

29 | April | 2020

Price (Euro) **14.50**
52 weeks range 24.00 / 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)	421.9
Free Float Market Cap (million)	195.3
CAGR pre-tax profit ('18 - '21e)	55.3%

Multiples	2019	2020e	2021e	2022e
MarketCap/ Revenues	0.09	0.08	0.08	0.08
PE-Ratio	29.3	8.3	5.6	3.9
Dividend Yield	0.0%	5.5%	7.9%	10.7%
Price-to-Book ratio	0.7	0.7	0.6	0.5

Key Data per Share (Euro)	2019	2020e	2021e	2022e
Earnings per Share (EPS)	0.50	1.75	2.58	3.69
Dividends per Share (DPS)	0.00	0.80	1.15	1.55
Book Value per share	20.59	22.11	24.03	26.95

Financial Data (Euro '000)	2019	2020e	2021e	2022e
Revenues	4,880,414	5,026,826	5,227,899	5,447,471
EBITDA	222,316	206,590	238,326	285,286
Operating Profit (EBIT)	54,722	74,442	104,779	149,412
Pre-tax profit (EBT)	37,409	66,785	97,203	140,068
Pre-tax margin	0.7%	1.2%	1.7%	2.4%
Net profit (after minorities)	14,314	50,678	74,371	106,619
Adjusted Shareholders' Equity	587,081	614,483	655,395	716,899
RoE after tax (adjusted)	2.4%	8.2%	11.3%	14.9%
Equity Ratio	16.4%	16.7%	17.4%	18.6%

Financial Calendar

1Q 2020 report	27 May 2020
AGM (date to be confirmed or rescheduled)	28 May 2020
1H 2020 report	26 August 2020

Main Shareholders

Syndicate (Strauss-group / IGO-Ortner-group)	53.7%
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Analysts

Dipl.-Kfm. Stefan Scharff, CREA
Christopher Mehl, MBA

E-Mail: scharff@src-research.de
mehl@src-research.de

Internet: www.src-research.de
www.aktienmarkt-international.de
www.aktienmarkt-international.at

EBT at more than Euro 37m – Order book remains high at Euro 7.1bn – Dividend suspended – P&L estimates again slightly reduced - Target down to Euro 19.00, Buy affirmed

Two days ago, PORR published the 2019 annual report and confirmed the prelims, which were released on 10 March. 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, and were on top of our then adjusted estimates. However, the previously announced dividend proposal of 40 cents per share was revoked.

Production output was at almost Euro 5.6bn, more or less unchanged to the record levels of the previous year, 94% of which comes from the firm's home markets. Business Unit 1, Austria and Switzerland made up for 51% of the production output and recorded a slight growth of about 1%. Business Unit 2, Germany stood for 18% and grew by about 7% in 2019. The international Business Unit 3 made up the remaining 29%. Here, a decline of about 6% was recorded in terms of production output and a significant decline from Euro 6.6m to Euro -45m was recorded in terms of EBT. This sharp decline came as already announced with the profit warning in November from one-offs in Poland and Norway. All in all the firm's pre-tax profit was at Euro 37.4m, thus in accordance with the firm's most recent 2019 guidance of an EBT of more than Euro 35m and also on top of our estimate of Euro 34.5m. This translates into a relatively low EBT margin of only 0.7% (FY 2018: 1.6%). 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 in terms of the order book. The order intake was at more than Euro 5.5bn more than 12% below last year's level, reflecting the more selective approach and margin focus. Included here are some large-scale projects like the LK131 Railroad Kalina project in Poland with a Volume of almost Euro 240m or the E81 motorway Sibiu in Romania with a volume of more than Euro 122m.

Looking at the effects from the current Corona Pandemic, while construction sites especially in Austria were shut down for some weeks, by now almost all sites are up and running again. The company stated that the temporary restrictions are having an effect on the business and that a serious reevaluation of the given 2020 targets is not possible at present. We also agree on the fact that the extent and duration of these implications is uncertain and precautiously reduced our P&L estimates again slightly, after we already lowered these more significantly following the preliminary numbers and the at that time given outlook by the firm.

As a consequence of the turbulent times and the uncertainty, the management decided to that no dividend is supposed to be paid out for 2019 as a precautionary measure and a sign of solidarity towards all stakeholders. While this might not be pleasant to some shareholders, we see this decision as comprehensible. For the following years we believe that the company will return to its former dividend policy of a targeted payout ratio of 30% to 50%, as also explicitly stated by the company. Due to the reduced P&L estimates and the suspension of the dividend for 2019, we reduce our target price from Euro 20.00 to Euro 19.00. Since our last update, the PORR share has already recovered some of its losses, however, is still trading at a low level of below 15 Euros. Thus, we maintain our Buy rating at an upside of more than 25%.

PORR AG

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

IR Contact
 Mag. Milena loveva
 Mail: ir@porr-group.at
 Phone: +43 (0) 50 626 1763

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)

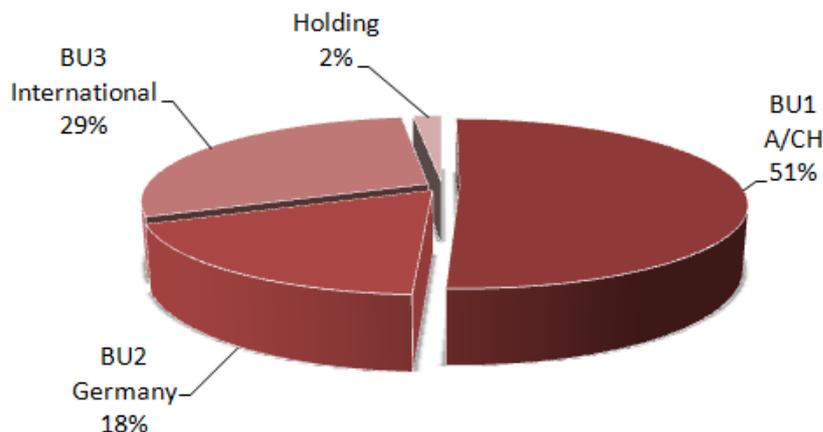
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Founded in 1869 as Allgemeine österreichische Baugesellschaft PORR AG is today a full service provider for construction and infrastructure projects with a leading market position in Austria and also a good footprint as one of the leading firms in other 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: Company Data, SRC Research

The PORR 2025 transformation program is supposed to put PORR in an optimal position in the coming years

	Markets/segments	Organisation	Operations	Digital opportunities
STRATEGY	Greater Focus	Greater efficiency	Enhancing value	Realising future potential
	Keep the right focus and benefit from long-term potential in the home markets	Framework for intelligent and profitable growth	Review of cost structures at every level	Accelerate connected solutions across the entire construction value chain
TARGETS	Align Portfolio structure via newly launched Heat Map:	Streamlining the organisation	Optimize procurement: upside of 0.8% - 1.0%	Harmonise IT processes across the Group
	Increase profitability by 0.5 - 0.8%	Digitalisation of technical and commercial processes	CAPEX ~3.0% Working capital intensity 6.0 - 8.0% Improve equity ratio: 20.0 - 25.0%	Continue to expand position as technology leader

Initiated in 2019, the PORR 2025 program addresses the growth of the recent years and is supposed to put PORR in an optimal position for the profound shifts occurring in the construction sector. With this program, the company subjected its activities to a strategic review and implemented initiatives in the four areas of "markets/segments", "Organisation", "Operations", and "Digital opportunities".

The firm has already made some progress and is working on the rapid implementation of the program, e.g. the organisation has already been realigned, processes are being standardised and cost structures are being analyzed and the first measures have been implemented here. Further steps are to come and targets are set to be reached with the outlined measures.

	Markets/segments	Organisation	Operations	Digital opportunities
MEASURES	<ul style="list-style-type: none"> Heat Map for analysing business fields Positive market assessments in the home markets Norway under analysis; ongoing projects on track Exit from UK Ongoing market reassessment with regard to COVID-19 	<ul style="list-style-type: none"> Streamlining into three Business Units for improved efficiency and market proximity Roll out of new management model in 2020 Bundling competencies in specialist civil engineering (Fusion Stump Spezialtiefbau und Franki Grundbau) 	<ul style="list-style-type: none"> Cost structures under review (material and indirect costs) The power of procurement: processes simplification and enhancement of the use of purchasing platforms Evaluating non-core activities; focus on core competencies 	<ul style="list-style-type: none"> BIM-based solutions with LEAN Design and LEAN Construction Machine-to-machine communication in real time Group-wide harmonisation of IT processes Reinforcement of cybersecurity

Source: company presentation

Order backlog remains high at about Euro 7.1bn

The firm's order backlog more or less remained on the record levels of last year of about Euro 7.1bn. This allows for a positive outlook for the coming years.

TOP orders in backlog

		Project volume in EUR m	Completion rate in %	
	ARGE H51 Pfons-Brenner	AT	531	10.3%
	ARGE ATCOST21 Fildertunnel	DE	439	69.5%
	LK 131 Railroad Kalina - Rusiec Łódzki	PL	238	4.1%
	D4R7 Ring road Bratislava	SK	333	53.6%
	S3 Expressway Bolkow - Kamienna Gora	PL	290	3.7%
	A1 Motorway Sibiu - Pitești	RO	122	3.5%
	Geiselbergstraße Vienna	AT	69	11.9%
	Q218 Berlin	DE	59	9.0%
	Handelskai Vienna	AT	56	1.7%

Source: company presentation

Included here are some top projects, some of which are already well in progress, but some are also still at a very early stage.

The order intake on the other hand decreased by more than 12% in 2019 to Euro 5.54bn. This is the result of the firm's more selective approach for the acquisition of new projects and the higher focus on the margins. Here the company's goal is to reach an EBT margin of 3%. While the mentioned focus on margins is not yet visible in the 2019 results with an EBT margin of only 0.7%, we believe that the margin will grow in the coming years. It was stated, that for example in the business unit 2, Germany, more than 60% of the projects have already margins of 3% or more.

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	5,544,972	5,711,321	5,894,083	1.9%
Revenues	4,292,886	4,959,109	4,880,414	5,026,826	5,227,899	5,447,471	3.7%
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	181,256	167,963	174,320	
Cost of materials and other related production services	-2,944,027	-3,462,635	-3,286,674	-3,381,988	-3,496,975	-3,640,351	3.5%
Staff expense	-1,036,068	-1,178,798	-1,243,180	-1,329,789	-1,388,540	-1,423,544	4.6%
Other operating expenses	-346,612	-373,869	-398,530	-361,258	-346,496	-351,478	
Operating result (EBITDA)	200,680	219,467	222,316	206,590	238,326	285,286	8.7%
Depreciation, amortisation and impairment expense	-110,461	-127,143	-167,594	-132,148	-133,547	-135,874	-6.8%
Operating result (EBIT)	90,219	92,324	54,722	74,442	104,779	149,412	39.8%
Income from financial investments and other current financial assets	15,985	18,466	15,396	18,003	19,756	19,127	
Finance costs	-20,880	-22,659	-32,709	-25,660	-27,332	-28,471	
Earnings before tax (EBT)	85,324	88,131	37,409	66,785	97,203	140,068	55.3%
EBT margin (in relation to production output)	1.8%	1.6%	0.7%	1.2%	1.7%	2.4%	
Income tax expense	-21,633	-21,936	-9,576	-15,694	-22,357	-32,916	
Profit/loss for the period	63,691	66,195	27,833	51,090	74,847	107,152	56.7%
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	50,678	74,371	106,619	61.0%
of which attributable to holders of profit-participation rights	2,664	2,664	11,227	0	0	0	
Net profit after minorities	60,492	62,726	14,314	50,678	74,371	106,619	
Diluted/basic earnings per share (EPS)	2.09	2.16	0.50	1.75	2.58	3.69	
Dividends per share (DPS)	1.10	1.10	0.00	0.80	1.15	1.55	
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	614,483	655,395	716,899	6.9%
Shareholders' Equity (including minorities and hybrid)	597,038	618,234	599,038	643,165	699,030	784,175	
RoE after Tax	12.7%	11.2%	2.5%	8.4%	11.7%	15.5%	
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%	16.7%	17.4%	18.6%	
Key ratios & figures	2017	2018	2019	2020e	2021e	2022e	
Growth rates in %							
Revenues	25.6%	15.5%	-1.6%	3.0%	4.0%	4.2%	
EBITDA	7.1%	9.4%	1.3%	-7.1%	15.4%	19.7%	
EBIT	-9.8%	2.3%	-40.7%	36.0%	40.8%	42.6%	
EBT	-6.3%	3.3%	-57.6%	78.5%	45.5%	44.1%	
Net profit after minorities	-4.7%	3.9%	-58.0%	83.6%	46.5%	43.2%	
Margins in % (based on production output)							
EBITDA margin	4.2%	3.9%	4.0%	3.7%	4.2%	4.8%	
EBIT margin	1.9%	1.7%	1.0%	1.3%	1.8%	2.5%	
EBT margin	1.8%	1.6%	0.7%	1.2%	1.7%	2.4%	
Net profit margin	1.3%	1.2%	0.5%	0.9%	1.3%	1.8%	
Expense ratios in %							
Personnel costs to sales	24.1%	23.8%	25.5%	26.5%	26.6%	26.1%	
Cost of material to sales	68.6%	69.8%	67.3%	67.3%	66.9%	66.8%	
Depreciation to sales	2.6%	2.6%	3.4%	2.6%	2.6%	2.5%	
Tax rate	-25.4%	-24.9%	-25.6%	-23.5%	-23.0%	-23.5%	
Profitability in %							
Gross profit margin	31.4%	30.2%	32.7%	32.7%	33.1%	33.2%	
Return on adjusted shareholders equity (ROE)	11.0%	11.0%	2.4%	8.2%	11.3%	14.9%	
Return on investment (ROI)	3.1%	3.3%	1.9%	1.9%	2.6%	3.5%	
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	22.1	24.0	27.0	
Equity ratio	20.7%	19.8%	16.4%	16.7%	17.4%	18.6%	
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	1.75	2.58	3.69	
Dividend per share (DPS)	1.10	1.10	0.00	0.80	1.15	1.55	

Source: Company data, SRC Research estimates

SRC Research

- The Specialist for Financial and Real Estate Stocks -

SRC - Scharff Research und Consulting GmbH

Klingerstr. 23

D-60313 Frankfurt

Germany

Fon: +49 (0)69/ 400 313-80

Mail: scharff@src-research.de

Internet: www.src-research.de

Rating Chronicle	Date	Rating	Former Price	Former Target
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 €

Please note:

The PORR share price mentioned in this report is from 28 April 2020. PORR AG mandated SRC Research for covering the PORR share.

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