Scale research report - Update

MPC Capital

Financial services

11 September 2017

Steady progress

The absence of major transaction contributions to first-half profits and management's reiterated guidance for progress in the full year throws the burden on results in the second half, notably the incidence of large transactions. Firm news on the dividend front may also have an impact on price performance. The process of shifting to higher quality AUM continues. The shares trade at 1.9x NAV.

H1 profits held back by non-recurrence of once-offs in comparable period

Total revenues fell by 1% to €22.7m but quality improved on the back of a heartening 3% rise in management services income to €18.7m, albeit insufficient to counterbalance a 20% drop in transaction services revenue to €3.8m. The negative effect was magnified at the operating profit level by the non-recurrence of €2.6m contributions in the comparable period of 2016. To this extent, the result for H1 2017 was more representative of ongoing underlying operations. An expected increase in the number of transactions underpins management's reiterated forecast of 10% FY revenue growth with improving EBT margins.

Structural improvement in AUM

The overall figure for AUM recorded a decline of 2% to €5.0bn, but this masks a number of positive trends and effects. The new business of €0.4bn in AUM reflects the benefits of the well-stocked pipeline of projects beginning to come through, which almost offset negative currency effects and some asset sales. The quality of the asset book was boosted as the ongoing process of running off the legacy book of fund assets continues. Total value of legacy assets fell in absolute terms and now accounts for 55% of the total compared to 56% at the end of 2016.

Effects on balance sheet

The combination of the cash element in unwinding provisions (€10m), the high level of co-investment spending in the first half (€19m) and working capital effects led to a decline in cash balances to €27.4m at the end of June from €65.6m at the end of 2016. This effect should at least partly unwind, notably as the short-term trade receivables normalise from the level of €8.3m at end-June (up from €3.1m at end-December 2016). The total H1 level of co-investment was unrepresentatively high.

Consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	47.8	11.4	0.33	0.00	18.5	N/A
12/16	53.8	15.7	0.33	0.00	18.5	N/A
12/17e	59.9	17.9	0.40	0.19	15.3	3.1
12/18e	69.1	24.8	0.53	0.25	11.5	4.1

Source: MPC (historical), Bloomberg (prospective) as at 4 September 2017.

Price	**€6.12**
Market cap	**€186m**

Share price graph

Share details

Code	MPC
Listing	Deutsche Börse Scale
Shares in issue	30.4m
Last reported net cash as at 30 June 2017	€25.4m

Business description

MPC 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 the MPC Group (c 50% shareholding), founded in 1994 and listed in 2000. AUM at 30 June 2017 was €5.0bn.

Bull

- Strong demand for real asset investment.
- Increased share of recurring revenues with margin growth potential.
- 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.
- Regulatory risks, particularly legacy products.

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Unwinding legacy issues

The results for the first half of 2017 were somewhat restrained but management has reiterated its targets for the full year: 10% revenue growth and an improvement in EBT margin. Total revenues fell by 1% to €22.7m but quality improved on the back of a 3% rise in management services income to €18.7m. This was not quite sufficient to counterbalance a 20% drop in transaction services revenue to €3.8m. The rise in management service income was especially heartening as it occurred despite a decline in AUM. This appears to reflect the shift towards higher margin institutional assets in the mix.

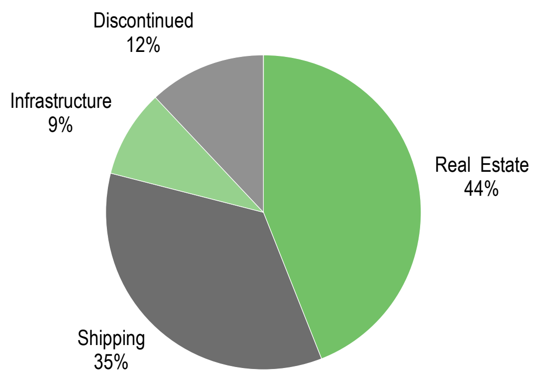
The lower level of transaction-related income affected profit margin negatively. This was magnified at the operating profit level by the non-recurrence of large contributions in the comparable period of 2016: €1.1m of prior period income and €1.47m from release of a positive consolidation effect. To this extent, the result for H1 2017 was more representative of ongoing underlying operations.

The P&L continued to be somewhat influenced by the unwinding of legacy issues. Release of provisions amounted to €3.3m, down from €2.7m in the comparable period of 2016. We assume that much of this relates to provisions for expected losses, which declined by a similar amount in the balance sheet. The release of provisions was presumably matched by the realisation of losses in the body of the P&L, making for a neutral effect at the EBT line.

Progress in AUM structure

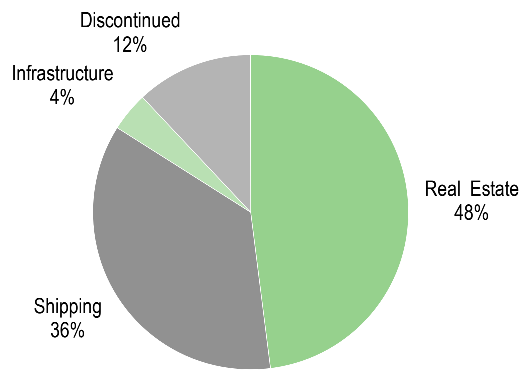
The overall figure for AUM recorded a decline of 2% to €5.0bn, but this masks a number of positive trends and effects. The gross increase of €0.4bn in AUM reflects the benefits of the well-stocked pipeline of projects beginning to come through, which almost offset negative currency effects and some asset sales. The quality of the asset book was boosted as the ongoing process of running off the legacy book of fund assets continues. Total value of legacy assets fell in absolute terms and now accounts for 55% of the total compared to 56% at the end of 2016. Institutional business progressed accordingly and now makes up 45% of total.

Exhibit 1: Distribution of AUM by class, 31 December 2016



Source: MPC Capital data

Exhibit 2: Distribution of AUM by class, 30 June 2017



Source: MPC Capital data

The 9% increase in assets in the real estate segment to €2.4bn showed the net effect of major investments and one major realisation. The STAYTOO micro-living concept is a particular focus of investment, with major projects in the domestic market and the first extension of the concept into southern Europe with the purchase of land for a development in Lisbon. The office market in the

Netherlands remains an area of major focus with the acquisition of six buildings in the provinces for some €60m. Here, MPC reaped fruits from its strategy of entering the market when it was in a highly depressed state, with the disposal of the La Guardia complex in Amsterdam for €130m, having achieved an after-tax return of 23% on the investment.

AUM in shipping was flat at €1.8bn – but again, this is a net effect with MPC pursuing a strategy of investment in the medium-sized container shipping market via the recently created MPC Container Ships investment company in Norway. It raised an initial $100m in a public offering in Oslo and a further $75m in June. The first tranche was invested rapidly and by August the fleet had reached 14 ships. Most are managed by MPC companies, which will bring a stream of recurring revenue.

There were similarly large movements in AUM in the infrastructure sector. The drop in AUM from €0.5bn to €0.2m chiefly reflects one very large transaction, the sale of the Ancora onshore windfarm project in Portugal. The long-term strategic commitment to alternative energy projects as an asset class remains undimmed. Indeed, the purchase of a solar power project, Paradise Park, in Jamaica should blaze the trail for similar investments in the region.

MPC's commitment to renewable energy projects took a further step forward with the recent completion of financing for a 55MW onshore windfarm project at Sainshand in Mongolia's Gobi desert region. MPC is working with Ferrostaal as project manager and the Danish Climate Investment Fund. The total cost of $120m is being part-financed by $78.5m in loans from blue-chip lenders (EIB £47m and EBRD $31.5m).

Balance sheet effects of new projects and dealing with legacy issues

The balance-sheet development also reflected the unwinding of legacy issues and the forward-looking move into new, high-quality asset areas. The high level of co-investment was the result of heavy investment in container ships, amounting to €13.0m. Co-investment in other segments totalled €6m, mainly attributable to the real-estate projects in the Netherlands and Portugal and the Jamaican solar-power project. To a great extent, this is determined by the far lower rates of co-investment normal in the real-estate segment. Total €19m co-investment expenditure in the first half of 2017 is fairly high and not necessarily representative of likely levels going forward.

Other provisions on the balance sheet almost halved to €12.2m, from €24.2m at the end of 2016. The bulk of this was accounted for by €5.4m expenditure on restructuring costs relating to legacy projects that had been anticipated. Successful negotiation meant that these went through as a one-off. In total, €10m of the decline in provisions related to cash outgoings. The cash flow effect was magnified by the cash component of operating losses already provided for on the balance sheet realised during the period.

The combination of the cash element in unwinding provisions, the high level of co-investment spending in the first half and working capital effects led to a decline in cash balances to €27.4m at the end of June from €65.6m at the end of 2016. This effect should at least partly unwind, notably as the short-term trade receivables normalise from the level of €8.3m at end June (up from €3.1m at end December 2016) although this will be to some extent offset by expenditure already provided for notably €6.7m for legal and consultancy costs.

The company has reiterated its expectation of 10% growth in revenue for the full year, implying a total of €60m, with EBT rising even further. This is due to expected large transactions going through in the second half, from which fees would drop through largely to the operating line making for a dramatic improvement in H2 profits.

Exhibit 3: Income statement

Year end 31 December (€000s)	H115	H215	FY15	H116	H216	FY16	H117
Management services	13,975	21,097	35,072	18,153	22,025	40,178	18,697
Transaction services	11,207	914	12,121	4,773	7,979	12,752	3,803
Other		570	570		861	861	206
Revenue	25,182	22,581	47,763	22,926	30,865	53,791	22,706
Other operating income	4,537	4,067	8,604	6,906	4,969	11,875	3,972
Cost of materials/purchased services	(631)	(435)	(1,066)	(535)	(1,083)	(1,618)	(592)
Personnel expenses	(9,088)	(11,605)	(20,693)	(11,539)	(14,480)	(26,019)	(12,038)
Depreciation & amortisation	(479)	(853)	(1,332)	(873)	(885)	(1,758)	(893)
Other operating expenses	(12,765)	(16,738)	(29,503)	(11,741)	(14,615)	(26,356)	(11,970)
Operating profit	6,757	(2,983)	3,773	5,144	4,771	9,915	1,185
Income from equity investments	459	5,397	5,856	556	2,820	3,376	633
Other interest & similar income	886	1,038	1,924	656	417	1,073	252
Write-downs on financial assets	(275)	(850)	(1,125)	(347)	(15)	(362)	0
Interest & similar expenses	(231)	(2,424)	(2,655)	(4,246)	(463)	(4,709)	(108)
Share of profit of associates	305	3,301	3,606	5,567	843	6,410	1,494
Earnings before tax	7,901	3,479	11,379	7,330	8,373	15,704	3,456
EBT margin	31.4%	15.4%	23.8%	32.0%	27.1%	29.2%	15.2%
Extraordinary result							
Tax	(3,834)	(77)	(3,911)	(2,532)	(2,952)	(5,484)	404
Effective tax rate	48.5%	2.2%	34.4%	34.5%	35.3%	34.9%	n/a
Consolidated net profit	4,067	3,402	7,468	4,798	5,421	10,220	3,860
Minority	(14)	(173)	(187)	(19)	(243)	(262)	(1,111)
Consolidated attributable net profit	4,053	3,229	7,281	4,779	5,178	9,958	3,860

Source: MPC Capital data

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