

Helma Eigenheimbau

Home builders

12 May 2017

Ready to drive home value

Helma Eigenheimbau provides an opportunity to gain entry into a growth company in a positive phase for the sector, at a time when home ownership is getting government encouragement. Federal government is responding to a recent decline in home ownership to 51.9%, versus 53.4% five years ago, by providing incentives, which along with low interest rates and population growth provides a favourable backdrop. The shares declined a little further after the results for 2016 were released in early March and have fluctuated between €38 and €40 since then. They are still below the 12-month peak levels but up 4x from the 2012 low point. The company issued guidance recently (23 February 2017) that lowered the expected rate of growth in 2017-18 to around 10% pa for revenue and earnings; the share price reaction was overly harsh, in our view.

Well positioned for continued growth...

Helma posted record revenue in 2016, up 25% on the prior year at €263.8m, and EBIT was up 22% to €19.6m. The rapid growth in revenue in the last five years (CAGR 23%) and in EBIT (CAGR 32%) is expected to decline over the next three years as the rate at which detailed planning is achieved has slowed across the whole market, according to Helma management. Notwithstanding that issue, the company expects that it will grow sales and earnings at 10% a year 2017-2019, which is ahead of the expected overall development in the housing market. In the last two years Helma has expanded its land holdings and shown substantial growth in its operations that develop land and dwellings in urban and holiday areas.

...though short-term caution is right

The company has been slightly more cautious in its recent guidance. Management has taken into account a wide range of information and concluded that growth of 10% pa in revenue and earnings is now likely.

Valuation: Room for share price growth

Helma's valuation is broadly similar to that of the UK and US housebuilders on P/E and at a premium on EV/EBITDA. The recent share price decline was triggered by slowing growth, but normally 10% growth would be quite interesting. However, the market was hoping for and possibly pricing in a much faster growth rate. We sense that after a short period of adjustment the share price might respond positively.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	210.6	14.9	2.7	0.79	14.4	2.0
12/16	263.8	19.6	3.4	1.10	11.5	2.8
12/17e	293.0	18.4	3.2	1.25	12.2	3.2
12/18e	330.0	22.7	3.9	1.50	10.0	3.8

Source: Helma Eigenheimbau, Bloomberg

Price **€39**
Market cap **€156m**

Share price graph



Share details

Code H5EX
Listing Deutsche Börse Scale
Shares in issue 4m
Last reported net debt at 31 December 2016 €124m

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 mainly in cities in middle and north Germany and in Munich.

Bull

- Growth track record.
- Market trends currently favourable.
- Integrated services suited to customer needs.

Bear

- Market is cyclical.
- Development risk always present.
- Slow planning departments causing delays.

Analysts

Stephen Rawlinson +44 (0)20 3077 5700
Toby Thorrington +44 (0)20 3077 5700

industrials@edisongroup.com

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Company description: Building homes successfully since 1980

Helma Eigenheimbau was formed in 1980 by Brigitte **Hellwich** and Karl-Heinz **Maerzke**; the combination of the first few letters of the surnames provided the name of the company. It floated on the Frankfurt Stock Exchange in September in 2006 at a price of €20.00 with the intentions of creating liquidity in the shares and raising new capital for growth. Since the flotation the number of shares in issue has increased from 2.6m to 4.0m, as new capital has been raised. The company has also used debt facilities to fund its expansion as that provides a superior return for existing shareholders than new equity. The company moved to the new Scale segment of the Frankfurt Stock Exchange on 1 March 2017.

The business operates through four divisions:

Eigenheimbau division. Helma started its operations by building houses for private end users on their sites, across the country. Its emphasis is on quality, using solid construction methods, and design, according to customers' bespoke requirements. Over 50% of dwellings built in Germany are "self build", meaning that the home owner builds on a plot they own, with infrastructure already provided on site (roads, utilities, drainage), usually using the services of a company such as Helma. The rate of self build varies across Europe from around 15% in the UK to 80% in Austria.

Wohnungsbau division. In 1984 Helma developed further by creating homes, houses and apartments, on land it owned, for private end-users and institutional investors with long-term time horizons. Effectively it started operating as a developer. This activity continues today with a focus on Berlin, Hamburg, Hanover, Leipzig and Munich. This is now the largest area of the company's operation in revenue terms, accounting for 53% of the total in 2016. The division develops residential sites and properties using the company's land, however risk is reduced by many of the dwellings being pre-sold and the working capital burden is lowered by the customer making staged payments.

Hausbau Finanz division. This division provides broking activities in finance and insurance to support the company's mainstream operations and other customers. While this remains a small part of operation in revenue terms, it is an important element in customer service.

Ferienimmobilien division. A most recent new area of the company's activities was created in 2011 when it started its holiday property development business. This part of the business develops, plans and sells holiday properties for private use and for institutional investors, operating at present, mainly in the Baltic sea region.

Helma provides an integrated offering for the potential home owner and for investors. The company refers to offering a "one-stop" shop for its customers. Exhibit 1 shows the breakdown of revenue by each of the main operating divisions. The Eigenheimbau operation has increased 32% since 2012 in revenue terms to €92m. However, due to faster growth in other areas it is now just 35% of total revenue. The holiday homes operation is the main success story with revenue up nearly 5x since 2012 and in the Wohnungsbau division revenue is 3.7x higher over the five-year period. Future expansion is expected to be biased towards the parts of the business that build on Helma land and the company aims to be a leader in holiday homes in Germany.

Exhibit 1: Contributions of group companies to consolidated revenue

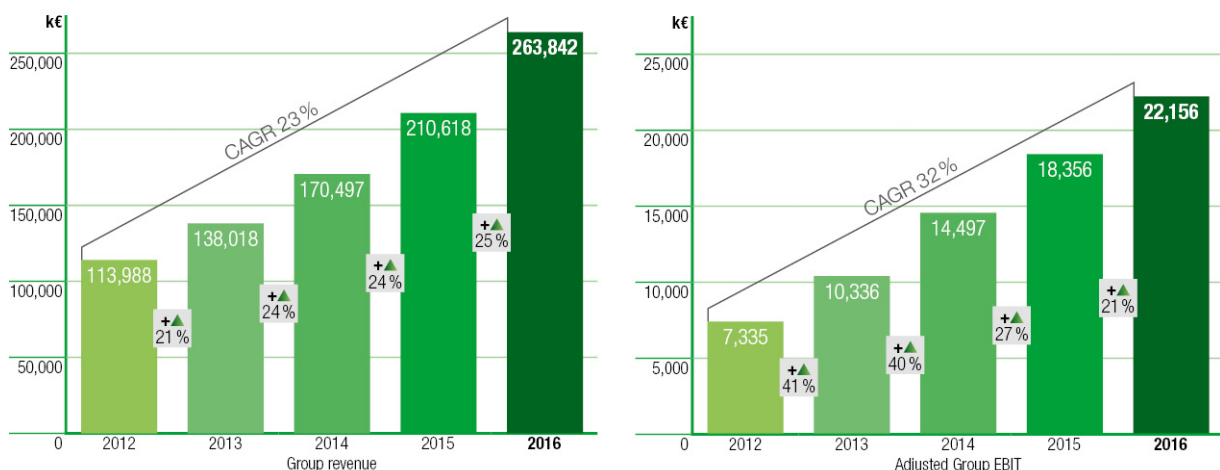
in k€	2016	Share in %	2015	Share in %	2014	Share in %	2013	Share in %
HELMA Eigenheimbau AG*	91,864	34.8	78,245	37.1	77,352	45.4	72,460	52.5
HELMA Wohnungsbau GmbH	139,428	52.9	110,916	52.7	65,717	38.5	59,533	43.1
HELMA Ferienimmobilien GmbH	31,657	12.0	20,679	9.8	26,695	15.7	5,494	4.0
Hausbau Finanz GmbH	893	0.3	778	0.4	734	0.4	531	0.4
Total	263,842	100.0	210,618	100.0	170,497	100.0	138,018	100.0

*HELMA LUX S.A. was merged with HELMA Eigenheimbau AG in 2014. The revenue of HELMA LUX S.A. in FY 2012-2013 is included in the figures for HELMA Eigenheimbau AG

Source: Helma Eigenheimbau annual report 2016

Exhibit 2 below shows the revenue and earning progression for the last five years. The compound growth rates achieved are rapid relative to the housing market. Market conditions have been good and improving in the five year period but Helma's achievements are ahead of the market growth in terms of revenue and the margins, on average rose throughout the period. Operating margin fell to 8.4% in 2016, from 8.7% in the prior year due in part to the changed mix of work. Company guidance is that operating margins will remain in the 7-10% range in the future.

Exhibit 2: Revenue progression 2012-16 and EBIT progression 2012-16



Source: Helma Eigenheimbau annual report 2016

The main elements of the success of the company arise from a number of key factors:

- Within the Eigenheimbau operation, the company's appeal is to customers who want solid construction, the option of individual planning and an energy efficient construction. The main benefit for Helma's customers is the ability to create an individual home alongside the use of traditional, well-proven construction methods.
- The company has a Sampling Centre at its headquarters in Lehrte, where prospective and existing customers can examine all of the Helma fixtures and fittings. The key commercial feature is that customers can examine a wide range of aspects of their Helma home from taps through to roof tiles. This has the benefit for customers of avoiding extensive and time-consuming searches for items to individualise their new dwelling. In addition to this central facility, the company had 29 show houses, at end 2016, available for customer inspection. Some of these are part of an estate development and are sold, whereas others have a longer-term purpose for the company and are retained.
- Helma claims that it provides innovation in terms of build process and energy usage within the properties. This is a positive benefit for customers in terms of running costs and sustainability.

- The security that Helma provides for customers is another key strength and a benefit of being quoted. Most competitors are family organisations. Part of the scope of service for customers is the Helma BauSchutzBrief, a construction and insurance product that provides cover during and after the sales and handover period.
- In the holiday homes market Helma offers packages that allows the owner to purchase furniture, insurance, building and estate management and rental management according to individual needs. The benefit of Helma's approach is that it allows the home owner to outsource all of the day-to-day handling of the property should they wish to do so.

Strategy is to expand, mainly building on its own land

Helma's strategy is to continue to expand in Germany with the existing four areas of operations and to have a greater focus on the Wohnungsbau and Ferienimmobilien operations. Differentiation will be provided by the focus on design, the integrated offering including design, build, land acquisition and financing, the use of traditional construction methods and by having an integrated offering for customers that helps them create their home with the least possible hassle and effort.

In terms of its key elements the strategy comprises:

Geography: the main areas will continue to be most of the country though mainly in the key cities in middle and north Germany and around Munich.

Locations: the company focuses primarily on urban sites near transport links in its two main divisions and in the holiday homes operation on seaside locations.

Customers: the target market is people 25-45 years old in middle and upper income groups who wish to establish a family home; lower income groups can access Helma homes with state subsidies.

Materials choice: Helma's approach is centred around customer choice. The planning regulations in most of Germany make a presumption in favour of the builder.

Build technique: the company uses solid construction methods, in which the building envelope is fabricated from block and render and/or brick and the interiors are partitioned using block and plaster. Competitors can use timber frame and offsite modular techniques that incorporate different types of materials; solid construction accounts for 83% of new residential build.

Innovation: the company is innovative in its approach to creating choices for customers, especially around energy efficiency and sustainability.

Helma employs 290 people. That number has doubled in recent years to accommodate the growth that has been achieved and allow for further expansion, enabling it to fulfil its strategy. The full time staff comprise administration, design and project management experts. The build process is carried out through a network of over 600 subcontractors, who are based locally throughout the regions in which Helma operates. Management tells us that the steady flow of work and the prompt payment it ensures are critical to maintaining loyalty and good workmanship. Many of the companies used are small and are adequate for the mainstream product but some of the larger projects are built by larger general contractors. The strategy of using subcontractors is an important feature.

In order to deliver the expansion plan Helma has steadily increased its land holdings. The company purchases land for development in the Wohnungsbau and Ferienimmobilien operations. That provides a strong asset base for the company and the platform for future growth. Land for housing is generally stable in value in Germany so there is limited risk to the company from this element. The increase in inventories from €8m in 2010 to €173m in 2016 is substantially additional land holdings the company has acquired to expand the operations, especially in the Wohnungsbau operation.

Competitive landscape

Helma operates in markets with a high number of potential competitors. It has a different set of rivals in each of the three main parts of the business.

The **Eigenheimbau** operation competes with three main operators that offer design and build dwellings, usually two-storey family homes, on the customer's plot. They are Town and Country Haus, Viebrockhaus and Heinz von Heiden. The main concept for all three is the same, which is to operate in several Länder and offer a number of designs and house types from which customers choose their own package, to be site built, usually by the chosen company's selected sub-contractors in the region. There are some slight variations in that Town and Country is purely a house design and build operator. In 2016 Town and Country sold 4,188 homes, an 8% rise on the prior year. Order intake rose 13% to 4,188 units. Viebrockhaus operates in the Netherlands as well as Germany and maintains a rental portfolio of its own properties, situated mainly in the north-west of the country. Heinz von Heiden is a subsidiary of Mensching Holdings. It sells not only design and constructs, but also builds elements of the houses (eg roofs, wiring looms) and runs materials logistics from its 80,000 square metre site in Magdeburg. Each of these companies is privately owned.

In the **Wohnungsbau** segment there are a number of different competitors in each area. Project Immobilien features in three of the five main urban areas in which Helma operates, and Bonava (a Swedish company, listed on the Nasdaq Stockholm stock exchange) and cds Wohnbau feature in two of them. Development of land dwellings tends to be focused around the main cities and has a bias towards apartments, in which the custom build model would not work. Competitors include:

- In Hamburg, Otto Wulff, Hamburg Team, Lorenz Gruppe, cds Wohnbau, Behrendt, Ditting, Manke, Bonava and Project Immobilien.
- In Hanover, Gundlach Bau, Gerlach Wohnungsbau, Fischer-Bau and Meravis.
- In Berlin, Groth Gruppe, Primos Immobilien, Baywobau, cds Wohnbau, interhomes, Bonava and Project Immobilien.
- In Leipzig, KOWO Immobilien TIConcept and Wohnbau Wienmann.
- Finally, in Munich, Concept Bau, RS Wohnbaum Demos Wohnbau, Baywobau, Terrafinanz Wohnbau, MunchenWohnbau, HI Wohnbau and Project Immobilien.

Most of Helma's competitors are privately owned companies that have a number of construction sector related interests ranging from holiday homes to large-scale construction work. They tend to have a strong base in their region with only a few operating nationally. The level of local knowledge is high and needed in order to access land and planning permissions on the best terms possible.

Competition between the developers is based on the location of the dwelling, but also around building design, materials used (accessories as well as construction envelope, solid versus timber or steel frame) and running/energy costs. There is a high level of choice of bespoke items available from most developers, which allows a substantial element of personalisation, a key competitive factor.

In the holiday homes operation, the **Ferienimmobilien** division, there is limited competition, with Planet Haus, Lindner and Bonava providing some rivalry. Planet Haus is a specialist holiday home maker that operates in the Baltic area in both Denmark and north Germany. Bonava is based in Sweden and builds a wide range of properties in Germany as well as the Nordic countries, with over 11,000 built last year.

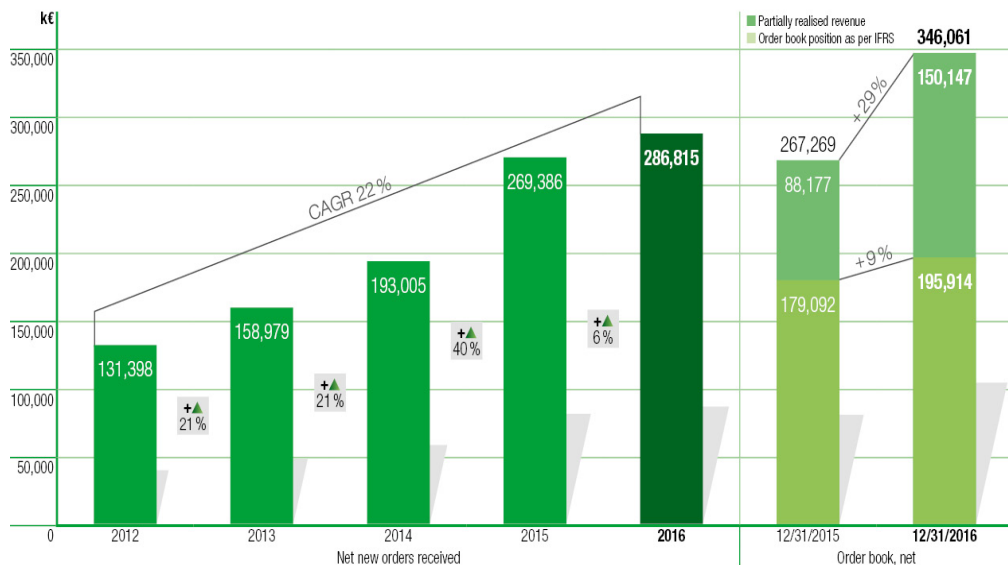
Recent newsflow has been mixed but realistic

The recent results for 2016, released on 9 March 2017, were in line with company guidance. They were preceded by indications on 23 February that planning delays, due to high levels of activity, had adversely affected guidance for 2017 and 2018. The company more recently indicated 2019

revenue and earnings growth will be similar to that of 2017 and 2018. We regard the new guidance as providing an extra layer of caution and certainly not a change in the direction of the business.

The group order intake position at the end of 2016 was strong, as shown in Exhibit 3. The slightly slower order growth reflects an unusually large order in 2015, worth €25m, that triggered a faster than average increase and a tough comparator for last year, as the company wanted to moderate growth to make sure it was handled effectively. The issue for Helma shareholders is that, after growth of 40% in 2015, 6% last year looks behind the pace. Our sense is that the 6% rise in intake (9% IFRS), along with other factors, is consistent with guidance that revenue and earnings can grow at 10% in each of the next three years and with what competitors are achieving.

Exhibit 3: Helma Group new order intake and order book position at end 2016



Source: Helma Eigenheimbau annual report 2016

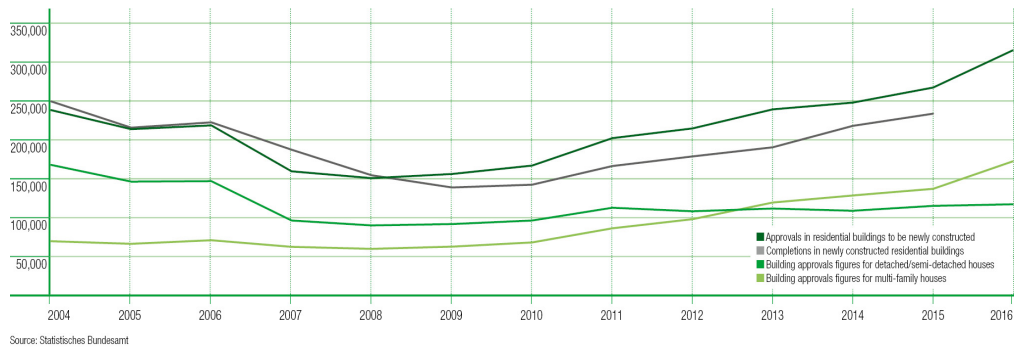
The highest level of new order intake was in the holiday home segment, where it nearly doubled from €20m to €37m, and in the Wohnungsbau Division intake rose by 9% to €151m. Clearly therefore order intake reduced in the Eigenheimbau segment, down 11% to €99m. From a financial reporting perspective, as illustrated, €346m of orders have yet to be fully completed, of which €150m has been reported in the 2016 revenue under the percentage of completion method.

Market expected to remain strong

The market data on housing points to a strong market in recent years and the likelihood of positive trends continuing for both structural and cyclical reasons. Exhibit 4 below shows the steady rise in residential construction since the recession inspired downturn in 2006-10. This is in part a response to the population being at an all-time high of 82.8 million people living in Germany at the end of 2016, an increase of 300,000 on the prior year (Savills, March 2017) and a rise of 2.6 million on the 2011 level.

Savills believes that the house building supply side has so far been slow to respond to the population increase. While new build activity has risen recently, Savills states that there were just 250,000 completions last year. Since 2011 the number of households has risen by 1.5m, while housing completions stand at just 1.1m in the same time period. There is no sense in which there was a surplus of property in 2011, other than on a local basis in some areas, so the growth in the shortfall is real.

Exhibit 4: German residential construction approvals and completions (newbuild), 2004-16



Source: Statistisches Bundesamt (from Helma Eigenheimbau annual report 2016)

The trends in demand and supply in recent years have had the logical economic effect on prices. According to a report in the Financial Times (source: bulwiengesa), residential house prices are now over 60% higher than they were in 1990.

The mid- and longer-term trends remain positive and are reinforced by positive cyclical trends related to economic recovery in Europe. Savills has indicated its view that the political stability of Germany and sustained low interest rates are likely to see German residential property as a safe haven investment (Savills report on the German residential market, March 2017).

In conclusion the outlook for the next five years seems to be positive in terms of demand driven by migration, low interest rates, a desire to own a home and high employment.

Management, organisation and corporate governance

Supervisory board and management board

The board structure is a normal one for German businesses. German corporation law, the Aktiengesetz, requires all public companies (Aktiengesellschaften) to have two boards: a management board called a Vorstand and a supervisory board called an Aufsichtsrat.

The **supervisory board** comprises four members and all are scheduled to retire by rotation in 2018. It is chaired by Otto Holzkamp, who is an engineer by background and has been in the role since 2004. He is supported by Sven Aßmann, a lawyer from Hamburg, who is deputy chairman and was appointed to the board in 2014. The other members are Dr Peter Plathe, a judge, appointed in 2009, and Paul Heinrich Morzynski, a tax adviser, appointed in 2016.

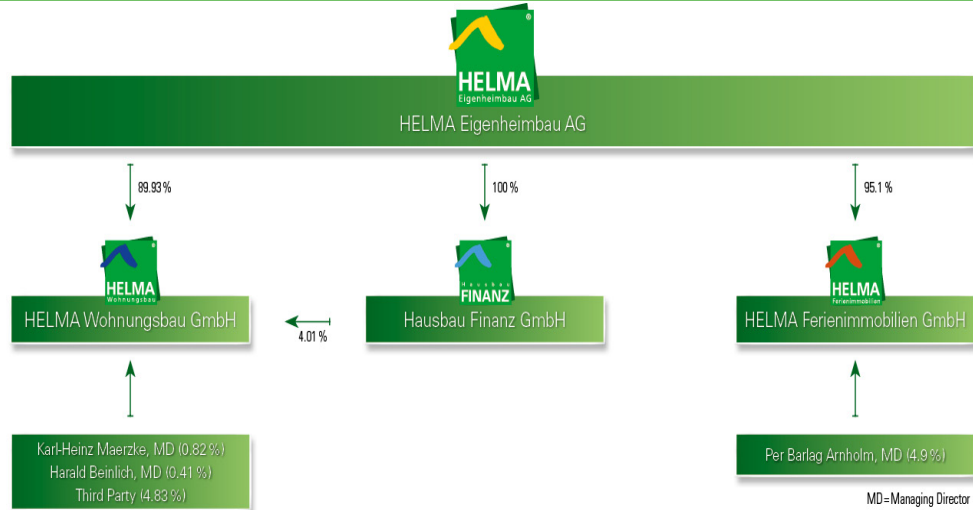
The **management board** is chaired by Karl-Heinz Maerzke, a banker, who founded the company. He is also managing director of the main subsidiaries and has the necessary authorisations to represent the companies alone. His current period of office is due to end in March 2020. He is supported by CFO Gerrit Janssen (CFA), who joined the company in 2009, having been a consultant to the business; his current period of office runs until June 2019. Gerrit acts as managing director of the key operating divisions of the business. The third member is Max Bode, who like Gerrit has an MBA; he joined the board in July 2015 and his current period in office ends in June 2020. Max is responsible for marketing, sales, service, customer management, contract management and administration.

Organisation

The parent company remains the original operation, Helma Eigenheimbau AG. It has profit and loss transfer agreements with each division and as such the group operates as one fiscal unit for tax

purposes. The parent company has an 89.9% stake in the Wohnungsbau operation, as shown below, with the remaining 10.1% shareholding spread between Karl-Heinz Maerzke, Harald Beinlich, the Hausbau Finanz operation and an unnamed third party. Helma Eigenheimbau AG owns 100% of the Hausbau Finanz operation, which owns 4.01% of the Wohnungsbau business. Finally the Ferienimmobilien business is 95.1% owned by the parent company, with Per Barlag Arnholm, the managing director of the business, owning the remaining 4.9%. Exhibit 5 shows the organisation structure.

Exhibit 5: Organisation chart for the Helma Eigenheimbau Group.



Source: Helma Eigenheimbau annual report 2016

Corporate governance

Governance is provided by the supervisory board, which regularly discusses matters of control and development with the management board. The boards meet jointly on occasions, for example to plan the AGM. The supervisory board met on seven occasions in 2016 and was provided with up to date management data on finance and business affairs at each meeting. The Helma annual report contains details about what was discussed and agreed at the supervisory board meetings. There are some related party transactions including Karl-Heinz Maerzke buying properties from the company and engaging in land sales to the business. These are at a low level and always carried out at an established market rate. They are not unusual and often interpreted as a positive, indicating that the owners are willing to invest their own funds in the company's products.

Shareholders and free float

The free float at end December 2016 was 60.4% of the total 4m shares in issue. The management board retains a large holding of near 40% of which nearly all of the shares are owned by the founder, Karl-Heinz Maerzke. Of the free float shares, 11.9% are held by the top 10 holders and the shareholding is highly dispersed. The largest Institutional holders are Allianz with 3.9%, IP Concept with 2.2%, Taaleritehtaan with 1.1% and Deutsche Bank with 1.0%.

Financials

Exhibit 6: Financial summary

€000s	2012	2013	2014	2015	2016
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
Income statement					
Revenue	113,988	138,018	170,497	210,618	263,842
Profit before tax (as reported)	5,755	8,271	11,690	14,956	19,568
Net income (as reported)	3,799	5,606	8,132	9,952	13,496
EPS (as reported) (€)	1.33	1.85	2.43	2.69	3.37
Dividend per share (€)	0.35	0.53	0.63	0.79	1.10
Balance sheet					
Total non-current assets	18,363	18,233	18,427	18,525	18,575
Total current assets	68,279	118,367	141,614	226,489	259,667
Total assets	86,642	136,800	141,614	244,994	278,242
Total non-current liabilities	19,088	57,330	76,910	67,168	112,309
Total current liabilities	45,192	51,237	42,179	107,928	85,697
Total liabilities	64,280	108,567	119,089	175,096	198,066
Net assets	20,364	28,033	40,952	69,898	80,236
Shareholders' equity	20,365	28,038	40,952	69,898	80,236
Cash flow					
Net cash from operating activities	(18,581)	(31,297)	(14,261)	(36,230)	(20,782)
Net cash from investing activities	(601)	(1,933)	(2,062)	(1,922)	(1,859)
Net cash from financing activities	16,929	38,571	16,418	43,729	21,479
Net cash flow	(2,252)	5,281	95	5,577	(1,162)
Cash & cash equivalent end of year	1,539	6,821	6,916	12,493	11,331

Source: Helma Eigenheimbau accounts 2016

Income statement

Revenue growth of around 24% in each of the last three years created a high level of expectation about the future. The company has signalled it will grow in the next three years but at a slower pace than before. In most segments of German industry, 10% pa growth would be seen as very positive. In some ways the company is a victim of its earlier success.

The amount of revenue arising from long-term contracts rose to €62.5m, from €35.4m in the prior year, 23.6% of the total in 2016 versus 16.8%. The difference was due to the changing mix of operations with fast growth in the Wohnungsbau operations. The company uses the percentage of completion (POC) method to account for sales of longer-term projects such as apartment blocks. Earnings are declared on a project by project basis in proportion to revenue, unless there are known reasons for differences. In many cases the company receives a proportion of the final agreed price on a staged basis, so the cash has been received.

Operating earnings (EBIT) rose by 21% to €22m in 2016. The slightly reduced level of operating margin (8.4% in 2016 versus 8.7% in 2015) was due to the changing mix of activity, which caused materials cost to sales to rise to 78.5% from 76.6%. Some of the increase was offset by personnel expenses, falling to 7.5% versus 8.3% (although, due to growth, they rose in absolute terms by €2.2m to €19.8m).

Balance sheet and cash flow

The main item that investors will note is that net debt increased from €11m in 2010 to €124m in 2016, which is a rise from 2.7x historical EBITDA to 5.2x. The ratio is high compared with house builders in other countries, but the land value is highly stable, which means funding growth with bank debt risk is very low. The company is operating within its covenants and has substantial headroom.

Operating cash flow, before working capital change, was €17.1m in 2016, compared with €13.7m in the prior year. However, revenue growth contributed to a substantial rise in working capital, such

that net cash flow from operating activities was €-20.8m. The slowdown in the rate of growth will reduce the burden on working capital in future years.

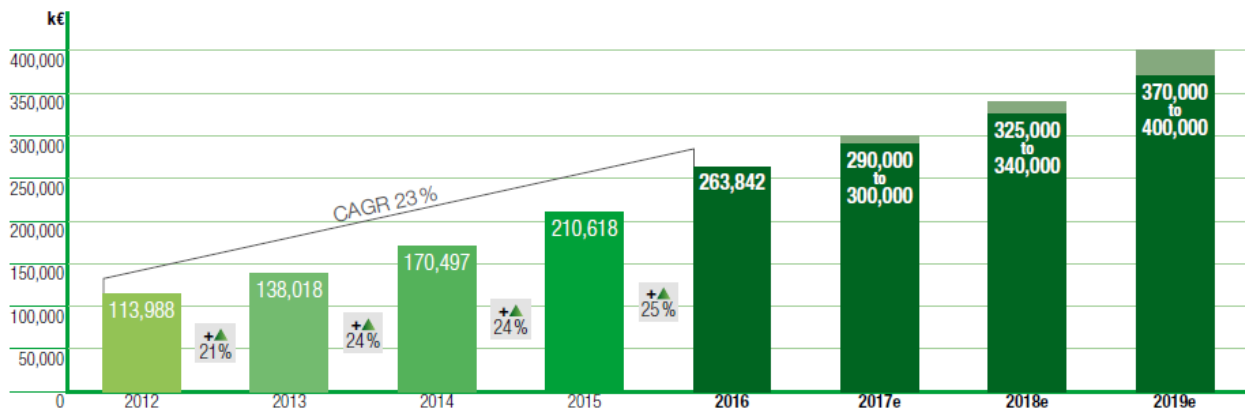
Valuation

Valuing Helma is difficult for two reasons. Firstly, there are no quoted comparators operating in Germany. UK, US and Nordic companies are the closest we might get and we discuss those below. Secondly, the value in the business is in part the earnings from operations and in part the value of the land holdings; in effect it is both an operating company and a property/land company.

Regarding the former, the lack of direct comparators in Germany pushes us towards international comparisons. These show P/E ratios of around 12x prospective earnings in the US for companies such as Toll Brothers and 10x for UK companies, a gap that is traditional in the sectors

The company has offered clear guidance of the growth it expects to achieve in revenue terms, as indicated in Exhibit 7. It has indicated that EBIT margins of 7-10% are the likely future range, with the expectation it will be nearer the top as it seeks to improve profitability.

Exhibit 7: Past revenue growth and guidance for 2017-19 (IFRS)



Source: Helma Eigenheimbau annual report 2016

Peer valuation

The lack of domestic comparators to Helma has guided us towards international ones. This is not a strict comparison and should be seen as a guide. The data is shown in Exhibit 8. There are differences between the companies shown below, but the essential nature of creating dwellings is similar in that land is bought, developed and then resold with a dwelling on it. National differences in market valuation ratios and acceptable debt levels vary, which needs to be taken into account. We have shown the dividend yield comparison but the average is distorted by very high rates of yield in the UK (compared with market levels) and low rates in the US.

The data suggests that Helma's valuation is broadly in line with the international peer group in P/E terms and higher based on EV/EBITDA. Helma's efficient use of debt provides the higher valuation. We believe the chosen comparators, while much larger than Helma, are representative of the sector. The small UK comparator in this exhibit, Inland, has a lower P/E and EV/EBITDA than Helma, but that can be ascribed to national levels of valuation and the bias of the company's activities to London and the South East, an area currently experiencing slowing markets.

Exhibit 8: Peer group comparison

Company	Market cap	P/E (x)		EV/EBITDA (x)		Dividend yield (%)	
		2017e	2018e	2017e	2018e	2017e	2018e
Pulte	US\$7,370m	10.3	8.5	8.2	6.8	1.6%	1.7%
DR Horton	US\$12.660m	12.0	10.9	7.7	6.5	1.2%	1.3%
Toll Brothers	US\$6.180m	11.9	11.1	9.0	8.7	0.7%	0.9%
Taylor Wimpey	£6,579m	10.4	9.9	7.6	7.3	6.7%	7.3%
Barratt Dev.	£6.256m	10.2	10.9	8.0	7.6	6.5%	6.6%
Inland	£125m	9.2	8.5	8.0	8.3	2.5%	2.9%
Bonava	SEK16.800m	14.9	9.6	11.8	10.3	2.8%	3.1%
Peer group average		11.3	9.9	8.2	7.6	N/A	N/A
Helma	€156m	12.1	9.9	12.2	10.3	3.2%	3.9%
Premium/(discount) to peer group		7.1%	0%	48.8%	35.5%		

Source: Bloomberg. Note: Prices as at 10 May 2017.

Sensitivities

The company's performance is dependent on a number of factors to deliver the current expectations.

We have explored already the favourable market conditions in which Helma is operating. These are expected to persist in the medium term as the population grows and the housing shortage continues. But, as in several other countries, immigrants provide a large part the rise in population and, disproportionately, the labour and skills to create buildings. The political pressure to reduce the level of immigration is rising and that may have an impact, especially in a country with an existing population that is ageing. On a five- to 10-year horizon this factor will not have a material impact, save possibly through labour shortages and perhaps wage rates.

Brexit could be a very favourable development for German housing, especially around Frankfurt and Berlin, areas that have experienced strong market conditions already in recent years.

In terms of interest rates and employment levels, we see little change ahead that might affect performance. Public statements regarding interest rates from the ECB suggest no change is likely so that the economic recovery is sustained. That also implies that the will to maintain employment levels shall continue.

The inefficiency with which planning is achieved has been referenced by the company as a factor slowing its progress. There is no current plan of which we are aware to relieve this possible bottleneck. While we expect the latest guidance is valid, further delays cannot be ruled out completely.

In terms of the shareholdings, some 40% of the shares are held by Karl-Heinz Maerzke and the trend has been for him to reduce his stake. This by no means constitutes an overhang at present but might be a consideration for some investors.

The net debt position as explained earlier does not constitute a financial risk, given the stable nature of land pricing in Germany. An equity fund-raising is possible but by no means necessary.

Finally, the regulatory picture has been focused around rent controls, especially with an election looming in autumn. There is surplus capital and a shortage of existing rental properties, which, along with fewer rent restrictions on new build, is creating a favourable climate (according to Savills, March 2017). The longer-term outcome is that the attractions of owning an investment property are reducing and there is some concern around that issue. The difficulties of raising funding to become an owner occupier have not been eased though there is political talk of measures to encourage "buy to live in it". On balance, the regulatory climate is relatively benign and government support is increasing.

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