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Translation from the original Norwegian, which remains the definitive version

Corporate participants

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Presentation

Sverre Molvik, CEO, Selvaag Bolig ASA

Good morning, and welcome to the presentation of fourth-quarter results for Selvaag Bolig. My name is Sverre Molvik, the CEO, and accompanied by Christopher Brunvoll, our CFO, we will jointly take you through today's presentation. Our agenda consists of highlights from the quarter, a closer look at operations, before Brunvoll takes us through the financials, and I cover the market, our outlook, and finish with Q&A.

The fourth quarter was the best in the company's history in terms of sales. We sold 256 homes, a record in volume and in value. We had construction starts of 456 units, which is more than we have ever had. That was the result of strong sales in Q3 and in Q4.

We had many completions which gave good volumes with good margins and good earnings. These in turn gave a good result in the second half, allowing us to propose a second half dividend of NOK 3.00 per share. After paying NOK 2 per share in the first half, we thus end at NOK 5.00 per share for the year. That corresponds to about 93% of earnings per share.

We have also looked at our land bank, as we normally do at the end of the year, that is, the part of the land bank that was not sold to Urban Property. We have some property remaining in Selvaag Bolig. Those properties have a book value of NOK 900 million, but they have an appraisal valuation of NOK 1400 million, so they have an added value of NOK 500 million, or over NOK 5.50/share.

A few comments about our key numbers: We had a lot of completions, so IFRS revenues came to NOK 1 554 million and the operating margin was 20.4%, and NOK 3 403 million for the year and a margin of just over 22.2%. On a percentage of completion basis, revenues were NOK 795 million and 14.2% for the quarter, for the year NOK 3 300 million and nearly 16%. The CFO will give you more details on that later.

If we look at highlights in our operations: As you know, we have set up business in Sweden. We decided a couple years ago to grow organically there, and we won another land allocation in Stockholm a couple weeks ago, which we are very happy about. It was in competition with all the major players in Sweden. The competition based on various criteria, and we won not on the basis of price, which is a criterion, but on the basis of "concept," based on our Pluss concept, among other things. We now have a land bank in Sweden which we have developed over the past year and a half that can give approximately 800 units. That gives a very good foundation or threshold volume for us to build on in Sweden, which could become the second biggest region for the company.

We have started construction of 880 units in 2021, and during the year we purchased new land for roughly 1 000 units. Those were split roughly 50-50 between Norway and Sweden.

When it comes to ESG, we have disclosed our first climate report for some projects this year. Going forward, we will develop climate reports for all our projects. We have also made quite an improvement regarding sustainability in general, which we will revert to in our annual report, which is due in April.

As I said in the beginning, we had record high sales. We sold 276 units in the fourth quarter which is normally a quiet quarter due to Christmas and less daylight. 276 is more than ever before – we haven't even been close. The sales value was NOK 1 265 million and I would like to add that sales are continuing to be strong so far in Q1, running at about the same speed as in Q4.

In 12-months rolling sales, we are just over NOK 4 billion, with the average price slightly down since we sold some smaller units in Lørenskog.

Our sales in Q3 and Q4 paved the way for us to start construction on 456 units in the fourth quarter, while we completed 334. This means that our speed is picking up significantly compared to the previous quarter, so we now have 1 323 units under construction compared to 1 201 in the previous

quarter, with a value of just over NOK 6.7 billion. Of those units, we had sold 67% by the end of the quarter, and more now.

73% of this volume is currently in Greater Oslo. Two years ago Greater Oslo was at 97% or something like that, so we have gotten all our regions moving, which is nice. Trondheim is moving, Bergen, Stavanger are picking up, the only place that isn't producing units is Stockholm, which we hope will start in one year's time. The sale of our first units in our first project there is scheduled for this summer, give or take.

For guidance on completions going forward, we haven't changed that, and we are expecting 625 units to be completed in 2022. 82% of that was sold at the end of the year, and more now, naturally.

Now Christopher will go through financials.

Christopher Brunvoll, CFO, Selvaag Bolig ASA

Good morning. Now we will look at the financial highlights for the fourth quarter. We will, as usual, begin with the income statement according to IFRS, where income and costs in the projects are first recognised when the homes are delivered to our customers. We delivered 324 units net in the quarter, of which 33 were from joint ventures, mainly Kaldnes Brygge in Tønsberg.

Revenues came in at roughly NOK 1.6 billion, including other revenues of NOK 14 million, which is from operating our Pluss centres and from billing joint ventures for project management. Project costs came in at NOK 1.2 billion, well within our budgets. Our project leaders have strict cost controls, which allowed us to deliver good margins in the quarter. In these NOK 1.2 billion, we included NOK 45 million in financial costs which are classified as cost of goods in accordance with IFRS.

Other costs came in at NOK 81 million, roughly the same level as one year earlier. We thus report an adjusted EBITDA of NOK 317 million, corresponding to a margin of 20%. That brings us down to an EPS of NOK 2.34, compared to NOK 2.62 in the same period last year.

Now we will look at a proforma income statement where we consolidate our share of income and costs in joint ventures. This statement shows a gross income and cost statement. Here we see revenues are NOK 1.7 billion in the quarter, the margin is 19%, compared to NOK 1.4 billion in Q4 2020 and a margin of 25%. This gives, of course, the same bottom line, which is NOK 2.34/share in earnings.

We have also made a proforma income statement for the year 2021. We delivered 894 units with revenues at NOK 4.3 billion. We deliver an adjusted EBITDA of NOK 827 million, corresponding to a margin of 19%. This can be compared to 2020 when we had revenues of NOK 3.6 billion and a margin of 21%. Earnings per share in 2021 ended at NOK 5.40/share, compared to NOK 5.32 in 2020. In that figure we have excluded the gain of NOK 11/share from the Urban Property transaction, to make the numbers more comparable.

Now we will look at segment results which follow Norwegian accounting principles (NGAAP), which use the percentage of completion method and better reflects underlying trends in the company. The percentage of completion method takes the sales ratio multiplied by the completion ratio in the projects to arrive at a withdrawal ratio. That means that we recognise income on a continuous basis in the projects over the life of each project.

We had NOK 795 million in revenues in Q4 2021 and a margin of 14%, which is after pay and other operating costs. If we look at our speed here using 12-month rolling revenue, we were at roughly the same level, with NOK 3.3 billion, and a rolling 12-month average EBITDA margin of 16%.

Now we will look at cash flow development. We started the quarter with NOK 610 million in the bank and we had positive operating cash flow of NOK 721 million, linked to strong results and many deliveries, so that inventory declined substantially. The deliveries bring in cash from the customers, allowing us to reduce borrowings, mainly construction loans, by a net NOK 801 million. This brings us to NOK 527 million in cash at the end of 2021.

We have a book value of equity per share of NOK 26.2, giving us a solid equity ratio of roughly 42.7%. That is due to many deliveries during the quarter and good earnings. Our total balance sheet is smaller, due to all the deliveries and redemption of debt. It is important to mention here that our dividend of NOK 281 million is not reflected in the balance sheet because it will be paid in the second quarter.

Inventories are lower, which I will come back to. Other receivables declined by NOK 27 million. Cash declined by NOK 82 million, as we mentioned earlier. In other current non-interest-bearing debt, we have prepayments from customers at NOK 234 million.

As Sverre mentioned, we had our land bank appraised. We see that our land inventory is valued at NOK 907 million, and the annual valuation by 60 Grader Næringsmegling assessed it at NOK 1.4 million, giving us a value added of NOK 519 million, which is roughly NOK 5.5/share.

If we look at inventories, they are somewhat down somewhat vs. the previous quarter, whereas the land value is up by NOK 79 million, because we repurchased a fair amount of property from Urban Property during the quarter. Work in progress dropped considerably, by NOK 712 million, due to many deliveries during the quarter. We have started many projects, but so far, we have not been invoiced for so much work from the construction companies. That will come, so we expect an increase in work in progress during the next quarter. Finished goods inventory rose by NOK 58 million because we did not deliver everything that we completed, and we have more flats on our balance sheet as of 31 December. Nevertheless, it is at a low and comfortable level, with 25 completed but unsold units.

Then we will look at the debt. We have interest-bearing debt totalling NOK 2.1 billion, of which the big item was a NOK 1.2 billion construction loan. We also have debt to Urban Property of NOK 682 million, representing repurchase agreements and seller credits. We also have some land loans remaining, for property on the balance sheet, for a total of NOK 279 million. We have not had any change to loan conditions, nor had we drawn on any of our remaining three credit or overdraft facilities at the end of the quarter.

That brings us to a net interest-bearing debt of NOK 1.6 billion at the end of the quarter, which was considerably lower than the previous quarter, which was NOK 2.3 billion.

Then we will look at dividends. Since we listed in 2012, we have prioritised good dividends to our shareholders. If we look at the left side of the graph on slide 21, we paid a dividend of NOK 2/share in August for the first half, and the Board has proposed NOK 3/share for the second half, which adds up to NOK 5/share for the whole year, representing about 93% of earnings per share of NOK 5.40 for that period.

On an accumulated basis, we have paid about NOK 49/share in dividends since we were listed on the stock exchange in 2012. That represents about 92% of earnings per share of NOK 53 for that period. We want to continue to prioritise giving good direct returns to our shareholders.

To conclude, we will look at return on equity, which is calculated based on net income after tax the past 12 months, divided by the starting equity balance. We have delivered net income of NOK 505 million the past 12 months, and a return on equity of 21%.

Now Sverre will continue with an update about the market.

Sverre Molvik, CEO, Selvaag Bolig ASA

Well, we'll start by looking at the Oslo market as we usually do. If we look at the balance between supply and demand in Oslo the past 15 years, then about 3 000 new units have been completed annually. Preliminary data point to 1 800 completions in 2021, 1 600 this year and then about 2 350 for 2023. This is very low compared to the estimated need of 4 000 units per year. This is the main reason for the upward price pressure in Oslo and everything that gets written about how it is so difficult for first time buyers to enter the market.

If we look at the former Akershus, then the numbers are more promising with an average of 3 750 units being completed annually. There were 4 100 completions in 2021, 4 200 this year, and then 3 300 completions in 2023. There is a declining trend, but Akershus has generally been very good at granting planning permission, for example in Lørenskog where we have large volumes. They are very good at giving planning permissions compared to the worst in class, which is Oslo. There is still a gap here even if many planning permissions are granted in Lørenskog and sales are strong. Because of the lack of housing in Oslo, many Oslo residents are moving to Lørenskog and other municipalities close to Oslo.

The requirement in Akershus is 4 900 homes per year, so there is a gap but not as big as it is in Oslo. So, pressure is building here, too, probably because of too little housing supply in Oslo.

If you look at what has actually been offered for sale and sold during 2021 on the newbuild market. The year started with 1 000 units for sale in Oslo, only 2 000 units were supplied to the market and they were sold, and that leaves about 1 000 left at year end for sale now. These numbers illustrate that the available supply on the market gets sold. The 1 000 units that are available are in projects being sold on a linear basis during the construction process. I have been doing this for many years, and it wasn't so long ago that supply side was the same in Oslo as in Akershus. Now you see that there are three times as many units for sale in Akershus as in Oslo. The low supply of units in Oslo is not healthy.

Akershus is much more balanced, with a lot of volume available for sale, more than 3 000 units, which is quite normal. During the year, more than 5 000 units were put on the market and sold, that is a lot. That leaves Akershus with roughly the same healthy supply side at the end of the year as in the beginning of 2021.

Bergen actually shows some of the same tendencies as Oslo, with planning permission taking a long time there. We have projects in Bergen, so we are familiar with the situation and Bergen uses a lot of time on giving planning permission, just like Oslo. Those two aren't succeeding and are running behind: 530 units were supplied to the Bergen market in 2021, so supply has dwindled during the year, leaving only 640 units for sale now. Bergen is much smaller than Oslo, but nevertheless that is a low level of supply.

Trondheim is more balanced, the same in Stavanger and Sandnes. If you look at how things have developed on the supply side over the last four years, we see that Oslo is showing a sharp decline, which we have talked about for several years, and even warned about it. Oslo's level is far too low, with only 1.4 new homes currently for sale per 1 000 capita, whereas Akershus has 5 per 1 000 capita, much more in balance. That is also the case in Trondheim, which also has good supplies available. Bergen's supply is headed toward an unhealthy low level and probably should be where it was in 2019-2020. Stavanger and Sandnes are more balanced.

If we look at the same figures for second hand housing, we see that there is little for sale. This is mainly due to a change in the Disposal Act. Sellers now need to provide more sales documentation, and this has created a bottleneck. But I expect significantly more second hand housing to be available for sale when spring comes. If we look at what is available for sale in the second hand homes market relative to the population, it is very normalised in all cities, and they are showing very similar numbers, naturally because most buyers and sellers are trading existing homes. Conditions are generally healthy, the only thing we notice is that supplies are generally low across most of the country, and we see that reflected in upward pressure on prices. We saw a record in Oslo, with 4.7% price growth in January for second hand housing. That is quite a bit, and we see similar trends in Bergen and other cities.

Now it is normal that prices rise strongly in the first half of the year, including January, but this has likely been caused by the constraints in the supply side with the documentation requirements to sell housing that I mentioned.

We have a lot of good housing to offer in this market. We have a lot of supply on our shelves. We have a lot for sale at Ringve at Lade in Trondheim where we have a Pluss project, where we started sales in Q4 2021, which is doing well. We will just keep marketing new construction phases as our sales progress. We have much for sale at Skårerbyen in Lørenskog. We also have a lot at Lørenskog Stasjonsby by the SNØ winter arena, there we will soon provide a new Pluss project. We have a Pluss project at Skårersletta located nearby, which sold quite well, so we are launching a new Pluss project at Lørenskog Stasjonsby. Lille Løren Park, a project at Sinsenveien in Oslo, was launched last week, with a bidding deadline yesterday. We sold an awful lot. We offered 50% of phase one, and sold more than 80% of that at good prices, so the market is hot in the Greater Oslo region these days. We are also selling well in the other regions, with strong sales by and large across our markets.

We have more than 400 flats for sale now, and we can add another 600 during the first half of the year. Naturally, we have more in the second half, so we have a good pipeline going forward.

If we look at some of the coming big projects that are exciting. In Stockholm we are starting sales on our first Pluss project in Barkarby, which is also our first own project in Stockholm. We are looking forward to that, probably with sales starting after the summer vacation.

In Fredrikstad we have a large area together with Jotne Eiendom where we are waiting for the zoning process. We are hoping to start sales there next year, but not likely earlier. That is a very big zoning process, with over 2 000 units plus commercial property, so there is a lot to go through for the municipality there. At Bjerke in Oslo, we have got approval for the so-called main plan, but that land needs planning permission, and as I pointed out earlier, that process unfortunately moves quite slowly in Oslo. Therefore, we do not dare to promise any sales start at Bjerke before 2024, although there isn't anything hindering it from only using a year to get planning permission.

Fornebu just outside Oslo is moving ahead steadily, and we are hoping to start sales in 2024. There is a natural limitation there, tied to the construction of the Fornebu Line.

So, to look at what our outlook, we are optimistic about the future. We expect one to three interest rate increases, but we are not afraid of that. As we said before the last interest rate increase, interest rates are not the critical factor for us. Our apartments have an average price of NOK 5 million, so servicing that loan is not the main issue, it is rather the loan cap at five times income which already applies. So as long as people need housing, they are not very sensitive to interest rate changes unless rates reach a certain level, and we are not there today.

We have many good projects in our pipeline, and we are thrilled to get started in Stockholm, to see what we are able to build there over time. If we continue like last year, it will be very exciting, and we will do everything we can to succeed. We have a lot to sell this quarter.

To sum it up, Q4 was a record fourth quarter when it comes to sales. We have substantially increased construction starts. We started 450 units, which is significantly more than units completed. Our results are good, again, so we are proposing a dividend of NOK 5 for the year, which is solid and equals 93% of earnings per share. We have over NOK 500 million in surplus values in the land bank that is remaining in our balance sheet. That was all that I had planned to say before any questions.

(Pause)

No questions, I guess. Thank you. We will see you again on 25 May for our first quarter earnings report.