

Heliad Equity Partners

Investment companies
1 September 2020

Largest portfolio holding delivers

Heliad's H120 results largely reflect the strong share price performance of its main holding, the online broker flatex, which was up 91% in H120. Heliad executed a profitable partial exit from flatex post period end, generating gross cash proceeds of c €21.5m. Meanwhile, management continues to reposition its portfolio, with further reduction of its exposure to listed holdings in 2020 to date.

H120 results driven by largest holding

Heliad's net income increased to €32.4m in H120 from €0.4m a year earlier, assisted by a c €40.6m gain from revaluation, largely driven by the 91% share price appreciation of flatex during this period. This compensated for write-downs on listed and unlisted holdings of c €6.7m in H120. NAV per share reached €10.74, visibly up vs €7.39 at end December 2019, driven again by a revaluation of its stake in flatex.

Partial exit from flatex with a notable uplift

On 2 July 2020, Heliad announced that it had sold 0.5m shares in flatex as part of a private placement to institutional investors, translating into proceeds of c €21.5m for the company. This implies a disposal price of around €43 per share (vs flatex's closing price of €45.65 on the day before the announcement), which we estimate represents a notable uplift to the average cost of acquisition of €7.3 per share. As part of the transaction, Heliad agreed to a 90-day lock-up on its remaining 7.3% stake in flatex.

Valuation: Trading at a considerable discount to NAV

Following a c 73% share price increase between end FY19 and 27 August 2020, Heliad still trades at a 33% discount to its last reported NAV of €10.74 per share. We estimate that the discount to NAV narrows to c 23% after adjusting Heliad's NAV for changes in flatex's share price performance since June 2020 (down 14%), cash generated from the partial exit from flatex (not adjusted for transaction fees) and a performance fee that the deal alone would trigger (c €3.6m according to our estimates).

Historical financials						
Year end	Net revenue (€m)	PBT (€m)	EPS (€)	P/E (x)	NAV/share (€)	P/NAV (x)
12/16	(16.6)	22.2	(2.3)	N/A	8.4	0.9
12/17	43.1	39.6	4.0	1.8	12.2	0.6
12/18	(50.6)	(57.6)	(5.7)	N/A	6.2	1.2
12/19	14.5	11.7	1.1	6.2	7.4	1.0

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

Price €7.1
Market cap €71m

Share price graph



Share details

Code	HPBK
Listing	Deutsche Börse Scale
Shares in issue	9.87m
NAV per share at end June 2020	€10.74

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.
- Partial exit from flatex in July 2020 provides additional liquidity.
- Solid business performance of its largest portfolio holding (flatex).

Bear

- Portfolio concentration remains high despite recent partial exit from flatex.
- Early-stage investments are inherently higher risk.
- Management fee of 2.5% paid to a company owned by the main shareholder.

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flatex performance supports H120 results

Heliad's net income reached a notable €32.4m in H120, compared with just €0.4m a year earlier. This was supported by a €40.6m gain from revaluation (vs €4.9m in H119), largely driven by the 91% share price appreciation of flatex, Heliad's largest investment, which represented c 83% of its NAV at end H120. These write-ups more than offset a €5.9m write-down on unlisted investments (Tiani Spirit based on our conversation with management) and a €0.7m write-down on listed stocks, with the latter mainly affected by the c 25% share price decline of MagForce during the period. In H120, Heliad recorded a net disposal gain of €0.3m after it sold all its shares in the listed Sleepz, reduced its exposure to the listed MagForce and Elumeo and disposed of its stake in the non-listed holding AlphaPet (see our previous [update note](#) for more details). Heliad's NAV was €106m at end-June 2020, which translated into a NAV per share of €10.74, up from €7.39 at end December 2019, largely driven by flatex's share price appreciation in the period. At end June 2020, Heliad's listed investments (ie stocks) were valued at €90.2m (representing c 85% of its NAV), the value of its unlisted holdings was €11.6m (11%) and cash stood at €3.3m (3%).

Exhibit 1: H120 results highlights

€000s, unless otherwise stated	H120	H119	y-o-y change
Income from the sale of financial assets	4,676	5,109	(8.5%)
Other operating income	13	-	N/M
Gains from revaluation	40,565	4,908	N/M
Retirement of financial assets	(4,399)	(5,275)	(16.6%)
Amortisation of intangible assets	-	(2)	N/M
Gains from investments and securities	-	11	N/M
Expenses from the fair value assessment	(6,744)	(3,270)	N/M
Financial revenue	180	354	(49.2%)
Financial expenses	-	(7)	(100.0%)
Other operating expenses	(1,281)	(1,391)	(7.9%)
Pre-tax profit	33,009	438	N/M
Income taxes	(660)	(52)	N/M
Net result for the period	32,350	386	N/M
Average number of shares (diluted)	9,873	9,873	0.0%
EPS (diluted, €)	3.28	0.04	N/M

Source: Heliad Equity Partners

Notably, Heliad sold part of its stake in flatex post-period end, which we describe in more detail above. We note that in line with IFRS accounting treatment, Heliad will likely record a small loss from the transaction because the value uplift is already taken into account through flatex's share price appreciation in H120 and the disposal price of c €43 per share was slightly below the closing price of €45.75 at the reporting date. By contrast, in HGB accounts it will post a significant gain (c €17.9m, according to our estimates) as share price appreciation is not reflected in the H120 profit. We also note that the deal may trigger a performance fee of c €3.6m (ie 20% of realised net earnings).

Repositioning away from listed holdings continues

The recent disposals are in line with Heliad's strategic refocus on non-listed holdings. Its portfolio currently includes stakes in listed flatex, MagForce and Elumeo and five non-listed companies: Springlane (a retailer of kitchenware), Spaze (a technology-based platform for influencer marketing), Libify (a specialist in manufacturing and sales of mobile emergency calls, locating, and tracking systems), Muume (a platform for digital services for daily consumption and purchasing processes on smartphones) and Tiani Spirit (a specialist in standardised and secure exchange of data, and of healthcare information in particular). Management highlights that its focus is on maximising the value of the existing portfolio while exploring opportunistic investments across different industries, with a potentially stronger emphasis on the fintech, IT security, blockchain and

digital brand sectors. Having said that, no new investments were conducted in H120, nor has the company provided any details on the future deployment of the cash proceeds from its partial exit from flatex yet. We note that Heliad may use these funds for investments or distribute them in the form of dividends.

flatex remains the largest portfolio holding and Heliad's 7.3% stake in the company was valued at c €56.3m on 27 August 2020, according to our estimates. flatex's shares have declined by c 14% since end-June 2020 following a c 91% share price appreciation between end December 2019 and end June 2020. flatex released its preliminary H120 figures in July 2020, posting 55% y-o-y growth in sales to €100m and EBITDA of €43m, up 116% y-o-y. It also completed the acquisition of a 100% stake in DEGIRO in July 2020 and expects to uplist to the SDAX in Q420.

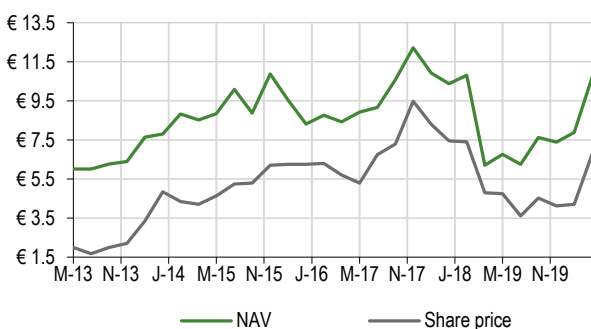
Valuation

Heliad assesses its own NAV per share based on the valuation of listed and unlisted holdings. Its shares currently trade at a 33% discount to its last published NAV of €10.74 as of end June 2020. Although it further reduced its exposure to listed stocks (Sleepz, MagForce, Elumeo) in H120 and executed a major partial exit from flatex in July 2020, its discount to the recently published quarterly NAV to a significant extent reflects movements in the valuation of flatex (we understand that MagForce and Elumeo represented less than 2% of Heliad's NAV as of end H120).

We estimate that Heliad's 7.3% stake in flatex was valued at c €56.3m at 27 August 2020 (vs c €88.3m at end June 2020 when it had a 9.9% stake in the company). If we assume that Heliad received c €21.5m in cash from the partial exit from flatex (although the actual net proceeds were likely lower due to the payment of transaction fees), the price movements of other listed stocks have a negligible impact on its NAV and all other things remain unchanged vs end June 2020, we arrive at an underlying discount to Heliad's last reported NAV of c 26%. The discount to NAV might partially reflect the portfolio transformation (which is still early stage) to unlisted holdings, which are inherently less transparent and have lower liquidity than listed companies.

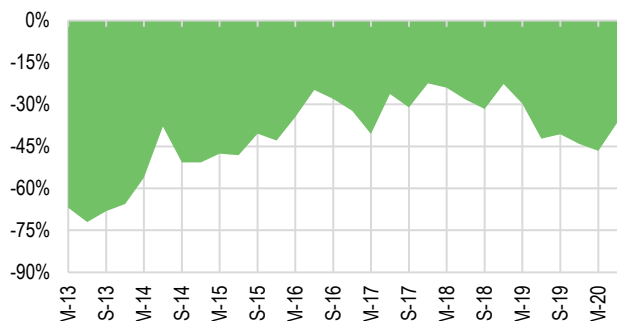
We believe that investors may also discount the performance fee that Heliad is likely to pay to its investment manager, Heliad Management, based on the FY20 results. We estimate that the partial exit from flatex alone implies a performance fee of c €3.6m (or c €0.36 per share) for the manager. However, when we take this into account in our NAV adjustments, Heliad's discount to last reported NAV narrows only slightly to c 23%.

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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