

Heliad Equity Partners

Investment companies
11 April 2018

Strong gains allow further diversification

Heliad Equity Partners (Heliad) posted strong results for FY17, with profit before tax of €39.6m compared with a loss of €22.2m in FY16. This was principally driven by share price gains among listed holdings, notably FinTech Group and MagForce. These increases allowed Heliad to realise gains of €19.5m, supporting further diversification of the portfolio through additional participations in some existing private holdings, and new investments in both listed and unlisted companies, including mattress and home furnishing specialist Sleepz, and vertically integrated jewellery company Elumeo. A FY17 dividend of €0.20 has been recommended.

FY17 performance driven by key portfolio holdings

Heliad reported EPS of €4.02 for FY17 compared with a loss per share of €2.31 in FY16, propelled by revaluation gains of €47.1m (up substantially from €2.5m in FY16) and realisations of €19.5m (significantly higher than €3.5m in FY16). Profit-taking in listed holdings (FinTech Group, MagForce, DEAG) has allowed actions aimed at further diversifying the portfolio, in line with Heliad's strategy to reduce the reliance on largest holding, FinTech Group, with new investments in both listed and unlisted companies. Operating expenses fell by 37.2%, helped by a lack of FX costs and lower costs of management and liability.

NAV increases by 45% in FY17

Heliad's NAV per share increased by 45% in FY17, to €12.22 at 31 December 2017. This was largely driven by an increase of 128% in the share price of largest listed holding, FinTech Group, which built on strong FY16 net profit of €12.3m (ahead of analyst expectations), with H117 net profit of nearly €7.0m. Second-largest listed holding, MagForce, also contributed with a share price rise of 42%, driven by steady progress in the roll-out of its nanoparticle-based cancer treatment.

Valuation: Discount narrower than mid-term average

Heliad's current share price of €8.24 stands at a 32.6% discount to the last reported NAV (€12.22 at 31 December 2017). Given the year to date fall in the share prices of major listed holdings, which made up c 75% of the portfolio at the year-end, we anticipate that the 31 March NAV is likely to be lower and the discount is likely to narrow and stay well below the three-year average of c 38%. We calculate that the value of Heliad's position in the main listed holdings is down c 10% in Q118, although the basket is still up c 70% y-o-y, driven by FinTech's strong performance.

Historical financials

Year end	Net revenue (€m)	PBT (€m)	EPS (€)	DPS (€)	P/E (x)	NAV/share (€)	P/NAV (x)
12/14	23.8	18.5	1.9	0.15	4.3	8.5	1.0
12/15	29.2	23.0	2.4	0.20	3.4	10.9	0.8
12/16	(16.6)	(22.2)	(2.3)	0.15	N/A	8.4	1.0
12/17	43.1	39.6	4.0	0.20	2.1	12.2	0.7

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

Price €8.24
Market cap €81m

Share price graph



Share details

Code	HPBK
Listing	Deutsche Börse Scale
Shares in issue	9.87m
NAV/share as at 31 December 2017	€12.22

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.

Analysts

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Financials: FY17 results reflect strong portfolio gains

Building on strong results [in H117](#), Heliad reported earnings before tax (EBT) of €39.6m for FY17, compared with a loss of €22.2m in FY16. This was largely driven by gains from the fair value assessment of investments (€47.1m versus €2.5m in FY16, an increase of 1,765%), which itself was heavily influenced by the 128% rise in the share price of largest holding, FinTech Group (63% of Heliad's NAV at 31 December 2017) during the year. Income from the sale of financial assets also made a significant contribution, at €19.5m versus €3.5m in FY16 (up 450%), as Heliad reduced its holdings in FinTech Group (from 16.9% of the company at 31 December 2016 to 14.4% at 31 December 2017), DEAG Deutsche Entertainment (from 7.7% to 3.2%) and MagForce (from 5.3% to 3.2%).

As well as the triple-digit gain in the share price of FinTech Group, strong contributions to performance among the listed holdings also came from medical device firm MagForce, jewellery company Elumeo (a new investment during the year) and listed sleep products retailer Sleepz, also a new investment during the year, to which Heliad contributed its holding in mattress firm Cubitabo as part of a capital increase in Q417/Q118. Cookware company Springlane and Cubitabo (both unlisted) detracted from performance, with write-downs totalling €9.1m, while the small holding in listed technology company Max21 also made a negative contribution as its share price fell 17.6%.

The positive performance and profit-taking from listed holdings enabled Heliad to expand its portfolio significantly, with investments in available participations from existing portfolio companies such as Libify and Tiani Spirit (MT Holding), and new holdings Sleepz, Elumeo and Urbanara. These investments further Heliad's plan of diversifying its portfolio and ensuring that performance is less dependent on the development of FinTech Group's share price in future years.

Other operating expenses declined by 37.2% y-o-y amid the absence of expenses from currency conversions and a 27.1% fall in costs of management and liability to €2.4m. Net income improved to €39.0m from a loss of €22.0m in FY16, equating to EPS of €4.02 (FY16: loss of €2.31).

Heliad's share price at end-December stood at €9.48, representing a 22.4% discount to the end-December NAV per share of €12.22, which increased 45% from €8.43 at end-2016. Since the year-end, the value of the listed holdings has declined somewhat, with FinTech Group's shares falling by 7.3% year to date (at 6 April) and MagForce's falling by 13.4%, although FinTech Group's share price is still up by c 100% y-o-y. Currently, Heliad's shares trade at a 32.6% discount to the last reported NAV (31 December). However, share price declines of listed holdings may reduce the NAV at the end of Q118 and the discount is likely to narrow.

Operating cash flow was a negative €3.3m in FY17 (similar to -€3.5m in FY16). Investment cash flow was positive at €3.5m (FY16: -€6.1m), as proceeds from the disposal of investments (€19.5m compared with €3.5m in FY16) outweighed investments in financial assets (€15.1m versus €12.6m in FY16) and disbursements in the context of short term treasury management (€1.3m versus €1.5m in FY16). In terms of financing cash flows, payment of dividends (€1.4m) and repayment of borrowings (€0.5m) were offset by incoming payments from a capital increase, resulting in a net figure of zero (FY16: €0.3m).

At the year-end Heliad had €10.0m of free cash, compared with €1.9m at end-FY16. A dividend of €0.20 per share, which would cost c €2m (FY16: €0.15 and €1.4m) has been recommended.

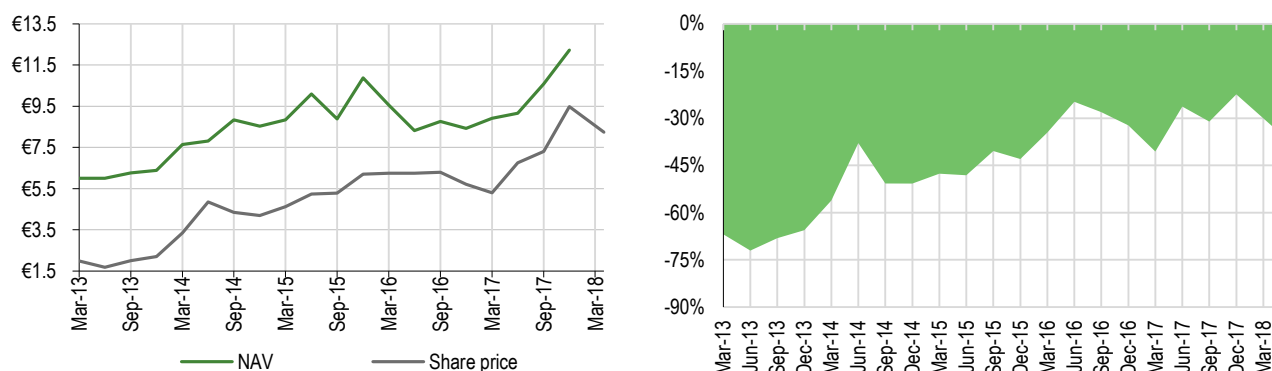
Exhibit 1: Results highlights

€000s	FY17	FY16	Y-o-y (%)
Net revenue	43,114.0	-16,606.0	n.m.
Income from the sale of financial assets	19,483	3,545	449.6%
Other operating income	91	6	1,416.7%
Gains from fair value assessment	47,057	2,523	1,765.1%
Retirement of financial assets	(14,724)	(3,826)	284.8%
Income from investments	51	61	(16.4%)
Expenses from fair value assessment	(9,266)	(19,713)	(53.0%)
Financial revenue	481	817	(41.1%)
Interest and similar expenses	(59)	(19)	n/a
Other operating expenses	(3,517)	(5,599)	(37.2%)
Costs of management and liability	(2,408)	(3,305)	(27.1%)
Expenses for options	(280)	(148)	N/A
Expenses from currency conversions	-	(1,467)	N/M
Creation of provisions	(90)	(130)	(30.8%)
Remaining other operating expenses	(739)	(549)	34.6%
Amortisation on intangible assets	(4)	(2)	N/A
EBT	39,594	(22,206)	N/M
Income taxes	(520)	249	N/M
Net result for the period	39,074	(21,958)	N/M
EPS (€)	4.02	(2.31)	N/M

Source: Heliad Equity Partners accounts

Valuation

Heliad assesses its own NAV per share based on the valuation of listed and unlisted holdings. Based on the year-end share price, the shares traded at a 22.4% discount to the latest published NAV of €12.22 at 31 December 2017, and a 32.6% discount on 10 April 2018. Movements in the discount between publication of the quarterly NAVs tend to reflect the valuation of listed holdings, which made up 75% of NAV (63% for FinTech Group alone) at 31 December 2017. Since the year-end, we estimate that the valuation of Heliad's listed holdings (excluding any change in the number of shares held) has fallen by 9.6%. Applying this figure to Heliad's own NAV suggests the underlying discount may be closer to 25%. The discount has narrowed appreciably in the past three years (Exhibit 2, right-hand chart), reflecting positive performance from portfolio holdings. Based on shareholdings at 31 December 2017, the value of Heliad's holdings in the main listed stocks was up c 70% y-o-y at 6 April.

Exhibit 2: Heliad's share price and NAV performance


Source: Heliad Equity Partners corporate website, Edison Investment Research

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