

6 July 2020

Personalized for HBM Healthcare Investments AG, Thomas Heimann

HBM Healthcare Investments

Switzerland

Other financials

The eye of the cyclone

- While we expected the biotech sector to recover from the COVID-19 impact, we expected this to occur gradually within the summer on positive anti-viral drug development and thus on a solid basis. Instead, the defensive character of the pharma/biotech industries, combined with hopes to swiftly monetize potential anti-COVID-19 therapies, rapidly boosted the Nasdaq Biotech Index at all-time high.
- After HBM Healthcare shares reached and crossed our price target, we take a more conservative view on the upside of the biotech sector and lower our recommendation to ADD (prev. BUY) with a new price target adjusted to CHF 264 per share (prev. CHF 221). While we keep our positive view, aided by the imminent IPO of HBM largest private position (Cathay Industrial) which we believe could lift HBM shares by CHF 8 to 12, we point at the limited upside in biotech public equities.
- We see several obstacles to a durable positive COVID-19 effect on the biotech sector, of which the issue of ethical drug pricing, and of course therapeutic efficacy. We expect those negative elements to balance the positive defensive character of the sector, resulting into a likely sideways biotech indices evolution in 2H20E.
- We base our HBM valuation and target price on a private equities asset value growth at 9%, mostly due to Cathay Industrial IPO, a 7% growth of the public equities asset value, and an unchanged funds asset value. We assume that HBM shares premium to net asset value might move to 7%, a positive evolution for HBM Healthcare which historically always traded at a discount to NAV.

	2018/19	2019/20	2020/21E	2021/22E	2022/23E
Sales (CHF mn)	0.0	0.0	0.0	0.0	0.0
EBITDA (CHF mn)	211.5	185.1	264.2	152.3	181.7
EBIT reported (CHF mn)	211.5	185.1	264.2	152.3	181.7
EBIT adjusted (CHF mn)	211.5	185.1	264.2	152.3	181.7
Net income (CHF mn)	209.1	182.7	261.9	150.0	179.4
EPS reported (CHF)	30.05	26.26	37.64	21.56	25.78
EPS adjusted (CHF)	30.05	26.26	37.64	21.56	25.78
DPS (CHF)	7.50	7.71	8.81	9.28	0.00
Dividend yield (%)	4.6	3.8	3.6	3.8	0.0
P/E adjusted (x)	5.5	7.7	6.4	11.2	9.4
P/BV (x)	0.9	1.0	1.0	1.0	0.9
EV/Sales (x)	-	-	-	-	-
EV/EBITDA (x)	5.8	8.1	6.8	11.7	9.8
EV/EBIT (x)	5.8	8.1	6.8	11.7	9.8
Net debt/EBITDA (x)	0.5	0.5	0.4	0.6	0.5

Source: Company data, Baader Helvea Equity Research

Add (prev. Buy)

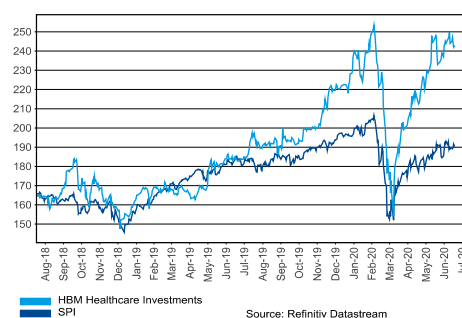
Closing price as of 03-Jul-20	CHF 242.50
High/Low (12M)	253.50/154.20
Target price (prev. CHF 221.00)	CHF 264.00
Upside to target price (%)	8.9
Expected dividend yield (%)	3.1
Total return potential (%)	12.0

Reuters/Bloomberg	HBMN.S/HBMN SE
Avg. daily turnover (CHF mn)	2.36
Free float (%)	83.0
Market cap. (CHF mn)	1,687
No. of shares issued (mn)	7.0

Events

Annual general meeting	Jun-2021
1Q	24-Jul-2020
Shareholders	Nogra Pharma Invest 15-20%

Price relative to Index



Performance (%)	1M	3M	6M
Absolute	-1.6	26.3	9.0
rel. SPI	-1.1	15.4	12.2
rel. STOXX Europe 600	-0.7	8.1	21.6
rel. SXXP Financial SVS	-2.2	-0.7	16.3

Changes in estimates

CHF mn	2020/21E Prev.	Delta (%)	2021/22E Prev.	Delta (%)
Sales	0.0	-	0.0	-
EBIT adj.	228.9	15.4	137.8	10.5
EPS adj. (CHF)	32.58	15.5	19.47	10.7
DPS (CHF)	9.55	-7.7	9.99	-7.1

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HBM Healthcare Investments

VALUATION UPDATE

- We adjust our price target for HBM Healthcare based on the asset values of the funds, private and public equities. For the funds, we carry the most recently reported fair value, as of March-2020. While we expected HBM net asset value to recover from the COVID-19 lows and to reach a CHF 229mn profit on a full-year basis, the market rebound clearly outpaced our expectations allowing HBM to report a CHF 226mn profit already in 1Q20 at interim results. We thus revise our assumptions for the full-year, taking however a conservative approach on the upside potential in public equities, considering that the Nasdaq Biotech Index reached all-time-high in July.
- For public equities, we base our 12-month forward gains on the consensus price targets for the portfolio companies, taking positions as disclosed end-March 2020, and risk-adjusting consensus expectations by 10% to discount the currently inflated sector multiples. Our public equities valuation reflects a conservative 7% gain from current level, and 9% gain from pre-COVID-19 level.
- For private equities, we base our forecast on the estimated upside from the IPO of Cathay, which we expect might lift HBM net asset value by CHF 8-12 per share. We again point at the excellent resilience of private equities during market downturns, as demonstrated by the trade sale of Corvidia to Novo Nordisk in June 2020. Under the terms of the agreement, Novo Nordisk acquired all outstanding shares of Corvidia for an upfront payment of USD 725mn in cash.
- HBM Healthcare invested USD 4.8mn in Corvidia since April 2018 and owned 3.2% of the company. The sum of the estimated upfront amount of USD 23mn plus the discounted value of the contingent milestones increased the net asset value per HBM-share (NAV) by CHF 2.80 (+1.2%).
- Altogether, we expect HBM net asset value per share to reach CHF 264 per share end-FY20/21E, assuming a 7% share price-to-NAV premium, in-line with current level. After a prompt post-COVID-19 share price and net asset value rebound, we take a positive but more conservative view on the biotech sector upside and lower our recommendation to ADD (previous BUY).

HBM valuation

	31-12-2019	31-03-2020	30-06-2020E	31-03-2021E
Cash (CHF '000)	165,039	224,200	191,656	176,085
Other assets (CHF '000)	17,353	34,390	34,390	34,363
Public equities value (CHF '000)	820,687	629,883	837,901	892,661
Funds value (CHF '000)	151,462	155,992	154,091	154,091
Private equities value (CHF '000)	521,297	550,257	562,075	621,432
Long-term liabilities (CHF '000)	-99,524	-99,524	-99,524	-99,524
Short-term liabilities (CHF '000)	-44,799	-46,425	-28,047	-63,435
Total net asset value (CHF '000)	1,531,515	1,448,772	1,652,542	1,715,671
Per share (CHF)	220	208	238	247
7% share price to NAV premium				264

Source: Company data, Baader Helvea Equity Research

HBM Healthcare Investments

HBM Public equities best/worst performers (share price) and estimated NAV movers in FY19/20 and 1Q20E

	Share price performance (%)			Impact on HBM NAV (%)	
	FY19/20	1Q20E		FY19/20	1Q20E
Immunomedics	-29.8%	178.2%	Y-mAbs	0.0%	3.1%
Jubilant	-62.5%	174.5%	Immunomedics	-0.6%	2.5%
Cytokinetics	3.6%	110.6%	Biohaven	-0.4%	1.5%
Biohaven	-22.3%	109.2%	SpringWorks	1.6%	1.2%
Trillium	0.0%	95.5%	Pacira	-0.2%	1.2%
Cansino	286.8%	82.4%	Arcutis	0.0%	1.1%
ArgenxADR)	5.5%	73.6%	ArgenxADR)	0.1%	1.0%
Akebia	0.0%	72.8%	Argenx	0.2%	1.0%
Argenx	11.8%	70.7%	Viela	3.5%	0.5%
Esperion	-21.5%	61.8%	Cansino	0.3%	0.5%
Rocket	-38.7%	61.3%	Esperion	0.0%	0.5%
Y-mAbs	-0.4%	60.7%	Rocket	-0.4%	0.4%
Albireo	-49.2%	58.8%	Retrophin	-0.2%	0.4%
Assembly	-24.7%	56.4%	ChemoCentryx	0.0%	0.4%
Pacira	-11.9%	56.3%	Turning	2.3%	0.4%
Beigene	-1.1%	55.3%	Jubilant	-0.3%	0.4%
Mirati	0.0%	52.2%	Cytokinetics	0.0%	0.4%
SpringWorks	24.5%	50.2%	Zogenix	-1.1%	0.3%
ChemoCentryx	1.6%	44.4%	Albireo	-0.4%	0.3%
Solara	6.2%	44.2%	Beigene	0.0%	0.3%
Turning	9.7%	44.0%	Principia	1.1%	-0.1%
Retrophin	-35.5%	43.9%	uniQure	-0.1%	-0.1%
Cantargia	0.0%	40.6%	Galera	0.3%	-0.1%
Alexion	-8.3%	25.1%	Intercept	-0.1%	-0.2%
Apellis	11.2%	23.2%			
Zogenix	-55.0%	18.1%			
BeyondSpring	-17.4%	15.3%			
Nicox	-56.9%	14.6%			
Xenon	11.6%	12.9%			
Viela	40.0%	12.4%			
Bicycle	35.7%	12.1%			
Divis	16.8%	10.1%			
Arcutis	75.3%	7.4%			
Zealand	33.9%	3.2%			
Guangzhou Baiyunshan	-21.4%	2.4%			
Zymeworks	43.0%	1.5%			
lovance	22.1%	-3.1%			
uniQure	-20.5%	-4.1%			
Principia	74.6%	-5.7%			
Galera	-27.8%	-24.2%			
Intercept	-20.9%	-25.3%			

Source: Company data, Baader Helvea Equity Research

Key data

HBM Healthcare Investments

Switzerland

Other financials

Reuters: HBMN.S Bloomberg: HBMN SE

Add

Price on 03-Jul-20 CHF 242.50

Target price CHF 264.00

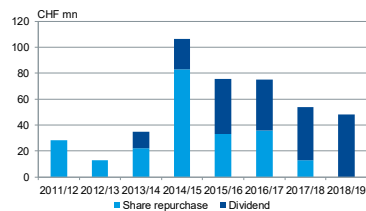
High/Low (12M) CHF 253.50/154.20

Market cap. CHF mn 1,687

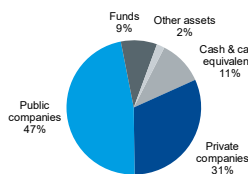
Company profile

HBM Healthcare Investments actively invests in the human medicine, biotechnology, medical technology and diagnostics sectors. The company holds and manages an international portfolio of companies (closed-end fund).

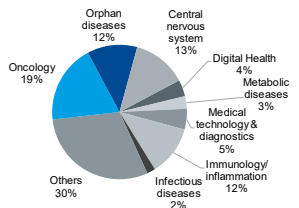
Redistributions



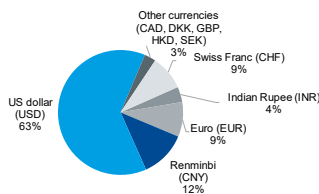
Allocation of assets (2020E)



Therapeutic class exposure (2020E)



FX exposure (2020E)



Source: Company data, Refinitiv Datastream, Baader Helvea Equity Research

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FY 31 Mar.	2017/18	2018/19	2019/20	2020/21E	2021/22E	2022/23E
Share data						
EPS reported (CHF)	16.55	30.05	26.26	37.64	21.56	25.78
EPS adjusted (CHF)	16.55	30.05	26.26	37.64	21.56	25.78
Dividend (CHF)	6.96	7.50	7.71	8.81	9.28	0.00
Book value (CHF)	165.39	189.49	208.25	238.19	251.21	267.98
Free cash flow (CHF)	8.12	7.06	8.03	7.92	9.03	9.50
Avg. no. of shares (mn)	7.0	7.0	7.0	7.0	7.0	7.0
Market cap. (avg./current; CHF mn)	864.9	1,139.8	1,405.3	1,687.1	1,687.1	1,687.1
Enterprise value (CHF mn)	960.0	1,237.0	1,502.5	1,785.0	1,785.7	1,786.5
Valuation						
P/E adj. (x)	7.5	5.5	7.7	6.4	11.2	9.4
P/BV (x)	0.7	0.9	1.0	1.0	1.0	0.9
FCF/EV (%)	3.2	2.8	3.1	3.1	3.5	3.7
FCF yield (%) (FCF/Mcap.)	6.6	4.3	4.0	3.3	3.7	3.9
Dividend yield (%)	5.6	4.6	3.8	3.6	3.8	0.0
EV/Sales (x)	-	-	-	-	-	-
EV/EBITDA adj. (x)	8.1	5.8	8.1	6.8	11.7	9.8
EV/EBIT adj. (x)	8.1	5.8	8.1	6.8	11.7	9.8
EV/CE (x)	-	-	-	-	-	-
ROCE/WACC adj. (x)	-	-	-	-	-	-
Key company data						
Sales growth (%)	-	-	-	-	-	-
EBITDA adj. growth (%)	-15.0	78.8	-12.5	42.7	-42.4	19.3
EBITDA adj. margin (%)	-	-	-	-	-	-
EBIT adj. margin (%)	-	-	-	-	-	-
Net adj. margin (%)	-	-	-	-	-	-
Free cash flow margin (%)	-	-	-	-	-	-
Payout ratio (%)	42.0	25.0	29.3	23.4	43.1	0.0
Gearing (%) (net debt/equity)	8.2	7.4	6.7	5.9	5.6	5.3
Net debt/EBITDA (x)	0.8	0.5	0.5	0.4	0.6	0.5
Equity ratio (x) (equity/total assets)	91.9	92.7	93.3	94.1	94.4	94.8
Capital employed (CHF mn)	0.0	0.0	0.0	0.0	0.0	0.0
ROCE adj. (%)	-	-	-	-	-	-
Income statement (CHF mn)						
Turnover	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	118.3	211.5	185.1	264.2	152.3	181.7
EBITDA adj.	118.3	211.5	185.1	264.2	152.3	181.7
EBIT	118.3	211.5	185.1	264.2	152.3	181.7
EBIT adj.	118.3	211.5	185.1	264.2	152.3	181.7
EBT	115.9	209.1	182.7	261.9	150.0	179.4
Net profit after minorities	115.9	209.1	182.7	261.9	150.0	179.4
Net profit adj.	115.9	209.1	182.7	261.9	150.0	179.4
Balance sheet (CHF mn)						
Non-current assets	1,254	1,417	1,546	1,755	1,846	1,964
thereof goodwill	-	-	-	-	-	-
Current assets	7	5	6	5	5	4
Total assets	1,260	1,422	1,552	1,760	1,851	1,968
Shareholders' equity	1,158	1,318	1,449	1,657	1,748	1,864
Total equity and liabilities	1,260	1,422	1,552	1,760	1,851	1,968
Net debt	95	97	97	98	99	99
Cash flow (CHF mn)						
Cash flow from operations	-3.1	-2.9	-4.2	-3.5	-3.5	-3.5
of which change in working capital	0.0	0.0	0.0	0.0	0.0	0.0
Cash flow from investments	60.0	52.0	60.0	58.6	66.3	69.6
of which investment in fixed assets	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	56.9	49.1	55.8	55.1	62.8	66.1
Dividends paid	-40.8	-48.7	-52.2	-53.6	-61.3	-64.6
Cash flow from financing activities	-56.4	-51.0	-54.5	-55.9	-63.6	-66.9
Change in cash position	0.4	-1.8	1.4	-0.8	-0.8	-0.8

HBM Healthcare Investments

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Company	Key
HBM Healthcare Investments	4, 5, 11

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Add	5%-20%
Reduce	-10% to 5%
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