EDISON

Scale research report - Update

MPC Capital

Financial services

4 March 2022

Improved results under refined business model

MPC Capital reported a significant operational improvement in FY21, highlighted by a rise in PBT to €10.4m from €1.3m recorded in FY20. As the company operated under an optimised business model, moving operating management services in the shipping segment into joint venture (JV) structures, the revenue recognition method changed to proportionate consolidation. This led to an apparent decline in total sales despite a 28.3% y-o-y increase in fees from transaction services to €13.8m. We note that assets under management (AUM) expanded during the period (to €4.9bn from €4.4bn in FY20), which supported management fees.

Adjusted FY22e PBT on par with FY21

The company's medium-term visibility on results enabled the resumption of dividend payments, targeting about half of annual net profit. Around 80% of the targeted revenue in FY22 has already been secured, with further significant income expected from the divestment of Cairn – a subsidiary operating in the Dutch real estate market – completed after the balance sheet date. Management guides for PBT of €8m to €12m in FY22, adjusted for the one-off impact of the Cairn disposal.

Healthy AUM expansion driven by revaluations

While the company only reports a part of revenue proportionate to its stake in JVs, it continues to recognise all AUM. The increase in FY21 was driven by c €1.0bn upward revaluation of assets managed in the shipping segment, benefitting from a robust market environment for containers. Overall, €0.6bn new assets were onboarded during the year, against disposals amounting to c €1.1bn. We note the company has already recognised the sale of Cairn in its AUM, while the transaction was closed in January 2022 and will be reflected in FY22 results.

Valuation: FY21 dividend yield of 3.6%

The management recommends first dividend payment since 2008 of €0.12 per share, which translates into a healthy 3.6% yield, compared with the peer group average of 1.5%. Due to the expected considerable bottom-line contribution from the disposal of Cairn, the 2022e P/E implies a significant discount to peers, while in 2023e and 2024e, undisturbed by one-off events, the P/Es indicate the premium turning into a slight discount to peers.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/20	50.5	1.3	(0.01)	0.00	N/M	N/A
12/21	42.3	10.4.	0.20	0.12	16.8	3.6
12/22e	36.9	26.3*	0.70*	0.04	4.8	1.2
12/23e	40.2	13.0	0.24	0.05	14.0	1.5

Source: MPC Capital, Refinitiv. Note: *Reflects expected impact of Cairn disposal.

Price	€3.36
Market cap	€118m

Share price graph

Share details

Code	MPC
Listing	Deutsche Börse Scale
Shares in issue	35.2m
Last reported net cash at 31 December 2021	€37.7m

Business description

MPC Capital is an independent asset and investment manager for real assets in the shipping, real estate and infrastructure sectors. It initiates, structures, finances and manages real assets, targeted at institutional investors. It is a subsidiary of MPC Group (c 48% shareholding), founded in 1994 and listed in 2000. Its AUM at end-December 2021 was €4.9bn.

Bull

- Strong demand for real estate investments in low interest rate environment.
- Increasing share of higher-margin institutional investors.
- Scalable operating platform.

Bear

- Strong competition for assets and investors from large incumbents.
- Interest rate rises and/or economic weakness may slow investment in real assets.
- Global trade outlook dependent on COVID-19.

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PBT margin expanded to 25%

MPC's FY21 results reflect its performance under the newly optimised structure. The operational management services business in the shipping segment was moved entirely into JVs with strategic partners. MPC's fees from transaction services increased 28.3% y-o-y to €13.8m on the back of total transaction volume of €1.7bn. These fees were generated in the shipping and real estate segments, with the majority in the second half of the year – €11.7m in H221 versus €2.1m in H121. We note, however, total sales declined 16.3% y-o-y to €42.3m due to accounting effects of the new revenue recognition method – the company reported only a part of revenue proportionate to its stake in JVs, in contrast to full consolidation in the past. This led to a decline in management services fees to €28.1m in FY21 from €37.1m in FY20, which we believe is not an indication of the company's performance.

Exhibit 1: Financial highlights

€000's	FY21	FY20	y-o-y change
Revenue	**42,284**	**50,489**	**-16.3%**
Management services	*28,081*	*37,089*	*-24.3%*
Transaction services	*13,765*	*10,731*	*28.3%*
Other	*438*	*2,669*	*-83.6%*
Other operating income	16,369	9,905	65.3%
Cost of materials/purchased services	(2,099)	(4,515)	-53.5%
Personnel expenses	(21,882)	(26,332)	-16.9%
Depreciation & amortisation	(1,989)	(2,339)	-15.0%
Other operating expenses	(20,944)	(25,690)	-18.5%
Operating result (EBIT)	**11,739**	**1,518**	**673.3%**
Income from equity investments	1,245	2,789	-55.4%
Other interest & similar income	2,211	1,830	20.8%
Write-downs on financial assets	(2,112)	(1,575)	34.1%
Interest & similar expenses	(199)	(201)	-1.0%
Result of associates carried at equity	(2,483)	(3,097)	-19.8%
Pre-tax profit	**10,401**	**1,263**	**723.5%**
Income tax	(3,077)	(1,374)	123.9%
Other taxes	(107)	(36)	197.2%
Consolidated net profit	**7,217**	**(147)**	**N/M**
Minority interest	(1,149)	(706)	62.7%
Net profit attributable to shareholders of the parent	**6,068**	**(853**	**N/M**

Source: MPC accounts

MPC also recognised €16.4m other operating income in FY21 (vs €9.9m in FY20), driven by profit from assets disposals, totalling €11.4m (vs €3.4m). These transactions included mainly sales within the shipping segment and a cash settlement on due options on MPC Container Ships (a subsidiary in which MPC has a minority stake).

MPC also reported substantial declines in operating costs. The accounting effects led to a decline in cost of materials to €2.1m in FY21 from €4.5m in FY20. Improved operating efficiency fuelled a decrease of 16.9% y-o-y in personnel expenses to €21.9m, as the average number of employees within the group reduced to 191 from 260. The combined impact of accounting effects and improved operating efficiency led other operating expenses to decline 18.5% y-o-y to €20.9m and cost-cutting measures helped reduce legal and consultancy costs, IT expenditure and costs of premises (largest 'other operating costs' categories) by over 15% each. The business model optimisation process resulted in significant improvement in EBIT, with €11.7m in FY21 versus €1.5m in FY20. The positive impact, however, was partially offset by lower income from equity investments, €1.2m versus €2.8m, due to disposals in the real estate segment.

MPC recorded PBT of €10.4m in FY21 (vs €1.3m in FY20), which (like reported revenue) met management guidance. That said, the company has not provided a quantified target range for PBT, expecting significant year-on-year improvement due to the pursuit of high-growth investment strategies. With a lower level of revenue recognised and a surge in PBT, MPC's margin soared to 25% from just 3% recorded a year earlier. Consolidated net profit stood at €7.2m (vs €0.1m loss in

FY20), of which €6.1m was attributable to the shareholders of the parent company, translating into EPS of €0.20.

Reinstating dividend payments

The optimised business model provides improved performance and better visibility for future results. Aorund 80% of the targeted revenue in FY22 is already secured due to asset management mandates and other agreements providing recurring income. That said, expected FY22 sales are lower than in FY21 due to the disposal of Cairn, which was completed in January 2022 (see below). In FY22, MPC will expand its investment platforms in the real estate (German sustainable residential properties) and renewables (Caribbean and Latin America) segments, potentially assisted by further benefits from a robust shipping-market environment.

The management expects PBT, adjusted for the one-off impact of the Cairn disposal (income of low double-digit millions of euros, according to the company), of €8m to €12m in FY22. Together with the expected decline in revenue, this would put further upward pressure on margins.

MPC has strong earnings and balance sheet. Net cash amounted to €37.7m and the equity ratio stood at 75% at end-December 2021. As the management believes the company is well equipped to continue its successful performance in the medium term, it recommended the first dividend distribution since 2008 of €0.12 per share at the annual general meeting (27 April 2022), which translates into a yield of 3.6%. Management plans to continue distributing around half of adjusted consolidated net profit to shareholders, unless an attractive investment opportunity requiring significant capital expenditure arrives.

AUM expands to almost €5.0bn

MPC's AUM expanded to €4.9bn in FY21, up from €4.4bn in FY20, driven by €1.0bn upward revaluations of assets managed in the shipping segment, partially offset by net divestments. During the year, €0.6bn new assets were onboarded, against disposals amounting to c €1.1bn. AUM is spread across three main investment categories: fund solutions of €1.8bn and c 36% share in the portfolio; listed platforms of €1.0bn and c 21% share; and separate accounts (including direct investments, club deals and other individual investment structures) of €2.1bn and c 43% share. While MPC's offering targets mainly international professional investors, the company also held legacy retail products amounting to €0.9bn at end-December 2021 (c 18%). This increased from €0.7bn at end-FY20 due to upward revaluations of closed-end funds in the shipping segment.

The shipping segment remains the largest in MPC's portfolio with c €2.8bn AUM at end-FY21 (vs €2.1bn at end-FY20), with €0.3bn assets onboarded and €0.7bn disposed of. In August 2021, MPC Container Ships closed the acquisition of Songa Container and its 11 vessels for US$210m. The segment benefitted from a robust environment in the container shipping market, as global trade activity picked up after the COVID-19 pandemic. Higher charter rates are reflected in commercial management fees. The average charter rate of the fleet under management of JVs increased from US$8.7k per day in FY20 to US$24.7k per day in FY21, while the average charter period expanded from just under six months to 19 months.

As part of portfolio growth with respect to ESG principles, MPC and its partners reached an agreement to purchase four new 5.5k TEU cargo ships; for these, the group will provide a wide range of services, including commercial and technical management. The new vessels, meeting modern environmental standards, would enable saving up to 40% on fuel costs (compared with current ships) by running on green methanol, which would make them carbon neutral. The first ship is scheduled to be delivered in the second quarter of FY23.

AUM in the real estate segment declined slightly to €1.8bn in FY21 from €1.9bn in FY20 as transaction activity shifted the investment focus from office properties in the Netherlands and Germany to sustainable housing projects. In November 2021, MPC announced disposal of its Dutch subsidiary Cairn, operating in the investment and asset management segment, to Schroders Group for a net price of around €30m. Because the transaction was closed in January 2022 it will be recognised in FY22 results, significantly improving the company's bottom line. Meanwhile, MPC's expansion within the segment was focused on ESG Core Wohnimmobilien Deutschland fund, which invests in residential projects meeting ESG criteria set by specially developed scoring models; this enabled certification under the Sustainable Finance Disclosure Regulation in March 2021. By end-FY21, the fund had completed two financing rounds, raising €146m, and reaching almost half the ultimate target size of €300m of the fund. The fund has already acquired three projects in the Hamburg, Frankfurt and Münster metro regions.

The remaining €0.3bn AUM at end-FY21 (vs €0.2bn at end-FY20) was attributable to the infrastructure projects segment, which was renamed as renewables in FY21 to better reflect its investment focus. In January 2021, MPC launched a US$100m investment vehicle, MPC Energy Solutions, with a development portfolio worth up to US$400m, spread across projects in Colombia, El Salvador, Puerto Rico and Jamaica. In line with its co-investment policy, MPC acquired a 10% stake in MPC Energy Solutions.

Valuation

We compare MPC's valuation with a peer group, including German real assets managers operating in the real assets segment. Ernst Russ is the closest peer as it also covers the shipping and real estate segments. For 2022e, MPC trades at a significant discount to peers based on P/E multiples, which we believe is attributable to the expected recognition of the €30m income from the disposal of Cairn. In 2023e, the company trades at a 31.3% premium, which turns into a slight discount in 2024e. Meanwhile, based on EV/EBITDA multiples for 2022e and 2023e (2024e data unavailable), MPC trades at a diminishing discount to peers. We believe the different valuation pattern based on these multiples is attributable to MPC's net cash position, against the net debt reported in latest available figures of almost all its peers. MPC's management proposed dividend distribution of €0.12 per share, translating into a healthy 3.6% yield, compared with the peer group average of 1.5%.

Exhibit 2: Peer group comparison

	Market cap	P/E (x)			EV/EBITDA (x)		
	(€m)	2022e	2023e	2024e	2022e	2023e	2024e
Ernst Russ	160	6.4	6.2	4.3	3.0	2.9	N/A
Corestate Capital	374	4.5	3.5	N/A	5.8	5.3	N/A
Patrizia	1,526	19.7	17.4	16.9	9.5	8.5	8.8
VIB Vermogen	1,324	14.1	13.6	13.1	17.3	16.8	21.1
Average		**12.8**	**11.5**	**15.0**	**10.9**	**10.2**	**14.9**
MPC Capital	118	5.0	15.1	14.1	3.2	6.7	N/A
Premium/(discount)		**(60.9%)**	**31.3%**	**(5.2%)**	**(70.4%)**	**(34.9%)**	

Source: Refinitiv consensus as of 2 March 2022. Note: EPS consensus for MPC is based on the estimates of two analysts and EBITDA consensus is based on the estimate of one analyst.

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