 June 2023, the group's net debt was EUR 68.0 million (30 June 2022: EUR 73.2 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	2023 6 months	2022 6 months	2023 II quarter	2022 II quarter	2022 12 months
Revenue	217,347	156,198	141,596	87,772	409,633
Cost of goods sold	(191,528)	(138,917)	(125,752)	(78,363)	(355,975)
Gross profit	25,819	17,281	15,844	9,409	53,658
Marketing expenses	(2,095)	(2,169)	(1,018)	(1,054)	(4,077)
General and administrative expenses	(8,261)	(7,522)	(4,296)	(3,799)	(15,860)
Other operating income	2,778	1,422	1,961	736	3,144
Other operating expenses	(147)	(455)	(85)	(394)	(1,834)
Operating profit	18,094	8,557	12,406	4,898	35,031
Finance income/costs	2,126	(193)	1,735	(33)	2,067
incl. finance income/costs from joint ventures	3,819	328	2,539	330	3,516



interest expense	(1,337)	(374)	(682)	(212)	(1,180)
foreign exchange gain (loss)	(290)	(67)	(80)	(119)	(138)
other financial income (expenses)	(66)	(80)	(42)	(32)	(131)
Profit before tax	20,220	8,364	14,141	4,865	37,098
Corporate income tax expense	(929)	(1,176)	(637)	(755)	(2,995)
Net profit for financial year	19,291	7,188	13,504	4,110	34,103
incl. net profit attributable to equity holders of the parent	19,450	7,202	13,570	4,196	34,640
net profit attributable to non-controlling interest	(159)	(14)	(66)	(86)	(537)
Other comprehensive income, which can subsequently be classified in the income statement					
Currency translation differences of foreign entities	72	(12)	19	(28)	30
Comprehensive income for the period	19,363	7,176	13,523	4,082	34,133
incl. net profit attributable to equity holders of the parent	19,490	7,189	13,580	4,169	34,648



net profit attributable to non-controlling interest	(127)	(13)	(57)	(87)	(515)
Earnings per share for profit attributable to equity holders of the parent (basic and diluted, in EUR)	1.10	0.41	0.77	0.24	1.96

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
unaudited
in thousand euros

	30.06.2023	30.06.2022	31.12.2022
ASSETS			
Current assets			
Cash and cash equivalents	9,795	16,773	17,665
Trade and other receivables	68,627	68,317	77,959
Prepaid corporate income tax	146	36	38
Inventories	216,142	228,240	225,661
	294,710	313,366	321,323
Non-current assets			
Investments in joint ventures	15,514	9,707	12,895
Other shares and securities	80	-	-
Other long-term loans and receivables	21,457	23,616	22,982
Deferred income tax assets	1,044	1,115	693
Investment property	11,435	11,536	11,485
Property, plant and equipment	17,640	17,347	17,452
Intangible assets	582	635	582
	67,752	63,956	66,089



TOTAL ASSETS	362,462	377,322	387,412
LIABILITIES			
Current liabilities			
Borrowings	39,783	48,854	49,687
Payables and prepayments	83,889	117,702	96,248
Income tax liability	1,419	2,275	1,241
Short-term provisions	9,805	6,879	9,820
	134,896	175,710	156,996
Non-current liabilities			
Long-term borrowings	37,965	41,153	42,236
Deferred income tax liability	1,774	1,649	2,355
Other long-term payables	2,472	2,322	2,133
	42,211	45,124	46,724
TOTAL LIABILITIES	177,107	220,834	203,720
EQUITY			
Non-controlling interests	(622)	(240)	(495)
Equity attributable to equity holders of the parent			
Share capital	7,929	7,929	7,929
Statutory reserve capital	793	793	793
Currency translation differences	(743)	(804)	(783)
Retained earnings	177,998	148,810	176,248



	185,977	156,728	184,187
TOTAL EQUITY	185,355	156,488	183,692
TOTAL LIABILITIES AND EQUITY	362,462	377,322	387,412

Interim report is attached to the announcement and is also published on NASDAQ Tallinn and Merko's web page (group.merko.ee (<https://group.merko.ee/en/>)).

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AS Merko Ehitus (group.merko.ee (<https://group.merko.ee/en/>)) group companies develop real estate and construct buildings and infrastructure. We create a better living environment and build the future. We operate in Estonia, Latvia, Lithuania and Norway. As at the end of 2022, the group employed 661 people, and the group's revenue for 2022 was EUR 410 million.

