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# HBM Healthcare Investments Buy

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Switzerland | Pharma &amp; biotech

**Beta Profile:**  **LOW RISK**
**MCap: CHF1.9bn**

**Target Price:** CHF 415.00  
**Current Price:** CHF 273.00  
**Up/downside:** 52.0%  
**Market data:** 01 April 2022

Bloomberg: HBMN SW	Reuters: HBMN.S
Free float	100%
Avg. daily volume (CHFm)	1.7
YTD abs performance	-19.5%
52-week high/low (CHF)	365.00/242.00

## Net Asset Value per share of CHF285.5

### Key points:

- As of end-March, the Net Asset Value (NAV) per share of HBM Healthcare stood at CHF285.5 while the share price fell by 13.2%, corresponding to a discount to NAV of c.5%.
- Since the start of the year, the healthcare sector environment is more difficult mainly for biotech companies (decrease in the Nasdaq Biotech).
- Against this backdrop, HBM Healthcare expects an annual loss of CHF80m. Note that for an investment company, the net result reflects the change in value of the investments held.
- We remain positive on the long term for the stock thanks to the wise choice of investment and its dual portfolio invested both in private and public companies.

### A market reversal for biotechs

- In the reporting year, while the large-cap companies rose by 13% (MSCI World Health Care Index), biotech companies sector fell down by 13% (Nasdaq Biotechnology Index) and even -35% for the SPDR S&P Biotech ETF.
- After shining previous year (thanks to Covid-19 pandemic and the development of new vaccines or drugs) and a record in terms of launch of new IPOs, biotech companies experienced a more difficult environment. In particular, stock price of newly public companies tumbled in 2021 leaving these companies in difficult financial situation (in case of refinancing round).
- HBM will close its fiscal year with a net loss of CHF80m translating this more difficult environment for biotech companies. For an investment company, the net result reflects the change in value of the investments held.

### Still at a discount to NAV

- As of end-March, the share price discount to NAV stood at c.5%.
- We consider that there is still potential to improve the share price and reduce this discount thanks an excellent track record and strong cash position allowing the company to grab some opportunities.
- Cash and cash equivalents of HBM totalled CHF220m. Therefore, the company estimated that it is well positioned for this market phase, and may benefit from buying opportunities at low valuations.
- Also, HBM estimated that most of its portfolio companies are performing well operationally, hence there is no need to reduce exposure at unattractive prices.

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## Appendix 1: Research framework

Last model update: 04 January 2022

### 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** Free float: 100.00% | 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: 04 January 2022

Market data date: 01 April 2022

FY to 31/03 (CHF)	03/14	03/15	03/16	03/17	03/18	03/19	03/20	03/21	03/22E	03/23E
<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	353.5	258.4	23.1	134.6	113.8	213.1	186.2	766.3	331.4	373.3
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	353.5	258.4	23.1	134.6	113.8	209.1	182.7	756.3	328.0	369.9
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	353.5	258.4	23.1	134.6	113.8	209.1	182.7	756.3	328.0	369.9
Net profit reported	353.5	258.4	23.1	134.6	113.8	209.1	182.7	756.3	328.0	369.9
Net profit adjusted	353.5	258.4	23.1	134.6	113.8	209.1	182.7	756.3	328.0	369.9
<b>Cash Flow Statement (CHFm)</b>										
Levered post tax CF before capex	339.9	242.8	-44.0	119.3	72.5	171.9	124.7	700.9	180.6	290.6
Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	339.9	242.8	-44.0	119.3	72.5	171.9	124.7	700.9	180.6	290.6
Acquisitions & divestments	20.0	138.4	80.6	39.9	105.1	176.8	95.8	222.7	246.3	275.8
Dividend paid	0.0	-23.6	-42.3	-39.2	-40.8	-38.1	0.0	0.0	0.0	0.0
Others	-365.1	-263.7	-29.9	-14.9	-126.8	-262.4	-264.8	-718.6	-271.9	-313.7
Change in net financial debt	5.2	-93.9	35.6	-105.2	-10.1	-48.3	44.2	-205.0	-155.0	-252.8
<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	878.6	1,050.6	1,007.6	1,126.8	1,193.6	1,262.4	1,347.0	2,105.2	2,515.7	2,975.4
Total shareholders' equity	920.3	1,074.2	1,019.9	1,086.9	1,150.5	1,302.6	1,430.1	2,149.2	2,720.9	3,438.0
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	5.4	117.0	102.7	259.4	266.8	229.0	146.1	385.4	379.2	374.6
Net debt	-46.9	-76.9	-15.9	36.6	40.6	-43.1	-103.2	-121.7	-276.7	-529.4
Net financial debt	-46.9	-76.9	-15.9	36.6	40.6	-43.1	-103.2	-121.7	-276.7	-529.4
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	-1.4	-2.9	-3.6	-3.3	-2.5	-2.9	-2.9	-53.0	-53.0	-53.0
Invested capital	-1.4	-2.9	-3.6	-3.3	-2.5	-2.9	-2.9	-53.0	-53.0	-53.0
<b>Per share data (CHF)</b>										
EPS adjusted	40.98	32.58	3.06	19.01	16.40	30.05	26.26	108.71	47.15	53.16
EPS adj and fully diluted	40.98	32.58	3.06	19.01	16.40	30.05	26.26	108.71	47.15	53.16
% Change	445.2%	-20.5%	-90.6%	521.5%	-13.7%	83.3%	-12.6%	313.9%	-56.6%	12.8%
EPS reported	40.98	32.58	3.06	19.01	16.40	30.05	26.26	108.71	47.15	53.16
Cash flow per share	39.40	30.61	-5.82	16.86	10.45	24.71	17.93	100.74	25.96	41.77
Book value per share	106.68	135.46	135.09	153.51	165.71	187.23	205.56	308.93	391.10	494.18
Dividend per share	3.00	5.50	5.50	5.80	7.00	7.50	7.70	12.50	0.00	0.00
Number of shares, YE (m)	8.63	7.93	7.55	7.08	6.94	6.96	6.96	6.96	6.96	6.96
<b>Ratios</b>										
ROE (%)	46.5%	25.9%	2.2%	12.8%	10.2%	17.0%	13.4%	42.3%	13.5%	12.0%
ROIC (%)	na	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 (%)	-5.1%	-7.2%	-1.6%	3.4%	3.5%	-3.3%	-7.2%	-5.7%	-10.2%	-15.4%
<b>Valuation</b>										
P/E adjusted	1.6	2.7	32.6	5.3	7.5	5.5	7.5	2.5	5.8	5.1
P/E adjusted and fully diluted	1.6	2.7	32.6	5.3	7.5	5.5	7.5	2.5	5.8	5.1
P/BV	0.6	0.7	0.7	0.7	0.7	0.9	1.0	0.9	0.7	0.6
P/CF	1.6	2.9	na	5.9	11.8	6.6	11.0	2.7	10.5	6.5
Dividend yield (%)	4.7%	6.2%	5.5%	5.8%	5.7%	4.6%	3.9%	4.5%	0.0%	0.0%
Dividend yield preference shares (%)	4.7%	6.2%	5.5%	5.8%	5.7%	4.6%	3.9%	4.5%	0.0%	0.0%
FCF yield (%)	61.3%	34.4%	-5.8%	16.8%	8.5%	15.1%	9.1%	36.5%	9.5%	15.3%
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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