AVAX

FY23 results

Strong pipeline reaffirmed

Construction and materials

AVAX's FY23 results highlight the group's progress domestically as the market improved, more than offsetting the weaker international performance at the top-line and EBITDA level. We have downgraded our 2024 EPS estimates to reflect guidance on continued construction project delays. However, our forecasts incorporate a substantial y-o-y increase in profits, with both PBT and net income more than doubling, bolstered by a record order book of €3.3bn. Our fair value stands at €3.0/share (€3.2/share previously), indicating more than 100% upside potential.

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	Yield (%)
12/22	402.7	25.1	0.13	0.07	11.2	4.8
12/23	453.5	21.8	0.10	0.03	14.6	2.1
12/24e	733.7	45.5	0.23	0.08	6.3	5.5
12/25e	834.9	63.3	0.31	0.08	4.7	5.5

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

FY23 results highlight domestic strength

FY23 revenue grew 13% y-o-y to €453.5m, 13% above our forecast of €402.2m despite continued delays in starting new construction projects awarded during the year, mostly outside of Greece. Growth was primarily attributable to domestic operations, with revenue of €400.3m (FY22: €267.6m) reflecting a pick-up in newly secured projects. This more than offset a reduction in international revenues of 61% to €53.3m. Normalised PBT declined 13.3% to €21.8m despite broadly flat financial expenses, largely due to a 32% decrease in income from associates to €32.4m. The balance sheet continues to strengthen with net debt (pre IFRS 16) reducing from €220.4m (end FY22) to €182.5m; this yields a leverage ratio of 3.0x, substantially healthier than the 6.4x at end-FY21. The sale of non-core assets and increasing income from concession dividend streams have been key contributors.

Order book growth reflects strong domestic position

At end April 2024, AVAX had a record order book of €3.3bn (€0.24bn awaiting signature), 52% above its €2.2bn order book at end April 2023. The growth was primarily due to a resurgence of activity in the domestic market. In our view, the strong order book growth reflects AVAX's robust position and expertise in the Greek construction industry, which is now seeing a recovery due to the Greece 2.0 National Recovery and Resilience Plan. We have downgraded our FY24 forecasts, with PBT and EPS now at €45.5m and €0.23 (previously €61.4m and €0.32), respectively, reflecting a more cautious expectation of continuing construction project delays, albeit representing y-o-y growth of 109% and 117%.

Valuation: Continues to indicate material upside

Based on the combination of a DCF enterprise value of €299m for subsidiaries (primarily construction) and a value for associates (mainly concessions) of €421m, we value AVAX at €3.0/share (€3.2/share previously), implying significant upside. The company's FY24e P/E of 6.3x is at a material 51% discount to peers.

8 May 2024

Price	**€1.46**
Market cap	**€217m**
Net debt (€m) at 31 December 2023 (excluding lease liabilities)	182.5
Shares in issue	148.3m
Free float	35.6%
Code	AVAX
Primary exchange	Athens Exchange
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	1.5	(13.3)	59.6
Rel (local)	(3.3)	(16.6)	22.1
52-week high/low		€1.86	€0.93

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.

Next events

H124 results	September 2024

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Significant progress made in FY23

AVAX made good strategic progress in FY23, notably by completing the sale of its 100% subsidiary, Volterra, marking its full divestment from energy sector operations, alongside building up a record backlog of projects, which have a current value of €3.3bn. This paves the path for future growth, alongside a healthy portfolio of concessions which bolster cash flow visibility.

FY23 revenue grew 13% to €453.5m y-o-y, exceeding our previous forecast of €402.2m despite continued delays in starting new construction projects awarded during the year, mostly outside of Greece. Growth was primarily attributable to domestic operations, with revenue of €400.3m (FY22: €267.6m) reflecting a pick-up in newly secured projects. This more than offset a reduction in international revenues of 61% to €53.3m. Continuing, normalised PBT declined 13.3% to €21.8m despite broadly flat financial expenses, largely due to a 32% decrease in income from associates to €32.4m (associates that form the majority of concession operations are reported in AVAX's accounts at the pre-tax level). Continuing net income declined by 21.8% to €15.0m, partially attributable to a €1m increase in tax to €6.7m. It is also worth noting that the FY22 €12.9m net income included a €9.4m extraordinary capital gain from the sale of the company's stake in the Rio Bridge concession, somewhat masking underlying growth in FY23.

Exhibit 1: Summary of results (continuing operations)

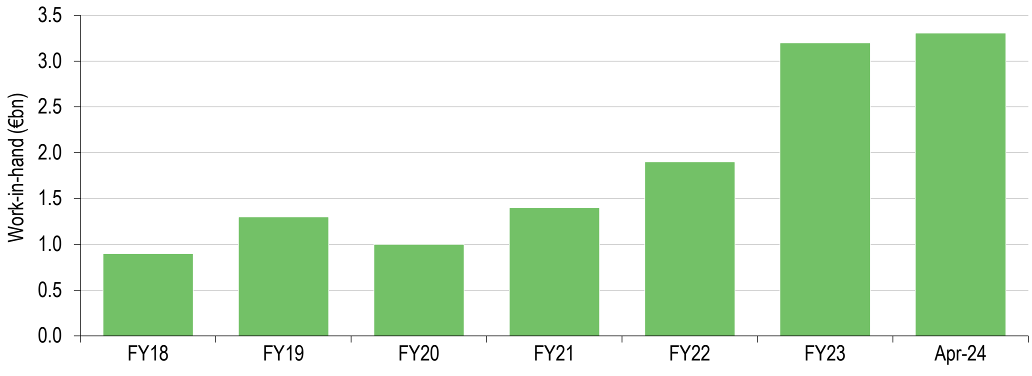
€m	FY21	FY22	FY23	% change
Group revenue	**592.2**	**402.7**	**453.5**	***12.6%***
Gross profit	**31.6**	**20.9**	**36.8**	***76.2%***
Gross margin	*5.3%*	*5.2%*	*8.1%*	-
Adjusted EBITDA	**51.0**	**58.2**	**61.1**	***4.9%***
Group adjusted EBITDA margin	*8.6%*	*14.5%*	*13.5%*	-
EBIT	**38.0**	**45.8**	**42.6**	***(7.1%)***
EBIT margin	*6.4%*	*11.4%*	*9.4%*	-
Profit before tax	**15.7**	**25.1**	**21.8**	***(13.3%)***
Net income	17.6	19.2	15.0	*(21.8%)*
Basic normalised EPS (€)	**0.12**	**0.13**	**0.10**	***(21.9%)***
Net cash/(debt) excluding lease liabilities	(328.3)	(220.4)	(182.5)	*(17.2%)*

Source: AVAX accounts, Edison Investment Research. Note: EBIT, PBT, net income and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Continuing operating cash flow in FY23 remained positive, increasing substantially from €13.1m to €61.3m, primarily driven by favourable working capital movements, shifting from a €7.3m outflow to a €45.2m inflow. The balance sheet continues to be strengthened y-o-y, with net debt (pre IFRS 16) reduced from €220.4m at end FY22 to €182.5m; this yields a leverage ratio of 3.0x, substantially healthier than the 6.4x at end-FY21. The sale of non-core assets and increasing income from concession dividend streams have been key factors in the debt reduction.

As of April 2024, AVAX had record work-in-hand worth €3.3bn (€0.24bn awaiting signature), significantly higher than pre-2023 levels, with much of it due to a resurgence of activity in the domestic construction market in Greece. Private projects and public-private partnerships make up 54% of the backlog. This strongly affirms AVAX's expertise in the Greek construction industry with a recovering market aided by the Greece 2.0 National Recovery and Resilience Plan, which should stimulate Greek economic growth to 2026.

Exhibit 2: Work-in-hand (€m) progression



Source: AVAX

Maintained expectations of growth despite 2024 forecast downgrade

We have downgraded our 2024 forecasts (Exhibit 3) due to the continuation of construction project delays visible in FY24 so far, albeit at a much lower level than experienced in FY23. Nevertheless, with a record order backlog of €3.3bn and project execution projected at c €680m for 2024, we still anticipate a surge in profits for the year, forecasting continuing, normalised PBT and EPS growth of 109% and 117% y-o-y to €45.5m and €0.23, respectively. With the stronger cash generation, we anticipate the continuing deleveraging of the company to a healthy net debt level (pre IFRS 16) of €170.4m at end FY24, implying a leverage ratio of 2.0x.

Our FY25 forecasts remain broadly unchanged. Our 2025 normalised PBT forecast of €63.3m is 11.8% lower than previously estimated due to higher anticipated net finance costs from an increased debt assumption, implying 39.1% y-o-y growth. An increase in assumed tax rate from 25% previously to 30%, in line with the FY23 effective tax rate, contributes to lower FY25 forecast EPS of €0.31/share (€0.38/share previously), which still suggests substantial y-o-y growth.

Exhibit 3: Forecast revisions

	2023	2024e			2025e		
€m		Old	New	% change	Old	New	% change
Revenue	453.5	850.9	733.7	-13.8%	837.6	834.9	-0.3%
Y-o-y % change	-	87.6%	61.8%	-	-1.6%	13.8%	-
Adjusted EBITDA	61.1	90.0	86.1	-4.3%	100.0	104.5	4.5%
Y-o-y % change	-	47.3%	41.0%	-	11.1%	21.3%	-
Normalised operating profit	42.6	74.0	64.8	-12.5%	82.7	81.2	-1.8%
Y-o-y % change	-	73.8%	52.1%	-	11.8%	25.4%	-
Normalised PBT	21.8	61.4	45.5	-25.9%	71.7	63.3	-11.8%
Y-o-y % change	-	182.3%	109.2%	-	16.8%	39.1%	-
EPS - (€) Continuing, basic	0.10	0.33	0.23	-29.3%	0.38	0.31	-19.2%
Y-o-y % change	-	207.5%	117.4%	-	18.8%	35.8%	-
DPS (€)	0.03	0.08	0.08	0.0%	0.08	0.08	0.0%
Y-o-y % change	-	166.7%	166.7%	-	0.0%	0.0%	-
Net debt (pre IFRS 16)	182.5	176.8	170.4	-3.6%	130.2	154.9	19.0%
Y-o-y % change	-	-3.1%	-6.6%	-	-26.4%	-9.1%	-

Source: Edison Investment Research

Fair value of €3.0/share implies substantial upside

As AVAX continues to secure new major construction projects at wider margins (with the eventual easing of raw material costs), we expect share price momentum to accelerate. This trajectory should be bolstered by the robust portfolio of concessions, offering long-term cash flow visibility. As mentioned in our previous update note, we value the subsidiaries (mainly consisting of construction projects) using a three-stage tapered discounted cash flow (DCF) with a WACC of 9.4% and a conservative terminal growth rate of 0%. Due to downgrading our forecasts, this now gives us a value of €298.7m (€339.8m previously). We value the majority of AVAX's associates based on FY23 fair value, albeit for the near-expiring Athens Ring Road concession valuation we use dividend share for the remaining concession period (which expires in October 2024), alongside share of equity on liquidation with adjustments. The fair value of participations declined modestly y-o-y overall, yielding a value of associates of €421.3m (previously €433.0m).

Combining both values, we arrive at a fair value of the stock at €3.00/share (€3.19 previously), implying 105% upside to the current share price. We also note that the shares trade at an FY24e P/E discount to peers of 51%. Given the record order book of €3.3bn combined with an improving balance sheet, the discount to foreign and local peers appears unwarranted to us and should narrow in our view.

Exhibit 4: Financial summary

€m	2021	2022	2023	2024e	2025e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT					
Revenue	592.2	402.7	453.5	733.7	834.9
Cost of Sales	(560.6)	(381.8)	(416.8)	(667.7)	(747.3)
Gross Profit	31.6	20.9	36.8	66.0	87.7
EBITDA	51.0	58.2	61.1	86.1	104.5
Operating EBITA (reported)	22.7	39.6	37.9	60.0	76.5
Normalised operating profit (including JVs and sub debt)	38.0	45.8	42.6	64.8	81.2
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0
Exceptionals	(15.7)	(6.5)	(5.1)	(5.1)	(5.1)
Share-based payments	0.0	0.0	0.0	0.0	0.0
Impairment	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0
Reported operating profit (including JVs and sub debt)	22.2	39.3	37.5	59.7	76.2
Net Interest	(22.3)	(20.7)	(20.8)	(19.3)	(17.9)
Joint ventures & associates (post tax)	31.2	47.4	32.4	34.0	34.0
Exceptionals and sub debt/other	5.3	6.6	6.6	8.2	10.2
Profit Before Tax (normalised, continuing)	15.7	25.1	21.8	45.5	63.3
Profit Before Tax (reported, continuing)	(0.0)	18.5	16.687	40.4	58.2
Reported tax	2.0	(5.6)	(6.7)	(12.1)	(17.5)
Profit After Tax (norm)	17.7	19.5	15.1	33.4	45.8
Profit After Tax (reported)	2.0	12.9	10.0	28.3	40.7
Minority interests	(0.1)	(0.2)	(0.1)	(0.3)	(0.3)
Net income (normalised, continuing)	17.6	19.2	15.0	33.1	45.6
Net income (reported, continuing)	1.9	12.7	10.0	28.1	40.5
Discontinued	(14.4)	27.0	0.4	0.0	0.0
Discontinued NCI	(1.5)	(1.6)	(0.0)	0.0	0.0
Reported Group Net Income (continuing and discontinued)	(14.1)	38.1	10.3	28.1	40.5
Basic average number of shares outstanding (m)	144	144	145	146	148
EPS - basic normalised (€)	0.12	0.13	0.10	0.23	0.31
EPS - diluted normalised (€)	0.12	0.13	0.10	0.23	0.31
EPS - basic reported (€)	0.01	0.09	0.07	0.19	0.27
DPS (€)	0.00	0.07	0.03	0.08	0.08
Revenue growth (%)	-	-32.0	12.6	61.8	13.8
Gross Margin (%)	5.3	5.2	8.1	9.0	10.5
EBITDA Margin (%)	8.6	14.5	13.5	11.7	12.5
BALANCE SHEET					
Fixed Assets	487.1	464.3	502.0	491.6	478.3
Intangible Assets	0.6	0.5	0.9	1.1	1.3
Tangible Assets	61.3	53.2	49.1	39.3	27.6
Investments & other	425.2	410.6	451.9	451.2	449.4
Current Assets	709.3	612.2	700.8	736.1	829.5
Stocks	25.8	21.3	31.9	36.7	41.7
Debtors	253.2	270.5	311.9	418.2	501.0
Cash & cash equivalents	114.1	86.6	76.9	66.5	72.2
Other	316.3	233.7	280.1	214.6	214.6
Current Liabilities	647.2	444.8	543.4	585.1	647.0
Creditors	376.2	273.1	398.3	491.6	559.4
Tax and social security	6.9	12.0	14.3	14.3	14.3
Short term borrowings	107.5	78.1	62.4	60.0	60.0
Other	156.6	81.5	68.4	19.2	13.4
Long Term Liabilities	438.9	476.8	499.6	460.1	448.8
Long term borrowings	334.9	228.9	197.0	177.0	167.0
Other long term liabilities	104.0	247.9	302.6	283.1	281.8
Net Assets	110.4	154.9	159.7	182.5	211.9
Minority interests	(14.2)	(0.9)	(1.1)	(1.4)	(1.6)
Shareholders' equity	96.2	154.0	158.6	181.2	210.3
CASH FLOW					
Op Cash Flow before WC and tax	51.5	58.6	61.1	86.1	104.5
Working capital	48.9	(7.3)	45.2	(17.9)	(20.0)
Exceptional & other	(15.7)	(6.5)	(5.1)	(5.1)	(5.1)
Tax	(6.6)	(2.6)	1.2	1.2	1.2
Other	(24.5)	(29.1)	(41.1)	(47.6)	(53.0)
Net operating cash flow	53.5	13.1	61.3	16.8	27.7
Capex	(6.1)	(4.3)	(13.3)	(10.5)	(10.5)
Acquisitions/disposals	28.3	110.1	(2.1)	0.0	0.0
Net interest	(24.2)	(22.0)	(20.4)	(19.3)	(17.9)
Equity financing	0.0	0.0	0.0	0.0	0.0
Dividends	0.0	0.0	(10.1)	(4.3)	(11.5)
Other	39.1	18.8	21.1	26.9	28.0
Net Cash Flow	90.7	115.7	36.6	9.6	15.6
Opening net debt/(cash)	453.8	328.3	220.4	182.5	170.4
FX	0.0	0.0	0.0	0.0	0.0
Other non-cash movements	34.9	(7.9)	1.3	2.5	(0.1)
Closing net debt/(cash)	328.3	220.4	182.5	170.4	154.9

Source: Edison Investment Research

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