Scale research report - Update

MPC Capital

Financial services

10 September 2018

Expansion of container ship fleet

Although MPC's legacy retail portfolio is still weighing on its results, the company is making steady progress in shifting its business towards institutional, higher-margin clients (representing 52% of assets under management (AUM) at end June 2018). We also appreciate MPC's expansion of the container ship fleet given this shipping segment now enjoys the most favourable demand/supply outlook. The company's shares are trading at a c 30–40% discount to peers.

H118 results shaped by one-offs and base effects

MPC reported a strong increase in EBIT in H118 to €2.4m from €1.2m in H117, but this was largely driven by one-off effects, including a reversal of receivable write-downs (€4.0m), positive FX effects (€1.4m) and disposal gains (€2.8m). However, there were also negative one-offs influencing the H118 numbers, most notably a loss from the disposal of legacy businesses and costs associated with the share issue in March. We estimate the adjusted EBIT loss in H118 stood at €5.5m versus €0.9m in H117. Moreover, management fee y-o-y dynamics were affected by inflated Q117 figures due to exceptional transaction-related consultancy services.

Positive market trends support business transition

The company is experiencing favourable conditions in both container ships and real estate markets. The demand/supply balance in container ship markets supports growth in time charter rates and translates into a low percentage of spare capacities (c 0.9%). Moreover, the existing order book in the shipping market suggests a slowdown in new supply. Management reaffirmed its earlier guidance and expects revenue in FY18 to rise by at least 10% and pre-tax profit to improve 'disproportionately', which means ahead of top-line growth.

Valuation: Deep discount versus peers

MPC shares are trading at a 27% and 39% discount to the peer group on FY18e P/E and EV/EBITDA multiples, respectively. This may be partially explained by the continued negative impact of legacy business on the company's results. However, the current valuation seems to be quite undemanding, taking into consideration MPC's potential benefits from the ongoing transition towards institutional business and favourable market outlook. The company's market capitalisation represents c 3% of last-reported AUM, compared with 0.5% for Ernst Russ and c 4% for Corestate Capital and Patrizia.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	53.8	15.7	0.33	0.00	14.2	0.0
12/17	47.3	17.4	0.41	0.00	11.4	0.0
12/18e	61.6	19.8	0.43	0.13	10.9	2.8
12/19e	69.6	23.2	0.52	0.26	9.0	5.5

Source: MPC accounts, Bloomberg consensus at 6 September 2018.

Price	€4.69
Market cap	€157m

Share price graph

Share details

Code	MPC
Listing	Deutsche Börse Scale
Shares in issue	33.5m
Last reported net cash at end June 2018	23.0m

Business description

MPC Capital is an independent asset and investment manager for real assets in the shipping, real estate and infrastructure sectors. It initiates, structures, finances and manages real assets, targeted at institutional investors. It is a subsidiary of MPC Group (c 46% shareholding), founded in 1994 and listed in 2000. AUM as at end June 2018 were €5.2bn.

Bull

- Strong demand for real asset investments.
- Increased share of recurring revenues with margin growth potential.
- Scalable operating platform.

Bear

- Strong competition for assets and investors from large incumbents.
- Interest rate rises and/or economic weakness may slow investment in real assets.
- Regulatory risks, particularly legacy products.

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Financials: Influenced by several one-off items

MPC reported an EBIT of €2.4m in H118, which is more than twice as high as H117 earnings. However, this is due to certain one-time effects, including:

- A reversal of receivable write-downs of €4.0m associated with the revitalisation and optimisation of legacy project structures through the on-boarding of new partners and investors – a sign that MPC is able to revive some part of its legacy business.
- Positive FX effects of €1.4m (vs €0.2m in H117).
- A €2.8m gain from the opportunistic sale of a land plot in Lisbon (originally earmarked for student apartments), which generated a three-figure IRR, and the sale of the Blaak16 office building (although this transaction should be considered part of MPC's core operations). The latter project was acquired in 2014 and MPC was able to realise an IRR over 30% upon disposal.

In contrast, other operating expenses contain €0.6m costs related to the capital increase conducted in March 2018. Moreover, some other one-off effects include the €0.9m from a provision reversal (vs €3.3m in H117) and expenses from currency translation differences of €0.6m (H117: €1.5m). After adjusting for all the above factors, the underlying EBIT loss would have been €5.5m in H118 compared with an €0.9m loss in H117. Below the EBIT line, MPC recognised an €0.5m share of loss from associates in H118 (compared with a €1.5m profit in H117) associated with the disposal of part of its legacy business.

Group revenues declined 13.3% y-o-y to €19.7m in H118, affected by lower transaction activity vs H117 (transaction fees were down 28.2% y-o-y to €2.7m), the reduced revenues from MPC's legacy business and a high base effect in Q117 from transaction-related consultancy services (management fees fell by 10.3% y-o-y to €16.8m). However, in Q218 alone management fees increased to €8.7m from €8.1m in Q217. The company posted a 30% y-o-y increase in income from technical and commercial ship management in H118 on the back of expansion of container ships fleet by MPC Container Ships (an investment company where MPC has a 5% stake). At end June 2018, the fleet consisted of 69 vessels with a capacity in the range of 1,000 to 3,000 Twenty-Foot Equivalent (TEU) vs 41 at end 2017. All of these ships were under the commercial management of Contchart and in 42 of them technical management is being executed by Ahrenkiel Steamship (both MPC's subsidiaries). Ahrenkiel and Contchart are also managing 27 and 31 other vessels, respectively. Since its launch in April 2017, MPC Container Ships was able to raise US$675m of fresh capital (including US$225m so far in 2018) through share and bond issues with the proceeds invested in second-hand tonnage.

MPC has also recognised €1.4m of income from equity investments (vs €0.6m in H117) related to the company's co-investment activities. Personnel expenses rose 11.6% y-o-y to €13.4m in H118 on the back of higher headcount in the shipping division. As a result, pre-tax profit improved 10.2% y-o-y to €3.8m in H118, although net income was lower by 27.3% y-o-y as last year's one-off tax refund distorted the comparative figure for H117.

The company's cash position remained unchanged from the end of 2017 at €28.9m, as the placement of 3.0m shares in March 2018 (€16.7m of net proceeds) and the capital increase at fully consolidated project companies and asset disposals was able to cover the new co-investments (amounting to €22.8m) and the negative operating cash flow of €5.1m (vs a negative €16.5m in H117). MPC's key recent co-investments include the 'Bajer Kwartier' housing project in Amsterdam, the MPC Caribbean Clean Energy Fund for renewable energies in the Caribbean and the feeder specialist MPC Container Ships.

Exhibit 1: H118 results highlights

€000's unless otherwise stated	H118	H117	y-o-y change
Management services	16,780	18,697	-10.3%
Transaction services	2,730	3,803	-28.2%
Other	180	206	-12.6%
Revenue	**19,690**	**22,706**	**-13.3%**
Other operating income	9,391	3,972	136.4%
Cost of materials/purchased services	(1,322)	(592)	123.3%
Personnel expenses	(13,434)	(12,038)	11.6%
Depreciation & amortisation	(879)	(893)	-1.6%
Other operating expenses	(11,035)	(11,970)	-7.8%
Operating profit	**2,412**	**1,185**	**103.5%**
Income from equity investments	1,386	633	119.0%
Other interest & similar income	843	252	234.5%
Interest & similar expenses	(329)	(108)	204.6%
Share of profit of associates	(505)	1,494	nm
Pre-tax profit	**3,807**	**3,456**	**10.2%**
Pre-tax margin	*23%*	*15%*	*49%*
Income tax and other taxes	(1,000)	404	nm
Effective tax rate	*26%*	*nm*	*nm*
Consolidated net profit	**2,807**	**3,860**	**-27.3%**

Source: MPC Capital accounts, Edison Investment Research

Successful AUM shift towards institutional clients

During H118, MPC attracted €0.6bn of additional AUM, including a portfolio of predominantly food retail and logistics assets with an effective floor space over 100,000sqm, the vessels acquired by MPC Container Ships, as well as a 21MW wind farm in Costa Rica in June 2018 (acquired jointly with a local partner, ANSA McAL). MPC also opened its first STAYTOO micro-apartment block in Berlin in May 2018 with 154 units. However, the new additions were largely offset by asset disposals, in particular the Blaak16 office building, and some legacy assets in the real estate and shipping segments. As a result, AUM at end June 2018 stood at €5.2bn compared with €5.1bn at end 2017. Importantly, the company is successfully executing the strategy of shifting its investor base from retail to institutional clients and, for the first time, the latter represented more than half of MPC's AUM (52% as at end June 2018 vs 47% at end 2017, mid-term target at 90%). According to MPC, institutional business represents a margin of c 70–120bp compared with legacy retail business of 40–60bp.

Positive outlook for container ships and guidance

The shipping markets benefit from the continuing growth in global trade (4.9% in 2017, with IMF forecast for 2018 and 2019 of 5.1% and 4.7%, respectively) backed by the favourable macro environment (IMF global GDP growth forecast at 3.9% for both 2018 and 2019). Mutual trade tariffs recently introduced by the US, China and Europe have not significantly influenced trade volumes so far, although they pose a risk for the shipping industry. According to Clarkson's data, the outlook remains particularly positive in the segment of container-feeders with a capacity between 1,000 and 5,000 TEU, where demand growth (5.1%) should outstrip supply growth (4.8% after scrapping) in 2018. Moreover, the historically low level of order book (ie global pipeline of new container ships being built), which stands at 13.3% of current supply (as per Ernst Russ), suggests a potential slowdown in container ship supply growth. The time charter rates are increasing across all sectors and only 0.9% of available container capacity (according to Ernst Russ) is unemployed (the lowest rate since February 2015).

MPC's management confirmed its earlier guidance, expecting FY18 revenue growth of at least 10% y-o-y and a 'disproportional' growth in EBT, suggesting a certain degree of operating leverage. This is similar to management's guidance for FY17 – revenue growth of at least 10% and a PBT margin expansion, with the actual results representing an 11% y-o-y underlying sales improvement and relatively stable pre-tax margin. H218 management fees should be assisted by the new ships, which were included in MPC's AUM in H118, but where the revenue from technical and commercial management has not been fully reflected so far. This includes both the fleet expansion at MPC Container Ships and vessels, which were the subject of recent transactions on behalf of third-party investors. Moreover, the management expects a visible rise in transaction activity in H218. The real estate division is also expected to perform well, assisted by the investing activity in H118.

Valuation

We believe that a relevant peer group for MPC should contain local asset managers active in the shipping and/or real estate domain. We have initially selected seven peers, with Ernst Russ and Lloyd Fonds the closest comparators. However, due to the lack of consensus estimates for two (Ernst Russ and publity), we have a list of five peers. MPC is trading at a c 30–40% discount on P/E and EV/EBITDA multiples for FY18e and FY19e, which in our opinion reflects the continued drag from the legacy retail business. Still, the valuation looks relatively undemanding given the potential future benefits of MPC's ongoing transformation towards the institutional business and the good prospects for container ship markets.

Given that MPC's earnings are largely dependent on the size of its AUM, it may be also instructive to examine the market cap/AUM ratios for MPC and its peers based on last reported asset figures. MPC's market cap represents c 3.0% of its AUM, which is ahead of Ernst Russ (0.5%), but below the figures for Corestate Capital and Patrizia (4.0% and 4.1%, respectively).

Exhibit 2: Peer group comparison

	Market cap (€m)	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2018	2019	2018	2019	2018	2019
Lloyd Fonds	50.5	19.0	14.2	10.6	7.8	1.8	2.2
Corestate Capital	886.2	7.6	6.7	9.4	8.5	5.7	6.4
Patrizia	1,607.4	22.2	16.6	14.5	11.3	2.1	2.7
VIB Vermogen	642.6	13.2	12.6	15.1	15.0	2.8	3.0
TLG Immobilien	2,384.6	11.4	15.1	22.7	20.6	3.9	4.2
Peer Average	**-**	**14.7**	**13.0**	**14.5**	**12.6**	**3.2**	**3.7**
MPC Capital	154.6	10.7	8.9	8.8	7.5	2.7	5.5
Discount/premium	**-**	**(27%)**	**(32%)**	**(39%)**	**(41%)**	**(20%)**	**(33%)**

Source: Company accounts, Bloomberg consensus as at 6 September 2018.

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