

Transcription

YIT Q2 / 2021 Interim Report

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PRESENTATION

Tommi Järvenpää

Hello and welcome to YIT's second quarter 2021 earnings webcast. My name is Tommi Järvenpää, I'm the Head of YIT's investor Relations. With me here today are also our CEO, Markku Moilanen, and CFO, Ilkka Salonen.

We will first go through the presentation, followed by Q&A. At this point, I would like to hand over to our CEO. Markku, please go ahead.

Markku Moilanen

Thank you, Tommi, and welcome on my behalf as well to this webcast. So, let's start from health and safety, and that's our focus in everything that we are doing. And during the last quarter, our focus has been on preventive actions on safety. We have been fighting against the COVID-19 pandemic, and we are satisfied with the successful actions that we have had. Our sites have been open, and the infections have been low.

However, we have clearly now the fourth wave coming in several countries, in Finland and Russia to mention a few. So we are continuing our vigorous actions in that area.

If we're looking at our safety development, the number of accidents and injury frequency of the LTIF, it's been stagnant for a while and for that reason we had our Safety Week, our annual Safety Week, in May, where we really had a focus on proactive and preventive actions. Actions on safety, observation and management safety walks and talks as well. So we will continue the focus because this is highly important for us.

Looking at our results during the second quarter, as we have reported, it was a satisfactory quarter. I would say that this is another solid quarter, driven by good results in housing. Our adjusted operating profit ended up to be 30 million euros compared to 5 million euros during the same period last year as well.

And the good result is driven by a good result in housing segments in all of the geographies that we're working. However, we had a loss in Infrastructure due to margin reductions in some projects. On the other hand, our business premises segment continued to stabilise, like it did during the last quarter as well.

As a result of strong sales, our operating cash flow was solid during the quarter as well. And after investments, our operating cash flow was 109 million euros compared to 247 million euros during the same period last year. We have to bear in mind that last year during this period, we had cash flow from the sale of our Nordic paving and mineral aggregates businesses. So, operationally clear improvement compared to last year.

As a result, our balance sheet strengthened further, and our gearing improved further. We are using our strong balance sheet to answer our customer needs, especially in the housing market. And we have actually accelerated our housing start-ups significantly during this year compared to last year. So, the annual growth is around 40% compared to last year.

And with this, we are not only answering our customer needs, but ensuring for the company a solid margin for next year.

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Like we reported during or after last quarter, we have three management priorities. The first one is project management where the work started already during autumn 2020 and that's progressing at a fast pace and very well. We are implementing common practises and processes and reports in our project management.

For example new project portfolio forecasting and reporting tools, new criteria for suppliers, new products and reporting practises, to mention a few. So, this is really the backbone of our business, and backbone of being able to deliver predictable results in the quarters to come as well.

Secondly, our work on our operating model is progressing well and we will give you more info during the coming months.

Thirdly, we started our strategy work from our Infra strategy. We were not satisfied with performance of our Infra segment, and therefore we started the strategy work from there. The most notable finding that we already have now before doing the full Group strategy is that we see that Infrastructure business will continue to have a strategic role in the YIT Group also in the future.

We already see that in large urban development projects, having our own infrastructure business enables us to achieve clear synergies and synergy benefits and find ourselves opportunities. In the future, we will be focusing on our core capabilities in infrastructure, such as rock tunnelling, foundation engineering, rail and tram, and urban bridges, and marine, to mention a few.

However, we will also trim our offering to become more competitive and efficient, so we will be more selective in projects. So therefore, as a conclusion, our future Infrastructure business will be somewhat smaller than today, but clearly more predictable and profitable.

We have, during the second quarter, done the analyses of our project portfolio that led to these write-downs and we will have a new director for the segment to start late August. So, this is a good basis for Pasi Tolppanen to continue to grow the Infrastructure business further.

So, let's go to the Q2 results and the numbers through a bit more in detail. So, I have Ilkka Salonen, our CFO, here. Please, Ilkka, the floor is yours.

Ilkka Salonen

Thank you, Markku, and good morning, everyone. If you look at the Q2 from the revenues side, it has grown over there, driven by the housing business and a slight decrease in business premises calling more for the annual volatility, but then also slightly declining in Infrastructure, net sales partly driven by the fact that we are exiting from the Norway as well as from Estonia,

In orderbook, they received a clear drop, about 200 million, but it's good to divide it into a couple of items that requires a little bit explanation. First of all, is the housing side, Housing Finland and CEE roughly about 100 million lower than we had last year after Q2 and it's from the fact that we had roughly about 330 apartments left under construction. That will be fixed as we are speeding up our start-ups later this year.

In Russia, little bit the same story. On the other hand as we are declining or closing down operations in some cities over there. That has an impact for that one as well. In Business premises, a clear increase of about 130 million and there are several projects. The biggest one is a Tammisairaala hospital in the Helsinki area, which we won this year, and then the major project in infrastructure of 200 million, and actually that's coming from different sources.

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One is that, yes, we are exiting from Estonia as well as from Norway. That is having impact for the order book. We have in Finland big projects in the end of their life cycle it, that way meaning that the amount in the order book is lower than last year, and when it comes to the new big projects just like tram alliance in the Helsinki area, that is in the design mode so there is not too much in the orderbook.

And the third one is that yes, you have to be more selective for the new orders, new deals, and that has had an impact to the orderbook as well.

In the profit side, our adjusted operating profit was 30 million compared to last year's 5 million, so a clear improvement over there. And of course, the absolute levels what we see on the right-hand side in housing, Housing Finland and CEE as well as Housing Russia, good results for the Q2. Business premises stabilised. Infrastructure, -12, and there we are stabilising that one at the moment. The Partnership properties pretty much like last year.

And then the deviations, segment by segment, compared to the last year. As there you can see, there is a very good performance in the housing side. 22 million in Finland and CEE, and 4 million in Housing Russia.

And then Business premises. Even the absolute result is not satisfactory level yet, but it is clear and so the stabilisation over there has performed quite nicely during the last one year. And Infrastructure is in stabilising mode at the moment, and the negative deviation compared to last year, it is driven by the margin reductions in some projects.

Cash flow 109 million. That is once again a good performance from the businesses. Last year, we had 247 million. It's good to remind that 283 million was driven by the divestment of the Nordic paving and mineral aggregate business. So, the improvement and performance in the businesses themselves has been clearly from the negative side up to 109 million.

And then yes, we have continued to invest for the plots, and we are eager to buy plots in the future as well, especially when we try increasing our start-ups, this also requires new plots.

Net interest bearing debt - 350 million. If we take comparing the Q2 last year, that's about 350 million, and in that 750 million, the paving deal is already in. So, in the beginning of the second quarter of 2020, the net debt was 950 million. So, the cash generation has been quite nice. And of course, there is also impacting the 100 million euro hybrid which we took in Q1.

We have made a major refinancing programme during the first half year this year. Actually, all of these items have been refinanced. Two bonds, one hybrid and also the revolving credit facility has been renewed. So, the financial portfolio, it will get the maturity, and then the diversity is very good and will be solid for a number of quarters forward.

That was the – and then, yes, of course, equity ratio and gearing ratio. We are at the moment in 35 over there, but already at these stages, good to highlight that we are increasing our start-ups, which will guide capital more than we have had in housing Finland and CEE.

And then, of course, when the cash flow is working and the profit is improving, all the other metrics are also getting to the better level.

That was shortly and now I pass back to Markku.

Markku Moilanen

Thank you, Ilkka. And let's have a look at the market outlook. The market is quite stable in the housing, real estate, and infrastructure. However, there are minor changes in real estate and infrastructure. Housing remains to be good as we stay during Q3 in all of our geographies.

The minor changes are that in the real estate market; the Baltic real estate market has turned, as we see, or will turn from yellow to green as the investor demand is seemingly strong. On the other hand, in the Baltics, the infra market has turned – we have turned to red. It is weakening, as the government's budget have already been running over so we see less opportunities over there.

Let's have a look at a couple of other items that impact the outlook for the next quarter. The first one is the material cost inflation. So, all the building material as well as subcontracting and costs are clearly inflating in all of the geographies and in all of the markets that we are active.

However, we have taken, and will take, mitigating action at YIT, and I want to open you a couple of these. The first one is procurement practises. It is like indexing materials on our purchasing. Then, as we have a majority of our businesses in housing, so we can buy the materials in advance, so we know when we are going to do the start-ups. So, there is a bit more tools to mitigate against the cost inflation in housing, whereas in traditional contracting in Business premises and Infrastructure, we don't have these mitigation tools available.

Then we have pricing and contractual practises, like dynamic pricing in Russia and the CEE housing, so that enables us to mitigate against the material cost inflation. We continue to follow the development closely and we don't see a major impact for YIT Group during this year, but if the inflation continues for long, it will have more impact to us and for the entire construction industry.

Another item that will have an impact for our Q3 is our housing completions. As you can see from this chart, we are – our completions are reaching a bottom during Q3, so we will have around 300 units completing compared to 874 units during the third quarter in 2020.

On the other hand, we expect the fourth quarter to be back on a high level again, so there's the volatility in the completions between the quarters. And this will of course have an impact on our Q3 results also, so these less completions than last year is expected to have an approximately 15 million euro impact to the segment's adjusted operating profit year-on-year.

We expect otherwise the housing business, Housing Russia, continues in a solid way. We expect Business premises performance continues to stabilise as well. However, we expect that our Infrastructure business will have a low level of profitability due to certain low performing projects.

Then I want to remind of the Lestijärvi windmill park sale, which will have a swing effect. We're still expecting to get the sale around 40 million during this year, but there's some probability, low probability, that that will fall to next year as well.

In Partnership properties, our portfolio development is expected to continue. The good news is that so far in Mall of Tripla, which has a major weight on partnership properties, the number of visitors has been increasing and that will of course have a positive impact on partnership properties. But we need to remember the impact of the fourth wave of the pandemic as well, so there could be volatility in that area as well.

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Finally, we have communicated a new member to our management team, so we're going to continue to strengthen our management team. We have announced earlier two new segment heads, so Ilkka Tomperi starting actually next week in Partnership properties. Pasi Tolppanen as announced earlier, will start later in August, heading the Infrastructure segment.

Today, we have announced that Tuomas Mäkipeska will be our new Chief Financial Officer and, as communicated, Ilkka Salonen who is here together with me, this is his own request, so Ilkka wants to continue as on board memberships and adviser roles, so I want to give a big thanks to Ilkka. He has had a long career both in Lemminkäinen and YIT, and a major role, important role, in the integration and the businesses and not least strengthening our financing and balancing business.

So, I expect that with these three members and the existing members in our management team, we have a good team to go forward in our management agenda.

So, our focus during the second half of this year is to continue the actions to stabilise our performance through the continued actions in our project improvement, have a really close look at our projects, and we will implement our new operating model, which we will communicate later during this quarter - third quarter.

Secondly, we will develop our sharpened strategy as communicated today. We have started the work from the Infrastructure segment and now we will do similar work in other segments, and then finally look at the whole Group strategy as well.

And last, but definitely not least, we will have a close eye on the preventive and proactive actions in health and safety, and as part of our strategy work, we will develop our sustainability roadmap as well.

So, thank you very much. That was our presentation. So, I guess, Tommi, now it's time for questions.

Tommi Järvenpää

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

Q&A

Operator

Thank you. If you do wish to ask a question, please press 01 on your telephone keypad. And if you wish to withdraw your question, you may do so by pressing 02 to cancel.

Our first question comes from the line of Anssi Kiviniemi.

Anssi Kiviniemi

Okay, I will definitely do that. Hi guys, it's Anssi from SEB. Thanks for finally taking my questions. I have a couple of them. I will take them one by one. So, kicking off with the infrastructure. I mean, margin reductions and one-offs once again in Q2. Could you indicate the scale of margin reductions? I mean, without the one loss, would the Infra business be in positive figures or what's the situation there? Thanks.

Markku Moilanen

Yes, thank you, Anssi. There are one-offs in certain projects and without that the underlying business is profitable as you are asking. So there's a number of actually old projects that we are finalising, they are still continuing so their margins are still reduced and that's the reason for the loss.

Anssi Kiviniemi

Okay, and can you indicate what projects are those?

Markku Moilanen

Unfortunately we are not sharing that information publicly.

Anssi Kiviniemi

Okay. Then looking at second half, you indicate that the margins will be diluted also in the coming quarters. So, what's the scale? I mean, should we expect similar impacts coming in Q2 and Q3 and Q4? Or what's the situation?

Markku Moilanen

Yeah, I'm now talking about the Infrastructure segment. Yes, we see a similar level of reductions in projects in the coming quarters that we had. On the other hand, we have the underlying business as mentioned earlier running pretty well. So, we have overall in a similar scale that we are talking during the coming quarters that we had now during Q2.

Anssi Kiviniemi

Okay, thanks. Then your comment on focusing your infra business. There is still quite a lot of business disciplines that you have, and you are focusing, but could you elaborate what are the projects? What kind of business? In what sectors? What is the business you are not keen staying in?

Markku Moilanen

Yeah, we are sharing all the details as part of the Group's strategy, but to open that to you a bit, is that firstly, it is certain project types where we see that collaborative programmes like alliances are the ones that we will be focusing also in the future. Whereas traditional project management consulting are the ones that we have not been successful and profitable, so we are not keen on those in the future.

Then we are focusing on the core capabilities that have clear synergies like rock tunneling and foundations, so synergies with our other segments as well. Opening up a bit more about the ones that we're not doing, it is very traditional road constructions, which is not urban-related, and any others that are non-urban-related projects. And we are very careful on non-urban projects as well. And as an example, we have been already very selective. We just had an impact on our orderbook of some mining projects in Sweden where we were not tendering due to the risk and the probability of low profitability.

Anssi Kiviniemi

Okay, and if we think about energy and that kind of industrial projects, is this also a business you don't want to take part in?

Markku Moilanen

I would say that we have sustainability high on our agenda and many of these energy projects are really urban sustainability, like the one that we just won for Vantaa Energy, the big heat battery beyond the Ring III road. So, we see that there, when we can use our core competences, we are competitive, and they are high on our agenda, like in sustainability, then energy is okay for us as well.

Anssi Kiviniemi

Okay, thanks. Then the last question is on input cost pressure. Assuming that the input costs remain at current levels in wood products and steel and what have you, could you indicate any margin dilution impact for 2022, as you highlighted that there won't be any impacts in 2021?

Markku Moilanen

Well, we are closely looking at the markets and there are some indications that this inflation would turn down at the end of Q4. So we are of course looking at that and it's premature at this stage to say what the impact would be for 22, not only for YIT, but for the whole industry. So, we're looking at the trends and the development then, and of course, we will closely report on that as well during the coming quarters.

Anssi Kiviniemi

Okay, that's all from me. Thank you very much.

Operator

And the next question comes from the line of Svante Krokfors from Nordea. Please go ahead.

Svante Krokfors

Yes, good morning. Svante from Nordea. Thanks for taking my questions. If we continue on infra side and the margin reductions. Just to make it clear, so it's not kind of - you haven't made a write-down; you have reduced the margins and you expect that these kind of events could occur still in H2. So, it's not that you have made a kind of one-off write-down. Could you elaborate on that?

Markku Moilanen

Yeah, it's about these old projects where we have done the total project reviews and we have some disagreement or complaints with the client, which has resulted that the rest of the project margins will be lower than initially anticipated, and that's the reason for this Q2 result turning to loss. And a similar impact will continue during the coming quarters three and four as well.

Svante Krokfors

Okay, thanks for clarifying that. And then on Business premises, there was some old completions that burden still. Should we assume that that is now cleaned out for H2?

Markku Moilanen

We still have some old tails of projects that we are closing during this year, not really a major impact, but that we're doing and we're really hoping that we could close them during this year. That's our timing, so we could have fresh start for Business premises next year.

Svante Krokfors

Okay. And could you give us some indication of the financial impact on these old projects in Q2?

Markku Moilanen

No, that's really not materially impacting the whole Group results.

Svante Krokfors

Thank you. And then Mall of Tripla. Obviously, performance dependent on the pandemic, but can you say something about the shopping centre market situation - any changes in yields?

Markku Moilanen

Yeah, that's of course driven by the number of visitors in the shopping centre and the parking hall as well. And as I mentioned, so the number of visitors is increasing, not really to the pre-pandemic level but month after month increasing and of course, if that would continue, that would have an impact on the yield and finally to our results as well. But as I said, the fourth wave is a kind of question mark. So therefore, we are closely following the situation, but so far, the trend is positive.

Svante Krokfors

Okay, thanks. And then on housing Finland, has there been any change to your apartment mix lately? What you want to start up? Any increase in average square metre or something like that into the pandemic?

Markku Moilanen

We actually see that the pandemic has resolved it, that the average size has increased. So, people working from home clearly would like to have another further room for that purpose, and therefore we see then increase of square metres and number of rooms and, of course, we will take that into account when having the new start-ups of our projects.

Svante Krokfors

And what kind of impact do you think that has on your margins in consumer?

Markku Moilanen

Not really margin impact. It is more kind of answering the market need.

Svante Krokfors

Okay, thank you. And then perhaps do you have some comments on investor demand for apartments, both private and institutional?

Markku Moilanen

That continues on a high level, so there is a high interest on that, which is from one side driving the good housing market.

Svante Krokfors

Thanks. And then just to - I'm not sure I heard it all, but did you say that regarding the wind park, it's more likely that it will close this year than next year?

Markku Moilanen

Yes, that's how our understanding and expectation based on the information that we have so far.

Svante Krokfors

Okay, that's all from me. Thank you very much.

Operator

And the next question comes from the line of Olli Koponen from Inderes. Please go ahead.

Olli Koponen

Yeah hello, it's Olli from Inderes. Thank you for taking my question. I have one question left after these questions. It's about your outlook and just that I understand it correctly what you say there, you said that in Housing Finland and CEE, you expect the adjusted operating profit to be 15 million euros lower than in Q3 2020. Is that correct?

Markku Moilanen

Yeah, that's the volatility between the quarters. So we're talking about adjusted Q3 results, so that will be compared to last year around of 15 million low.

Olli Koponen

Yeah, and if I read that correctly, that would mean almost zero results for the segment in Q3. Is that right?

Ilkka Salonen

Yeah, if you look at the deviations of 15 million is driven by the fact that we get so much lower level in the commissions. But of course, there are other items related to completed sold apartments, which means that they have been already completed but not sold. Those have an impact. And also because we have the investor sales which is going on, talked about the magnitude that was the impact on the difference between the completions in Q3 and last year.

Olli Koponen

Okay, is there any other explanations or do you have any kind of margin pressures there on certain projects? Or is this just because of the completions?

Markku Moilanen

No, and that's why we wanted to highlight this because this is the kind of quarterly volatility regarding the completions in housing and we want to lift it up. There's nothing else expected in Q3.

Olli Koponen

Okay, that clarifies. That's all from me. Thank you.

Operator

And we have one more question from the line of Matias Rautionmaa from Danske Bank. Please go ahead.

Matias Rautionmaa

Yes, good morning. I have still a couple of questions left and I'm trying to understand the very high revenue in Housing Finland and CEE. So you obviously had the higher completions, and the ready inventory came down. How about the investor sales and the investor business? Is the revenue higher this year compared to last year?

Markku Moilanen

Yes, it is. So the investor sales is higher this year compared to last year.

Matias Rautionmaa

So that contributes positively to the revenue level, Okay? And how about the average selling prices? You know that we have seen that apartment prices have increased. But can you elaborate on what is your average selling price level in Finnish consumer houses and in CEE? Could you elaborate that?

Markku Moilanen

We are not sharing that information publicly, I'm sorry.

Matias Rautionmaa

Okay, could you comment something about the year-on-year change in prices or what level has that been?

Markku Moilanen

Well, I can comment that overall, price levels in the market, and especially in the metropolitan areas, the prices are in a market increasing, so that is what is happening in the market now. And of course, we are a major player in the market, so you can draw some conclusions from this.

Matias Rautionmaa

Okay. Is there other factors like mix, geographical mix, or in the apartment mix that is driving prices that - are you overperforming the average market level or how would you describe that?

Markku Moilanen

I would say that we are still very competitive in all of our geographies when it comes to housing, and that's driven by high quality, and consequently, high customer satisfaction that we are measuring very, very closely. And of course, that brings us the competitive advantage in that market.

Matias Rautionmaa

Okay, thanks. Then a question on margins in this housing in Finland and CEE segment. Do you expect to improve your margins also next year or do you see this year's margin as extraordinarily high as the new starts will obviously have a significantly higher cost? How do you see this?

Markku Moilanen

Well, if we talk the absolute margin is driven by the volumes and that we are this year increasing our volumes and that is one part. But I would say that on the other hand, we have the material inflation which has had an impact to the pricing, so I would say that overall margin level when it comes to kind of margin percentage, we are at a very good level or good level at the moment. We are not expecting next year any material changes and that is more driven by the volume.

Matias Rautionmaa

Okay, very good. Thanks. And then question relating the consumer start-ups in Finland. So, they have been quite low-level before this quarter, given that the demand has been very strong. Why it was so?

Markku Moilanen

We actually increased already during Q2 the start-ups and we will further do it now during Q3. So, the annual profit is 40% 21 compared to 22, so this is really peaking. Already, we started to increase during Q2 and will continue that with a peak of start-ups in Q3. So, we are really listening to the market and listening to the customer demand.

Matias Rautionmaa

Okay, and are you happy with your land bank and building rights? Do you have enough building rights that allows you to respond to demand quickly enough? Are you happy with the situation?

Markku Moilanen

We are so far happy with the situation. However, the competition on plots is tightening, especially on the major cities and the price levels are increasing, which puts the pressure for us to acquire that plot and grow our margins as well. So, we are having a really, really close look at that moving forward, so that is something that is impacting on our plot reserves which we of course need and will have for the future.

Matias Rautionmaa

Okay, very well, that's all from my side. Thank you very much.

Operator

And as there are no further questions, I'll hand it back to the speakers.

Tommi Järvenpää

Thank you very much, Operator, and thank you everyone for the questions. YIT's third quarter results will be published on October 29. Until then, thank you and have a great day.