

EANS-Adhoc: SW Umwelttechnik third-quarter results show marked recovery

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- * Sharp year-on-year increase in Q3 earnings
- * Q3 EBITDA margin back to normal
- * Restructuring shows positive effects

SW Umwelttechnik a Vienna-listed family firm beat all year-earlier earnings figures in the third quarter, despite a 34% decline in revenue. The EBITDA margin was back to normal at 13%, demonstrating the effectiveness of the action taken to adjust to the current harsh trading environment.

The decline in revenue has eased in the course of the year (Q1: 55%; Q2 44%; Q3: 34%) and earnings have steadily improved. "During the third quarter demand began bottoming out at a low level in our key Hungarian and Romanian markets, both of which have been particularly hard hit by the recession," said SW Umwelttechnik CEO Bernd Wolschner. The restructuring programmes rapidly launched in response to changed market conditions are now showing positive effects. The company has taken tough action to cut fixed costs and strengthened its focus on winning local government business. SW Umwelttechnik has adapted to current conditions, and anticipates further improvements in earnings despite lower revenue.

Third-quarter earnings up

Revenue for the first three quarters was 42.5% down at EUR47.0 million (m) (Q1-Q3 2008: EUR81.7m). Revenue slumped by 55% in Hungary and also fell heavily in Romania; only in Austria was it largely stable. Despite the massive decline in revenue, cumulative EBITDA for the first three quarters was positive by EUR2.0m as a result of the cost reduction programmes (Q1-Q3 2008: EUR7.1m). EBIT for the first nine months of the year was negative by EUR2.5m (Q1-Q3 2008: + EUR2.8m).

Results for the third quarter alone reflect the recent improvement in the company's fortunes. Revenue was down by only 34% year on year at EUR20.2m (Q3 2008: EUR30.5m). Due to the success of recent restructuring measures EBIT jumped to EUR1.1m in the third quarter (Q3 2008: EUR0.4m), and EBITDA advanced to EUR2.6m (Q3 2008: EUR1.9m). A significant feature of quarterly performance was the fact that the EBITDA margin for the period returned to the level recorded in recent years, at 13%. With net finance costs of only EUR0.6m due to reduced interest expense, the Company returned a third-quarter profit on ordinary activities (POA) of EUR0.5m, compared to a loss of EUR1.9m for the like period in 2008.

There was a marked shift in the segmental composition of revenue in favour of the company's Water Conservation sector over the first three quarters, and it accounted for EUR24.4m (Q1-Q3 2008: EUR23.8m) or 52% of the total. The Infrastructure sector was impacted by the plunge in sales to industrial and commercial clients which was especially severe in Hungary but also affected Romania and its revenue contribution slid to EUR15.5m (Q1-Q3 2008: EUR46.4m) or 33% of the total. The anticipated pick-up in municipal environmental investment has taken longer than expected to materialise, especially in Romania, where it has been held back by funding delays. However the Engineering sector's contribution held steady at 15%, although it dropped to EUR7.1m in absolute terms (Q1-Q3 2008: EUR11.5m).

Although sales in Hungary more than halved year on year, to EUR20.7m (Q1-Q3 2008: EUR45.5m), it remained the main market for SW Umwelttechnik, generating 44% (Q1-Q3 2008: 56%) of total revenue. Thanks to the relatively stable trading environment in Austria, this market's revenue contribution rose from 19% to 29%. Romania's revenue share edged up to 21% from 18% in the comparative period. Slovakia made up 2% (Q1-Q3 2008: 4%) and other countries such as Slovenia, Italy and Germany 5% (Q1-Q3 2008: 3%) of overall revenue.

The changed market environment is apparent in the 28% year-on-year fall in order books. Order backlog was EUR31.6m as at 30 September 2009 (end of Q3 2008: EUR44.1m), reflecting the shift between market segments; as expected, this has led to an increase in short-term contracts.

Smaller balance sheet

Non-current assets as at 30 September 2009 were down to EUR70.7m (end of Q3 2008: EUR79.5m) due to exchange rate movements. Current assets shrank from EUR49.4m to EUR35.6m over the period, reflecting improved inventory and receivables management. Total assets were EUR108.7m as at the interim balance sheet date (end of Q3 2008: EUR130.5m).

The main liabilities category is EUR79.0m in borrowings, most of which were taken up to fund the investments made in connection with the expansion programme.

Ensuring that the Company has access to adequate liquidity during the coming year has already been discussed with the lending banks, and they have confirmed that sufficient credit lines will be available. Total liabilities decreased to EUR95.4m as at 30 September 2009 from EUR102.1m a year earlier.

Equity fell to EUR13.3m at the interim balance sheet date from EUR20.5m at year end 2008, and the equity ratio slid from 17.4% to 12.2%. The company plans to include surplus land, valued in accordance with IAS 40, in its balance sheet for 2009. This will increase reported equity by some EUR5m, which would have had the effect of raising the IFRS equity ratio to 16% as at 30 September 2009T.

Recognising the intrinsic value of the non-current assets by applying the exchange rates ruling at 31 December 2007 lifts equity to EUR24.1m, and this would result in an equity ratio of about 20%.

Management is currently evaluating other means of increasing liquidity and strengthening the company's equity base, and is examining the feasibility of another capital increase.

Outlook

It is hard to make reliable predictions about the outlook for SW Umwelttechnik's markets because of wide discrepancies between recent economic forecasts.

Since mid-2009 SW Umwelttechnik's markets have been bottoming out at a low level, as shown by recent order intake. They will gain additional momentum from the implementation of the promised stimulus packages which has been held up in Hungary and Romania. Management therefore expects revenue to remain on its present trajectory and sees earnings continuing to improve in line with the positive trend in the third quarter.

The company's long-term strategy of aiming for top-three positions in the markets it serves and capitalising on the growth opportunities in CSE countries remains in place, and in management's view current trends show that it is working. The EUR60m invested in modern plant and equipment over the past few years means that SW Umwelttechnik is particularly well placed to profit from the anticipated upswing in 2011.

Financial highlights

EUR m	Q3 2009	Q3 2008	Q1-Q3 2009	Q1-Q3 2008
Revenue	20.2	30.5	47.0	81.7
EBITDA	2.6	1.9	2.0	7.1

EBITDA margin	13%	6%	4%	9%
EBIT	1.1	0.4	-2.5	2.8
POA	0.5	-1.9	-5.8	-0.3

Founded in 1910, SW Umwelttechnik remains a family business, though it has been listed on the Vienna Stock Exchange since 1997. The Group is known for its commitment to sustainable enterprise and rapid expansion in Central and Southeastern Europe (CSE). Its innovative environmental products are contributing to infrastructure renewal in CSE.

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