Helma Eigenheimbau

Real estate

28 August 2020

Extensive pipeline key to overcoming the crisis

Helma Eigenheimbau's H120 results have been shaped by the coronavirus pandemic as disruptions to the sales process (particularly in the residential property development segment) led to a 17.8% y-o-y decline in net new order intake. However, on the back of a strong order book of €202.7m at the beginning of the year, the company has managed to improve revenue versus H119 by 3.6%. This was mainly due to the holiday property development segment, which doubled its revenue to €23.6m. Based on the end-June order book of €199.8m, management has reintroduced earnings guidance, targeting 2020 PBT in the range of €14–17m. Longer-term growth will be underpinned by its land bank representing a €1.7bn revenue potential (€1.5bn at the end of FY19).

Expansion slowed, not on hold

Helma reported a 16.3% y-o-y decline in adjusted EBIT to €7.1m with the corresponding margin falling by almost 1.5pp to 6.2%. We believe this is likely to be at least partially attributable to the higher share of the lower-margin construction services business in the revenue mix. Although net debt increased from €175m at the start of the year to €194m at end H120, the equity ratio fell slightly to 28.1% at end June 2020 (28.6% at end-December 2019), well above the promissory notes covenant of 15%.

Residential real estate resists economic slowdown

In April, COVID-19 uncertainty forced Helma's management to withdraw its 2020 guidance (originally assuming €26m pre-tax profit). However, the German residential property sector has recorded a limited impact so far, with the number of new dwelling permissions remaining strong and a 22.4% y-o-y increase in June 2020. The residential property investment volume of €14.7bn in H120 ranks first in the broad German real estate market with c 35% share in overall trade activity.

Valuation: Trading at a diminishing premium to peers

Based on its FY20e EV/EBITDA multiple, Helma trades at a 71% premium to peers, falling to 35% for FY22e. On a P/E multiple, which does not account for leverage levels, the FY20e premium sits at 5% and turns into a 9% discount for FY22e, with consensus implying earnings growth ahead of peers. The annual dividend paid on 8 July 2020 was €1.85 per share, constituting a 5.3% yield.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	263.2	23.6	4.04	1.85	8.7	5.3
12/20e	232.2	12.5	2.15	1.03	16.4	2.9
12/21e	268.1	20.7	3.43	1.38	10.3	3.9
12/22e	294.0	27.6	4.77	1.80	7.4	5.1

Source: Refinitiv. Note: Consensus is based on the estimates of three analysts and may not yet fully reflect H1 results and guidance.

Price	€35.30
Market cap	€141m

Share price graph

Share details

Code	H5EX
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Last reported net debt at 30 June 2020	€194m

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

- Potential long-term impact of pandemic outbreak on transaction activity.
- Bottlenecks in the German residential market.
- Limited availability of building land.

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H120 financials: Declining order intake

The coronavirus pandemic has affected Helma's order inflow, with H120 net new order intake of just €115.5m, down 17.8% from €140.6m in H119. The largest decline was in the residential development segment (Helma Wohnungsbau), with only €40.2m in net new orders against €64.6m in H119. With the construction services segment also reporting a year-on-year decline in net new order intake from €63.4m in H119 to €51.4m in H120, the almost twofold improvement within Helma's holiday property sector (€23.9m versus €12.6m) could not fully offset the difference.

Nevertheless, with a strong order book position of €202.7m at end 2019, Helma managed to weather the initial impact of COVID-19 and report a slight year-on-year improvement in sales in H120, reaching €114.2m against €110.3m in H119. Importantly, the revenue stream structure changed, with the residential development segment's share falling to just 36% in H120, against almost 51% in H119. The 26.7% y-o-y decline in sales in this area has been fully offset by the 16.1% expansion in construction services and a more than doubling of transaction volumes in the holiday property development segment. It is likely that this increase was driven by customers seeing the attractiveness of purchasing a holiday home in the context of current and potential future lockdowns and self-isolation requirements.

COVID-19 materially affected the demand for housing and transaction activity, in contrast to the supply side of the market, such that the company reported only limited coronavirus-driven disruptions to the construction process. The headcount as at 30 June 2020 reached 337 employees, against 315 12 months earlier (322 as at 31 December 2019).

Exhibit 1: Financial highlights

€000s	H120	H119	Change y-o-y (%)
Revenue	**114,247**	**110,306**	**3.6%**
Helma Eigenheimbau	48,701	41,960	16.1%
Helma Wohnungsbau	41,159	56,151	-26.7%
Helma Ferienimmobilien	23,624	11,588	103.9%
Hausbau Finanz	763	607	25.7%
Change in stocks of finished goods and work in progress	27,870	21,330	30.7%
Other operating income	776	549	41.3%
Expense for materials and third-party services	(112,321)	(103,176)	8.9%
Personnel expense	(12,629)	(12,241)	3.2%
Other operating expenses	(9,817)	(7,824)	25.5%
EBITDA	**8,126**	**8,944**	**-9.1%**
Depreciation / amortisation	(1,211)	(1,155)	4.8%
Operating earnings (EBIT)	**6,915**	**7,789**	**-11.2%**
Adjusted EBIT*	7,088	8,472	-16.3%
Adjusted EBIT margin	6.20%	7.68%	-148bp
Finance expenses	(367)	(357)	2.8%
Other financial result	58	47	23.4%
Earnings before taxes (EBT)	**6,606**	**7,479**	**-11.7%**
Income tax	(2,081)	(2,288)	-9.0%
Minority interests' share of earnings	(16)	(16)	0.0%
Net income after minority interests	**4,509**	**5,175**	**-12.9%**

Source: Helma Eigenheimbau. Note: *Adjusted for disposal of capitalised interests.

We assume that the lower income from the property development segment, which offers the highest margins, had a negative impact on group profitability, with Helma reporting a 16.3% y-o-y decline in EBIT (adjusted for disposal of capitalised interests) to €7.1m in H120 against €8.5m in H119. The corresponding margin fell year-on-year by almost 1.5pp to just 6.2%.

Helma's net debt expanded to €194.4m at 30 June 2020, from €174.9m at 31 December 2019 and €165.0m at 30 June 2019 (a 17.8% increase over the last 12 months). At the same time, its average annual interest rate as at end-June 2020 stood at c 2.21%, down from 2.26% at end-2019. Post balance sheet date, in August 2020, Helma Wohnungsbau issued a €27.5m promissory note (guaranteed by Helma Eigenheimbau), to repay two promissory notes taken out in 2015 and 2016 and maturing in 2020 and 2021. We note that the new issue holds 2.9% interest on the €13.0m tranche and 3.1% interest on the €14.5m tranche, while the €11.5m promissory note issued in 2019 paid only a 2.5% coupon. Along with increasing indebtedness, Helma was able to expand its equity to €113.1m from €108.6m at the start of the year, and therefore retained a healthy equity ratio of 28.1%, against 28.6% at 31 December 2019. The promissory note covenants require equity of at least €21m and an equity ratio of at least 15.0%.

Extending pipeline, while new order intake slows down

In H120 Helma's EBT and net income fell to €6.6m and €4.5m, respectively, from €7.5m and €5.2m in H119. Due to the coronavirus pandemic outbreak, the original guidance for 2020, assuming €26m pre-tax profit, was withdrawn in April and replaced with a broad assumption of positive results for the year. In its H120 report, management now provides 2020 guidance for PBT in the range of €14m to €17m. Even though the reported figure for first six months of the year sits at 47% of the lower bound and current Refinitiv consensus implies a PBT of €12.5m in FY20, we still consider the forecast to be achievable. Historically, Helma reports stronger results in the second half of the year, which could be further helped by a loosening of the government restrictions put in place in H120 to limit the pandemic spread. The company could also benefit from its relatively good order book of €199.8m at end-June 2020 (€197.4m at end-June 2019), unless the pandemic triggers another lockdown. We also believe that the available Refinitiv consensus has not fully captured Helma's H120 results release yet.

Management refrains from providing any guidance for 2021 at this point, given the continuing uncertainties regarding the extent and economic impact of the coronavirus pandemic; it expects to provide 2021 guidance once the full 2020 results are published. It does not, however, expect any long-term impact on its business model, and aims to return to the growth path in the medium term, and continues to aim for annual revenue of well over €300m over this period.

In the mid to longer term, Helma's earnings prospects should be bolstered by its extensive landbank, which management estimates to have revenue potential of almost €1.7bn. This is spread between the residential property segment (€1.1bn) and holiday property segment (€0.6bn) and has increased from €1.5bn as at end-December 2019 (€1.0bn residential, €0.5bn holiday). It is worth noting that the improvement is attributable to the growing number of potential units (4,050 at end-June 2020 against 3,475 at end-December 2020), rather than visibly higher pricing. This includes acquisition of land in the middle of the Sauerland-Rothaargebirge nature park at the Sorpesee (Lake Sorpe) in February 2020, enabling construction of c 350 holiday homes and apartments, per Helma's estimates.

German residential market immune to coronavirus

On the brink of the COVID-19 based economic crisis, the German residential property sector was perceived by investors as a safe haven, reflected in it accounting for the largest share (35%) of total real estate investment volume in H120 according to JLL. In 2019 the sector ranked second, behind office, with just 24% share. The total transaction volume in the housing segment over the first six months of 2020 amounted to €14.7bn, with €4bn of this in Q2, when government restrictions were most severe.

With persistent high demand in the German real estate sector, the supply side also fared well in the early months of the pandemic, with April being the only month to record a year-on-year decline (0.7%) in construction output, according to Eurostat. Once the restrictions were loosened, the figures for May and June were higher by 1.2% and 1.4% y-o-y, respectively. Furthermore, even though the building permission granting process was moderately extended, according to Helma, the number of residential building permits granted in H120 remained robust.

Valuation: Attractive dividend yield of 5.3%

We continue to compare Helma against a peer group including two domestic, residential real estate developers (Instone and Consus) and three European ones (Bonava, Taylor Wimpey and Barratt Developments). However, it is worth noting that both British peers have a net cash position, which results in lower EV/EBITDA multiples. Consequently, Helma trades at premiums of 71%, 46% and 35% to the group averages for 2020e, 2021e and 2022e, respectively. Based on the P/E multiples, which do not account for Helma's relatively high leverage level and that of its domestic peers, the company's shares trade on a diminishing premium to peers for 2020e and 2021e figures. On the back of the superior earnings potential (implied by the Refinitiv consensus data), compared to Helma's peers, the premium reverts to a slight discount based on the 2022e consensus data.

With a relatively strong equity structure and persistent positive earnings stream in recent years, Helma maintained its dividend policy (payout ratio range of 25% to 50% of the net profits generated by the parent company according to the accounting standards of the German Commercial Code) with the latest annual distribution amounting to €1.85 per share, paid on 8 July 2020. This constitutes an attractive historical yield of c 5.3%. Refinitiv consensus data forecasts DPS of c €1.03 from 2020 earnings, €1.38 from 2021 and €1.80 from 2022.

Exhibit 2: Peer group comparison

	Market cap	EV/EBITDA (x)			P/E (x)		
	(m)	2020e	2021e	2022e	2020e	2021e	2022e
Bonava	SEK6,873	15.7	12.5	11.7	12.5	9.5	8.9
Instone Real Estate	€904	14.7	8.3	6.2	20.1	8.7	6.8
Consus Real Estate	€977	10.7	12.2	9.6	12.4	10.9	7.8
Taylor Wimpey	€4,334	13.6	6.7	5.7	20.6	9.8	8.2
Barratt Developments	€5,266	7.9	7.7	6.6	11.9	10.5	9.0
Peer group average		**12.5**	**9.5**	**7.9**	**15.5**	**9.9**	**8.1**
Helma Eigenheimbau	€140	21.4	13.9	10.7	16.3	10.2	7.4
Premium/(discount) to peer group		**71%**	**46%**	**35%**	**5%**	**4%**	**(9%)**

Source: Refinitiv consensus at 27 August 2020. Note: Consensus data for Helma is based on the estimates of three analysts. Consensus may not yet fully reflect H120 results and guidance

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