

Company AS MERKO EHITUS
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Attachments:

- Merko_Ehitus_2023_9M_interim_report.pdf (<http://oam.fi.ee/en/download?id=7777>)
- Merko_Ehitus_2023_9k_vahearuanne.pdf (<http://oam.fi.ee/en/download?id=7778>)

Currency

Title 2023 9 months and III quarter consolidated unaudited interim report

COMMENTARY FROM MANAGEMENT

Q3 2023 revenue for Merko Ehitus was EUR 122 million and for the nine months was EUR 340 million. Net profit in Q3 was EUR 12.7 million and net profit for the nine months increased to EUR 32.1 million. Merko delivered 665 apartments and 22 commercial units to customers in the first nine months of 2023.

According to the management of Merko Ehitus, the Q3 and nine-month results were supported by delivery of presold apartments to customers in newly completed apartment developments. The Merko group has inventory of apartments that are under construction and presold is significantly smaller than in the past few years due to the recession and the slump in the real estate market and this will exert a negative impact on the group's results in coming years. The poor macroeconomic picture and general uncertainty did not improve in Q3 and investments into new development projects are still being curtailed. The outlook in this regard is also very weak, the economic outlook has deteriorated and the recovery has been deferred to the more distant future due to central bank interest rate policy, continuing inflation, unstable energy and tax policies and, above all, the geopolitical situation. Over nine months of 2023 the group has invested a total of EUR 73 million into ongoing development projects and acquisitions of new properties.

In the first nine months of 2023, the group companies signed new construction contracts worth EUR 379 million, which was 31% more than in the comparison period, and the balance of secured order-book grew by approximately 30% to EUR 449 million. The group's secured order-book continued growth in Q3 and is currently strong, which does partially counterbalance the impacts of the slumping apartment market on the group's construction volumes. Yet profitability of construction service is under constant strain and the risks are high, since in the medium to long term, cautious positions are predominant in markets and



supply chains, and there is an extreme amount of uncertainty about the impacts of governments' economic and foreign policy measures. Therefore, the group's companies will have to devote great attention to managing the risks.

In the first nine months of the year, Merko delivered 665 apartments and 22 business premises. As of the end of Q3, the group's companies had 825 apartments on its balance sheet. About 40% of the apartments in the construction phase were covered by preliminary sale contracts. The largest apartment developments were Uus-Veerenni, Noblessner and Lahekalda in Tallinn, Erminurme in Tartu, Viesturdarzs, Mezhpilseta and Magnolijas in Riga, and Vilneles Skverai in Vilnius.

In Q3 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, the logistics centre for Tallinn Kaubamaja Group, the infrastructure along the south-eastern border of the Republic of Estonia, the renovation of Vana-Kalamaja Street, a tram line between Old City Harbour and Rail Baltica Ülemiste passenger terminal, and the first phase of Ülemiste terminal. In Latvia, the Elemental Business Centre office buildings were in progress. Projects in Lithuania were wind farm infrastructure works in Kelme and Pag?giai regions, and various buildings and infrastructure for NATO training centres.

OVERVIEW OF THE III QUARTER AND 9 MONTHS RESULTS

PROFITABILITY

2023 9 months' pre-tax profit was EUR 33.8 million and Q3 2023 was EUR 13.6 million (9M 2022: EUR 18.7 million and Q3 2022 was EUR 10.3 million), which brought the pre-tax profit margin to 10.0% (9M 2022: 7.0%).

Net profit attributable to shareholders for 9 months 2023 was EUR 32.1 million (9M 2022: EUR 17.0 million) and for Q3 2023 net profit attributable to shareholders was EUR 12.7 million (Q3 2022: EUR 9.8 million). 9 months net profit margin was 9.5% (9M 2022: 6.4%).

REVENUE

Q3 2023 revenue was EUR 122.5 million (Q3 2022: EUR 110.0 million) and 9 months' revenue was EUR 339.8 million (9M 2022: EUR 266.2 million). 9 months' revenue increased by 27.7% compared to same period last year. The share of revenue earned outside Estonia in 9 months 2023 was 34.5% (9M 2022: 53.4%).

SECURED ORDER BOOK

As of 30 September 2023, the group's secured order book was EUR 448.6 million (30 September 2022: EUR 341.0 million). In 9 months 2023, group companies signed contracts in the amount of EUR 379.4 million (9M 2022: EUR 290.4 million). In Q3 2023, new contracts were signed in the amount of EUR 124.7 million (Q3 2022: EUR 97.1 million).

REAL ESTATE DEVELOPMENT

In 9 months 2023, the group sold a total of 665 apartments; in 9 months 2022, the group sold 456 apartments. The group earned a revenue of EUR 106.1 million



from sale of own developed apartments in 9 months 2023 and EUR 56.9 million in 9 months 2022. In Q3 of 2023 a total of 153 apartments were sold, compared to 242 apartments in Q3 2022, and earned a revenue of EUR 25.5 million from sale of own developed apartments (Q3 2022: EUR 29.8 million).

CASH POSITION

At the end of the reporting period, the group had EUR 31.3 million in cash and cash equivalents, and equity of EUR 198.4 million (49.7% of total assets). Comparable figures as of 30 September 2022 were EUR 22.2 million and EUR 166.6 million (40.9% of total assets), respectively. As of 30 September 2023, the group's net debt was EUR 28.4 million (30 September 2022: EUR 88.3 million).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

unaudited

in thousand euros

	2023 9 months	2022 9 months	2023 III quarter	2022 III quarter	2022 12 months
Revenue	339,838	266,206	122,491	110,008	409,633
Cost of goods sold	(296,642)	(235,123)	(105,114)	(96,206)	(355,975)
Gross profit	43,196	31,083	17,377	13,802	53,658
Marketing expenses	(3,013)	(2,945)	(918)	(776)	(4,077)
General and administrative expenses	(12,896)	(11,411)	(4,635)	(3,889)	(15,860)
Other operating income	3,399	2,426	621	1,004	3,144
Other operating expenses	(614)	(647)	(467)	(192)	(1,834)
Operating profit	30,072	18,506	11,978	9,949	35,031
Finance income/costs	3,765	168	1,639	361	2,067
incl. finance income/costs from joint ventures	6,061	1,093	2,242	765	3,516
interest expense	(2,011)	(670)	(674)	(296)	(1,180)



foreign exchange gain (loss)	(192)	(152)	98	(85)	(138)
other financial income (expenses)	(93)	(103)	(27)	(23)	(131)
Profit before tax	33,837	18,674	13,617	10,310	37,098
Corporate income tax expense	(1,827)	(1,911)	(898)	(735)	(2,995)
Net profit for financial year	32,010	16,763	12,719	9,575	34,103
incl. net profit attributable to equity holders of the parent	32,148	17,023	12,698	9,821	34,640
net profit attributable to non- controlling interest	(138)	(260)	21	(246)	(537)
Other comprehensive income, which can subsequently be classified in the income statement					
Currency translation differences of foreign entities	(16)	11	(88)	23	30
Comprehensive income for the period	31,994	16,774	12,631	9,598	34,133
incl. net profit attributable to equity holders of the parent	32,116	17,020	12,626	9,831	34,648
net profit attributable to non- controlling interest	(122)	(246)	5	(233)	(515)
Earnings per share for					



profit attributable to equity holders of the parent (basic and diluted, in EUR)	1.82	0.96	0.72	0.55	1.96
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
 unaudited
 in thousand euros

	30.09.2023	30.09.2022	31.12.2022
ASSETS			
Current assets			
Cash and cash equivalents	31,282	22,200	17,665
Trade and other receivables	86,895	72,295	77,959
Prepaid corporate income tax	2	5	38
Inventories	206,603	243,222	225,661
	324,782	337,722	321,323
Non-current assets			
Investments in joint ventures	17,756	10,472	12,895
Other shares and securities	80	-	-
Other long-term loans and receivables	21,104	28,323	22,982
Deferred income tax assets	1,852	1,155	693
Investment property	15,534	11,511	11,485
Property, plant and equipment	17,238	17,527	17,452
Intangible assets	508	592	582
	74,072	69,580	66,089
TOTAL ASSETS	398,854	407,302	387,412



LIABILITIES

Current liabilities

Borrowings	23,325	60,034	49,687
Payables and prepayments	124,285	119,251	96,248
Income tax liability	1,846	1,830	1,241
Short-term provisions	10,268	5,584	9,820
	159,724	186,699	156,996

Non-current liabilities

Long-term borrowings	36,377	50,469	42,236
Deferred income tax liability	1,878	1,671	2,355
Other long-term payables	2,841	2,377	2,133
	41,096	54,517	46,724

TOTAL LIABILITIES	200,820	241,216	203,720
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EQUITY

Non-controlling interests	(380)	(473)	(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	(815)	(794)	(783)
Retained earnings	190,507	158,631	176,248
	198,414	166,559	184,187
TOTAL EQUITY	198,034	166,086	183,692



TOTAL LIABILITIES AND EQUITY

398,854

407,302

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.

