EDISON

Spotlight - Initiation

AVAX

Industrials

16 May 2023

Building on strong foundations

AVAX is a leader in Greek construction, operating critical assets with long-term and visible cashflow streams, particularly in concessions. Greek economic growth should be stimulated to 2026 by the National Recovery Plan, worth over €30bn. It should help unplug the infrastructure investment deficit, a key area of focus for AVAX. FY22 results highlight the group's progress domestically as the market improved. This more than offset the weaker international performance and group operating profit rose 78% y-o-y to €39.3m. As infrastructure investment improves in Greece, AVAX could secure an improved rating, with an attractive FY22 gross dividend yield of 7.5%. With a concessions portfolio independently valued at €130m (€0.90/share), above the recognised book value of €295m (€2.05/share), there appears to be significant potential for investors.

Developing a robust portfolio of projects

AVAX boasts a record work-in-hand level of €2.2bn, participating in some of Greece's largest pioneering projects. This includes a new contract signed for the Bralos-Amfissa road and tunnel section, worth €207m with a 54-month delivery deadline. Additional large projects, such as the construction of Athens Metro Line 4, underscore the company's leadership and expertise in the construction industry. Increased pipeline momentum is set to continue as AVAX is prequalified and participating in the bidding process for numerous tenders for public and private projects, public-private partnerships (PPPs) and concessions.

Entering FY23 with positive momentum

Despite FY22 revenues decreasing 32% to €402.7m, reduced cost of sales combined with increased income from associates contributed to improved operating profit by 78% to €39.3m and an EBITDA margin of 14.5% (FY21: 8.6%). AVAX has aggressively reduced debt through the strategic sale of mature assets with net debt reduction of 22% and 41% in FY21 and FY22, respectively, to €220m at end FY22, presenting a healthier leverage ratio of 3.8x. Looking forward, AVAX envisages using more project-based financing instead of leverage.

Valuation: Attractive yield, expected market recovery

The Greek construction sector was hit hard in the decade following the debt crisis that began in late 2009, with constituent companies' share prices declining in tandem. As building activity accelerates and the Greek infrastructure pipeline frees up, we expect the sector to attract more favourable ratings, including for AVAX.

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	576	(11)	(0.12)	0.00	N/A	0.0
12/20	463	7	0.07	0.00	12.9	0.0
12/21	592	0	0.01	0.00	71.5	0.0
12/22	403	19	0.09	0.07	10.6	7.5

Source: Company reports

Price	€0.93
Market cap	€134m

Share price graph

Share details

Code	AVAX
Listing	Athens Exchange
Shares in issue	144.3m
Adjusted net debt at 31 December 2022	€220.4m

Business description

AVAX is a Greece-based construction company that operates through three main segments: construction, concessions and real estate & marinas, with a large international footprint. The largest segment, construction, is involved in large-scale private and public works, with unique experience among its peers, in Energy Infrastructure (LNG terminals and pipelines) and subway construction sectors.

Bull

- Infrastructure investment gap set to narrow, aided by Greece 2.0 National Recovery Plan.
- Strong partnerships with international institutions and some of the largest construction companies on an international scale.
- Valuable portfolio of concession and public-private partnerships projects with conservative approach to bidding.

Bear

- Risk of potential project delays remain due to global supply chain issues.
- Net debt has been reduced substantially in recent years but has further to go.
- Geopolitical risk present in some of its existing geographies.

Analysts

Natalya Davies	+44(0)20 3077 5700
Andy Chambers	+44(0)20 3077 5700

industrials@edisongroup.com
Edison profile page

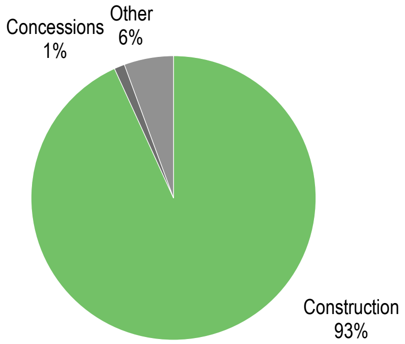
AVAX is a research client of Edison Investment Research Limited

A Greek leader in the construction sector

AVAX is Greek-based construction company that has been listed on the Athens Stock Exchange since 1994. A critical inflection point in the company's evolution came in 1999–2000 through a three-way merger with two medium-sized contractors, ETETH and J&P Hellas (the Greek subsidiary of Cypriot construction group, J&P). This was a result of legislation (Law 2940/2001) that required companies to collaborate to bid for larger public projects. The resultant company was named J&P-AVAX. In 2007, a smaller local contractor, Athena, was also acquired and eventually absorbed in 2018. In the same year, J&P-AVAX cut its ties with J&P Group. The company was renamed AVAX, with one of the two controlling families of J&P Group, the Joannou family, now in control of c 33.3% of AVAX's shares.

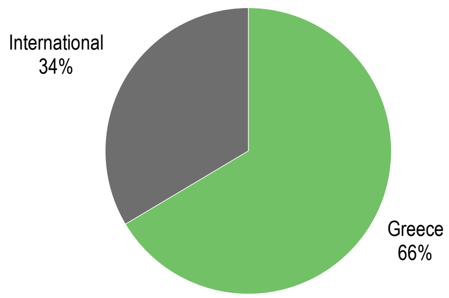
AVAX boasts a relatively geographically diversified business model, with over 7,500 employees and realising more than 2,750 international projects since 1985. The company addresses multiple end-customer sectors in the construction market with varying sector drivers and project workflows; it has completed projects in a wide variety of construction areas such as marine projects, motorways, sports facilities and hospitals. AVAX tries to secure business through early engagement with project partners (eg end-clients, architects, main contractors) and adds value by drawing on the group's extensive experience in maturing project designs, identifying project risks (financial and other) and identifying appropriate resources (internal or outsourced) for every development. Each project is unique and brings different challenges such as site access/operating constraints or temporary work requirements; complex and typically scalable building projects are one of AVAX's core strengths. Around 80% of the company's projects are public infrastructure.

Exhibit 1: FY22 revenue (€402.7m) split by division (continuing operations)



Source: AVAX

Exhibit 2: FY22 revenues (€402.7m) split by geography (continuing operations)



Source: AVAX

At the end of FY21, AVAX made the strategic decision to divest from energy sector operations after the sale of its portfolio of renewable energy source (RES) projects by 100% subsidiary Volterra, which generated €54.4m cash proceeds from the sale of its wind farms. It is exiting Volterra's smaller 2–5% retail segment, which is recorded as a discontinued operation.

Continuing activities

The company divides its continuing business activities into three main segments:

- **Construction (FY22: 93% revenue, 56% EBITDA):** divided into three project subdivisions, large-scale infrastructure, energy and industrial and network. The segment has historically been the mainstay of the group, with a successful track record in delivering projects of high technical complexity in Greece and international markets. Work-in-hand amounts to €2.2bn, a record high for the company.

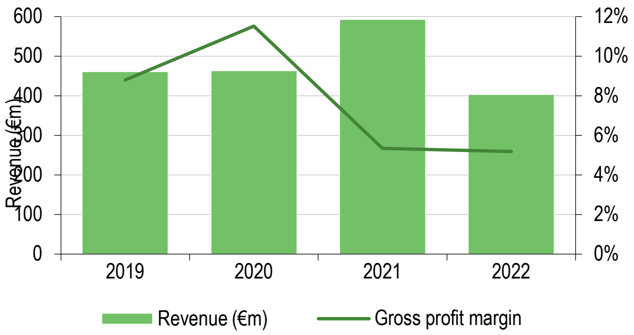
- **Concessions and PPPs (FY22: 1% revenue, 41% EBITDA):** The division has limited consolidated revenues due to the associated/JV nature of the bulk of its activities, although its strong EBITDA contribution is in line with international concessions peers. The division manages the company's participations in concession's infrastructure projects, which are of considerable value. The group's concessions portfolio is expanding, securing a significant backlog of projects and a steady stream of long-term revenues. Its investment portfolio is worth c €400m after the sale of one project last November. One of the largest concessions, of which AVAX has a 34% participation, is the Athens Ring Road, Attiki Odos, with a construction cost of €1.6bn and investment total of €2.0bn (concession period of 1996 to 2024). The segment is In the process of being spun into a separate subsidiary, AVAX Concessions.
- **Real estate and marinas (FY22: 6% revenue, 3% EBITDA):** 100% subsidiary, AVAX Development, is focused on real-estate development, mostly for permanent residential and vacation home use, while also offering management and development service for real estate assets. AVAX also participates in concessions for select marine infrastructure projects.

AVAX is well positioned in the sector, boasting a healthy, traditional construction division and valuable concessions portfolio with secured cashflows and the potential to win additional concessions with c 12–13% targeted internal rates of return (IRRs). The Greek economy has declined substantially in the past 10–15 years with few companies surviving the downturn, emphasising AVAX's robustness. The last two quarters suggest Greek construction markets are on the road to recovery, with an expected surge in government expenditure over the next year, which should bolster the company's growth momentum. Construction output in Greece rose c 30% y-o-y in Q422, accelerating from c 20% in the previous period, making it the highest quarterly growth in construction activity since Q316, as output advanced for building construction (24% vs 7% in Q3) and civil engineering (36% vs 30%). Construction output rose 24% in FY22 (FY21: 6.9%).

A top-four Greek construction company

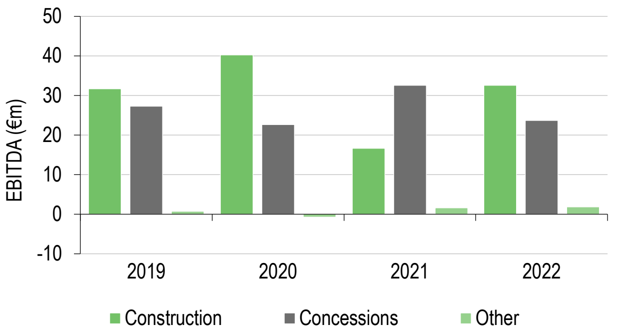
AVAX has three main competitors in the Greek construction sector, although GEK Terna Group (the leader in the sector) derives c 75% of its adjusted EBITDA from RES and thermal energy sales, so has limited overlap with AVAX. According to management, the company typically wins some 20–25% of projects bid for, with more success on the larger projects. The key is not just winning a contract through aggressive bidding but winning it at a reasonable price to make a profit. On average, over the last year or so, discounts offered in bidding for projects have narrowed from 20–30% to single digits, which will play a major role in future profitability of the company.

Exhibit 3: Group revenue and gross profit margin 2019–22



Source: AVAX. Note: Both revenue and gross profits are continuing and excluding all activity from the energy sector.

Exhibit 4: EBITDA by division 2019–22



Source: AVAX. Note: EBITDA is continuing and excludes all activity from the energy sector.

Concessions and PPPs: Stable, long-term cashflows

Concessions and PPPs form a fundamental part of AVAX's long-term business model. Broadly speaking, these agreements involve a long-term partnership between the public and private sector for the development, delivery, operation and maintenance of public infrastructure (post construction); this enables the concessionaire to capitalise on the finished works. For example, a main contractor can be given a concession to apply tolls to a bridge for a long-term period (generally over 10 years) as full or part payment for having constructed the bridge. More recent projects have also included elements of 'shadow tolls', where the government pays a fee to the operator on a per-user basis as well as direct subsidies, reducing risk and improving returns for investors. Typically, as the concessionaire AVAX contributes c 20–25% of the total budget in equity, which is drip-fed during the construction process. The remaining budget is usually financed through bank debt or government grants. When the construction works are priced accurately, the profits generated from the construction phase are used to meet most of the equity input requirements.

On completion of the construction phase, the concession contract offers a projected stream of dividends, which may be sold to long-term financial investors seeking stable returns with an attractive IRR/risk profile, superior to other fixed-income securities. The cash proceeds from that sale can subsequently be used to fund the next project. As AVAX is both a contractor and concessions operator, striking the right balance between the returns from construction and operation is crucial. Construction yields short- to medium-term returns, while the operation generates long-term returns, so if the company limits aspirations for the construction period, it can opt for a higher return on the operation side. This allows for a lower NPV of the bid, even with the same amount of total revenue.

AVAX mainly contracts on a fixed-price basis

AVAX is set up to handle nearly all of its projects on a fixed-price contract basis, consistent with the majority of them being issued by the Greek government; although this implies substantially more risk, the company reaps the benefits of surprises on the upside, which can offset the obvious downside risks. On a fixed-price contract, a single 'lump sum' is agreed before the project works begin; if the actual cost of the works exceeds the agreed price and absorbs integral contingencies, then the contractor must bear the additional expense or seek reparations. Although it is perceived as being higher risk than cost-plus contracts, usually a schedule of cost indexation is included in the contract, acting as a safety buffer with clauses for inflation or any substantial changes to the project required; this provides adequate protection for the company. In 2022 the Greek government passed Law 4398, which introduced some measures to alleviate the substantial cost pressures induced by the energy crisis for contractors on ongoing projects. These included compensation for synthetic materials (eg, PVC, asphalt) price surges on supply orders, applicable in H222, as well as regular quarterly adjustments of project budgets. In addition, contractors were given a choice between the following:

- Securing an extension to project deadlines (carrying no penalty) for up to six months.
- Receiving a 5% premium on the value of the uncompleted part of ongoing projects, contingent on the original time schedule being adhered to and a performance bond of equal value being issued. If the deadline is not eventually met, the 5% premium is required to be returned to the state.

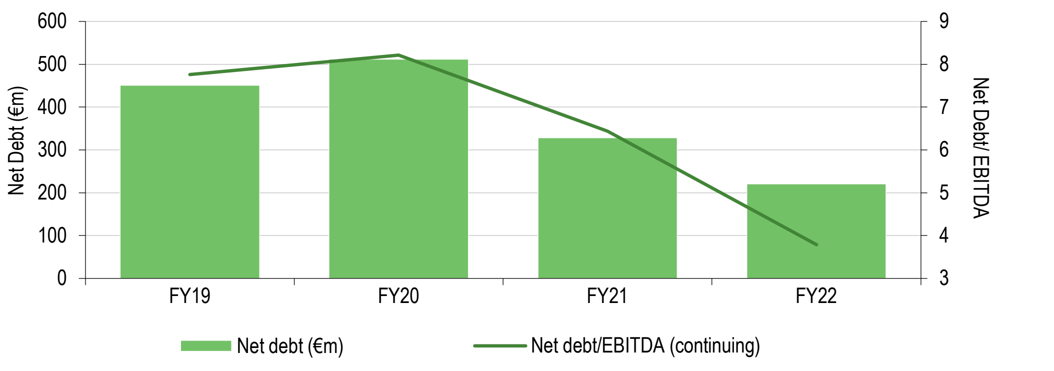
AVAX chose the second option for its large Athens Metro Line 4 project (budgeted at €1.8bn). Overall, the government measures have provided some respite for ongoing projects. Bids in project tenders (either private, public or PPP) in the last year have already incorporated the increased input cost. Many private sector projects have been renegotiated with the clients, who are aware of the challenging macroenvironment with substantial increases in input costs and must protect their investment from stalling works or protracted battles with contractors' compensation claims. A very limited number of AVAX's smaller private contracts have been secured on a cost-plus basis.

According to management, the company also has an effective risk-management process, thoroughly screening any potential projects before bidding.

Consistent track record of debt reduction

In the past couple of years, AVAX has aggressively reduced debt through the strategic sale of mature concessions (in line with its long-term strategy) or non-core assets (eg Volterra and RES projects); in FY22 the company reported record low net debt of €220.4m, generating a healthier leverage ratio of 3.8x versus 7.3x in 2020. Looking forward, AVAX envisages using more project-based financing instead of leverage. AVAX used to have a lot of debt backed by concessions, which has decreased substantially; the company has recently proposed spinning off debt into its separate 100% subsidiary, AVAX Concessions, used to fund new concessions projects. The aim is for the construction division to eventually stand on a substantially reduced debt level of c €100m. So far, AVAX has transferred its 23.6% participation in the Aegean Motorway concessionaire and 19.1% in the concessionaire and operators of Olympia Motorway into AVAX Concessions.

Exhibit 5: Net debt (€m) 2019–22



Source: AVAX

Management

The company's board of directors comprises 10 members, appointed at a general meeting and nominated by the main shareholders, who provide oversight and review of the performance of the Corporate Planning and Risk Management Committee (Executive Committee). Five of the board are executive members, all providing the company with a long history of experience in the construction sector: Christos Joannou (chairman), Konstantine Kouvaras (deputy chairman), Konstantine Mitzalis (managing director), Konstantine Lysaridis and Anthony Mitzalis. The Corporate Planning and Risk Management Committee comprises four of the executive members of the board of directors (Mr Kouvaras, Mr Joannou, Mr Mitzalis and Mr Lysaridis). Decisions by the Corporate Planning and Risk Management Committee are taken by absolute majority among its members, enabling them to be agile and flexible in the decision-making process.

Shareholder structure

The total share capital of AVAX is currently 144,321,516 shares with a long-term strategic family investment. Three executive members of the company collectively control 84,151,811 shares (58.3%); Christos Joannou (33.3%), Konstantine Mitzalis (17.2%) and Konstantine Kouvaras (7.8%). Stelios Christodoulou owns 12,263,889 shares (8.5%). The remaining 47,905,816 shares represent the free float of 33.2%.

We note that at the April 2021 AGM shareholders approved a bonus issue of 4m shares to staff and executives using company reserves. At the end of 2022 these shares remained unissued, not ranking for the FY22 dividend, but are expected to be issued in the future, with an element of dilution for existing shareholders.

Organisation: Subsidiaries

AVAX's corporate structure is complex, with a wide range of 18 subsidiary companies, and we identify the main operating subsidiaries below (Exhibit 6). The subsidiaries enable AVAX to supply and support an international customer base.

Exhibit 6: AVAX's main operating subsidiaries (continuing)

Company name	% participation	Description
ETETH, Salonica	100	Construction company with a sixth grade works certificate (top certification is seventh, eg, such as that held by AVAX). Looks after small and medium-sized projects.
AVAX Concessions, Athens	100	Company to which the concession portfolio holdings are being transferred from the parent company. Should become increasingly important, helping to crystalise the value of AVAX's concessions portfolio.
AVAX International	100	Based in Cyprus, it serves as an intermediary for some international projects.
AVAX Development, Athens	100	Real estate branch of the company.
Athens Marina, Athens	100	Concession holder of a marina on Athens' south beach.
Task AVAX, Athens	100	Provider of facility management services.

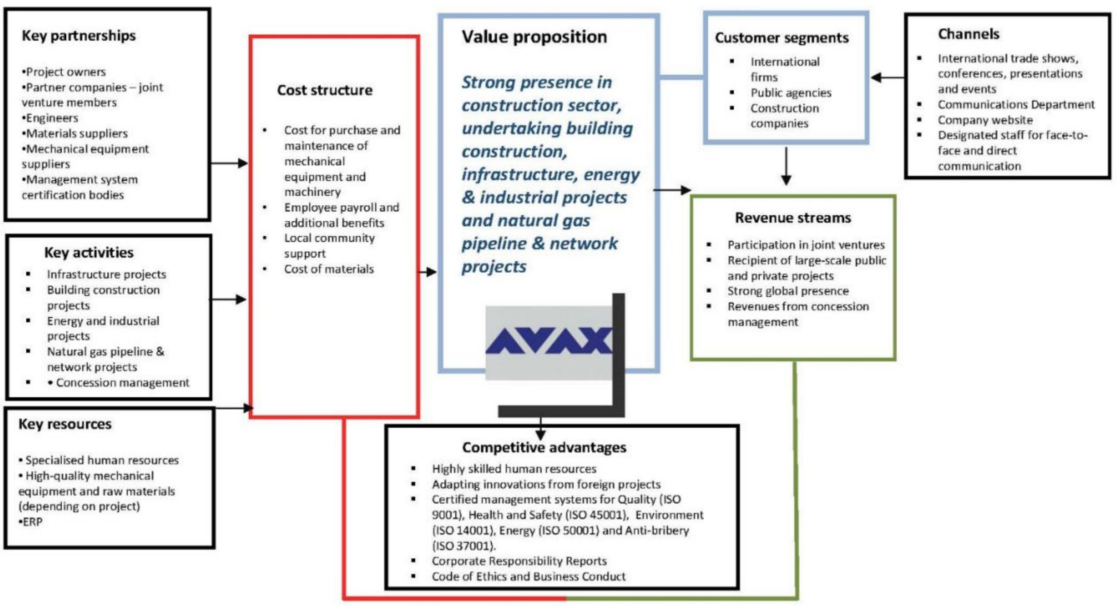
Source: AVAX

Strategy: Conservative approach to bidding

AVAX has a secure revenue stream from its concessions portfolio, which yields favourable margins. However, the company's primary focus over the next decade will be on expanding into value-adding areas within the construction division that are less cyclical and have the potential to generate higher margins, along with a steady stream of cashflows. In the short term, the company envisages increasing its local operations in Greece, taking advantage of the recovering economy and increased government spending on construction projects. Currently, the majority (90–95%) of new projects are concentrated in Greece, a significant increase from the previous fiscal year (c 50% in FY21). Nonetheless, AVAX's long-term vision includes establishing a substantial international presence, which is an integral part of its corporate DNA.

AVAX avoids aggressive bidding for projects that could jeopardise its profitability, opting for a more conservative approach to ensure a stable cash inflow. The company now bids for the majority of larger projects in the market, competing with its three main peers. As mentioned before, management estimates that it typically wins c 20–25% of the projects it bids for.

Exhibit 7: AVAX's business model



Source: AVAX

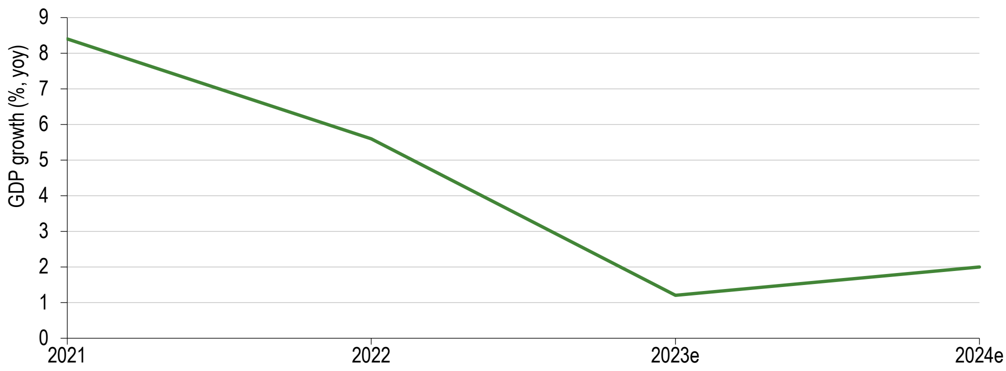
AVAX is also undergoing significant restructuring in which its holdings in concessions and PPPs are gradually being transferred to a subsidiary, AVAX Concessions, along with associated debt. This will provide a clearer view of the value of the remainder of AVAX and reveal the true value of the concessions portfolio; management hopes this will enhance financing flexibility for the company.

Greek construction market overview

The Greek construction market declined sharply in the decade after the debt crisis that hit Greece and other Southern European countries from late 2009, with austerity measures severely hampering government ability to invest in new infrastructure projects. As conditions stabilised later in the decade and green shoots started to appear, the effects of the global COVID-19 pandemic severely constrained economic and construction activity in 2020.

According to the IMF, Greek GDP fell by 9.0% in 2020 to its lowest level this century of €167.3bn before recovering in 2021, with an 8.4% rise to €181.3bn, just 1.3% below the pre-pandemic level in 2019 (€183.8bn). The recovery continued last year with GDP growing 5.9% to €192.0bn. A variety of sources forecast Greece's GDP growth rate to moderate to c 1.2% in 2023 and then around 1.5% to 2026.

Exhibit 8: GDP growth (%, y-o-y) 2021–24e

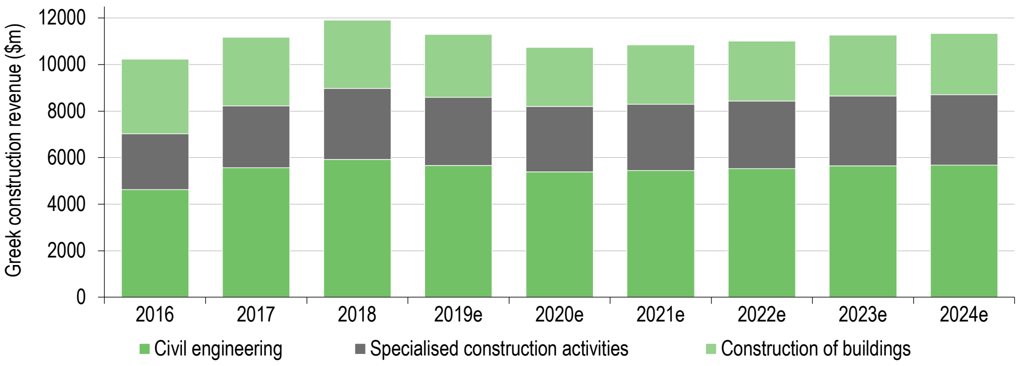


Source: Statista, European Commission, IMF, Edison Investment Research

The Greek Construction market is around €7.5bn and can be split into two distinct sectors, housebuilding (c 30%) and civil engineering (c 70% non-residential construction, including commercial and infrastructure projects), including both private and public works. During the COVID-19 lockdowns, construction sites remained open and thus the industry performed relatively well, registering growth in 2020, which continued in 2021 and 2022. According to data from ELSTAT (the Hellenic Statistical Authority) overall average construction activity fell by just 9.5% in 2020, before increasing 7% in 2021 and 24.4% in 2022, the highest level since 2017 in absolute terms.

In terms of the prospects for the non-residential construction market, the civil engineering segment declined by 11.7% in 2020 before recovering 1.8% in 2021. There was a very strong performance in 2022 with growth of 29.6% again recovering to the highest level since 2017. However, we note this is still around a third of the level of activity seen before the financial crisis in 2009, which has led to a substantial contraction in the number of enterprises involved in construction and employment. Following the recent purchase of Aktor by Intrakat, the big four construction companies AVAX, Ellaktor, GEK Terna and Intrakat) account for more than 50% of the civil engineering segment revenues and are involved in the bulk of major Greek construction projects.

Exhibit 9: Greek construction revenue ($m) 2016–24e



Source: Statista

In terms of prospects, growth in the civil engineering segment in 2022 appears to be driven at least in part by the unplugging of the infrastructure pipeline in Greece stimulated by the Greece 2.0, the country's National Recovery and Resilience Plan that was initiated in mid-2021 and was supported by the EU with over €30bn of Recovery and Resilience Facility grants and loans. The stimulus package is expected to add around 2–3% to GDP by 2026. While the reforms and initiatives are primarily aimed at green and digital progression, including renewable energy, they should also aid other infrastructure programmes as well as attracting additional sources of private finance.

According to PWC, in October 2020 Greece had an infrastructure project pipeline of 118 projects (in progress or prepared, but not funded), worth €43.4bn. The backlog has increased as the country seeks to improve the quality and expand capacity of its public works after periods of underinvestment since the financial crisis. As well as energy, which accounts for almost 60% of the total, priority areas are transportation 90 (c 35%), including road, rail, port and airport projects, and waste management. Given the scale of these opportunities we expect to see the civil engineering sector continue to expand over the next few years. For comparison in the five years to 2019, 40 infrastructure projects were completed with a total value of €8.9bn. We believe Greece 2.0 will add to the backlog, notably increasing projects in connectivity, tourism and the environment.

In terms of government funding of projects, Greece ranks number two globally for its procurement of infrastructure projects using PPP finance as a percentage of GDP. At the Greek PPP Pipeline Roadshow in November 2022 hosted by the EBRD, the Ministry of Development and Investment of the Hellenic Republic indicated there were 57 PPP projects in the investment portfolio with a total development cost of €7.2bn. A total of 14 projects worth €0.8bn were already signed and 43 worth €6.4bn were approved and in a tender process. Of the projects, 83% involved a concession and the average project life was 27–30 years including the construction phase. Seven projects with a €1.5bn value were in the transport segment. An additional €1.7bn of projects across all segments were also being considered. This indicates the potential value in the Greek construction market, in which AVAX is a predominant leader.

AVAX part of Greece's largest construction projects

As one of the dominant players in the Greek construction market, AVAX has contributed to some of the largest local projects. These have ranged from the design, construction, financing, operation and maintenance of new motorways (eg, Attiki Odos motorway) to the design of one of the world's longest multi-span, cable-stayed bridges (Rion-Antirrion Bridge).

Initiated Phase A construction of Athens Metro Line 4

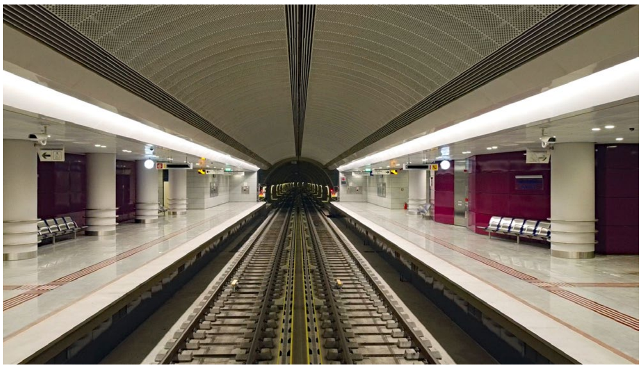
One interesting project that AVAX is participating in, alongside a JV with Ghella and Alstom, is the construction of a new Metro Line 4 in Athens. The same consortium completed the 7.6km extension of Metro Line 3 from Haidari Forest to the Dimotiko Theatro in October 2022 (Exhibits 10 and 11). This contract was valued at €344m and involved the construction of three new stations to relieve traffic congestion in Greece's largest port (with an expected reduction of 23,000 cars daily) and to connect Athens International Airport with Piraeus in less than an hour. AVAX was the lead contractor on both projects (the extension of Line 3 and the new Line 4).

In 2020 the AVAX-Ghella-Alstom consortium won the public procurement tender for the construction of the first Section A of Athens Metro Line 4 (expected length of 38.2km), a U-shaped line running from Alsos Veikou to Goudi. Phase A of construction was initiated in H221 and the line is scheduled to be complete in 2029/30. The JV's tender was the lowest bidder at €1.3bn and the contract includes the construction of 12.8km of twin tube tunnel and at least 15 underground stations; the consortium's competitive bid demonstrates their expertise and commitment to delivering this transformative project. The foreseen project budget, VAT excluded, amounts to €1.51bn (including contingencies, revision and works on a cost-plus basis) with an envisaged construction duration of eight years. This project marks a major milestone for AVAX, underscoring the company's leadership and expertise in the construction industry, as it is the largest infrastructure project planned in the EU and will radically change commuting in the Athens metropolitan area.

Exhibit 10: Athens Metro Line 3 extension constructed by the AVAX-Ghella-Alstom consortium

Source: AVAX

Exhibit 11: Athens Metro Line 3 extension constructed by the AVAX-Ghella-Alstom consortium



Source: AVAX

Continuing operation of the Attica Motorway ring road under a PPP model

The operation of the Attica Motorway is a pioneering project, constructed on concession basis and recognised as one of the largest co-financed road projects in Europe. This 70km dual-carriageway (three-lane) road was constructed in the 1990s, connecting 28 municipalities with the Athens International Airport and two national motorways, whilst by-passing the city centre. The primary aim of this ring road is to alleviate traffic congestion in the main arteries of Athens and provide a direct link between the Western and Eastern areas of Attica, enhancing regional connectivity and accessibility. The total cost of construction was €1.6bn with an investment total of €2bn (34% participation from AVAX).

Although the construction involved a large number of companies (planned at a central government level by the Ministry of Development, Competitiveness, Infrastructure and Transport Network), the operation of the motorway is managed solely by AVAX and Ellaktor under a PPP model on a 50/50 basis. The concession period spans from 1996 to 2024 with the toll under the contract €2.8 per vehicle; however, this is set to be reduced to €2.5 in a renewed concession agreement (post 2024) as part of efforts to alleviate the pressure on drivers facing high costs of living. This project underscores AVAX's commitment to providing sustainable solutions.

Exhibit 12: The Attica Motorway, a major ring road in Athens

Source: AVAX

Financials: Strong performance in FY22

AVAX made good strategic progress in FY22, notably by divesting its Volterra subsidiary, which operates in the wholesale and retail energy market. In June 2022 it sold a 112MW capacity portfolio of Volterra's RES to PPC Group, generating a capital gain of €39.1m. The remaining activities of Volterra are now treated as discontinued, with €22.6m of net assets held for sale at the year end. In addition, the group disposed of its participation in the Rio Bridge concession to the remaining shareholders for €60m after collecting a €4.2m dividend payment.

The continuing operations saw revenues decline largely due to delays on starting new projects awarded during the year, mostly outside Greece. Construction revenues in Greece increased sharply by 59% to €267.6m in FY22 (FY21: €135.1m), almost recovering to pre-pandemic FY19 levels of €290.0m. International revenues fell 68% from €423.8m to €135.1m. When investing in contractors, it is important for investors to understand how revenue is recognised against long term contracts. As mentioned in the appendix, AVAX's revenue derived from construction contracts are recognized in accordance with IFRS 15 using the input method.

The overall gross margin in FY22 declined slightly to 5.2% (FY21 5.3%) although this again masked a substantial mix shift between domestic and international activity. Domestic activities generated a gross profit of €64.6m compared to a loss of €8.5m in FY21 while international delivered a FY22 loss of €43.7m more than reversing a profit of €40.7m in the prior year.

Exhibit 13: AVAX income statement highlights (continuing operations)

Year to Dec (€m)	2018	2019	2020	2021	2022
Turnover	**538.4**	**575.9**	**462.7**	**592.2**	**402.7**
Gross profit	31.2	45.3	53.3	31.6	20.9
Gross margin	5.8%	7.9%	11.5%	5.3%	5.2%
EBITDA	**49.4**	**58.1**	**62.3**	**51.0**	**58.3**
EBITDA margin	*9.2%*	*10.1%*	*13.5%*	*8.6%*	*14.5%*
Profit/(loss) before tax	**-8.4**	**-11.2**	**-7.1**	**0.0**	**18.5**
Net income/(loss)	-24.6	-17.8	10.4	2.0	12.7
EPS (€)	**-0.170**	**-0.123**	**0.072**	**0.013**	**0.088**
DPS	0.00	0.00	0.00	0.00	0.07

Source: Company reports

In terms of EBITDA calculation, AVAX includes the contribution from the concession operations, although many of these are associates and reported in the group accounts at a pre-tax level. A few concessions are fully consolidated and generate a few million euros of revenue. The presentation thus inflates the group EBITDA margin but, as we show in the table below, the construction segment has generated an improved mid-single digit margin of 4.7% despite the international losses.

Exhibit 14: AVAX revenue and EBITDA by segment

Year to Dec (€m)	2018	2019	2020	2021	2022
Turnover					
Construction	434.8	441.8	445.3	575.3	375.4
Concessions	5.0	4.9	3.2	4.0	4.8
Energy	85.4	115.2			
Other revenues	13.1	14.0	14.2	12.9	22.6
Group turnover	**538.4**	**575.9**	**462.7**	**592.2**	**402.7**
EBITDA					
Construction	20.4	31.7	40.3	16.7	17.6
Concessions	28.0	27.3	22.7	32.6	38.7
Energy	1.1	(1.7)	(0.7)	1.7	1.9
Other	0.0	0.8			
EBITDA	**49.4**	**58.1**	**62.3**	**51.0**	**58.3**
Construction EBITDA margin	*4.7%*	*7.2%*	*9.1%*	*2.9%*	*4.7%*
EBITDA margin	*9.2%*	*10.1%*	*13.5%*	*8.6%*	*14.5%*

Source: Company reports

We note that the company also reported an adjusted EBITDA figure of €82.3m that primarily reflects the addition of the €39.1m capital gain on the RES disposal. We would not normally include such gains in EBITDA, as it is by nature non-recurring.

The pre-tax contribution from associates (which reflects the concessions activity) increased 52% to €47.4m (FY21 €31.2m)

At the operating level FY22 financial results were depressed by write-off of doubtful receivables and other provisions of €6.5m compared to €15.7m in FY21. Before this, operating profit including associates increased 21% to €45.9m (FY21 €38.0m).

The net finance charge fell 7% to €20.7m (FY21 €22.3m), primarily reflecting the lower debt burden. As a result, reported PBT improved to €18.5m from break even in FY21. EPS for the continuing business also increased significantly to €0.088/share from €0.013/share in FY21. Adding back the write-offs, EPS rose by 9% to €0.133/share (FY21 €0.122/share).

Cashflow for the group remained positive, with net debt reduced by €117.9m to €220.4m in line with the management priority to lower bank debt. The reduction was largely in performance bond loans, which fell €108.5m or 28% to €276.4m, reflecting the lower activity levels. Over the last three years management has significantly reduced its bank debt burden and expects to continue to do so despite the resumption of dividend payments. The sale of non-core assets and the increasing income from concessions dividend streams have been key factors in the debt reduction. Lease liabilities increased to €75.8m in FY22 from €53.2m in FY21. The bank debt-related financial metrics are shown below.

Exhibit 15: AVAX net debt (excluding leases) analysis

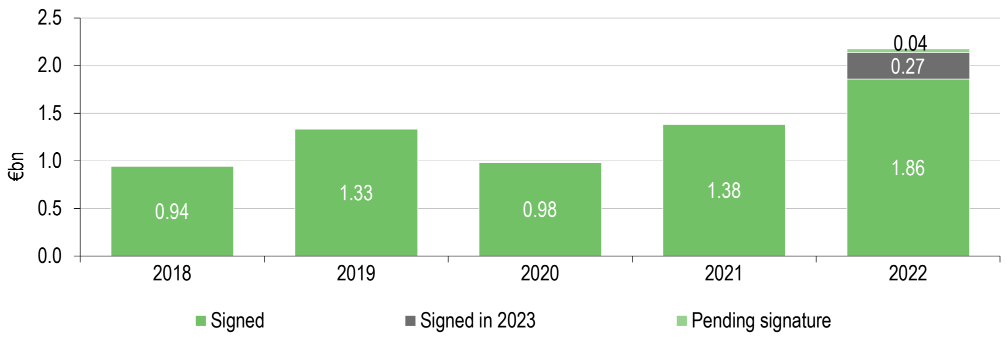
Year to Dec (€m)	2020	2021	2022
Short-term debt	96.1	107.5	78.1
Long-term debt	461.0	334.9	228.9
Gross debt	**557.1**	**442.4**	**307.0**
Cash and restricted deposits	(103.3)	(114.1)	(86.6)
Net debt	**453.8**	**328.3**	**220.4**
Net debt/NAV (x)	4.9	3.0	1.4
Net debt/EBITDA (x)	7.3	6.4	3.8
EBITDA interest cover (x)	-2.6	-2.3	-2.8

Source: Company reports

Outlook

At the end of 2022 AVAX had work in hand worth €1.86bn, significantly higher than recent periods, with much of it due to a resurgence of activity in its domestic construction market in Greece. Since the start of the year, the company has signed a further €274m of new contracts with €43m awaiting signature. The backlog at the year-end represents several years work at recent turnover levels. At the investor briefing on 11 May, management also indicated it was close to securing two major projects (one in Greece and one international) that would increase the work in hand to close to €3bn before deducting invoiced work year to date.

Exhibit 16: AVAX work in hand (€bn)



Source: Company reports

The level of booked activity and the burgeoning Greek construction project pipeline underpins management's expectation that the financial performance of the group should strengthen this year. We also expect these factors to drive a significant shift towards domestic activity although international market opportunities are likely to be pursued where appropriate, especially in specialised energy projects.

Management believes it is beginning a period where it can sustainably deliver improved profitability, which should allow for enhanced shareholder returns. The announcement of a €0.07 gross dividend per share for FY22 is the first for many years and indicates improved management confidence.

Sensitivities

As a construction company involved in large project contracting and concessions in Greece and abroad, AVAX is exposed to the usual operational risk management issues, including those associated with fixed-price contracting, which management addresses on a constant basis. The concessions portfolio provides a more stable and long-term cash-generative underpinning of the group activities, although volumes can fluctuate as was experienced during lockdown (road tolls etc). However, the other sensitivities include:

Geopolitical, political and economic risk: the spike in energy costs and inflation that arose from the invasion of Ukraine has tempered the post-COVID-19 pandemic economic recovery in Greece and elsewhere. It has also necessitated a higher interest rate environment globally. In addition, an election is due in Greece, which could affect the infrastructure project awards, although we think that is unlikely given the positive economic attributes of the policies. Outside Europe, the group seeks to operate in territories with reduced geopolitical and has no direct exposure to Ukraine or Russia.

Counterparty risk: the group is involved in a large number of projects in Greece and abroad, with select clients with a proven record of reliability and credit worthiness. New clients are carefully assessed to ensure credit worthiness. In terms of public projects, the group's policy is to participate only in tenders where project financing is secured with EU funds. Historically, the Greek state has been the largest client, as the private sector is a small player in AVAX's specialities of building facilities and infrastructure projects.

Input price volatility: AVAX has exposure to movements in global prices for raw materials and other supplies (eg, cement, steel rebar and fuel), which is addressed via a centralised procurement approach. It purchases supplies for all its businesses to secure economies of scale and can pre-order large quantities of stock to lock in pricing. The company also has to manage wage inflation, which can vary through a contract life but normally have indexation clauses in contracts.

Foreign exchange risk: the group receives revenues from international markets, with a significant proportion coming from outside the eurozone. In these, it seeks to match its receivables in foreign currency with payables in the same currency, creating a natural hedge and hedges remaining exposures through bank agreements.

Financial considerations: AVAX has significant financial liabilities including long-term bond loans, working capital and performance bonds from banks to participate in project tenders and guarantee their proper execution to clients. The interest rates and fees are determined by liquidity conditions beyond the control of management, despite strong banking relationships. Management's prioritisation of debt reduction started before the current increase in global interest rates. It has helped reduce the sensitivity of financial results and shareholder funds of a ±100 basis point interest rate variation to ±€2.51m in FY22, down from ±€3.81m in the previous year.

Founding family interests: these account for c 67% of the outstanding equity. We understand that this has been a relatively stable position for a number of years and have no reason to believe this is likely to change significantly. However, investors should recognise it is a minority free float.

Valuation

The group increased net asset value by 40% to €154.9m or €1.07 per share in FY22, which was almost double the level at the end of FY19 (€78.3m). Management believes this understates the value of the group as the concessions are valued at the book value of the equity participation. During FY22, the book value of concessions fell to €295.5m (FY21 €340.4m) primarily due to the €60m Rio Bridge participation disposals. Third-party independent fair valuations of the company's remaining concessions portfolio suggest a value gap of €130.2m or €0.90/share. In the context of a share price of just €0.93/share, these net asset values appear to suggest significant value potential.

The recent acquisition of Aktor (the construction arm of Ellaktor Group, previously the fifth large player in the Greek construction market) by Intrakat indicates there is value for construction businesses in Greece. The €214m deal (€100m upfront + €114m to be gradually paid within 19 months, regarding Aktor's debt obligations) represented an EV/sales multiple of 0.4x for a business that traded just below break even at the EBITDA level in 2022. With the AVAX construction arm consistently generating a positive EBITDA, we would expect the business to attract at least that transaction multiple on a debt-free basis. Adding the independent concessions valuation and subtracting net debt would suggest a significant equity potential, which may become more achievable if the Greek economics picture continues to improve.

Exhibit 17 shows a selected list of AVAX's peers, with the other three in bold being its largest Greek competitors. AVAX currently trades at a price/book ratio of 0.87x and EV/sales of 1.08x, both of which represent significant discounts to the average of the domestic peers. We have also included some larger European peers for comparison.

Exhibit 17: Peer valuation

Company	Ticker	Market	Local ccy	Share price (local ccy)	Market cap (bn) (local ccy)	2022 EV/sales (x)	2022 P/E (x)	20222 Price/NAV (x)	2022 Div yield (%)
AVAX	AVAr	Athens Exchange	€	0.92	0.1	1.07	10.4	0.9	7.6
Ellaktor	HELr	Athens Exchange	€	2.02	0.7	1.20	9.1	0.9	0.0
GEK Terna	HRMr	Athens Exchange	€	12.36	1.3	0.80	11.1	1.6	1.9
Intrakat	INCr	Athens Exchange	€	1.63	0.3	1.81	N/A	1.6	0.0
Balfour Beatty	BALF	LSE Main Market	£	3.82	2.2	0.23	11.7	1.6	0.0
Vinci	SGEF	Euronext- Paris	€	108.58	64.4	1.37	13.7	2.4	3.7
ACS	ACS	Madrid Exchange	€	31.25	8.7	0.30	14.8	1.5	0.2

Source: Refinitiv. Note: Priced at 5 May 2023.

Appendix

Revenue recognition follows IFRS 15

AVAX's revenue from construction contracts are recognised in accordance with IFRS 15 using the input method, meaning it is driven by the percentage of completion based on the budgeted expenses and any revisions in projections are booked in the current reporting period. It is calculated on the basis of the ratio of the realised costs incurred to management's total estimated costs until the project is complete. This is consistent with the revenue recognition methodology used by its peers. This standard establishes a five-step model for determining revenue from customer contracts:

- Identify the contract with the client.
- Determination of enforcement obligations.
- Determination of the transaction price.
- Allocation of the transaction price to the contractual obligations.
- Recognition of revenue when an entity fulfills its performance obligation by transferring a promised good or service to a customer. This excludes amounts collected on behalf of third parties (eg value added tax, other sales, taxes).

IFRS 15 stipulates that any variable consideration such as claims for delay/acceleration costs, reward bonuses or additional work should only be recognised as revenue if it is highly probable that there will not be a significant reversal in the amount of the cumulative revenue recognised in the future. Management must assess this likelihood by considering experiences adjusted for the circumstances of the existing contracts. Furthermore, additional claims and variation orders should be included in contract revenue only when it is probable that they will be approved by the customer and the amount of revenue can be reliably measured.

General disclaimer and copyright

This report has been commissioned by AVAX and prepared and issued by Edison, in consideration of a fee payable by AVAX. Edison Investment Research standard fees are £60,000 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. Where Edison has used consensus estimates within this publication, we do not guarantee their accuracy or completeness.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Copyright: Copyright 2023 Edison Investment Research Limited (Edison).

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.