

PORR

Buy (unchanged) Target: Euro 37.00 (old: Euro 36.00)

28 | May | 2018



Price (Euro) **31.80**
52 weeks range 34.50 / 22.69

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)	925.2
Free Float Market Cap (million)	428.4
CAGR pre-tax profit ('17 - '20e)	28.5%

Multiples	2017	2018e	2019e	2020e
MarketCap/ Revenues	0.22	0.20	0.19	0.18
PE-Ratio	15.2	11.1	9.4	6.8
Dividend Yield	3.5%	4.1%	4.7%	5.5%
Price-to-Book ratio	1.5	1.4	1.3	1.2

Key Data per Share (Euro)	2017	2018e	2019e	2020e
Earnings per Share (EPS)	2.09	2.86	3.37	4.65
Dividends per Share (DPS)	1.10	1.30	1.50	1.75
Book Value per share	20.52	22.20	24.42	26.30

Financial Data (Euro '000)	2017	2018e	2019e	2020e
Revenues	4,292,886	4,627,731	4,826,724	5,053,580
EBITDA	200,680	251,939	279,902	332,618
Operating Profit (EBIT)	90,219	127,176	150,028	198,139
Pre-tax profit (EBT)	85,324	113,709	132,359	181,070
Pre-tax margin	1.8%	2.1%	2.3%	3.0%
Net profit (after minorities)	60,492	83,327	98,090	135,434
Adjusted Shareholders' Equity	551,166	596,670	651,117	714,587
RoE after tax (adjusted)	11.0%	14.0%	15.1%	19.0%
Equity Ratio	20.7%	21.3%	22.3%	22.9%

Financial Calendar

AGM	29 May 2018
1H 2018 report	28 August 2018
SRC Forum Financials & Real Estate	6 September 2018
3Q 2018 report	29 November 2018

Main Shareholders

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

Analysts

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

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

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

Production output up more than 32% and revenues up by almost 37% – Order backlog at new record high – Target price up to Euro 37.00, Buy confirmed

Today, the company released the 1Q 2018 report and invited to a conference call. The firm's production output climbed significantly by more than 32%. from Euro 768m in 1Q 2017 to almost Euro 1.02bn in 1Q 2018. All four business units contributed to that growth. BU1 grew by more than 22% in terms of production output and was at Euro 424m. Furthermore, order backlog and order intake also climbed by more than 25% and more than 22% respectively. Business unit 2, Germany, grew by a significant 55% to Euro 180m in terms of order output and by more than 63% in terms of order backlog. Order intake was at Euro 760m up more than 22%. Production output in the international unit, BU3, climbed by more than 43%, while production output in BU4 climbed by 2%. Total revenues increased by almost 37%, from Euro 663m to Euro 908m. Due to increased cost of material and other related production services, higher staff expenses, increased other operating expenses, and a hike in depreciation expenses, the firm's EBIT was more or less at the same level of last year, at Euro -8.2m. Including the increased finance costs, the firm's bottom line after minorities was at Euro -10.5m (1Q 2017: Euro -8.7m). Keep in mind, that due to the seasonality in the construction business and the weak production output in the winter months, it is no surprise that earnings are weaker and negative in the first quarter of the year.

Regarding the order balance PORR reached a new record high of Euro 6.7bn in order backlog. This number is up about 5% since year-end and more than 20% compared to 1Q 2017. The firm managed to land new lucrative projects, including the FAIR accelerator complex in Darmstadt, Germany, which represents the largest new order in 1Q. In that record number, the announced Brenner Base Tunnel project, which will significantly lift order backlog again, is not included yet. Order intake was at Euro 1.35bn about 10% below last year. As the firm's backlog is high, this is decline results from PORR's ability to cherry pick new projects that will drive the firm's profitability. As common for the first quarters, the company's net debt has increased from Euro 147m at year-end to Euro 345m. Even though that number is clearly above last year's number of Euro 195m, the quarter-over-quarter increased much was lower compared to last year and 1Q 2017 was also positively affected by the issuance of the Euro 124m hybrid bond.

Overall, the firm's outlook for the coming years remains very promising in our opinion. The firm expects production output to be at more than Euro 5bn in 2018 and the increase in order backlog and order intake to continue. As production outlook was already at more than Euro 1bn in 1Q, this guidance looks very conservative in our opinion. The same applies to our initial estimate of Euro 5.16bn, which we now decided to lift to almost Euro 5.4bn. In our opinion, a production output in the range of 5.3bn to Euro 5.4bn is the most realistic estimate for the moment. With the increased P&L numbers, we also lift our target price from Euro 36.00 to Euro 37.00 and confirm our Buy recommendation for the PORR share.

PORR AG

Industry: Construction / Infrastructure
Sub-segment: all kinds of real estate
Country: Austria
Headquarter: Vienna
Foundation: 1869
Employees: 17,464

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

Management Board of PORR
 Ing. Karl-Heinz Strauss, MBA, FRICS (CEO)
 Dipl.-Kfm. Andreas Sauer (CFO)
 Dipl.-Ing. J. Johannes Wenkenbach (COO)

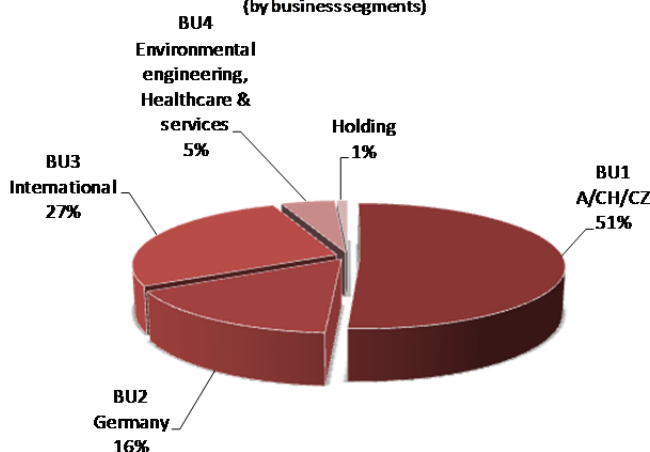
Supervisory Board of PORR

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	Gottfried Hatzenbichler
DI Iris Ortner, MBA	Wolfgang Ringhofer
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 2017 PORR reported decent figures. Production output totalled to Euro 4.7bn, 20.7% higher than 2016. Order intake once again climbed after a strong growth in 2014, from Euro 4.0bn in 2015 to almost 4.2bn in 2016 and to 6.3bn in 2017. 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 (67% of 2017 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 2017 dividend remained at Euro 1.10. PORR delivered a low net debt position at year-end 2017 of Euro 147m, despite the high amount of investments and acquisitions in 2017. The equity ratio hiked from 18.7% to 20.7% at year-end 2017.

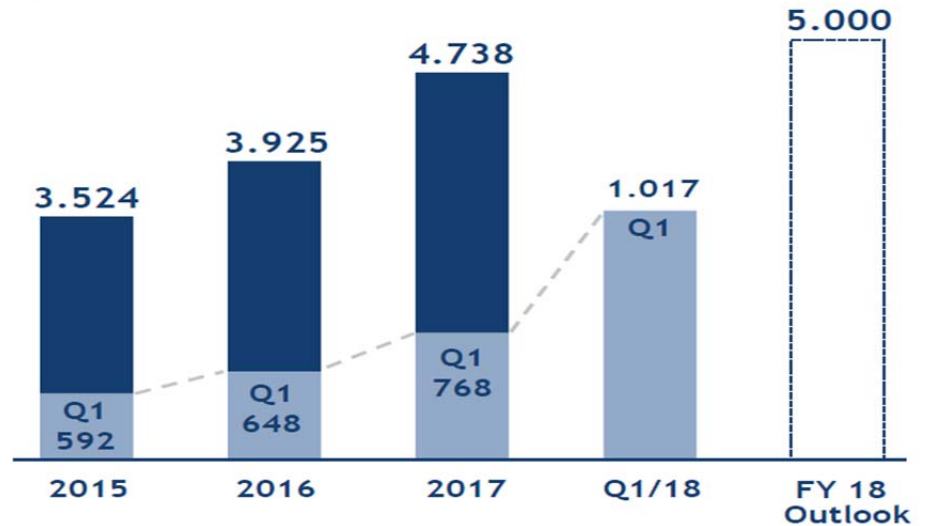
Production output Euro 4.7bn in 2017
 (by business segments)



Source: Company Data, SRC Research

PORR records a high production output and has added some lucrative and large scale projects early in 2018

EURm



Source: Investor Presentation, 28 May

The firm's order output is up more than 32% and already crossed the Euro 1bn mark in 1Q 2018. For the full year, the company gave a production output guidance of Euro 5bn, which was again confirmed with the 1Q results. In our opinion, that number is very conservative. We believe a production output for the full year in the range of Euro 5.3bn to Euro 5.4bn is the most realistic estimate for the moment.

Top 5 New Orders Q1 2018

Selected Projects	Country	EUR m ¹	Plan
FAIR ring accelerator, Darmstadt	DE	207.0	2018-2021
Nowe Miasto Lubaw ringroad	PL	62.1	2018-2021
Franklinturm, Zurich	CH	60.7	2018-2021
Bosch semiconductor plant, Dresden	DE	41.2	2018-2019
Appartment Building Sirius, Vienna	AT	36.2	2018-2020

Source: Investor Presentation, 28 May

In 1Q 2018, PORR managed to land some new lucrative orders, including the top 5 new orders above. Furthermore, the firm announced its involvement in the largest tunneling project in Austrian history, the Brenner Base Tunnel, which will be added to the list of new orders in the second quarter.

P & L PORR AG

31/12 IFRS (Euro '000)	2014	2015	2016	2017	2018e	2019e	2020e	CAGR '17 - '20e
Production output	3,474,885	3,523,752	3,925,000	4,738,164	5,374,632	5,697,110	6,095,908	8.8%
Revenues	3,009,118	3,139,687	3,417,100	4,292,886	4,627,731	4,826,724	5,053,580	5.6%
Own work capitalized in non-current assets	890	539	727	4,363	990	1,120	1,086	
Share of profit/loss of associates	66,156	46,233	46,252	59,220	62,452	67,489	70,456	
Other operating income	119,475	101,818	105,548	170,918	127,920	105,387	107,863	
Cost of materials and other related production services	-2,026,001	-2,060,827	-2,251,409	-2,944,027	-3,129,501	-3,217,127	-3,316,858	4.1%
Staff expense	-752,960	-807,638	-874,068	-1,036,068	-1,147,963	-1,218,631	-1,298,746	7.8%
Other operating expenses	-260,254	-253,870	-256,812	-346,612	-289,690	-285,060	-284,763	
Operating result (EBITDA)	156,424	165,942	187,338	200,680	251,939	279,902	332,618	18.3%
Depreciation, amortisation and impairment expense	-74,716	-78,172	-87,283	-110,461	-124,763	-129,874	-134,479	6.8%
Operating result (EBIT)	81,708	87,770	100,055	90,219	127,176	150,028	198,139	30.0%
Income from financial investments and other current financial assets	24,762	18,968	15,320	15,985	16,100	17,120	18,672	
Finance costs	-40,370	-25,625	-24,307	-20,880	-29,567	-34,789	-35,741	
Earnings before tax (EBT)	66,100	81,113	91,068	85,324	113,709	132,359	181,070	28.5%
EBT margin (in relation to production output)	1.9%	2.3%	2.3%	1.8%	2.1%	2.3%	3.0%	
Income tax expense	-17,542	-20,069	-24,242	-21,633	-27,290	-31,104	-42,551	
Profit/loss for the period	48,558	61,044	66,826	63,691	86,419	101,255	138,518	29.6%
of which attributable to non-controlling interest	-68	133	282	535	425	498	412	
Profit/loss for the period attributable to shareholders of the parent and holders of profit-participation rights	48,626	60,911	66,544	63,156	85,994	100,757	138,106	29.8%
of which attributable to holders of profit-participation rights	4,200	3,200	2,664	2,664	2,667	2,667	2,672	
Net profit after minorities	44,426	57,711	63,880	60,492	83,327	98,090	135,434	30.8%
Diluted/basic earnings per share (EPS)	3.22	2.02	2.20	2.09	2.86	3.37	4.65	
Dividends per share (DPS)	1.50	1.50	1.10	1.10	1.30	1.50	1.75	
Number of shares ('000)	13,803	28,533	29,095	29,095	29,095	29,095	29,095	
Adjusted Shareholders' Equity without minorities	340,140	369,108	400,984	551,166	596,670	651,117	714,587	9.0%
Shareholders' Equity (including minorities and hybrid)	385,171	412,118	440,872	597,038	645,930	710,532	765,147	
RoE after Tax	13.9%	16.3%	16.6%	12.7%	14.5%	15.7%	19.8%	
Total assets (Euro million)	2,146.0	2,304.0	2,360.5	2,884.8	3,029.0	3,180.5	3,339.5	
Equity ratio	17.9%	17.9%	18.7%	20.7%	21.3%	22.3%	22.9%	
Key ratios & figures	2014	2015	2016e	2017e	2018e	2019e	2022e	
Growth rates in %								
Revenues	14.4%	4.3%	8.8%	25.6%	7.8%	4.3%	4.7%	
EBITDA	6.7%	6.1%	12.9%	7.1%	25.5%	11.1%	18.8%	
EBIT	1.0%	7.4%	14.0%	-9.8%	41.0%	18.0%	32.1%	
EBT	10.9%	22.7%	12.3%	-6.3%	33.3%	16.4%	36.8%	
Net profit after minorities	-7.6%	25.7%	9.5%	-4.7%	35.7%	17.2%	36.8%	
Margins in % (based on production output)								
EBITDA margin	4.5%	4.7%	4.8%	4.2%	4.7%	4.9%	5.5%	
EBIT margin	2.4%	2.5%	2.5%	1.9%	2.4%	2.6%	3.3%	
EBT margin	1.9%	2.3%	2.3%	1.8%	2.1%	2.3%	3.0%	
Net profit margin	1.4%	1.7%	1.7%	1.3%	1.6%	1.8%	2.3%	
Expense ratios in %								
Personnel costs to sales	25.0%	25.7%	25.6%	24.1%	24.8%	25.2%	25.7%	
Cost of material to sales	67.3%	65.6%	65.9%	68.6%	67.6%	66.7%	65.6%	
Depreciation to sales	2.5%	2.5%	2.6%	2.6%	2.7%	2.7%	2.7%	
Tax rate	-26.5%	-24.7%	-26.6%	-25.4%	-24.0%	-23.5%	-23.5%	
Profitability in %								
Gross profit margin	32.7%	34.4%	34.1%	31.4%	32.4%	33.3%	34.4%	
Return on adjusted shareholders equity (ROE)	13.1%	15.6%	15.9%	11.0%	14.0%	15.1%	19.0%	
Return on investment (ROI)	3.8%	3.9%	4.4%	3.1%	5.1%	5.7%	7.3%	
Balance sheet key figures								
Working Capital	65,988	-2,462	112,433	146,958	176,557	201,329	226,101	
Net working capital	-399,629	-473,432	-407,267	-211,749	-441,863	-472,651	-503,439	
Working capital/ revenues	2.2%	-0.1%	3.3%	3.4%	3.8%	4.2%	4.5%	
Net debt (-)/ net cash (+)	64,551	86,897	115,940	-247,632	212,160	265,660	319,160	
Book value	27.9	13.2	15.0	20.5	17.3	18.5	19.7	
Equity ratio	17.9%	16.7%	18.9%	20.7%	20.1%	20.6%	21.0%	
Liability ratio	82.1%	83.3%	81.1%	79.3%	79.9%	79.4%	79.0%	
Data per share								
Number of shares in ('000)	13,803	28,533	29,095	29,095	29,095	29,095	29,095	
Earnings per share (EPS)	3.22	2.02	2.20	2.09	2.86	3.37	4.65	
Dividend per share (DPS)	1.50	1.50	1.10	1.10	1.30	1.50	1.75	

* 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

- The Specialist for Financial and Real Estate Stocks -

SRC - Scharff Research und Consulting GmbH

Klingerstr. 23

D-60313 Frankfurt

Germany

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

Mail: scharff@src-research.de

Internet: www.src-research.de

Rating Chronicle	Date	Rating	Former Price	Former Target
PORR	27 April 2018	Buy	28.50 €	36.00 €
PORR	30 November 2017	Buy	25.65 €	36.00 €
PORR	23 August 2017	Buy	24.25 €	36.00 €
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 €

Please note:

The PORR share price mentioned in this report is from 25 May 2018. PORR AG mandated SRC Research for covering the PORR share.

Disclaimer © 2018: This equity research report is published by: SRC-Scharff Research und Consulting GmbH, Klingerstr. 23, D-60313 Frankfurt, Germany (short name: SRC Research). All rights reserved.

Although we feel sure that all information in this SRC report originates from carefully selected sources with high credibility, we cannot give any guarantee for accuracy, trueness and completeness. All opinions quoted in this report give the current judgement of the author which is not necessarily the same opinion as SRC-Scharff Research und Consulting GmbH or another staff member. All the opinions and assessment made in this report may be changed without prior notice. Within the scope of German regulative framework the author and SRC-Scharff Research und Consulting GmbH do not assume any liability for this document or its content being used. This report is solely for information purposes and does not constitute a request or an invitation or a recommendation to buy or sell any stock that is mentioned here. Private clients should obtain personal advice at their bank or investment house and should keep in mind that prices and dividends of equities can rise and fall and that nobody can give a guarantee of the future development of equities. The author of this report and the SRC-Scharff Research und Consulting GmbH commit themselves on a unsolicited basis to having no long or short-positions in equities or derivatives related to equities mentioned in this report.

Reproduction, distribution or publishing this report and its content as a whole or in parts is only allowed with approval of SRC management written form. With acceptance of this document you agree with all regulations mentioned here and all general terms and conditions you will find at anytime at our website www.src-research.de.