Scale research report - Update

Helma Eigenheimbau

Home builders

29 August 2018

High-margin projects starting to pay off

Helma's decision to maximise margins at the expense of top-line growth amid the present market constraints seems to be bearing fruit, as illustrated by the solid earnings momentum in H118. Residential demand in Germany remains buoyant against the backdrop of a structural housing shortage. In the longer term, Helma's robust land bank (representing a revenue potential of c €1.2bn according to management) should allow the company to benefit from these fundamentals. Helma's shares trade at a P/E ratio for FY19e of 8.7x, which is a 17% discount to peer average.

H118 pre-tax profit up 23.5% despite lower sales

Helma posted a pre-tax profit of €7.0m in H118, which is 23.5% above H117 levels. The company was able to achieve this despite sales declining 12.2% y-o-y to €96.6m (limited by third-party capacity constraints outlined below), mostly as a result of a higher margin realised on a number of property development projects. The company's order book continued to shrink (€154.8m vs €197.7m at end June 2017) as a result of lower new order intake at Helma Wohnungsbau and a high comparable base in the case of Helma Ferienimmobilien.

Tactical focus on margins remains unchanged

Encouraged by the solid earnings momentum in H118, management maintained its earlier guidance and still expects FY18 pre-tax profit in the range of €21.0–22.5m, implying H218 PBT growth at 4–15% y-o-y. FY19 PBT guidance also remained unchanged at €23.5–26.0m (12–16% growth y-o-y). Although Helma's top line in H218 should be assisted by the sales start of several projects, management continues to focus on generating a high margin rather than strong revenue growth in the current market conditions. Once the supply bottlenecks are resolved, Helma will consider returning to a stronger revenue growth approach.

Valuation: Traded at a discount to revised peer group

Helma's shares trade at a 47% and 2% discount to peers on P/E and EV/EBITDA ratios for FY18e, respectively. In FY19e the P/E discount narrows to 17%, while the shares are traded at a 21% premium on EV/EBITDA ratio. This discrepancy seems to result from Helma's higher financial leverage vs peer average. After muted profit momentum in FY17, the market expects growth to resume in FY18, with EBITDA and EPS up 5% and 15% y-o-y, respectively.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/16	263.8	19.6	3.37	1.10	11.2	2.9
12/17	267.4	19.1	3.25	1.40	11.6	3.7
12/18e	270.5	21.9	3.74	1.57	10.1	4.2
12/19e	299.0	25.5	4.31	1.76	8.7	4.7

Source: Helma accounts, Bloomberg. Note: Estimates at 28 August 2018. Consensus is based on estimates of two brokers only.

Price	€37.7
Market cap	€151m

Share price graph

Share details

Code	H5EX
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Last reported net debt at 30 June 2018	€149.6m

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 mainly in cities in middle and north Germany and in Munich.

Bull

- Growth track record.
- Demand currently favourable.
- Integrated services suited to customer needs.

Bear

- Market is cyclical.
- Development risk is always present.
- Market bottlenecks are limiting revenue growth.

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Edison profile page

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Financials: Higher margins outweigh top-line decline

Helma Eigenheimbau reported a 23.5% y-o-y increase in pre-tax profit to €7.0m in H118, despite recording a revenue decline of 12.2% y-o-y to €96.6m. At the same time, adjusted EBIT amounted to €7.8m, translating into an adjusted EBIT margin of 8.0% (compared to 6.0% in H117). The margin increase was driven by several projects, also within Helma Wohnungsbau. This is in line with the company's revised approach of focusing on high-margin projects at the expense of top-line momentum amid persisting market bottlenecks that limit the company's revenue growth. The latter is also illustrated by the continued decline in Helma's new order intake, which equalled €106.3m in H118 and was down 8.6% y-o-y. New order inflow was again negatively affected by Helma Wohnungsbau. Moreover, Helma Ferienimmobilien (the company's holiday property development business) is the best-performing segment in terms of revenue growth, but experienced a lower order intake against the high comparable base in H117. On the other hand, new orders at Helma Eigenheimbau were slightly up versus last year. As a result, the group's order book at end June 2018 stood at €154.8m vs €197.7m at end June 2017. Importantly, the H118 figure does not include €93.1m of revenue attributable to projects that are already being recognised proportionally under IFRS (H117: €154.6m).

In terms of divisional sales, Helma Wohnungsbau posted a considerable decline of c 40% y-o-y to €34.0m, while Helma Eigenheimbau was broadly flat and Helma Ferienimmobilien continued its strong upward trend, with sales improving by c 60% y-o-y to €24.5m. It is worth noting that as a result of the above, the share of the holiday property development business in group sales has already reached around 25% (vs c 14% in H117). Helma reported H1 EPS of €1.23 compared with €1.00 in the prior year.

Exhibit 1: Helma Eigenheimbau H118 results highlights

€m, unless otherwise stated	H118	H117	Y-o-y change
Revenue	96.6	110.1	-12.2%
Adjusted changes in stocks of finished goods and work in progress*	22.4	12.2	83.2%
Adjusted total output*	119.0	122.3	-2.7%
Other own work capitalised	0.0	0.0	N/M
Other operating income	0.7	0.7	-7.2%
Expense for materials and third-party services	(91.3)	(97.2)	-6.0%
Personnel expense	(11.8)	(10.4)	13.4%
as % of sales	*12.2%*	*9.5%*	*277bp*
Other operating expenses	(7.9)	(7.9)	-0.6%
Adj. EBITDA*	8.7	7.5	15.7%
*adj. EBITDA margin**	*9.0%*	*6.8%*	*218bp*
D&A	(1.0)	(0.9)	1.9%
Adj. EBIT*	7.8	6.6	17.6%
*adj. EBIT margin**	*8.0%*	*6.0%*	*204bp*
Disposal of capitalised interest	(0.4)	(0.5)	-26.0%
Net financial result	(0.3)	(0.4)	-10.0%
EBT	7.0	5.7	23.5%
Income tax	(2.1)	(1.7)	26.3%
effective tax rate	*30.2%*	*29.5%*	*67bp*
Net profit	4.9	4.0	22.3%
Minorities	0.016	0.016	0.0%
Net profit (ex-minorities)	4.9	4.0	22.4%
Net profit margin	*5.1%*	*3.6%*	*144bp*
EPS (€)	1.23	1.00	23.0%
New order intake	106.3	116.3	-8.6%
Order book	154.8	197.7	-21.7%

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

Exhibit 2: Revenue by division

€m	H118	H117	y-o-y change	FY17	FY16	Y-o-y change
Helma Eigenheimbau	37.6	37.7	-0.4%	85.1	91.9	-7.4%
Helma Wohnungsbau	34.0	56.5	-39.9%	133.4	139.4	-4.4%
Helma Ferienimmobilien	24.5	15.3	59.9%	48.1	31.7	52.0%
Hausbau Finanz	0.6	0.5	13.4%	0.9	0.9	-1.6%
Total	96.6	110.1	-12.2%	267.4	263.8	1.4%

Source: Helma Eigenheimbau accounts

The company has also generated positive operating cash flow, which (before working capital changes and gains or losses on asset disposal) reached €3.1m compared with €4.8m in H117, with the decline mostly attributable to higher tax payments. Helma's inventory build-up continues (€222m at end June 2018 vs €200m at end 2017), driven predominantly by the further expansion of the company's land bank. However, as receivables arising from construction orders declined considerably during H118 (upon receiving a final payment associated with a project sale to an institutional client), overall cash flow reached €3.7m (vs €35.2m of net cash outflow in H117). Helma's net debt remained broadly stable vs H117 at €149.6m, translating into an equity ratio of 30.1% (FY17: 28.0%) and a net debt to total assets ratio at 48% (FY17: 47%).

Guidance reaffirmed with continued solid demand

On the back of strong earnings progression in H118, Helma's management confirmed its earlier FY18 pre-tax profit guidance in the range of €21.0–22.5m. This implies an H218 PBT at €14.0–15.5m and earnings growth of c 4–15% y-o-y. This is in line with Helma's normal seasonal pattern, as the company generates the majority of its revenues and earnings in the second half of the year. In H218, this should be assisted by project timing. Furthermore, management expects a significant growth in new order intake across the group in H218 versus H118. It has also reaffirmed its FY19 PBT guidance of €23.5–26.0m, implying c 12–16% growth y-o-y. This is despite the continued bottlenecks related to constrained capacities of approval authorities and a shortage of available qualified architects, specialist planners and general and subcontractors in Germany. These are reflected in the 5.3% y-o-y decline in construction permits for new residential dwellings in 2017. The demand/supply imbalance puts upward pressure on overall investment costs, including a visible increase in land prices. In this context, the company plans to pursue the strategy of focusing on high-margin projects to drive earnings momentum.

Helma's long-term growth should be driven by the considerable shortage in residential dwellings in Germany, resulting from a number of demographic factors on the demand side, to which the supply side has so far been slow to respond. This is largely a function of total construction costs in euros per sqm being ahead of apartment prices for many years in Germany. Although residential building permits grew steadily between 2008 and 2016 from c 150,000 to c 320,000, the Cologne Institute for Economic Research estimates that 385,000 homes would have to be built every year on average through 2020 to meet the demand for new properties. This compares with c 88,000 homes being built annually in top locations currently. The tight demand/supply balance is especially visible in main metropolitan regions with the continued migration to conurbation areas and low unemployment levels. Moreover, growth at Helma Eigenheimbau should be also supported by its emphasis on energy efficiency and its position as one of the leading providers of solar energy-saving homes. This is particularly important given the current trend towards sustainable housing.

Helma is well positioned to benefit from these trends based on its extensive land bank, which has a revenue potential of €1,179m according to management; of this, €859m is attributable to Helma Wohnungsbau and €320m to Helma Ferienimmobilien. Most of this potential may be realised within the next five years. Despite the overall increase in land prices, Helma's management confirmed the company continues to secure attractive land plots thanks to its extensive contact network and solid sourcing team. On top of this, management expects Helma Eigenheimbau to contribute at least

€100m a year to group sales (without the need to use own land plots). Helma Wohnungsbau's funding base was recently expanded through the issue of a promissory note (guaranteed by Helma Eigenheimbau) divided into two fixed-interest tranches: a five-year tranche of €14.5m with a coupon of 2.477% per year and a seven-year tranche of €3.5m (coupon rate at 3.051% per year).

Valuation

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 Development). In comparison to our previous report, we have added Instone Real Estate, which listed this year, and Consus Real Estate following its recent business transformation. This allowed us to remove US peers (Toll Brothers, DR Horton and Pulte Group) and use a purely European peer group. We have shown the dividend yield comparison, but the average is distorted by very high rates of yield in the UK (compared with market levels). The company's recent AGM approved a dividend payment of €1.40 per share from the FY17 earnings, translating into a dividend yield of around 3.7%.

The data suggest Helma's valuation is below the peer group on P/E ratios for FY18e and FY19e, as well as slightly below on EV/EBITDA for FY18e (although this changes into a premium in FY19e). In the latter case, Helma's relatively high leverage results in a higher relative valuation.

Exhibit 3: Peer group comparison

	Market cap	PE (x)		EV/EBITDA (x)		Dividend yield (%)	
	(€m)	2018e	2019e	2018e	2019e	2018e	2019e
Bonava shares	146	10.5	11.6	10.9	11.8	4.4	4.4
Instone Real Estate	877	43.5	13.6	23.5	10.0	0.0	0.0
Consus Real Estate	863	24.4	11.4	12.6	8.4	0.0	0.0
Taylor Wimpey	6,176	7.9	7.8	6.3	6.1	9.0	10.3
Barratt Development	6,157	8.2	7.8	6.3	6.0	8.1	8.1
Peer group average	-	18.9	10.4	11.9	8.5	4.3	4.6
Helma	151	10.1	8.7	11.7	10.2	4.2	4.7
Premium/(discount) to peer group		(47%)	(17%)	(2%)	21%	4	(2)

Source: Bloomberg, priced at 28 August 2018. Note: EPS and EBITDA figures for Barratt Development are calendarised.

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