

Helma Eigenheimbau

Real estate

29 August 2019

Solid growth in new orders

In H119, Helma Eigenheimbau returned to gradual revenue growth, in line with the longer-term trend established since its formation. Consequently, management targets annual sales above €300m in the medium term. Further top-line growth should be driven by Helma's solid order book (€197.4m at end-June 2019 vs €171.3m at end-2018). The expansion of Helma Wohnungsbau's operations, which realise higher-margin projects, should assist the company's overall profitability. Helma reiterated its pre-tax profit guidance for FY19 of €23.5–26.0m, which implies c 13.5% y-o-y EBT growth in H219 at the lower end of the range.

H119 results: Strong order book drives sales

Helma reported a 14.2% y-o-y increase in revenue to €110.3m in H119, which translated into mid-single digit improvements across all profitability measures. This includes a 6.2% y-o-y increase in EBT to c €7.5m. At the same time, the company reported visible new order intake, amounting to €140.6m in H119 (vs €106.3m in H118). Top-line growth was accompanied by a slight decline in adjusted EBIT margin to 7.7% compared to 8.0% in H118. However, we understand that the first half is seasonally weaker for Helma and that profitability is partially dependent on project timing.

Robust performance in development segment

Healthy revenue growth was driven by a more than 65% y-o-y improvement at Helma Wohnungsbau (a property development business operating in large German cities). Consequently, this business area generated more than half of Helma's overall sales in H119. Revenue from construction services on client-owned properties also increased in the reported period, but to a lesser extent (11.7% y-o-y). On the other hand, the holiday property development segment struggled in H119, reporting a drop in sales of more than 50% y-o-y. According to the company, sales on new projects launched in H219 should help this segment to recover.

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

Helma currently trades at around a 10% discount to peers based on the 2019e P/E multiple, falling to 9% in the following year. FY19e and FY20e EV/EBITDA multiples imply a c 26% and 50% premium, respectively, which could be explained by the relatively high level of leverage. On 10 July 2019, the company paid a dividend of €1.30 per share based on FY18 results, which represents a 3.3% yield.

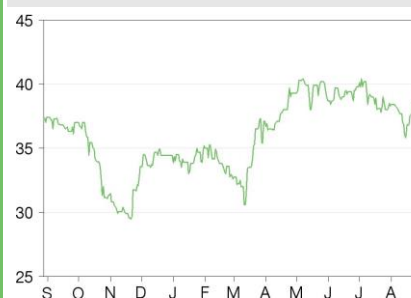
Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	267.4	19.1	3.25	1.40	12.1	3.6
12/18	253.3	21.2	3.62	1.30	10.8	3.3
12/19e	290.0	25.1	4.26	1.56	9.2	4.0
12/20e	318.8	28.2	4.83	1.75	8.1	4.5

Source: Helma accounts, Refinitiv consensus as at 29 August 2019

Price €39.2
Market cap €157m

Share price graph



Share details

Code H5EX
Listing Deutsche Börse Scale
Shares in issue 4.0m
Last reported net debt as at 30 June 2019 €165m

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, Düsseldorf, 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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Financials: Revenue up on still solid margins

In H119, Helma recorded a 14.2% y-o-y increase in revenues to €110.3m, marginally ahead of the record high sales achieved in H117 (€110.1m). Cost of materials and third-party services (Helma's largest cost item) increased at a broadly similar pace (13.0% y-o-y) to €103.2m. As a percentage of total performance (the aggregate of revenue, change in inventories recognized in the P&L and other operating income), these costs stood at c 78.1% in H119 vs 76.5% in H118. Consequently, adjusted EBITDA and EBIT reached €9.6m (up 10.5% y-o-y) and €8.5m (up 9.1% y-o-y), respectively. Both measures exclude the impact from the disposal of capitalised interest expense (included in inventories throughout the construction phase), which in H119 amounted to €0.7m (compared with €0.4m in H118). This adjustment makes EBITDA and EBIT independent of changes in general interest rates and therefore facilitates optimal comparison of the earnings trends. As the net financial result remained broadly stable compared to H118 at -€0.3m, the net result for H119 reached €5.2m, representing 5.6% y-o-y growth. Equally, EPS increased from €1.23 in H118 to €1.29.

Exhibit 1: Income statement highlights

€000s	H119	H118	Change y-o-y (%)
Revenue	110,306	96,596	14.2%
EBITDA	8,944	8,319	7.5%
<i>EBITDA margin</i>	8.1%	8.6%	-50bp
Adjusted EBITDA	9,627	8,714	10.5%
<i>Adjusted EBITDA margin</i>	8.7%	9.0%	-29bp
EBIT	7,789	7,367	5.7%
<i>EBIT margin</i>	7.1%	7.6%	-57bp
Adjusted EBIT*	8,472	7,762	9.1%
<i>Adjusted EBIT margin</i>	7.7%	8.0%	36bp
Earnings before taxes (EBT)	7,479	7,043	6.2%
Net income after minority interests	5,175	4,902	5.6%
<i>Net income margin</i>	4.7%	5.1%	-37bp
Cash earnings**	3,962	3,115	27.2%
Earnings per share	1.29	1.23	5.6%

Source: Helma Eigenheimbau, Edison Investment Research. Note: *Adjusted for the disposal of capitalised interest. **Calculated as operating cash flow before changes in working capital and disposal gains/losses.

Bottlenecks in the German construction market resulted in Helma revising its approach to project realisation, as it decided to focus on improved profitability of the project portfolio at the expense of group sales growth in early 2018. Having said that, it reported a slight decline in margins in H119 (adjusted EBIT margin down by 36bp vs H118) on higher revenues. However, we understand this may be at least partially associated with project timing and the fact that the first half of the year is seasonally slower for Helma. On a last 12 months (LTM) basis, the adjusted EBIT margin was also slightly down in the period ended 30 June 2019 to 8.3% from 8.5% in H118 (LTM ended 30 June 2018), but broadly in line with Helma's 2013–17 average margin of 8.3%.

Key developments in Helma's balance sheet in H119 include a 3.6% increase in net debt to €165.0m, driven by the issue of €11.5m in promissory notes maturing in January 2024 with an interest rate of 2.5% pa. This was partially offset by net redemption of other financial liabilities amounting to €9.2m. Additionally, Helma reported a c 20% ytd decline in cash and cash equivalents. Despite the increase in net debt, Helma's equity ratio was marginally down at 28.5% compared to 28.6% at end-2018.

Exhibit 2: Balance sheet highlights

€000s	H119	FY18	Change (%)
Cash and cash equivalents	13,092	16,328	-19.8%
Equity	102,824	97,716	5.2%
Net debt	164,985	159,312	3.6%
Equity ratio	28.5	28.6	-0.3%

Source: Helma Eigenheimbau, Edison Investment Research.

Property development driving revenues

The German residential real estate market has been shaped by high demand and low supply for many years, with no clear indication of this imbalance easing in the near future. Apart from the lack of general contractor capacity and administrative hurdles, one of the key obstacles faced currently is the scarcity of building land, resulting from insufficient space designated for residential building purposes, among other things. However, we believe Helma may be shielded from the tight market situation given its significant land bank, with reported total revenue potential of €1.4bn as at end-2018 (of which 73% is in Helma Wohnungsbau and 27% in Helma Ferienimmobilien). In H119, this facilitated the company's expansion of its property development business at Helma Wohnungsbau, with a 65.3% y-o-y jump in sales to €56.2m. This segment was the largest contributor to group sales in the period. On the other hand, Helma Ferienimmobilien, also a property development business, but focusing on holiday houses and apartments (mainly on the North Sea and Baltic coasts) reported a sales decline of 52.7% y-o-y to €11.6m. This was a result of a smaller order book at the start of the year (new order intake in FY18 of €39.2m vs €51.8m in FY17). Helma Eigenheimbau AG, which is active in the construction of single-family houses on customers' own land, managed to record a solid revenue increase of 11.7% y-o-y.

Exhibit 3: Revenues by business segment

€000s	H119	H118	Y-o-y	H119 share	H118 share	Change
Helma Eigenheimbau AG	41,960	37,577	11.7%	38.0%	38.9%	(0.9pp)
Helma Wohnungsbau	56,151	33,959	65.3%	50.9%	35.2%	15.7pp
Helma Ferienimmobilien	11,588	24,486	-52.7%	10.5%	25.3%	(14.8pp)
Hausbau Finanz	607	574	5.7%	0.6%	0.6%	0.0pp

Source: Helma Eigenheimbau

Both Helma Wohnungsbau and Helma Eigenheimbau AG recorded an increase in order intake in H119. New orders at Helma Ferienimmobilien fell during the period, but management expects an improvement in the second half of the year, fuelled by forthcoming sales launches of new projects. At group level, the order intake amounted to €140.6m and was significantly up from €106.3m in H118. The company's order book also improved on a y-o-y basis as it reached €197.4m at end-June 2019, compared to €171.3m at end-2018 and €154.8m at end-June 2018.

Exhibit 4: New order intake and order book

€000s	H119	H118	2018	2017
Net new order intake	140,586	106,276	278,576	245,393
<i>y-o-y change</i>	<i>32.3%</i>		<i>13.5%</i>	
Net order book	197,405	154,811	171,282	145,847
<i>y-o-y change</i>	<i>27.5%</i>		<i>17.4%</i>	

Source: Helma Eigenheimbau

Major projects, which are currently being sold by Helma Wohnungsbau and support the segment's order book/revenues, include Havelmarina in Berlin-Spandau, Bosse-See in Garbsen, Am Erdbeerhof in Hannover, Zur alten Mühle in Nauen and Villen Im Prinzenviertel in Berlin-Karlshorst.

Helma still targets annual revenues of more than €300m in the medium term, while maintaining a high level of profitability. Robust results in H119, along with healthy new order intake, encouraged management to reiterate its FY19 guidance for EBT in the range of €23.5–26.0m, initially announced in January 2018. At the lower end, this would constitute an 11% y-o-y rise in FY19, which is similar to the FY18 growth rate. In H119, the company improved its EBT by 6.2% compared to H118. However, we note that results in the second half of the year are normally much stronger. We estimate that Helma needs a c 13.5% y-o-y EBT increase in H219 to meet the lower end of the guidance. No guidance for FY20 has been provided by the management so far.

Valuation

To provide a comparable valuation of Helma, we have included two domestic residential developers (Instone and Consus) and three European peers (Bonava, Taylor Wimpey and Barratt Developments). However, it is worth noting that Consus is expected to generate marginally positive results in 2019, which inflates the multiple of a group. We have therefore decided to use the median of peer results instead of the more commonly used average. Based on Refinitiv consensus, Helma trades at a c 10% discount to peers based on the FY19e P/E multiple, falling to 9% in FY20e. EV/EBITDA multiples for 2019e and 2020e imply a c 26% and 50% premium, respectively. This is associated with the relatively high level of leverage of Helma and its domestic peers.

On 10 July 2019, the company paid a dividend of €1.30 per share based on FY18 results, which represents a 3.3% yield. According to consensus data, dividend payments are expected to increase and thus the prospective dividend yield is higher. However, when comparing the dividend yield with peers, we should note the very high yields of UK peers and the fact that neither Instone nor Consus is likely to pay dividends until at least 2020.

Exhibit 5: Peer group comparison

Company's name	Market cap	EV	P/E (x)		EV/EBITDA (x)		Div yield (%)
	(local CCY m)	(local CCY m)	2019e	2020e	2019e	2020e	2019e
Bonava	SEK11,867	SEK17,512	10.2	9.2	10.3	9.1	4.9
Instone Real Estate	€671	€849	12.2	9.5	9.2	6.9	N/A
Consus Real Estate	€927	€2,992	42.2	7.3	14.9	8.2	N/A
Taylor Wimpey	£4,723	£4,107	7.1	7.0	4.8	4.8	12.7
Barratt Developments	£6,403	£5,611	8.8	8.9	6.2	6.2	7.1
Median			10.2	8.9	9.2	6.9	4.9
Helma Eigenheimbau	€157	€322	9.2	8.1	11.5	10.3	4.0
Premium/(discount to peers)			(9.6%)	(9.1%)	25.7%	50.1%	(91bps)

Source: Refinitiv consensus as at 29 August 2019

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