

2019 prelims and dividend proposal in line with most recent full-year guidance – 2020 numbers adjusted according to firm's outlook – target down to Euro 20.00, Buy affirmed

Today, PORR released first key data for the fiscal year 2019. The numbers were in line with the firm's most recent guidance, which was revised in November in light of an impairment charge for a project in Norway and the market situation in Poland. Production output was at about Euro 5.6bn, more or less unchanged to the record levels of the previous year. While Business Unit 1, Austria, and Business Unit 2, Germany, both contributed a growth of almost 1% and 7% respectively, the international Business Unit 3 declined by almost 6%. Based on the 2019 prelims, the firm's pre-tax profit amounted to at least Euro 35m. The management will propose a dividend of 40 Cents per share at the annual general meeting. The order backlog continues to be high and stood at almost Euro 7.1bn at year-end, giving a good outlook to the coming years. The order intake was at more than Euro 5.5bn more than 12% below last year's level. According to the firm, that is due to a more selective acquisitions approach in order to strengthen the earnings power. The financial position remained more or less constant to the previous year in terms of net debt and stood including the IFRS 16 effects at approx. Euro 350m. Already after the reporting date, on 31 January, the company announced the successful issue of a subordinate hybrid bond, thereby further strengthening its financials. A total volume of Euro 150m was placed with institutional investors. The interest rate was fixed at the lower end of the price range at 5.375%, as demand was high and the issue was significantly oversubscribed. The term of the hybrid bond is unlimited with the issuer's option of an early redemption after five years. One of the intended uses of the issue is the refinancing of the hybrid bond issued in 2017. Here the company also announced the result of the tender offer, where a nominal amount of about Euro 26.7m was repurchased. The 2017 hybrid has a coupon of 5.5% and following the repurchase now has an outstanding volume of Euro 99.3m. Next to the refinancing activity, the proceeds are to be used to strengthen the capital base, for the optimization of the balance sheet, as well as for the overall support of the firm's growth plans, including possible acquisitions of small and medium-sized companies in the coming periods.

For the current fiscal year PORR expects a production output at about the same level as the last two years, however, an EBT margin in a range of 1.3% to 1.5%, which is supposed to grow to a range of 2.0% to 3.0% in the following years. We accordingly adjusted our 2020 estimates slightly downward and also reduced our dividend estimate for 2020 to match the targeted pay-out ratio of 30% to 50%. Together with a more cautious view on the overall economy and the current "Corona" situation, which could also affect PORR's business, we reduce our target price from Euro 25.00 to Euro 20.00, which still translates in an upside of about 45%. Thus, we confirm our Buy recommendation for the share.

| | | | | |
|----------------------------------------------|----------------------------------------|---------------|--------------|--------------|
| Price (Euro) | 13.84 | | | |
| 52 weeks range | 24.00 / 13.84 | | | |
| Key Data | | | | |
| Country | Austria | | | |
| Industry | Technology & Construction | | | |
| ISIN | AT0000609607 | | | |
| WKN | 850185 | | | |
| Reuters | ABGV.VI | | | |
| Bloomberg | POS AV | | | |
| Internet | www.porr-group.com | | | |
| Reporting Standard | IFRS | | | |
| Fiscal Year | 31/12 | | | |
| IPO | 2001 | | | |
| Number of shares (million) | 29.1 | | | |
| Free Float | 46.3% | | | |
| Market Cap (million) | 402.7 | | | |
| Free Float Market Cap (million) | 186.4 | | | |
| CAGR pre-tax profit ('18 - '21e) | 4.6% | | | |
| Multiples | 2018 | 2019e | 2020e | 2021e |
| MarketCap/ Revenues | 0.08 | 0.08 | 0.08 | 0.07 |
| PE-Ratio | 6.4 | 13.3 | 7.7 | 5.4 |
| Dividend Yield | 7.9% | 2.9% | 5.8% | 8.3% |
| Price-to-Book ratio | 0.7 | 0.7 | 0.6 | 0.6 |
| Key Data per Share (Euro) | 2018 | 2019e | 2020e | 2021e |
| Earnings per Share (EPS) | 2.16 | 1.04 | 1.79 | 2.56 |
| Dividends per Share (DPS) | 1.10 | 0.40 | 0.80 | 1.15 |
| Book Value per share | 21.25 | 20.96 | 22.31 | 24.20 |
| Financial Data (Euro '000) | 2018 | 2019e | 2020e | 2021e |
| Revenues | 4,959,109 | 5,172,351 | 5,368,900 | 5,583,656 |
| EBITDA | 219,467 | 200,598 | 211,757 | 242,002 |
| Operating Profit (EBIT) | 92,324 | 40,724 | 79,609 | 108,455 |
| Pre-tax profit (EBT) | 88,131 | 34,505 | 71,952 | 100,879 |
| Pre-tax margin | 1.6% | 0.6% | 1.3% | 1.7% |
| Net profit (after minorities) | 62,726 | 30,386 | 51,967 | 74,537 |
| Adjusted Shareholders' Equity | 571,646 | 590,394 | 619,085 | 660,162 |
| RoE after tax (adjusted) | 11.0% | 5.1% | 8.4% | 11.3% |
| Equity Ratio | 19.8% | 16.7% | 16.9% | 17.5% |
| Financial Calendar | | | | |
| Annual report 2019 | | 27 April 2020 | | |
| 1Q 2020 report | | 27 May 2020 | | |
| Main Shareholders | | | | |
| Syndicate (Strauss-group / IGO-Ortner-group) | | | 53.7% | |
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PORR AG

Industry: Construction / Infrastructure
Sub-segment: all kinds of real estate
Country: Austria
Headquarter: Vienna
Foundation: 1869
Employees: 19,339

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Management Board of PORR

Ing. Karl-Heinz Strauss, MBA, FRICS (CEO)
 Dipl.-Kfm. Andreas Sauer (CFO)
 Bmst. Ing. Josef Pein (COO)
 Dipl.-Bw. Thomas Stiegler (COO)

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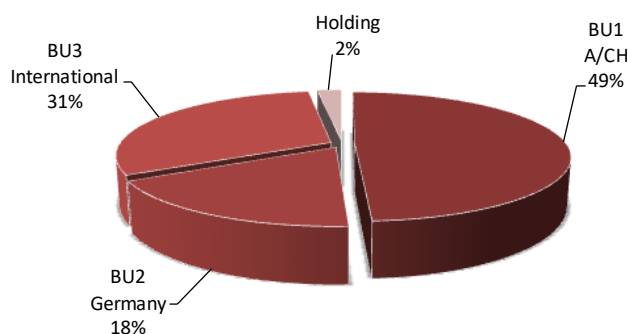
| | |
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Founded in 1869 as Allgemeine österreichische Baugesellschaft PORR AG is today a full service provider for construction and infrastructure projects with a leading market position in Austria and also a good footprint as one of the leading firms in other important European home markets like Germany, Switzerland, Poland and Czech Republic. Furthermore, there are also some project-specific activities and profitable niches in target markets like UK, Scandinavia and Qatar. From building construction and civil engineering to road and tunnel, as well as slab track construction – the watertight value chain and universal knowhow in every sector of the modern construction industry enables PORR to realise highly complex projects professionally and cost efficiently, without ever losing sight of the individual needs of their customers and principals. Besides Infrastructure there is also another modern and quickly growing business unit that has a focus on environmental engineering (waste management, dumps and sorting plants etc.), which will accelerate future profits outside the classic building construction business. PORR's strategy is to strengthen group's profitability by setting the focus on profitable projects (hurdle rate: 3% EBT margin to be reached in mid-term) like large-scale infrastructure business and by a cost cutting and a leaner organization structure to answer the digitalization trend in industry (named PORR 2025).

For 2018 PORR reported strong figures. Production output totalled Euro 5.6bn. Order intake once again climbed from almost 4.2bn in 2016, 6.3bn in 2017 to more than 6.3bn in 2018 and regarding Order backlog, 2018 was a record year surpassing the Euro 7bn threshold at Euro 7.1bn. In 2019, on a preliminary basis, production output remained constant at almost Euro 5.6bn while order intake declined by about 12.5% to Euro 5.5bn. After the spin-off of the real estate portfolio / UBM-PIAG development business in 2014, PORR is now for some years a pure construction and technology-driven company with a clear focus on its five home markets Germany, Austria, Switzerland as well as CZ and Poland (88% of 2018 production output).

The 2018 dividend remained stable at Euro 1.10, like in the two years before. For 2019 the company will propose a dividend of 40 Cents, which is due to the significantly lower earnings still in the targeted payout ratio of 30% to 50%. PORR delivered a low net debt position at year-end 2018 of Euro 150m. Due to IFRS effects of about Euro 200m, the net debt position at year-end 2019 amounts to about Euro 350m.

Production output Euro 2.5bn at 1H 2019
 (by business segments)



Source: Company Data, SRC Research



| P & L PORR AG | | | | | | | | |
|-------------------------------------------------------------------------------------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----------------|
| 31/12 IFRS (Euro '000) | 2015 | 2016 | 2017 | 2018 | 2019e | 2020e | 2021e | CAGR '18 - '21e |
| Production output | 3,523,752 | 3,925,000 | 4,738,164 | 5,592,914 | 5,569,781 | 5,603,587 | 5,771,695 | 1.1% |
| Revenues | 3,139,687 | 3,417,100 | 4,292,886 | 4,959,109 | 5,172,351 | 5,368,900 | 5,583,656 | 4.0% |
| Own work capitalized in non-current assets | 539 | 727 | 4,363 | 5,186 | 4,673 | 1,086 | 1,052 | |
| Share of profit/loss of associates | 46,233 | 46,252 | 59,220 | 86,551 | 92,479 | 70,456 | 73,423 | |
| Other operating income | 101,818 | 105,548 | 170,918 | 183,923 | 173,589 | 181,256 | 167,963 | |
| Cost of materials and other related production services | -2,060,827 | -2,251,409 | -2,944,027 | -3,462,635 | -3,582,750 | -3,718,895 | -3,849,056 | 3.6% |
| Staff expense | -807,638 | -874,068 | -1,036,068 | -1,178,798 | -1,256,963 | -1,329,789 | -1,388,540 | 5.6% |
| Other operating expenses | -253,870 | -256,812 | -346,612 | -373,869 | -402,781 | -361,258 | -346,496 | |
| Operating result (EBITDA) | 165,942 | 187,338 | 200,680 | 219,467 | 200,598 | 211,757 | 242,002 | 3.3% |
| Depreciation, amortisation and impairment expense | -78,172 | -87,283 | -110,461 | -127,143 | -159,874 | -132,148 | -133,547 | 1.7% |
| Operating result (EBIT) | 87,770 | 100,055 | 90,219 | 92,324 | 40,724 | 79,609 | 108,455 | 5.5% |
| Income from financial investments and other current financial assets | 18,968 | 15,320 | 15,985 | 18,466 | 21,479 | 18,003 | 19,756 | |
| Finance costs | -25,625 | -24,307 | -20,880 | -22,659 | -27,698 | -25,660 | -27,332 | |
| Earnings before tax (EBT) | 81,113 | 91,068 | 85,324 | 88,131 | 34,505 | 71,952 | 100,879 | 4.6% |
| EBT margin (in relation to production output) | 2.3% | 2.3% | 1.8% | 1.6% | 0.6% | 1.3% | 1.7% | |
| Income tax expense | -20,069 | -24,242 | -21,633 | -21,936 | -957 | -16,909 | -23,202 | |
| Profit/loss for the period | 61,044 | 66,826 | 63,691 | 66,195 | 33,548 | 55,043 | 77,677 | 5.5% |
| of which attributable to non-controlling interest | 133 | 282 | 535 | 805 | 498 | 412 | 476 | |
| Profit/loss for the period attributable to shareholders of the parent and holders of profit-participation rights | 60,911 | 66,544 | 63,156 | 65,390 | 33,050 | 54,631 | 77,201 | 5.7% |
| of which attributable to holders of profit-participation rights | 3,200 | 2,664 | 2,664 | 2,664 | 2,664 | 2,664 | 2,664 | |
| Net profit after minorities | 57,711 | 63,880 | 60,492 | 62,726 | 30,386 | 51,967 | 74,537 | 5.9% |
| Diluted/basic earnings per share (EPS) | 2.02 | 2.20 | 2.09 | 2.16 | 1.04 | 1.79 | 2.56 | |
| Dividends per share (DPS) | 1.50 | 1.10 | 1.10 | 1.10 | 0.40 | 0.80 | 1.15 | |
| Number of shares ('000) | 28,533 | 29,095 | 29,095 | 29,095 | 29,095 | 29,095 | 29,095 | |
| Adjusted Shareholders' Equity without minorities | 369,108 | 400,984 | 551,166 | 571,646 | 590,394 | 619,085 | 660,162 | 4.9% |
| Shareholders' Equity (including minorities and hybrid) | 412,118 | 440,872 | 597,038 | 618,234 | 609,756 | 649,170 | 703,966 | |
| RoE after Tax | 16.3% | 16.6% | 12.7% | 11.2% | 5.2% | 8.6% | 11.7% | |
| Total assets (Euro million) | 2,304.0 | 2,360.5 | 2,884.8 | 3,114.7 | 3,647.4 | 3,837.1 | 4,032.8 | |
| Equity ratio | 17.9% | 18.7% | 20.7% | 19.8% | 16.7% | 16.9% | 17.5% | |
| Key ratios & figures | 2015 | 2016 | 2017 | 2018 | 2019e | 2020e | 2021e | |
| Growth rates in % | | | | | | | | |
| Revenues | 4.3% | 8.8% | 25.6% | 15.5% | 4.3% | 3.8% | 4.0% | |
| EBITDA | 6.1% | 12.9% | 7.1% | 9.4% | -8.6% | 5.6% | 14.3% | |
| EBIT | 7.4% | 14.0% | -9.8% | 2.3% | -55.9% | 95.5% | 36.2% | |
| EBT | 22.7% | 12.3% | -6.3% | 3.3% | -60.8% | 108.5% | 40.2% | |
| Net profit after minorities | 25.7% | 9.5% | -4.7% | 3.9% | -49.3% | 64.1% | 41.1% | |
| Margins in % (based on production output) | | | | | | | | |
| EBITDA margin | 4.7% | 4.8% | 4.2% | 3.9% | 3.6% | 3.8% | 4.2% | |
| EBIT margin | 2.5% | 2.5% | 1.9% | 1.7% | 0.7% | 1.4% | 1.9% | |
| EBT margin | 2.3% | 2.3% | 1.8% | 1.6% | 0.6% | 1.3% | 1.7% | |
| Net profit margin | 1.7% | 1.7% | 1.3% | 1.2% | 0.6% | 1.0% | 1.3% | |
| Expense ratios in % | | | | | | | | |
| Personnel costs to sales | 25.7% | 25.6% | 24.1% | 23.8% | 24.3% | 24.8% | 24.9% | |
| Cost of material to sales | 65.6% | 65.9% | 68.6% | 69.8% | 69.3% | 69.3% | 68.9% | |
| Depreciation to sales | 2.5% | 2.6% | 2.6% | 2.6% | 3.1% | 2.5% | 2.4% | |
| Tax rate | -24.7% | -26.6% | -25.4% | -24.9% | -2.8% | -23.5% | -23.0% | |
| Profitability in % | | | | | | | | |
| Gross profit margin | 34.4% | 34.1% | 31.4% | 30.2% | 30.7% | 30.7% | 31.1% | |
| Return on adjusted shareholders equity (ROE) | 15.6% | 15.9% | 11.0% | 11.0% | 5.1% | 8.4% | 11.3% | |
| Return on investment (ROI) | 3.8% | 4.2% | 3.1% | 3.3% | 1.4% | 2.6% | 4.0% | |
| Balance sheet key figures | | | | | | | | |
| Net debt (-)/ net cash (+) | 186,525 | 53,312 | -147,429 | -150,184 | -348,471 | -314,698 | -267,493 | |
| Book value | 14.4 | 15.2 | 20.5 | 17.3 | 18.5 | 19.7 | 20.5 | |
| Equity ratio | 17.9% | 18.7% | 20.7% | 19.8% | 16.7% | 16.9% | 17.5% | |
| Liability ratio | 82.1% | 81.3% | 79.3% | 80.6% | 79.4% | 79.0% | 79.5% | |
| Data per share | | | | | | | | |
| Number of shares in ('000) | 28,533 | 29,095 | 29,095 | 29,095 | 29,095 | 29,095 | 29,095 | |
| Earnings per share (EPS) | 2.02 | 2.20 | 2.09 | 2.16 | 1.04 | 1.79 | 2.56 | |
| Dividend per share (DPS) | 1.50 | 1.10 | 1.10 | 1.10 | 0.40 | 0.80 | 1.15 | |
| * numbers adjusted by a share split in a ratio of 1:2 as of 19 June 2015 | | | | | | | | |
| Source: Company data, SRC Research estimates | | | | | | | | |

**SRC Research****- The Specialist for Financial and Real Estate Stocks -**

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| Rating Chronicle | Date | Rating | Former Price | Former Target |
|------------------|------------------|--------|--------------|---------------|
| PORR | 25 November 2019 | Buy | 18.70 € | 25.00 € |
| PORR | 29 August 2019 | Buy | 19.10 € | 33.00 € |
| PORR | 28 May 2019 | Buy | 22.25 € | 33.00 € |
| PORR | 30 April 2019 | Buy | 23.65 € | 33.00 € |
| PORR | 20 March 2019 | Buy | 21.50 € | 33.00 € |
| PORR | 28 November 2018 | Buy | 22.25 € | 33.00 € |
| PORR | 28 August 2018 | Buy | 27.80 € | 37.00 € |
| PORR | 28 May 2018 | Buy | 31.80 € | 37.00 € |

Please note:

The PORR share price mentioned in this report is from 9 March 2020. PORR AG mandated SRC Research for covering the PORR share.

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