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PRESENTATION

Samu Heikkilä

Good morning, and welcome to YIT's Third Quarter Earnings Webcast. My name is Samu Heikkilä, and I'm YIT's Investor Relations Manager. Our third quarter results and highlights will be presented by our CEO, Markku Moilanen; and CFO, Tuomas Mäkipeska. After the presentation, we will be taking questions from the conference call line. At this point, I would like to hand over to our CEO, Markku. Please go ahead.

Markku Moilanen

Thank you, Samu, and good morning and welcome on my behalf as well. I'm this morning particularly pleased to tell about our third quarter results. We had improved performance, clearly improved performance compared to the same period last year. Our profitability improved, and our adjusted operating profit almost doubled, and the profit margin increased significantly as well despite the challenging business environment that we are in the construction sector. This is a result of a restless strategy execution. A key part of our strategy is the transformation in Business Premises and Infrastructure segments. And that continues successfully, and we gained efficiencies from enhanced project management. However, it should be noted that these gains have been partly offset, especially by the increased material costs. We have also achieved substantial productivity gains during this period and throughout the whole year. The cumulative cost savings year-to-date from the new operating model has resulted over €20 million savings. So, all in all, a very solid performance during this quarter.

If we then look at the numbers a bit more closely. So, firstly, we were able to increase our revenue, which is a good achievement in a challenging business environment. The revenue increased in all segments. Looking at the profitability, as I mentioned already earlier, we almost doubled our profitability. And more importantly during this period, our adjusted EBIT margin, which is one of the KPIs of our strategy, improved to 3.7 percentages during Q3. And if we look at the year-to-date numbers compared to the previous year, it increased to 4.1% compared to 2.8% during the same period the previous year. If we then have a look at the different segments, we had stable underlying performance across all segments. And that's, of course, important for us. In Housing, we had stable results even if the market was clearly challenging. We had softer consumer demand and a weaker apartment sales mix. And despite of that, we had good results. The transformation progressed both in Business Premises and in Infrastructure. And if you look at the Business Premises, it should be noted that the comparable period in 2021 was supported by a plot sale. So, the underlying performance was clearly improving according to the plan. And then, the same applies to Infrastructure which had positive results as well. And finally, we had good results in Property Development. And it should be noted that the comparison period was burdened by one project write-down. But even there, the underlying performance was improving. So, during challenging times, it's important that all of our segments are performing according to the plans.

We have been executing our strategy throughout the year. And it is clear that – like we have communicated earlier, that even one could say just during these challenging times, we have the right strategy. The three key components or pillars in our strategy are focus, productivity and ESG.

Starting from focus. There, our key goal is to grow in the long run in Housing. And again, in order to grow in Housing, we continued plot investments in selected attractive urban plots, and that is to secure the future

earnings for the company. In Business Premises and Infrastructure, focus is about selectiveness and focusing on our core competencies where we are competitive. And that was clearly yielding good results during the period.

So, our order book remained strong even if the business environment is challenging. So, the Business Premises order book was strengthened from reliable clients. For example, the first phase of construction at Seinäjoki station for eQ in Oulu, the new Nokia R&D Campus. The renovation of the property at Aleksanterinkatu 13. And then, earlier this week, announced an agreement on construction and maintenance of the new Gesterby school center. In Infra, in turn, the development phase of the seawater heat recovery project with Helen and ACCIONA started during the quarter and was entered to the order book.

Looking at the productivity, like I mentioned earlier, the cumulative cost savings from the new operating model amounted to over €20 million at the end of Q3. So, we have not only executed our strategy in terms of productivity, but due to the challenging environment, we have taken extra actions on productivity. When it comes to project management, which is key part of the transformation in Business Premises and Infra, we clearly had efficiency gains from project management, i.e., the write-downs, adjustments and projects, were significantly lower than during the previous years. However, that was partly offset by the market and especially the increasing material costs as well.

Lastly, but definitely not least, we took important steps in ESG in the environmental area. So, we made a decision that we will use low-carbon hollow-core slabs in apartment buildings in the Helsinki Metropolitan Area and Uusimaa, and then gradually expanding the usage to all of Finland. And if we are looking at individual constructions, individual houses, hollow-core slabs are the individual products, our product category had the highest emission impact. So, this is really important step towards kind of low-carbon footprint in our production as well. This action, just to put this in perspective, to switch to these low-carbon hollow-core slabs in Helsinki Metropolitan and Uusimaa, will reduce carbon dioxide emissions by approximately 4 million kilograms per year. And that amount corresponds to the average annual emissions of approximately 560 fins or 680 car journeys around the world. So, we are really taking important steps during the challenging market environment to build the future for the company, but for the future generations as well.

Moving forward, we continue to invest to the future of the company. And for us, that meant that we invest it in our land bank. And the most significant acquisitions were according to our strategy to the CEE countries of Poland and Czech Republic. So, enabling us to build 2,100 housing units in Warsaw, Krakow and Gdansk; and then 150 housing units in Prague as well. So, our land bank enables – our current land bank enables construction of approximately 34,000 new homes, enabling us to grow in Housing in the coming years. If we look at our strategic targets, we are well on our way to increase our productivity and profitability. And there, we have a strategic goal to reach above 6 million more than – sorry, 6%, more than 6% EBIT margin by the end of 2025. The last 12 months, our result was 4.1%, compared to the 3.2% in 2021. So, clear progress in that area. Our gearing was according to the plan, short-term increasing, driven by the self-developed projects in Housing and Property Development, and the investments in plots and increase the number of unsold completed apartments in Housing as well. However, the long-term target of below 50% remains to be the same. And finally, we are still planning to have a stable growth in our dividends.

So, let's have a look at the numbers a bit more closely. So, I'll hand over to our CFO, Tuomas Mäkipeska. Tuomas, the floor is yours.

Tuomas Mäkipeska

Thank you, Markku, and good morning on my behalf as well. Q3 for us was another strong quarter. Our profitability strengthened and balance sheet remained strong. And let's see the financial highlights of the quarter.

Here, you can see the key performance indicators for the quarter. Our order book grew to about €4 billion. Our adjusted EBIT improved again, both in absolute and relative terms. And our net debt increased but remained on a moderate level, especially when excluding the IFRS 16 and housing company loans. Let's have a look at each of these a bit more in detail.

Our order book increased, as mentioned, and actually the increase was significant from last year's figures, but also slightly improved from the last quarter. This is, again, a good evidence of our competitiveness in the market. The growth came from the Business Premises and the Property Development segments, whereas in Housing segment, it was slightly decreased. Markku actually mentioned the main projects in Business Premises and in Infra that were recorded in the order book during the quarter. We think the healthy order book really safeguards volumes going forward in the unstable market conditions. Also, if we have a look at the revenue development, so the revenue increased actually in all of the segments, especially in Housing due to the higher number of apartment completions and in Business Premises driven by several project completions. We are, of course, happy to achieve growth like this in a challenging business environment, as Markku mentioned.

Then, if we have a look at the profitability and the adjusted EBIT, we were able to improve our profitability significantly. And here, you can see that in the big picture, the adjusted EBIT improvement compared to the last year was driven by the Property Development segment. But in total, the underlying performance was actually stable in all of the segments. All of the segments also gained benefits from the fixed cost savings. And Markku already mentioned that we have now gained in total year-to-date fixed cost efficiencies above €20 million. And this is driven by our more efficient operating model, as communicated earlier as well. It's good to note that there was a project write-down in the comparison period in Property Development, as mentioned, and also a plot sale in Business Premises during the Q3 last year. So, when excluding those kind of one-offs from the comparison period, so we can argue that the underlying performance improved in all of the segments. In Business Premises and Infrastructure, the turnaround has progressed well and the margin deviations were decreased a lot from last year – from the previous years. And that's kind of a evidence of the strategy execution going forward in these segments.

Then moving on to the cash flow and capital employed development. The cashflow and capital employed reflect mainly our growth investments according to our strategy, as has been planned and communicated ahead. And the main impact in the cash flow and consequently in the capital employed in Q3 was impacted by the investments in plots, self-developed projects in Housing and Property Development, as well as the increase in the number of unsold completed apartments in Housing. We, of course, continue the selectiveness in the projects and risk management procedures to manage capital-employed level. But on the other hand, our balance sheet continues to allow us to invest in future growth. Then, let's have a look at the net debt and especially the structure of the net debt. So, the net debt increased during the quarter due to the cash flow development I just described before. And it is very important to note that our net – the debt structure of YIT is kind of leads to a low financial risk profile, which is illustrated on the left-hand side.

You can see in the stack bar the components of the gross debt and the IFRS 16 lease liabilities and the housing company loans. When excluding those, the net debt would approximately be €200 million. So, that is very important to understand that this is really the kind of adjusted net debt is illustrating the risk profile of the company. Also, the maturity structure of the debt is healthy. Currently, we don't have any refinancing needs, and we are, of course, preparing for the future refinancing rounds well in advance.

So, all in all, our balance sheet remains strong and it allows us to execute our strategy going forward. And as mentioned, the increase in the net debt is related to the growth investments to plots and construction volumes, and it is also visible in the gearing development here. It's also very good to note that the interest cover ratio continued to improve significantly and our equity ratio remained on a healthy level. So, we see our balance sheet as a platform for growth and navigating through the unstable market environment. So, to summarize, the well progressing transformations in Business Premises and Infra and the improving performance drove our earnings growth, and we are well equipped to continue executing our strategy. Thank you. And now over to you, Markku.

Markku Moilanen

Thank you. Tuomas. Looking forward, we keep our guidance that we expect our profitability to improve in 2022, despite of the challenging market. But let's have a look at the market. And it's clear that the market outlook remains subdued in short term. Starting from the housing market where it is clearly weak currently in all the geographies that we are active. The consumer demand is soft, and the apartment sales times has been longer than normally, driven by the increased interest rates and inflation.

On the other hand, the investor market, even if that has come down from the great years, there is clear interest still in the investor market. But we expect the market to continue weak during the coming quarter as well. The real estate market has been reasonably good and that can be seen in our increased order book as well. However, the overall situation in the market leads us to see that even that market is going to weaken moving forward.

Looking at then YIT's position, I would like to remind the good order book that we have, so we – even if the market would be weakening, we had solid workload moving forward. Finally, the infrastructure market is quite normal and actually good – it's quite normal in Finland and good in Sweden. And I would say that the Finnish market is almost greenish. So, there are interesting project both from public sector, but then there are large industrial investments coming in Finland, which needs kind of heavy infrastructure work as well. So, that market looks positive for us moving forward.

I have mentioned a couple of times the building costs, and they have increased during the whole year and the period as well. So, as can be seen from this picture, the year-on-year cost on materials increased 10.3%, and labor 1.3%, and services 2.8%. On the other hand, we clearly see that the cost inflation in materials, there are clear signs on stabilizing on that one. Yes, the increasing energy costs continue to put the pressure on prices, but energy is not the major part of the material prices. So, we're clearly moving forward, expect the material prices to stabilize and even come down in some categories.

Looking then forward on housing completions which has an important impact on our revenue and earnings in each quarter. Like we have communicated earlier, we expect the number of consumer apartment completions to decrease during this year. And again, some of you might remember that the root cause for that was the lower level of startups at the beginning of the COVID pandemic.

So, looking at this year, Q4 is the quarter where we have the highest number of completions and like we have communicated, we had a very strong sales mix during Q1 and Q2 and during Q3. And the coming quarter, the sales mix is weaker even if the volumes are higher.

Looking then forward to next year, the similar pattern continues that the first two quarters, we expect their completions to be at a low level. However, then the Q3 is having exceptional high number of completions that we see this year during Q4. So, that has an impact on our earnings.

So, all in all, like I said, we expect our adjusted operating profit to be higher than in 2021 when it was €85 million. And the areas that will impact the earnings and the profits are the completions in Housing. Like I mentioned earlier in Business Premises and in Infrastructure, it is the turnaround and the performance. And like we have shown now during Q3, we expect performance to improve in Business Premises and gradually in Infrastructure as well, even if it's impacted by certain longer low-margin projects as well. Finally, in Property Development, we have several promising projects into pipeline coming as well.

So, all in all, to summarize where we are, we have stable improving results during Q3, as a result of a firm execution of our strategy. And we see that, that is a key cornerstone moving forward as well. We will focus firmly on executing our strategy to secure our earnings, meaning focusing on our core competencies, doing actions on productivity and then developing, investing on ESG.

However, the market, looking forward, all indicators show that we are heading towards a downturn. So, that means that we will pursue further opportunities to increase our efficiencies as well. We are disciplined on our cost management and do what is necessary to secure our earnings during the downturn period and, of course, lay a foundation towards the future. Like we have done investments during Q3, our investments are geared towards future growth, investments in plots, startups, in ESG, like we have done during Q3.

And finally, it should be noted that during these challenging times, our diversified business model. While we are not depending solely on one segment, where in short term, the market would go down. So, we are supported by other segments with a better market situation. So, we clearly see that the diversified business model and the successful transformation gives us a balance in this challenging market. So, thank you very much. That was what we were going to tell you about our results during Q3. So, now, I'll hand over back to Samu. And I think it's time for questions.

Samu Heikkilä

Yes, indeed. Thank you, Markku. And thank you, Tuomas. Operator, we are now ready for the questions.

QUESTION AND ANSWER SECTION**Operator**

Thank you sir. Our first question comes from Anssi Raussi from SEB. Please go ahead.

Anssi Raussi

Thank you and good morning, everyone. I have a few questions. And as usual, I'll go one by one. The first one is about your balance sheet. And I know you said that it's still strong, but it got weaker in Q3. So, any need to be worried, or what – can you rule out the need to strengthen the balance sheet, as we know that the market outlook is quite bad? And also you mentioned that your balance sheet allows you to execute strategy going forward, but are you planning to continue investments at the same level as in Q3? That's the first one. Thanks.

Tuomas Mäkipeska

Yes, I'll take this one. Thank you for the good question, Anssi. So, in Q3, our operating cash flow after investment was minus €149 million. And as already mentioned in the presentation, so it was impacted by, of course, the investments in plots referring to future growth. But also the self-developed projects in Housing and Property Development, as well as the increase in the number of unsold completed apartments in housing. So, as we have already communicated before, so we expect to tie up more capital as the year progresses due to the increased number of apartments under construction. But also as Markku mentioned, so we are planning to invest to future growth as well. So, in a big picture, so we continue to execute our strategy. But of course, during these times and the challenging business environment, so we are careful with the decisions to invest in the plots and starting up housing projects. So, that is in the big picture, the situation.

Anssi Raussi

Okay. Thank you. And then, the next one is about your sold units. So, the number of sold units was clearly the weakest in many years on a quarterly basis. So, anything to take into account here, or is it just reflecting the current market situation? I think the number was especially weak in CEE countries at least.

Markku Moilanen

Thank you, Anssi, and you are right. And that is a result of their softening consumer demand and especially in CEE, as we see it. On the other hand, like I told looking forward in the outlooks, we expect in a short term, the consumer demand to remain on a low level. So, that is the situation. On the other hand, the investor interest is there. But all in all, it is natural that we see some increase in the inventory due to the prevailing market situation. But that's the reason of the numbers.

Anssi Raussi

Okay. That's clear. And then, about your wind power pipeline. So, what kind of plans you have at this point in terms of monetizing the pipeline? So, any timeline or estimate when could we see some transactions, or what are your plans?

Markku Moilanen

Yeah. Thank you. It's really one area that we are investing. We have been investing on capabilities, on activities on that area because we see the wind power and renewable energy in a large scale like solar energy as an interesting opportunity for us. And not least, it is an important ESG action from our side as well. So, we have communicated that we have 3,000 megawatts in the preliminary study phase. And during that

phase, we will actually open this in the coming quarters. But shortly during the preliminary study phase, the word focus is on preliminary profitability calculations, land leasing and suitability analysis.

And then, the next phase is the permitting phase where we have 550 megawatts additionally. And that begins when the master planning proposal is accepted by their municipality. And of course, when we move forward in the pipeline, the realization probability of the project increases as they move to the permitting phase. But this is in a high level to say that we have the total pipeline that we are working with our projects and then the permitting phase which are, of course, closer to the realization. And we'll keep you posted and report how this pipeline develops over the quarters moving forward.

Operator

Thank you. We have a pop-up question from Svante Krokfors from Nordea. Please go ahead. Your line is open.

Svante Krokfors

Thank you. Good morning. Svante from Nordea. A couple of questions. Could you elaborate a bit on reservation rates in housing and how do you look at that currently?

Tuomas Mäkipeska

Well, I can start with this. So, we are – as earlier mentioned, so we are not disclosing any reservation rates in general. But of course, referring to what Markku mentioned about the market situation, so the kind of the reservation rates are kind of increasing on a lower pace than in the normal situation. So, that's, of course, good to note and reflects the market situation also in our decision-making. So, we are more careful with the start-ups and the reservation rates since the market is how it is. So, this is referring back to my answer as well, tie-in capital. So, we are careful with the start-ups and looking closely at the reservation rates when making decisions.

Svante Krokfors

Thank you. And then, question to Markku regarding – you mentioned that institutional investor demand for apartments is still good. Can you give some color on what kind of investors have shown interest? I'm thinking about what you have done in previous years, creating joint ventures. If you have increasing number of unsold apartments, do you see possibilities for this also going forward?

Markku Moilanen

Well, we are not disclosing the details, but there are several type of institutional investor and several type of solutions and models like you actually alluded to. So, we are open on having dialogues with several kind of solutions for them.

Svante Krokfors

Okay, thank you. That's all from me

Operator

Thank you. We have another follow-up question from Anssi Raussi from SEB. Please go ahead.

Anssi Raussi

Yes. Thanks. And one more from me. About your low-carbon hollow slabs and timeline regarding these, can you give us any estimates like when you're going to start to use these in your buildings or anything?

Markku Moilanen

Yeah. Thank you. Thank you, Anssi. Yes, we have already used them. So, we have pilot projects where we have used them. And from now on, in all forthcoming projects in Helsinki Metropolitan area and Uusimaa, we will do that. And like I said, then gradually in the rest of Finland. But of course, the Helsinki Metropolitan and Uusimaa is there where we have the highest volumes. And the question is more practical to get them available to the rest of the country. The commitment is clearly there. So, from now on, in all the new buildings.

Anssi Raussi

Okay, clear. Thanks.

Operator

As there are no further questions in the queue, I would like to hand the call back over to our speakers, to our hosts for any additional or closing remarks.

Samu Heikkilä

Thank you for the questions. YIT's fourth quarter and full-year 2022 results will be published on the 10th of February. Thank you. And have a great day.