

Lloyd Fonds

On the front foot

There is a new mood of optimism at Lloyd Fonds. After last year's missed profit forecasts and strategic disagreement, current ambitious restructuring of its business activities and senior management has been welcomed by investors, as evident in the recent successful €4m equity issue. By repositioning towards open-end liquid investment products, Lloyd Fonds seeks to reduce reliance in particular on its core shipping market, which remains very challenging. Pending implementation of these changes (further details due at the imminent AGM), 2018 guidance is for net profit slightly below the depressed level of 2017 (€1.4m).

Change is in the air

Lloyd Fonds' proposed refocusing away from alternative real assets to open-end and liquid investment products such as equity funds is being supported by a key management change and its two new anchor shareholders, notably DEWB, a long-established listed private equity company. It is being funded by a recent capital increase (€3.8m from a private placement of 0.9m shares at €4.20) and subject to shareholder approval, by reinvestment of the 2017 surplus rather than payment of a dividend. Management's "comprehensive package of reorientation measures" is to be presented at the AGM on 16 August.

Continued profit woes in H217

While September's H217 net profit guidance of €1.0m was missed largely as a result of "mid to high six-digit" costs associated with the departure of the CEO, the outturn of €0.4m, as detailed on page 2, nonetheless barely met already greatly lowered trading expectations. Management attributes this weakness to delays and changes in planned projects in shipping and real estate, including the new affordable housing. Net financial income was also subdued, as in H1 (down 50% y-o-y) but finances remained robust with net cash of €8.4m (€10.1m at end-2016). For 2018, guidance is for net profit almost on a par with last year (€1.4m); however, this is, by management's admission, subject to its repositioning measures.

Valuation: Assuming the best

Current investor appreciation of Lloyd Fonds' reorientation (share price up over 50% since the arrival of the new shareholders) shows a long-term view, given no quick earnings fix (a likely high 2018e P/E) and possibly no dividend payout. The company needs now to deliver on these raised expectations.

Historical financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	11.4	1.8	0.17	0.07	26.6	1.5
12/16	9.5	3.2	0.35	0.16	12.9	3.5
12/17	7.5	1.2	0.15	0.00	30.1	N/A

Source: Lloyd Fonds accounts

Fund management

30 July 2018

Price €4.52
Market cap €46m

Share price graph



Share details

Code L10A
 Listing Deutsche Börse Scale
 Shares in issue 10.1m
 Net cash at December 2017 €8.4m*
 *€3.8m proceeds from capital increase in June 2018

Business description

Lloyd Fonds is an investment and asset manager in a range of alternative real assets, primarily in the areas of shipping and real estate. Over 20 years it has arranged more than 100 investments with a cumulative total volume of c €5bn. It is now repositioning towards liquid retail investment funds.

Bull

- Proposed broadening of business to become an active asset manager.
- Targeted AUM growth not discounted.
- Good prospects for affordable housing projects.

Bear

- Interest rate rises and/or economic weakness may slow investment in real assets.
- Core shipping market remains very challenging.
- Regulatory risks; particularly legacy products.

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Review of 2017 results

After a doubling of net profit in 2016 and management expectation of maintained buoyancy, the company's financial performance last year proved all the more disappointing. A near halving of net profit in H117, despite a one-off boost from a tax refund related to associates, coupled with the prospect of continued weakness in shipping markets and delays and changes in planned projects across the board prompted a reduction in full-year net profit guidance from €3.2m to €2.0m, ie H217 €1.0m (€1.4m y-o-y). However, even this was not met mainly as a result of costs associated with the premature exit of the CEO in December following strategic disagreement. Disclosure of a settlement of "mid to high six-digits" suggests that the underlying trading was otherwise at pains to reach this lowered forecast.

Exhibit 1: Financial performance

Year-end December (€m), HGB	H116	H216	FY16	H117	H217	FY17
Revenue	5.8	3.7	9.5	3.9	3.6	7.5
Material costs	(0.7)	(0.3)	(1.0)	(0.3)	(0.2)	(0.5)
Labour costs	(2.0)	(2.3)	(4.3)	(2.1)	(2.7)	(4.8)
Depreciation/impairment	(0.2)	(0.3)	(0.5)	(0.3)	(0.2)	(0.5)
Other operating costs (net)	(1.3)	(2.0)	(3.3)	(1.7)	(1.6)	(3.3)
Associates	0.1	0.3	0.4	1.7	0.4	2.1
EBIT	1.7	(0.9)	0.8	1.3	(0.8)	0.5
Finance income	0.7	2.0	2.7	0.1	1.3	1.4
Finance expenses	(0.3)	Neg.	(0.3)	(0.4)	(0.3)	(0.7)
Pre-tax profit	2.1	1.1	3.2	0.9	0.3	1.2
Net profit	1.8	1.4	3.2	1.0	0.4	1.4

Source: Lloyd Fonds accounts

In terms of divisional performance, shipping continued to suffer from subdued markets, notably as a result of container tanker fleet oversupply depressing charter rates. The company mitigates this by pooling 10 of its 16 container ships, thereby stabilising income and optimising utilisation. The full-year profit was flattered by the aforementioned very significant tax refund included in associates (Exhibit 1). Real estate was again quiet in H2 (the first half of 2016 was exceptionally active), although management is confident about macro factors (solid economic data, low interest rates and sustained demand) and its own focus on German affordable housing where fundamentals are especially appealing (€3m+ acquisition in H117).

Exhibit 2: Sales and PBT by segment

Year-end December (€m), HGB	H116	H216	FY16	H117	H217	FY17
Revenue						
Real estate	2.0	0.2	2.2	0.9	0.6	1.5
Share	34%	5%	23%	22%	17%	20%
Shipping	3.0	2.6	5.6	2.2	2.2	4.4
Share	52%	70%	59%	57%	61%	59%
Other assets	0.8	0.9	1.7	0.8	0.8	1.6
Total	5.8	3.7	9.5	3.9	3.6	7.5
Pre-tax profit						
Real estate	1.0	0.9	1.9	(0.1)	0.3	0.2
Shipping	0.9	0.9	1.8	2.0	1.3	3.3
Other assets	0.9	1.3	2.2	0.7	0.7	1.4
Central costs	(0.7)	(2.1)	(2.8)	(1.7)	(2.1)	(3.8)
Total	2.1	1.1	3.2	0.9	0.3	1.2

Source: Lloyd Fonds accounts

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