

Release date: 22 January 2021

HBM Healthcare Investments Buy

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Switzerland | Pharma & biotech

MCap: CHF2.2bn

Target Price: CHF 320.00
Current Price: CHF 311.50
Up/downside: 2.7%
Market data: 21 January 2021

Bloomberg: HBMN SW	Reuters: HBMN.S
Free float	100%
Avg. daily volume (CHFm)	1.3
YTD abs performance	2.1%
52-week high/low (CHF)	311.50/154.20

Another robust quarter

Key points:

- Quarterly profit of CHF203m thanks to a contribution from all portfolios (private and public). Moreover, the dynamic of IPOs is still important, with five IPOs during the quarter and one sale from the portfolio of private companies.
- Following its strategy of investment in private companies, HBM invested CHF95m in private portfolios, including six new investments.
- Environment for takeovers and IPOs of innovative companies remains favourable and HBM is confident about the outlook, while the company has sufficient cash to seize new opportunities.

Quarterly results

- HBM posted a very strong Q3 2020/21 with a net profit of CHF203m.
- NAV rose by 11% and the share price gained 13% during the quarter.
- The value of all portfolio categories has increased during the quarter thanks to the wise exit strategy. Hence, five IPOs were run during the quarter (C4 Therapeutics, Everest Medicines, Galecto, Seer and BioAtla) with a significant contribution to the quarterly profit, while the sale of Westmed was realised in the portfolio of private companies.
- In addition, public companies saw an overall increase in value, underlining the good performance of the healthcare sector during the past months and the wise choice made by HBM.

Hidden value in private portfolio

- Following its strategy, HBM elicits value from investments in its portfolio of private companies.
- The best way to do this is to go public or do a trade sale. Over the last year, due to an increase in investors' confidence in HBM's investment strategy, the fund's discount to NAV has disappear, while it was around 16% one year ago.
- During the quarter, HBM invested a total of CHF66m in six new private companies, and an additional CHF29m were invested in existing companies as a follow-on. In particular, a USD20m investment was made in Ambrx (oncology), USD15m in Valo Health (machine intelligence segment) and a further USD10m investment in Longboard Pharmaceuticals or USD16m in River Renal (severe chronic kidney disease).
- The fundamental outlook for the sector continues to be good and HBM is well positioned to seize new opportunities, while it is initiating a hedging strategy of market risk to dampen a potential weakening period after the strong performance of the sector in recent months.

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Appendix 1: Research framework

Last model update: 26 October 2020

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).
- Positive clinical trials in the public portfolio.

Valuation methodology

- Our valuation is based on the NAV of all investments without any discount.
- 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 CHF320.

Risks to our rating

- Failure in clinical trials.
- Sales ramp-up of revenue-generating companies of the portfolio.

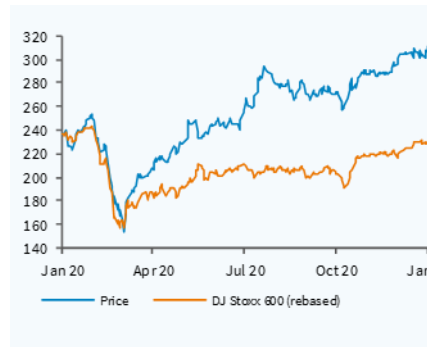
Appendix 2: Company description

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

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

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: 26 October 2020

Market data date: 21 January 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
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	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	625.2	185.1
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	621.6	181.4
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	621.6	181.4
Net profit reported	67.0	353.5	258.4	23.1	134.6	113.8	209.1	182.7	621.6	181.4
Net profit adjusted	67.0	353.5	258.4	23.1	134.6	113.8	209.1	182.7	621.6	181.4
Cash Flow Statement (CHFm)										
Levered post tax CF before capex	55.8	339.9	242.8	-44.0	119.3	72.5	171.9	124.7	571.8	62.3
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	571.8	62.3
Acquisitions & divestments	30.5	20.0	138.4	80.6	39.9	105.1	176.8	95.8	446.0	145.0
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	-575.3	-135.0
Change in net financial debt	-10.5	5.2	-93.9	35.6	-105.2	-10.1	-48.3	44.2	-386.5	-13.8
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	546.9	878.6	1,050.6	1,007.6	1,126.8	1,193.6	1,262.4	1,347.0	2,090.4	2,332.0
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	2,564.2	2,822.9
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	-489.6	-503.4
Net financial debt	-52.8	-46.9	-76.9	-15.9	36.6	40.6	-43.1	-103.2	-489.6	-503.4
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	1.2	-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
Per share data (CHF)										
EPS adjusted	7.52	40.98	32.58	3.06	19.01	16.40	30.05	26.26	89.35	26.07
EPS adj and fully diluted	7.52	40.98	32.58	3.06	19.01	16.40	30.05	26.26	89.35	26.07
% Change	+chg	445.2%	-20.5%	-90.6%	521.5%	-13.7%	83.3%	-12.6%	240.3%	-70.8%
EPS reported	7.52	40.98	32.58	3.06	19.01	16.40	30.05	26.26	89.35	26.07
Cash flow per share	6.26	39.40	30.61	-5.82	16.86	10.45	24.71	17.93	82.20	8.95
Book value per share	67.42	106.68	135.46	135.09	153.51	165.71	187.23	205.56	368.58	405.76
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
Ratios										
ROE (%)	11.7%	46.5%	25.9%	2.2%	12.8%	10.2%	17.0%	13.4%	31.1%	6.7%
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%	-19.1%	-17.8%
Valuation										
P/E adjusted	6.4	1.6	2.7	32.6	5.3	7.5	5.5	7.5	3.5	11.9
P/E adjusted and fully diluted	6.4	1.6	2.7	32.6	5.3	7.5	5.5	7.5	3.5	11.9
P/BV	0.7	0.6	0.7	0.7	0.7	0.7	0.9	1.0	0.8	0.8
P/CF	7.6	1.6	2.9	na	5.9	11.8	6.6	11.0	3.8	34.8
Dividend yield (%)	3.1%	4.7%	6.2%	5.5%	5.8%	5.7%	4.6%	3.9%	2.6%	2.7%
Dividend yield preference shares (%)	3.1%	4.7%	6.2%	5.5%	5.8%	5.7%	4.6%	3.9%	2.6%	2.7%
FCF yield (%)	13.1%	61.3%	34.4%	-5.8%	16.8%	8.5%	15.1%	9.1%	26.4%	2.9%
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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	05/10/2020 06:22	Equity Research	Buy	320.00	268.50

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