

Lloyd Fonds

Project delays impairing results

Lloyd Fonds (LF) is suffering from tough conditions in the shipping markets, lower trusteeship fees due to asset disposals and contract expiries, as well as delays in new projects. Following the recent FY17 guidance downgrade and subsequent sell-off, LF's shares are trading at a P/E ratio for 2017e of 12.9x, broadly in line with peers. Key stock price drivers include progress updates of LF's projects in the real estate segment, in particular in government-sponsored housing, as well as the supply-demand balance on container and tanker markets.

Weak H117 amid challenging markets

LF reported net profit at €1.0m, down 43.3% y-o-y despite the one-off positive impact from a tax refund related to LF's associates. LF's group sales declined by 29.7% y-o-y (excluding the impact from Lloyd Fonds Singapore deconsolidation) and were impaired by reduced trusteeship income, weak shipping markets and lower income from real estate asset disposals. The net impact of dividends and capital gains/losses associated with LF's investments in its own funds was close to null (vs a positive €0.3m in H116). Still, net cash remained at a solid level of €6.5m.

Guidance downgrade due to project delays

On 1 September, LF lowered its FY17 guidance and now expects a net profit of €2.0m in FY17, below the FY16 number (€3.2m), implying an H217 net profit of c €1.0m (H216: €2.0m). Earlier management expectations pointed towards net profit similar to FY16 levels and y-o-y sales growth. The main reasons behind the downgrade are delays and changes in planned projects in the shipping and real estate segments, including the new affordable housing. LF anticipates that major projects currently in the pipeline will be executed next year. Sales guidance for FY17 and FY18 stands at €8-10m and €11-13m, respectively.

Valuation: Trading in line with peers on 2017e P/E

Following the profit warning and subsequent stock price decline, LF's shares are trading at P/E ratios for 2017e and 2018e of 12.9x and 7.3x, respectively. This represents a 2% premium and a 44% discount to the peer group median, respectively. As such, earnings growth potential for 2018 is not fully discounted, which may be due to the uncertainty related to new projects execution, limited visibility in the still volatile shipping markets, as well as remaining legal risks related to fund liability disputes, though these seem more limited compared to peers.

Historical financials and consensus estimates

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	11.4	1.8	0.17	0.07	15.9	2.6
12/16	9.5	3.2	0.35	0.16	7.7	5.9
12/17e	13.1	2.2	0.21	0.12	12.9	4.4
12/18e	14.5	3.9	0.37	0.14	7.3	5.2

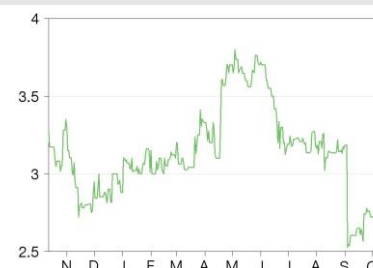
Source: Lloyd Fonds accounts, Bloomberg as at 4 October 2017. Note: Consensus is based on one estimate provider (SRC Research).

Fund management

13 October 2017

Price €2.71
Market cap €25m

Share price graph



Share details

Code L10A
Listing Deutsche Börse Scale
Shares in issue 9.2m
Last reported net cash as at 30 June 2017 €6.4m

Business description

Lloyd Fonds is an investment and asset manager in a range of alternative real assets including ships, real estate, aircraft, energy, and private equity. Over more than 20 years it has arranged more than 100 investments with a cumulative total volume of c €5bn and last reported volume of c €1.4bn.

Bull

- Signs of revival in the container ship markets.
- 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.
- Regulatory risks, particularly legacy products.
- Relatively low free float.

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Financials: Preliminary H117 net profit confirmed

Lloyd Fonds reported a considerable decline in net profit of 43.3% y-o-y to €1.0m, in line with the preliminary numbers disclosed by the management on 1 September in FY17 guidance downgrade announcement. Group sales dropped by 32.7% y-o-y to €3.9m, or 29.7% y-o-y when adjusted for the deconsolidation of Lloyd Fonds Singapore, a provider of commercial management services for merchant shipping to third parties. Importantly, LF's results were affected by a positive one-off item, as the vast majority of income from associates recognised in the shipping segment in H117 of €1.5m was related to a tax refund.

Revenues in the shipping segment (57% of group revenues in H117) stood at €2.2m (down 26.5% from H116), amid the lack of management fee income from Lloyds Fonds Singapore and the lower income from trusteeship business due to expiring contracts. Segment performance was impaired by the persisting weakness in the shipping markets, with continued tanker fleet oversupply putting downward pressure on charter rates. As at end-June 2017, the company's fleet under management of 26 ships included 18 container ships and eight product and oil tankers.

In order to counter the unfavourable market environment, LF has created a shipping pool for its 10 Panamax container ships in the 3,400 to 5,100 TEU size category to stabilise income and optimise utilisation. Moreover, there are some positive signs on the global container market, as the number of idle ships is currently relatively low and supply growth in 2017 should remain below container trade volume momentum (4.3% and 5.2% y-o-y, respectively), according to Ernst Russ. This may prove supportive to charter rates in H217. LF's tankers either operate in pools already or are firmly chartered, according to the company.

In the real estate segment (22% of group sales in H117), revenues declined 55.4% y-o-y, as the sale of Hotel Leipzig in H117 yielded income that was €356,000 lower than that from the disposals of two hotel assets last year. In addition, the H116 number included income from the arrangement of a deal related to a large hotel portfolio. As at end-June, office assets constituted 66% of LF's real estate portfolio, with the remaining 34% attributable to hotel investments. Importantly, the company continues its efforts to tap the German affordable housing market, with an asset acquisition in Hamburg-Tonndorf consisting of 22 dwellings and four commercial units for more than €3.0m, which is earmarked for a planned investment product in this market segment.

Over the last several years, net investment income (included in net finance income) became a quite important contributor to group results. This item normally includes dividends received by LF and realised investment gains/losses related, among others, to LF's investments in its own funds. However, there was no meaningful positive contribution from net investment income in H117. On the other hand, cash inflow related to dividends and profit distributions recognised in operating cash flow increased significantly to €1.7m from €0.7m a year ago, assisting somewhat LF's net cash position, which amounted to €6.4m as at end-June (FY16: net cash of €10.1m).

Exhibit 1: Results highlights

€000s	H117	H116	y-o-y change
Sales	3,936	5,846	-32.7%
Cost of materials	(280)	(726)	-61.4%
Staff costs	(2,087)	(2,043)	2.2%
Depreciation/amortisation and impairment losses	(269)	(243)	10.7%
Other operating income/expenses	(1,718)	(1,279)	34.3%
Share of profit of associates	1,670	149	N/A
Net profit from operating activities	1,252	1,704	-26.5%
Finance income	96	665	-85.6%
Finance expenses	(442)	(265)	66.8%
EBT	906	2,104	-56.9%
Income taxes	135	(269)	N/A
Consolidated net profit for the period	1,041	1,835	-43.3%
Reported EPS (€)	0.11	0.20	-43.3%

Source: Lloyd Fonds accounts

Exhibit 2: Sales by operating segment

€000s	H117	% of group sales	H116	% of group sales	y-o-y change
Real estate	882	22%	1,977	34%	-55.4%
Shipping	2,232	57%	3,036	52%	-26.5%
Other assets	822	21%	833	14%	-1.3%

Source: Lloyd Fonds accounts

Exhibit 3: Pre-tax profit by operating segment

€000s	H117	H116	y-o-y change
Real estate	(126)	1,013	n.m.
Shipping	1,986	912	117.8%
Other assets	746	892	-16.4%
All general other expenses	(1,700)	(713)	n.m.

Source: Lloyd Fonds accounts

Valuation

In this section, we comment on the valuation of LF shares in the context of a broad peer group of listed asset managers, including private equity, specialist and conventional asset managers in Europe and North America, using consensus data sourced from Bloomberg.

The current Bloomberg consensus for LF consists only of one source of estimates published following the company's guidance revision. These estimates imply a P/E 2017e ratio of 12.9x, which is broadly in line with the peer group median of 12.4x. This turns into a significant discount of 44% in 2018e. However, the considerable earnings momentum will be largely dependent on LF's ability to execute the delayed projects from the current pipeline, as well as future conditions in the shipping and real estate markets. Especially the former two are associated with a high degree of uncertainty (as illustrated by the recent guidance downgrade).

Further, LF's shares are currently traded on a 2016 P/BV of 1.3x, below peer median of 2.8x. However, this may be at least partially justified by the inferior expected ROE for 2017e and 2018e of 8% and 13%, respectively (compared with peer medians of 21% and 17%, respectively). We estimate a return on average equity for LF of 16.9% in FY16. Furthermore, the discount on 2018e P/E and 2016 P/BV may also be related to LF's relatively small market capitalisation, the small base of consensus forecasts, as well as remaining legal risks with respect to fund liability disputes. On the positive side, LF has an attractive dividend yield of more than 4%, though largely in line with the peer group.

Exhibit 4: Peer valuation data (median values)

	P/E (x)		ROE (%)		P/BV	Dividend yield
	2017e	2018e	2017e	2018e	2016	2017e
Private Equity (Partners Group, Blackstone, Fortress Investment Group, KKR, 3i Group)	9.4	9.2	28.2	16.4	2.0	3.4%
Specialist (Apollo, Ashmore, Man Group, Patrizia,, MPC, Deutsche Beteiligungs)	12.7	11.7	19.5	17.4	1.9	4.9%
Conventional (Aberdeen, Azimut, Janus Henderson, Jupiter, Schroders)	14.6	14.1	19.9	20.2	3.4	5.6%
Total	12.4	12.9	21.2	16.9	2.8	4.7%
Lloyd Fonds	12.6	7.2	8.4	12.9	1.3	4.5%
Premium/(discount) to peers	2%	(44%)	-	-	(54%)	-

Source: Company accounts, Bloomberg data as at 4 October 2017.

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