

HBM Healthcare Investments Buy

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Switzerland | Pharma & biotech

Beta Profile: %
DIVIDEND

MCap: CHF1.4bn

Target Price: CHF240.00
Current Price: CHF197.40
Up/downside: 21.6%
Market data: 08 May 2024

Bloomberg: HBMN SW Reuters: HBMN.S
Free float: 83%
Avg. daily volume (CHFm): 1.4
YTD abs performance: 8.1%
52-week high/low (CHF): 209.00/146.00

FY 2023: Strong performance in a still challenging year, all eyes on 2024

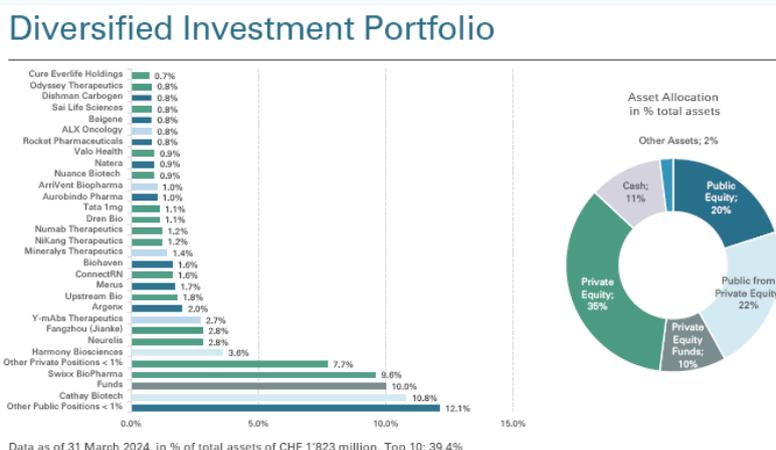
Key points:

- HBM reported its FY 2023 figures, closing the year with an almost flat performance (net loss of CHF1m) despite several headwinds throughout the year, including a challenging FOREX environment and interest rate hikes in H1.
- The public portfolio showed strong performance, with the NAV climbing by CHF69m (i.e., a 3.9% NAV increase), driven by five acquisitions within the portfolio (Ambrx Pharmaceuticals, ImmunoGen, CymaBay, Chinook Therapeutics, and Prometheus Biosciences), which offset the negative FOREX impact (-CHF32m) as well as Cathay's challenging market performance through 2023.
- HBM's private companies' portfolio had a more contrasted performance, with the NAV being down CHF60m (of which CHF10m was related to the negative FOREX event).
- Looking forward, HBM anticipates a still challenging environment, driven by macroeconomic factors. However, with 11% of its current assets being liquid, the company appears to be well-positioned to capitalize on emerging opportunities throughout the year.

A flat performance through 2023

- The public companies' portfolio closed the year with CHF 69 million, or 3.9 percent NAV climb, despite a CHF 32 million hit from negative currency impacts. Successes from Y-mAbs Therapeutics, Longboard Pharmaceuticals, and Ambrx Pharmaceuticals were offset by losses from Cathay Biotech (with the stock being down 28% through the year).
- The private companies' portfolio decreased in value by CHF 60 million, partly due to unfavorable currency developments. While some companies like Upstream Bio and Swixx BioPharma saw positive revaluations, others such as Farmalatam and ConnectRN faced significant impairments. The firm also made new investments in promising U.S. companies like Alumis (USD5m of total commitments) and ADARx Pharmaceuticals (USD4m) and committed additional funds to existing investments (CHF29m).

Chart 1: HBM portfolio overview



Source: HBM Healthcare

Outlooks for 2024

- Overall, HBM managed to maintain a well-balanced asset allocation with 42% in public companies (22 % of which transitioned from private), 35% in private companies, 10% in funds, 11% in cash and equivalents, and 2% in other assets.

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- Following these results, the firm maintains its commitment to balancing new investments with shareholder returns through cash distributions and share buy-backs. Hence, the Board proposes a par value repayment of CHF 7.50 per share, yielding 3.9 percent based on the March 2024 share price, and continuation of a share buy-back program, acquiring around 89,000 treasury shares for CHF 15.6 million in the past year.
- Looking ahead, despite challenging macroeconomic and geopolitical conditions, HBM's diversified portfolio and strong liquidity position them to capitalize on emerging opportunities. The firm is optimistic about the industry's prospects and its portfolio's performance driven by:
 - High innovation within portfolio companies, enhancing precision in therapies and expanding clinical programs and investment opportunities.
 - A stable and selective financing environment with high volumes, facilitating transitions of private companies to public markets. Anticipated easing of interest rates should further improve financing conditions and open up opportunities for IPOs.
 - Sustained high levels of M&A activity in the healthcare sector, driven by the need for major pharmaceutical and biotech companies to offset losses due to patent expirations.
- Additionally, HBM anticipates several readouts to occur over the year including for the public portfolio:
 - Y-mAbs Therapeutics is set to release first clinical data for its GD2-SADA platform, potentially broadening applications in radioimmunotherapy for cancer.
 - Mineralys Therapeutics will report results from pivotal studies on lorundrostat for resistant hypertension.
 - ArriVent Biopharma expects proof-of-concept data for treating rare EGFR mutations in lung cancer.
 - Merus is poised to release further data supporting marketing applications for zenocutuzumab, along with initial data for petosemtamab combined with Keytruda for treating head and neck tumors.
 - Biohaven will present results from phase III studies in OCD and SMA, along with data for a new treatment in autoimmune diseases.
- As well as readouts from private companies:
 - Swixx BioPharma is expected to surpass EUR 1 billion in revenue in 2024.
 - Several companies like Neurelis, SAI Life Sciences, and others are progressing towards potential sales or IPOs.
 - Firms like Upstream Bio and NiKang Therapeutics are advancing in clinical developments, aiming to deliver future high-impact treatments.
- Hence, we believe that HBM remains well positioned to capture any market opportunity through the year, and we therefore maintain our Buy rating.

Appendix 1: Research framework

Last model update: 24 January 2024

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 3-5% 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).
- Increased M&A activity by large pharma companies
- Positive clinical trials in the public portfolio.

Valuation Methodology

- Our valuation is based on the NAV of all investments with a 10% discount 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 CHF240.

Risk to our rating

- Failure in clinical trials.
- Sales ramp-up of revenue-generating companies in the portfolio.
- Loss of confidence in HBM's investment team is likely to lead to a lower 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% | CAAM Fund Service AB: 1.04% | Boarder to Coast Pensions Partnership Lt...: 0.99%

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: 24 January 2024

Market data date: 08 May 2024

FY to 31/03 (CHF)	12/16	03/18	03/19	03/20	03/21	03/22	03/23	03/24E	03/25E	03/26E
Income Statement (CHFm)										
Sales	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
% Change	na	na								
EBITDA adjusted	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
EBITDA adj. margin (%)	na	na								
EBIT adjusted	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
EBIT adj. margin (%)	na	na								
Net financial items & associates	134.6	113.8	213.1	186.2	766.3	-76.5	-71.8	66.3	77.0	na
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Net profit from continuing operations	134.6	113.8	209.1	182.7	756.3	-78.0	-73.4	64.7	75.3	na
Net profit from discontinuing activities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Net profit before minorities	134.6	113.8	209.1	182.7	756.3	-78.0	-73.4	64.7	75.3	na
Net profit reported	134.6	113.8	209.1	182.7	756.3	-78.0	-73.4	64.7	75.3	na
Net profit adjusted	134.6	113.8	209.1	182.7	756.3	-78.0	-73.4	64.7	75.3	na
Cash Flow Statement (CHFm)										
Levered post tax CF before capex	119.3	72.5	171.9	124.7	700.9	-245.2	-113.4	27.3	16.0	na
Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Free cash flow	119.3	72.5	171.9	124.7	700.9	-245.2	-113.4	27.3	16.0	na
Acquisitions & divestments	39.9	105.1	176.8	95.8	222.7	97.4	-26.7	93.3	104.1	na
Dividend paid	na	-40.8	-48.4	-51.8	-53.5	-87.0	-67.2	-57.7	-59.8	-55.7
Others	na	-22.0	-1.4	-22.8	20.8	34.9	-12.8	-5.0	-4.0	na
Change in net financial debt	na	-114.8	-298.9	-146.0	-890.8	199.8	220.2	-57.8	-56.2	na
Balance Sheet (CHFm)										
Intangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Tangible assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Financial & other non-current assets	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	na
Total shareholders' equity	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	na
Pension provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	na
Liabilities and provisions	na	266.8	229.0	146.2	385.4	190.2	180.9	173.7	168.2	na
Net debt	na	40.6	-43.1	-103.1	-121.7	-76.3	-82.8	-1.1	-21.3	na
Net financial debt	na	40.6	-43.1	-103.1	-121.7	-76.3	-82.8	-1.1	-21.3	22.4
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	-3.3	-2.5	-2.9	-2.9	-53.0	-2.7	-2.7	-2.7	-2.7	na
Invested capital	-3.3	-2.5	-2.9	-2.9	-53.0	-2.7	-2.7	-2.7	-2.7	na
Per share data (CHF)										
EPS adjusted	na	16.40	30.05	26.26	108.71	-11.22	-10.55	9.30	10.83	na
EPS adj and fully diluted	na	16.40	30.05	26.26	108.71	-11.22	-10.55	9.30	10.83	na
% Change	na	na	83.3%	-12.6%	313.9%	-chg	+chg	+chg	16.4%	na
EPS reported	na	16.40	30.05	26.26	108.71	-11.22	-10.55	9.30	10.83	na
Cash flow per share	na	10.45	24.71	17.93	100.74	-35.24	-16.30	3.92	2.29	na
Book value per share	na	165.71	187.24	205.56	308.93	284.89	254.81	271.01	284.32	303.90
Dividend per share	0.00	5.87	6.96	7.45	7.69	12.50	7.50	8.30	8.60	8.00
Number of shares, YE (m)	na	6.94	6.96	6.96	6.96	6.96	6.96	6.96	6.96	6.96
Ratios										
ROE (%)	na	na	17.0%	13.4%	42.3%	-3.8%	-3.9%	3.5%	3.9%	na
ROIC (%)	na	na								
ND(F+IFRS16) / EBITDA (x)	na	na								
Gearing (%)	na	3.5%	-3.3%	-7.2%	-5.7%	-3.8%	-4.7%	-0.1%	-1.1%	na
Valuation										
P/E adjusted	na	7.3	5.5	7.5	2.5	na	na	21.2	18.2	na
P/E adjusted and fully diluted	na	7.3	5.5	7.5	2.5	na	na	21.2	18.2	na
P/BV	na	0.7	0.9	1.0	0.9	1.2	0.9	0.7	0.7	0.6
P/CF	na	11.5	6.6	11.0	2.7	na	na	50.4	86.1	na
Dividend yield (%)	0.0%	4.9%	4.2%	3.8%	2.8%	3.8%	3.1%	4.2%	4.4%	4.1%
Dividend yield preference shares (%)	5.9%	5.8%	4.6%	3.9%	4.5%	2.9%	4.2%	5.3%	5.6%	na
FCF yield (%)	na	8.7%	15.1%	9.1%	36.5%	-10.7%	-6.8%	2.0%	1.2%	na
EV/Sales	na	na								
EV/EBITDA adj.	na	na								
EV/EBIT adj.	na	na								

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	21/11/2023 06:13	Equity Research	Buy	253.00	165.00
	24/01/2024 05:35	Equity Research	Buy	240.00	165.60

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Local insight, European scale.



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