

MPC Capital

New AUM allows for higher management fees

MPC Capital has been consistently transitioning its assets under management (currently at €4.2bn) away from retail legacy assets to new, higher-margin institutional business, which represented 61% of NAV at end-June 2019 (vs 52% at end-June 2018). This translated into a 6% y-o-y increase in management fees, which has offset the impact of muted transaction activity in H119. Moreover, MPC was able to realize profits from disposals (which represent the majority of investment income in H119) and completed new meaningful co-investments in H119.

H119 profits assisted by equity investments

MPC reported net income of €1.2m in H119, down from €2.8m in H118. The decline is largely due the €4.0m reversal of receivables write-downs recognized last year. H119 earnings were supported by income from equity investments of €5.4m (vs €1.4m in H118) on the back of disposals from the TRANSIT and BMG portfolios (contributing c €4.2m). Other operating income was also assisted by the BMG deal, while last year MPC booked a €2.8m gain on the opportunistic sale of a land plot in Lisbon. Revenue went up by 1.5% y-o-y, with lower transaction fees (-34% y-o-y to €1.8m) offset by higher management fees (up 6% to €17.8m).

Shipping markets muted, real estate remains firm

Conditions in the shipping markets remain uncertain amid the ongoing US-China trade dispute and global economic slowdown. Together with the looming 0.5% sulphur cap on marine fuels imposed by IMO 2020, this encouraged market participants to further increase efficiency and utilise economies of scale. This has driven demand for large (post-panamax) vessels. Despite lower transaction volumes (eg in Germany), real estate markets have remained robust so far this year. The low interest environment continues to support investment demand for real assets.

Valuation: Trading below book value

MPC remains affected by its legacy retail portfolio and volatile price market environment, which may be partially responsible for the substantial share price decline in 2018 and H119. MPC is trading at a visible premium to peers on FY20e P/E and EV/EBITDA ratios (which changes into a discount in FY21e). Its current market cap stands at c 1.4% of its AUM at end-June 2019 and translates into a P/BV ratio of 0.5x.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/17	47.3	17.4	0.41	0.00	4.3	N/A
12/18	42.7	(16.7)	(0.57)	0.00	N/A	N/A
12/19e	44.2	2.5	0.06	0.00	29.7	N/A
12/20e	49.8	6.3	0.10	0.00	17.8	N/A

Source: MPC Capital, Refinitiv consensus as at 4 September 2019. Note: Consensus is based on two analyst estimates (Baader and Warburg).

Financial services

6 September 2019

Price €1.78

Market cap €60m

Share price graph



Share details

Code	MPC
Listing	Deutsche Börse Scale
Shares in issue	33.5m
Last reported net cash at end-June 2019	€13.6m

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 48% shareholding), founded in 1994 and listed in 2000. AUM as at end June 2019 was €4.2bn.

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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H119 results: Higher fees from improved AUM quality

In H119, MPC reported €20.0m in revenue, which was 1.5% higher y-o-y. Transaction fees declined 34% y-o-y to €1.8m, but this was fully offset by a 5.9% y-o-y increase in management fees to €17.8m. This was assisted by the increasing share of institutional AUM (61% at end-June 2019, compared to 52% at end-June 2018), which generates a higher margin in comparison to the legacy, retail business (c 70–120bp vs 40–60bp according to MPC, respectively). 49% Of the income from management fees was generated by the shipping business segment. It comprised 91 ships under technical management and 115 under commercial management at end-June 2019, compared to 83 and 113 as at end-2018, respectively.

MPC's lower transaction fees reflect broader market conditions seen in the first half of the year, as illustrated for instance by the 12% y-o-y decline in transaction volume in German real estate market to €32.2bn, according to JLL. An important contributor to MPC's transaction income was the sale of an office properties portfolio by its fully-owned Dutch subsidiary, Cairn, to a new investment vehicle for commercial real estate called InTheCity. This deal generated c €0.4m transaction fees, as well as c €2.5m income from equity investments as the company originally co-invested in these properties alongside its institutional client (holding a single-digit percentage stake). Moreover, the company recorded €1.7m income from the disposal of the BMG portfolio, reflected both in other operating income and income from equity investments (see below for a detailed discussion of the deals). Consequently, total investment income reached €5.4m, compared to €1.4m in H118.

At the operating profit level (which does not include the above-mentioned income from equity investments), the company reported a €4.2m loss compared to €2.4m profit a year earlier. The decline was mainly associated with a €5.5m decrease in other operating income. This is primarily because the H118 figure was inflated by a €4.0m reversal of receivables write-downs (compared to only €0.2m in H119) and the gain on the opportunistic sale of a land plot in Lisbon (€2.8m). The H119 figure included €2.2m profits from asset sales on the back of the BMG deal. Meanwhile, personnel expenses increased by 8.1% y-o-y, with average headcount up to 292 from 272 in H118. Consequently, H119 pre-tax profit stood at €1.8m and result after tax at €1.2m compared to €3.8m and €2.8m in H118, respectively. If we exclude one-off items (such as FX effects, reversal of provisions, write-downs, capital increase costs), disposal gains from the TRANSIT and BMG portfolios (H119) as well as the sale of the land plot in Lisbon (H118), we arrive at an adjusted PBT loss of €3.7m, which is a moderate reduction from the €4.2m loss in H118.

Exhibit 1: FY18 results highlights

€000s	H119	H118	y-o-y change
Management services	17,778	16,780	5.9%
Transaction services	1,802	2,730	-34.0%
Other	396	180	120.0%
Revenue	19,977	19,690	1.5%
Other operating income	3,929	9,391	-58.2%
Cost of materials/purchased services	(658)	(1,322)	N/M
Personnel expenses	(14,519)	(13,434)	8.1%
Depreciation & amortisation	(1,079)	(879)	22.8%
Other operating expenses	(11,831)	(11,035)	7.2%
Operating profit	(4,180)	2,412	-273.3%
Income from equity investments	5,399	1,386	289.5%
Other interest & similar income	1,254	843	48.8%
Write-downs on financial assets	(374)	0	N/M
Interest & similar expenses	(285)	(329)	-13.4%
Share of profit of associates	0	(505)	N/M
Pre-tax profit	1,814	3,807	-52.4%
Income taxes	(587)	(998)	-41.2%
Other taxes	(30)	(2)	N/M
Result after tax	1,228	2,809	-56.3%

Source: MPC Capital, Edison Investment Research

MPC highlighted in the FY18 report that it might generate positive operating cash flow in FY19 on condition that it would be able to earn high transaction fees. However, given the weak transaction fees in H1 and consequently negative cash flow, it seems unlikely that it will be able to generate positive operating cash flow in 2019, especially as the economic uncertainty continues. The net cash outflow from investing activities in the period under review came in at €10.5m on the back of co-investments such as the €5.0m equity investment in the InTheCity platform and vessel purchases. The acquisition of the BMG portfolio was agreed towards the end of 2018, but the payment was completed at the start of 2019. This led to a corresponding reduction in liabilities, which translated into an improved equity ratio at 80% vs 74.4% at end-2018. The portfolio was partially sold before the end of H119 and, together with the TRANSIT portfolio, this made up the majority of cash inflow from disposals at €14.4m (H118: €3.9m). MPC's cash position at end June 2019 fell to €14.1m from €28.9m at end 2018.

Management reconfirmed its expectation of a slight revenue increase resulting in at least break-even at PBT level in FY19. This should be driven by expansion in new business supported by the conclusion of additional transactions. MPC expects continuing steady development, particularly in the shipping unit which, despite challenging market conditions, should generate improved sales and profit contributions. In the real estate segment, the company expects its Dutch subsidiary Cairn to provide most of the incremental transaction income. In the infrastructure segment, the company is considering further additions to wind and solar projects.

AUM broadly stable but with improved quality

At end-June 2019, MPC's AUM was €4.2bn, slightly down vs end-2018 (€4.3bn). Asset disposals stood at c €0.2bn in H119 with a similar volume of asset additions, which led to a slight increase in the share of institutional assets to 61% vs 60% at end-2018. The H119 run rate with respect to AUM additions is somewhat below MPC's FY19 expectations at €0.5–0.8bn (and its long-term target at €0.5–1.0bn pa). On the positive side, in line with earlier management declarations, there were no major write-downs in H119, suggesting improved asset quality.

In the **real estate segment**, the c €0.1bn asset additions (driven by Cairn's activity) were fully offset by disposals. Hence, AUM remained unchanged at €2.1bn (representing c 50% of group AUM). The key disposal in H119 was the sale of eight fully let office properties from the TRANSIT portfolio to the new investment vehicle, InTheCity. Following the transaction, the properties remained under Cairn management, as this MPC subsidiary is the investment manager of the InTheCity portfolio. Moreover, MPC Capital holds a minor stake in the platform as part of its co-investment strategy. MPC has recognised c €2.9m of total income on this trade in the form of transaction fees and income from equity investments (as discussed above). The transaction illustrates how MPC manages assets throughout their lifecycle. The properties were acquired at a relatively high vacancy rate by MPC's institutional client willing to accept a higher investment risk to generate higher returns. Subsequently, these properties were successfully redeveloped by Cairn and now have been sold to new investors with a different risk profile and longer-term investment horizon. The whole TRANSIT portfolio consisted of 12 properties acquired in February 2016 (six projects at a price of €69m) and February 2017 (six projects for €60m).

Moreover, MPC opportunistically acquired a portfolio of limited partnerships in closed-end funds referred to as the BMG portfolio (with the transaction agreed in H218, but settled in H119) and subsequently conducted a partial disposal of the portfolio in H119.

Cairn has recently entered the Dutch healthcare real estate segment via the acquisition of an initial investment and development portfolio consisting of three medical centres. In addition, Cairn has embarked on the development of a primary care medical centre in Alphen ad Rijn, as well as the construction of a private nursing home in Bodegraven. Cairn secured €30m in a capital increase

completed recently and will now use the funds to develop its portfolio, with a leveraged target value for the year of c €70m.

In the **shipping segment**, AUM declined in H119 by €0.1bn to €1.4bn, despite the slight increase in ships under management, as discussed above, which was due to disposals from the legacy portfolio. We understand that the fleet of MPC Container Ships (where MPC has a 5% stake) remained unchanged in H119. MPC has broadened its range of services for the technical management of tankers. Moreover, the technical management of bulkers was further expanded through the entry of a new partner. MPC is currently upgrading the ship fleet managed by Ahrenkiel and Contchart to meet the provisions of IMO 2020. Therefore, part of MPC Container Ships' fleet will be equipped with exhaust gas cleaning systems (so-called 'scrubbers') before the end of year. Technical conversion will be executed by Ahrenkiel Steamship, while MPC Maritime will provide the financing.

Although AUM in the **infrastructure segment** remained unchanged at €0.3bn, the foundation for further AUM expansion was laid during the period by initiating the development of several projects. In April 2019, c US\$50m financing for the second asset of the MPC Caribbean Clean Energy Fund (CCEF), the Tilawind wind power project in Costa Rica, was closed. In H119, MPC also entered into a partnership aimed at developing a photovoltaic plant in Barbados. The development phase of the project has already started, with construction work expected to begin in 2020. In June 2019, CCEF's first asset (Paradise Park) was commissioned. In its industrial operations, the company is focusing its efforts on one high-volume infrastructure project in North America. Having said that, there is still limited visibility on MPC's ability to conduct this project successfully.

Valuation

We believe that a relevant peer group for MPC should contain local asset managers active in the shipping and/or real estate domain. In our opinion, the closest peer to MPC is Ernst Russ, but as no consensus data are available, we have not included it in our peer group comparison. As per Refinitiv consensus, MPC is expected to report marginally positive results in FY19, which makes it impossible to draw conclusions based on FY19e P/E and EV/EBITDA multiples. MPC is trading at a considerable premium to the selected peers based on these multiples for FY20e, which changes to a discount in FY21e.

Given that MPC's earnings are largely dependent on the size of its AUM, it may also be 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 1.4% of its AUM, which is ahead of Ernst Russ (0.4%), but below the figures for Corestate Capital and Patrizia (2.4% and 3.7%, respectively). The company's P/BV ratio based on last reported equity stands at 0.5x.

Exhibit 2: Peer group comparison

	Market cap €m	P/E (x)			EV/EBITDA (x)		
		2019e	2020e	2021e	2019e	2020e	2021e
Corestate Capital	618	4.6	4.3	4.2	2.8	2.7	2.6
Patrizia	1,505	19.4	16.1	15.7	10.6	9.7	9.4
VIB Vermogen	730	11.4	10.9	10.5	17.2	16.5	15.7
TLG Immobilien	2,900	16.8	15.9	16.6	23.5	22.6	21.1
Peer average		13.1	11.8	11.8	13.5	12.9	12.2
MPC Capital	60	N/M	16.7	11.4	N/M	46.0	9.0
Premium/(discount) to peers		N/M	41%	(3%)	N/M	257%	(26%)

Source: Refinitiv consensus as at 4 September 2019. Please note that consensus is based on two analyst estimates (Baader and Warburg)

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