EDISON **Scale research report - Update**

MPC Capital

Launching new sustainable funds

MPC Capital continues to bring new institutional assets onboard, with c €0.5bn added in 2020 (mostly in the real estate segment). This largely offset the declining legacy retail business, with MPC's assets under management (AUM) declining slightly to €4.4bn (84% of which are institutional assets) from €4.5bn at end-2019. MPC guides to lower revenue in FY21 (partially due to negative JV consolidation effects) and an improved pre-tax profit, which may benefit from continued strength in the container shipping market and expansion in sustainable assets. The latter includes a €300m ESG housing fund and a US$100m investment vehicle focused on developing green and low-cost energy infrastructure.

Transaction services offset lower management fees

In FY20, MPC reported a c 5.4% decline in recurring income from management services amid a declining legacy retail business and an asset shift to joint ventures (see further detail below). Having said that, as asset trading activity picked up in H220, income from transaction services in FY20 reached €10.7m, after just €2.4m in H120 and €5.3m in FY19. It was mainly generated in real estate and infrastructure, which performed well throughout the year. Together with cost reductions it translated into a €1.5m operating profit versus a €3.8m loss in FY19. Due to materially lower income from equity investments and impairment of MPC Container Ships, the company reported a net loss ex-minorities of €0.9m, albeit lower than the €2.2m loss posted a year earlier.

Healthy performance in all operating segments

MPC's shipping segment rebounded in H220 as global trade picked up after the initial coronavirus-driven shock. This allowed the company to slightly exceed management guidance of revenues and pre-tax profit on par with FY19, which was reinstated and updated in December 2020 (originally released in February and suspended in May 2020). Meanwhile, the real estate segment proved relatively resilient, with AUM expanding from €1.7bn to €1.9bn over FY20.

Valuation: Discount on FY22–23e EPS and EBITDA

A recent rally brought MPC's share price to €2.52 at close on 8 March from €1.63 in early December 2020, which puts its market cap to AUM ratio at 2.0% compared to c 1.0% recorded in previous years. Based on Refinitiv consensus, MPC trades at a high premium to peers on 2021e P/E, but a wide discount on 2021e EV/EBITDA. It trades at a discount to peers based on both P/E and EV/EBITDA multiples for 2022–2023e, due to expected operational improvement from a low base.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/19	46.8	0.9	(0.01)	0.00	N/A	N/A
12/20	50.5	1.3	(0.00)	0.00	N/A	N/A
12/21e	40.6	5.9	0.12	0.00	21.9	N/A
12/22e	46.0	11.2	0.21	0.03	12.3	1.2

Source: MPC Capital accounts, Refinitiv consensus at 9 March 2021.

Financial services

9 March 2021

Price	**€2.52**
Market cap	**€89m**

Share price graph

Share details

Code	MPC
Listing	Deutsche Börse Scale
Shares in issue	35.2m
Last reported net cash as at 31 December 2020	€22.1m

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-December 2020 was €4.4bn.

Bull

- Strong demand for real asset 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.

Analysts

Milosz Papst	+44 (0) 20 3681 2519
Michal Mierzwiak	+44 (0) 20 3077 5700

financials@edisongroup.com
Edison profile page

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FY20 financials: Healthy transaction fees

In FY20, MPC reported a c 7.8% y-o-y increase in revenue to €50.5m, mainly on the back of higher transaction services income (€10.7m vs €5.3m in 2019), which picked up in H220 (€8.4m vs €2.4m in H120). This more than offset the decrease in management services income to €37.1m (0.8% of average AUM) from €39.2m in FY19 (0.9% of average AUM). This resulted from the decline in retail business (which reduced MPC's overall revenues by €2.3m vs FY19), as well as from the sale of a 50% stake in fully owned Ahrenkiel Steamship (active in technical container ship management) to Wilhelmsen Ship Management, which then formed a new JV with MPC called Wilhelmsen Ahrenkiel Ship Management (consolidated proportionately by MPC from October 2020 with a 50% share). The company also recognised €3.0m of deconsolidation income (vs less than €0.1m in FY19), mostly on the back of the Wilhelmsen deal. We note that the Harper Petersen JV recorded lower revenue due to declining charter rates in H120 (the H220 pickup is yet to be reflected in its results).

As part of its business streamlining process, MPC reduced its headcount to 260 (with a further 33 roles in JVs) from 286 in FY19 (12), driving personnel expenses down to €26.3m from €28.8m in FY19. Consequently, operating profit reached €1.5m versus a €3.8m loss in FY19. Having said that, we note that this was mainly driven by transaction-based income and MPC's recurring revenue from management fees is still lower than its total operating expenses.

We also note that the non-operating result in FY20 was slightly negative, with income from equity investments declining from €7.0m in FY19 to €2.8m, and other interest and similar income falling to €1.8m from €2.4m in FY19. The former was closer to the FY18 level (€2.3m), after being significantly higher in FY19 due to successful exits from the Dutch real estate portfolio (TRANSIT) and BMG portfolio. The latter, which includes income from loans for project financing, suffered from a pandemic-driven slowdown in new investments. Consequently, pre-tax profit improved in FY20 to €1.3m from €0.9m, while the net loss excluding minorities reached €0.9m versus €2.2m in FY19.

Exhibit 1: Financial highlights

€000's unless otherwise stated	FY20	FY19	y-o-y change
Management services	*37,089*	*39,211*	*-5.4%*
Transaction services	*10,731*	*5,347*	*100.7%*
Other	*2,669*	*2,288*	*16.7%*
Revenue	**50,489**	**46,846**	**7.8%**
Other operating income	9,905	9,730	1.8%
Cost of materials/purchased services	(4,515)	(2,207)	104.6%
Personnel expenses	(26,332)	(28,838)	-8.7%
Depreciation & amortisation	(2,339)	(2,238)	4.5%
Other operating expenses	(25,690)	(27,111)	-5.2%
Operating profit	**1,518**	**(3,818)**	**N/M**
Income from equity investments	2,789	7,020	-60.3%
Other interest & similar income	1,830	2,412	-24.1%
Write-downs on financial assets	(1,575)	(1,431)	10.1%
Interest & similar expenses	(201)	(862)	-76.7%
Share of profit of associates	(3,097)	(2,471)	-25.3%
Pre-tax profit	**1,263**	**850**	**48.6%**
Taxes on income	(1,374)	(1,109)	23.9%
Result after tax	**(111)**	**(259)**	**-57.1%**
Other taxes	(36)	(65)	-44.6%
Consolidated net profit	**(147)**	**(323)**	**-54.5%**
Minority interest adjustment	(706)	(1,893)	-62.7%
Net profit attributable to shareholders of the parent	**(853)**	**(2,216)**	**-61.5%**

Source: MPC Capital accounts

In December 2020, MPC reinstated its FY20 guidance, which expected both revenue and pre-tax profit to remain on a par with FY19. In the event, both figures were slightly exceeded. For FY21, management guides to a slight y-o-y decline in revenue, driven by negative JV consolidation effects as discussed above which, together with lower operating costs following recent cost-cutting measures, should result in improved EBT. However, according to management, guidance is still highly dependent on future development of the COVID-19 pandemic. Current Refinitiv consensus implies €40.6m revenues in FY21 (a 19.6% decline vs FY20), but €5.9m pre-tax profit versus €1.3m reported in FY20.

Legacy AUM replaced with new institutional business

Although MPC's AUM declined in FY20 from €4.5bn to €4.4bn (with a net neutral revaluation impact), the company has reached the lower end of its target for bringing new assets onboard of €0.5–1.0bn pa. Over the year, it completed the scheduled €0.4bn in disposals from the legacy retail business and sold €0.2bn in institutional assets. We note, however, that the AUM of MPC's joint ventures is recognised in full rather than proportionately to its stake in the JVs. The continued reorientation towards institutional clients brought their share in the company's portfolio to 84% at end-2020 from c 78% at end-2019. Based on our conversation with management, we understand that it would further decline to become immaterial by 2022/23. As MPC completed the restructuring and streamlining of its business activities, it clearly defined the roles of individual group areas, with the parent serving as investment manager and co-investor, while the management units provide operational management of assets held by the investment vehicles. The company has developed internal ESG principles, which are an essential part of its investment policy, and created its own ESG scoring model for the assessment of potential acquisition targets. Its commitment to sustainable investing was reflected in the recent activity in real estate and infrastructure segments, as well as in its programme in the shipping sector to seek ways to use various propulsion systems and alternative fuels (eg LNG, LPG, biofuels and hydrogen) in response to new technology trends and environmental regulations.

Temporary collapse in shipping markets overcome

As the global economy partly reopened in Q320, world merchandise trade rebounded by 11.6% quarter-on-quarter after a 12.7% decline in Q220 according to the World Trade Organization (WTO), which now estimates the contraction in total trade volume in 2020 at 9.2%. The United Nations Conference on Trade and Development (UNCTAD) expects this to result in a 4.1% fall in global maritime trade in 2020. However, the unexpected initial negative demand has not severely affected the shipping market's profitability, as it was partially offset by the supply-control measures implemented by carriers. Starting from Q220, capacity has been significantly reduced through suspending services, blank sailing and re-routing vessels. Coupled with a recovery in demand for container shipping in H220 (driven by restocking amid stronger demand for consumer goods), freight rates have rallied since H120, with the New ConTex Index (index covering time charter rates for container ships) expanding in euro terms from 309 on 30 June 2020 to 876 on 2 March 2021. As both UNCTAD and the WTO expect a rebound in global trade volumes in 2021, this positive momentum could continue. We note that MPC's direct top-line exposure to charter rates is limited to fees from commercial ship management, which are tied to these rates.

The shipping segment remains the largest in MPC's portfolio with c €2.1bn AUM at end-2020 compared to €2.2bn at the beginning of the year. It was the segment most affected by the coronavirus outbreak in H120 due to the collapse in global trade, which resulted in a negative revaluation of the assets in the period, amounting to €0.3bn. Limited trade volumes affected both technical and commercial ship management operations, and led to another €2.5m write-down on MPC Container Ships (a container ship investor), after €3.1m in FY19. In July 2020, MPC recapitalised the subsidiary to stabilise its fleet. The impact was significant but short-lived as the market bounced back in H220 and income from the shipping segment added to both the management and transaction services total. In H220, MPC built a foundation for further expansion in the technical management area through the establishment of the Wilhelmsen Ahrenkiel Ship Management JV in July 2020, in which it holds a 50% share. It is aimed at further expansion of the fleet under management and international development of business services.

Resilient real estate business

Despite COVID-19, overall investment volume in the German real estate market fell by only 11% year-on-year to €81.6bn, with Q420 deal value (€23.3bn) already exceeding the quarterly average for the last five years (€19.5bn). The resilient 'living' sector (including residential, student housing and micro living) was most sought-after, with a €25.2bn transaction volume in FY20 (31% share) according to JLL, slightly ahead of the office segment (€24.5bn, c 30%). While the latter could be disrupted by higher adoption of home office and hybrid working models, the recent pick-up in transaction volume and continued yield compression suggests that this segment remains popular among investors. We note that the aggregate vacancy rate in the seven largest German cities increased from 3.0% at end-2019 to 3.7% at end-2020, with JLL projecting 4.5% in 2021. Some developers have already postponed new projects and focused on refurbishing existing properties.

Despite high investor demand (which made it more difficult to acquire new, attractively priced real estate assets), MPC brought onboard €0.3bn of new real estate assets over the period, with AUM reaching €1.9bn at end-2020. The new additions were made to the Dutch subsidiary Cairn Real Estate, especially in the logistics and office segments. In November 2020, Cairn completed a €120m capital increase to improve its firepower to further expand its portfolio, which at end-2020 consisted of 30 properties. Meanwhile, in Germany, MPC launched the ESG Wohnimmobilien fund, with a €300m targeted volume of investments specifically in housing projects meeting a wide range of sustainability criteria. In the first financing round, MPC raised €80m from insurance companies, and in February 2021 had already acquired its first project – a multi-family building in the Hamburg metropolitan region, with 33 residential units totalling c 2.7k sqm of living space (c 70% of the property is already let), designed in compliance with high energy standards. We note that MPC decided to withdraw from the micro apartments business due to disappointing progress.

Infrastructure leaning towards renewable energy

The focus of the infrastructure segment is on renewable energy solutions, which resulted in further development of solar and windfarms in the Caribbean and South America, assisted by the equity increase in the MPC Caribbean Clean Energy Fund at the start of 2020. Meanwhile, the company sold a solar park portfolio in Spain, which resulted in a decline in segmental AUM to €0.2bn. In early 2021, the company launched MPC Energy Solutions, a US$100m investment vehicle listed on the Oslo Stock Exchange, focused on developing sustainable and low-cost energy infrastructure.

Valuation

Due to the lack of direct peers or consensus estimates for them, we continue to value MPC against a group of German real estate managers. It is worth noting that the current market cap to AUM ratio of 2.0% (c 1.0% reported in previous years) includes full AUM of the company's JVs, rather than the amount proportionate to MPC's stake in them. MPC trades at a discount to peers based on FY22–23e P/E and EV/EBITDA multiples, due to expected operational improvement from a low base. Although MPC has not paid a dividend yet, it is targeting a 50% payout ratio, with consensus estimates of a €0.03 payment in FY22.

Exhibit 2: Peer group comparison

	Market cap	P/E (x)			EV/EBITDA (x)		
	(€m)	2021e	2022e	2023e	2021e	2022e	2023e
Corestate Capital	343.9	4.4	3.6	4.7	7.9	6.6	6.3
Patrizia	1974.7	22.9	21.0	21.0	12.8	11.8	11.1
VIB Vermogen	820.1	11.8	11.3	8.7	17.2	16.4	16.6
TLG Immobilien	2888.2	15.1	16.0	N/A	29.0	31.1	N/A
Average		**13.6**	**13.0**	**11.5**	**16.7**	**16.5**	**11.3**
MPC Capital	88.8	21.9	12.3	9.9	9.8	6.8	6.4
Premium/(discount)		**61.4%**	**(5.3%)**	**(13.8%)**	**(41.3%)**	**(58.6%)**	**(43.3%)**

Source: Refinitiv consensus at 9 March 2021. Note: EPS consensus for MPC Capital is based on the estimates of two analysts and EBITDA consensus is based on one analyst estimate.

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