

Heliad Equity Partners

Investment companies
8 April 2021

Strong FY20 results backed by flatexDEGIRO

Heliad's FY20 results were supported by 165% share price growth at flatexDEGIRO (formerly flatex), its largest portfolio holding, representing c 68% of NAV at end-FY20, and a partial exit from this company announced in July 2020. Liquidity was high at end-FY20 (cash at c 19% of NAV), which we believe could be used for new investments. Heliad continues to trade at a notable discount to NAV.

flatexDEGIRO delivers again

Heliad's net income increased to €57.3m in FY20 from €11.3m in FY19, assisted by a €50.9 net revaluation gain and a €9.4m net disposal gain, both largely linked to its largest portfolio holding, flatexDEGIRO. This also drove Heliad's NAV per share to €13.28, up c 80% y-o-y. Heliad will pay a higher management fee to Heliad Management (its investment manager) in FY21 (c €3.2m, as per our estimates) and will also be charged a performance fee on its realised gains (c €3.0m based on our discussion with management). As for FY19, Heliad Management has proposed not paying a dividend from Heliad's FY20 earnings.

High liquidity amid portfolio repositioning

Post the management change in April 2019, Heliad announced that it will move its portfolio away from listed companies and increase exposure to non-listed holdings, with potential stronger emphasis on the fintech, IT security, blockchain and digital brand sectors. While Heliad has reduced its exposure to listed stocks in recent months (most notably to flatexDEGIRO in July 2020) and sold some of its unlisted holdings, it has not made any new investments recently. Heliad's liquidity position was backed by the partial exit from flatexDEGIRO announced in July 2020, which boosted its share of cash in NAV to c 19% at end-FY20 (vs c 1.6% at end-FY19).

Valuation: Trading at a notable discount to NAV

Heliad is trading at a 22% discount to end-December 2020 NAV despite the fact that c 68% of its portfolio was attributable to listed company flatexDEGIRO at end-FY20 and its high cash position. We believe the relatively wide discount may be at least partially linked to the management and performance fees paid to Heliad Management and a somewhat protracted process of increasing its exposure to unlisted holdings since the management change in April 2019. After adjusting Heliad's NAV for the changes in flatexDEGIRO's share price since end-December 2020 to 6 April 2021 (+26%), we estimate the discount to NAV widens to 34%.

Price €10.4
Market cap €103m

Share price graph



Share details

Code	HPBK
Listing	Deutsche Börse Scale
Shares in issue	9.87m
NAV per share at end-December 2020	€13.28

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.
- Solid business performance of flatexDEGIRO, Heliad's largest portfolio holding.
- Ample cash for new investments.

Bear

- Portfolio concentration remains high despite recent partial exit from flatexDEGIRO.
- Management will not recommend paying a dividend from FY20 earnings.
- Progress with portfolio transformation to unlisted holdings has been limited so far.

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Historical financials

Year end	Net revenue (€m)	PBT (€m)	EPS (€)	P/E (x)	NAV/share (€)	P/NAV (x)
12/17	43.1	39.6	4.0	2.6	12.2	0.8
12/18	(50.6)	(57.6)	(5.7)	N/A	6.2	1.7
12/19	14.5	11.7	1.1	9.0	7.4	1.4
12/20	60.7	58.1	5.8	1.8	13.3	0.8

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

Partial exit from flatexDEGIRO

Heliad's net income increased to €57.3m in FY20 from €11.3m in FY19, driven by a €50.9m net revaluation gain (vs a €13.9m net revaluation gain in FY19) and a €9.4m net disposal gain (vs a €0.5m net revaluation loss in FY19). The largest positive contributor to the net revaluation gain was flatexDEGIRO (c 68% of Heliad's NAV at end-December 2020, according to our estimates) after its share price increased c 165% in the period.

The net disposal gain resulted largely from Heliad's partial exit from flatexDEGIRO in early July 2020, which generated proceeds of c €21.5 and reduced Heliad's stake in the company from 9.8% to 7.3% (see our previous [update note](#) for more detail). The company also reduced its exposure to listed companies MagForce and Elumeo through FY20 and sold its stake in the non-listed holding AlphaPet in January 2020 (see our [April 2020 update note](#) for more details) and Spaze in December 2020.

Exhibit 1: FY20 results highlights			
€000s, unless otherwise stated	FY20	FY19	y-o-y change
Income from the sale of financial assets	26,235	5,462	N/M
Other operating income	17	23	(26.1%)
Gains from revaluation	56,895	19,334	N/M
Retirement of financial assets	(16,867)	(5,942)	N/M
Amortisation of intangible assets	-	(2)	N/M
Gains from investments and securities	84	404	(79.2%)
Expenses from the fair value assessment	(6,012)	(5,419)	10.9%
Financial revenue	344	654	(47.4%)
Financial expenses	-	(7)	(N/M)
Other operating expenses	(2,615)	(2,821)	(7.3%)
Pre-tax profit	58,080	11,686	N/M
Income taxes	(801)	(337)	N/M
Net result for the period	57,279	11,349	N/M
Average number of shares (diluted)	9,873	9,873	0.0%
EPS (diluted, €)	5.80	1.15	N/M

Source: Heliad Equity Partners

Heliad's NAV per share increased to €13.28 at end-FY20 from €7.39 at end-FY19, largely driven by flatexDEGIRO's share price appreciation in the period. At end December 2020, the company's listed investments (ie stocks) were valued at €94.6m (representing c 72% of its NAV), while the value of its unlisted holdings was €12.1m (9%). Following Heliad's partial exit from flatexDEGIRO in July 2020 and minor reductions in its exposure to listed and non-listed holdings in FY20 described above, cash reached €24.5m at end-FY20 (vs €1.2m at end-FY19) or c 19% of the company's NAV at end-December 2020 (1.6%).

We note that Heliad will be charged a higher management fee by Heliad Management (its investment manager), which we estimate will be c €3.2m based on the 2.5% management fee and Heliad's year-end NAV. The company will also pay a performance fee on its realised profits in the period (c €3.0m based on our discussion with management). Heliad Management will recommend not paying a dividend from Heliad's FY20 earnings (similar to last year).

Portfolio concentration remains high

Heliad's portfolio currently includes stakes in listed flatexDEGIRO, MagForce and Elumeo, as well as the following non-listed companies:

- **Springlane:** a retailer of kitchenware;
- **Libify:** a specialist in manufacturing and selling mobile emergency calls, locating and tracking systems;

- **Capnamic United Venture Fund I:** an early-stage venture capital fund based in Berlin and Cologne;
- **Tiani Spirit:** a specialist in standardised and secure exchange of data, and of healthcare information in particular;
- **Grapevine World:** an international holding company, which unites companies that aim to standardise data transfer; and
- **Muume:** a platform for digital services for daily consumption and purchasing processes on smartphones.

Portfolio concentration remains high, with flatexDEGIRO representing c 68% of Heliad's NAV at end-FY20, according to our estimates, which assume that Heliad held a c 5.2% stake at the end of this period. This represents a reduction from 7.3% post the July 2020 partial exit due to capital measures as part of the merger between flatex and DEGIRO completed in 2020. While management has reduced Heliad's exposure to listed companies over recent months (in line with the new strategy launched post management changes in April 2019), it has not made any new investments in either listed or in unlisted companies since then.

Meanwhile, flatexDEGIRO continues to deliver solid trading. According to preliminary 2020 figures, revenue reached €261m in FY20 vs €132m in FY19 (or €191m pro forma, ie including DEGIRO), while EBITDA adjusted for non-cash expenses relating to provisions for long-term investment schemes was €114m vs €38m in FY19 (€49m pro forma). In the period, total number of trades reached 75m (vs 31m in 2019 pro forma), which was a function of the increasing customer base (1.25 million at end-FY20 vs 0.8 million at end-FY19) and above average trading activity in the period (73 trades per customer in 2020 vs 45 in 2019) amid high market volatility caused by the COVID-19 pandemic. For 2021, management guides to further growth in the customer base to 1.8–2.0 million and a total number of trades at 75–90m. flatexDEGIRO aims to increase its customer base to three million and number of trades to over 100m by 2025, including in years of low volatility. We believe that positive newsflow from flatexDEGIRO and overall strong market sentiment towards shares of online brokers continue to drive the company's share price, which was up 26% in 2021 to 6 April 2021.

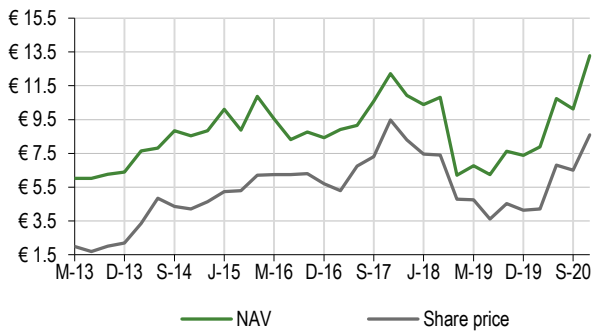
Valuation

Heliad assesses NAV per share based on the valuation of listed and unlisted holdings. Its shares currently trade at a 22% discount to its last published NAV of €13.28 at end-December 2020. Despite a partial exit from flatexDEGIRO in July 2020, the discount to Heliad's recently published quarterly NAV continues to largely reflect movements in the valuation of flatexDEGIRO, which represented c 68% of its NAV at end-FY20 (unlisted holdings are revalued only on completion of funding rounds, while the share of listed companies MagForce and Elumeo in Heliad's NAV is negligible).

Following 26% appreciation in flatexDEGIRO's share price from 1 January to 6 April 2021, we estimate that the value of Heliad's 5.2% stake in the company increased to c €113m from c €90m at end-December 2020. If we ignore the price movements of other listed stocks and any other factors affecting Heliad's NAV vs end-December 2020, we arrive at an underlying discount to last reported NAV of c 34%.

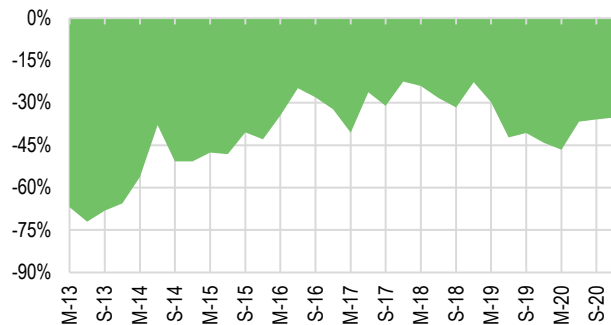
We believe the discount is at least partially attributable to the lack of clarity in terms of Heliad's prospective investment strategy and the management fee it regularly pays to Heliad Management. We believe that investors may also discount the c €3.0m performance fee which we estimate Heliad will pay on realised gains (see above), although when we take this into account in our NAV adjustments, Heliad's discount to last reported NAV narrows only slightly to c 32%.

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.
Note: *Discount to NAV as reported.

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