

Webcast transcript: Interim report 1-3/2021

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PRESENTATION

Tommi Järvenpää

Good morning and welcome to YIT's first quarter 2021 earnings webcast. My name is Tommi Järvenpää; I'm the Head of YIT's Investor Relations.

Our first quarter profitability improved from last year. This was driven by solid performance in the housing segments and stabilising result in the business premises. In the beginning of the second quarter Markku Moilanen started as the new CEO of YIT. Next, we will hear Markku's first thoughts about YIT and then Markku and our CFO, Ilkka Salonen, will go through the Q1 results in details.

After the presentation we will be taking questions from the conference call lines. At this point I would like to hand over to Markku. Please go ahead.

Markku Moilanen

Thank you, Tommi. Good morning on my behalf as well. Before starting by sharing my first impressions as CEO of YIT, I would like to give a big thanks to Antti Inkilä. He did an excellent job as an Interim CEO. And of course, to the whole management team; due to their great work we have achieved this good result that Tommi was alluding to.

I'm very happy to announce as well, as we told earlier this morning, that we are strengthening the YIT management team. So, we have a new member, Ilkka Tomperi, who will join us. He's currently working at Varma Mutual pension insurance company as an Investment Director, Head of Real Estate. He has a long experience, international experience, in real estate development and investment. So welcome, Ilkka.

So, let's go further, and I would like to share you a bit of my first week as a CEO. I have to say that I'm really impressed on our people – their competence, their professionalism, and passion. And we certainly have an outstanding team spirit here at YIT. I already knew before joining YIT that YIT's brand is highly recognised, but now after discussing with our clients and customers and our stakeholders, my view has only been strengthened. We have a highly appreciated and recognised brand. Thirdly, our quality of work in construction is the best in the industry. We know how to build houses, schools, tunnels, bridges, and so on. And that's of course important because that's the core of what we do. And finally, we have been very successful with our customers and clients. Our customer satisfaction score in our housing business in private customers reached, this spring, the highest score in the industry in the EPSI rating. So, we reached a score of 81, which is a very high score. And our Group NPS is at a good level at 51 as well.

Overall, looking at the company, we have been doing work on harmonising the processes, driving cultural integration, and strengthening our financial position; however, it's clear that our project performance and earnings volatility have been not on a good level. There's been too many deviations. So, therefore, we need to become more resilient in our performance, in our operational performance. Based on the findings we have now initiated immediate actions in three areas: in project management, in our operating model, and then in our strategy, starting from Infrastructure. In process management, where we have had the issues or the volatility in some of the projects, we already at the end of last year initiated a detailed programme to improve our project management. What we're doing there is of course the very practical things: looking at the processes, practises, and our reporting as well. In addition, we are taking a more rigorous look of our culture to ensure that we have transparency and discipline and consequent management so that we follow the rules and the principles that we have commonly agreed.

We can already see promising results in the Business premises segment. Since Tom Ekman took over the leadership of Business premises in May 2020, we can see a continuous improvement and the first quarter certainly is a good result of that. Secondly, we have started to look at our operating model: to look at where do we have resources to clarify our responsibilities, removing overlaps in order to have an efficient operating model moving forward. And thirdly, we have started to look at our strategy and the natural first step that we have already now initiated is Infrastructure. We have had, as you know, unsatisfactory performance and project deviations in the Infrastructure segment. And on the management side, now, when Antti Inkilä took the role as Interim Director, we have a strong leader in that business and we are looking at the behaviour on that business, but we are certainly looking at the strategy as well. We are doing that in a very traditional way looking at the market situation, the market opportunities, the competitive situation. Then we're looking at our own internal capabilities, our differentiators and based on that, looking at where do we want to do business in the long run. This infrastructure strategy is the first step of looking at the overall YIT strategy. I'm quite sure that the core of our strategy, that we want to be a sustainable urban developer, remains at the core. However, we need to sharpen our strategy to define more clearly where we want to play, where we are really successful, and we want to make our objectives more tangible. Secondly, we'll have a renewed vigour in sustainability. For example, the Green Finance Framework that we are telling later a bit more today is the first big step in that area. And finally, in order to ensure our long-term competitiveness, we'll take a more rigorous look at health and safety. It is and it will be number one for us in everything we do.

During the last year, we have, of course, been fighting against the COVID-19 pandemic and the results are good. We have taken successful proactive actions for example, the mandatory masks on the site and we are using them at the offices as well, using the dogs to identify the infections and so on. We have been able to keep the sites open and the infection levels low. And as in the whole society in those geographies where we are, the overall infection rates are going down, but we have to remember the pandemic is not yet open, so we have to be following the rules over there to ensure that we can safeguard our people, our subcontractors' people and of course our business as well.

Looking on the other hand, health and safety performance. It's been stagnant for some time. And we need improvement there. We have a key KPI – the combined lost time injury frequency – and our short-term target is to bring it to below nine. Currently, the level is 9.9. And we have already an action plan in place, really from the leading indicators, increasing management attention, increasing management safety walks, and we see that that is leading to higher number of safety observation and finally to lower level of accidents. We certainly want to have a respecting life attitude in everything we do.

So, let's have a look at our first quarter results in a nutshell. Overall, our adjusted operating profit ended up being 21 million euros and our gearing was at target level. We had a solid quarter and we had excellent performance in the housing segment. Actually, in all the geographies that we are in Finland, in the CEE countries and in Russia as well. As I was alluding to earlier, our Business premises business was stabilised, and we can see that in the results during Q1 as well. Secondly, we had a strong cash flow, which was supported by strong apartment sales and decreased capital employed in Housing Finland and CEE. Actually, we had record high Q1 cash flow of 70 million euros this year. Thirdly, a key item during Q1 was our launch of our Green Finance Network, which is supporting our overall climate and sustainability targets. We issued three green bonds, totalling 300 million euros. And Ilkka will share a bit more details on that later. And finally, our balance sheet was strengthened due to the improved cash flow and hybrid bond issuance, and our gearing reached our target level which is below 50% – our gearing during the first quarter was 44%. Why do we need a strong balance sheet? That's important for us because construction is a cyclical business. And we want to have a strong balance sheet and a low gearing level because that allows us to do business development and investment in any market situation and pay dividends to our shareholders as well. So, Ilkka Salonen, our CFO, will now walk you through the Q1 results in detail. Go ahead, Ilkka.

Ilkka Salonen

Thank you, Markku, and good morning everyone. If we look at the Q1 revenue as well as about the order book, generally it was a solid quarter. And in the revenue, even it seems that we have 100 million lower revenue than last year, it's good to remind that last year we made change in our revenue recognition in Russia where it was a one-off item, roughly about 60 million, and then we had the Keilaniemi A-Tower sales last year, which was a one-off item. So, more or less at the same level the operational side.

Then in the order book, if we look at it from the end of last year, all the segments actually increased their order book, which is good. If we look at it compared to the last year, there we see ups and downs. And in the housing side, in both segments, actually the reason is that we had a stop in our start-ups in the spring due to the coronavirus. And then in infrastructure side, we are finalising big projects at the moment and the new ones are in the design phase when there is not too much in the order books.

Adjusted operating profit 21 compared to 8 million last year. That is a good improvement. And then, if we look at it from the segment side, it's easy to see that housing has done a good job; I'll come back to that a little bit later. And Business premises tend to be profitable; Infrastructure slightly lower than the previous year; and then the Partnership properties five compared to 14 last year.

And then if we look a little bit at where those items are actually coming from, or where the delta is coming from, compared to the last year: Housing Finland, clearly strong sales. Housing Russia, -1, but once again it's good to remind that last year we changed the revenue recognition over there which had a 5 million euro impact. So, in the real-life, the underlying performance in the Russian operations was roughly about 4 million better. And in Business premises side, very much driven by the fact that the deviations last year were huge and this year the negative deviations are not over there. As you remember Myllypuro as well as Tripla had an impact for last year. Then Infrastructure, slightly weaker than last year. And then the Partnership properties, that's almost fully described by the fact that last year we sold A-Tower in Keilaniemi this year, Keilalampi and the deviation, it's pretty much close to 10 million euros. So, that's shortly, Housing did a very good job in operations. Business premises stabilised; Infra pretty much the same as last year. And in the Partnership properties, timing of the asset sales.

And as Markku said, the cash flow was on a good level – actually, record high for the Q1 and 70 million last year, -48. And if we look at the time when YIT and Lemminkäinen was merged, actually Q1 over there was almost close to 200 million negative. And that has been one of the major drivers, just what comes to the operations – the cash flow. So, where we have spent the cash flow, the plot investments were lower than normal, but it's more or less about the timing of the plot investments and we are for sure willing to invest for the plots as we have done in the previous years as well. So, there is no changes in that attitude.

And yes, we had the green bonds in the first quarter, and we have established the Green Finance Framework internally and there are those five categories where we are actually impacting to the environment and sustainability. And the biggest one in our case is the green and energy efficient buildings. That is the biggest part in our operations, but of course renewable energy, just like wind power, clean transportation and technologies like trams we are doing, pollution prevention, just like water treatment in the Helsinki capital area as well as in Stockholm and the climate change adoption for example, how we can help the cities to handle the rainwater, which is probably increasing in the future due to the climate change; how we can help the cities handle those ones. So, there are those five categories we reached the light (green). And that's pretty much, that's fully – the reason is that the biggest one is the first one where we have the light adoption; the others are medium or dark, but we are very happy that we were able to establish them, and also, we were able to raise the 300-million-euro green bonds.

They are in three tranches: two senior bonds and one hybrid and the maturities are three to five years. And also, our financial costs are lower than previously.

Then to the net interest-bearing debt, actually that's -53% compared to last year. And, yes, hybrid was one topic over there, that 100, but that's only 100 over there. The biggest impact is from the sales of paving last year. That's about 300 million, but even if you take those two ones, we have also been able to generate cash flow from our operations, clearly better than in the previous years. And after the transaction, the maturity structure of interest-bearing debt is very favourable. We have been able to longer our maturity.

And then, as Markku mentioned about the gearing target. Now, we are in the target level thanks to the cash flow from operations, thanks to the hybrid bond, and thanks to the paving sales; now we are under 50%. And it's good to mention over here that if we haven't had that hybrid which was a strategic decision, our whole gearing would have been around 60%. And the equity ratio, 37. And also, the net debt to adjusted EBITDA ratio as well as interest cover ratio – both are improving.

Then I hand back to Markku. Please tell us what comes to the outlook.

Markku Moilanen

Thank you, Ilkka. So, let's have a look at the market outlook and then after that, our guidance based on the outlook and the current situation as well. So Q2, market outlook in the different markets is shown here in the slideshow. If we're looking at the housing market, it has been good and it is expected to remain good also in the future in all the geographies that we are having business in. We can clearly see that the COVID-19 pandemic has not decreased residential demand; on the contrary, we've seen an increase in interest and demand as well. And even if we last year stopped our start-ups due to the uncertainty, for a while, due to the pandemic, this year we have ramped up our start-up in Finland during Q1. And we had nearly 570 consumer start-ups during Q1 compared to below 500 per quarter in 2020. In Russia the demand outlook looks good as well as the state interest subsidy will continue until June. If we then look at the real estate market, there we clearly see that the pandemic has had more impact on real estate. There are new needs for office spaces as remote work will increase, as we see it, also after the pandemic. And there's a need for adaptability as well. But overall, there is kind of less need in that market for new construction, but adjusting the existing ones is becoming more and more important. And for example, we have launched our Workery+ concept, which is a proactive and flexible model for our clients and tenants for their office space needs. Then the infrastructure market. There, the situation varies between the different geographies. In Finland, the current prevailing situation is expected to continue. Yes, the government had launched new rail investments, but not yet in 2021. In the Baltic countries, the situation is challenging. There's less project opportunities, and there's intense competition as well. And then finally, in Sweden, the demand is good. The overall market is much bigger than in Finland; where the civil engineering market is 7 billion euros in Finland, it is over 11 billion euros in Sweden. And there are a lot of large projects coming up in Sweden as well.

So, based on the situation and the market outlook, our guidance for this year remains the same that we have communicated in the beginning of the year. So that our group adjusted operating profit to be higher than in 2020 when it was 85 million as well. And then I would like to highlight items impacting the profit as well. In housing, as I was mentioning earlier, the pandemic is not over yet, so it could still cause temporary shutdowns and slower progress and consequently delayed completions, which then could lead to postponement on revenue and profit. So, that's one item over there. In Russia, however, we expect a solid underlying performance to be continued. In Business premises, our profits were burdened by certain projects. We have no similar issues expected this year, and overall stabilisation that I've explained to you earlier today is expected to continue. In Infrastructure we are looking at our strategy, but we are looking at our projects and having a rigorous review on those as well. It is notable that we have this Lestijärvi wind mill park sale that we have communicated earlier. That will be, or is, the largest swing factory; not only for Infrastructure but for the whole Group. So, the impact is 40 million and that will be finalised either this year or next year. And we are still hopeful and expecting it to come this year as well. And then finally in Partnership properties, the Mall of Tripla, fair valuation may have an impact on our properties this year. Although, whether we see that as the pandemic is slowing down and the number of visitors is increasing, that will have a positive impact on the fair valuation as well.

So, to summarise: in our management agenda, I strongly say that we have a strong foundation in YIT to build upon. My first weeks as a CEO has only strengthened my view and belief on our people; our competent and passionate people and our outstanding team spirit. Our quality of work, which is among the best in the industry, on our customer satisfaction, which is at a good level, and our strong and highly appreciated brand. However, to become more resilient and to stabilise our performance, we have initiated actions on three areas: on project management, on operating model, and our strategy and starting from the Infrastructure segment. Simultaneously, we will start looking at the overall strategy to ensure our long-term competitiveness. I see that the core of our strategy, sustainable urban development, remains to be the same. But we will sharpen our strategy and make our objectives more tangible. We will continue to focus on health and safety as our licence to operate, and we see sustainability as a great opportunity for the future. With sustainable solutions we are not only building the future for YIT, but also for the future generations. Thank you very much.

Tommi Järvenpää

Thank you very much, Markku. Operator, we are now ready for the questions.

Q&A

Operator

Thank you. Ladies and gentlemen, if you do wish to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02. There will now be a brief pause while questions are being registered.

The first question comes from the line of Anssi Kiviniemi from SEB. Please go ahead; your line is open.

Anssi Kiviniemi

Thank you, Operator. Hi guys, it's Anssi from SEB. Thanks for taking my questions; I have four of them. I will take them one by one if that's okay. First of all, starting with the housing business and housing starts. You highlight that in Finland you ramped up housing starts for consumers, but what are your ambitions for this year? It seems to be a very hot market, so should we expect continuous increases in the housing starts and thus for the housing business overall? Thanks.

Markku Moilanen

Okay, if I may start from the first one. Yes, as I mentioned, we have increased our housing starts during Q1, and of course we need the plots that we have for the increases as well, and we're looking at the opportunities and certainly due to the good market situation the good plots are something we're looking at, allowing us to make start-ups as much as possible. So, we are carefully looking at that and increasing if possible, during this year as well.

Anssi Kiviniemi

Is the availability of plots an issue when thinking about scaling up the housing business currently, or— you have a pretty big plot inventories, so how should we look at that situation?

Markku Moilanen

I would say that it's not a major issue, but we need to understand that we need a continuous flow of plots. And of course, we are utilising the ones that we have available at the moment and we want to have the plots in the right places as well, but in the long run we need to increase the number of plots as well.

Anssi Kiviniemi

Okay, thanks. Then on housing business margins: in Q1 they were quite strong as a matter of fact. How do you look at the situation going forward? I mean everywhere we are looking we saw an inflation. Also, in the building materials. So, are you able to kind of manage the inflation development and what actions have you been taking to basically safeguard the margins that are currently pretty high level? Thanks.

Markku Moilanen

Yeah, thank you. Yes, you are right, with the materials and all of that and the cost side. We are of course firstly looking at our overall efficiency to be as efficient and improve our efficiency of our products. Secondly, the high quality of our housing and the right placing of our plots allow us to have the pricing on a good level, and with that combination we actually expect that the housing profits will remain on a good level moving forward.

Anssi Kiviniemi

Okay, thanks, that's very clear. Then a question on Infrastructure. You're currently starting to look at the strategy of the division. How should we read this announcement? Does it mean that you will mainly play around with focus areas, kind of centralising your efforts into the areas you are really strong? Or should we think this also that you might get rid of some business, some geographies, or even the whole business itself? What's the read on here?

Markku Moilanen

Thank you. We clearly see already in the work that we have initiated that the infrastructure, we have a lot of synergies between the different segments, and again going back to our strategy, the Sustainable Urban Development where we have this hybrid project. Where you have infrastructure, you have houses and you

have business premises, and our great experiences in major projects in infrastructure as well. We see that that the infrastructure is an important part of our strategy.

Then in the work, yes, we are doing like you say. We are looking at the focus areas, looking at the areas where we have the capabilities where we can win, and we can deliver with good property as well. So, that's what we are doing in that work. Of course, there might be corners here and there where we need to make conclusions on, but the big picture is looking more on a focus, while having a focus on improving project management as well, because I see that that will be a key part of improving the performance over there, like we have done in the Business premises.

Anssi Kiviniemi

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

Operator

Thank you. The next question comes from the line of Pauli Lohi from Nordea. Please go ahead; your line is open.

Pauli Lohi

Hi, thanks for taking my questions. I have two of them. I would like to ask first about the institutional housing demands, and I see that you are start-ups for institutions in Finland were relatively low level in Q1; then in the market outlook you are saying that you will see a stable demand from institutions. Should this mean that your start-ups are going to improve then in the following quarters and the full year start-up count will stay at last year's level? Or how should be read this?

Markku Moilanen

Yes, the combination comes from institutional housing as well and our own development test as well. And, as we said, the good level is expected to stay during this year.

Ilkka Salonen

And some changes between Q1 and Q2. There are no major differences compared to the previous. So, it is stable that market. And on the other hand, a very good market.

Pauli Lohi

And then about the Infrastructure segment: how much cost overruns you saw in Q1 and do you expect the magnitude to increase going into Q2?

Markku Moilanen

We can see the Q1 results, where you can see that we were about on the same level as Q1 last year. Moving forward, and of course, when we're doing the project review in detail, we are not expecting to have project deviations in the same magnitude that we had in Business premises last year where we talked double digit deviations. So, we're more talking about single-digit deviations in that segment.

Pauli Lohi

Okay, that is all from my side. Thank you.

Operator

Thank you, just a reminder that if you would like to ask a question, please press 01 on your telephone keypad. We have no further questions, so I will pass back for any closing comments.

Tommi Järvenpää

Thank you very much. Thank you for the questions. Our second quarter results will be published at the end of July. Until then, have a great May Day and goodbye.