

## Helma Eigenheimbau

Home builders

27 March 2018

### Increased focus on securing high margins

Helma's FY17 results exhibit moderate growth (sales up 1.4% y-o-y) due to constrained capacity in the German construction market. However, demand remains strong for residential properties so the company is focusing on maximising margins and gradually utilising its extensive land bank. Management's new guidance for FY18 is for pre-tax profit of €21.0-22.5m, which implies a 10-18% y-o-y increase. Given the limited visibility for top-line growth, some margin expansion versus FY17 may be required (which we explore in this note). Helma's shares currently trade at a P/E ratio for FY18e of 10.0x, which is an 8% premium to the peer average.

### FY17 results broadly stable versus prior year

Helma's FY17 adjusted EBIT was comparable to FY16 at €22.1m, translating into an adjusted EBIT margin of 8.3% (FY16: 8.4%). This is ahead of the 7.0-8.0% range guided back in mid-2017 and illustrates the company's increased focus on profitability. Revenues improved by 1.4% y-o-y to €267.4m. Solid growth in Helma Ferienimmobilien (+52.0% y-o-y to €48.1m) was largely offset by a top-line decrease of 7.4% and 4.4% y-o-y in Helma Eigenheimbau and Helma Wohnungsbau, respectively due to continued tight capacity in the German residential construction market.

### Earnings growth to resume in FY18 and beyond

Management has modified its FY18 and FY19 guidance, replacing its revenue targets with pre-tax profit goals amid limited sales growth visibility given existing market bottlenecks and Helma's increased emphasis on high-margin projects. Management now guides to a PBT of €21.0-22.5m (implying 10-18% y-o-y growth) and FY19 PBT of €23.5-26.0m (12-16% y-o-y). With the 14.4% decline in order intake in FY17, management's target may require further adjusted EBIT margin expansion eg a c 9.0-9.5% margin will be required to achieve flat y-o-y FY18 sales.

### Valuation: Trading slightly ahead of peers

Helma's shares currently trade at an 8% and 38% premium to peers on P/E and EV/EBITDA ratios for FY18e, respectively, and in line with the peer group on FY19e P/E. A high premium persists on FY19e EV/EBITDA (23%). This discrepancy is the result of Helma's higher financial leverage vs peers. After muted profit momentum last year, the market expects growth to resume in FY18, with EBITDA and EPS improvement of 13% and 15% y-o-y, respectively.

#### Consensus estimates

| Year end | Revenue (€m) | PBT (€m) | EPS (€) | DPS (€) | P/E (x) | Yield (%) |
|----------|--------------|----------|---------|---------|---------|-----------|
| 12/16    | 263.8        | 19.6     | 3.37    | 1.10    | 11.1    | 2.9       |
| 12/17    | 267.4        | 19.1     | 3.25    | N/A     | 11.5    | N/A       |
| 12/18e   | 292.7        | 21.9     | 3.75    | 1.32    | 10.0    | 3.5       |
| 12/19e   | 322.0        | 25.5     | 4.29    | 1.57    | 8.7     | 4.2       |

Source: Helma accounts, Bloomberg consensus estimates as at 22 March 2018.

**Price** €37.5  
**Market cap** €150m

#### Share price graph



#### Share details

Code H5EX  
Listing Deutsche Börse Scale  
Shares in issue 4.0m  
Last reported net debt at 31 December 2017 €149.2m

#### 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.
- Demand currently favourable.
- Integrated services suited to customer needs.

#### Bear

- Market is cyclical.
- Development risk is always present.
- Market bottlenecks are limiting revenue growth.

#### Analyst

Milosz Papst +44 (0) 20 3077 5700

[industrials@edisongroup.com](mailto:industrials@edisongroup.com)  
[Edison profile page](#)

Edison Investment Research provides qualitative research coverage on companies in the Deutsche Börse Scale segment in accordance with section 36 subsection 3 of the General Terms and Conditions of Deutsche Börse AG for the Regulated Unofficial Market (Freiverkehr) on Frankfurter Wertpapierbörse (as of 1 March 2017). Two to three research reports will be produced per year. Research reports do not contain Edison analyst financial forecasts.

## Financials: Stable earnings, but lower order intake

Helma reported an adjusted EBIT of €22.1m in FY17, which was broadly flat versus the prior year (FY16: €22.2m). Similarly, FY17 sales were up marginally by 1.4% y-o-y at €267.4m, translating into an adjusted EBIT margin of 8.3% (vs 8.4% in FY16). This is ahead of the company's earlier guidance announced in the H117 release, as it had expected a margin in the lower third of the 7.0-10.0% range (ie 7.0-8.0%). The German housing market is experiencing strong demand, especially in conurbations, driven by immigration from European and other countries, high mortgage loan availability and investment demand due to record-lower interest rate levels, as well as a solid macroeconomic environment. However, the market is characterised by persistent bottlenecks due to workforce shortages in construction and overall longer project processing periods in the planning phase. This is illustrated by the 7.3% y-o-y decline in construction permits for residential dwellings in Germany in 2017. As a result, Helma has turned its focus on maintaining a higher margin rather than strong revenue growth while continuing to put emphasis on project quality. Importantly, the company was able to offset cost inflation with price increases. Pre-tax profit was €19.1m in FY17, in line with the €18.5-19.5m range indicated in an ad-hoc release on 12 January. FY17 EPS was down 3.6% y-o-y to €3.25.

As already highlighted in the January release, the company's order intake declined significantly to €129.1m in H217 (-22.3% y-o-y) following a 3.6% y-o-y decline to €120.6m in H117, despite management's earlier expectations of a visible pick-up in the second half of the year. With order intake declining by 14.4% y-o-y in FY17, Helma missed its order inflow guidance, which implied ±10% change versus FY16 levels (€286.8m). This was due to new orders being below targets in Helma Eigenheimbau AG (-5% y-o-y) and Helma Wohnungsbau (-34% y-o-y), although Helma Ferienimmobilien was in line with expectations. It is worth noting however, that the 2015 and 2016 order intake included the sale of a large-scale residential project to an institutional investor, which allowed Helma to recognise order intake in full instantly. At the sales level, Helma Eigenheimbau posted a 5.2% y-o-y decline in sales to €47.3m in H217 after a 10.0% y-o-y drop in H117. Helma Wohnungsbau reported revenues lower by 13.0% y-o-y (H117: -10.5% y-o-y). Conversely, Helma Ferienimmobilien continues to post solid sales growth, with H217 seeing +48.5% y-o-y (H117: +52.0% y-o-y). This division's performance is mainly driven by the Hafendorf Zerpenschleuse, OstseeResort Olpenitz and NordSeeResort BÜsum projects.

Helma's net debt increased by 20% y-o-y to €149.2m, but was down sequentially from €161.3m as at end-June 2017. This translated into an equity ratio of 28.0% (FY16:28.8%). Cash flow from operations stood at -€13.3m (vs -€16.1m in FY16) on the back of continued land inventory build-up (inventories at €199.9m as at end-2017 compared to €173.8m in the prior year).

### Exhibit 1: H217 and FY17 results highlights

| €m                  | H217  | H216  | y-o-y change | FY17  | FY16  | y-o-y change |
|---------------------|-------|-------|--------------|-------|-------|--------------|
| Revenue             | 157.4 | 160.8 | -2.2%        | 267.4 | 263.8 | 1.4%         |
| Adj. EBITDA*        | 16.9  | 16.7  | 1.1%         | 24.4  | 23.9  | 2.0%         |
| adj. EBITDA margin* | 10.7% | 10.4% | 34 bps       | 9.1%  | 9.1%  | 6 bps        |
| EBIT                | 14.2  | 15.3  | -7.7%        | 20.2  | 21.7  | -6.6%        |
| Adj. EBIT*          | 15.5  | 15.8  | -1.5%        | 22.1  | 22.2  | -0.1%        |
| adj. EBIT margin*   | 9.9%  | 9.8%  | 6 bps        | 8.3%  | 8.4%  | -12 bps      |
| EBT                 | 13.4  | 14.3  | -6.4%        | 19.1  | 19.6  | -2.2%        |
| Income tax          | 4.4   | 4.5   | -0.4%        | 6.1   | 6.1   | 1.1%         |
| tax rate            | 33.1% | 31.1% | 198 bps      | 32.1% | 31.0% | 106 bps      |
| Net profit          | 9.0   | 9.9   | -9.1%        | 13.0  | 13.5  | -3.7%        |
| Net profit margin   | 5.7%  | 6.1%  | -43 bps      | 4.9%  | 5.1%  | -26 bps      |
| EPS (€)             | 2.25  | 2.47  | -8.9%        | 3.25  | 3.37  | -3.6%        |

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

**Exhibit 2: Revenue by division**

| €m                          | H217 | H216 | y-o-y change | FY17  | FY16  | y-o-y change |
|-----------------------------|------|------|--------------|-------|-------|--------------|
| Helma Eigenheimbau AG       | 47.3 | 49.9 | -5.2%        | 85.1  | 91.9  | -7.4%        |
| Helma Wohnungsbau GmbH      | 76.8 | 88.3 | -13.0%       | 133.4 | 139.4 | -4.4%        |
| Helma Ferienimmobilien GmbH | 32.8 | 22.1 | 48.5%        | 48.1  | 31.7  | 52.0%        |
| Hausbau Finanz GmbH         | 0.4  | 0.5  | -23.9%       | 0.9   | 0.9   | -1.6%        |

Source: Helma Eigenheimbau accounts

Amid greater focus on margins rather than top-line growth, Helma has decided to convert its revenue guidance for FY18 and FY19 into pre-tax profit guidance, with an unchanged average growth rate expectation of 14%. As a result, management is now guiding to FY18 PBT in the range of €21.0-22.5m (implying 10-18% y-o-y growth) and FY19 PBT of €23.5-26.0m (12-16% y-o-y growth). At a 30% tax rate and 4.0m of shares outstanding, this would translate into an EPS of €3.62-3.88 and €4.05-4.49, respectively. Helma's portfolio of attractive land plots (currently representing an aggregate sales potential of €1.2bn), which the company built up as it benefitted from the early mover's advantage, should constitute the foundation for future growth, even if there is currently limited visibility regarding the timing of the execution of the respective projects. In the FY17 annual report (due to be published on 12 April), the company will present a detailed breakdown of its current land bank, providing additional insights into its future growth potential.

Helma's guidance may be achieved through different combinations of sales growth and margin improvement. The recent decline in order intake may have a negative effect on Helma's FY18 sales performance. However, revenues from projects where at least 30% of dwellings have already been pre-sold and where construction has commenced may be recognised without flowing into the order book first. Moreover, Helma Ferienimmobilien's existing pipeline should secure FY18 sales at least at the FY17 level. Consequently, there are various possible scenarios for Helma's sales development this year which will require different levels of adjusted EBIT margin in order to achieve the recently set targets. If Helma's FY18 revenues remain broadly stable versus FY17 levels (€267.4m), the company would have to achieve an adjusted EBIT margin of c 9.0-9.5% (compared to a five-year average of 8.3%), assuming net finance expense and the disposal of capitalised interest in line with FY17 levels. In the event of a 10% y-o-y decline in sales, this increases to 10.0%-10.6% and with revenues growing by 10% y-o-y, a margin of 8.2-8.7% would be sufficient. Margin improvement could be achieved through rigorous selection of highly profitable projects based on Helma's extensive land bank, allowing the company to maximise the opportunity arising from the current strong demand from customer.

## Valuation

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 (see Exhibit 3). There are differences among the companies displayed 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 consider 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 slightly ahead of the international peer group on P/E ratios and higher based on EV/EBITDA. In the latter case, Helma's relatively high leverage results in a 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)       | 2018e      | 2019e      | 2018e         | 2019e      | 2018e              | 2019e       |
| Pulte                                   | 7,066.1    | 9.2        | 8.2        | 8.6           | 7.8        | 1.3%               | 1.3%        |
| DR Horton                               | 13,154.5   | 11.2       | 9.9        | 8.2           | 7.2        | 1.1%               | 1.2%        |
| Toll Brothers                           | 5,746.6    | 8.3        | 8.9        | 8.3           | 7.4        | 0.8%               | 0.8%        |
| Taylor Wimpey                           | 6,771.1    | 8.6        | 8.3        | 6.8           | 6.6        | 8.3%               | 8.5%        |
| Barratt Dev.                            | 6,006.9    | 7.9        | 7.5        | 6.0           | 5.6        | 8.2%               | 8.5%        |
| Inland                                  | 139.9      | 9.4        | 7.7        | na            | na         | 3.3%               | 4.9%        |
| Bonava                                  | 1,201.6    | 10.2       | 10.7       | 9.5           | 9.8        | 4.3%               | 4.3%        |
| <b>Peer group average</b>               |            | <b>9.3</b> | <b>8.7</b> | <b>7.9</b>    | <b>7.4</b> | <b>3.9%</b>        | <b>4.2%</b> |
| Helma AG                                | 149.9      | 10.0       | 8.7        | 10.9          | 9.1        | 3.5%               | 4.2%        |
| <b>Premium/(discount) to peer group</b> |            | <b>8%</b>  | <b>0%</b>  | <b>38%</b>    | <b>23%</b> | <b>10%</b>         | <b>1%</b>   |

Source: Bloomberg, priced at 26 March 2018. Note: EPS and EBITDA figures for Dr Horton, Toll Brothers and Barratt Dev. are calendarised.

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

**DISCLAIMER**

Any information, data, analysis and opinions contained in this report do not constitute investment advice by Deutsche Börse AG or the Frankfurter Wertpapierbörse. Any investment decision should be solely based on a securities offering document or another document containing all information required to make such an investment decision, including risk factors.

Copyright 2017 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Deutsche Börse AG and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2017. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.