

MPH Mittelstaendische Pharma Holding AG

Germany / Healthcare
 Frankfurt
 Bloomberg: 93M GR
 ISIN: DE000A0NF697

H1/15 Results

RATING
BUY

PRICE TARGET
€5.10

Return Potential 152.5%
 Risk Rating High

RESULTS IN LINE; M1 BEAUTY SET TO FLOAT ITS SHARES

Top-line performance in H1/15 for two core holdings was mixed Y/Y. Revenues from the largest holding, HAEMATO, were down 11% Y/Y, due to the regulatory bottleneck in the parallel import distribution channel, whereas CR Capital booked strong Y/Y growth on the back of a major project handover. The third primary holding, M1 Beauty AG, is slated to float its shares on the Frankfurt Stock Exchange in H2/15. We have adjusted our forecasts to account for H1/15 developments and now see fair value at €5.10 (previously: €5.00). Our rating remains Buy.

Revenues for the period slightly ahead of forecast Sales for the six month period came in at €112.7m compared to our projection of €108.1m. We note there are no comparative figures for H1, due to the first time consolidation of CR Capital as of the beginning of 2015. HAEMATO AG contributed €101.5m to group level sales, on our calculations. Sales for the company slumped slightly Y/Y, due chiefly to the aforementioned quality control restrictions enacted last year that carried over into 2015. HAEMATO has reported a pick up in sales after the Paul Ehrlich Institute lifted the restrictions in the parallel import channel. This allowed HAEMATO to book 24% Q/Q sales growth in the second quarter. With distribution channels now fully open, we look for top-line growth to continue. CR Capital sales spiked 243% to €6.4m on the completion and handover of its Hohenzollern project. Moreover, the company announced the acquisition of a new project pipeline in Leipzig providing good visibility over the next five years for its constructions operations. Net income for MPH of €2.3m (FB: €3.8m) was lower on a higher than expected tax expense.

Balance sheet remains solid Operating cash flow totalled €0.3m, whereas cash outflow for investments equalled €2.0m. Cash flow from financing amounted to €4.7m with debt inflows, and CR Capital consolidation cash adjustments totalled €3.0m. The net change to cash was €6.0m leaving MPH with cash and liquid assets of €16.1m at end H1. Consolidated equity remained virtually unchanged at €93.4m (2014: €94.7m) corresponding to an equity ratio of 53%.

FINANCIAL HISTORY & PROJECTIONS

	2011A	2012A	2013A	2014A	2015E	2016E
Revenue (€m)	145.50	205.71	226.84	219.25	230.20	270.14
Y-o-y growth	n.a.	41.4%	10.3%	-3.3%	5.0%	17.4%
EBIT (€m)	10.63	21.88	12.50	10.92	10.61	12.20
EBIT margin	7.3%	10.6%	5.5%	5.0%	4.6%	4.5%
Net income (€m)	8.63	18.40	7.49	8.45	7.88	9.12
EPS (diluted) (€)	0.23	0.45	0.18	0.20	0.18	0.21
DPS (€)	0.20	0.22	0.11	0.12	0.12	0.12
FCF (€m)	0.13	5.43	-5.70	-2.29	17.94	4.45
Net gearing	6.2%	34.5%	42.2%	40.1%	36.7%	71.6%
Liquid assets (€m)	2.46	14.57	5.85	10.12	11.92	9.24

RISKS

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

COMPANY PROFILE

MPH is a German based healthcare company specializing in the fields of pharmaceuticals, patient care, and cosmetic surgeries with a strategic focus on therapeutic areas of chronic diseases and lifestyle beautification. Rising healthcare costs in Germany are expected to continue driving demand for the inexpensive solutions provided by the company's core healthcare activities.

MARKET DATA

As of 03 Sep 2015

Closing Price	€ 2.02
Shares outstanding	42.81m
Market Capitalisation	€ 86.48m
52-week Range	€ 1.99 / 2.66
Avg. Volume (12 Months)	23,621

Multiples	2014A	2015E	2016E
P/E	10.2	11.0	9.5
EV/Sales	0.7	0.7	0.6
EV/EBIT	13.8	14.2	12.3
Div. Yield	5.9%	5.9%	5.9%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2015

Liquid Assets	€ 16.10m
Current Assets	€ 80.90m
Intangible Assets	€ 5.10m
Total Assets	€ 177.40m
Current Liabilities	€ 42.60m
Shareholders' Equity	€ 60.60m

SHAREHOLDERS

Magnum AG	63.5%
Free Float	36.5%

**Figure 1: Key H1/15 results vs estimates**

in EURm	H1/15A	H1/15E	Delta	2014A
Sales	112.7	108.1	4.3%	219.2
EBIT	5.1	5.1	0.5%	10.9
margin	4.5%	4.7%	-	5.0%
Net income*	2.3	3.8	-39.7%	8.5
margin	2.0%	3.5%	-	3.9%
EPS (in EUR diluted)	0.05	0.09	-39.7%	0.12

* before minority interests

Source: First Berlin Equity Research

Positive CR Capital developments with new Leipzig pipeline MPH-Group holds a 53% stake in CR Capital. The project developer will construct some 60,000m² of residential properties in an attractive location (7km to the airport, 4km from the motorway). The company plans to break ground in the next months, and the first sales are planned for 2016. The estimated sales volume for the period is €150m. Leipzig is an attractive location for investors in residential real estate. It is the second largest city in eastern Germany with a population of around 540,000 people. The city attracts an increasing number of students and professionals, is home to several universities, a DHL logistics centre, BMW, Porsche, and Siemens' plants. Real estate prices in Leipzig have been increasing steadily. This is expected to continue as the population expands.

Mid-term outlook brightens with CR Capital pipeline and improving HAEMATO sales

We have adjusted our estimates to account for H1 developments in the portfolio. The key change in our near term forecast is the lower revenue expectation for CR Capital in H2/15 after the sale of its Hohenzollern project in the first half of the year and the addition of the Leipzig pipeline. The latter kicks in next year. HAEMATO top-line estimates remain unchanged. The regulatory bottleneck has been cleared, but the company's gross margin forecast was trimmed slightly to account for price pressure in its sourcing channels. MPH has also communicated M1 Beauty AG's plans to list its shares on the Frankfurt Stock Exchange in H2/15, which will provide deeper transparency into the beauty and lifestyle service provider.

Figure 2: Changes to our near term forecasts

in EURm	2015E			2016E		
	Old	New	% change	Old	New	% change
Sales	236.0	230.0	-2.5%	258.0	270.0	4.7%
EBIT	11.9	10.6	-10.6%	12.8	12.2	-4.7%
Margin (%)	5.0%	4.6%	-	5.0%	4.5%	-
Net income*	8.9	7.9	-11.6%	9.7	9.1	-6.1%
Margin (%)	3.8%	3.4%	-	3.8%	3.4%	-
EPS € (diluted)	0.12	0.10	-11.6%	0.13	0.12	-6.1%

* before minority interests

Source: First Berlin Equity Research

Edging price target higher; rating remains Buy Company guidance for the year calls for an increase in sales volume. Optimism is supported by the market trends in the German healthcare market and the so called "second healthcare market," which includes services that are not financed by private or public health insurances. The latter should provide tailwinds to the M1 Beauty activities. The changes to our forecasts and DCF model result in a new price target of €5.10 (previously: €5.00). Our rating remains Buy.



DCF VALUATION

All figures in EUR m	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E
Net sales	230.00	270.00	299.70	326.67	357.56	389.31	420.63	449.72
NOPLAT	9.15	10.59	12.11	14.85	17.03	19.81	23.19	27.09
+ depreciation & amortisation	1.69	2.25	1.97	1.19	1.33	1.34	1.30	1.24
Net operating cash flow	10.84	12.84	14.08	16.04	18.36	21.15	24.49	28.33
- total investments (CAPEX and WC)	8.41	-6.92	-4.67	-4.11	-4.41	-4.26	-3.89	-3.25
Capital expenditures	-1.15	-1.35	-1.38	-1.38	-1.37	-1.34	-1.29	-1.20
Working capital	9.56	-5.57	-3.29	-2.73	-3.04	-2.92	-2.60	-2.06
Free cash flows (FCF)	19.25	5.92	9.41	11.93	13.94	16.89	20.61	25.08
PV of FCF's	18.65	5.20	7.50	8.63	9.16	10.07	11.14	12.31

All figures in EURm	
PV of FCFs in explicit period	159.9
PV of FCFs in terminal period	123.3
Enterprise value (EV)	283.2
+ Net cash / - net debt	-30.6
+ Investments / minority interests	-32.8
Shareholder value	219.8

WACC		Terminal growth rate							
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
Cost of equity	15.0%	6.2%	10.37	10.86	11.45	12.16	13.04	14.15	15.62
Pre-tax cost of debt	10.0%	7.2%	8.37	8.67	9.03	9.44	9.94	10.54	11.29
Tax rate	30.0%	8.2%	6.88	7.08	7.30	7.56	7.86	8.21	8.63
After-tax cost of debt	7.0%	9.2%	5.73	5.87	6.01	6.18	6.37	6.59	6.85
Share of equity capital	40.0%	10.2%	4.83	4.92	5.02	5.10	5.26	5.40	5.56
Share of debt capital	60.0%	11.2%	4.10	4.17	4.24	4.31	4.40	4.49	4.60
		12.2%	3.51	3.55	3.60	3.66	3.71	3.78	3.85
Fair value per share in EUR	5.10	13.2%	3.01	3.05	3.08	3.12	3.16	3.21	3.25

* Our model runs through 2028. We have only shown through 2022 for formatting issues



INCOME STATEMENT

All figures in EUR m	2012A	2013A	2014A	2015E	2016E	2017E
Revenues	205.71	226.84	219.25	230.20	270.14	299.86
Cost of goods sold	-178.26	-210.02	-197.43	-207.41	-243.40	-270.11
Gross profit	27.45	16.82	21.82	22.79	26.74	29.75
Personnel costs	-4.19	-5.82	-6.48	-7.14	-8.37	-9.00
Depreciation & amortisation	-1.01	-1.72	-1.83	-1.69	-2.25	-1.97
Other operating income	10.80	10.75	5.44	5.25	5.81	5.65
Other operating expense	-7.85	-7.56	-8.01	-8.61	-9.73	-10.20
Operating income (EBIT)	21.88	12.50	10.92	10.61	12.20	14.24
Net financial result	-1.41	-1.22	-1.60	-1.28	-1.48	-1.49
Pre-tax income (EBT)	20.47	11.28	9.31	9.32	10.72	12.75
Income taxes	-2.07	-3.77	-0.86	-1.44	-1.61	-2.12
Net income / loss	18.40	7.51	8.46	7.88	9.12	10.62
Minority interests	-3.69	-1.05	-3.50	-3.86	-4.23	-4.83
Net income after minorities	14.71	6.46	4.95	4.02	4.88	5.79
Diluted EPS (in €)	0.36	0.16	0.12	0.09	0.11	0.14
EBITDA	22.89	14.22	12.75	12.29	14.45	16.21
Ratios						
Gross margin	13.3%	7.4%	10.0%	9.9%	9.9%	9.9%
EBIT margin on revenues	10.6%	5.5%	5.0%	4.6%	4.5%	4.7%
EBITDA margin on revenues	11.1%	6.3%	5.8%	5.3%	5.3%	5.4%
Net margin on revenues	7.2%	2.8%	2.3%	1.7%	1.8%	1.9%
Tax rate	10.1%	33.4%	9.2%	15.5%	15.0%	16.7%
Y-Y Growth						
Revenues	41.4%	10.3%	-3.3%	5.0%	17.4%	11.0%
Operating income	105.8%	-42.9%	-12.7%	-2.9%	15.1%	16.7%
Net income/ loss	113.2%	-59.2%	12.6%	-6.9%	15.7%	16.5%



BALANCE SHEET

All figures in EUR m	2012A	2013A	2014A	2015E	2016E	2017E
Assets						
Current assets, total	62.25	55.97	68.15	62.48	66.64	73.91
Cash and cash equivalents	14.57	5.85	10.12	11.92	9.24	12.02
Short-term investments	0.00	0.00	0.00	0.00	0.00	0.00
Receivables	12.38	7.91	11.52	8.20	9.62	10.50
Inventories	23.40	31.30	35.40	31.25	36.68	40.29
Other current assets	11.89	9.77	9.15	9.15	9.15	9.15
Non-current assets, total	49.37	71.51	82.05	81.58	80.68	80.10
Property, plant & equipment	1.09	1.71	2.41	2.24	1.53	1.10
Goodwill & other intangibles	47.15	54.35	53.56	53.26	53.07	52.92
Other assets	1.12	15.45	26.08	26.08	26.08	26.08
Total assets	111.62	127.48	150.20	144.07	147.33	154.01
Shareholders' equity & debt						
Current liabilities, total	30.30	27.62	28.64	22.48	22.76	37.65
Short-term debt	20.55	14.78	14.36	1.00	0.00	13.50
Accounts payable	5.40	7.44	7.21	7.39	8.67	9.87
Current provisions	2.37	2.29	3.82	3.82	3.82	3.82
Other current liabilities	1.97	3.11	3.26	10.28	10.28	10.46
Long-term liabilities, total	13.96	20.66	26.83	35.18	45.18	31.68
Long-term debt	12.71	17.06	23.36	31.71	41.71	28.21
Other liabilities	1.25	3.60	3.47	3.47	3.47	3.47
Minority interests	13.23	17.62	25.96	29.82	34.05	38.88
Shareholders' equity	54.13	61.57	68.77	56.59	45.33	45.80
Total consolidated equity and debt	111.62	127.48	150.20	144.07	147.33	154.01
Ratios						
Current ratio (x)	2.05	2.03	2.38	2.78	2.93	1.96
Quick ratio (x)	1.28	0.89	1.14	1.39	1.32	0.89
Equity ratio	60.3%	62.1%	63.1%	60.0%	53.9%	55.0%
Net gearing	34.5%	42.2%	40.1%	36.7%	71.6%	64.8%
Book value per share (€)	1.31	1.50	1.61	1.32	1.06	1.07
Net debt	19	26	28	21	32	30
Net debt/ EBITDA	0.82	1.83	2.17	1.69	2.25	1.83



CASH FLOW STATEMENT

All figures in EUR m	2012A	2013A	2014A	2015E	2016E	2017E
EBIT	21.88	12.48	10.91	10.60	12.20	14.24
Depreciation and amortisation	1.01	1.72	1.83	1.69	2.25	1.97
EBITDA	22.89	14.21	12.74	12.28	14.45	16.20
Changes in working capital	-13.03	-5.30	0.05	9.56	-5.57	-3.29
Other adjustments	-3.25	-13.36	-13.28	-2.73	-3.08	-3.61
Operating cash flow	6.61	-4.45	-0.49	19.11	5.79	9.30
CapEx	-1.18	-1.25	-1.08	-0.92	-1.08	-1.10
Investments in intangibles	0.00	0.00	-0.73	-0.23	-0.27	-0.28
Acquisitions/disposals of subsidiaries	0.27	-0.28	5.28	0.00	0.00	0.00
Cash flow from investing activities	-0.91	-1.52	3.47	-1.15	-1.35	-1.38
Free cash flow	5.43	-5.70	-2.29	17.96	4.44	7.92
Debt financing, net	10.72	-1.43	5.88	-11.00	-2.00	0.00
Equity financing, net	0.00	7.98	2.49	0.00	0.00	0.00
Other changes in cash	-4.04	-9.57	-1.81	-5.14	-5.14	-5.14
Cash flow from financing activities	6.68	-3.02	6.56	-16.14	-7.14	-5.14
Net cash flows	12.11	-8.72	4.26	1.83	-2.70	2.78
Cash, start of the year	2.46	14.57	5.85	10.12	11.94	9.24
Cash, end of the year	14.57	5.85	10.12	11.94	9.24	12.02
EBITDA/share (€)	0.56	0.35	0.30	0.29	0.34	0.38
Y-Y Growth						
Operating cash flow	806.1%	n.m.	n.m.	n.m.	-69.7%	60.6%
Free cash flow	4080.4%	n.m.	n.m.	n.m.	-75.3%	78.3%
EBITDA/share	92.3%	-37.9%	-13.8%	-3.6%	17.6%	12.2%

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...7	↓	↓	↓	↓
8	1 September 2014	€2.49	Buy	€6.10
9	2 December 2014	€2.36	Buy	€6.10
10	18 May 2015	€2.44	Buy	€5.00
11	Today	€2.02	Buy	€5.10

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ADD: Expected return between 0% and 25%

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