

# PORR

## Buy (unchanged) Target: Euro 36.00 (old: Euro 40.00)



23 | August | 2017

**Price (Euro)** **24.25**  
52 weeks range 42.13 / 24.11

### 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)	705.6
Free Float Market Cap (million)	326.7
CAGR pre-tax profit ('16 - '19e)	11.0%

Multiples	2016	2017e	2018e	2019e
MarketCap/ Revenues	0.21	0.20	0.18	0.18
PE-Ratio	11.0	9.9	9.0	7.7
Dividend Yield	4.5%	4.5%	5.4%	6.2%
Price-to-Book ratio	1.6	1.5	1.4	1.2

Key Data per Share (Euro)	2016	2017e	2018e	2019e
Earnings per Share (EPS)	2.20	2.44	2.68	3.16
Dividends per Share (DPS)	1.10	1.10	1.30	1.50
Book Value per share	15.15	15.84	17.67	19.66

Financial Data (Euro '000)	2016	2017e	2018e	2019e
Revenues	3,417,100	3,590,145	3,824,502	4,019,552
EBITDA	187,338	187,112	211,321	228,137
Operating Profit (EBIT)	100,055	97,357	120,319	135,682
Pre-tax profit (EBT)	91,068	85,161	106,852	124,481
Pre-tax margin	2.3%	2.1%	2.4%	2.7%
Net profit (after minorities)	63,880	60,850	78,116	92,063
Adjusted Shareholders' Equity	400,984	429,829	470,121	518,541
RoE after tax (adjusted)	15.9%	14.2%	16.6%	17.8%
Equity Ratio	18.7%	18.6%	19.8%	20.9%

### Financial Calendar

2Q 2017 report	30 August 2017
<b>SRC Forum Financials &amp; Real Estate</b>	<b>7 Sept. 2017</b>
3Q 2017 report	29 November 2017

### Main Shareholders

Syndicate (Strauss-group / IGO-Ortner-group)	53.7%
Renaissance Group	5.9%
PORR Management	2.7%
Treasury shares	0.7%

### Analysts

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## 1H prelims below expectations due to special items in regards to Qatar turbulences and expansion in Germany – target price down to €36 – Buy affirmed

Yesterday evening, the company published its preliminary numbers for the first half of 2017 and announced a decline in their financials due to special items. Even though production output increased by 21% compared to last year's period, to more than Euro 2bn, operating profit (EBITDA) declined by about 18%, from almost Euro 68m last year to more than Euro 55m. At the same time, pre-tax profit (EBT) is at Euro 2.5m, about 88% lower than last year's number of more than Euro 21m. These two numbers were heavily affected by two special items. On the one side, the political turbulences in Qatar, in accordance with the Qatar diplomatic crisis that started in June 2017, resulted in higher than expected costs due to more complex logistics and supply processes. On the other hand, PORR further expanded its business in Germany, as strategically targeted, by investing in growth and significantly increasing capacities to cover the entire region. This was done within a short time frame by means of organic growth as well as external growth in form of acquisitions, such as Frankie and Oevermann. At the moment, these steps have resulted in additional costs, while the integration and the respective returns are not seen in the financials as of now, as these are only the next steps of the process, but will bring up the numbers in the near future. The firm also reduced their guidance for the full year and now expects its results to be slightly below the previous year.

On a positive note, the company's order backlog and order bookings have continued to grow over the first six months of the year. Order bookings are currently at almost Euro 3bn as compared to more than Euro 2.5bn last year. The firm's order backlog continues its historic highs and is currently amounting to Euro 5.7bn as compared to almost Euro 5.5bn a year ago.

In our opinion, the market reacted excessively to the release of the company's prelims. The share dropped by almost 18% compared to yesterday's closing price of Euro 29.36 and was at Euro 24.25 as of 23 August, 10:00 am. Keep in mind, that the firm has continuously pushed its profitability over the course of the last years. Furthermore, as described in our last update from 30 May, we believe that the growth intention in the German market is the right strategy and will be important for the company. The German infrastructure sector will provide PORR with good margins in the future, thus we don't see a reason for concern in the temporarily decreased profit numbers due to respective costs from the expansion. **In response to the weaker prelims, we accordingly decreased our P&L estimates for 2017 as well as the next years. We now expect a pre-tax profit for 2017 of about Euro 85m. We further decided to bring down our target price from Euro 40 to Euro 36. With the low share price we clearly maintain our Buy rating.**

## PORR AG

**Industry:** Construction / Infrastructure  
**Sub-segment:** all kinds of real estate  
**Country:** Austria  
**Headquarter:** Vienna  
**Foundation:** 1869  
**Employees (2016):** 15,228

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### Management Board of PORR

Ing. Karl-Heinz Strauss, MBA, FRICS (CEO)  
 Mmag. Christian B. Maier (CFO)  
 Dipl.-Ing. J. Johannes Wenkenbach (COO)

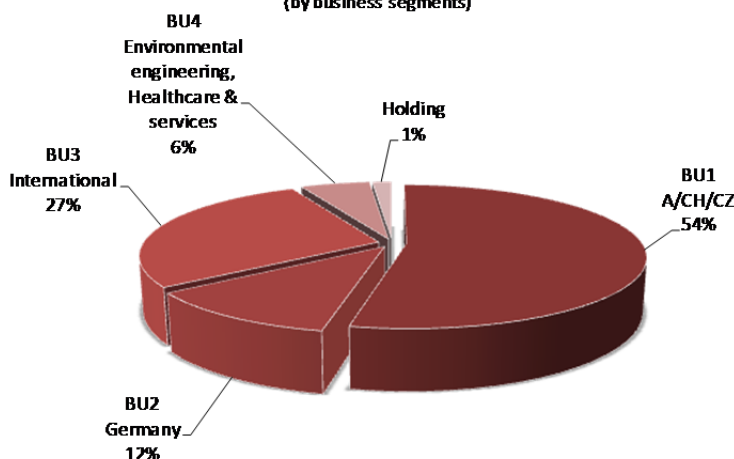
### Supervisory Board of PORR

Dr. Dr. Karl Pistotnik (Chairman)	Dr. Susanne Weiss
Dipl.-Ing. Klaus Ortner (Deputy Chairman)	Dr. Michael Diederich
Dr. Thomas Winischhofer, LL.M., MBA	DI Michael Tomitz
Mag. Robert Grüneis	Peter Grandits
Dr. Walter Knirsch	Walter Jenny
DI Iris Ortner, MBA	Walter Huber
Hon.-Prof. Dr. Bernhard Vanas	Michael Kaincz

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 Roadmap 2020).

For 2016 PORR reported decent figures. Production output totalled to Euro 3.9bn, 11.4% ahead of 2015. Order intake climbed after a strong growth in 2014 again, from Euro 4.0bn in 2015 to almost 4.2bn in 2016 and is at 1H 2017 already at almost Euro 3bn. After the spin-off of the real estate portfolio / UBM-PIAG development business in 2014, PORR is now a pure construction and technology-driven company with a clear focus on its five home markets Germany, Austria, Switzerland as well as CZ and Poland (87% of 2016 production output). Furthermore, the firm is geared to export its highly sophisticated infrastructure technology to some more target markets like UK, Scandinavia and Qatar. As a result of the acquisition of Bilfinger Infrastructure, PORR will further increase its market share in Poland and Norway in the upcoming years. Two new acquisitions in Germany (Franki Grundbau and Heijmans Oevermann) will further boost the market position in the important German market, where PORR follows an expansion strategy. The 2016 dividend was lifted by 10% to Euro 1.10. PORR again delivered a sound net cash position at year-end 2016 of Euro 53m, despite the steep growth (Euro 187m in 2015). The equity ratio hiked from 18.7% to 24.0% after 1Q 2017.

**Production output Euro 3.9bn in 2016**  
 (by business segments)



Source: Company Data, SRC Research

**P & L PORR AG**

31/12 IFRS (Euro '000)	2013	2014	2015	2016	2017e	2018e	2019e	CAGR '16 - '19e
<b>Production output</b>	<b>3,162,079</b>	<b>3,474,885</b>	<b>3,523,752</b>	<b>3,925,000</b>	<b>4,115,363</b>	<b>4,403,438</b>	<b>4,645,627</b>	<b>5.8%</b>
<b>Revenues</b>	<b>2,630,025</b>	<b>3,009,118</b>	<b>3,139,687</b>	<b>3,417,100</b>	<b>3,590,145</b>	<b>3,824,502</b>	<b>4,019,552</b>	<b>6.8%</b>
Own work capitalized in non-current assets	4,453	890	539	727	875	990	1,120	
Share of profit/loss of associates	34,604	66,156	46,233	46,252	50,060	62,452	75,980	
Other operating income	112,700	119,475	101,818	105,548	115,720	127,920	133,600	
Cost of materials and other related production services	-1,748,711	-2,026,001	-2,060,827	-2,251,409	-2,384,536	-2,576,353	-2,671,349	<b>5.9%</b>
Staff expense	-669,814	-752,960	-807,638	-874,068	-910,400	-938,500	-1,045,706	<b>6.2%</b>
Other operating expenses	-216,643	-260,254	-253,870	-256,812	-274,752	-289,690	-285,060	
<b>Operating result (EBITDA)</b>	<b>146,614</b>	<b>156,424</b>	<b>165,942</b>	<b>187,338</b>	<b>187,112</b>	<b>211,321</b>	<b>228,137</b>	<b>6.8%</b>
Depreciation, amortisation and impairment expense	-65,736	-74,716	-78,172	-87,283	-89,755	-91,002	-92,455	<b>1.9%</b>
<b>Operating result (EBIT)</b>	<b>80,878</b>	<b>81,708</b>	<b>87,770</b>	<b>100,055</b>	<b>97,357</b>	<b>120,319</b>	<b>135,682</b>	<b>10.7%</b>
Income from financial investments and other current financial assets	12,354	24,762	18,968	15,320	16,452	16,100	17,120	
Finance costs	-33,641	-40,370	-25,625	-24,307	-28,648	-29,567	-28,321	
<b>Earnings before tax (EBT)</b>	<b>59,591</b>	<b>66,100</b>	<b>81,113</b>	<b>91,068</b>	<b>85,161</b>	<b>106,852</b>	<b>124,481</b>	<b>11.0%</b>
<b>EBT margin</b> (in relation to production output)	<b>1.9%</b>	<b>1.9%</b>	<b>2.3%</b>	<b>2.3%</b>	<b>2.1%</b>	<b>2.4%</b>	<b>2.7%</b>	
Income tax expense	-7,059	-17,542	-20,069	-24,242	-21,290	-25,644	-29,253	
<b>Profit/loss for the period</b>	<b>52,532</b>	<b>48,558</b>	<b>61,044</b>	<b>66,826</b>	<b>63,871</b>	<b>81,208</b>	<b>95,228</b>	<b>12.5%</b>
of which attributable to non-controlling interest	-225	-68	133	282	354	425	498	
<b>Profit/loss for the period attributable to shareholders of the parent and holders of profit-participation rights</b>	<b>52,757</b>	<b>48,626</b>	<b>60,911</b>	<b>66,544</b>	<b>63,517</b>	<b>80,783</b>	<b>94,730</b>	<b>12.5%</b>
of which attributable to holders of profit-participation rights	6,433	4,200	3,200	2,664	2,667	2,667	2,667	
<b>Net profit after minorities</b>	<b>46,324</b>	<b>44,426</b>	<b>57,711</b>	<b>63,880</b>	<b>60,850</b>	<b>78,116</b>	<b>92,063</b>	<b>13.0%</b>
Diluted/basic earnings per share (EPS)	3.88	3.22	2.02	2.20	2.44	2.68	3.16	
Dividends per share (DPS)	1.00	1.50	1.50	1.10	1.10	1.30	1.50	
Number of shares ('000)	11,947	13,803	28,533	29,095	29,095	29,095	29,095	
<b>Adjusted Shareholders' Equity</b> without minorities	<b>298,733</b>	<b>340,140</b>	<b>369,108</b>	<b>400,984</b>	<b>429,829</b>	<b>470,121</b>	<b>518,541</b>	<b>8.9%</b>
<b>Shareholders' Equity</b> (including minorities and hybrid)	<b>347,662</b>	<b>385,171</b>	<b>412,118</b>	<b>440,872</b>	<b>460,749</b>	<b>514,190</b>	<b>571,948</b>	
RoE after Tax	17.6%	13.9%	16.3%	16.6%	14.6%	17.4%	18.6%	
Total assets (Euro million)	2,296.5	2,146.0	2,304.0	2,360.5	2,478.5	2,602.5	2,732.6	
Equity ratio	15.1%	17.9%	17.9%	18.7%	18.6%	19.8%	20.9%	
<b>Key ratios &amp; figures</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016e</b>	<b>2017e</b>	<b>2018e</b>	<b>2019e</b>	
<b>Growth rates in %</b>								
Revenues	13.6%	14.4%	4.3%	8.8%	5.1%	6.5%	5.1%	
EBITDA	41.2%	6.7%	6.1%	12.9%	-0.1%	12.9%	8.0%	
EBIT	50.3%	1.0%	7.4%	14.0%	-2.7%	23.6%	12.8%	
EBT	170.8%	10.9%	22.7%	12.3%	-6.5%	25.5%	16.5%	
Net profit after minorities	192.0%	-7.6%	25.7%	9.5%	-4.4%	27.1%	17.3%	
<b>Margins in % (based on production output)</b>								
EBITDA margin	4.6%	4.5%	4.7%	4.8%	4.5%	4.8%	4.9%	
EBIT margin	2.6%	2.4%	2.5%	2.5%	2.4%	2.7%	2.9%	
EBT margin	1.9%	1.9%	2.3%	2.3%	2.1%	2.4%	2.7%	
Net profit margin	1.7%	1.4%	1.7%	1.7%	1.6%	1.8%	2.0%	
<b>Expense ratios in %</b>								
Personnel costs to sales	25.5%	25.0%	25.7%	25.6%	25.4%	24.5%	26.0%	
Cost of material to sales	66.5%	67.3%	65.6%	65.9%	66.4%	67.4%	66.5%	
Depreciation to sales	2.5%	2.5%	2.5%	2.6%	2.5%	2.4%	2.3%	
Tax rate	-11.8%	-26.5%	-24.7%	-26.6%	-25.0%	-24.0%	-23.5%	
<b>Profitability in %</b>								
Gross profit margin	33.5%	32.7%	34.4%	34.1%	33.6%	32.6%	33.5%	
Return on adjusted shareholders equity (ROE)	15.5%	13.1%	15.6%	15.9%	14.2%	16.6%	17.8%	
Return on investment (ROI)	3.5%	3.8%	3.9%	4.4%	4.1%	4.8%	5.2%	
<b>Balance sheet key figures</b>								
Working Capital	-52,305	65,988	-2,462	112,433	139,633	176,557	201,329	
Net working capital	-385,212	-399,629	-473,432	-407,267	-428,867	-441,863	-472,651	
Working capital/ revenues	-2.0%	2.2%	-0.1%	3.3%	3.9%	4.6%	5.0%	
Net debt (-)/ net cash (+)	-357,458	64,551	86,897	115,940	164,810	212,160	265,660	
Book value	29.1	27.9	13.2	15.0	16.0	17.3	18.5	
Equity ratio	15.1%	17.9%	16.7%	18.9%	19.4%	20.1%	20.6%	
Liability ratio	84.9%	82.1%	83.3%	81.1%	80.6%	79.9%	79.4%	
<b>Data per share</b>								
Number of shares in ('000)	11,947	13,803	28,533	29,095	29,095	29,095	29,095	
Earnings per share (EPS)	3.88	3.22	2.02	2.20	2.44	2.68	3.16	
Dividend per share (DPS)	1.00	1.50	1.50	1.10	1.10	1.30	1.50	

\* numbers adjusted by a share split in a ratio of 1:2 as of 19 June 2015  
 Source: Company data, SRC Research estimates

## SRC Research

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Rating Chronicle	Date	Rating	Former Price	Former Target
PORR	30 May 2017	Buy	31.25 €	40.00 €
PORR	25 April 2017	Buy	33.31 €	40.00 €
PORR	29 November 2016	Buy	35.93 €	40.00 €
PORR	31 August 2016	Buy	28.65 €	36.00 €
PORR	01 June 2016	Buy	26.40 €	36.00 €
PORR	25 April 2016	Buy	28.00 €	36.00 €

#### Please note:

The PORR share price mentioned in this report is from 23 August 2017 (10 am). PORR AG mandated SRC Research for covering the PORR share.

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