Webcast transcript: Financial statements release 2021

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PRESENTATION

Tommi Järvenpää
Good morning and welcome to YIT's 2021 results webcast. My name is Tommi Järvenpää. I'm the Head of YIT's Investor Relations. 2021 was a year of change for YIT. Today, we will be discussing how our profitability improved and how our businesses have developed. The results will be presented by our CEO, Markku Moilanen, and CFO, Tuomas Mäkipeska. 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. I started as the President and CEO of YIT the 1st of April on the year 2021. And certainly, last year was a year of change for the company. And I and the whole company, we had a clear mission, and I'm very satisfied with our outcome. We took decisive actions to become more resilient in our operational performance, and, as a result, we improved our profitability and strengthened our balance sheet.

In addition, we launched our new strategy to leverage on our strengths. Our mission was clear; we needed to stabilise our performance. And what we did was, we established new strict and clear processes and practices in our business, and in our projects business in particular. We renewed our entire operating model to be more customer-oriented, more agile, and more cost-efficient. And we executed a thorough analysis of our whole project portfolio.

We have now finalised our product portfolio clean-up. And I want to call it a clean-up. We went through all projects, looked at the stages, looked at the profitability, and did the necessary actions. As a result, during the whole year we had a negative impact of more than €100 million. Despite of that, our profitability increased. Our adjusted profits grew to €140 million from the €85 million of 2020.
And what's important is the profitability below - our profitability grew to 4% when the level was at 2.8% at 2020. A notable part of our results in 2021 was, of course, the positive impact of our development work from the sale of the Lestijärvi wind park worth €43 million.

Development business has provided significant earnings for YIT during the last few years. Lestijärvi is the last one in that work. And as we have our strategy, in our strategy moving forward, the development business will seed high margin projects for our construction segments and then generate additional development margins and investment returns on top of the construction margins. And these few examples are good examples of that that has come during the last few years.

Going in detail to the different segments, I'm particularly satisfied and happy with our performance in housing - actually, in all markets starting now from Finland and CEE countries. So, adjusted EBIT added up to €102 million. And it should be noted that the profitability was negatively impacted by the write-downs of €15 million in the Trigoni project and €8 million in the non-strategic plots. So, the underlying performance was very good. We improved our margins as a result of our favourable sales mix. And of course, we have been in this strong market situation, which is expected to continue.

I'm very happy to see that our high level, actually highest in the market, of customer satisfaction remained during 2021. We are now ready to grow in the selected regions according to our strategy. So, the growing regions around Helsinki, Tampere, and Turku in Finland, and then in the Central European countries of Poland, Czech Republic, and Slovakia.

Housing Russia had a very good year as well. The operational performance improved further. However, as we have communicated earlier, despite of the good market and despite of the good operational performance, the business in Russia ties more capital than it does in the other markets, and that's why we have initiated a strategic review of the future options in that market. That work is ongoing. And when we have something to communicate, we'll of course tell about that.

Our construction business, in the Business Premises gained back numbers as a result of the turnaround work, hard turnaround work, and I'm very satisfied with the results. What we did was, we had a rigorous project selection and that has led not only to a healthy order book, but because we have been concentrating on our strengths, our order book has been strengthened further. We have also revamped our project management practices ensuring that during the delivery time of the project, we can keep our profitability.

Even if the segment name is Business Premises, I would like to highlight that in our order book at the end of 2021, 78% is coming from public sector projects, like hospitals and schools, and others, and the rest from private sector. And that's, of course, reflecting the market situation, which is better in the public sector, but telling much about our capabilities and agility to move according to the changes in the market.

We started our transformation in our Infrastructure segment similar that we'd started already in 2020 in Business Premises. Now, in Infrastructure, we started that in 2021; what we did was that we established a project portfolio analysis and then cleaned up the project portfolio. So, the project portfolio clean-up is now finished both in Business Premises and in Infrastructure. Again, even here, we looked at what our core competencies and, accordingly, then had rigorous project selection and tendering practices.
As a result, the majority of our underlying project portfolio is now healthy. There remains to be a few legacy low-margin projects, where in 2021 we had, from our revenue, 24% of the revenue in Infrastructure of this low-margin project. Now, going to 2022, that is reduced to 15%; 2023, 9%; and then marginal. So that is just explaining how the legacy projects will have a lower and lower impact to our overall profits in the Infrastructure business.

We totally changed our business model in Partnership Properties, and it's being reshuffled now to a new property development segment that started 1st of January 2022. The role of that new segment is, like I mentioned earlier, to feed high-margin projects for the construction segments and then gain development margin on top of the construction margin. What we did last year in Partnership Properties was, again, we went through our assets and projects, cleaned them up, changed our strategy so that the service business is no longer in focus, and, as a result, our development project pipeline is now very attractive for the coming years.

We launched a new strategy in 2021. Our aim in our new strategy is to leverage further on our strengths and deliver predictable market-leading results. What we did; we redefined and clarified our business model with a clear focus so that we have four segments. We have, Housing, Business Premises, Infrastructure, and then our Property Development segment.

All of these clear customer segments, clear competencies, playing together for the best of the Group. Our execution of our strategy we will do through three strategic priorities, Focus, Productivity, and ESG, and we are confident that this has created a solid path to reach our target EBIT margin of over 6%. Even if we start with our new strategy now from beginning of 2021, we have already taken during 2021 significant steps on our priority areas. So, we already move - we started to move to the strategic direction during 2021.

As I have alluded to earlier on the focus area, we are already and have been more selective in our projects, which has generated a much more healthier project portfolio. As a big strategic item, we are evaluating our options in Russia to release capital to be invested in other markets and we have clearly streamlined our business portfolio. For example, no more focus on the Service business.

On productivity, we have now executed and finalised the thorough analysis of our project portfolio, which has led to these margin reductions, but we have a healthy project portfolio moving forward.
We have established strict and clear processes and practices, both during the phase when we are developing or tendering a project which is an important foundation for the success of the project. So, how we select - how we calculate the projects. And secondly, clear processes and practices on project management

during the delivery time and follow-up practices over there as well. And then we have implemented a new agile and empowering operating model which is cost competitive as well.

On ESG, I'm very proud that we made a decision last year that we are now committing to the science-based targets, i.e. do our part of the work to limit the global warming to 1.5 decrease, according to the Paris Agreement, as the first construction industry company in Finland. We launched our Green Finance Framework, and consequently, we issued 300 million green bonds, favourable bonds for us last year. And last, but definitely not least, we improved our safety performance. Safety remains to be clearly a number one focus in our operations moving forward as well.

We are now well positioned to achieve our financial targets according to our strategy for 2025. So, EBIT margin increased to 4% and we are well on our way to over 6% margin. Our gearing went down to a record low of 30%, which means that we have a strong balance sheet that we can use for our growth. And we are planning to have stable growth on our dividend as well. So, let's have a look at our financial performance a bit more in detail. So, I have our new CFO, Tuomas Mäkipeska, here together with me to tell a bit more of our financial performance.

Tuomas Mäkipeska
Yes, thank you Markku, and good morning, everybody. Let's have a look at how the financial performance developed in 2021. All the most important KPIs developed favourably during the year. The order book strengthened significantly, despite of the turnaround work and higher selectiveness of the projects. We also improved our productivity and adjusted EBIT accordingly, despite of the heavy price jumps. Also, our operating cash flow improved significantly, leading to a remarkable decrease of net debt. So, let's now have a look at each of these a bit more in detail.

The order book development clearly illustrates our competitiveness in the market. The order book was increasing in all of our segments. The majority of the increase comes from the Housing businesses, but also, despite of the turnaround work and the transformation work done in Business Premises and in Infrastructure, the order book in both of the segments grew at the same time. So, this is a clear kind of indicator of our competitiveness in the market.

If we look at the revenue and net sales development during the year. So, as mentioned, we have been turning around Business Premises and Infrastructure businesses. And in both of the segments, we saw a decline in revenue, which was planned, and which was according to the selectiveness and the focus according to the strategy. Also, there was a decrease in the volumes in Russia, which was also related to the de-risking of our operations there. So, that's explaining the declining revenues of the business, and it was planned, and it also underlines that we've been doing a turnaround in two of the segments.

If we then have a look at the EBIT, adjusted EBIT development of the segment. So, here I would like to a point out that, as Markku already mentioned, so we wrote-down assets and margin reductions in all of the segments. And if we look at now by segments. So, housing, even though the EBIT decreased a bit in the business, so the underlying performance actually improved, since we did 23 million write-downs during the Q4 in the business.

Also, if we look at the Housing business in Russia. As Markku mentioned, so we had an extremely good year in Russia in terms of profitability, since the comparison period included one-offs of plot sales and also the POC calculation method change. So, in that sense also in Russia, the underlying business developed extremely well.

If we then look at the highest improvement in the EBIT is in Business Premises. And this is something that we are very happy about us since the turnaround of the business started already during the 2020 and was accelerated during the 2021 year. And here we can see the 54 million improvement in the EBIT is significant and it also then includes the write-downs of €13 million during the Q4.

In Infrastructure, the operational development was not positive, but of course, you can see here that the sale of Lestijärvi supported our EBIT for the year, but as the CEO already mentioned here, so we have kicked off now the turnaround work and we have cleaned the project portfolio, and we have stabilised the business operationally, so we are ready to move on and generate cash profitably.

Also, the Partnership Properties and the new property development, as mentioned, its business models have been reshuffled and even though the margin was decreasing in the business. So, we also did there a €8 million write-down during the Q4 and also there, despite of that, made a positive result in 2021. Altogether, as already mentioned, so we reached €140 million EBIT and 4% in relative terms.

If we then have a look at the cash flow development. As mentioned, so we had a very strong cash flow and the main reasons behind the positive development was of course the improved EBIT, but then a high number of the completions, and again, low number of unsold apartments under construction had an extremely positive impact on our cash flow. And on top of that, there were some postponed plot acquisitions from year 2021 to 22.

If we look at the comparison figures. So, it also included the 2020 year, so included the sale of the paving business. So, excluding that, the jump in cash flow was significant. Basically, the same reasons led also to a decrease in capital employed and the strong apartment sales, low apartment start-ups in 2020, and consequently, the low number of unsold completed apartments in Housing were the main reasons for the decrease in capital employed.

What is important here is that we were also able to release capital from our cash generating segments: Business Premises and Infrastructure. Both segments ended up having negative capital employed at the end of the year. Also, a third important thing here was that we were also able to release some capital from our Russian operations.

So, this is now the starting point going then forward and investing - according to the strategy - investing into Housing businesses in Finland and CEE countries. Our debt structure developed extremely positively because of the strong cash flow, of course, and there on the left hand side, you can see the breakdown of our gross debt. And I would like to highlight that, as you can see, there's IFRS16 lease liabilities of €230 million and Housing company loans altogether summing up to €340 million, and since they are not conventional debt instruments, so by excluding them from the calculation, we would have negative net debt, and this is an extremely good starting point to of course execute our strategy.

On top of that, on the right-hand side, we have worked a lot on our finance during the year. And, well, our favourable maturity structure of interest-bearing debt also supports the strategy execution, and we reorganised our debt portfolio during the year. We issued €100 million senior unsecured green bonds and €100 million green hybrid bonds as well. And also, we signed a committed €300 million RCF linked to the sustainability targets. Simultaneously, we cancelled our previous €300 million committed RCF. So, in that sense also our debt portfolio is favourable going forward.

If we then have a look at the balance sheet in general. So, all of the financial information presented so far then led, of course, to a stronger or strengthened balance sheet. Markku already pointed out that our gearing fell to 30%, which gives us, of course, room for manoeuvre. Also, accordingly, our equity ratio developed favourably. So, putting all of this together. So, I would like to summarise that we've built now a solid foundation for the future, and we are very well positioned to execute our new strategy. Our order book illustrates our competitiveness in the market, despite of the COVID-19 and uncertainties in the market. Our EBIT development illustrates improvements in our productivity according to the strategy. And also the balance sheet really enables us to execute our strategy. So, also, from a financial perspective, we are set to go with the strategy execution for this year.

Markku Moilanen
Thank you, Tuomas, and let's move forward and have a look at the outlook and expectations for 2022. Starting from the market outlook. The overall picture looks good from all of our markets. So, in the Housing market, where we have an extremely good market in all of our geographies in 2021, that is expected to continue during Q1 in 2022 as well.

In the real estate market, which is expected to continue in a good level in Finland and in Baltic countries, we see that it will be picking up in or expect that it will be picking up in the Central European countries. On Infrastructure, the picture remains the same; a normal situation in Finland, a very good attractive market in Sweden, and a weak market, some signs of picking up in the Baltic countries.

It is notable that the number of Housing apartment completions is expected to decrease in 2022. So we are expecting to complete around 3,000 new homes, apartments during 2022, which is a lower level than in 2021. Again, there's a seasonality between the different quarters, where the Q4 in 2022 is expected to be the highest among all the quarters, which of course creates volatility for earnings and revenues in our Housing segments. In addition to these numbers, it's good to know that we have over 2,000 units under construction for investors. And in our Housing Russia business we have more than 3,500 units under construction in Russia. While the number of completions is expected to decrease in 2022, which is actually a result of our slower number of start-ups during the COVID time in 2020, we expect the completions significantly then to go up from 2023 onwards.

The picture on the right hand side illustrates the situation. So, you can clearly see from the blue line where we had a lower number of apartments started for consumers during 2022, due to the uncertainty of the COVID pandemic, but we have clearly ramped up our start-ups now in the second half of 2022 and will continue to do that – 2021, and we'll continue to do that during 2022 as well. And you can see that there is this around 18 months lead time, which is leading to a lower number of completions during 2022, but it's picking up then from 2023 onwards. And again, looking forward in the markets that we are, in the growing market in Finland, Poland, Czech Republic and Slovakia, the market is expected to stay in Housing very good also in 2023 and onwards.

All in all, our expectation for the YIT Group adjusted operating profit is expected to be higher than in 2021. The notable items impacting our profit and profitability in Housing is, as I was opening a bit more, the completions on consumer apartments in Housing in Finland and Russia. We expect our solid underlying performance to continue in Housing Russia as well. However, the earnings, the revenues are expected to be impacted by a lower number of ongoing projects because we are de-risking the situation, having less capital tied in Housing Russia.

We expect that our very good trajectory in Business Premises, due to the good and healthy order book will continue to improve. And in Infrastructure, where we have now finalised our project portfolio review, we will, as I have explained, improve our profitability gradually, still impacted by certain low-margin projects, but the share of those will go down quarter after quarter. And again, in the new property development segment, we have a healthy and attractive project pipeline which we expect to create margins for actually years to come.

All in all, I have to say that I'm satisfied with the outcome of 2021. This was my first year as the President and CEO in YIT, and I'm very proud of our organisation. We have done hard work. We have cleaned up our project portfolio. We have been able to keep high customer satisfaction, especially in Housing, and we are definitely now much more resilient in our operational performance. Despite of the clean-up, we improved our profitability during in 2021. We strengthened our balance sheet, which really set a good foundation for ambitions to grow in the years to come. So, we are clearly now set to deliver, according to our strategy, predictable, market-leading results.

QUESTION AND ANSWER SECTION

Tommi Järvenpää
Thank you, Markku. And before taking questions from the conference call line, actually I have one question from the webcast platform, and I think this goes to Markku. So, "What can be said about the prices of apartments in Finland and CEE countries? Are they still going up? And what about the demand for the apartments?"

Markku Moilanen
Well, if we are looking at the overall situations in the apartments, the market and demand is expected to continue good. Then it is notable that the cost level of material cost and workforce has increased as well,

and that will certainly have an impact to the market. So, I expect that, of course, this is about location, but in good locations where we are, where we have strong plot reserves, I expect the prices to go up.

Tommi Järvenpää
Right. Thank you, Markku. And let's now move to the conference call line. Operator, we are now ready for the questions.

Operator
Thank you. Okay, so far we have one person in the queue. That's Svante Krokfors of Nordea. Please go ahead. Your line is open.

Svante Krokfors
Yes, good morning. Svante from Nordea. Thanks for the presentation. Thanks for taking my question. So, I have a number, but I guess I'm the only one in line, so I'll take them all. You say that the clean-up is completed. Can we trust it this time and have you had enough time to go through all the segments?

Markku Moilanen
Thank you. Yes, we are confident that we have done a thorough job of all projects and that means that what you have seen in 2021, as well as during 2020, we definitely are not expecting anything like that in those amounts to come. We are, of course, in the projects business and there's ups and downs - I would like to underline ups and downs. So, summing up, we are definitely not no more expecting these kind of deviations.

Svante Krokfors
Okay, thanks. That's clear. And you had quite a quite number of one-offs in 21. And just to be clear on the more than 100 million that you refer to as margin reductions and inventory write-downs, is most of that or all of that included in the adjusted EBIT numbers?

Markku Moilanen
Yes, they are all included in the numbers.

Svante Krokfors
So if I continue on that, if I take your reported 114 and reduce the Lestijärvi impact and add the 100 million, then I come to 170 million, which would correspond to 5.9% EBIT margin. So, my question is, is your 6% 25 target lowballing?

Markku Moilanen
Thank you for the question. We definitely have high ambitions, and we are working hard to deliver above 6%. But I have to say that I'd rather keep promises that I can keep, give, but you have done the right calculations and it tells a lot of our underlying performance. So, we are definitely on our track to above 6%.

Svante Krokfors
Okay, thank you. And then a detailed question on Mall of Tripla; it made a 60 million write-down. That corresponds to around 40 million for whole of Tripla as you are a bit below 40%. What was that again? A 25 basis points increase in valuation yield.

Markku Moilanen
Sorry, can you clarify the last part of the question?

Svante Krokfors
Basically, I think it was some time ago that you told that you told that - or the valuation yield on Mall of Tripla was increased by 25 basis points. Was that what happened again now in Q4?

Markku Moilanen
No, that wasn't the case, no.

Svante Krokfors
So it was more related to assumptions on rental income? Or was it that the repair jobs that you had to do there?

Markku Moilanen
We were cleaning up some of the project items and those were part of the Q4 write-downs. So, trying to find out what you are kind of clarifying or trying to find clarity –

Svante Krokfors
Was there any changes in the valuation –

Markku Moilanen
We had no changes on that one. So, compared to when we had in 2020, we had a change on that, and due to the good development. So, the number of visitors grew in 2021 compared to the earlier year. And actually, the revenue from the tenants grew as well, so last year was a good year for Mall of Tripla. Again, that's why there was no changes in the fair value.

Svante Krokfors
Okay, thank you. And then on your completion forecasts, apartment completion forecasts. I think Central and Eastern Europe is going down, but I guess that is where we are going to see the biggest increase going forward, given what you communicated at the CMD, that two-thirds of the growth investments will be made there in Housing Finland. Is that correct?

Markku Moilanen
Exactly. That is our plan. And we'll see high - high potential and high margins so – and that's why we are planning to invest more there.

Svante Krokfors
Thanks. And then on the cost inflation. I think you, if I understand correctly, have been quite good at mitigating that, but what about - have you seen any signs of decline in construction activity or project start because of the elevated cost level?

Markku Moilanen
Not significantly. Of course, there are here and there, but not really. So, that has not been the case in the market, and if we are now looking at the current situation, we clearly say that the cost increase is levelling down and we even see decrease in some materials. So, it is our expectation that the increases during 2022 will be moderate.

Svante Krokfors
Thanks. And then the last one on the potential divestment of the Russian business. How does the geopolitical tensions play into that? Do you want to comment that anyway? Or do you believe that it's going to be a local buyer? Do you want to comment on that?

Markku Moilanen
Well, I would like to highlight that the reason that we did this was strategic and very much financial, as we have commented. So the efficiency of capital employed and that's the situation. And that has caused the reason. We have good options. And of course, one option is to continue in a selected a scope as well. It is healthy business and then we have, of course, dialogues going on with candidates.

Svante Krokfors
Okay, thank you, that's all from me. Thank you for the good answers.

Operator
Thank you. And there are currently no further questions from the phone, so I'll hand back to our speakers.

Tommi Järvenpää
All right, thank you very much and thank you for questions. Our first quarter results will be published on April 29th. Until then, thank you and goodbye.