

HBM Healthcare Investments Buy

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Switzerland | Pharma & biotech

 Beta Profile: 

MCap: CHF1.1bn

Target Price: CHF298.00
Current Price: CHF160.60
Up/downside: 85.6%
Market data: 13 October 2023

Bloomberg: HBMN SW	Reuters: HBMN.S
Free float	83%
Avg. daily volume (CHFm)	1.1
YTD abs performance	-20.1%
52-week high/low (CHF)	240.00/146.00

Challenging H1 creates opportunity for a share buyback programme

Key points:

- HBM Healthcare Investments released its H1 and Q2 figures, showing respective declines of CHF70m (4%) and CHF59m (3.4%).
- Most of the losses come from the public portfolio (down CHF58m), dragged down by Cathay Biotech, HBM's largest position, which is down CHF44m as the Chinese market appears particularly challenging. Similarly, Mineralys, a company that IPOed at the start of the year, is also down CHF44m since then. Meanwhile, both the private portfolio and the fund portfolio ended H1 with respective NAV losses of CHF10m and CHF5m, while the company saw its 'other assets' segment value rise by CHF16m.
- HBM's performance is in line with the performance of the biotech sector, which is suffering from a challenging macro environment and significant investor restraint. The Nasdaq Biotechnology Index (NBI) lost 3.7% in the same period, and the S&P SPDR Biotech declined by 4.1%.
- While the market remains challenging, HBM will maintain its investment strategy and does not expect major changes in portfolio allocation, which remains well-positioned with several promising M&A targets that could be acquired by big pharma (the latest example being Mirati Therapeutics, acquired by BMS for USD4bn on 9 October).
- As the company is trading at a significant discount of -33% (assuming the last closing price of CHF 160.6), it announced that it is launching a share buyback program to capitalize on this significant discount (details of the share buyback are not fully disclosed yet). Note that this new move, which led to the earlier release of the H1 results (initially planned for 20 October), confirms once again HBM's good strategic view when it comes to value creation.

NAV decline of CHF70m for H1, as the biotech market remains challenging

- HBM Healthcare Investments reported a Q2 2023/2024 loss of CHF 59m, with a 3.4% decline in NAV. The six-month loss amounted to CHF 70m, and NAV was down by 4.0%.
- The company's H1 performance aligns with the broader biotech sector, which also saw declines. Nasdaq Biotechnology Index lost 3.7%, S&P SPDR Biotech lost 4.1%, while MSCI World Health Care Index was more stable at -0.1%.
- Private company portfolio negatively impacted the half-year result by CHF 10m, attributed to currency fluctuations (CHF 4m) and value adjustments (CHF 6m net). Note that a positive revaluation was observed in Upstream Bio (CHF +13m), while value adjustments were made for Farmalatom (CHF -8m), Adrenomed (CHF -4m), Valcare (CHF -3m), Odyssey Therapeutics (CHF -3m), and other companies (CHF -1m, net).
- Public company portfolio was the main factor for the CHF 58m decline in market valuation. Losses mainly came from Cathay Biotech with a net loss of CHF -44m (market environment in China remains challenging, directly affecting Cathay Biotech's share price) and Mineralys Therapeutics (CHF -15m), while other public companies gained a total of CHF 12m.
- The fund portfolio had a negative impact of CHF 5m on the half-year result, with CHF 6m in investment commitments and CHF 2m in repayments.
- Other assets increased by CHF 16m net, mainly from revaluation of milestone and royalty claims, particularly from the former private portfolio company Surface Logix. CHF 2m was received as the first license payment, affirming the revaluation.

No major change in the portfolio strategy

- HBM's portfolio remains well-balanced: 44% of total assets in public companies (of which 24% were formerly private), 39% in private companies, 10% in funds, 5% in cash and cash equivalents, and 2% in other assets.
- Note that during H1, HBM allocated CHF18m for follow-on financing to existing portfolio companies and made a new investment of USD4m in ADARx Pharmaceuticals.
- ADARx Pharmaceuticals specialises in a siRNA platform with potential for differentiated clinical data. The company is currently focused on three therapeutic areas: genetic diseases, cardiometabolic diseases, and central nervous system diseases.

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Outlook for H2

- Market sentiment for biotech growth companies is currently pessimistic, affecting HBM Healthcare's share valuation, which is trading at a high discount to its NAV (33% assuming the last closing price of CHF160.6). Despite this, the company remains confident that the value creation in many companies of its portfolio is on track, promising added value in future years.
- Portfolio companies with strong operations, like Cathay Biotech and Swixx BioPharma, as well as digital healthcare platforms like Fangzhou (Jianke), Tata 1mg, and ConnectRN, are successfully growing and have excellent prospects. Clinical development-focused companies like Upstream Bio, NiKang Therapeutics, Dren Bio, and ArriVent Biopharma are also progressing as planned.
- Note that in the meantime, the company is also expecting increased takeover activity in the sector due to expiring patents at large pharmaceutical and biotech firms.
- HBM Healthcare Investments is optimistic about the future and believes significant value can be realised from its portfolio when market conditions improve.

Announcement of a share buyback programme to capitalise on the high NAV discount

- HBM Healthcare Investments has activated a share buyback programme due to the widening discount (33%) between the share price and the reported NAV (of CHF237.22), which the board and management believe does not reflect the company's fundamental development and future prospects.
- As the board and management are confident that the high-quality portfolio's value potential is not currently reflected in the market cap, a portion of the available cash will be used to implement the share buyback programme.
- The share buybacks will be conducted via the second trading line on the SIX Swiss Exchange, following regulatory volume restrictions and considering available liquidity. The careful management of funds will remain a priority to finance existing portfolio companies and seize new investment opportunities.
- Note that the full details of the share buyback programme were not disclosed at the time of the publication of this note. However, this announcement confirms our view that HBM remains a promising investment choice for investors looking for exposure to the biotech market, and we therefore reiterate our Buy rating on the stock.

Appendix 1: Research framework

Last model update: 14 June 2023

Investment case

- Pharma trends and dynamics remain solid, and HBM has demonstrated its ability to identify the value of promising biotechs early on. HBM has a well-balanced portfolio of public and private companies, and a successful long-term exit strategy (IPO or trade sale).
- Shareholders benefit from an attractive return (a dividend in the range of 5% per year and a share buyback), leading to sustainable performance. As a result, HBM's shares posted one of the best five-year performances among its peers.
- Lastly, the non-listed investments could hide interesting value, as they are valued at their acquisition cost in our model.

Catalysts

- Any exit coming from the private portfolio (IPO or trade sale).
- Increase M&A activity from large pharma companies
- Positive clinical trials in the public portfolio.

Valuation Methodology

- Our valuation is based on the NAV of all investments without a premium of 5% to NAV.
- We expect the NAV of HBM's public company portfolio to reach the value implied by analysts' and consensus's target prices, while the valuation of investments in private companies are included at their acquisition costs or the price of the last round of financing.
- Our valuation points to a TP of CHF298.

Risk to our rating

- Failure in clinical trials.
- Sales ramp-up of revenue-generating companies of the portfolio.
- Loss of confidence in HBM's investment team is likely to lead to a decrease of the premium to NAV.

Appendix 2: Company description

HBM Healthcare is a Swiss investment company managed by HBM Partners. It was founded in 2001 and listed on the Swiss Stock Exchange in February 2008. Its investment focus is private and public healthcare companies, mainly in Europe and North America. The investment portfolio is made up of stakes in about 50 companies (its largest investment is less than 20% of the portfolio). It also has investments in healthcare-dedicated funds to diversify outside of its core expertise.

Mgmt Dr Andreas Wicki, CEO | Erwin Troxler, CFO

Ownership Free float: 82.70% | Nogra Group: 15.80% | Mirabaud Asset Management : 1.16% | Carnegie Fonder AB : 1.04%

Appendix 3: share price perf.



Appendix 4: SWOT analysis

Strengths

- Highly skilled investment team with long-standing expertise
- Diversified portfolio of late-stage assets, both private and public
- Active role in value creation within portfolio companies
- Listed private healthcare equity fund

Opportunities

- Invested in emerging and innovative therapies
- Substantial clinical newsflow from holding companies
- Intense M&A activity in the global healthcare sector
- Favourable environment for healthcare IPOs

Weaknesses

- Size could be an obstacle to investing in small- and mid-caps
- Mature portfolio, which needs to be rebalanced
- Mixed performance over the years

Threats

- Competition from listed healthcare equity funds or ETFs
- Venture is an industry that does not scale well
- The biotech boom coming to an end
- Sector rotation with healthcare outflows

Appendix 5: Key financials

Last model update: 14 June 2023

Market data date: 13 October 2023

FY to 31/03 (CHF)	12/15	12/16	03/18	03/19	03/20	03/21	03/22	03/23	03/24E	03/25E
Income Statement (CHFm)										
Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Change	na									
EBITDA adjusted	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA adj. margin (%)	na									
EBIT adjusted	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT adj. margin (%)	na									
Net financial items & associates	23.1	134.6	113.8	213.1	186.2	766.3	-76.5	-71.8	66.3	77.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit from continuing operations	23.1	134.6	113.8	209.1	182.7	756.3	-78.0	-73.4	64.7	75.3
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit before minorities	23.1	134.6	113.8	209.1	182.7	756.3	-78.0	-73.4	64.7	75.3
Net profit reported	23.1	134.6	113.8	209.1	182.7	756.3	-78.0	-73.4	64.7	75.3
Net profit adjusted	23.1	134.6	113.8	209.1	182.7	756.3	-78.0	-73.4	64.7	75.3
Cash Flow Statement (CHFm)										
Levered post tax CF before capex	-44.0	119.3	72.5	171.9	124.7	700.9	-245.2	-113.4	27.3	16.0
Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	-44.0	119.3	72.5	171.9	124.7	700.9	-245.2	-113.4	27.3	16.0
Acquisitions & divestments	80.6	39.9	105.1	176.8	95.8	222.7	97.4	-26.7	93.3	104.1
Dividend paid	na	na	-40.8	-48.4	-51.8	-53.5	-87.0	-67.2	-57.7	-59.8
Others	na	na	-22.0	-1.4	-22.8	20.8	34.9	-12.8	-5.0	-4.0
Change in net financial debt	na	na	-114.8	-298.9	-146.0	-890.8	199.8	220.2	-57.8	-56.2
Balance Sheet (CHFm)										
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial & other non-current assets	1,007.6	1,126.8	1,193.6	1,262.4	1,347.0	2,105.2	1,947.0	1,911.5	2,035.8	2,174.6
Total shareholders' equity	na	na	1,150.5	1,302.6	1,430.1	2,149.2	1,982.0	1,772.7	1,885.4	1,978.0
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities and provisions	na	na	266.8	229.0	146.2	385.4	190.2	180.9	173.7	168.2
Net debt	na	na	40.6	-43.1	-103.1	-121.7	-76.3	-82.8	-1.1	-21.3
Net financial debt	na	na	40.6	-43.1	-103.1	-121.7	-76.3	-82.8	-1.1	-21.3
IFRS 16 debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net working capital	-3.6	-3.3	-2.5	-2.9	-2.9	-53.0	-2.7	-2.7	-2.7	-2.7
Invested capital	-3.6	-3.3	-2.5	-2.9	-2.9	-53.0	-2.7	-2.7	-2.7	-2.7
Per share data (CHF)										
EPS adjusted	na	na	16.40	30.05	26.26	108.71	-11.22	-10.55	9.30	10.83
EPS adj and fully diluted	na	na	16.40	30.05	26.26	108.71	-11.22	-10.55	9.30	10.83
% Change	na	na	na	83.3%	-12.6%	313.9%	-chg	+chg	+chg	16.4%
EPS reported	na	na	16.40	30.05	26.26	108.71	-11.22	-10.55	9.30	10.83
Cash flow per share	na	na	10.45	24.71	17.93	100.74	-35.24	-16.30	3.92	2.29
Book value per share	na	na	165.71	187.24	205.56	308.93	284.89	254.81	271.01	284.32
Dividend per share	0.00	0.00	5.87	6.96	7.45	7.69	12.50	7.50	8.30	8.60
Number of shares, YE (m)	na	na	6.94	6.96	6.96	6.96	6.96	6.96	6.96	6.96
Ratios										
ROE (%)	na	na	na	17.0%	13.4%	42.3%	-3.8%	-3.9%	3.5%	3.9%
ROIC (%)	na									
ND(F+IFRS16) / EBITDA (x)	na									
Gearing (%)	na	na	3.5%	-3.3%	-7.2%	-5.7%	-3.8%	-4.7%	-0.1%	-1.1%
Valuation										
P/E adjusted	na	na	7.3	5.5	7.5	2.5	na	na	17.3	14.8
P/E adjusted and fully diluted	na	na	7.3	5.5	7.5	2.5	na	na	17.3	14.8
P/BV	na	na	0.7	0.9	1.0	0.9	1.2	0.9	0.6	0.6
P/CF	na	na	11.5	6.6	11.0	2.7	na	na	41.0	70.0
Dividend yield (%)	0.0%	0.0%	4.9%	4.2%	3.8%	2.8%	3.8%	3.1%	5.2%	5.4%
Dividend yield preference shares (%)	5.5%	5.9%	5.8%	4.6%	3.9%	4.5%	2.9%	4.2%	6.5%	6.8%
FCF yield (%)	na	na	8.7%	15.1%	9.1%	36.5%	-10.7%	-6.8%	2.4%	1.4%
EV/Sales	na									
EV/EBITDA adj.	na									
EV/EBIT adj.	na									

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	14/06/2023 06:32	Equity Research	Buy	298.00	206.00

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Local insight, European scale.



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