

Company Nordecon AS

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Category Management interim statement or quaterly financial report

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- Attachments:
- Nordecon_Interim_report_Q1_2024.pdf (<http://oam.fi.ee/en/download?id=8454>)
 - NCN investor presentation Q1_2024.pdf (<http://oam.fi.ee/en/download?id=8455>)
 - Nordecon_Aruanne_1Q_2024.pdf (<http://oam.fi.ee/en/download?id=8456>)
 - NCN investor presentation Q1_2024.pdf (<http://oam.fi.ee/en/download?id=8457>)

Currency

Title 2024 first quarter consolidated interim report (unaudited)

The first quarter of 2024 of the Nordecon Group is characterized by an increase in sales revenue, an improvement in profitability and an increase in the order book.

The sales revenue of the first quarter of 2024 was 46,245 thousand euros, which increased by approximately 38% compared to the sales revenue of continuing operations in the same period last year. The sales revenue in the Buildings segment increased by 42%, and the sales revenue of the Infrastructure segment remained essentially at the same level as in the comparable period. The increase in sales revenue was expected based on the volume of the group's order book.

Gross profitability was 4.6% in the first quarter of 2024 (Q1 2023: 2.9%). The increase in profitability is based on the improvement in the profitability of the Buildings segment. Due to the seasonality of construction, the result of the first quarter is affected, especially in the Infrastructure segment, by a large part of uncovered fixed costs. It mainly concerns the asphalt concrete production and installation part of road construction, where the cost of the necessary equipment makes up a large part of the fixed costs.

As of 31 March 2024, the amount of unexecuted works of the construction contracts concluded by the companies of the group was 198,737 thousand euros, which is approximately 34% more compared to the period a year ago.

Condensed consolidated interim statement of financial position

EUR '000	31 March 2024	31 December 2023

ASSETS		
Current assets		



Cash and cash equivalents	16,083	11,892
Trade and other receivables	30,117	37,010
Prepayments	2,812	1,789
Inventories	24,766	25,879
Total current assets	73,778	76,570
Non-current assets		
Other investments	76	76
Trade and other receivables	9,198	9,113
Investment property	5,517	5,517
Property, plant and equipment	13,979	14,292
Intangible assets	14,979	14,964
Total non-current assets	43,749	43,962
TOTAL ASSETS	117,527	120,532
LIABILITIES		
Current liabilities		
Borrowings	13,751	10,188
Trade payables	52,355	39,855
Other payables	6,367	9,241
Deferred income	12,996	20,602
Provisions	1,006	1,129
Total current liabilities	86,475	81,015
Non-current liabilities		
Borrowings	4,090	8,563,
Trade payables	2,115	6,011



Provisions	2,440	2,405
Total non-current liabilities	8,645	16,979
TOTAL LIABILITIES	95,120	97,994

EQUITY

Share capital	14,379	14,379
Own (treasury) shares	(660)	(660)
Share premium	635	635
Statutory capital reserve	2,554	2,554
Translation reserve	3,837	3,786
Retained earnings	326	919
Total equity attributable to owners of the parent	21,071	21,613
Non-controlling interests	1,336	925
TOTAL EQUITY	22,407	22,538
TOTAL LIABILITIES AND EQUITY	117,527	120,532

Condensed consolidated interim statement of comprehensive income

EUR'000	Q1 2024	Q1 2023	2023
Continuing operations			
Revenue	46,245	33,549	186,464
Cost of sales	(44,107)	(32,564)	(182,655)
Gross profit	2,138	985	3,809
Marketing and distribution expenses	(68)	(104)	(497)
Administrative expenses	(1,564)	(1,587)	(6,564)



Other operating income	26	109	286
Other operating expenses	(146)	(28)	(465)
Operating profit (loss)	386	(625)	(3,431)
Finance income	137	69	613
Finance costs	(705)	(885)	(3,356)
Net finance costs	(568)	(816)	(2,743)
Loss before tax	(182)	(1,441)	(6,174)
Income tax expense	0	(243)	(244)
Loss for the period from continuing operations	(182)	(1,684)	(6,418)
Profit for the period from a discontinued operation	-	10	8,474
Profit (loss) for the period	(182)	(1,674)	2,056
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations	51	169	470
Total other comprehensive income	51	169	470
TOTAL COMPREHENSIVE INCOME (EXPENSE)	(131)	(1,505)	2,526
Profit (loss) attributable to:			
- Owners of the parent	(593)	(1,874)	(942)
- Non-controlling interests	411	200	2,998
Profit (loss) for the period	(182)	(1,674)	2,056



Comprehensive income (expense) attributable to:

- Owners of the parent	(542)	(1,705)	(472)
- Non-controlling interests	411	200	2,998
Comprehensive income (expense) for the period	(131)	(1,505)	2,526

Earnings per share from continuing operations attributable to owners of the parent:

Basic earnings per share (EUR)	(0.02)	(0.06)	(0.31)
Diluted earnings per share (EUR)	(0.02)	(0.06)	(0.31)

Earnings per share from a discontinued operation attributable to owners of the parent:

Basic earnings per share (EUR)	-	0.00	0.28
Diluted earnings per share (EUR)	-	0.00	0.28

Condensed consolidated interim statement of cash flows

EUR'000	Q1 2024	Q1 2023

Cash flows from operating activities		
Cash receipts from customers	53,333	77,360
Cash paid to suppliers	(39,940)	(67,923)
VAT paid	(3,112)	(2,692)
Cash paid to and for employees	(4,859)	(5,716)
Income tax paid	0	(324)
Net cash from operating activities	5,422	705

Cash flows from investing activities



Apaid for acquisition of property, plant and equipment	(21)	(37)
Proceeds from sale of property, plant and equipment	25	201
Loans provided	(18)	(508)
Repayments of loans provided	0	4
Dividends received	6	12
Interest received	39	2
Net cash from (used in) investing activities	31	(326)
Cash flows from financing activities		
Proceeds from loans received	108	1,234
Repayments of loans received	(633)	(1,330)
Dividends paid	0	(588)
Lease payments	(555)	(735)
Interest paid	(278)	(294)
Other payments	99	0
Net cash used in financing activities	(1,259)	(1,713)
Net cash flow	4,194	(1,334)
Cash and cash equivalents at beginning of period	11,892	7,238
Effect of movements in foreign exchange rates	(3)	(3)
Change in cash and cash equivalents	4,194	(1,334)
Cash and cash equivalents at end of period	16,083	5,901

Financial review



Financial performance

Nordecon delivered a gross profit of EUR2,138 thousand and a gross margin of 4.6% in the first quarter of 2024 (Q1 2023: EUR985 thousand and 2.9%). The improvement in profitability was driven by the Buildings segment, which increased its gross margin to 7.8% (Q1 2023: 6.3%). Due to the seasonal nature of the construction business, first-quarter results are affected by a large share of uncovered fixed costs, particularly in the Infrastructure segment. Above all, this applies to asphalt concrete production and laying in road construction, where plant and equipment expenses account for a major share of fixed costs. As a result, the gross margin of the Infrastructure segment was negative at 30.9% (Q1 2023: negative at 26.3%).

The group's administrative expenses for the first quarter of 2024 amounted to EUR1,564 thousand. Administrative expenses from continuing operations remained at the same level as in the first quarter of 2023, when the figure was EUR1,587 thousand. The ratio of administrative expenses to revenue (12 months rolling) increased year on year, rising to 3.3% (Q1 2023: 2.9%).

The group ended the first quarter of 2024 with an operating profit of EUR386 thousand (Q1 2023: an operating loss of EUR625 thousand). EBITDA for the period was EUR1,094 thousand (Q1 2023: EUR155 thousand).

The group's finance income and costs are affected by exchange rate fluctuations in the group's foreign markets. During the period, the exchange rate of the Ukrainian hryvnia remained stable against the euro, while the exchange rate of the Swedish krona weakened against the euro by around 4%. As a result, the translation of the loans provided to the group's Ukrainian and Swedish subsidiaries in euros into the local currencies gave rise to an exchange loss of EUR30 thousand (Q1 2023: EUR133 thousand). Due to the group's relatively high loan burden, finance costs were strongly influenced by interest expense, which amounted to EUR230 thousand (Q1 2023: EUR212 thousand).

The group ended the period with a net loss of EUR182 thousand (Q1 2023: EUR1,674 thousand). The net loss attributable to owners of the parent, Nordecon AS, was EUR593 thousand (Q1 2023: EUR1,874 thousand).

Cash flows

Operating activities produced a net cash inflow of EUR5,422 thousand in the first quarter of 2024 (Q1 2023: an inflow of EUR705 thousand). Operating cash flow is strongly influenced by the fact that the contracts signed with most public and private sector customers do not require them to make advance payments, while the group has to make prepayments to subcontractors and materials suppliers. Cash inflow is also reduced by contractual retentions, which extend from 5 to 10% of the contract price and are released at the end of the construction period only.

Investing activities of the period resulted in a net cash inflow of EUR31 thousand (Q1 2023: an outflow of EUR326 thousand). Payments for the purchase of property, plant and equipment totalled EUR21 thousand (Q1 2023: EUR37 thousand) and proceeds from the sale of property, plant and equipment totalled EUR25 thousand (Q1 2023: 201 thousand). Loans provided amounted to EUR18 thousand (Q1 2023: EUR508 thousand) and interest received amounted to EUR39 thousand (Q1 2023: 2 thousand).

Financing activities generated a net cash outflow of EUR1,259 thousand (Q1 2023:



an outflow of EUR1,713 thousand). The largest items were loan repayments and lease payments of EUR633 thousand and EUR555 thousand, respectively (Q1 2023: EUR1,330 thousand and EUR735 thousand, respectively). Proceeds from loans received amounted to EUR108 thousand (Q1 2023: EUR1,234 thousand) and interest payments to EUR278 thousand (Q1 2023: EUR294 thousand). In the first quarter of 2023, the group also paid dividends of EUR588 thousand.

The group's cash and cash equivalents at 31 March 2024 amounted to EUR16,083 thousand (31 March 2023: EUR5,901 thousand).

Key financial figures and ratios

Figure/ratio	Q1 2024	Q1 2023	Q1 2022	2023
Revenue (EUR'000)*	46,245	33,549	44,539	186,464
Revenue change*	37.8%	(24.7)%	22.1%	(15.4)%
Net loss (EUR'000)*	(182)	(1,674)	(1,166)	(6,418)
Net loss attributable to owners of the parent (EUR'000)	(593)	(1,874)	(919)	(942)
Earnings per share (EUR)	(0.02)	(0.06)	(0.03)	(0.03)
Administrative expenses to revenue*	3.4%	4.7%	2.8%	3.5%
Administrative expenses to revenue (rolling)*	3.3%	2.9%	2.1%	3.5%
EBITDA (EUR'000)*	1,094	155	912	(412)
EBITDA margin*	2.4%	0.5%	2.0%	(0.2)%
Gross margin*	4.6%	2.9%	(0.2)%	2.0%
Operating margin*	0.8%	(1.9)%	0.2%	(1.8)%
Net margin*	(0.4)%	(5.0)%	(2.6)%	(3.4)%
Return on invested capital	0.1%	(2.4)%	(0.2)%	8.0%
Return on equity	(0.8)%	(6.4)%	(1.1)%	8.3%
Equity ratio	19.1%	19.5%	20.4%	18.7%
Return on assets	(0.2)%	(1.3)%	(0.2)%	(1.6)%
Gearing	4.4%	35.6%	36.1%	16.6%
Current ratio	0.85	0.85	0.91	0.95



* Continuing operations

Performance by geographical market

Revenue generated outside Estonia in the first quarter of 2024 decreased compared to the same period in 2023 and accounted for 1% of the group's total revenue for the period. Despite the ongoing war, Nordecon's construction volumes in Ukraine increased. During the period, work continued on the reconstruction of substations and the installation of associated physical protection systems in the Poltava, Zhytomyr, Volyn and Ivano-Frankivsk regions of Ukraine. The group did not generate any revenue and had no ongoing construction contracts in the Swedish market. With the sale of Nordecon Betoon OÜ at the beginning of December 2023, the group also withdrew from the Finnish market, where it had operated through Nordecon Betoon OÜ's subsidiary NOBE Rakennus OY. The group operated on a project basis in Latvia and Lithuania.

	Q1 2024	Q1 2023	Q1 2022	2023
Estonia	99%	98%	95%	97%
Ukraine	1%	0%	0%	2%
Finland	-	2%	2%	1%
Latvia	-	0%	3%	0%

Performance by business line

Segment revenues

We strive to maintain the revenues of our two main operating segments (Buildings and Infrastructure) in balance, if this is permitted by market conditions, because this helps diversify risks and provides better opportunities to continue construction operations in more challenging market conditions where the volumes of one subsegment decline sharply while the volumes of another may grow more rapidly.

The group's revenue for the first quarter of 2024 was EUR46,245 thousand, around 38% larger than a year earlier, when revenue from continuing operations amounted to EUR33,549 thousand. The Buildings segment generated revenue of EUR43,408 thousand and the Infrastructure segment revenue of EUR2,808 thousand. The corresponding figures for the first quarter of 2023 were EUR30,673 thousand and EUR2,849 thousand. Revenue generated by the Buildings segment increased by 42%, while revenue generated by the Infrastructure segment remained more or less stable compared to the same period last year. The revenue growth and changes in performance of the reportable segments were expected and in line with the group's order book.



Revenue by operating segment	Q1 2024	Q1 2023	Q1 2022	2023
Buildings	94%	92%	87%	74%
Infrastructure	6%	8%	13%	26%

Subsegment revenues

In the Buildings segment, the main revenue contributor was the public buildings subsegment, which delivered approximately 83% growth compared to the same period last year. Revenue generated by the commercial and apartment buildings subsegments also increased, while the revenue contribution of the industrial and warehouse facilities subsegment decreased sharply with only one construction contract in progress.

The period's largest projects in the public buildings subsegment were the construction of the main building of the Estonian Internal Security Service and Loodusmaja (Nature Hub) in Tallinn, the design and construction of warehouse complexes for the Centre for Defence Investment in Luunja and Nõo rural municipalities in Tartu county and in Ida-Viru county, the design and construction of a new study and sports building for the Saku upper secondary school near Tallinn and the reconstruction of the building of the Karlova school in Tartu.

The revenue of the apartment buildings subsegment resulted from the construction of the commercial and residential complex Vektor and the group's own development projects. Revenue from the group's own development operations increased year on year, rising to EUR3,952 thousand (Q1 2023: EUR2,173 thousand). Nordecon is continuing the development of the Mõisavahe Kodu housing estate (<https://moisavahe.ee>) and the construction of the Emajõe Residents housing estate, located close to the city centre on the banks of the Emajõgi river (<https://emajoeresidents.ee>), in Tartu. In the first quarter, the group also started the construction of phase 1 of the Seileri Kvartal housing estate in Pärnu (<https://seileri.ee>). In carrying out our own development activities, we carefully monitor potential risks in the housing development market.

The largest projects under construction in the commercial buildings subsegment were the commercial and residential complex Vektor and the LEED Gold compliant Golden Gate office building at Ahtri 6 in Tallinn and the design and construction of a commercial building at Nõlvakaare 4 at Raadi in Tartu county.

Buildings segment	Q1 2024	Q1 2023	Q1 2022	2023
Public buildings	67%	43%	28%	37%
Commercial buildings	19%	25%	23%	23%
Apartment buildings	14%	22%	31%	27%
Industrial and warehouse facilities	0%	10%	18%	13%

The largest revenue contributor in the Infrastructure segment is road



construction and maintenance although in the first quarter of 2024 its revenue decreased by around 6% compared with a year earlier. A major share of the subsegment's revenue for the period resulted from the construction of an armoured manoeuvre shooting range and roads in Harju county, the provision of road maintenance services in Järva county and the construction of the Tagadi ecoduct (wildlife crossing) on the Rail Baltica route.

Infrastructure segment	Q1 2024	Q1 2023	Q1 2022	2023
Road construction and maintenance	83%	61%	66%	63%
Other engineering	17%	33%	27%	30%
Environmental engineering	0%	6%	0%	7%
Specialist engineering	0%	0%	7%	0%

Order book

The group's order book (backlog of contracts signed but not yet performed) stood at EUR198,737 thousand at 31 March 2024, reflecting an increase of approximately 34% year on year. In the first quarter of 2024, we signed new contracts for EUR17,617 thousand (Q1 2023: EUR41,860 thousand). After the reporting date, we have signed additional new contracts for EUR14,900 thousand. The rise in material prices and interest rates in recent years, due to the uptrend in EURIBOR rates, has caused a sharp increase in the cost of development projects and, consequently, the postponement of new projects. The volume of investments made by the Transport Administration has decreased significantly, which has had a direct impact on the size of the order book of our Infrastructure segment. The volume of procurements for the Rail Baltica project has increased and will partially offset the decline in investments by the Transport Administration, but the excessive length of the procurement processes makes it difficult to predict the potential start dates of the work and the impact on revenue. While public investment in building construction has also decreased, we see some investment activity at local authority level.

	31 March 2024	31 March 2023	31 March 2022	31 Dec 2023
Order book (EUR'000)*	198,737	148,302	204,495	216,732

* Continuing operations

The share of the Buildings segment in the group's order book has increased: at 31 March 2024, the Buildings segment accounted for 93% and the Infrastructure segment for 7% of the group's total order book (31 March 2023: 81% and 19%, respectively). Compared with 31 March 2023, the order book of the Buildings segment has increased by 53%, while the order book of the Infrastructure segment has decreased by 49% and now consists solely of contracts secured by the road construction and maintenance subsegment.



Major contracts secured during the period include:

- * the construction of an armoured manoeuvre shooting range and roads for the Centre for Defence Investment in Harju county with an approximate cost of EUR5,450 thousand;
- * the construction of a modern war and disaster medicine centre for the Centre for Defence Investment in Tartu with an approximate cost of EUR15,000 thousand (the group is one of the joint bidders).

Management expects the group's revenue to increase slightly in 2024 compared to the revenue generated by continuing operations in 2023. In a highly competitive environment, we will avoid taking unjustified risks that could materialise during the contract execution phase and have an adverse impact on the group's results. We will focus on cost management and pre-construction and design activities where we can leverage our professional competitive advantages.

People

Employees and staff costs

The group's average number of employees in the first quarter of 2024 was 423, including 281 engineers and technical professionals (ETP). Headcount decreased by around 28% year on year, due to the restructuring of the group's Infrastructure segment and the sale of Nordecon Betoon OÜ and NOBE Rakennus OY at the beginning of December 2023.

Average number of employees at group companies (the parent and the subsidiaries):

	Q1 2024	Q1 2023	Q1 2022	2023
ETP	281	392	434	374
Workers	142	192	225	184
Total average	423	584	659	558

The group's staff costs, including all taxes, were EUR3,939 thousand in the first quarter of 2024, compared with EUR4,531 thousand from continuing operations in the same period last year. The decrease is mainly due to a lower headcount following the reorganisation of the Infrastructure segment.

The service fees of the members of the council of Nordecon AS for Q1 2024 totalled EUR50 thousand and the associated social security charges amounted to EUR17 thousand (Q1 2023: EUR37 thousand and EUR12 thousand, respectively).

The service fees of the members of the board of Nordecon AS totalled EUR130 thousand and the associated social security charges amounted to EUR43 thousand (Q1 2023: EUR115 thousand and EUR38 thousand, respectively).

Labour productivity and labour cost efficiency



We measure the efficiency of our operating activities using the following productivity and efficiency indicators, which are based on the number of employees and staff costs incurred:

	Q1 2024	Q1 2023	Q1 2022	2023
Nominal labour productivity (rolling), (EUR'000)	535.4	472.3	451.9	499.3
Change against the comparative period, %	13.4%	4.5%	8.3%	1.8%
Nominal labour cost efficiency (rolling), (EUR)	11.1	11.0	12.2	10.3
Change against the comparative period, %	0.5%	(9.8)%	11.4%	(13.4)%

The group's nominal labour productivity for the period increased year on year due to a decrease in the average number of employees.

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