

Heliad Equity Partners

Investment companies

14 April 2020

NAV performance driven by flatex

While Heliad Equity Partners continues its reorientation to unlisted companies initiated by the new management in early 2019, its FY19 results reflected the strong share price performance of its largest holding, online broker flatex. Heliad's market valuation so far in 2020 has been supported by the continued robust share price performance of flatex, which has recorded improved results on the back of the increased stock market volatility caused by the coronavirus pandemic. However, Heliad is still trading at a sizeable discount to the last reported NAV of c 36%.

Largest portfolio holding drives FY19 results

Heliad's FY19 net income improved to €11.3m, compared with a net loss of €56.6m in FY18, backed by a solid net revaluation gain of €13.9m (vs a €51.0m net revaluation loss in FY18). The latter was supported by a €14.6m revaluation gain on its largest portfolio holding flatex, an undisclosed amount of write-up of Springlane and lower write-downs (€5.4m in FY18 vs €52.2m a year earlier), which were mostly related to its unlisted holdings. Heliad will not recommend a dividend payout from its FY19 earnings.

Refocus on unlisted investments continues

During 2019, Heliad reduced the number of listed companies in its portfolio to three, in line with its strategy to focus on privately held investments across various industries. Recent major changes in its unlisted portfolio include the disposal of its stake in AlphaPet, an online retailer of premium pet foods, in January 2020, which it expects will provide cash proceeds of c €3.8m, as well as a €10m funding round completed by Springlane in August 2019. That said, c 63% of its NAV at end-December 2019 was still attributable to listed online broker flatex, which announced strong growth in Q120 profit before taxes in April 2020, driven by increased stock market volatility over recent weeks amid the COVID-19 pandemic.

Valuation: Discount to NAV remains considerable

Heliad is trading at a 36% discount to its last reported NAV per share of €7.39 after its shares went up 14% since end-December 2019, despite a broad market sell-off. This move coincided with the 19% share price appreciation of flatex over the same period, driven by good financial and operational performance in the volatile markets. After adjusting Heliad's NAV for the changes in share prices of all three listed holdings, we estimate the discount to NAV widens to 42%.

Historical financials

Year end	Net revenue (€m)	PBT (€m)	EPS (€)	P/E (€)	NAV/share (€)	P/NAV (x)
12/16	(16.6)	22.2	(2.3)	N/A	8.4	0.6
12/17	43.1	39.6	4.0	1.2	12.2	0.4
12/18	(50.6)	(57.6)	(5.7)	N/A	6.2	0.8
12/19	14.5	11.7	1.1	4.1	7.4	0.6

Source: Heliad Equity Partners. Note: P/NAV based on current share price.

Price €4.72
Market cap €47m

Share price graph



Share details

Code	HPBK
Listing	Deutsche Börse Scale
Shares in issue	9.87m
NAV per share at end-December 2019	€7.39

Business description

Heliad Equity Partners is a Germany-based investment company that aims to invest in disruptive companies from the DACH region operating in the technology (fintech, IT security and blockchain) and digital brands sectors. The company is undergoing a restructuring of its legacy investment portfolio.

Bull

- Shares trade at a substantial discount to net asset value.
- Improved performance of its largest portfolio holding (flatex) amid higher market volatility.
- Recent managerial change may result in improved performance.

Bear

- Portfolio concentration: the largest investment comprises more than half of the portfolio.
- Early-stage investments inherently higher risk.
- Management fee of 2.5% paid to a company owned by the main shareholder.

Analysts

Milosz Papst	+44 (0) 20 3077 5700
Anna Dziadkowiec	+44 (0) 20 3077 5700

financials@edisongroup.com
[Edison profile page](#)

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FY19 results backed by flatex revaluation

Heliad reported net income of €11.3m in FY19, compared with a net loss of €56.6m in the previous year, driven by a €13.9m net revaluation gain (vs a €51.0 net revaluation loss a year earlier). We believe the main positive contributor here was flatex, Heliad's largest investment, which represented c 63% of its NAV at end-FY19 vs 56% at end-FY18 after its share price increased c 43% in the period. Based on our estimation and conversation with management, this translated into a positive c €14.6m impact on valuation, when adjusted for a minor disposal of shares during the year. We believe that Heliad's unlisted holding, Springlane, also made a positive contribution after it closed a €10m funding round in August 2019 (see our [previous note](#)). These effects more than offset write-downs of its other unlisted holdings (primarily Muume and Libify based on our conversation with management) and a c 22% share price depreciation of MagForce in the period.

The net disposal loss was €0.5m in FY19 (vs a €0.1m loss in FY18). In the period, the company sold all its shares in DEAG Deutsche Entertainment, Cyan and Max 21, and reduced its exposure to flatex, Elumeo and Magforce, in line with its strategic reorientation to private investments (see below). Other operating expenses declined visibly to €2.8m from €7.0m in FY19 as in the period Heliad did not record any significant write-offs (€0.3m in FY19 vs €1.5m in FY18) and the cost of management and liability was lower at €1.8m (vs €4.4m in FY18). The latter is associated with fees paid to Heliad Asset Management (Heliad's investment manager).

Heliad's NAV per share increased 19% y-o-y to €7.39 at end-December 2019, largely due to the share price appreciation of flatex. Heliad will not recommend any dividend payout from its FY19 earnings.

Exhibit 1: FY19 results highlights

€000s, unless otherwise stated	FY19	FY18	y-o-y change
Income from the sale of financial assets	5,462	15,298	(64.3%)
Other operating income	23	47	(51.1%)
Gains from revaluation	19,334	1,260	N/M
Retirement of financial assets	(5,942)	(15,409)	(61.4%)
Amortisation of intangible assets	(2)	(4)	(50.0%)
Gains from investments and securities	404	-	N/M
Expenses from the fair value assessment	(5,419)	(52,218)	(89.6%)
Other financial income	654	457	43.1%
Interest and similar expenses	(7)	(49)	(85.7%)
Other operating expenses	(2,821)	(6,953)	(59.4%)
Pre-tax profit	11,686	(57,570)	N/M
Income taxes	(337)	961	N/M
Net result for the period	11,349	(56,609)	N/M
Average number of shares (diluted)	9,873	9,894	(0.2%)
EPS (diluted, €)	1.15	(5.72)	N/M

Source: Heliad Equity Partners

Portfolio reorientation in progress

Heliad continues the restructuring of its portfolio, which it initiated after management changes in April 2019. Its portfolio is now a combination of holdings in listed companies and privately held investments. The former includes flatex (an integrated online brokerage business), MagForce (a biotech player with approved nanotechnology-based therapy to treat brain cancer) and Elumeo (an online jewellery retailer with relatively weak recent performance). Heliad holds stakes in five non-listed companies: Springlane, Spaze, Libify, Muume and Tiani Spirit. We understand that Heliad continues to seek new private investments rather than invest in listed holdings. Management highlights the focus is on maximising the value of the existing portfolio while exploring opportunistic investments across different industries, with a potential stronger emphasis on the fintech, IT security, blockchain and digital brand sectors.

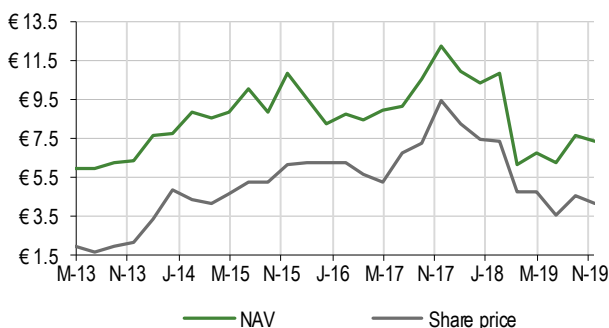
Heliad's NAV per share and financial results are mainly dependent on the share price performance of flatex. Heliad's 9.9% stake in the company was worth c €46.1m at end-December 2019 (vs €34.1m at end-FY18). We estimate it increased to €55.1m after flatex's share price appreciated 19% since end-December 2019 to 8 April 2020, which we believe is related to positive news from the company. In April 2020 flatex announced that its Q120 pre-tax profit had exceeded the FY19 full year figure, driven by a growing customer base and higher number of transactions amid increased market volatility caused by the COVID-19 pandemic. In the announcement, flatex highlighted it has strong cash generation capabilities and expects to remain net debt free, although it agreed to acquire DEGIRO, a Dutch online broker, for a total of €250m in both cash and shares in December 2019. The transaction is subject to regulatory approvals and is expected to close in Q220. According to preliminary full-year figures, flatex's adjusted sales increased 13% y-o-y to €134m in FY19 and its EBITDA margin was 35% excluding the costs of expansion into the Netherlands (or 30% including these costs).

With respect to unlisted holdings, Heliad sold its stake in AlphaPet, an online retailer of premium pet foods, to Capiton, a private equity firm, in January 2020. The company expects that this transaction will generate cash proceeds of around €3.8m in mid-April 2020. In August 2019, Springlane, a retailer of kitchenware, closed a €10m financing round, which we described in [our previous note](#).

Valuation

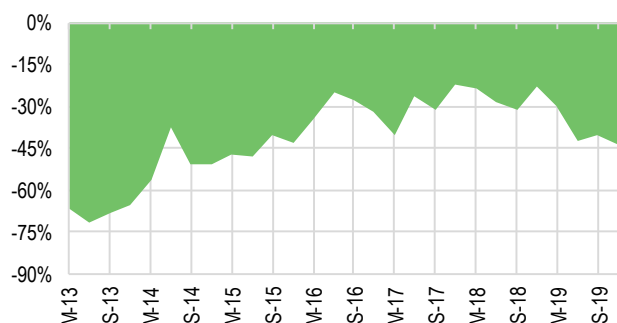
Heliad assesses its own NAV per share based on the valuation of listed and unlisted holdings. The company is currently trading at a 36% discount to the last published NAV of €7.39 at end-December 2019. Movements in the discount to the recently published quarterly NAV reflected movements in the valuation of listed holdings, which made up c 69% of NAV (c 63% for flatex alone) at end-December 2019. We estimate that flatex's c 19% share price increase between end-December 2019 and 7 April 2020 translates into an incremental NAV per share improvement for Heliad of c 12% (or c €0.90 per Heliad share). Over the same period, MagForce's and Elumeo's share prices declined by 36% and 10%, respectively, which might have resulted in a €0.14 reduction in NAV based on our estimates. Adding the net figure (c €0.76) to Heliad's last reported NAV per share and assuming all other things remain unchanged suggests the underlying discount may now be closer to 42%. Notably, Heliad's market capitalisation of €46.6m is below the market value of its stake in flatex of c €55.1m. However, we believe the discount to NAV might partially reflect Heliad's poor performance in FY18 and the ongoing portfolio transformation to unlisted holdings, which inherently are less transparent and have lower liquidity than listed companies.

Exhibit 2: Heliad's NAV and share price performance



Source: Heliad Equity Partners

Exhibit 3: Heliad's discount to NAV



Source: Heliad Equity Partners, Edison Investment Research

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