

Heliad Equity Partners

NAV decline driven by listed holdings

Heliad's results and NAV were influenced by the overall conditions in the equity markets, with all but one listed holding (DEAG Deutsche Entertainment) posting a share price decline in H118. Major portfolio developments during the period include the reduction of the FinTech Group stake, participation in the pre-IPO funding round of Cyan and acquisition of Cubitabo by Sleepz. Heliad's shares currently trade at a 29% discount to the last reported NAV of €10.38 (as at end-June 2018), with an even wider discount if we take into account FinTech's current share price.

Weaker equity markets affecting portfolio valuation

Heliad's H118 EPS came in at a negative €1.59 compared with a positive €1.13 in H117, with write-downs of listed holdings amounting to €12.9m (H117: €0.6m). This was primarily the result of share price declines of FinTech Group, Elumeo, Sleepz and MagForce in H118. Consequently, Heliad's NAV per share declined c 15% vs end-2017 to €10.38. However, FinTech shares rebounded in the months following end-June, reverting most of the losses from H118. The valuation of non-listed holdings remained broadly unchanged in the period.

Partial disposal of FinTech and Cyan's pre-IPO

In line with Heliad's intentions to limit the reliance on its key holding in FinTech Group, the company reduced its stake from 14.4% at end-2017 to 11.98%. Still, we estimate that the stake represented c 55% of Heliad's NAV at end-June 2018. FinTech has gained some traction recently, with the new joint venture with Austrian Post and H118 results in line with management expectations. In February 2018, Heliad participated in the pre-IPO financing round of Cyan, which subsequently debuted in March this year. Other major portfolio developments include the acquisition of Cubitabo by Sleepz.

Valuation: Low value attached to non-listed holdings

Based on the current share price, Heliad is trading at a c 29% discount to last reported NAV. We estimate that the rebound in FinTech Group's share price after end-June 2018 represents an incremental €0.65 contribution to Heliad's NAV, which translates into a discount to NAV at c 33%. This suggests that the market is currently attaching little value to Heliad's non-listed holdings (or believes that the company's listed holdings are overvalued). Based on the most recently paid dividend, the shares currently offer a dividend yield of around 2.7%.

Historical financials

Year end	Net revenue	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	NAV/share (€)	P/NAV (x)
12/14	23.8	18.5	1.9	0.15	3.9	8.5	0.9
12/15	29.2	23.0	2.4	0.20	3.1	10.9	0.7
12/16	(16.6)	(22.2)	(2.3)	0.15	N/A	8.4	0.9
12/17	43.1	39.6	4.0	0.20	1.8	12.2	0.6

Source: Heliad Equity Partners accounts

Investment companies

5 October 2018

Price €7.34

Market cap €72m

Share price graph



Share details

Code	HPBK
Listing	Deutsche Börse Scale
Shares in issue	9.87m
NAV/share as at 30 June 2018	€10.38

Business description

Heliad Equity Partners is a Germany-based investment company focused on listed and unlisted smaller companies in German-speaking countries. Investments typically comprise growth and venture-stage technology companies operating disruptive business models or addressing structural issues.

Bull

- Invests in markets likely to experience strong growth in major economies.
- Strong cash flows from realisations are allowing further portfolio diversification.
- The shares trade at a substantial discount to the value of assets net of liabilities.

Bear

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

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Financials: Write-downs of listed holdings

Heliad reported a diluted loss per share at €1.59 in H118 compared with a positive EPS of €1.13 a year ago, which was primarily the result of share price declines of nearly all listed portfolio holdings (resulting in a write-down of €12.9m vs €0.6m in H117). This includes, in particular, Heliad's largest holding FinTech Group (-12% in H118), but also Elumeo (-28%), Sleepz (-34%) and MagForce (-31%). The exception with this respect is DEAG Deutsche Entertainment, which saw its share price increase by c 17% in H118. In February 2018, Heliad participated in a pre-IPO investment round in Cyan (a provider of mobile security solutions), with a single-digit million-euro figure at an undisclosed price. Cyan's issue price was set at the higher bound of the announced range of €20–23, with the share price subsequently declining slightly to €22.48 at end-June 2018. Both DEAG and Cyan contributed to the relatively modest reported gains from revaluation of listed financial assets at €0.4m (H117: €10.1m). Write-ups of non-listed holdings was negligible in H118 at €45k vs €743k in H117. Heliad also recognised a net gain from the sale of financial assets at €0.6m (compared with €2.2m in H117). During the first half of the year, the company sold a minor part of its stake in FinTech Group (in line with its intention to reduce reliance on this portfolio holding) and currently holds 11.98% (c 2.1m shares) compared with 14.4% as at end-2017. The company also reduced its stake in DEAG Entertainment during the period.

On the operating expense side, costs of management and liability went up significantly (€2.6m vs €1.2m in H117), which is mostly attributable to the overall higher IFRS balance sheet equity value from the prior year (used as a base to calculate the management fee), as well as the €0.5m performance fee charged by Heliad Asset Management. Moreover, the company recognised expenses for bad debt allowances at €1.4m vs none in H117.

Exhibit 1: Results highlights			
€000s	H118	H117	y-o-y
Income from the sale of financial assets	12,887	7,825	64.7%
Other operating income	13	3	N/M
Gains from revaluation	614	10,849	-94.3%
Retirement of financial assets	(12,285)	(5,636)	118.0%
Income from investments	0	63	N/M
Depreciation of financial assets	(12,877)	(604)	N/M
Financial revenue	134	207	-35.3%
Financial expenses	(37)	(37)	0.0%
Other operating expenses	(4,588)	(1,778)	158.0%
Depreciation on intangible assets	(2)	(2)	0.0%
EBT	(16,140)	10,891	N/M
Income taxes	369	(100)	N/M
Net result for the period	(15,771)	10,791	N/M
EPS (€, diluted)	(1.59)	1.13	N/M

Source: Heliad Equity Partners accounts

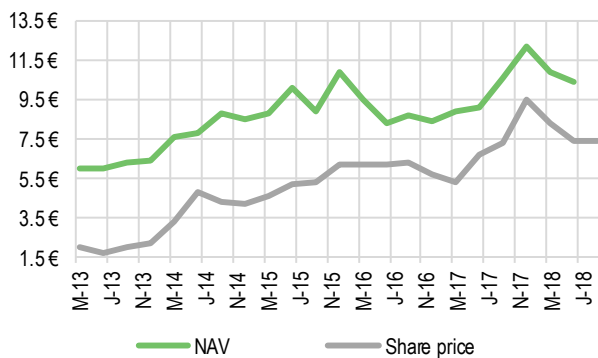
As a result of the above, Heliad's NAV per share declined c 15% vs end-2017 to €10.38 (c 5% compared to end-March 2018 NAV). However, it must be noted that the share price of FinTech Group (also covered by Edison Investment Research – see our last report [here](#)) rebounded from the local trough at end-June by around 11% (as at 4 October 2018), as H118 results were in line with management expectations (with EBITDA up 42% y-o-y) and as the company recently announced the establishing of a new joint venture with Austrian Post. [MagForce](#) announced at the beginning of July the enrolment of the first patient in its pivotal clinical trial evaluation, NanoTherm focal ablation therapy, in the US for prostate cancer. The company also successfully completed a capital raise conducted by its US subsidiary. Meanwhile, [Cyan's](#) shares were supported by a favourable sell-side recommendation. [Max21](#) continues its successful turnaround story, with a solid increase in H118 sales related to Binect family products and LinOTP. However, the recent resignation of its CEO (who will stay with the company until end-June 2019 on a part-time basis) proved to be a negative stock catalyst. DEAG Deutsche Entertainment was able to post an increase

in revenues of 34.2% y-o-y and an adjusted EBIT to €2.8m in H118, compared to €0.3m in H117. Contrary to this, Elumeo experienced a more than 80% share price decline ytd, as revenues and margins continue to deteriorate and the company undergoes restructuring. Sleepz is currently conducting a private placement of its convertible bond, the timing of which was recently extended until early October. Importantly, the company has just entered into a €5.0m funding agreement with Heliad and Apeiron Investment Group, including a €2.0m participation in the convertible bond issuance and €3.0m in the form of a long-term loan. Interestingly, the company has signed a term-sheet to acquire another of Heliad’s holding, Urbanara, back in August (after acquiring Cubitabo in early 2018).

Valuation

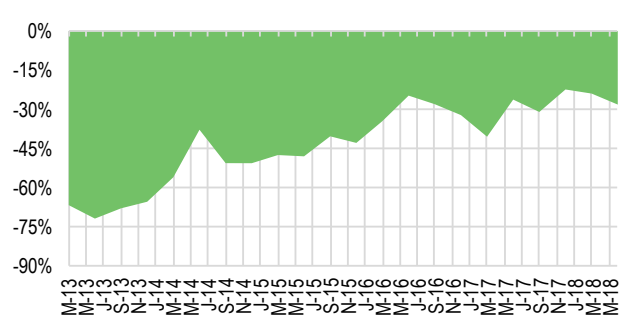
Heliad assesses its own NAV per share on the basis of the valuation of listed and unlisted holdings. Based on the share price at end-June 2018, the shares traded at a 28.2% discount to the latest published NAV of €10.38, and a 29.3% discount on 4 October 2018. Movements in the discount between publication of the quarterly NAVs tend to reflect the valuation of listed holdings, which made up c 70% of NAV (c 55% for FinTech Group alone) at end-June 2018. We estimate that Fintech’s c 11% share price increase between end-June 2018 and 4 October 2018 translate into an incremental NAV per share improvement of c 6.2% (or €0.65 per share). The impact of share price change of Heliad’s remaining listed holdings over the same period was only minor, with the severe fall in Elumeo’s shares roughly offset by higher MagForce and Cyan share prices. Adding the c €0.65 to Heliad’s own NAV per share suggests the underlying discount may be closer to 33%. This means that the market is currently valuing Heliad’s share predominantly based on the value of listed holdings, neglecting the non-listed companies. Over the longer term, the discount has narrowed appreciably in the past five years (Exhibit 3), reflecting positive performance from portfolio holdings. Based on the last paid dividend of €0.20 per share, Heliad’s current dividend yield stands at around 2.7%.

Exhibit 2: Heliad’s NAV and share price performance



Source: Heliad Equity Partners, Edison Investment Research

Exhibit 3: Heliad’s discount to NAV



Source: Heliad Equity Partners, Edison Investment Research

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