EDISON Scale research report - Update

MPC Capital

Financial services

8 September 2021

Business model optimisation

MPC Capital recorded an 86% y-o-y increase in pre-tax profit to €2.3m and a €1.6m net profit ex-minorities in H121 against a €0.5m loss in H120. This was assisted by the focus on high-margin business, cost efficiencies and synergies, coupled with a favourable market environment for real assets. At the same time, MPC's year-on-year decline in revenues and operating expenses in H121 reflects the proportionate consolidation of joint ventures (JVs) in technical and commercial management. Consequently, management guides to a higher FY21 pre-tax profit versus FY20, despite lower revenues.

AUM expansion assisted by revaluation effects

MPC expanded its AUM from €4.4bn at end-2020 to €4.7bn at 30 June 2021 (with a further €1.7bn in the pipeline) on the back of an upward revaluation of shipping assets (€0.7bn), partially offset by the net negative transaction activity result: €0.5bn disposals and €0.2bn additions. The shipping segment's AUM benefitted from robust charter rate development and increased from €2.1bn to €2.5bn in H121. Meanwhile, the real estate segment's AUM declined from €1.9bn to €1.8bn, mainly due to the disposal of co-investments in commercial property funds in the Netherlands. We note that AUM attributable to MPC Capital's JVs are accounted for in full.

Focus on growth in sustainable business areas

MPC continues to emphasise sustainable investments. This is illustrated by the launch of a sustainable housing investment fund in Germany that was recently granted permission from the authorities to position itself as a sustainable financial instrument according to EU rules. Moreover, MPC's infrastructure segment exclusively includes investments in renewable energy assets, while the newly acquired fleet of Songa Containers is almost fully equipped with scrubbers that reduce sulphur oxide emissions.

Valuation: Consensus figures imply discount to peers

MPC's market cap to end-June 2021 AUM ratio sits at 2.6%, against 4.1% for Patrizia and 1.6% for Corestate Capital. Its shares trade at a diminishing premium to peers on P/E multiples based on Refinitiv consensus for FY21–23e, but also on expanding discount based on EV/EBITDA over this period. The company holds a significant net cash position (€34.0m at end-June 2021), while almost all its peers reported net debt positions.

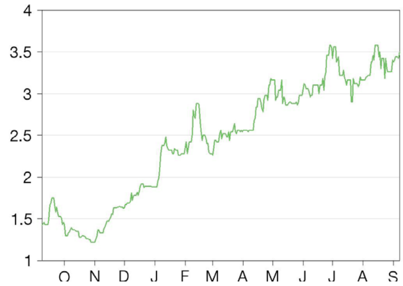
Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/20	50.5	0.9	(0.01)	0.00	N/M	N/A
12/21e	40.6	6.0	0.12	0.00	30.4	N/A
12/22e	44.9	11.3	0.21	0.03	17.1	0.9
12/23e	48.3	13.7	0.26	0.03	13.7	0.9

Source: MPC Capital accounts, Refinitiv consensus as at 8 September 2021

Price	**€3.50**
Market cap	**€123m**

Share price graph



Share details

Code	MPC
Listing	Deutsche Börse Scale
Shares in issue	35.2m
Last reported net cash at 30 June 2021	€34.0m

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 48% shareholding), founded in 1994 and listed in 2000. AUM at end-June 2021 was €4.2bn.

Bull

- Strong demand for real estate investments in low interest rate environment.
- Increasing share of higher-margin institutional investors.
- 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.
- Global trade outlook dependent on COVID-19.

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EDISON

Focus on higher-margin business and cost efficiencies

At end-June 2021, MPC reported AUM of €4.7bn (vs €4.4bn at end-2020), with €2.5bn attributable to the shipping segment (vs €2.1bn) and €1.8bn to real estate segment (€1.9bn). Assets managed within the infrastructure segment increased in H121 to €0.3bn (from €0.2 at end-2020), while the legacy business assets (retail products that could not be assigned to any of MPC's other reporting segments) declined to €0.1bn (from €0.2bn). The overall AUM increase of €0.3bn in H121 resulted from positive remeasurement and currency effects, adding €0.7bn and fully offsetting the net negative results of assets disposals (€0.5bn) and acquisitions (€0.2bn) in the period (figures subject to rounding). Although MPC moved a significant part of technical and commercial management services into JV structures (Wilhelmsen Ahrenkiel Ship Management set up in October 2020 and Albis Shipping & Transport acquired in November 2019), it recognises them in full in its AUM, while consolidating them proportionately in the financial statements.

Exhibit 1: Financial highlights

€000's	H121	H120	y-o-y change
Revenue	**15,965**	**24,758**	**-35.5%**
Management services	*13,659*	*20,012*	*-31.7%*
Transaction services	*2,109*	*2,374*	*-11.2%*
Other	*197*	*2,372*	*-91.7%*
Other operating income	5,756	4,442	29.6%
Cost of materials/purchased services	(977)	(2,770)	-64.7%
Personnel expenses	(10,847)	(12,915)	-16.0%
Depreciation & amortisation	(947)	(1,210)	-21.7%
Other operating expenses	(8,650)	(11,112)	-22.2%
Operating result	**300**	**1,193**	**-74.9%**
Income from equity investments	1,144	1,739	-34.2%
Other interest & similar income	1,533	1,243	23.3%
Write-downs on financial assets	(359)	(170)	111.2%
Interest & similar expenses	(103)	(266)	-61.3%
Result of associates carried at equity	(250)	(2,521)	-90.1%
Pre-tax profit	**2,266**	**1,218**	**86.0%**
Income tax	(437)	(1,056)	-58.6%
Other taxes	(74)	(25)	196.0%
Consolidated net profit	**1,755**	**137**	**1181.0%**
Minority interest	(173)	(633)	-72.7%
Net profit attributable to shareholders of the parent	**1,582**	**(496)**	**NM**

Source: MPC Capital accounts

The above accounting effects led to a c 35.5% y-o-y decline in revenues to €16.0m in H121, with recurring management services contributing just €13.7m, against €20.0m in H120. Transaction fees reached €2.1m (vs €2.4m in H120), which management states is related to the usual seasonality, resulting in higher transaction volume in the second half of the year. The apparent decline in other revenue from €2.4m in H120 to €0.2m in H121 results from the change in the Albis consolidation method. We note, however, that it was coupled with lower cost of materials, which decreased proportionately year-on-year. Meanwhile, other operating income, which includes mainly profits on asset sales, increased from €4.4m in H120 to €5.8m in H121 on the back of disposals of MPC's co-investments in Dutch real estate investment funds.

The business structure reorganisation also resulted in the reduction in all operating costs positions, including a 16% y-o-y decline in personnel expenses, due to lower headcount of 200 (70 employees in JVs) at end-June 2021 against 213 (73) at end-2020 and 278 (17) at end-H120. Consequently, MPC's operating result fell to €0.3m in H121 (from €1.2m in H120), as lower expenses did not fully compensate for the revenue decline. Despite income from equity investments, including mainly profit distribution from project companies, falling to €1.1m in H121 from €1.7m in H120, MPC reported an 86% y-o-y increase in pre-tax profit to €2.3m on 14% margin (vs €1.2m and 5% in H120). This was mainly driven by improving result of associates carried at equity, which included significant write-offs in H120, reflecting the initial effect of the pandemic. With minorities declining from €0.6m in H120 to €0.2m, the net profit ex-minorities reached €1.6m in H121, against €0.5m loss in H120. MPC expects similar accounting effects in full FY21 figures, with improving profitability despite reduced top line. Although management is not guiding to any particular EBT level, it expects a significant year-on-year improvement due to the pursuit of high-growth investment strategies. We note the project pipeline sits at c €1.7bn, with a c 45% share of infrastructure projects (35% shipping and 20% real estate). The company expects its new balance sheet investments will be compensated for by capital returns on current holdings, which would help retain an equity ratio above 70% (77.7% at end-June 2021 and 76% at end-2020).

Expanding portfolio in accordance with ESG principles

Although the shipping segment remains the largest in MPC's portfolio with c 53% share in its overall AUM, the company leans towards development within real estate (c 38% share) and infrastructure (c 6%) sectors, through newly formed investment vehicles. MPC still plans to phase out the legacy retail business and replace it with institutional clients offering higher margins. Having said that, we note the share of institutional business at 30 June 2021 remained on par with the end-2020 level of 84% (currently 79% in real estate sector, 88% in shipping and 100% in infrastructure).

Record-high charter rates drive commercial management fees

The container shipping segment is a beneficiary of the post-pandemic rebound in world trade and limited transport capacities in the market. According to the OECD, the international merchandise trade of G20 countries reached new heights in Q221, exceeding the previous record level posted in Q121. The sequential growth in exports and imports was 4.1% and 6.4% in Q221, respectively, bringing both figures above US$4.2tn. Increased demand led to a significant increase in both freight and charter rates. The new Contex index (covering time charter rates for container ships) in euro terms increased over the one-year period ended 7 September 2021 by over 600%.

On the back of higher charter rates, the valuations of assets from the shipping segment improved significantly, with MPC recognising all of its H121 positive AUM revaluation impact of €0.7bn within this business area. It has more than offset the net negative effect of the transaction activity, with disposals in H121 amounting to c €0.4bn and €0.1bn new assets onboarded. The improved charter rates also assisted MPC's revenues, mainly through the Harper Petersen JV, operating as commercial manager earning a percentage fee based on the charter rate realised. In contrast, the Wilhelmsen Ahrenkiel JV, providing technical management services, is yet to benefit from the robust market developments due to fixed annual fee structure.

In June 2021, MPC Container Ships (in which MPC Capital has a minority stake) announced the acquisition of Songa Container and its 11 vessels, which was closed in August 2021. It is worth noting that nine of the ships acquired are already fitted with scrubbers and therefore meet the IMO2020 requirements for sulphur oxide emissions. The transaction price reached US$210.25m with US$115m paid in cash (DNB Bank provided a two-year US$127.5m credit facility, which the company plans to repay in the short term from the robust cash flow it expects to generate) and the rest settled through the issue of 49.8m new shares in MPC Container Ships to Songa shareholders. We note that as a result of issuing new shares, MPC Capital's stake in MPC Container Ships declined from 5% to c 4.5%.

Shift towards sustainable housing

Both German and Dutch real estate investment markets are gradually rebounding from the impact of COVID-19, as the overall investment volume in H121 fell 22% and 36% below the H120 totals, according to JLL. We note, however, that in Germany the H121 figure (€34.1bn) slightly exceeds the previous five-year average (€33.1bn) for the first half of the year. The resilient 'living' sector (including residential, student housing and micro living) remains the most sought after segment in

Germany (35% share in overall investment volume), while in Netherlands it ranks second to industrial properties. Having said that, we note that JLL expects the office real estate investment market in Netherlands to pick up in H221.

In early 2021, the group exited all of its German micro-living projects and instead launched an investment fund focused on sustainable housing (ESG Core Wohnimmobilien Deutschland) with its first closing at €80m. The fund has already acquired two properties (in Pinneberg near Hamburg and Bad Nauheim near Frankfurt) and targets a total investment volume of €300m. In June 2021, the fund was granted a permission by the Federal Financial Supervisory Authority to position itself as a sustainable investment product under Article 8 of EU's Sustainable Finance Disclosure Regulation. In the Netherlands, MPC sold its equity co-investment in ITC and Gateway funds, focused on office and logistics real estates, respectively. MPC has not only realised a significant profit on both disposals, but Cairn Real Estate (Dutch Real Estate operation subsidiary) remains the investment manager of both funds.

Building volume in renewable energy sector

Responsible investments also remain a key driver of the infrastructure sector, focused on development and management of renewable energy (mainly photovoltaic and wind) generation and storage facilities in Caribbean and Latin America. The H121 activity within the segment was highlighted by the private placement and listing of MPC Energy Solutions in January 2021, worth c US$100m. This developer, operator and owner of renewable energy systems holds development projects in Colombia, El Salvador, Puerto Rico and Jamaica with a capacity of up to 334MW, worth c US$400m. The project pipeline includes installations representing a further 300MW.

Valuation

We believe MPC's closest peer is Ernst Russ, which is a real asset manager operating in shipping and real estate segment. However, Ernst Russ is focused on expanding its own fleet rather than providing management services, which is MPC's domain. With consensus estimates now available, we added Ernst Russ to MPC's peer group, which also includes German real assets managers operating in real estate segment. MPC's market cap to AUM ratio sits at 2.6% versus 4.1% and 1.6% reported by Patrizia and Corestate Capital, respectively, with other peers not reporting AUM figures. We note that MPC's ratio is shaped by its approach towards recognition of AUM of its JVs.

MPC's ongoing share price rally resulted in a one-year increase of almost 150% at close on 7 September 2021, shaping its relative valuation. For 2021–23e MPC trades at a significant, but rapidly diminishing, premium to peers based on P/E multiples, but trades at a discount based on EV/EBITDA multiples, which increases in FY22e versus FY21e. We believe the different valuation pattern based on these multiples could be attributable to MPC's net cash position, against the net debt reported in last available figures of almost all its peers.

Exhibit 2: Peer group comparison

	Market cap	P/E (x)			EV/EBITDA (x)		
	(€m)	2021e	2022e	2023e	2021e	2022e	2023e
Ernst Russ	139	11.9	10.0	9.1	5.8	5.3	5.0
Corestate Capital	432	6.7	5.1	4.4	8.3	6.5	5.8
Patrizia	1,958	24.7	22.6	21.4	12.6	11.6	10.7
VIB Vermogen	1,040	15.5	14.7	13.7	19.9	19.1	17.8
TLG Immobilien	3,371	16.1	15.2	14.5	21.5	23.3	22.4
Average		**15.0**	**13.5**	**12.6**	**13.6**	**13.2**	**12.4**
MPC Capital	123	30.4	17.1	13.7	13.1	9.1	8.6
Premium/(discount)		**103.1%**	**26.4%**	**8.8%**	**(3.5%)**	**(30.7%)**	**(30.4%)**

Source: Refinitiv consensus at 8 September 2021. Note: EPS consensus for MPC Capital is based on the estimates of two analysts and EBITDA consensus is based on the estimates of one analyst.

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