

## Helma Eigenheimbau

Home builders

14 September 2017

### Market bottlenecks limiting momentum

Helma's H117 results confirmed the anticipated slowdown in the German residential market associated with longer project turnaround time in the construction planning and contracting stages. The company's order intake showed some signs of moderation as it declined 3.6% y-o-y to €116.3m due to the already expected weaker order inflow in HELMA Wohnungsbau. However, management reiterated its recent guidance and forecasts a considerably higher order intake in H217 compared with H117. Helma's current premium to peers of c 15% on FY17e P/E reverses to a 5% discount in FY18e based on consensus expectations of 27% EPS growth.

### H117 results showing moderate growth

Helma posted 3.5% y-o-y growth in adjusted EBIT to €6.6m in H117, as the reported 6.9% sales growth was partially offset by higher operating costs, in particular the increase in materials and third-party services costs (+31.3% y-o-y, though driven by inventory build-up) and other operating expenses (+20.0% y-o-y). Taking into account a 10.0% y-o-y increase in D&A, this translated into an adjusted EBIT margin of 6.0% (H116: 6.2%). Management guides to FY17 adjusted EBIT of 7-8% (vs 8.4% in FY16).

### More cautious outlook reiterated

Following the downward revision in sales guidance for FY17-19 announced by the company back in February 2017 (which triggered a 25% share price decline until the H117 results announcement date), management reiterated its more cautious expectations of group sales reaching €290-300m in FY17 and thus posting c 10-14% y-o-y growth. FY18 and FY19 targets were maintained at €325-340m and €370-400m, respectively. Also, Helma still expects y-o-y growth in new orders in FY17 to remain within the ±10% range and guides to a much stronger order inflow in H217 compared with H117.

### Valuation: Broadly in line with peers on FY18e P/E

Helma's shares currently trade at a 15% and 65% premium to peers on P/E and EV/EBITDA ratios for FY17e, respectively, and slightly below the peer group on FY18e P/E (a 5% discount). A high premium persists on FY18e EV/EBITDA (45%). This discrepancy is the result of Helma's higher financial leverage versus peers. After a single-digit decline in profits this year, the market expects growth to resume in FY18, with EBITDA and EPS momentum accelerating to 22% and 27% y-o-y, respectively.

#### Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	210.6	14.9	2.7	0.79	15.5	1.9
12/16	263.8	19.6	3.4	1.10	12.3	2.6
12/17e	294.3	18.8	3.3	1.23	12.7	2.9
12/18e	334.0	23.1	4.2	1.43	10.0	3.4

Source: Helma accounts, Bloomberg consensus as at 13 September 2017. Note: PBT consensus is based on two estimates of Quirin Privatbank and M.M. Warburg & Co.

Price **€41.60**  
Market cap **€166m**

#### Share price graph



#### Share details

Code	H5EX
Listing	Deutsche Börse Scale
Shares in issue	4.0m
Last reported net debt as at 30 June 2017	€161.3m

#### 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.

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## Financials: H117 results review

### Income statement

Helma reported moderate y-o-y growth in H117 numbers, with adjusted EBIT improving by 3.5% to €6.6m and adjusted EBIT margin declining by 19bp to 6.0%. Group revenue increased 6.9% y-o-y to €110.1m, driven particularly by HELMA Ferienimmobilien, where sales improved 59.9% to €15.3m. The property development business, HELMA Wohnungsbau, which represented 51.3% of group sales in H117, recorded 10.5% y-o-y revenue growth to €56.5m, while sales of the parent company, HELMA Eigenheimbau, declined 10.0% y-o-y to €37.7m.

The lower adjusted EBIT margin in H117 was the result of an increase in recognised operating expenses above top-line growth, as expenses for materials and third-party services rose by 31.3% y-o-y and other operating expenses went up by 20.0% y-o-y (the increase in personnel expenses was broadly in line with group revenue growth at 7.3%). However, the rise in material expenses was largely attributable to land purchases for the development segment, which translated into an inventory increase of €11.7m (vs a decline of €6.0m in H116). Finance expense was significantly lower at €0.4m (H116: €1.1m) and in conjunction with a slightly lower effective tax rate (29.5% vs 30.6% in H116) translated into an 11% EPS growth y-o-y to €1.00 per share.

#### Exhibit 1: H117 results highlights

€000s	H117	H116	Change y-o-y (%)
Revenue	110,067	103,010	6.9
Adjusted total output*	122,313	97,043	26.0
Adjusted EBITDA*	7,532	7,224	4.3
Adjusted EBITDA margin*	6.8%	7.0%	(17bp)
Adjusted EBIT*	6,598	6,375	3.5
Adjusted EBIT margin*	6.0%	6.2%	(19bp)
Net profit after minority interest	4,005	3,612	10.9
Net profit margin	3.6%	3.5%	13bp
EPS (€)	1.00	0.90	10.9

Source: Helma accounts. Note: \*Adjusted for the disposal of capitalised interest.

#### Exhibit 2: Revenue by division

€000s	H117	Share	H116	Share	Change y-o-y (%)
HELMA Eigenheimbau	37,746	34.3%	41,917	40.7%	(10.0)
HELMA Wohnungsbau	56,504	51.3%	51,117	49.6%	10.5
HELMA Ferienimmobilien	15,311	13.9%	9,573	9.3%	59.9
Hausbau Finanz	506	0.5%	403	0.4%	25.6
<b>Total</b>	<b>110,067</b>	<b>100.0%</b>	<b>103,010</b>	<b>100.0%</b>	<b>6.9</b>

Source: Helma accounts

Helma's order intake equalled €116.3m in H117, down 3.6% y-o-y from €120.6m in H116 as a result of the already anticipated weaker order inflow in HELMA Wohnungsbau, which reflects the timing of current projects (with several projects entering the sales phase in H217). Order intake momentum in both HELMA Eigenheimbau and HELMA Ferienimmobilien remained strong. Helma's order book position stood at €197.7m as of end-June, broadly stable versus end-2016 (€195.9m).

### Balance sheet and cash flow

Net debt went up considerably to €161.3m from €124.3m in FY16, translating into net debt to total assets of 54% (vs 45% in FY16). The company has recently completed the placement of a

promissory note, which is divided into a five-year tranche of €20m at an interest rate of 2.536% pa and a seven-year tranche of €7.0m at an interest rate of 3.142% pa. Moreover, current financial liabilities increased to €46.6m from €32.4m by end-2016, predominantly as a result of higher land and project financing liabilities, which should be repaid within the next 12 months through the final acquirers' purchase price payments.

The proceeds from promissory note issue and new project financing liabilities were largely consumed by the net cash outflow from operations of €36.4m (H116: net outflow of €8.0m), resulting from the working capital increase on the back of additions of land plots and higher receivables for construction orders. The company did not pay dividends in H117, but a €1.10 per share dividend was distributed on 12 July 2017, representing a payout ratio of 32.6%.

## Outlook

During the FY16 results release, the company communicated that it expects the change in new order intake for FY17 to be within the  $\pm 10\%$  range. Management believes that the c 4% decline in new orders reported in H117 remains in line with this planned range and continues to expect a considerably higher order intake in H217 compared with H117. An important contributor here will be the recent sales launch of Havelmarina, a large project in HELMA Wohnungsbau with expected total revenue of c €120m and completion distributed over 2018-20.

Helma reiterated its adjusted EBIT margin guidance and expects operating profitability in the lower third of the 7.0-10.0% range in FY17 (compared with FY16 adjusted EBIT margin of 8.4%). Also, management still forecasts group sales in FY17 at €290-300m, translating into c 10-14% y-o-y growth. Helma's FY17 revenue and margin guidance implies an H217 adjusted EBIT margin in the range of 7.6-9.2% (compared with H216 margin of 9.8%).

For FY18 and FY19, Helma targets sales of €325-340m and €370-400m, respectively. These represent revenue targets for FY17-19 introduced following the forecast revision conducted by the management after publication of the FY16 results earlier this year. Before that, Helma expected FY17 sales to be €340m and FY18 sales of €420m. The key reasons for the reduction in guidance were the considerably longer processing periods in the residential property development business during the construction planning and contracting phases as a result of strong demand and thus limited availability of the market players involved in these phases (including government bodies).

## Valuation

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The lack of domestic comparators for Helma has guided us towards using international ones. This is not a strict comparison and should only be seen as a guide. The data are shown in Exhibit 3. There are differences among 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. We need to take into account national differences in market valuation ratios and acceptable debt levels. 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 suggest that Helma's valuation is broadly in line with the international peer group on P/E ratios and higher based on EV/EBITDA. Helma's relatively high leverage results in higher relative valuation. We believe the chosen comparators, while much larger than Helma, are representative of the sector.

**Exhibit 3: Peer group comparison**

	Market cap	PE (x)		EV/EBITDA (x)		Dividend yield (%)	
	(€m)	2017e	2018e	2017e	2018e	2017e	2018e
Pulte	7,314.46	12.1	9.8	9.6	8.0	1.2	1.3
DR Horton	11,840.93	13.2	12.0	9.1	8.0	1.1	1.1
Toll Brothers	5,616.17	10.5	11.4	8.8	8.1	0.6	0.8
Taylor Wimpey	7,008.65	9.9	9.3	7.3	6.8	6.8	7.4
Barratt Dev.	6,691.71	9.8	9.2	7.3	6.9	6.8	6.6
Bonava	1,483.77	10.5	11.4	10.0	10.7	3.2	3.4
<b>Peer group average</b>		<b>11.0</b>	<b>10.5</b>	<b>8.7</b>	<b>8.1</b>	<b>3.3</b>	<b>3.4</b>
Helma	166.40	12.7	10.0	14.3	11.7	2.9	3.4
<b>Premium/(discount) to peer group</b>		<b>15%</b>	<b>-5%</b>	<b>65%</b>	<b>45%</b>	<b>12%</b>	<b>0%</b>

Source: Bloomberg. Prices as at 13 September 2017. Note: EPS and EBITDA figures for Dr Horton, Toll Brothers and Barratt Dev. are calendarised.

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