

Helma Eigenheimbau

Real estate
2 April 2020

Macro uncertainty after strong FY19

Helma Eigenheimbau closed FY19 with improved revenues and new order intake, coupled with a lower cost of materials and third-party services ratio. It maintains a satisfactory equity ratio of 28.6%, assisted by its conservative dividend policy (which is aligned with its debt covenants). While Helma is well-positioned to continue to expand in the next few years with a strong order book and attractive land bank secured on relatively cheap prices, near-term growth remains uncertain given the likely recession triggered by COVID-19. Consequently, management has withdrawn its FY20 guidance.

FY19 results: Surge in construction services

In FY19, Helma reported a 3.9% y-o-y increase in revenues to €263.2m and record-high earnings figures. Although the property development segment remains the largest contributor to revenues (62%), construction services (Helma Eigenheimbau AG) reported the strongest improvement in both revenues and new order intake at c 15% y-o-y. Overall, net new orders at group level were €296.5m in FY19 (up 6.4% y-o-y) and Helma's order book increased by 18.3% y-o-y. Both EBT and net income were up by c 11.5% y-o-y (partially assisted by VAT reimbursement), putting Helma's EPS at c €4.04 (vs €3.62 in FY18).

Coronavirus weakens potential revenue position

The company holds an extensive land bank with the potential to generate c €1.5bn revenues and a strong order book position amounting to €202.7m at 31 December 2019. Management expects this to translate into annual revenue of more than €300m in the medium term. However, management underlined that in the short term, due to the disruption caused by the coronavirus outbreak, meeting its initial FY20 guidance of a more than 10% y-o-y improvement in EBT to €26m is unlikely (although it still expects significant net income this year).

Valuation: Attractive dividend yield of 6.2%

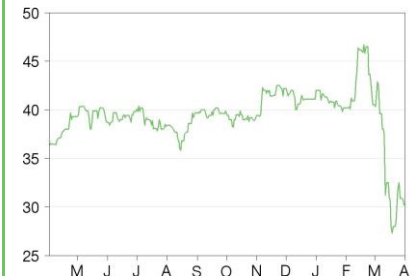
Helma's shares are trading broadly in line with the selected peer group based on P/E multiples, but at a c 60% premium based on FY20e and FY21e EV/EBITDA due to its relatively high leverage level. Management proposed a dividend payment of €1.85 per share which, in light of the strong share price decline in recent weeks, constitutes an attractive 6.2% yield.

Consensus estimates						
Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/18	253.3	21.2	3.62	1.30	8.3	4.3
12/19	263.2	23.6	4.04	1.85*	7.4	6.2
12/20e	312.1	27.6	4.87	1.72	6.2	5.7
12/21e	337.1	31.0	5.48	1.85	5.5	6.2

Source: Helma accounts, Refinitiv consensus as at 2 April 2020. Note: *Proposed dividend is subject to shareholder approval. Consensus is based on the estimates of two analysts.

Price €30.0
Market cap €120m

Share price graph



Share details

Code H5EX
 Listing Deutsche Börse Scale
 Shares in issue 4.0m
 Last reported net debt at 31 Decr 2019 €175m

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 in the surroundings of major cities such as Berlin, Dusseldorf, Dresden, Frankfurt, Hamburg, Hanover and Leipzig, as well as selected holiday locations.

Bull

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

Bear

- Pandemic-induced macro headwinds.
- Bottlenecks in the German residential market.
- Limited availability of building land.

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Financials: Record-high sales and earnings

In FY19, Helma Eigenheimbau continued its successful expansion with y-o-y growth across key financial metrics translating into record-high earnings. Total revenue for the year reached €263.2m (3.9% ahead of 2018) on the back of a c 15% y-o-y increase to €98.3m in construction services (performed by parent company Helma Eigenheimbau), close to its medium-term annual target of at least €100m. The improvement was achieved despite declining volumes, as only 366 houses were invoiced in this segment in FY19 vs 377 in FY18.

In the development segment (performed by Helma Wohnungsbau and Helma Ferienimmobilien), where both houses and land are sold together, the property price increase (the house price index increased by 5.3% y-o-y, according to Destatis) was further strengthened by the relatively low costs at which Helma has built its land bank in prior years. This was the main driver of the decline in costs of materials and third-party services by 4.3% y-o-y and the consequent improvement in the adjusted material expense ratio, which fell from 76.2% in FY18 to 75.5% in FY19.

Headline EBITDA and EBIT increased by 5.9% and 4.6% to €25.2m and €22.8m respectively, implying slightly improved margins. After adjusting for the disposal of capital interests, margins were broadly stable compared to last year. This is due to increased expansion in the lower-margin construction services business. Pre-tax profit improved by almost 11.5% y-o-y to €23.6m (in line with management guidance of €23.5–26.0m), assisted by the recognition of interest from a VAT refund for construction services (low seven-digit euro amount), which was previously paid unnecessarily by property development subsidiaries. While the reimbursement was passed on to subcontractors, the interest received by Helma assisted its results.

Exhibit 1: Income statement highlights			
€000s	FY19	FY18	Change y-o-y (%)
Revenue, from:	263,243	253,276	3.9%
<i>Helma Eigenheimbau</i>	98,336	85,560	14.9%
<i>Helma Wohnungsbau</i>	123,942	122,628	1.1%
<i>Helma Ferienimmobilien</i>	39,751	43,971	-9.6%
<i>Hausbau Finanz</i>	1,214	1,117	8.7%
Change in stocks of finished goods and work in progress	9,789	25,758	-62.0%
Other operating income	2,609	1,634	59.7%
Expense for materials and third-party services	(207,776)	(217,104)	-4.3%
Personnel expense	(24,956)	(23,853)	4.6%
Other operating expenses	(17,738)	(15,935)	11.3%
EBITDA	25,171	23,776	5.9%
Adjusted EBITDA*	25,878	24,883	4.0%
Depreciation/amortisation	(2,389)	(1,992)	19.9%
Operating earnings (EBIT)	22,782	21,784	4.6%
Adjusted EBIT*	23,489	22,891	2.6%
Finance expenses	(869)	(685)	26.9%
Other financial result	1681	54	N/A
Earnings before taxes (EBT)	23,594	21,153	11.5%
Income tax	(7,419)	(6,635)	11.8%
Minority interests	(31)	(31)	0.0%
Net income after minority interests	16,144	14,487	11.4%

Source: Helma accounts, Edison Investment Research. Note: *Adjusted for the disposal of capitalised interest.

IFRS net income for FY19 stood at €16.1m, which represents an EPS at €4.04, with a proposed dividend payout of €1.85. The amount was calculated in compliance with covenants of outstanding promissory notes and loans from KfW (the German state-owned development bank), which limit the payout ratio to 50% of the parent company's net income for the year (€14.8m in FY19). The dividend payout is subject to approval at the AGM scheduled for 3 July 2020. As the company's equity ratio remains at the healthy level of 28.6%, management has not decided to withdraw the recommendation yet. However, the AGM will take place when more data on the impact of COVID-19 is available, which may require improving the company's capital structure by adjusting the amount paid out as a dividend.

Based on its extensive land bank and persistent high demand in the German real estate market, Helma initially targeted further EBT improvement by more than 10% to reach €26m in 2020. However, due to the coronavirus outbreak and its unpredictable impact on the company's operating business, management has withdrawn this guidance as it is no longer deemed realistic.

Well-positioned to benefit from persistent demand

The German residential real estate market continued to expand, with building approvals up by 4% to 360.6k in FY19, according to the Federal Statistical Office (Destatis). The Central Association of the German Construction Industry (ZDB) and the Ifo Institute for Economic Research estimate that the number of completions for the year amounted to 300k, which represents a c 4.9% y-o-y increase. However, this figure is still over 12% below the annual demand estimated by the German Economic Institute of 342k. However, it is worth noting that prior to the COVID-19 outbreak, the same institute forecast that annual demand for housing would drop to 260.2k in 2021–25 and to 245.4k in 2026–30.

Thanks to the extensive land bank it has built, Helma is well shielded from the adverse impact of land price increases driven by this unmet market demand. At end-December 2019, the revenue potential from already acquired land stood at €1.03bn in the Helma Wohnungsbau segment, slightly up from €1.0bn in 2018. However, looking at the number of potential housing units, we see a y-o-y decline from 2,200 to 2,140, which seems to suggest that the higher land bank value reflects growth in property prices rather than continued extensive land acquisition activity.

Meanwhile, land bank revenue potential in the holiday properties segment increased from €0.37bn on 1,165 units in 2018 to €0.46bn with 1,335 dwellings at end-December 2019, with a further €95m added through the acquisition of the Sorpesee Resort project in February 2020. The segment saw new orders increasing by 10% y-o-y in FY19. While revenue in this segment decreased by 9.6% year-on-year in FY19, it was mainly attributable to the weaker H119, when total sales amounted to just €11.6m (vs €24.5m in H118). This compares with c 44.5% y-o-y growth in H219, in line with the pick-up in activity expected by management.

Exhibit 2: Revenue and new order intake across business segments

€000s	Revenue			New order intake		
	FY19	FY18	y-o-y	FY19	FY18	y-o-y
Helma Eigenheimbau	98,336	85,560	14.9%	121,737	105,771	15.1%
Helma Wohnungsbau	123,942	122,628	1.1%	131,332	133,509	-1.6%
Helma Ferienimmobilien	39,751	43,971	-9.6%	43,417	39,296	10.5%
Hausbau Finanz	1,214	1,117	8.7%	-	-	-
Total	263,243	253,276	3.9%	296,486	278,576	6.4%

Source: Helma Eigenheimbau accounts

In the fact of a limited supply of large land plots located in attractive areas, Helma's customers reverted to self-acquisition of smaller properties and contracting out construction services to the company. This resulted in a c 15% improvement in both revenues and new orders in the Eigenheimbau segment in 2019 vs 2018. The new order intake of €121.7m should support FY20 revenues in the segment (with respect to the mid-term target of €100m), given that over the last five years, annual revenues in the construction business in a given year amounted to no less than c 83% of new orders in the preceding year. However, this is subject to risks arising from the impact of COVID-19.

Valuation

Our valuation of Helma is based on a peer group including two domestic, residential real estate developers (Instone and Consus) and three European ones (Bonava, Taylor Wimpey and Barratt Developments). However, it is worth noting that both British peers have a net cash position, which results in lower EV/EBITDA multiples. Consequently, Helma trades at a 54% and 68% premium to

the group average for 2020e and 2021e, respectively. Based on the P/E multiples, which do not account for Helma's relatively high leverage level and that of its domestic peers, the company's shares trade broadly in line with the selected peer group.

The recent downturn in global equity markets has assisted Helma's dividend yield, with the €1.30 per share paid on 10 July 2019 and €1.85 per share proposed by management to be paid in 2020 translating into yields of c 4.3% and 6.2%, respectively. However, it should be noted that the €1.85 payment is still subject to AGM approval and may be revised (either by management or shareholders) in the face of the coronavirus outbreak to preserve a higher cash position and assist long-term business sustainability. For instance, the management of Taylor Wimpey has already decided to cancel its 2019 final dividend of 3.80p per share, as well as a special dividend of 10.99p per share.

Exhibit 3: Peer group comparison

	Market cap (m)	EV/EBITDA (x)		P/E (x)	
		2020e	2021e	2020e	2021e
Bonava	SEK 4,440	7.0	6.1	4.6	4.0
Instone Real Estate	€ 521	9.6	5.8	9.7	5.1
Consus Real Estate	€ 679	8.0	6.6	6.8	4.7
Taylor Wimpey	£ 3,625	3.8	3.6	5.7	5.4
Barratt Developments	£ 4206	3.8	3.6	5.7	5.6
Peer group average		6.4	5.1	6.5	5.0
Helma Eigenheimbau	€ 120	9.6	8.5	6.2	5.5
Premium/(discount) to peer group		49%	65%	(5%)	10%

Source: Refinitiv consensus as at 2 April 2020, Note: Consensus is based on the estimates of two analysts.

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