

MPH Health Care AG

Germany / Healthcare
 Frankfurt
 Bloomberg: 93M1 GR
 ISIN: DE000A289V03

2020
 Prelims

RATING
BUY

PRICE TARGET
€ 75.00

Return Potential 173.7%
 Risk Rating High

RESULTS DOWN ON WEAK M1 STOCK PERFORMANCE

Prelims reflect covid-19 effects with 2020 net income sinking to €70m (2019: €11m). This owes to non-cash fair value write-downs of the listed holdings. The weak result is chiefly traced to the poor M1 stock performance last year (-35%) in the wake of pandemic lockdowns. M1 earnings were burdened by clinic closures and restrictions limiting the number of treatments last year. However, there is no evidence of long-term effects on operations or the capital structure, and we see good rebound potential once the covid-19 tentacles retreat from global economies. Meanwhile, CR Capital remains unhampered by the pandemic as the property developer continues to address frenzied demand for affordable housing. Our rating remains Buy with an unchanged €75 price target.

What happened with M1? M1 prelims were slightly below street forecasts with 2020 EPS declining to €0.37 vs €0.56 in the prior year as the beauty treatment business was held back by pandemic countermeasures. M1 shut down its clinics and practices in March 2020 in compliance with the nationwide lockdowns. These re-opened in May and business immediately hit pre-lockdown levels. However, further restrictions at home and renewed lockdowns abroad in Q4 gated the number of treatments performed. M1 recently confirmed plans to expand and further internationalise its clinic network to 100 aesthetic medicine centres by 2024 and targets 50 facilities by YE21. Management will propose to the AGM that 2020 profits be fully retained to finance this envisioned growth.

Upshot for the beauty and lifestyle specialist Last year was about weathering the pandemic storm. We think M1 was able to absorb the earnings shortfall without severe long-term effects on its balance sheet—the YE20 equity ratio was 61%. Although renewed lockdowns will burden H1/21 performance, we see good catch-up potential on the other side of covid-19 restrictions. Pent-up demand is evidenced by the 20% Y/Y jump in Q3/20 injection and surgical treatments performed in Germany, when the number hit 65K for. . . (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Pro-forma rev. (€m) ¹	57.60	91.52	117.73	212.58	392.05	472.34
Y/Y growth	7.8%	58.9%	28.6%	80.6%	84.4%	20.5%
Operating revenue (€m)	34.24	39.53	41.22	1.89	37.74	27.31
EBIT (€m)	32.30	37.64	11.6	-21.99	32.05	21.50
Net income (€m)	31.86	37.03	11.08	-70.31	30.88	20.53
EPS (diluted) (€)	7.44	8.65	2.59	-16.42	7.21	4.80
DPS (€)	2.00	2.00	0.00	0.00	1.50	1.58
NAVPS (€)	56.22	62.87	63.45	47.03	54.24	57.53
Net gearing	2.4%	4.8%	6.1%	6.5%	1.7%	0.3%
Liquid assets (€m)	8.29	1.08	2.10	1.82	11.10	14.15

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

RISKS

Regulatory changes in healthcare systems, homogenization of pharmaceutical prices within the EU, and prolonged macro economic downturns that limit private healthcare spend.

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. The company also holds a stake in a residential property developer.

MARKET DATA

As of 05 May 2021

Closing Price	€ 27.40
Shares outstanding	4.28m
Market Capitalisation	€ 117.30m
52-week Range	€ 18.66 / 32.10
Avg. Volume (12 Months)	2,862

Multiples	2019	2020E	2021E
P/E	10.6	n.a.	3.8
EV/EBIT	11.1	n.a.	4.0
P/NAV	0.4	0.6	0.5
Div. Yield	0.0%	0.0%	5.5%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2020

Liquid Assets	€ 0.40m
Current Assets	€ 2.44m
Financial Assets	€ 250.84m
Total Assets	€ 253.33m
Current Liabilities	€ 9.09m
Shareholders' Equity	€ 238.99m

SHAREHOLDERS

Magnum	60.0%
Baring Fund Managers	1.7%
KBC Asset Management SA	1.3%
Free Float	37.0%



. . . the quarter after restrictions eased. We expect similar catch-up effects once the pandemic runs its course. Moreover, M1's re-homed product business (see note of 30 June 2020) is now spearheaded by HAEMATO, which M1 now fully consolidates (69% stake). In our view, this is a much better operational and strategic fit to exploit opportunities for own-branded products. We reckon these factors are a good basis for a rebound in the M1 share price, which continues to trade some 36% off pre-pandemic levels.

HAEMATO is now also a pandemic play HAEMATO's fully owned subsidiary, HAEMATO PHARM GmbH, recently received special approval from the Federal Institute for Drugs and Medical Devices (BfArM) according to § 11 Para.1 to supply self-antigen rapid tests. The company has secured flexible supply of up to 200m of its self-test kits to sell into the pharmacy, wholesale, and public institution channels. With covid-19 lockdowns still in fashion, this looks like an attractive segment and equates to a good pandemic hedge for investors. Early traction shows ~€25m in sales are being realised in the first half of April.

We also emphasize that antigen-test upside is not factored into HAEMATO's 2021 guidance. Depending on how the pandemic plays out, this segment could result in a windfall profit giving the specialty-pharmaceutical vendor excellent financial flexibility to execute on the full pipeline of its core business and / or reward investors with a special dividend.

CR CAPITAL CONTINUES TO BENEFIT FROM THE SUBURBAN SHUFFLE

The company exited 2020 largely unscathed by the pandemic. February prelims featured €45m in net profit alongside NAVPS of €42 and a 90% equity ratio.

We like CR Capital for its position in the residential property segment. The company specialises in the construction of affordable housing predominantly in Leipzig, Berlin, and the Berlin exurbs and is benefiting from a residential market that continues to be shaped by an acute housing shortage, particularly for affordable homes, and soaring rents. Plus, owning a town house or flat has rarely been so attractive, thanks to rock bottom mortgage lending rates (~0.75%) coupled with an €18k KfW loan credit and another €12k child benefit subsidy.

After beefing up its staff last year with key personnel, we think development capacity stands at roughly 200 units per annum. Plus, according to the February announcement, management have locked down contractors for the next three years to execute on a full pipeline with > 600 units under development. CR Capital will publish its annual report and propose a dividend in July.



VALUATION

NAVPS declined 26% on an annualised basis to €47.0 vs €63.5 at YE19 and €45.4 at the 9M/20 mark. Management will propose to this year's AGM not to distribute a dividend, given current market uncertainties.

We use a sum-of-the-parts valuation methodology to value MPH. Value is driven by the projected fair value of M1 Kliniken and CR Capital, which we have valued separately on a DCF basis. Shareholdings reflect H1/20 reporting. We will update the listed portfolio stakes on publication of the annual report at the end of May. We remain Buy-rated on MPH with an unchanged €75 price target.

Table 1: Sum-of-the-parts model

Unit	Shareholdings '000	SO '000	MPH stake %	Share price* €	Fair value per share ¹ €	Projected value €m
M1 Kliniken AG	13,155	19,643	67%	10.5	20.5	270
CR Capital Real Estate AG	2,150	3,756	57%	31.3	37.0	80
Projected value of listed holdings						349

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

	Unit	Value
Fair value of listed portfolio	€m	349
Non-listed investment (book value)	€m	27
Net debt	€m	16
Present value of holding costs	€m	-39
Total fair value	€m	320
MPH shares outstanding	m	4
Fair value per share	€	75

¹ First Berlin Equity Research covers CR Capital (Buy / PT: €37); M1 fair value is based on a DCF



INCOME STATEMENT

All figures in EUR '000	2017	2018	2019	2020E	2021E	2022E
Pro-forma revenues¹	57,604	91,517	117,732	212,581	392,051	472,342
Fair value gains on financial assets	25,583	31,019	33,747	0	27,100	16,563
Income from participations	848	170	780	350	400	400
Investment income	7,380	8,317	6,651	1,500	10,199	10,302
Other operating income	425	28	43	43	45	47
Operating revenue	34,236	39,534	41,221	1,893	37,744	27,312
SG&A	-1,177	-1,146	-934	-981	-1,030	-1,081
Other OpEx	-360	-703	-1,494	-1,569	-1,647	-1,729
Fair value loss on financial assets	-392	0	-27,207	-70,600	-3,000	-3,000
Depreciation & amortisation	-21	-45	-11	0	-20	-12
EBIT	32,286	37,640	11,575	-71,256	32,047	21,488
Interest expense	-499	-507	-540	-540	-540	-540
Interest income	332	209	15	55	0	0
EBT	32,119	37,342	11,050	-71,741	31,507	20,948
Income taxes	-264	-317	27	1,435	-630	-419
Net income / loss	31,855	37,025	11,076	-70,307	30,877	20,530
Minority interests	0	0	0	0	0	0
Net income after minorities	31,855	37,025	11,076	-70,307	30,877	20,530
EPS (in €)	7.44	8.65	2.59	-16.42	7.21	4.80

¹Pro-forma revenue of M1 Kliniken and CR Capital as a reference.



BALANCE SHEET

All figures in EUR '000	2017	2018	2019	2020E	2021E	2022E
Assets						
Current assets, total	8,288	1,152	2,237	1,970	11,264	14,327
Cash and equivalents	1,239	1,018	1,797	1,511	10,784	13,825
ST financial assets	7,046	64	305	311	317	324
Trade receivables	0	3	4	4	4	4
Inventories	0	7	0	0	0	0
Other ST assets	3	60	131	144	159	174
Non-current assets, total	249,069	285,101	290,908	217,308	238,909	249,973
Property, plant & equipment	4	2	56	56	57	58
Goodwill & other intangibles	18	1	1	1	1	1
Financial assets	249,047	285,098	290,851	217,251	238,851	249,914
Total assets	257,357	286,253	293,144	219,278	250,173	264,300
Shareholders' equity & debt						
Current liabilities, total	229	327	15,724	150	155	159
Trade payables	37	28	24	24	24	24
Provisions	70	99	91	94	97	99
Other ST financial liabilities	90	87	15,578	0	0	0
Other current liabilities	32	113	31	33	34	36
Long-term liabilities, total	16,483	16,798	5,779	17,793	17,807	17,821
Long-term debt	14,000	14,000	3,000	15,000	15,000	15,000
Deferred tax liabilities & others	2,483	2,798	2,779	2,793	2,807	2,821
Shareholders' equity	240,665	269,127	271,641	201,335	232,212	246,319
Minority interests	0	0	0	0	0	0
Total equity	240,665	269,128	271,641	201,335	232,212	246,319
Total consolidated equity and debt	257,377	286,253	293,144	219,278	250,173	264,300
NAV	240,665	269,128	271,641	201,335	232,212	246,319
NAVPS (€)	56.2	62.9	63.5	47.0	54.2	57.5



CASH FLOW STATEMENT

All figures in EUR '000	2017	2018	2019	2020E	2021E	2022E
Net income	31,855	37,025	11,076	-70,307	30,877	20,530
Depreciation and amortisation	21	45	11	0	20	12
Revaluation gains	-25,946	-30,360	-6,540	70,594	-24,107	-13,569
Changes in working capital	2,485	7,058	-93	5	4	3
Other adjustments	-457	-830	384	0	0	0
Net financial result	167	299	526	485	540	540
Tax expense	264	317	-26	-1,435	630	419
Operating cash flow	8,389	13,554	5,337	-657	7,965	7,935
Investment income	-7,380	-8,317	-6,651	-1,500	-10,199	-10,302
Tax paid	0	-41	-38	1,435	-630	-419
Net operating cash flow	1,009	5,196	-1,352	-723	-2,864	-2,786
CapEx	-11	-11	-52	0	-22	-13
Payments from acquisitions of consolidated companies & other business units	-15,978	0	1,856	0	0	0
Proceeds from disposal of fixed assets	13,160	11,783	17,661	3,000	2,500	2,500
Payments for investment in financial assets	0	-16,644	-19,116	0	0	0
Investment income	7,380	8,317	6,378	1,500	10,199	10,302
Interest income	332	208	15	55	0	0
Cash flow from investing	4,883	3,653	6,742	4,555	12,677	12,788
Equity inflow, net	0	0	-1	0	0	0
Debt inflow, net	0	0	4,492	-3,578	0	0
Dividend paid to shareholders	-5,137	-8,563	-8,562	0	0	-6,422
Interest expense	-499	-507	-540	-540	-540	-540
Cash flow from financing	-5,636	-9,070	-4,611	-4,118	-540	-6,962
Net cash flows	256	-221	779	-286	9,273	3,040
Cash, start of the year	983	1,239	1,018	1,797	1,511	10,784
Cash, end of the year	1,239	1,018	1,797	1,511	10,784	13,825
Free cash flow (FCF)	5,892	8,849	5,390	3,832	9,813	10,002
Y-Y Growth						
Operating cash flow	n.a.	415.0%	n.m.	n.m.	n.m.	n.m.
Free cash flow	n.a.	50.2%	-39.1%	-28.9%	156.1%	1.9%

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ASSET VALUATION SYSTEM

First Berlin's system for asset valuation is divided into an asset recommendation and a risk assessment.

ASSET RECOMMENDATION

The recommendations determined in accordance with the share price trend anticipated by First Berlin in the respectively indicated investment period are as follows:

Category		1	2
Current market capitalisation (in €)		0 - 2 billion	> 2 billion
Strong Buy ¹	An expected favourable price trend of:	> 50%	> 30%
Buy	An expected favourable price trend of:	> 25%	> 15%
Add	An expected favourable price trend of:	0% to 25%	0% to 15%
Reduce	An expected negative price trend of:	0% to -15%	0% to -10%
Sell	An expected negative price trend of:	< -15%	< -10%

¹ The expected price trend is in combination with sizable confidence in the quality and forecast security of management.

Our recommendation system places each company into one of two market capitalisation categories. Category 1 companies have a market capitalisation of €0 – €2 billion, and Category 2 companies have a market capitalisation of > €2 billion. The expected return thresholds underlying our recommendation system are lower for Category 2 companies than for Category 1 companies. This reflects the generally lower level of risk associated with higher market capitalisation companies.

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Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 October 2012	€24.55	Buy	€55.00
2...16	↓	↓	↓	↓
17	23 November 2017	€35.41	Buy	€69.00
18	13 June 2018	€50.63	Buy	€71.00
19	15 August 2019	€37.62	Buy	€75.00
20	30 June 2020	€27.94	Buy	€75.00
21	16 September 2020	€26.00	Buy	€75.00
22	7 December 2020	€22.20	Buy	€75.00
23	Today	€27.40	Buy	€75.00

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