EDISON

Scale research report - Update

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.

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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 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 NordSeeResport 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 (€m)	PE (x) 2018e	PE (x) 2019e	EV/EBITDA (x) 2018e	EV/EBITDA (x) 2019e	Dividend yield (%) 2018e	Dividend yield (%) 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%
Peer group average		**9.3**	**8.7**	**7.9**	**7.4**	**3.9%**	**4.2%**
Helma AG	149.9	10.0	8.7	10.9	9.1	3.5%	4.2%
Premium/(discount) to peer group		**8%**	**0%**	**38%**	**23%**	**10%**	**1%**

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

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