EDISON

Scale research report - Update

Helma Eigenheimbau

Real estate

15 April 2019

Delivering on its strategy

Helma Eigenheimbau reported a record high pre-tax profit at €21.1m in FY18, up 10.6% y-o-y and in line with management expectations. Reconfirmed management guidance indicates further growth to €23.5–26.0m in FY19. This is underpinned by the strong order intake (up by 13.5% y-o-y to €278.6m at end-2018) and land bank expansion (current revenue potential at c €1.4bn vs €1.2bn at end-June 2018). We draw particular attention to the solid new orders in the higher-margin property development segment, which should facilitate Helma's high profitability.

FY18 results: Improved margins drive EBT growth

Helma reported a 5.3% y-o-y decrease in revenue, which amounted to €253.3m in FY18. However, thanks to improved margins (which stood at 9.0% vs 8.3% in FY17 at the adjusted EBIT level), Helma was able to increase its adjusted EBIT and reported PBT by 3.4% and 10.6% y-o-y, respectively. This is in line with Helma's approach introduced in early 2018 to focus on margins at the expense of sales growth. However, the margin uplift (as well as the top-line decline) was largely attributable to H118. Helma's equity ratio improved slightly to 28.6% compared to 28.0% at end-2017.

Housing demand continues to outpace supply

Demographic and macroeconomic conditions continue to exert upward pressure on the German residential market, increasing the gap between housing demand and new residential completions (despite the latter having improved to 245,000 in 2018 from 188,000 in 2013). This trend may not be reversed quickly, as building land is becoming more scarce and spare capacity in the construction sector has been largely exhausted. The government is taking steps to ease the situation (including subsidising residential real estate), but potential bottlenecks may persist in the near future.

Valuation: Offering a dividend yield at 3.6%

Helma's shares are trading at a 14.1% and 23.9% discount to peer group on P/E ratios for FY19e and FY20e, respectively. At the same time, they trade at a slight premium on EV/EBITDA basis, which we believe reflects Helma's relatively high leverage vs peers. Management proposed a dividend payment of €1.30 per share from the FY18 earnings, translating into a dividend yield of c 3.6%.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	267.4	19.1	3.25	1.40	11.4	3.8
12/18	253.3	21.2	3.62	1.30	10.2	3.6
12/19e	287.6	25.9	4.12	1.43	9.0	3.9
12/20e	316.4	28.8	4.83	1.70	7.7	4.6

Source: Helma accounts, Refinitiv consensus as at 9 April 2019.

Price	**€37.1**
Market cap	**€148m**

Share price graph

Share details

Code	H5EX
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Last reported net debt as at 31 December 2018	€159m

Business description

Helma Eigenheimbau provides development, planning, sales, finance advisory and construction services for turnkey, low-rise domestic properties. It uses solid construction techniques, usually block and render. It operates in the surroundings of major cities such as Berlin, Dusseldorf, Dresden, Frankfurt, Hamburg, Hanover and Leipzig, as well as selected holiday locations.

Bull

- Supply shortage in the German residential market.
- Strong track record.
- Integrated services suited to customer needs.

Bear

- Bottlenecks in the German residential market.
- Cyclical market.
- Increasing construction costs.

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Edison profile page

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Financials: Improved margins on lower sales volume

Helma Eigenheimbau reported a record-high pre-tax profit in FY18 amounting to €21.2m (following a 10.6% y-o-y increase), which was in line with management guidance of €21.0–22.5m. This includes the impact from disposal of capitalised interest expenses (which is included in inventories during the construction phase) amounting to €1.1m compared with €1.9m in FY17. When adjusted for this, Helma's EBIT reached €22.9m (FY17: €22.1m), representing an operating margin of c 9.0%, which is 0.7pp above the previous year's figure. In parallel with an increase in operational margin, Helma recorded a 5.3% y-o-y decrease in revenues to €253.3m in FY18. This trend confirms the company's shift in strategy towards more profitable projects, driven by limited capacity resulting from bottlenecks in the German construction market. In line with the seasonal pattern, Helma's performance was skewed towards the second half of the year, as H218 sales reached €156.7m compared with €96.6m in H118. The y-o-y decrease in revenues was mostly driven by the H118 figures (a decline of 12.2% y-o-y). H218 sales were broadly stable vs H217, recording a less than 0.5% decrease. Similarly, the EBIT margin improvement was largely attributable to H118 results with a 205bp margin increase in the period (H218 margin was marginally down by 22bp to 9.7%). However, we believe that this is not an indication of any change in underlying trends and is exclusively related to project timing. It is worth noting that the stronger pre-tax profit increase in comparison to EBIT momentum was assisted by both lower recognized disposal of capital interest and net financial expense.

Exhibit 1: Financial highlights

€000s	FY18	FY17	Change y-o-y (%)
Revenue	**253,276**	**267,418**	**-5.3%**
EBITDA	23,776	22,529	5.5%
Adjusted EBITDA	24,883	24,433	1.8%
Operating earnings (EBIT)	21,784	20,232	7.7%
Adjusted operating earnings (EBIT)*	22,891	22,136	3.4%
Adjusted EBIT margin	*9.0%*	*8.3%*	*70bp*
Earnings before taxes (EBT)	**21,153**	**19,130**	**10.6%**
Net income after minority interests	14,487	12,993	11.5%
Cash earnings	14,983	17,965	-16.6%
Earnings per share (€)	**3.62**	**3.25**	**11.4%**
Dividend per share (€)	1.30	1.40	-7.1%
Property, plant and equipment	19,065	16,621	14.7%
Inventories including land	220,152	199,891	10.1%
Cash and cash equivalents	16,328	16,656	-2.0%
Equity	97,716	88,829	10.0%
Net debt	159,312	149,236	6.8%
Total assets	341,440	317,653	7.5%
Equity ratio	28.6	28.0	2.1%

Source: Helma Eigenheimbau, Edison Investment Research. Note: *Adjusted for the disposal of capitalised interest.

The aforementioned top-line reduction in FY18 was driven by the property development business segment (including Helma Wohnungsbau and Helma Ferienimmobilien), which made up almost 66% of total sales. FY18 revenues stood at €122.6m in Helma Wohnungsbau (down 8.0% y-o-y) and €44.0m in Helma Ferienimmobilien (8.6% below FY17). Meanwhile, the building services business (represented by Helma Eigenheimbau) recorded a minor 0.6% sales increase in FY18 following a 7.4% y-o-y fall in the previous year.

The outlook for both business segments is encouraging, as the new order intake at group level rose considerably by 13.5% y-o-y to €278.6m. Interestingly, this was driven by both building services (up 13.0%) and property development (up 13.8%). In the latter, Helma Wohnungsbau posted a 33.6% y-o-y increase in new orders, assisted by the launch of several new projects of individually planned detached houses. This was only partially offset by the lower order intake in Helma Ferienimmobilien (down 24.2% y-o-y). Importantly, the growth in new orders was not driven by any particular large project, but represents more balanced progress across different projects. In FY19, the company expects further growth in property development by Helma Wohnungsbau and Helma Ferienimmobilien, which is expected to assist the company in reaching its PBT guidance at €23.5–26.0m (which remained unchanged from the guidance published in the FY17 report). This is supported by Helma's extensive land bank, which represented a revenue potential of nearly €1.4bn at end-December 2018 vs €1.2bn at end-December 2017.

Favourable economic environment stimulates growth

In the German real estate market, high demand combined with supply shortages drives up rents in the residential sector. Strong demographic expansion increases the gap between housing demand and supply, despite the number of completions improving on a yearly basis (from 188,000 in 2013 to 245,000 in 2018). Moreover, the divergence between residential projects approved and the actual number of dwellings completed is still widening. There is no indication of conditions easing in the upcoming months as building land is becoming more scarce and capacity in the construction sector has been largely exhausted. As a result, social discontent is growing, leading to protests against housing policies becoming more frequent and intense. According to DZ Bank, the key issues include too little land being designated as building land, the long-winded planning permission process, speculation involving building plots and limited spare capacity in the construction sector. As a consequence, approvals for residential buildings in Germany increased by just 1.3% between January and November 2018. However, from Helma's perspective, it is important to note that this was driven exclusively by multi-family housing (+4.5% y-o-y), whereas approvals for detached and semi-detached houses declined by 1.4% y-o-y.

Helma's operations are concentrated in the surrounding areas of major cities such as Berlin, Dusseldorf, Dresden, Frankfurt, Hamburg, Hanover and Leipzig, which is especially beneficial, as the largest real estate price increases have been observed in the peripheral and therefore cheaper locations (according to JLL). In Berlin, for example, this improvement exceeded 20% in 2018. As Frankfurt is strengthening its position as one of the most important European financial centres, the local labour market has grown rapidly, increasing demand for affordable (ie reasonably priced) housing. This need has been recognised in the introduction by local authorities of the Building Land Development Programme, which involves reclassification of agricultural land and commercial areas to stimulate new housing developments. The designation and provision of building land for affordable housing will be given the highest priority, with government plans to subsidise up to 30% of property value in the social housing segment.

Reduced dividend payout

Despite reporting record-high earnings per share in FY18 at €3.62, management proposed a dividend payment of €1.30 per share compared with €1.40 paid out of FY17 earnings. It is the first time since Helma started paying dividends in 2011 that it has opted for a reduction of the payout per share. According to management, this was aimed at enhancing Helma's equity ratio, which had already improved slightly to 28.6% at end-2018 vs 28.0% at end-2017. This is well ahead of Helma's debt covenants, which require it to keep an equity level of at least €21m and an equity ratio of at least 15%. However, we acknowledge that the current equity ratio is still below some of Helma's closest peers, as shown in Exhibit 2.

Exhibit 2: Equity ratio comparison

Helma Eigenheimbau	**28.6%**
Bonava	34.9%
Instone Real Estate	36.0%
Consus Real Estate*	38.3%
Taylor Wimpey	61.4%
Barratt Developments**	67.6%

Source: Company accounts, Edison Investment Research. Note: Based on FY18 data with the exception of *Q318 data; **half-year report data (6 February 2019) for a company with a shifted reporting period.

Having said that, we believe that the key reason behind proposal for a lower dividend payment is a debt covenant capping the dividend payout ratio at 50%. The proposed payment represents a payout ratio of c 36% when calculated based on consolidated IFRS figures. However, the covenant refers to the ratio calculated on the standalone HGB earnings of the parent company (Helma Eigenheimbau), which stand at slightly below 50% based on the recent dividend proposal. This is because the parent company's earnings fell to €10.7m in FY18 from €16.3m in FY17. Nevertheless, it must be noted that the distribution is also aligned with Helma's dividend policy, which assumes a payout ratio of 25–50%.

Valuation: Trading at discount to peers on P/E basis

For the purpose of Helma's comparable valuation, we have included two domestic residential developers (Instone and Consus), as well as three European peers (Bonava, Taylor Wimpey and Barratt Developments). The data suggest Helma's valuation is below the peer group on P/E ratios for FY19e and FY20e, although we have excluded Consus Real Estate from the FY19e average, as according to Refinitiv consensus the FY19 EPS is expected to remain at a marginally positive level. As a result of relatively high leverage, the valuation based on EV/EBITDA suggests a slight premium to peers – 3.6% on 2019e figures and 9.9% in 2020e. We have also shown the dividend yield comparison, but the average is distorted by very high yields in the UK (compared with market levels) and the fact that neither Instone nor Consus is expected to pay dividends in the analysed period. Helma's management proposed a dividend payment of €1.30 per share from the FY18 earnings, translating into a dividend yield of c 3.6%.

Exhibit 3: Peer group comparison

	Market cap	PE (x)		EV/EBITDA (x)		Dividend yield (%)	
	(m)	2019e	2020e	2019e	2020e	2019e	2020e
Bonava	13,274.85	11.3	10.5	11.1	10.7	4.2	4.3
Instone real estate	782.86	12.1	9.6	10.2	8.1	N/A	N/A
Consus Real Estate	854.85	n/a	12.0	17.8	12.7	N/A	N/A
Taylor Wimpey	6,038.27	9.0	8.8	6.3	6.2	9.0	9.7
Barratt Developments	6,273.91	8.9	8.8	6.1	6.0	7.1	7.1
Peer group average		**10.3**	**9.9**	**10.3**	**8.7**	**6.8**	**7.0**
Helma Eigenheimbau	146.00	8.9	7.6	10.7	9.6	3.6	4.0
Premium/(discount) to peer group		**(14.1%)**	**(23.9%)**	**3.6%**	**9.9%**	**(321bp)**	**(311bp)**

Source: Refinitiv consensus as at 9 April 2019

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