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# HBM Healthcare Investments Buy

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Switzerland | Pharma & biotech

**MCap: CHF2.4bn**

**Target Price:** CHF 415.00  
**Current Price:** CHF 344.00  
**Up/downside:** 20.6%  
**Market data:** 22 July 2021

Bloomberg: HBMN SW	Reuters: HBMN.S
Free float	100%
Avg. daily volume (CHFm)	2.1
YTD abs performance	12.8%
52-week high/low (CHF)	359.50/257.50

## Another solid quarter in Q1

### Key points:

- HBM reported a very solid Q1 2021/22 with a profit of CHF136, while the net asset value (NAV) per share increased by 6.3%.
- This performance was driven by several exits in the portfolio of private companies: IPOs (three companies went public this quarter) or trade sales products (one merger agreement was signed this quarter). Moreover, Cathay Biotech, the main investment of HBM fund (c. 12%) rose by c. 30%, offsetting the decline in other public investments.
- The current premium to NAV (8.5%) is far above the average discount to NAV (-5%) but it testifies to the new strategy's increased focus on long-term holding of private investments. We still believe that HBM Healthcare is an attractive option for investors seeking healthcare exposure to play this buoyant sector through the proven and long-term expertise of HBM Partners AG.

### Q1 2021/22 review

- HBM posted a CHF136m profit in Q1 due to several profitable operations. During Q1, the three successful IPOs (Werewolf Therapeutics, Ambrx Biopharma and Monte Rosa Therapeutics) contributed to this quarterly performance, resulting in an increased value of CHF90m.
- Moreover, the trade sale of Valo Health from the private portfolio also contributed, while a new round of financing at higher valuations also helped.
- The portfolio of other public companies contributed CHF45m to profit. During the quarter, the share price of Cathay Biotech rose by c. 30%, offsetting the decline in the majority of the other holdings.
- Following its strategy of investment in private companies, HBM invested CHF25m as follow-on financing in existing portfolio companies and made a new investment of CHF17m in Numab Therapeutics.
- The outlook seems bright and the management is expecting further successful development in the sector, mainly driven by new IPOs, financing rounds at higher valuation and potentially some takeovers after positive clinical results.

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**Appendix 1: Research framework**

Last model update: 13 April 2021

**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, plus a 10% premium 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 target price of CHF415.

**Risks to our rating**

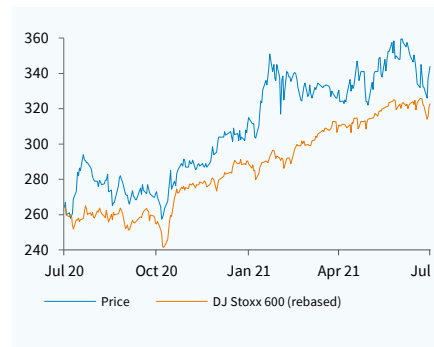
- Failure in clinical trials.
- Sales ramp-up of revenue-generating companies of the portfolio.
- Loss of confidence in HBM's investment team is likely to lead to a decrease of the premium to NAV.

**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 10% of the portfolio). It also has investments in healthcare-dedicated funds to diversify outside of its core expertise.

**Management** Andreas Wicki, CEO | Erwin Troxler, CFO | Hans Peter Hasler, Chairman of the Board

**Key shareholders** Nogra Pharma Invest: 15.00%

**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
- Important premium to NAV

**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: 13 April 2021

Market data date: 22 July 2021

FY to 31/03 (CHF)	03/13	03/14	03/15	03/16	03/17	03/18	03/19	03/20	03/21E	03/22E
<b>Income Statement (CHFm)</b>										
Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% Change	na	na	na	na	na	na	na	na	na	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	na	na	na	na	na	na	na	na	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	na	na	na	na	na	na	na	na	na
Net financial items & associates	67.0	353.5	258.4	23.1	134.6	113.8	213.1	186.2	756.7	193.7
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	67.0	353.5	258.4	23.1	134.6	113.8	209.1	182.7	753.1	190.0
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	67.0	353.5	258.4	23.1	134.6	113.8	209.1	182.7	753.1	190.0
Net profit reported	67.0	353.5	258.4	23.1	134.6	113.8	209.1	182.7	753.1	190.0
Net profit adjusted	67.0	353.5	258.4	23.1	134.6	113.8	209.1	182.7	753.1	190.0
<b>Cash Flow Statement (CHFm)</b>										
Levered post tax CF before capex	55.8	339.9	242.8	-44.0	119.3	72.5	171.9	124.7	703.3	52.1
Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	55.8	339.9	242.8	-44.0	119.3	72.5	171.9	124.7	703.3	52.1
Acquisitions & divestments	30.5	20.0	138.4	80.6	39.9	105.1	176.8	95.8	536.2	150.9
Dividend paid	0.0	0.0	-23.6	-42.3	-39.2	-40.8	-38.1	0.0	-56.2	-58.4
Others	-75.8	-365.1	-263.7	-29.9	-14.9	-126.8	-262.4	-264.8	-706.7	-143.6
Change in net financial debt	-10.5	5.2	-93.9	35.6	-105.2	-10.1	-48.3	44.2	-476.6	-0.9
<b>Balance Sheet (CHFm)</b>										
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	546.9	878.6	1,050.6	1,007.6	1,126.8	1,193.6	1,262.4	1,347.0	2,240.6	2,492.0
Total shareholders' equity	601.0	920.3	1,074.2	1,019.9	1,086.9	1,150.5	1,302.6	1,430.1	2,804.6	3,060.2
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	1.0	5.4	117.0	102.7	259.4	266.8	229.0	146.1	141.8	138.6
Net debt	-52.8	-46.9	-76.9	-15.9	36.6	40.6	-43.1	-103.2	-579.8	-580.7
Net financial debt	-52.8	-46.9	-76.9	-15.9	36.6	40.6	-43.1	-103.2	-579.8	-580.7
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	1.2	-1.4	-2.9	-3.6	-3.3	-2.5	-2.9	-2.9	-2.9	-2.9
Invested capital	1.2	-1.4	-2.9	-3.6	-3.3	-2.5	-2.9	-2.9	-2.9	-2.9
<b>Per share data (CHF)</b>										
EPS adjusted	7.52	40.98	32.58	3.06	19.01	16.40	30.05	26.26	108.25	27.31
EPS adj and fully diluted	7.52	40.98	32.58	3.06	19.01	16.40	30.05	26.26	108.25	27.31
% Change	+chg	445.2%	-20.5%	-90.6%	521.5%	-13.7%	83.3%	-12.6%	312.2%	-74.8%
EPS reported	7.52	40.98	32.58	3.06	19.01	16.40	30.05	26.26	108.25	27.31
Cash flow per share	6.26	39.40	30.61	-5.82	16.86	10.45	24.71	17.93	101.09	7.49
Book value per share	67.42	106.68	135.46	135.09	153.51	165.71	187.23	205.56	403.14	439.87
Dividend per share	1.50	3.00	5.50	5.50	5.80	7.00	7.50	7.70	8.07	8.39
Number of shares, YE (m)	8.91	8.63	7.93	7.55	7.08	6.94	6.96	6.96	6.96	6.96
<b>Ratios</b>										
ROE (%)	11.7%	46.5%	25.9%	2.2%	12.8%	10.2%	17.0%	13.4%	35.6%	6.5%
ROIC (%)	0.0%	na	na	na	na	na	na	na	na	na
ND(F+IFRS16) / EBITDA (x)	na	na	na	na	na	na	na	na	na	na
Gearing (%)	-8.8%	-5.1%	-7.2%	-1.6%	3.4%	3.5%	-3.3%	-7.2%	-20.7%	-19.0%
<b>Valuation</b>										
P/E adjusted	6.4	1.6	2.7	32.6	5.3	7.5	5.5	7.5	3.2	12.6
P/E adjusted and fully diluted	6.4	1.6	2.7	32.6	5.3	7.5	5.5	7.5	3.2	12.6
P/BV	0.7	0.6	0.7	0.7	0.7	0.7	0.9	1.0	0.9	0.8
P/CF	7.6	1.6	2.9	na	5.9	11.8	6.6	11.0	3.4	45.9
Dividend yield (%)	3.1%	4.7%	6.2%	5.5%	5.8%	5.7%	4.6%	3.9%	2.3%	2.4%
Dividend yield preference shares (%)	3.1%	4.7%	6.2%	5.5%	5.8%	5.7%	4.6%	3.9%	2.3%	2.4%
FCF yield (%)	13.1%	61.3%	34.4%	-5.8%	16.8%	8.5%	15.1%	9.1%	29.4%	2.2%
EV/Sales	na	na	na	na	na	na	na	na	na	na
EV/EBITDA adj.	na	na	na	na	na	na	na	na	na	na
EV/EBIT adj.	na	na	na	na	na	na	na	na	na	na

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Source: Kepler Cheuvreux

A: % of all research recommendations

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	13/04/2021 08:36	Equity Research	Buy	415.00	333.00

Credit research does not issue target prices. Left intentionally blank.

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