

Lloyd Fonds

Healthy organic AUM expansion

In H121, Lloyd Fonds (LF) expanded its assets under management (AUM) within the new core business to €1.97bn (from €1.66bn at end-2020) and it is aiming for €2.4bn by end-2021. While its recent growth was organic, LF continues to search for attractive acquisition targets within the wealth management segment with AUM of at least €1bn. In June 2021, LF launched a c €5m offering of participation rights in LAIC Capital, in the form of blockchain-based tokens, with proceeds expected to assist further development of its highly digitalised business segment. On the back of this multi-factor growth, LF still targets €7bn AUM in 2024 and an EBITDA margin of 45%.

Improving top and bottom line in H121

Due to robust AUM growth and favourable market conditions, LF's revenues increased from €6.2m in H120 to €18.2m in H121, with c €15.6m attributable to management and performance fees. As this growth was only partially offset by higher cost of sales and personnel expenses, the H121 EBITDA and net income improved significantly to €7.2m and €3.7m, respectively (vs losses of €2.5m and €3.9m in H120). The operating cash flow in the period reached €13m (H120: outflow of €0.5m), which is close to the annual target range of €14–16m.

LF's fund performance driven by equity exposure

LF currently manages eight active investment funds, with varying AUM and risk profiles. In 2021 to date, all of them have recorded positive returns, ranging from 0.3% to 18.1%. The persistent record-low interest rate environment and post-pandemic broad equity market rebound favoured equity funds, which posted the strongest returns in the period. LF addressed this by keeping a high equity allocation in its mixed funds.

Valuation: Price to AUM ratio above peer average

As LF seems to still be in the AUM expansion phase, its price to AUM ratio of 6.4% sits 1.6pp above the peer group average. The early stage of operations under the new business model results in a moderate earnings level, with significant growth potential expected by the market (according to Refinitiv consensus). Consequently, LF's shares trade at a diminishing premium to peers, based on P/E multiples for 2021–23e. However, the EV/EBITDA multiples for the same period imply an expanding discount to the peer group average.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/20	8.2	(5.1)	(0.01)	0.00	NM	0.0
12/21e	33.4	3.8	0.10	0.00	92.3	0.0
12/22e	41.9	7.5	0.33	0.03	29.2	0.3
12/23e	52.9	12.6	0.49	0.03	19.6	0.3

Source: Lloyd Fonds accounts, Refinitiv consensus as at 3 September 2021

Fund management

3 September 2021

Price €9.54
Market cap €127m

Share price graph



Share details

Code L10A
Listing Deutsche Börse Scale
Shares in issue 13.3m
Last reported net debt at 30 June 2021 €11.5m

Business description

Lloyd Fonds positions itself as an integrated asset manager and partner for private customers and institutional capital. It aims to provide added value through transparent, active asset management, forward-looking digital solutions with the secondary brand LAIC, as well as individual and institutional asset management.

Bull

- Transformation to an active asset manager.
- Ambitious targeted AUM growth.
- New experienced management and sound balance sheet.

Bear

- Execution risk in business repositioning.
- A deterioration in the broader capital markets may affect its AUM growth.
- Regulatory risks of inorganic growth.

Analysts

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

financials@edisongroup.com

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H121 financials: Positive operating and net earnings

LF completed the repositioning of its business model to an active liquid asset manager in FY20 and now focuses on expanding its core AUM, reaching €1.97bn at end-June 2021, compared to €1.1bn at 30 June 2020. The fully organic growth was driven by strong customer acquisition (c 70% of the increase) as well as healthy fund performance (30%), according to management. In H121 alone, AUM expanded by 18.7%, from €1.66bn at end-2020, with the investment fund segment reaching c €1.4bn, wealth management €430m (assisted by a few larger mandate wins) and AI-supported individual portfolio management (LAIC) €140m.

H121 revenues were €18.2m (almost a threefold increase compared to €6.2m recorded in H120), with c €15.9m attributable to the new core business segment, LF Liquid Assets (€3.6m in H120). We note that SPSW Capital, the fund management subsidiary, contributed c €15.6m of management and performance fees, with a further €1.1m in sales commissions included in the LF Group total. The company also reported €1.1m in revenue from the real assets segment (vs €2.6m in H120), which consists of legacy assets in shipping, real estate, aircraft, etc, and is gradually being phased out.

Higher overall fund volume fuelled an increase in cost of sales from €0.3m in H120 to €1.3m in H121 due to higher distribution fees. LF also reported c 16.3% y-o-y increase in personnel costs to €5.9m. However, it was attributable to the costs of the employee stock option programme and phantom stock plan for the management rather than employment growth (73 employees as at end-June 2021 vs 72 a year earlier). Consequently, H121 EBITDA was €7.2m, compared to a loss of €2.4m in H120. LF significantly increased its financial results (financial income minus financial expenses), which was slightly positive in H121, against a negative €1.9m in H120. The improvement was assisted by the €6.7m growth in financial income, driven by a one-off revaluation to the fair value of LF's two associate companies which were reclassified as financial assets. Based on our conversation with management, we understand this was related to a carrying value uplift of shipping assets held by these companies. Financial expenses included one-offs as well: an adjustment of the purchase price liability related to SPSW Capital (€4.9m) acquisition and interest expense on this purchase price liability (€1.1m).

The net profit ex-minorities in H121 was €3.7m, compared to a net loss of €3.9m in H120. This helped increase equity to €47.2m at 30 June 2021 from 42.7m at end-2020, and improve the equity ratio to 42% (vs 37.6% at 31 December 2020). It is worth noting that the net profit attributable to SPSW minorities (LF holds a 90% stake in the business) amounted to €1.3m in H121.

Exhibit 1: Financial highlights

€000s	H121	H120	y-o-y
Revenues	18,156	6,150	195.2%
LF Liquid Assets	15,870	3,562	345.5%
LF Real Assets	1,105	2,578	-57.1%
LF Group	1,181	10	NM
Cost of sales	(1,329)	(254)	423.2%
Personnel costs	(5,896)	(5,068)	16.3%
Other operating result	(3,945)	(3,535)	11.6%
Result from associates	228	209	9.1%
EBITDA	7,214	(2,498)	NM
D&A	(1,942)	(1,794)	8.2%
Operating earnings (EBIT)	5,272	(4,292)	NM
Financial income	6,884	233	2854.5%
Financial expenses	(6,859)	(2,148)	219.3%
Pre-tax profit	5,297	(6,207)	NM
Income tax	(256)	2,437	NM
Net profit	5,041	(3,770)	NM
Minorities	(1,330)	(154)	763.6%
Net profit ex-minorities	3,711	(3,924)	NM

Source: Lloyd Fonds accounts

In the period, the company has slightly reduced its net debt from €12.4m to €11.5m. Meanwhile, the operating cash flow improved to €13m (from an outflow of €0.5m in H120) and is close to the management target for FY21 of €14–16m.

According to management guidance, the company expects further AUM expansion (mainly organic) in FY21, targeting €2.4bn by the end of the year. It also continues to target AUM of €7bn by end-2024, as it wants to play significant role in the asset management market consolidation process, looking for attractive acquisition opportunities within the wealth management segment with at least €1bn AUM per entity. Having said that, we note that LF has not completed any acquisitions in FY20 and in FY21 to date. Before the end of 2024, LF also wants to reach a 45% EBITDA margin, calculated based on net sales (revenue less costs of sales), which was 43% in H121.

Successful issue of LAIC Token 21

On 29 June 2021, the supervisory board approved the offering of up to a 9.75% share in LF subsidiary LAIC Capital, in the form of blockchain-based participation rights (LAIC Token 21). Based on the subsidiary's valuation amounting to c €50m, the expected proceeds from the sale, executed in two tranches by the end of August 2021, reached c €5m (the first tranche already sold in June and July amounted to €4.2m). Proceeds from the LAIC token raise will be used, among others things, for investments in the infrastructure behind the LAIC platform (including the API interface), as well as strengthening its marketing and distribution efforts. In addition to further expansion financing raised in the process, the purpose of the issue is also to realise first-mover advantages in the tokenised assets market, as LF's management believes it is the future of capital markets. The experience gained during the offering could be used in the tokenisation of similar assets (including LF's funds) providing access to new groups of investors, and potentially improving the company's top line by accelerating the growth of the business.

Fund performance assisted by strong equity markets

Currently, LF's portfolio consists of eight investment funds with various risk profiles. **LF Active Value Selection**, which is not being offered to private investors, focuses on small and mid caps in the DACH region, mainly in Germany. It is fully invested and it is the only fund in the portfolio holding short equity positions, amounting to c 3.6% of its assets as at 31 March 2021 (last available factsheet). **LF European Emerging Champions**, which was launched on 1 June 2021, targets small and mid caps from innovative sectors, including IT (40.9% exposure as at 31 July 2021) and healthcare (20.1%). We note that almost 50% of the fund's assets are in Scandinavia, with Germany ranking second with a 34.7% share. **LF European Hidden Champions** focuses on micro and small caps from IT (43%) and industrial (16.7%) sectors, located mainly in Germany (56.4%). **LF Green Dividend World**, which invests in dividend-paying companies, offers more diversified exposure in terms of region and sector, similar to both mixed funds (**LF WHC Global Discovery** and **LF Global Multi Asset Sustainable**).

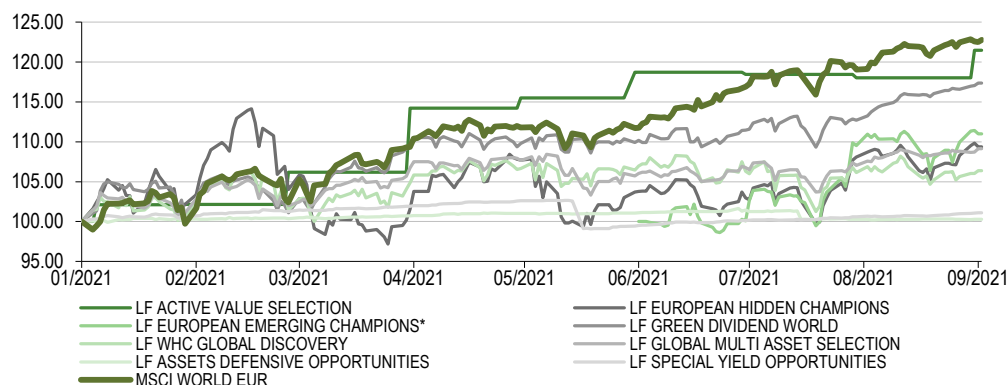
Exhibit 2: Funds managed by Lloyd Fonds

Fund's name	Type	Total assets** (€m)	Year-to-date performance**	One-year performance
LF Active Value Selection	Equity/hedge fund	64.8***	21.5%	47.7%
LF European Emerging Champions*	Equity fund	7.8	11.0%	N/A
LF European Hidden Champions	Equity fund	177.5	9.4%	9.9%
LF Green Dividend World	Equity fund	26.3	17.4%	19.2%
LF WHC Global Discovery	Mixed fund	578.9	6.4%	7.1%
LF Global Multi Asset Sustainable	Mixed fund	121.2	9.1%	11.9%
LF Sustainable Yield Opportunities	Fixed income fund	71.9	1.1%	4.7%
LF ASSETS Defensive Opportunities	Fixed income fund	93.6	0.3%	1.3%

Source: Lloyd Fonds, Refinitiv, Edison Investment Research. Note: *The fund was launched on 1 June 2021, **as at 2 September 2021, ***last available data as at 31 March 2021.

All of the funds managed by LF group reported positive returns in a one-year period and year-to-date as at 2 September 2021. They mainly benefited from the post-pandemic rebound in the broad equity market (MSCI World up 22.8% year-to-date in euro terms), as even the mixed funds hold a significant share of their assets in equities (LF WHC Global Discovery: 92.7%; LF Global Multi Asset Sustainable: 71.3%). Meanwhile the fixed-income funds recorded muted returns in 2021 to date, as they continue to operate in a record-low interest rate environment.

Exhibit 3: Lloyd Fonds' funds ytd performances (rebased to 100 as at end-2020)



Source: Refinitiv, Edison Investment Research

Valuation

For valuation purposes, we continue to compare LF with a peer group including international asset managers, which (except for Frenkel Topping) have significantly higher market capitalisation and more AUM. Based on the last available data, LF's price to AUM ratio sits at 6.4%, which is 1.6pp higher than the peer group average. We believe this could be attributable to the ambitious AUM expansion plans of LF's management and initial success in its realisation, which led to an over 50% year-to-date share price increase.

Based on P/E multiples for 2021–23e, LF trades at a significant, however rapidly diminishing, premium to peers, which, we believe, is related to the early stage of the strategic shift towards active asset management. Having said that, we note that in H121 the company's EPS was €0.28, while Refinitiv consensus EPS estimates as at 3 September 2021 stand at €0.10 per share in FY21. Meanwhile, based on EV/EBITDA multiples for 2021–23e, the company's shares trade at an expanding discount to peers. We believe that the difference in valuation based on both multiples could be attributable to the significant portion of profit attributable minorities (which EBITDA is not adjusted for), according to Refinitiv consensus data. As management expects significant new investments in the short and mid term, LF will not pay out any dividend from FY20 earnings.

Exhibit 4: Peer group comparison

	Market cap (m)	P/AUM	P/E (x)			EV/EBITDA (x)		
			2021e	2022e	2023e	2021e	2022e	2023e
Flatex	€2,465	6.2%	23.6	15.6	12.8	18.2	12.9	10.7
Frenkel Topping	£78	7.7%	25.2	20.5	14.9	14.8	12.1	9.7
Ashmore Group	£2,797	4.1%	14.3	16.4	15.0	10.4	10.6	9.6
Azimut Holding	€3,403	4.5%	9.1	9.6	9.1	8.4	8.7	8.5
Jupiter Fund Management	£1,479	2.5%	9.2	10.2	9.5	5.4	6.0	5.7
Man Group	£3,078	3.2%	9.6	11.6	10.4	6.6	8.2	7.8
Impax Asset Management	£1,603	5.3%	42.3	29.4	25.0	33.5	24.2	22.3
Peer group average		4.8%	19.0	16.2	13.8	13.9	11.8	10.6
Lloyd Fonds	€127	6.4%	92.3	29.2	19.6	13.0	9.4	7.0
Premium/(discount) to peers		1.6pp	385%	80%	42%	(6%)	(21%)	(34%)

Source: Refinitiv consensus as at 3 September 2021, Lloyd funds and peers' financial statements

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