

## Helma Eigenheimbau

**Real estate**
**24 August 2021**

### Business expansion regains momentum

In H121, Helma Eigenheimbau (Helma) reported a 41.2% y-o-y improvement in revenue to €161.4m and a 70.7% y-o-y increase in new order intake to €197.2m. With a significant land bank, offering c €1.8bn potential revenue to be realised over the next five to seven years, the company is well-positioned to continue its robust business expansion in all three segments. Management confirmed its guidance of total group revenue of €300–310m and EBT of €25–26m in FY21, targeting €400m and €40m, respectively, by 2024. The company also expects annual new order intake in FY21 to exceed the FY20 figure of €312.5m by 20–25%.

### Sales increase skewed towards high-margin activities

The holiday property development unit more than doubled its revenue in H121, reporting €51.9m (versus €23.6m in H120), the second-largest top-line contribution. Furthermore, residential property development sales expanded by 40.8% y-o-y, while the construction services unit reported just 4.0% y-o-y improvement in H121. The increased share of group sales of these two high-margin property development divisions fuelled an 83.1% y-o-y improvement in EBIT to €12.7m and a 92.1% increase in net income after minority interests to €8.7m. Meanwhile, net debt reduced slightly to €194.4m at end-June 2021, improving the equity ratio to 28.5% from 27.5% at end-2020.

### Residential real estate leads H121 transaction activity

Overall investment volumes in the German real estate market reached €34.1bn, slightly exceeding the previous five-year average of €33.1bn for the first half of the year, according to Jones Lang LaSalle (JLL). The broad residential sector remains the largest contributor, with a c 35% share of total trade volumes in the German real estate investment market, but Q221 figures suggest some return to the pre-pandemic market structure, which was dominated by the office segment.

### Valuation: Trading on a premium to peers

After a strong share price rally in 2021 year to date, the company trades at an average premium to peers for 2021–23e consensus figures of c 24% on P/E and c 70% on EV/EBITDA multiples. Meanwhile, the latest dividend payment of €1.54 per share, which was the maximum distribution allowed by the company's policy, translates into a moderate 2.3% dividend yield.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/20	274.0	22.5	3.84	1.54	17.4	2.3
12/21e	316.0	27.0	4.56	1.84	14.7	2.8
12/22e	347.9	32.2	5.54	2.15	12.1	3.2
12/23e	383.8	37.4	6.46	2.45	10.4	3.7

Source: Helma Eigenheimbau accounts, Refinitiv consensus as at 24 August 2021. Note: Consensus data for Helma is based on the estimates of four analysts.

**Price** €67  
**Market cap** €268m

#### Share price graph



#### Share details

Code	H5EX
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Last reported net debt at 30 June 2021	€194.4m

#### Business description

Helma Eigenheimbau provides planning, sales, finance advisory and construction services for turnkey, low-rise domestic properties. It operates in the surroundings of major cities and selected holiday locations. The property development segment is operated by Helma Wohnungsbau, while Helma Ferienimmobilien offers pre-planned holiday properties and apartments including land plots.

#### Bull

- Supply shortage in the German residential real estate market.
- Strong track record.
- Integrated services suited to customer needs.

#### Bear

- Tightening of lending conditions for real estate financing facilities.
- Bottlenecks in the German residential market.
- Limited availability of building land.

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## H121 Financials: Top line increased by 41.2%

Helma continues to benefit from the strong demand for accommodation in suburban areas of large cities, which combines the advantages of living in the countryside and being relatively close to the city centre. This trend gained even more momentum after COVID-19, as people spent more time at home, which often also served as their workplace due to increased adoption of home office and hybrid working models. Helma's new order intake in H121 reached a record high of €192.7m (versus €115.5m in H120), after reporting €312.5m in FY20, the highest annual figure in the company's history. Having said that, we note that y-o-y comparisons against H120 new order intake are materially distorted due to the initial impact of the pandemic, which led to a c 17.8% decline versus the H119 total.

A strong order book position of €240.6m (in line with IFRS) at the start of H121, assisted by new business won in the period, fuelled a 41.2% y-o-y increase in revenue to €161.4m, with a further €266.8m in the pipeline as at 30 June 2021. With c 68% of higher-margin sales in the property development segment in H121, Helma recorded an 83.1% y-o-y improvement in EBIT (€12.7m versus €6.9m in H120) and a 92.1% increase in net income after minority interests (€8.7m versus €4.5m in H120). The corresponding margins expanded to 7.8% and 5.4%, respectively, from 6.1% and 4.0%.

Helma reported a slight decrease in net debt to €194.4m at 30 June 2021 (versus €198.4m at end-2020), which helped bring the equity ratio to 28.5% (versus 27.5% at end-2020). The average interest rate on the group's financial liabilities at 30 June 2021 fell to 2.13% from c 2.23% at end-2020 and, according to management, sits well below the average of the company's competitors.

<b>Exhibit 1: Financial highlights</b>			
€000s	H121	H120	Change y-o-y (%)
<b>Revenue</b>	<b>161,372</b>	<b>114,247</b>	<b>41.2%</b>
<i>Helma Eigenheimbau (construction services)</i>	50,643	48,701	4.0%
<i>Helma Wohnungsbau (property development)</i>	57,939	41,159	40.8%
<i>Helma Ferienimmobilien (property development)</i>	51,884	23,624	119.6%
<i>Hausbau Finanz</i>	906	763	18.7%
Change in stocks of finished goods and work in progress	1,179	27,870	-95.8%
Other operating income	682	776	-12.1%
Expense for materials and third-party services	(122,984)	(112,321)	9.5%
Personnel expense	(14,060)	(12,629)	11.3%
Other operating expenses	(12,193)	(9,817)	24.2%
<b>EBITDA</b>	<b>13,996</b>	<b>8,126</b>	<b>72.2%</b>
Depreciation/amortisation	(1,338)	(1,211)	10.5%
<b>Operating earnings (EBIT)</b>	<b>12,658</b>	<b>6,915</b>	<b>83.1%</b>
<i>EBIT margin</i>	7.84%	6.05%	179bp
Finance expenses	(294)	(367)	-19.9%
Other financial result	71	58	22.4%
<b>Earnings before taxes (EBT)</b>	<b>12,435</b>	<b>6,606</b>	<b>88.2%</b>
<i>EBT margin</i>	7.71%	5.78%	193bp
Income tax	(3,759)	(2,081)	80.6%
<b>Net income before minority interests</b>	<b>8,676</b>	<b>4,525</b>	<b>91.7%</b>
Minority interests' share of earnings	(16)	(16)	0.0%
<b>Net income after minority interests</b>	<b>8,660</b>	<b>4,509</b>	<b>92.1%</b>
<i>Net margin</i>	5.37%	3.95%	142bp

Source: Helma Eigenheimbau accounts, Edison Investment Research

On the back of robust H121 results, management has reconfirmed its guidance for FY21, targeting total group revenue of €300–310m and EBT of €25–26m. It also added that the total new order intake for FY21 will probably exceed FY20's €312.5m by c 20–25%.

Considering that Helma's performance has historically shown strong seasonality, with results in the second half of each year significantly above those of the first half, the company's guidance could be viewed as conservative. H121 revenue of €161.4m and EBT of €12.4m already represent c 52%

and 48% respectively of current full year guidance. However, we note that uncertainty in the market remains high due to potential new waves of the pandemic and resulting business disruptions.

## Targeting €400m revenue and €40m EBT by 2024

The company has also repeated its medium-term guidance for revenue exceeding €400m by 2024 at the latest, with at least €125m contributed by the construction services segment operated by the parent company and the remaining €275m attributable to the property development business. The favourable revenue mix, with an enhanced stream from higher-margin segments, would be key to achieving EBT of €40m in the same period, which implies a 10% margin. That said, we note that the revenue structure in H121 with 68% and 31% shares of the property development segment and construction services, respectively (with c 1% attributable to financial services) is on a par with the targeted mix. Meanwhile, the EBT margin in the period amounted to 7.7% (versus 5.8% in H120).

According to management's calculations, the revenue potential of the property development segment, based on the land bank held at 30 June 2021 (including contractually secured land plots not yet presented in the assets due to post-balance sheet date payment terms), amounts to c €1.8bn and is on a par with the end-2020 total. Management assumes that most of this potential revenue could be realised within five to seven years, which translates into an average annual level of €257–360m. However, we note that the company is still looking to acquire attractive new land plots, which would further enhance its revenue potential in the medium term.

## All three segments exceeded €50m revenue mark

The parent company, which was the largest contributor to group sales in H121, reported only a 4.0% y-o-y increase in revenue to €50.6m (versus €48.7m in H120), which fell short of the results of both its subsidiaries. Meanwhile, the residential property development unit's (Helma Wohnungsbau) sales expanded 40.8% to €57.9m and the trade volume in the holiday property development business more than doubled to €51.9m. We believe the latter has benefited from an increase in domestic holidays, driven by travel limitations during the pandemic, as well as the low interest rate environment. These make this an attractive sector for some risk-averse investors looking for opportunities in the real estate segment. As these properties potentially offer higher yields (higher prices per night than long-term lease agreements) with a lower initial capital requirement (usually smaller sizes than traditional residential properties), they could be considered an attractive investment opportunity. On 31 May 2021, the company announced the sales launch of large projects in Berlin (Havelmarina – NordVillen) and on the North Sea coast (NordseeResort Burhave), which will support the property development segment's results in the near future.

Exhibit 2: Revenue and new order intake across business segments						
€000s	Segment revenue			New order intake		
	H121	H120	y-o-y	H121	H120	y-o-y
Helma Eigenheimbau	50,643	48,701	4.0%	83,897	51,365	63.3%
Helma Wohnungsbau	57,939	41,159	40.8%	70,057	40,199	74.3%
Helma Ferienimmobilien	51,884	23,624	119.6%	43,220	23,930	80.6%
Hausbau Finanz	906	763	18.7%			
<b>Total</b>	<b>161,372</b>	<b>114,247</b>	<b>41.2%</b>	<b>197,174</b>	<b>115,494</b>	<b>70.7%</b>

Source: Helma Eigenheimbau accounts

The slight relative underperformance of the construction services unit (Helma Eigenheimbau) versus the property development business could be a one-off event. This is because the segment's new order intake in H121 is not only the highest among the subsidiaries (€83.9m), but has also increased the most against the pandemic-hit H120 in nominal terms (up by €32.5m). However, we note that in the event of limited construction resource and capacities, the company tends to allocate them to projects offering higher margins (in the property development segment), potentially postponing realisations within the construction services unit.

## Transaction volume and construction activity picks up

The German real estate market is slowly rebounding from the impact of COVID-19, as the overall investment volume in H121 reached €34.1bn, according to JLL, which is c 22% below the H120 total of €42.4bn. We note, however, that the H121 figure slightly exceeds the previous five-year average (€33.1bn) for the first half of the year. Meanwhile, recent quarterly figures surpassed the results of Q220 and Q320, which were also affected by the pandemic. As market uncertainties related to new coronavirus mutations persist, the resilient 'living' sector (including residential, student housing and micro living) remains the most sought after, with a €11.9bn transaction volume in H121 (35% share) based on JLL's research. However, in Q221 alone, the living sector's share of overall trade volumes in the broad German real estate investment market fell to 25% and ranks second to the office segment, which is returning to a pre-pandemic investment market structure. We also note that construction activity in the residential segment is picking up – according to Federal Statistical Office of Germany (Destatis) data, aggregate turnover in the sector in April and May 2021 was only 5.6% short of the Q121 results, and 6.5% above corresponding period in 2020.

## Valuation: Share price rally results in premium to peers

For valuation purposes, we continue to compare Helma with a peer group of residential real estate developers, including Instone, a domestic peer, and three in Europe: Bonava (Sweden), Taylor Wimpey and Barratt Developments (both in the UK). In 2021 year to date, Helma's share price has increased by almost 64%, reaching an all-time high of €69.0 per share in the meantime (at close on 16 August 2021). Consequently, it currently trades at an average premium of c 24% to peers based on consensus P/E multiples for 2021–23e. Meanwhile, the EV/EBITDA multiple, which probably reflects Helma's relatively high leverage and the net cash positions of its British peers, implies an average premium of c 70% for 2021–23e consensus figures.

Helma continues to distribute the maximum allowed by its dividend policy to shareholders – the permitted payout ratio is 25–50% of net profit generated by the parent company, according to the accounting standards of the German Commercial Code. However, due to the recent share price rally, the annual distribution of €1.54/share translates into a moderate 2.3% dividend yield in FY20.

**Exhibit 3: Peer group comparison**

	Market cap (m)	EV/EBITDA (x)			P/E (x)		
		2021e	2022e	2023e	2021e	2022e	2023e
Bonava	SEK9,696	11.7	8.7	7.3	13.3	9.4	7.8
Instone Real Estate	€1,278	10.2	8.2	7.1	13.9	10.7	9.1
Taylor Wimpey	£6,282	7.0	6.2	5.4	10.2	9.1	8.3
Barratt Developments	£7,184	7.7	7.1	6.7	9.9	9.3	9.0
<b>Peer group average</b>		<b>9.2</b>	<b>7.6</b>	<b>6.6</b>	<b>11.8</b>	<b>9.6</b>	<b>8.5</b>
Helma Eigenheimbau	€268	15.3	13.0	11.3	14.7	12.1	10.4
<b>Premium/(discount) to peer group</b>		<b>66%</b>	<b>72%</b>	<b>71%</b>	<b>24%</b>	<b>26%</b>	<b>21%</b>

Source: Refinitiv consensus at 24 August 2021. Note: Consensus data for Helma is based on the estimates of four analysts.

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