

MPH Health Care AG

Germany / Healthcare
 Frankfurt
 Bloomberg: 93M GR
 ISIN: DE000A0L1H32

2017
 Results

RATING
BUY

PRICE TARGET
€ 7.10

Return Potential 40.3%
 Risk Rating High

NAVPS UP 12.5% Y/Y; DIVIDEND RAISED TO €0.20 / SHARE

Full year reporting confirmed prelims and the company's strategic focus on the strong health care sector. MPH Health Care reported net income of €32m for the year. NAVPS climbed to €5.6 compared to €4.8 in H1/17 and €5.0 YE16. The performance was driven by the core listed holdings: HAEMATO AG, M1 Kliniken AG and CR Capital Real Estate AG. Management will propose a €0.20 / share dividend to the AGM on 11 July. This is a significant increase on the €0.12 dividend paid out the past years and corresponds to a 4.6% yield. Our updated sum-of-the-parts model yields a €7.10 price target (old: €6.90). We maintain our Buy rating.

Core holdings spur bottom line and NAV accretion After a sluggish H1/17 in which MPH reported a net loss of €-2.2m, the company booked profits of €34m in the final six months to exit the year with €32m in net income. The bottom line was also ahead of our projection (FBe: €27m). NAV climbed to €241m (2016: €214m) corresponding to NAVPS of €5.6 (+12.5%). More recently, MPH also reported KPIs for the three month period. Q1/18 net income totalled €27m and NAV reached €267m. NAVPS was €6.3 (+11% YTD) and represents a 21% premium to the share price. The strong start to 2018 owes chiefly to positive share price developments for HAEMATO (+15% YTD) and M1 Kliniken (+12% YTD) spurred by their respective boosted positive full year results (see overleaf).

Dividend boosted 67% Y/Y to €0.20 / share The financial assets position entailing the three listed holdings remains the dominant line item on the balance sheet and rose to €249m in 2017 (2016: €220m; +13%). Shareholders' equity of €241m compares to a balance sheet total of €257m at year end. The 94% equity ratio matched the prior year level. MPH exited the year with cash and cash equivalents of €1.2m. Given the expected dividend payouts from the three listed holdings, MPH plans to pay out an increased dividend of €0.20 / share to shareholders. This is a 67% increase on the prior two years (€0.12 /share) and equates to an attractive 4.6% yield. Although MPH has no firm dividend policy, we expect the DPS to remain around the €0.20 level, assuming the portfolio performance remains steady. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017	2018E	2019E
Pro-forma Rev. (€m) ¹	219.25	262.89	329.07	347.12	394.34	456.59
Y/Y growth	7.6%	12.1%	20.3%	5.5%	13.6%	15.8%
EBIT (€m)	10.92	13.15	7.89	-0.68	-0.22	-0.24
EBT (€m)	9.3	87.3	81.2	32.1	22.0	23.3
Net income (€m)	8.45	84.10	80.06	31.86	21.99	23.23
EPS (diluted) (€)	0.20	1.96	1.87	0.74	0.51	0.54
DPS (€)	0.19	0.12	0.12	0.20	0.20	0.20
NAV (€m)	94.73	139.02	213.95	240.67	254.10	268.76
Net gearing	29.1%	6.8%	1.7%	3.0%	2.7%	2.9%
Liquid assets (€m)	17.70	0.53	10.45	6.76	7.26	6.20

* Please note the company changed to IFRS 10 reporting and deconsolidated its core holdings as of 31 December 2015.

¹ We provide pro-forma revenue of M1 Kliniken, HAEMATO and CR Capital as a reference.

RISKS

Regulatory changes in healthcare systems, spending cuts in healthcare systems, homogenization of pharmaceutical prices within the European Union.

COMPANY PROFILE

MPH Health Care AG is a Berlin based investment company focused on the purchase and further development of companies positioned chiefly in growth segments of the healthcare market. These primarily entail specialty pharmaceuticals for chronic diseases and lifestyle and beauty treatments.

MARKET DATA

As of 12 Jun 2018

Closing Price	€ 5.06
Shares outstanding	42.81m
Market Capitalisation	€ 216.64m
52-week Range	€ 3.18 / 5.13
Avg. Volume (12 Months)	35,597

Multiples	2017	2018E	2019E
P/E	6.8	9.9	9.3
EV/EBT	7.1	10.4	9.9
P/NAV	0.9	0.9	0.8
Div. Yield	4.0%	4.0%	4.0%

STOCK OVERVIEW



COMPANY DATA

As of 31 Dec 2017

Liquid Assets	€ 1.20m
Current Assets	€ 8.30m
Intangible Assets	€ 294.00m
Total Assets	€ 228.18m
Current Liabilities	€ 230.40m
Shareholders' Equity	€ 240.70m

SHAREHOLDERS

Magnum	60.0%
Argenta Asset Mngt	2.1%
Baring Fund Managers	1.9%
Free Float	36.0%



PORTFOLIO DEVELOPMENTS

Table 1: Listed holdings share price developments

	FY/16			FY/17			
	MPH shares (k)	Share price (€)	Value (€k)	MPH shares (k)	Share price (€)	Value (€k)	Variance
HAEMATO AG	10,392	6.44	66,924	11,011	5.08	55,936	-16.4%
M1 Kliniken AG	12,734	9.94	126,576	12,371	13.18	163,050	28.8%
CR Capital Real Estate AG	1,151	18.77	21,604	1,151	20.31	23,377	8.2%
Total			215,105			242,362	12.7%

* Bloomberg closing prices from 30 December 2016 and 30 December 2017

Source: First Berlin Equity Research; MPH; Bloomberg

The business focus of MPH is to take majority stakes in companies well positioned in growing segments of the German healthcare industry and create value for investors with these holdings. These are exposed to both the insurance- and privately-financed health care segments. Each participation benefits from strong market trends including concerns over rising healthcare costs, beauty and lifestyle trends, and a fundamentally attractive residential property market. MPH is likewise exposed to strong trends in the real estate sector with its stake in CR Capital AG—a developer affordable residential housing.

As in the prior years, the portfolio remains dominated by HAEMATO AG, M1 Kliniken AG and CR Capital AG—which realised aggregate share price appreciation of 12.7% last year and will all distribute dividends. In 2017, dividends received by MPH totalled €7.4m. We expect this to top €8m this year with the first time CR Capital payout. We expect do not expect any asset rotation or portfolio additions in the term, given the attractive upside of the existing constituents to drive value creation.

Positive impulses from the healthcare and beauty-lifestyle sectors HAEMATO presently benefits from favourable market conditions for cancer therapy and oncology products, where it traditionally generates some 60% of its turnover. Operations are prospering from improved sourcing, higher margin products in the sales mix, and improved production and logistics at the Berlin distribution facility. We believe the launch of its own branded hyaluronic acid products is a pivotal step in the evolution of HAEMATO's operations. Traction with high margin proprietary medical products can potentially offset some of the sourcing fluctuations associated with core operations.

M1 is likewise thriving from strong market tailwinds with beauty-lifestyle services becoming more and more popular supported by greater prosperity to afford vanity treatments. Management guide for double digit revenue and earnings growth in 2018, driven by newly added surgical capacity—including the recently opened Essen facility—and ongoing expansion. With a broad regional footprint on its home turf, M1 plans to take more of a pan-European growth approach in the future. We believe the company will look to initially branch out into the Austrian and Swiss markets late in the year.



Meanwhile, property market fundamentals are healthier than most think A “rates tantrum” weighed heavily on sentiment for real estate sector early in Q1/18, as investors sold positions fearing rate hikes and a major sector collapse. However, we believe the worst of the storm has passed and think the German residential housing sector remains fundamentally attractive for property developers. The sector continues to be characterised by low levels of supply, and new-build completions are unable to keep pace with demand and migration to urban German hubs.

Apartment prices continue to climb thanks to the persistent housing shortages, which were estimated at some one million residential units in 2017. Although 2018 is the tenth year of the current cycle, we expect housing prices and rental growth to remain ascendant across metropolitan hubs in the coming years until: (1) supply substantially rises; (2) occupancy rates move higher; (3) demand for housing abates; and (4) interest rates rise significantly.

We expect this environment to persist, which should provide good opportunities for CR Capital. Operationally, CR Capital’s core project development activities are currently centred on the Schkeuditz project in Leipzig. The Leipzig construction pipeline has a total volume of €150m, which we expect the company to realise over the next five years providing excellent visibility. CR Capital has also secured another project pipeline in Dresden, Germany to further boost mid-term visibility.



HAEMATO 2017 REPORTING

Table 2: HAEMATO profit and loss highlights

All figures in EUR '000	2017	2016	% delta	H2/17	H2/16	% delta
Revenue	289,862	275,614	5.2%	151,048	133,340	13.3%
Gross profit	19,951	19,469	2.5%	10,763	9,689	11.1%
Margin (%)	6.9%	7.1%	-	7.1%	7.3%	-
EBIT	9,416	13,441	-29.9%	6,234	7,585	-17.8%
Margin (%)	3.2%	4.9%	-	4.1%	5.7%	-
Net Income	6,983	11,037	-36.7%	4,819	6,622	-27.2%
Margin (%)	2.4%	4.0%	-	3.2%	5.0%	-

Source: First Berlin Equity Research; HAEMATO AG

HEMATO offsets lacklustre H1 with strong H2 HAEMATO reported solid full year revenue and earnings after a sluggish H1. Revenue (€289m) set the second consecutive high water mark in the company's brief history, as HAEMATO continued to gain market share as a supplier of specialty pharmaceuticals. H2 sales rose some 13% H/H to €151m. Net income of €7.0m was off the 2016 level (€11.0m) which benefited strongly from higher other income (€10.4m).

Table 3: HAEMATO balance sheet developments

All figures in EUR '000	2017	2016	Delta
Cash	6,470	9,790	-33.9%
Short-term financial assets	9,236	7,084	30.4%
Financial debt (short- and long-term)	28,050	26,925	4.2%
Net debt	12,344	10,052	22.8%
Total assets	122,028	116,774	4.5%
Shareholders' equity	70,927	63,091	12.4%
Equity ratio	58.1%	54.0%	-

Source: First Berlin Equity Research; HAEMATO AG

The company prospered from its position as specialist in the therapeutic areas of oncology, HIV / AIDS and other chronic diseases as well as operational improvements implemented early in 2017. HAEMATO also shipped its first branded Hyaluronic acid (HA) based creams in December as it awaits approval on further HA products. The process is in the advanced stages, and we expect CE Marking (European Conformity) by the end of the year. This will open the door for HAEMATO to sell high margin injectables. Based on the strong 2017 performance, HAEMATO management will propose a €0.30 dividend (5% yield) to shareholders at the 4 July AGM.



M1 KLINIKEN 2017 REPORTING

Table 4: M1 profit and loss highlights

All figures in EUR '000	2017	2016	% delta	H2/17	H2/16	% delta
Revenue	47,194	35,955	31.3%	24,937	17,457	42.8%
Gross profit	18,757	13,444	39.5%	8,621	7,145	20.7%
Margin (%)	39.7%	37.4%	-	34.6%	40.9%	-
EBIT	5,715	4,364	31.0%	1,558	1,318	18.2%
Margin (%)	12.1%	12.1%	-	6.2%	7.5%	-
Net Income	5,778	5,007	15.4%	2,090	2,114	-1.1%
Margin (%)	12.2%	13.9%	-	8.4%	12.1%	-

Source: First Berlin Equity Research; M1 Kliniken

Lifestyle and beauty specialist doubles treatment facilities in 2017 M1 revenues surged some 31% Y/Y to €47m, thanks to aggressive operational expansion. This included an increase in the number of outpatient clinics to 17 in 2017 (2016: 11; +54%). The new facilities are well located across Leipzig, Wiesbaden, Münster, Berlin (2x) and Mannheim, which benefit from good economic fundamentals. The number of treatments last year also climbed 50% from 100k to 150k. Gross profit grew 40% Y/Y to €18.8m (2016: €13.4m), thanks to the strong top line performance, while EBIT of €5.7m topped the prior year result by 31%. Despite the strong expansion, the EBIT margin remained a solid 12.1%.

Table 5: M1 balance sheet developments

All figures in EUR '000	2017	2016	Delta
Cash	14,687	5,812	152.7%
Financial debt (short- and long-term)	214	0	-
Net debt	-14,473	-5,812	149.0%
Total assets	50,569	32,186	57.1%
Shareholders' equity	47,280	30,257	56.3%
Equity ratio	93.5%	94.0%	-

Source: First Berlin Equity Research; M1 Kliniken

The balance sheet total rose significantly to €50.6m (2015: €32.2m) owing mainly to positive net results and the October cap hike resulting in gross proceeds of €16.5m. Net cash thus climbed to €14.5m vs €5.8m in 2016. Shareholders' equity rose to €47.3m (2015: €30.3m), and the equity ratio remained at a stout 94%. M1 plans a dividend of €0.30 / share corresponding to a payout of €5.0m.



CR CAPITAL REAL ESTATE 2017 REPORTING

Table 6: CR Capital profit and loss highlights

All figures in EUR '000	2017	2016	Variance	H2 / 17	H2 / 16	Variance
Revenue	10,409	17,499	-40.5%	10,097	9,060	11.4%
EBIT	3,994	2,377	68.0%	3,020	2,791	8.2%
Margin (%)	38.4%	13.6%	-	29.9%	30.8%	-
Net income	5,767	2,167	166.1%	4,661	1,994	133.8%
EPS diluted (€)	3.14	1.22	157.4%	2.54	1.12	126.1%

Source: First Berlin Equity Research; CR Capital

CR Capital doubles bottom line The German residential property developer reported 2017 net income of €5.8m compared to €2.2m in the prior year and targets a first-time dividend payment to shareholders of €1 / share. Sales were reported at €10.4m (2017: €17.5m). The company also announced the handover of the first flats from its Leipzig project and expects to transfer 96 terraced homes by the end of 9M/18, while starting phase II (200 units) construction in H2/18. Meanwhile, the balance sheet was impacted by the November takeover of KENT Immobilienmanagement GmbH. Total asset thus rose 54% to €42m causing the dip in the equity ratio, which remained a stout 68%. CR Capital will hold its AGM in July.

Table 7: CR Capital balance sheet developments

All figures in EUR '000	2017	2016	Delta
Cash	1,984	5,441	-63.5%
Assets held for sale	9,381	5,277	77.8%
Investment properties	10,852	9,175	18.3%
Total assets	42,066	27,378	53.6%
Financial debt (short- and long-term)	9,016	2,116	326.1%
Net debt	7,032	-3,325	-
Shareholders' equity	28,388	22,705	25.0%
Equity ratio	67.5%	82.9%	-

Source: First Berlin Equity Research; CR Capital AG



SUM-OF-THE-PARTS MODEL

We use a sum-of-the-parts valuation methodology to value MPH. Value is driven by the projected fair value of HAEMATO, M1 Beauty, and CR Capital, which we have valued separately on a DCF basis. Based on the current stakes, we derive a fair value of €321m for the listed holdings. We add the book value of the non-listed holdings to this figure and subtract the 2017 net debt and holding costs. Given the 42.8m shares outstanding (SO), we now see fair value for MPH at €7.10 per share (previously: €6.90) corresponding to a Buy rating. We regard MPH as an attractive opportunity for investors seeking exposure to the growing affordable health care and housing segments with shares currently trading some 25% below NAVPS of €6.3.

Table 8: Sum-of-the-parts valuation

in € '000	Shareholdings	SO	MPH stake	Share price*	Fair value ¹	Projected value
HAEMATO AG	11,012	21,980	50.1%	5.94	7.70	84,792
M1 Kliniken AG	12,371	16,500	75.0%	17.10	16.50	204,122
CR Capital Real Estate AG	1,151	1,878	61.3%	20.20	28.00	32,228
Projected value of listed holdings						321,142

* Source: Bloomberg (Previous day's closing price)

Fair value of listed portfolio	321,142
Non-listed investment (book value)	6,734
Net debt	7,242
Present value of holding costs	-18,516
Total fair value	302,117
MPH Shares outstanding	42,814
Fair value per share (€)	7.10

¹ First Berlin Equity Research currently covers HAEMATO AG (Buy / PT: EUR7.70), M1 Kliniken AG (Buy / PT: EUR16.50) and CR Capital (Buy / PT: EUR28)



INCOME STATEMENT

All figures in EUR '000	2014	2015	2016	2017	2018E	2019E
Pro-forma revenues¹	219,249	262,887	329,067	347,117	394,337	456,588
Revenues	219,249	262,887	47	66	50	50
Change in inventories	-27	-3,720	0	-17	0	0
Cost of goods sold	-197,433	-231,703	17	17	-10	-10
Personnel expenses	-6,479	-8,326	-559	-498	-505	-513
Other OpEx	-8,006	-10,771	-432	-1,447	-1,251	-1,270
Other income	5,442	9,978	8,843	1,225	1,500	1,500
Depreciation & amortisation	-1,829	-5,193	-24	-22	0	0
Operating income (EBIT)	10,917	13,152	7,892	-676	-217	-243
Net financial result	-1,604	-2,001	-445	-167	-420	-420
Other financial result	0	7,860	7,482	7,380	8,166	8,166
Depreciation of financial assets	0	-6,417	-5,995	-14,825	0	0
Revaluation result	0	74,707	72,220	40,408	14,494	15,761
Pre-tax income (EBT)	9,313	87,301	81,154	32,120	22,023	23,264
Income taxes	-860	-3,200	-1,090	-265	-30	-34
Net income / loss	8,453	84,101	80,064	31,855	21,993	23,230
Minority interests	3,503	1,513	0	0	0	0
Net income after minorities	4,950	82,588	80,064	31,855	21,993	23,230
EPS (in €)	0.20	1.96	1.87	0.74	0.51	0.54

* Please note the change to IFRS 10 accounting as of 31 December 2015, ¹Pro-forma revenue of M1 Beauty, HAEMATO and CR Capital as a reference.



BALANCE SHEET

All figures in EUR '000	2014	2015	2016	2017	2018E	2019E
Assets						
Current assets, total	68,150	685	10,452	8,288	7,259	6,201
Cash and equivalents	10,117	528	983	1,239	7,259	6,201
ST financial assets	7,581	0	9,466	5,519	0	0
Trade receivables	11,523	8	0	0	0	0
Inventories	35,401	0	0	0	0	0
Other ST assets	3,528	149	3	1,530	0	0
Non-current assets, total	82,051	150,419	219,878	249,089	263,573	279,324
Property, plant & equipment	2,406	14	6	4	4	4
Goodwill & other intangibles	53,562	24	26	18	18	18
Investment properties	13,436	0	0	0	0	0
Financial assets	12,371	150,360	219,824	249,047	263,531	279,282
Deferred taxes	276	21	22	20	20	20
Total assets	150,201	151,104	230,330	257,377	270,832	285,525
Shareholders' equity & debt						
Current liabilities, total	28,645	967	165	229	242	255
Trade payables	7,210	638	15	37	37	37
ST debt	14,359	60	0	0	0	0
Provisions	3,820	54	42	70	72	74
Other ST financial liabilities	510	205	87	90	99	109
Other current liabilities	2,746	10	21	32	34	35
Long-term liabilities, total	26,826	11,117	16,217	16,483	16,495	16,507
Long-term debt	23,356	9,990	14,000	14,000	14,000	14,000
LT provisions	27	0	0	0	0	0
Deferred tax liabilities	3,443	1,127	2,217	2,483	2,495	2,507
Shareholders' equity	68,771	139,020	213,948	240,665	254,095	268,762
Minority interests	25,959	0	0	0	0	0
Total equity	94,730	139,020	213,948	240,665	254,095	268,762
Total consolidated equity and debt	150,201	151,104	230,330	257,377	270,832	285,525

¹ Please note the change to IFRS 10 accounting as of 31 December 2015



CASH FLOW STATEMENT

All figures in EUR '000	2014	2015	2016	2017	2018E	2019E
Pre-tax income	9,308	87,279	81,154	32,120	22,023	23,264
Depreciation and amortisation	1,829	10,896	6,020	21	0	0
Revaluation gains	-4,953	-81,551	-81,438	-25,946	-8,975	-15,761
Changes in working capital	-9	-533	-13,606	2,484	1,555	26
Other adjustments	-5,055	-15,342	396	-457	10	10
Net financial result	1,604	2,000	445	167	420	420
Operating cash flow	2,724	2,749	-7,029	8,389	15,033	7,959
Investment income	158	223	2,922	-7,380	0	0
Interest expense paid	-1,779	-2,223	-660	-498	-420	-420
Tax paid	-1,594	-406	0	264	-30	-34
Net operating cash flow	-491	343	-4,767	775	14,583	7,505
CapEx	-9,913	-26,814	-2,006	-15,919	0	0
Proceeds from disposal of fixed assets	13,387	18,623	7,570	13,159	0	0
Investment income	0	0	0	7,380	0	0
Cash flow from investing	3,474	-8,191	5,564	4,620	0	0
Free cash flow (FCF)	2,983	-7,848	797	5,395	14,583	7,505
Equity inflow, net	2,485	3,652	0	0	0	0
Debt inflow, net	5,880	6,741	3,950	0	0	0
Dividend paid to shareholders	-7,086	-8,223	-4,293	-5,138	-8,563	-8,563
Cash flow from financing	1,279	2,170	-343	-5,138	-8,563	-8,563
Net cash flows	4,262	-9,590	454	257	6,020	-1,058
Cash, start of the year	5,855	10,117	528	982	1,239	7,259
Cash, end of the year	10,117	528	982	1,239	7,259	6,201
Y-Y Growth						
Operating cash flow	n.m.	n.m.	n.m.	n.m.	1781.2%	-48.5%
Free cash flow	n.m.	n.m.	n.m.	576.9%	170.3%	-48.5%

¹ Please note the change to IFRS 10 accounting as of 31 December 2015

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 October 2012	€2.45	Buy	€5.50
2...14	↓	↓	↓	↓
15	20 March 2017	€4.08	Buy	€5.50
16	30 May 2017	€3.62	Buy	€5.80
17	23 November 2017	€3.54	Buy	€6.90
18	Today	€5.06	Buy	€7.10

Authored by: Ellis Acklin, Analyst

Company responsible for preparation:

First Berlin Equity Research GmbH

Mohrenstraße 34
10117 Berlin

Tel. +49 (0)30 - 80 93 96 83 Fax +49 (0)30 - 80 93 96 87

info@firstberlin.com
www.firstberlin.com

Person responsible for forwarding or distributing this financial analysis: Martin Bailey

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BUY: An expected favourable price trend of more than 25% percent.

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- key sources of information in the preparation of this research report
- valuation methods and principles
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