

Covid-19 effects bring down output by 9% and EBIT slightly into red, but some remarkable cost cuttings and clear focus to streamline the firm for future – Buy and € 19.00 affirmed

Yesterday, PORR released the 1H 2020 report. The numbers expectedly showed significant impacts of the COVID-19 pandemic, as e.g. the majority of the construction sites in Austria had to temporarily shut down. Furthermore, several large-scale projects were completed. **The 1H production output declined 9%, by Euro 224m, from Euro 2.5bn in 1H 2019 to now slightly below Euro 2.3bn for the first 6 months, mainly BU1 (Austria, Switzerland, -11%) and BU3 (International, -12%), but BU 2 (Germany) still +2%. The decline in output could to a big portion be offset by a swift reduction in all expenditures, as expenses for materials and other related production services declined by 6%, down Euro -85m to Euro 1.34bn. Similar to this, PORR was also successful in bringing down the personnel expenses by short-work models, also -6%, means Euro -37m to only Euro 570m. The other operating expenses also strongly melted down due to the strict cost cutting measures, by -13% (Euro -26m) to only Euro 170m. All these reduction (summing up to almost Euro 150m) helped to stabilize the operating result as well as the bottom line result, which turned just slightly into the red zone. The EBIT was at Euro -17m, after Euro +17m in the year before. Looking at 2Q stand alone, it was encouraging, delivering a small EBIT profit of Euro +3m. The 1H pre-tax result came in at Euro -27m, after Euro 8m in the year before. The net loss was a bit better due to a positive taxation at Euro -23m, after being Euro +6m in 1H 2019. Keep in mind the seasonality, that the first half of the year is never that much decisive in the construction industry as the second half.**

The liquid funds look good at Euro 438m, even higher than in March (Euro 406m). The net debt also better than in March, shrinking from Euro 519m to Euro 470m and the management stated to further bring it down in the remaining year. The equity ratio was already improving, from 16.4% at year-end 2019 to 18.4%, coming closer to the 20% to 25% target range. The current order backlog of Euro 7.6bn (unchanged to March and almost Euro 540m above December) allows to continue a very selective underwriting policy, which should help for a substantial margin improvement in the next years. **Whilst the management steers the firm with significant measures for lower costs, CAPEX and working capital through a challenging Covid 19 environment with lower productivity and some delays, the strong focus remains to exploit future opportunities by setting up a much more digital and future oriented firm, which claims a technological leadership in many key parts of the industry, in particular infrastructure with a high future demand for modern railways, tunnels and bridges, but also modern and sustainable solutions for the private sector. We keep our Buy rating and also maintain the Euro 19.00 target.**

Price (Euro)	12.36			
52 weeks range	22.10 / 12.14			
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)	359.6			
Free Float Market Cap (million)	166.5			
CAGR pre-tax profit ('19 - '22e)	46.8%			
Multiples	2019	2020e	2021e	2022e
MarketCap/ Revenues	0.07	0.08	0.07	0.07
PE-Ratio	24.9	41.9	10.0	7.3
Dividend Yield	0.0%	2.0%	8.9%	9.7%
Price-to-Book ratio	0.6	0.4	0.4	0.3
Key Data per Share (Euro)	2019	2020e	2021e	2022e
Earnings per Share (EPS)	0.50	0.29	1.24	1.70
Dividends per Share (DPS)	0.00	0.25	1.10	1.20
Book Value per share	20.59	27.74	31.32	35.63
Financial Data (Euro '000)	2019	2020e	2021e	2022e
Revenues	4,880,414	4,607,111	4,846,681	4,996,928
EBITDA	222,316	200,278	254,524	279,170
Operating Profit (EBIT)	54,722	34,360	85,077	127,723
Pre-tax profit (EBT)	37,409	17,527	73,716	118,379
Pre-tax margin	0.7%	0.3%	1.3%	2.0%
Net profit (after minorities)	14,314	8,512	35,671	49,019
Adjusted Shareholders' Equity	587,081	688,319	791,986	906,091
RoE after tax (adjusted)	2.4%	1.2%	4.5%	5.4%
Equity Ratio	16.4%	21.0%	22.6%	24.6%
Financial Calendar				
SRC Forum Financials & Real Estate	10 September 2020			
9M 2020 report	26 November 2020			
2020 prelims	March 2021			
2020 annual report	April 2021			
Main Shareholders				
Syndicate (Strauss-group / IGO-Ortner-group)	53.7%			
Analysts	Dipl.-Kfm. Stefan Scharff, CREA Christopher Mehl, MBA			
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PORR AG

Industry: Construction / Infrastructure
Sub-segment: all kinds of real estate
Country: Austria
Headquarter: Vienna
Foundation: 1869
Employees: 19,828

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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)

Supervisory Board of PORR

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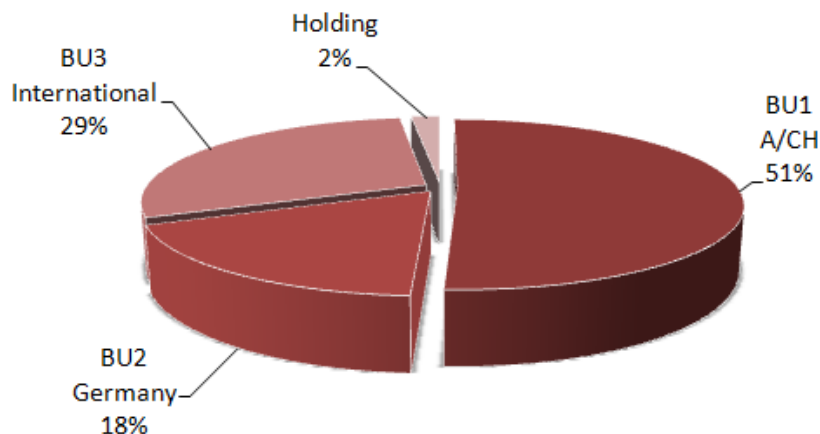
Founded in 1869 as Allgemeine österreichische Baugesellschaft PORR AG is today a full service provider for construction and infrastructure projects with a leading market position in Austria and also a good footprint as one of the leading firms in other important European home markets like Germany, Switzerland, 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 2019 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, production output remained constant at almost Euro 5.6bn, while order intake declined by about 12.5% to Euro 5.5bn due to the more selective acquisition approach of the company.

For 2019 the company decided to suspend the dividend payment and revoked the previous proposal of 40 cents per share as a precautionary measure following the COVID-19 pandemic and as a sign of solidarity towards all stakeholders of the company. A return to the targeted payout ratio of 30% to 50% is expected for the next year. Due to IFRS effects of about Euro 200m, the net debt position at year-end 2019 amounts to about Euro 350m, about the same level as 2018 taking into consideration the effects of IFRS 16.

Production output Euro 5.6bn at FY 2019

(by business segments)



Source:

P & L PORR AG

31/12 IFRS (Euro '000)	2017	2018	2019	2020e	2021e	2022e	CAGR '19 - '22e
Production output	4,738,164	5,592,914	5,569,781	5,324,972	5,617,845	5,797,617	1.3%
Revenues	4,292,886	4,959,109	4,880,414	4,607,111	4,846,681	4,996,928	0.8%
Own work capitalized in non-current assets	4,363	5,186	4,105	1,086	1,052	2,547	
Share of profit/loss of associates	59,220	86,551	87,448	70,456	73,423	76,321	
Other operating income	170,918	183,923	178,733	112,004	167,963	174,320	
Cost of materials and other related production services	-2,944,027	-3,462,635	-3,286,674	-3,122,340	-3,278,457	-3,344,026	0.6%
Staff expense	-1,036,068	-1,178,798	-1,243,180	-1,106,781	-1,145,887	-1,275,441	0.9%
Other operating expenses	-346,612	-373,869	-398,530	-361,258	-410,250	-351,478	
Operating result (EBITDA)	200,680	219,467	222,316	200,278	254,524	279,170	7.9%
Depreciation, amortisation and impairment expense	-110,461	-127,143	-167,594	-165,918	-169,447	-151,447	-3.3%
Operating result (EBIT)	90,219	92,324	54,722	34,360	85,077	127,723	32.6%
Income from financial investments and other current financial assets	15,985	18,466	15,396	8,955	15,156	19,127	
Finance costs	-20,880	-22,659	-32,709	-25,788	-26,517	-28,471	
Earnings before tax (EBT)	85,324	88,131	37,409	17,527	73,716	118,379	46.8%
EBT margin (in relation to production output)	1.8%	1.6%	0.7%	0.3%	1.3%	2.0%	
Income tax expense	-21,633	-21,936	-9,576	-2,025	-15,114	-27,819	
Profit/loss for the period	63,691	66,195	27,833	15,502	58,602	90,560	48.2%
of which attributable to non-controlling interest	535	805	2,292	412	476	533	
Profit/loss for the period attributable to shareholders of the parent and holders of profit-participation rights	63,156	65,390	25,541	15,090	58,126	90,027	52.2%
of which attributable to holders of profit-participation rights	2,664	2,664	11,227	6,578	22,455	41,008	
Net profit after minorities	60,492	62,726	14,314	8,512	35,671	49,019	
Diluted/basic earnings per share (EPS)	2.09	2.16	0.50	0.29	1.24	1.70	
Dividends per share (DPS)	1.10	1.10	0.00	0.25	1.10	1.20	
Number of shares ('000)	29,095	29,095	29,095	29,095	29,095	29,095	
Adjusted Shareholders' Equity without minorities	551,166	571,646	587,081	688,319	791,986	906,091	15.6%
Shareholders' Equity (including minorities and hybrid)	597,038	618,234	599,038	807,014	911,265	1,036,635	
RoE after Tax	12.7%	11.2%	2.5%	1.3%	4.8%	5.8%	
Total assets (Euro million)	2,884.8	3,114.7	3,664.9	3,840.8	4,025.2	4,218.4	
Equity ratio	20.7%	19.8%	16.4%	21.0%	22.6%	24.6%	
Key ratios & figures	2017	2018	2019	2020e	2021e	2022e	
Growth rates in %							
Revenues	25.6%	15.5%	-1.6%	-5.6%	5.2%	3.1%	
EBITDA	7.1%	9.4%	1.3%	-9.9%	27.1%	9.7%	
EBIT	-9.8%	2.3%	-40.7%	-37.2%	147.6%	50.1%	
EBT	-6.3%	3.3%	-57.6%	-53.1%	320.6%	60.6%	
Net profit after minorities	-4.7%	3.9%	-58.0%	-44.3%	278.0%	54.5%	
Margins in % (based on production output)							
EBITDA margin	4.2%	3.9%	4.0%	3.8%	4.5%	4.8%	
EBIT margin	1.9%	1.7%	1.0%	0.6%	1.5%	2.2%	
EBT margin	1.8%	1.6%	0.7%	0.3%	1.3%	2.0%	
Net profit margin	1.3%	1.2%	0.5%	0.3%	1.0%	1.6%	
Expense ratios in %							
Personnel costs to sales	24.1%	23.8%	25.5%	24.0%	23.6%	25.5%	
Cost of material to sales	68.6%	69.8%	67.3%	67.8%	67.6%	66.9%	
Depreciation to sales	2.6%	2.6%	3.4%	3.6%	3.5%	3.0%	
Tax rate	-25.4%	-24.9%	-25.6%	-11.6%	-20.5%	-23.5%	
Profitability in %							
Gross profit margin	31.4%	30.2%	32.7%	32.2%	32.4%	33.1%	
Return on adjusted shareholders equity (ROE)	11.0%	11.0%	2.4%	1.2%	4.5%	5.4%	
Return on investment (ROI)	3.1%	3.3%	1.9%	0.9%	2.1%	3.0%	
Balance sheet key figures							
Net debt (-)/ net cash (+)	-147,429	-150,184	-345,689	-314,698	-267,493	-284,312	
Book value	20.5	21.2	20.6	27.7	31.3	35.6	
Equity ratio	20.7%	19.8%	16.4%	21.0%	22.6%	24.6%	
Liability ratio	79.3%	80.6%	79.4%	79.0%	79.5%	79.3%	
Data per share							
Number of shares in ('000)	29,095	29,095	29,095	29,095	29,095	29,095	
Earnings per share (EPS)	2.09	2.16	0.50	0.29	1.24	1.70	
Dividend per share (DPS)	1.10	1.10	0.00	0.25	1.10	1.20	

Source: Company data, SRC Research estimates

SRC Research

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Rating Chronicle	Date	Rating	Former Price	Former Target
PORR	28 May 2020	Buy	14.50 €	19.00 €
PORR	29 April 2020	Buy	14.50 €	19.00 €
PORR	10 March 2020	Buy	13.84 €	20.00 €
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 €
PORR	27 April 2018	Buy	28.50 €	36.00 €

Please note:

The PORR share price mentioned in this report is from 26 August 2020. PORR AG mandated SRC Research for covering the PORR share.

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