EDISON

Scale research report - Update

Lloyd Fonds

Fund management

11 October 2018

Taking shape

Change is gathering pace at Lloyd Fonds. In line with its goal to become a leading asset manager in Germany over the medium term, it plans to launch its new business model, focused on open-end retail funds, in Q219. Growth may also be by acquisition (finances are robust) with assets under management targeted to exceed €5bn within five years (€1bn+ in 2019). Management is being further strengthened and strategic divestments are under review. Given likely c €2.5m one-off restructuring costs, current year guidance is newly lowered to a net loss of €1.5m. Continued weakness in H118 results only confirms the need to reposition.

The new business model

Lloyd Fonds's proposed reorientation towards open-end investment products is to be based on three new product lines: a range of actively managed retail funds, digital portfolio management and individual asset management, which can draw on existing expertise in alternative real assets, particularly real estate. Market launch is expected in Q219 following the formation of a dedicated capital management company and a reworking of the Lloyd Fonds brand. The repositioning is being supported by key management changes, including a chief investment officer from April 2019, two new anchor shareholders, notably DEWB, a long-established listed private equity company, and first expansion from its Hamburg base with a branch opening in Munich. Development is being funded by June's €3.8m capital increase.

Tough going in H118

In view of such operational change, analysis of current financial performance offers limited guidance. The half to June saw a 22% reduction in sales, reflecting asset disposals in H117, contract expiries and insolvencies. However, divisional PBT was maintained as impairment reversals and fair value remeasurement gains made up for the €1.5m tax refund which flattered the comparative. A near doubling of central costs moved overall PBT sharply into loss (€0.5m vs €0.9m profit). Owing to repositioning measures, 2018 net profit guidance is cut from just below last year's €1.4m profit to a €1.5m loss. Finances are sound with €13m net cash at June.

Valuation: Needing to deliver

Current investor appreciation of Lloyd Fonds's reorientation (share price has more than doubled since the arrival of the new shareholders in March) shows a long-term view, given no quick earnings fix and possibly no dividend payout.

Historic financials

Year end	Revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	Yield (%)
12/15	11.4	1.8	0.17	0.07	27.0	1.5
12/16	9.5	3.2	0.35	0.16	13.1	3.5
12/17	7.5	1.2	0.15	0.00	30.6	N/A

Source: Lloyd Fonds accounts

Price	**€4.59**
Market cap	**€46m**

Share price graph

Share details

Code	L10A
Listing	Deutsche Börse Scale
Shares in issue	10.1m
Net cash (€m) at 30 June 2018	13.1

Business description

Lloyd Fonds is an investment and asset manager in a range of alternative real assets, primarily in the areas of shipping and real estate. Over 20 years it has arranged more than 100 investments with a cumulative total volume of c €5bn. It is now repositioning towards liquid retail investment funds.

Bull

- Proposed broadening of business to become an active asset manager.
- Ambitious targeted AUM growth.
- New, experienced management and sound finances.

Bear

- Execution risk in repositioning the company.
- Markets for current activities remain challenging.
- Regulatory risks.

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Review of H118 results

The proposed wholesale shift in Lloyd Fonds's activities mitigates concern about the financial performance of activities soon to be superseded. Moreover, the evident refocusing of management and an array of one-off items, both accounting and restructuring-related, make it difficult to assess underlying performance, notwithstanding appreciation of persistent market pressures.

H118's continued profit woes (see Exhibit 1) are striking against a weak comparative, which had also markedly disappointed with a near halving of net profit despite a €1.5m boost from a tax refund related to associates. Although a downward step-change in newly-reported profit was to be expected without this exceptional item, the impact was compounded by a reduction in group sales of almost a quarter (€0.8m) as a result of lower income from trusteeship and real estate asset disposals as well as challenging shipping markets. There was no corresponding fall in costs as the predominant expense, labour, held up because of severance payments on a 30% reduced headcount. Lower depreciation was simply due to a change of accounting policy with the expense transferred to the finance result, while the reduction in material costs, driven by customised contracts was not material. Predictably, other operating costs included contradictory items, notably a net impairment reversals benefit of €0.4m and a similar level of property remeasurement gains, which together more than covered €0.6m higher admin costs (largely restructuring-led), hence a lower rise in other operating costs than might have been expected, given the scale of repositioning.

Exhibit 1: Financial performance

Year end December (€m)	2016	H117	H217	2017	H118
Revenue	**9.5**	**3.9**	**3.6**	**7.5**	**3.1**
Material costs	(1.0)	(0.3)	(0.2)	(0.5)	(0.2)
Labour costs	(4.3)	(2.1)	(2.7)	(4.8)	(2.0)
Depreciation	(0.5)	(0.3)	(0.2)	(0.5)	(0.1)
Other operating costs (net)	(3.3)	(1.7)	(1.6)	(3.3)	(1.9)
Associates	0.4	1.7	0.4	2.1	0.4
EBIT	**0.8**	**1.3**	**(0.8)**	**0.5**	**(0.8)**
Finance income	2.7	0.1	1.3	1.4	0.4
Finance expenses	(0.3)	(0.4)	(0.3)	(0.7)	(0.2)
Pre-tax profit	**3.2**	**0.9**	**0.3**	**1.2**	**(0.5)**
Net profit	**3.2**	**1.0**	**0.4**	**1.4**	**(0.8)**

Source: Lloyd Fonds accounts

Shipping saw some improvement in charter rates but markets remain subdued with container tanker fleet oversupply. The company mitigates this by pooling 8 of its 16 container ships, thereby stabilising income and optimising utilisation, and has newly agreed a flexible debt service until 2020. Real estate was quiet in H1 although management is confident about macro factors and its own focus on affordable housing where fundamentals are appealing.

Exhibit 2: Sales and PBT by segment

Year end December (€m)	2016	H117	H217	2017	H118
Revenue					
Real estate	2.2	0.9	0.6	1.5	0.5
Share	23%	22%	17%	20%	16%
Shipping	5.6	2.2	2.2	4.4	1.9
Share	59%	57%	61%	59%	61%
Other assets	1.7	0.8	0.8	1.6	0.7
Total	**9.5**	**3.9**	**3.6**	**7.5**	**3.1**
Pre-tax profit					
Real estate	1.9	(0.1)	0.3	0.2	0.1
Shipping	1.8	2.0	1.3	3.3	1.9
Other assets	2.2	0.7	0.7	1.4	0.7
Central costs	(2.8)	(1.7)	(2.1)	(3.8)	(3.2)
Total	**3.2**	**0.9**	**0.3**	**1.2**	**(0.5)**

Source: Lloyd Fonds accounts

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