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HBM Healthcare Investments Buy

Switzerland | Pharma & biotech

Beta Profile:  **LOW RISK**

MCap: CHF2.4bn

Target Price: CHF 415.00
Current Price: CHF 340.50
Up/downside: 21.9%
Market data: 21 October 2021

Bloomberg: HBMN SW	Reuters: HBMN.S
Free float	83%
Avg. daily volume (CHFm)	1.5
YTD abs performance	11.6%
52-week high/low (CHF)	365.00/257.50

The trend is still positive

Key points:

- HBM reported another solid half-year report 2021/22 with a profit of CHF271m, while the net asset value (NAV) per share increased by 12.6% to CHF335.6.
- Once again, this performance during the first half was driven by exits in the portfolio of private companies (IPOs or trade sales) but mainly the positive changes in the value of public companies; in particular, the strong performance of Cathay Biotech, the main investment of the HBM fund (25%). The share price has doubled since the end of March. This quarter was also used for further profit taking in public companies and new investments in private companies.
- The current premium to NAV has shrunk to +1.5%, albeit of total assets, 61% are invested in public companies and 19% in private companies. Moreover, the cash position increased by CHF51m during the quarter to CHF245m, allowing sufficient cash to pursue its investment strategy in private investment (with a long-term focus).
- 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.

Half year 2021/22 review

- For the first half, HBM posted a CHF271m profit, mainly due to the huge performance of Cathay Biotech. The company benefited from the start of production of polyamides at its new plant and its inclusion in the STAR Market index of the Shanghai Stock Exchange. After an impressive surge (the share price has doubled during the last quarter), this investment (still subject to lock-up) represents c. 25% of total assets.
- Thanks to taking profit in several public companies, HBM's cash position at the end of September stood at CHF245m, allowing HBM to seize new investments and buying opportunities.
- During the quarter, the fund realised two new investments in private companies: a USD10m investment commitment in Odyssey Therapeutics (development of a platform of novel antibodies for cancers) and a further USD10m investment in a Chinese company C Ray Therapeutics (nuclear medicine).

Positive outlook

- While private companies represent only 19% of the total assets (value at their acquisition costs or the price of the last round of financing), HBM considers that they hold considerable value potential.
- In particular, HBM emphasised Swixx BioPharma (distribution partner for pharma and biotech companies in Europe), ConnectRN (a digital placement platform for healthcare in the US) or Fangzhou (digital transformation).
- In the portfolio of public companies, two important approval decisions by the FDA are due in the coming months for ArgenX and Hutchmed China.
- While the portfolio of public and private companies is still balanced, due to the solid performance of Cathay Biotech, the weight of this investment become more and more important thus increasing the sensitivity of the fund to the performance of Cathay Biotech.
- However, we consider HBM as a good investment opportunity to play the healthcare sector.

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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 Free float: 82.85% | Nogra Group SICAF-SIF: 15.83% | Mirabaud Asset Management (Suisse) SA: 1.21% | Optimized Portfolio Management Stockholm...: 1.00%

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: 21 October 2021

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
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	353.5	258.4	23.1	134.6	113.8	213.1	186.2	766.3	227.1	254.6
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	223.8	251.1
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	223.8	251.1
Net profit reported	353.5	258.4	23.1	134.6	113.8	209.1	182.7	756.3	223.8	251.1
Net profit adjusted	353.5	258.4	23.1	134.6	113.8	209.1	182.7	756.3	223.8	251.1
Cash Flow Statement (CHFm)										
Levered post tax CF before capex	339.9	242.8	-44.0	119.3	72.5	171.9	124.7	700.9	76.4	186.8
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	76.4	186.8
Acquisitions & divestments	20.0	138.4	80.6	39.9	105.1	176.8	95.8	222.7	174.8	194.4
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	-167.6	-195.0
Change in net financial debt	5.2	-93.9	35.6	-105.2	-10.1	-48.3	44.2	-205.0	-83.5	-186.2
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	878.6	1,050.6	1,007.6	1,126.8	1,193.6	1,262.4	1,347.0	2,105.2	2,396.6	2,720.6
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	2,530.3	3,045.1
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	-205.2	-391.4
Net financial debt	-46.9	-76.9	-15.9	36.6	40.6	-43.1	-103.2	-121.7	-205.2	-391.4
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
Per share data (CHF)										
EPS adjusted	40.98	32.58	3.06	19.01	16.40	30.05	26.26	108.71	32.17	36.10
EPS adj and fully diluted	40.98	32.58	3.06	19.01	16.40	30.05	26.26	108.71	32.17	36.10
% Change	445.2%	-20.5%	-90.6%	521.5%	-13.7%	83.3%	-12.6%	313.9%	-70.4%	12.2%
EPS reported	40.98	32.58	3.06	19.01	16.40	30.05	26.26	108.71	32.17	36.10
Cash flow per share	39.40	30.61	-5.82	16.86	10.45	24.71	17.93	100.74	10.98	26.85
Book value per share	106.68	135.46	135.09	153.51	165.71	187.23	205.56	308.93	363.70	437.71
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
Ratios										
ROE (%)	46.5%	25.9%	2.2%	12.8%	10.2%	17.0%	13.4%	42.3%	9.6%	9.0%
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%	-8.1%	-12.9%
Valuation										
P/E adjusted	1.6	2.7	32.6	5.3	7.5	5.5	7.5	2.5	10.6	9.4
P/E adjusted and fully diluted	1.6	2.7	32.6	5.3	7.5	5.5	7.5	2.5	10.6	9.4
P/BV	0.6	0.7	0.7	0.7	0.7	0.9	1.0	0.9	0.9	0.8
P/CF	1.6	2.9	na	5.9	11.8	6.6	11.0	2.7	31.0	12.7
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%	3.2%	7.9%
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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