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VALMT.HE - Q3 2017 Valmet Oyj Earnings Call

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PRESENTATION

Calle Loikkanen - *Valmet Oyj - Director of IR*

Ladies and gentlemen, welcome to Valmet's Q3 2017 Results Presentation. My name is Calle Loikkanen and I'm head of Investor Relations.

Valmet's President and CEO Pasi Laine together with Valmet's CFO Kari Saarinen will today walk us through the results and highlights of the quarter and also say a few things about sustainability. And after the presentation, we will, as always, end with a Q&A session.

But without any further introductions, let's start the show. So Pasi, please, the floor is yours.

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

Thank you, Calle. So, nice to be here again. The voice is okay? Okay? Good.

So, the message today is that growth continued in Paper business line and that our profitability improved. So the agenda what I will have and we will have together with Kari today is that first, I go through quarter 3 in brief. Then we have development of business lines. Couple of words about sustainability, as Calle promised. Then Kari will go through financial development. And I will come back to the guidance and short-term market outlook later on. And then we have the question-and-answer session.

So first, summary of quarter 3 in 2017. In our stable business, which means Services and Automation together, our orders received remained at last year's level. Then in capital businesses, our orders received decreased to EUR 397 million. Our net sales increased to EUR 748 million. Our backlog increased to EUR 2.5 billion, roughly. Our profitability improved and comparable EBITA margin was 7.9% and gearing was 3%. And I will go through all these numbers more in detail and Kari will go through some of the numbers more in detail later on.

So the summary of Q3 is here. So orders received was EUR 743 million, which is a good level for us. Net sales was EUR 748 million, which is a good level as well. And comparable EBITA was EUR 59 million, representing 7.9% margin. And this is the highest EBITA margin we have had in Valmet's time. And as you remember, our target is on yearly level to get to the 8%. So we are still in this quarter little bit below the yearly target, but closing -- being closer to that than earlier. And we employ now about 12,200 people.

Then if you look the orders received in this quarter by area, strong business development in China continued. So China was 21% of our order intake. Europe was 47% and North America, 13%. So it's traditionally about 60% and now -- and in this quarter it was like an average. Asia-Pacific 7% and South America 10%.

Then if you look from stable business or capital business point of view, capital business was active into -- in third quarter and it was a little bit more than half of the order intake, and stable business was 47% of the business. So maybe highlight is that Paper was active and China was active on this quarter.

Then if we look the orders received totally, so it was EUR 743 million. Less than a year ago, year ago we had a good quarter. And here you see the same development than this first -- during these first 3 quarters, China has been 17% of order intake. So especially our Paper business has -- and Services business have been developing very well in China this year.

North America, 19%. So North American market has been good for us as well. Europe has been good. And then in relation to earlier years, South America less because the big pulp mill projects are missing from South America, so the 6% is coming mainly from Services and small to medium sized projects. And Asia-Pacific is at the level where it traditionally has been. But all in all, the last four quarters cumulative order intake is somewhere at EUR 3.3 billion level, which is, of course, good for our long-term growth targets.

Then stable business, which we have been developing now over the years, has continued to develop favorably. So the orders received in stable business totaled in a year to EUR 1.598 billion, so almost EUR 1.6 billion. And if I remember correctly, it's about 7% growth in order intake compared to last year.

And there I will come back to the business lines earlier -- later on, but Services was developing favorably and order intake in Automation was little bit lower than last year. But all in all, the trend -- nice trend continued, good development.

Then our backlog was little bit more than EUR 2.5 billion. It's smaller than it was after Q2, so little bit less. But then it increased compared to a year ago situation. About 75% of the backlog is in capital business and 25% in our stable businesses. And because it's the third quarter now, we're not telling that how much of the backlog will be recognized as revenue in 2017. We'll come back to that figure again inquarter with full year results. But in this quarter, we're not publishing that number. But all in all, good backlog gives good workload situation to almost all of the units.

Then couple of words about the business lines themselves. So, first, Services. So our orders received increased compared to last year and net sales remained at previous year's level. So order intake was EUR 284 million and it's about EUR 20 million more than a year ago. And cumulatively we are now EUR 62 million ahead of last year order intake and which corresponds to about 7% order intake growth compared to last year.

And I think it's important that we now had a growth quarter, like you remember after the third quarter there was little bit discussion because our order intake quarter 2 against -- sorry, quarter 2 against quarter 2 was not growing compared to last year. But now we were again in the growth mode.

Net sales hasn't been developing as well, so we are EUR 2 million behind last year. And the reason is that the order intake had a little bit more than in previous years mill type, small projects and Energy small projects. And that -- there the revenue recognition takes longer time from order intake to revenue recognition. And that's the reason why the net sales development is lagging behind the orders received development. But revenue will come out in future, no question about it. But in any case, we are happy that Services continued to have nice growth also on year-on-year basis.

Then Automation, orders received decreased compared to last year and net sales was at last year's level. And here is little bit same phenomenon than with Services last quarter, so order intake was EUR 75 million, total -- total order intake and it was less than a year ago.

And of course, if you multiple that with 4, then you get smaller number than our target is. So it was weak order intake month. But we'll come back to the outlook later on. But I'm not especially worried about the order intake. Quarters are always different and you can never have uniform development in all the quarters.

Net sales is - a little bit behind the last year and it's coming from the recognition of the backlog that it will take little bit time to recognize all the revenue and -- but, we don't see any big issue there either.

And then cumulatively, of course, we can say that order intake has been growing EUR 17 million compared to last year and it's about, again, 6% to 7% growth compared to last year, so we can be happy with that as well.

Then Pulp and Energy, there order intake was only EUR 122 million and earlier quarter was low as well. So altogether, we -- our order intake is now EUR 527 million in 3 quarters. And then that's, of course -- not of course, but it's about EUR 170 million, EUR 165 million less than a year ago. And that tells quite well how the market has been developing, so we come back to the outlook later on.

But we have been saying all the time that pulp market is less active than it has been earlier years. Energy has been good. And now also that market tends to be a little bit -- or is little bit less active than in the beginning of the year. So the negative variation is coming from pulp side.

And here, we have a situation that Energy has had quite good order intake and recovery has -- recovery boilers have had good order intake. And where we have less orders is fiber processing unit and wood and pulp machine unit. And in those ones market hasn't been active and we are living now from small to medium sized projects. And then, of course, in Services side -- from Service and that has caused that order intake is lower now than earlier year. Net sales is still developing well and net sales has been about EUR 670 million in the first three quarters.

Then positive side. Paper -- so now Paper orders are about EUR 830 million in the first three quarters and there is EUR 350 million improvement compared to last year, which is, of course, a lot. And we are very happy with the development in Paper business.

Market activity has been good, but we have been also very successful in winning our share of the market. And market for the total year has been good for Tissue, and Board and Paper. Last quarter less with Tissue and more from Board and Paper. But all in all, market has been very active and we are happy with this development.

When we categorize the market in outlook, we talk about weak, satisfactory and good, but this development, what we have had in Paper, is more than good. So even less would be categorized as good. So we are very happy with the development and activity in our Paper business line. Then -- so that was the short summary of business line development.

Then sustainability. Like you remember, we say already in our strategy statement that Valmet converts renewable resources to sustainable products. And sustainability is cornerstone in our operation and we have paid quite a lot of attention to that and have tried to develop also our own sustainability measures and actions.

And now we can proudly tell that we have been, again, included in Dow Jones Global Sustainability Index and that's the fourth consecutive year in a row. So that's good development. Of course, it was very nice to be included in the Index at the first time, but now we have done it four times a year.

So I want to, of course, thank our organization which has been doing a lot of work on this topic to keep our development at the level that Dow Jones year after year includes us in the global index. And we were also -- our inclusion to the Ethibel Index was also reconfirmed and that's, of course, very positive news for us as well.

We try to work with sustainability so that it's included in our normal management, so we don't have separate management system and must-wins and then separate sustainability agenda. But we try to include the sustainability actions in normal work and then we try to cover as many part of the sustainability with the actions as possible.

So we have development actions with our people, training, but of course, health and safety. We try to develop more and more solutions which help our customers to have more sustainable operations. We are, of course, active with corporate citizenship programs. We develop our sustainable supply chain, like now we have done 39 audits this year to make -- to assure that sustainability actions are also cascaded down in our sustainability chain. And then, of course, we work with health safety and environment.

And these actions we have included in normal management and don't try to have separately sustainability management and the normal management. It is part of the normal management to take care that sustainability issues are taken care of as well. And I think our team has been doing good work here. Proud of that.

So now it's Kari's time to go -- give his traditionally very long presentation of the numbers.

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Okay. Thank you, Pasi, and I hope I meet your expectations. So -- and also good afternoon everybody, ladies and gentlemen, and we go to the financials.

And Valmet's quarter 3 orders, EUR 743 million, that's 6% less than year ago. Our Paper business line increased by over 50%. Services business line also did well, increased 7% in orders during the quarter. Then on the other hand, Pulp and Energy business line reduced more than 50% and then also Automation orders received reduced by 14% during the quarter. Overall, stable business increased by 3%.

Our order backlog, that continued to be strong. This is the third quarter when our order backlog is above EUR 2.5 billion, and third quarter in a row, and that's actually now EUR 330 million more what we had year ago at the order backlog.

And net sales. Net sales for the quarter EUR 748 million, that's 9% increase compared to year ago. Paper business line increased more than 30%, Pulp and Energy, more than 10% and then our Services were flat and Automation reduced. Overall, capital business was high. So the share of the capital business during the quarter was 54% of the total sales.

Comparable EBITA, so what Pasi already said, so we were actually very close to our target range. So the best quarter ever EBITA percent wise, 7.9%, which translates to EUR 59 million. Year ago, we did 7.5%, which was also a good one. So year ago, we also had a good quarter -- quarter 3 with EUR 52 million then.

We booked items affecting comparability worth of around EUR 6 million during the quarter, some business transformation cost and IT, as well as VAT in South Africa. And EBIT that was 6%, this is the same as year ago.

Cash flow for the quarter EUR 78 million, so that was strong, but that was still below what we did year ago. So year ago, we actually had a very good cash flow.

Cumulatively orders received have now increased by 11%. Paper business line almost 80% increase, Services 7% increase. So good increase with Services. Automation, 2% increase and then Pulp and Energy business line has reduced by 24%.

Cumulative net sales now, 4% increase. All this increase actually coming from capital business. And then our EBITA, that's cumulatively now at 6.8%, EUR 150 million. Year ago, we did EUR 140 million or 6.5%.

And cumulative cash flow now, EUR 203 million, so this is good, over last year's EUR 158 million cumulatively. And our gearing, so that's now negative minus 3.3%. So good development with the gearing as well.

And then looking further on our gross profit. So actually our gross margin percent, so that reduced slightly compared to year ago and actually the reason there is that our -- the share of our capital business, as said earlier, it was 54%. A year ago, the share was less than half, so it was 49%. So that's the reason for the reduction of gross profit -- gross margin percent. On the other hand, our absolute gross margin -- so the gross margin in euro, so that increased compared to last year.

And our actions what we are taking to increase the gross margin related to procurement, related to quality and also project management, so those continued.

Then looking at our SG&A. So SG&A are actually typically lowest in quarter 3, and that was also this year. Reason is that we use -- during summer time, we use less external services and also our SG&As were EUR 2 million lower than what they were a year ago during quarter 3.

And here we have the EBITA development. And as said, that we can see that this was the highest EBITA ever. And actually we are very close to our target range between 8% to 10%. But miss that now a little. And we can also see the development that -- the first half profitability tends to be lower than the second half and then also we can see here that last year quarter 4 was lower than quarter 3's profitability.

Our cash flow. So after a bit slow quarter 3, our cash flow now increased to EUR 78 million for the quarter, so that was good. And we can also see that out of the past 5 quarters, we've actually had 4 good quarters with cash flow. Our CapExs, those were EUR 16 million. So taking into account the ERP CapExs worth of around EUR 3.5 million, so this was a normal quarter with the CapExs.

Net working capital, that was minus 10% of rolling 12 months orders received. We think that once it's minus 9%, it's good and now it is minus 10%, so it was slightly better than normal. And here, of course, we need to remember that -- so good development here. But then we also need to remember that this net working capital tends to fluctuate quite a lot based on big payments that we received from the customers.

Net debt, so as said, our gearing was -3.3%. Gearing was EUR -30 million and that's actually good development. So end of quarter 2, our gearing was 4% and net debt EUR 31 million. And then year ago actually, our gearing was 15%, net debt EUR 126 million. So we've had very good development here with our net and gearing. And our gross debt was worth of EUR 262 million. Equity to asset ratio, so that continues to be in a good level with 38%.

And then looking at our return on capital employed, so here we reached our target. So our target between 15% and 20% and with a good profitability what we now did -- so our comparable return on capital employed is now -- was 15%. So we've had good development here with this.

So thank you and back to you, Pasi.

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

Thank you. So then guidance and short-term market outlook, so we keep the same guidance. So Valmet estimates that net sales in 2017 will increase in comparison with 2017 and comparable EBITA in 2017 will increase in comparison with 2016. So no change there.

Then short-term market outlook. In Services, we keep the market outlook as good and it has been so now 3 quarters. In Automation, we keep it as satisfactory and the reason is again the same that we have good activity in Pulp and Paper side, which is one part of our business and then on the Energy and Process side, there is less activity, and that's why the average is satisfactory.

In Pulp, we keep the outlook as weak. Like you see also in our order intake that business -- the order intake has been weak. And in Energy, we drop the outlook from good to satisfactory. Last time we said that most probably market activity will slow down and we kept it as good because we had very good workload. And we still have a good workload, but this less activity continues now and now it's correct to state that the market outlook on Energy is satisfactory.

In Paper and Board, we keep the good level. And there I would like to remind you that the order intake what we have had now is more than good. So don't expect that the order intake continue on very excellent level for long time. So it's good, but now last quarters have been little bit more than good. And the same goes with Tissue. So we have good workload and we still have good market activity, so we keep that on good level. So one grading down, otherwise the market continues like it has been in the beginning of the year.

And as a summary. The stable business order intake stayed at last year's level. Capital business decreased. Like Kari said, more in -- decreased in Pulp and Energy and increased in Paper side. Net sales was EUR 748 million. Backlog is now good. So we have good workload except those couple of units which I mentioned. Profitability was 7.9% and gearing was 3%. So quarter 3 was good for Valmet.

Calle Loikkanen - *Valmet Oyj - Director of IR*

Very good. Thank you, Pasi, for the presentation. Thank you, Kari for the presentation. And now we'll continue with Q&A.

QUESTIONS AND ANSWERS

Calle Loikkanen - *Valmet Oyj - Director of IR*

So let's first start with any questions here in Keilasatama in Espoo and then continue with questions from the lines. So do we have any questions here in Espoo? It seems that we don't have any questions here right now. So let's continue with questions on the line. So operator, please do we have any questions?

Operator

(Operator Instructions) Your first question comes from the line of Manu Rimpelä.

Manu M. Rimpelä - *Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst*

My first question would be on the accounting impact in the quarter. So would you be able to quantify the impact of this IFRS 15 that pushed profits from the first half of the year into later quarters? So what was the impact in Q3 and how do you see that impact in the fourth quarter and next year?

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Well, yes. So, Manu, you are referring to this IFRS 15 change that the revenue recognition first half of the year was a bit slower because of the change in the accounting method for new projects. And actually, we gave an unaudited figure in the end of first half, EUR 50 million at net sales and EUR 7-8 million at profits. And now after quarter 3, so it is very, very difficult to quantify that how much of that net sales came to our books. But it's clear, so that some portion of that we booked as revenue now during quarter 3 and then also we continue also at quarter 4.

Manu M. Rimpelä - *Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst*

Then the second question would be on the very strong Paper order intake that we've seen. So should basically mean that we're going to see a very strong increase in sales in next year. And I think you've said also that the fixed cost base in the Paper business is something like -- it's pretty high. I think it's between 25% and 30% at least. So just very simplistically running the math, so if you get like EUR 200 million, EUR 300 million more sales, you should get probably a drop through of 25%, 30%, which would mean quite significantly more EBITDA in the range of EUR 70 million, EUR 80 million, EUR 90 million. So can you just help me to understand is that the logic you see? And it seems pretty high drop through to me in the Paper business where I think the margins are still very low?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

That was a difficult one. So -- okay. So the market activity has been good and of course, you're calculating correctly that the net sales is lot of less than order intake. Then, of course, later on the net sales will come, and of course, I can't now tell 2018 nor give a comment. But maybe your assumption is correct that the net sales will increase next year. But that's your comment, it's not my comment. Then about the profitability and about the cost base, I'm not 100% sure if I remember correctly but the capacity cost against last year's net sales was somewhere around 45%. And then, of course, if our net sales goes up then, of course, the capacity cost against net sales will go down. And, of course, if you sell with certain margin, then you will have increased profitability. But, of course, I can't comment to the figures what you said and how you calculated it. Thinking is to correct direction, but about the numbers I can't, of course, say anything. Is that Kari roughly correct?

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Yeah, I think it is so. Yes.

Manu M. Rimpelä - *Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst*

And then final question on the Q4 margin last year for the group, I think you included a write-down in the Pulp business. So if you strip that out, the margin was more than 9%. So is there any reason why we should see why the margin would go up in the Q4 this year given that you're going to have a higher top line and you made a reference to the margin including that write-down, but I imagine that there will be no write-downs planned for Q4?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

Again difficult question. But quite often, when we have in Q4 actually -- or in many years, Q3 has been the highest in profitability -- in EBITA percentage. So don't overexpect now.

Manu M. Rimpelä - *Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst*

Sorry. Can you confirm that you said that Q3 has been higher in EBITA margins than Q4?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

Like last year it was higher, okay then in '14 it was the other way around. But don't overexpect now.

Manu M. Rimpelä - *Nordea Markets, Research Division - Head of Equity Research of Finland & Senior Analyst*

But why should we -- if there was a EUR 20 million or so write-down in Q4 last year, then you get to 9.3% margin. So what was special in that quarter, excluding that write-down then?

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Well, Manu, the write-down was not EUR 20 million. So another thing is that that you, of course, need to remember that each quarter is a kind of specific one. And typically, we have it that way that the first half is better than or lower than second half with the profitability and -- but we are still in the project business. 50% of our business is project business.

Operator

Your next question is from the line of Johan Eliason.

Johan Eliason - *Kepler Cheuvreux, Research Division - Analyst*

It's Johan Eliason from Kepler Cheuvreux here. Just a question. You mentioned -- I mean, obviously, the margins were up year-over-year. But you still mentioned that you want to take further steps to reach your 8% to 10% margin target. Can you give any examples of that? I mean, we heard about this drop through, if volumes increased on the Paper side, this is one thing. But in general, the mix with more equipment would imply a weaker margin mix. So that's not fully consistent. What's your view? Will you need to take any other decisive actions to reach this 8% to 10%? Or is the market helping you just to get there right now?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

So I think we have been saying first of all when we came with target setting 6% to 9%, we were at 2%. And then it took us 3 years to get to 6% -- or 2 years. And then when we raised the target from 6% to 8% or 6% to 9% to 8% to 10%, we said that it's more difficult to get to 8% to 10% than it was to -- from 2% to 6%. And we have said that this profitability improvement has to come from developing the organization and not restructuring. And that's what we have been doing. So we have the programs ongoing. What we have tried, of course, push the prices up. Of course, we have competition and customers, so sometimes we succeed, sometimes not. Then we develop our -- the cost of our product offering. We develop our procurement. We develop our product management and also quality. And we continue to develop those ones and we believe that by working with these matters decisively, we will improve our profitability. And the profitability target between 8% to 10% is thought in that way that it's not depending on cycle. So we have to do it in high cycle and then normal low cycle as well. But we continue with the work what have been doing up to now and believe that that will improve the profitability.

Johan Eliason - *Kepler Cheuvreux, Research Division - Analyst*

And would you say that pricing right now is supportive of this target or how did it look like in the last quarter?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

Competition is normal. So in Pulp side, we have the same company competing with us as earlier and Paper side we have also good company competing with us. So every time we have to prove our competitiveness in capital cases, I haven't seen there any big improvement in prices.

Johan Eliason - *Kepler Cheuvreux, Research Division - Analyst*

So you alluded to that it seems that you're taking more than your fair share of the market development in Paper. But that was basically then on flat pricing if I understand you correctly?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

I said that the competition is the same to be precise. Then -- so we have been taking our share. But the share has been bigger already starting maybe from 2014. So we have been leading the market in paper and board machines and tissue machines. And according our statistics, the same situation has continued.

Johan Eliason - *Kepler Cheuvreux, Research Division - Analyst*

And then the final question, I'm seeing that pulp prices are moving up. It seems like there's been a lot of closures that have been above expectations there. You still have the outlook for pulp at weak. When do you think it's time to expect better pulp equipment market?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

I think you are exactly right. So pulp prices have been holding very well even if almost all the new capacity is now online. And of course, I can't talk on behalf of our customers. But I'm sure that some of them start to think about possibilities to make new investments. But traditionally -- or it goes so that those are so big investments that customers will inform the investors and thereafter the negotiations will come. And we haven't seen up to now any investment decision from our customers. So from investment decision to decision to buy from somebody, it takes 1 month to 6 months.

Operator

Your next question is from the line of Antti Suttelin.

Antti Suttelin - *Danske Bank Markets Equity Research - Head of Research of Finland*

I would like to come back to the Q4 margin discussion because I find this a strange comment from you. Should this mean that you have a project problem in some of the cases you are running or is this attributable to potentially the low order book in Pulp which is starting to hit profitability in Q4?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

I think I said what I said already and there's not too much to add to it. So.

Antti Suttelin - *Danske Bank Markets Equity Research - Head of Research of Finland*

But is it a cost overrun issue or is it just that your backlog is getting so low that it's -- you're running at that low profit levels?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

I said what I said, and I maybe I don't have now more to add to it, so.

Antti Suttelin - *Danske Bank Markets Equity Research - Head of Research of Finland*

And what about Pulp line order outlook situation? I know that you kept the outlook on a weak level. But is there any indication that potentially 2018 might start to look better for big Pulp projects?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

A little bit repetition what I said to Johan -- so we haven't seen yet any big companies announcing projects. Of course, there's always speculation about the projects, but none of the big companies have made investment decision. And once they make it, they are so big decisions that they will make it-- then public and we all know them at the same time. And then, of course, thereafter it takes some months. But I don't know about 2018, but in the long -- if we take little bit longer view, then I'm sure that the pulp market comes back. So if you just take the things what you see now that pulp prices are high, our board machine market, paper machine market, the tissue machine market have been good. So we have been selling quite many tissue machines. Big part of the tissue machines are running on -- or maybe all are running with virgin fiber. So, of course, this means that sooner or later, somebody makes the decision to invest to more capacity. And I think it goes quite well like we have been saying that -- when the paper machine and tissue machine side is active, then soon there will be also demand for new pulp mills.

Antti Suttelin - *Danske Bank Markets Equity Research - Head of Research of Finland*

And finally, do you think that this strength in your Paper business is an industry feature at the moment or is it that Valmet is clearly gaining market share?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

Our friends in Germany have been successful as well. We have been little bit more successful. But market is active and so we have gained our leading -- or we have kept our leading position. But our friends have also good workload according our understanding in their units.

Operator

Your next question is from the line of Tom Skogman.

Tom Skogman - *Carnegie - Head of Research, Helsinki*

This is Tom. Sorry for going back to this theme. But please once again repeat what you really mean about the Q4 2016 margin. And then about the write-down last year, was that -- this EUR 9 million new item that you booked or was it included in the adjusted EBITA or comparable EBITA last year.

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

If you try to answer now, Kari. I have tried now twice and failed.

Kari Juhani Saarinen - *Valmet Oyj - CFO*

We had a write down of one project quarter 4 last year and after that write down the margin was at 7.4% then at quarter 4 -- sorry, 7.2% quarter 4. And what we've been saying here that even though we had now a good quarter, quarter 3, so typically first half is lower, second half of the year is better. And -- but then like giving really like binding - - or mixed statements now that what would be our profitability in quarter 4. So we need to understand that 50% of the business is project business and then 50% of the business is stable business, and the projects -- or the margins at the various projects also they are not the same.

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

So currently we don't have any dramatic issues, if you are afraid of that. But don't want you to get too excited.

Tom Skogman - *Carnegie - Head of Research, Helsinki*

And then about the balance sheet. You are now going into net cash and you still have one more quarter to work this year. I don't really see any purpose of Valmet having net cash. So I guess you have a few alternatives, one is to acquire something within your own industry, another is to acquire something in another industry or then it is to distribute money through dividends or buyback to the shareholders. I mean, you had a gearing of -- was it around 20% when you acquired PAS from Metso and I don't really see any point in going into net cash. I mean, when will you inform us about what you will do with the balance sheet? Or do you want to build a net cash position covering one year's EBITDA? Or what do you see is needed to run this company?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

First of all, when we acquired Automation, we had minus 20% gearing and not plus 20%. Then it went up to 30%, so 50 points up. And now we have digesting it and we are at minus 3%. And then like Kari is showing always the order intake to networking capital graph, so if you have -- and it is about 9% to 10% as an average, net working capital against the order intake. And now order intake is very high, which means that we have actually a quite good position in net working capital because of that order intake. So we can't think at all the money what we have belongs to us. So the fact is that customers are giving us money for us to buy good for them. So big part of the money what we have is not our money. And then of course, it's not optimum to have too strong balance sheet. But I think in our type of business we have to have strong balance sheet. We have be a company to whom customers trust big projects and pay also advances. So we can't take any risk on that. And then, of course, our Board of Directors is thinking about dividend and we have our dividend policy and we come back to that discussion after quarter 4 again.

Tom Skogman - *Carnegie - Head of Research, Helsinki*

And then what is your definition of capacity cost? Is that kind of all cost apart from SG&A cost? And if that is the case, is the SG&A cost, as a share sales, higher in equipment or in service?

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

It's all the costs and we have given the numbers in our Capital Markets Days and maybe also after the -- after Q4. So you can get the latest data from there. And actually, there is not too much change in capacity cost in a year. So to capacity cost we calculate all the costs, so SG&A and also the cost which are above gross profit. And Kari can...¦

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Yes, except the raw materials and...

Pasi Kalevi Laine - *Valmet Oyj - President & CEO*

Yes, but all our own costs.

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Yes, All our own costs and that's -- also Tom that is part of the road show materials as well.

Operator

Your next question is from the line of Sven Weier.

Sven Weier - *UBS Investment Bank, Research Division - Executive Director and Analyst*

Just one question on your Service business where you have been having quite strong order intake growth for the last couple of quarters. But the Service sales revenue development was relatively weak so far in the first 3 quarters and I understand there is a timing issue between the duration of these contracts maybe. But when do you start to expect that gap to close and that we see also the sales line picking up more strongly?

Kari Juhani Saarinen - *Valmet Oyj - CFO*

Yes, Sven -- so cumulatively plus 7% orders received at Services and same also quarter 3, plus 7%. And then if we look at the net sales, so it's been flat this year. And here we are seeing that this is sitting in our order backlog and big piece of the orders are coming from energy services as well as mill maintenance or mill contracts and smaller projects and the revenue recognition of those is a bit shorter than at some other businesses at Services. So it will come.

Operator

(Operator Instructions)

Calle Loikkanen - *Valmet Oyj - Director of IR*

Okay, operator, do we have any more questions on the lines?

Operator

There are no further questions. Please continue.

Calle Loikkanen - *Valmet Oyj - Director of IR*

Okay. Thank you very much. This then concludes the event for today. Thank you very much for participating and thank you for the questions and the answers. And I wish you a really good rest of the day and hope to see you at the Q4 results in early February. Thank you.
