

MPH Mittelstaendische Pharma Holding AG

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

H1 2014 Results

RATING
BUY

PRICE TARGET
€6.10

Return Potential 144.8%
 Risk Rating High

POSITIVE EBIT CONTRIBUTION FROM THE BEAUTY AND LIFESTYLE SEGMENT

MPH Mittelstaendische Pharma Holding AG (MPH) published H1 2014 results on 29 August, which were in line with our expectations. Operating development during the reporting period was once more driven by the group's most important subsidiary HAEMATO AG. Guidance for the current fiscal year has been confirmed. MPH predicts that sales and profitability will increase due to favourable changes in the German legislation and the ramp-up of its beauty and lifestyle activities. Our updated DCF model yields an unchanged price target of EUR6.10. We reiterate our Buy rating.

Slightly increased profitability H1 2014 sales increased by 4.6% y/y to EUR117.6m (FBe: EUR116.3m; H1/13: EUR112.4m), of which EUR114.1m were attributable to subsidiary HAEMATO AG. Development of MPH's operating expenditures such as personnel costs of EUR3.1m (FBe: EUR3.0m; H1/13: EUR2.5m) was in line with our expectations. EBIT came in at EUR6.2m (FBe: EUR6.1m; H1/13: EUR5.7m), corresponding to an EBIT margin of 5.3% (FBe: 5.3%; H1/13: 5.1%). Non-HAEMATO AG activities contributed EUR0.6m to EBIT, indicating that the beauty and lifestyle segment's EBIT margin was 16.8% in H1 2014. Due to a lower than anticipated tax burden, profit for the period of EUR4.5m (FBe: EUR4.3m; H1/13: EUR4.2m) was better than we had expected.

Solid balance sheet Due mainly to the working capital investments (net working capital at the end of June: EUR36.3m; end FY13: EUR31.8m), operating cash flow was negative at EUR-2.8m (H1/13: EUR-1.7m). Despite the dividend payment of EUR4.3m during the first half of the current fiscal year, net cash flow for the period amounted to EUR4.9m (H1/13: EUR6.6m).

Cash by the end of June thus increased to EUR10.8m (end FY13: EUR5.9m). Cash and cash equivalents (including short-term investments) amounted to EUR22.4m (end FY13: EUR15.4m). Financial debt (short- and long-term) was EUR37.4m (end FY13: EUR31.8m) at the end of H1 2014.

(p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2011A	2012A	2013A	2014E	2015E	2016E
Revenue (€m)	145.50	205.71	226.84	236.14	258.11	283.66
Y-o-y growth	n.a.	41.4%	10.3%	4.1%	9.3%	9.9%
EBIT (€m)	10.63	21.88	12.50	14.75	17.75	21.01
EBIT margin	7.3%	10.6%	5.5%	6.2%	6.9%	7.4%
Net income (€m)	8.63	14.71	6.45	6.14	7.95	9.42
EPS (diluted) (€)	0.23	0.36	0.16	0.14	0.19	0.22
DPS (€)	0.20	0.22	0.11	0.10	0.13	0.15
FCF (€m)	0.13	5.43	-5.70	9.33	11.83	10.19
Net gearing	6.2%	34.5%	42.2%	52.8%	74.2%	109.8%
Liquid assets (€m)	2.46	14.57	5.85	4.16	0.69	3.31

RISKS

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

COMPANY PROFILE

MPH is a Berlin, Germany based healthcare company, specializing in the fields of pharmaceuticals, medical and patient care. The strategic focus of the group's activities lays within the therapeutic areas of chronic diseases and aesthetics. It is expected that these segments will gain further growth also due to the future development of the German healthcare market.

MARKET DATA

As of 29 Aug 2014

Closing Price € 2.49
 Shares outstanding 41.17m
 Market Capitalisation € 102.60m
 52-week Range € 2.18 / 3.30
 Avg. Volume (12 Months) 49,757

Multiples	2013A	2014E	2015E
P/E	16.5	17.3	13.3
EV/Sales	0.5	0.5	0.5
EV/EBIT	9.7	8.2	6.8
Div. Yield	4.4%	4.0%	5.2%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2014

Liquid Assets € 10.76m
 Current Assets € 69.06m
 Intangible Assets € 53.91m
 Total Assets € 147.15m
 Current Liabilities € 32.06m
 Shareholders' Equity € 65.96m

SHAREHOLDERS

Magnum AG 21.0%
 Free Float 79.0%



Taking into account the above-mentioned dividend payment, H1 2014's net profit and the sale of own shares during the first half of the current fiscal year, shareholders' equity by the end of June increased to EUR66.0m (end FY13: EUR61.6m). Total equity was EUR89.9m (end FY13: EUR79.2m), corresponding to an equity ratio of 61.1% (end FY13: 62.1%).

2014E guidance confirmed MPH predicts sales and profitability will increase during the current fiscal year due to changes in the German legislation (during the reporting period subsidiary HAEMATO AG benefited from the decreased mandatory discount; see our comment dated 28 November) and the ramp-up of its beauty and lifestyle activities.

Adjustments to our forecasts We have adjusted our forecasts for MPH for the group's H1 2014 development, an assumed lower MPH stake in subsidiary HAEMATO and our slightly adjusted HAEMATO forecasts (see our HAEMATO AG comment of 26 August). We remain conservative with regard to the positive effect associated with the reduction of the mandatory discount due to the uncertainties related to pricing by wholesalers and competitors. Changes to our forecasts are shown in table 2.

Our updated DCF model yields an unchanged price target of EUR6.10. Given the attractive dividend yield, the underlying sales growth and earnings base of subsidiary HAEMATO AG as well as the attractive growth opportunities in the beauty and lifestyle segment, we reiterate our Buy recommendation.

Table 1: Estimates vs. reported figures

All figures in €m	H1-14A	H1-14E	Delta	H1-13A	Delta
Sales	117.58	116.30	1.1%	112.38	4.6%
EBIT	6.24	6.12	2.0%	5.68	9.9%
margin	5.3%	5.3%	-	5.1%	-
Profit after tax	4.55	4.30	5.8%	4.23	7.5%
margin	3.9%	3.7%	-	3.8%	-

Source: First Berlin Equity Research, MPH Mittelstaendische Pharma Holding AG

Table 2: Changes to forecasts

All figures in €m	2014E			2015E			2016E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	236.15	236.14	0.0%	258.11	258.11	0.0%	283.66	283.66	0.0%
EBIT	14.44	14.75	2.1%	17.51	17.75	1.3%	20.84	21.01	0.8%
margin	6.1%	6.2%	-	6.8%	6.9%	-	7.3%	7.4%	-
Net income*	6.97	6.14	-11.8%	8.85	7.95	-10.1%	10.42	9.42	-9.6%
margin	2.9%	2.6%	-	3.4%	3.1%	-	3.7%	3.3%	-
EPS (in €, dilut.)*	0.16	0.14	-11.8%	0.21	0.19	-10.1%	0.24	0.22	-9.6%

* after minorities

Source: First Berlin Equity Research



Table 3: Valuation

DCF valuation model								
All figures in EUR m	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net sales	236.14	258.11	283.66	311.74	342.59	376.44	413.39	453.23
NOPLAT	10.59	12.68	15.16	16.55	17.99	19.46	21.23	23.42
+ depreciation & amortisation	1.73	1.84	1.43	1.55	1.56	1.55	1.52	1.49
Net operating cash flow	12.33	14.53	16.59	18.10	19.55	21.01	22.75	24.91
- total investments (CAPEX and WC)	-2.10	-1.83	-4.89	-5.30	-5.71	-6.13	-6.53	-6.87
Capital expenditures	-1.42	-1.29	-1.42	-1.45	-1.47	-1.49	-1.49	-1.47
Working capital	-0.68	-0.53	-3.48	-3.85	-4.23	-4.64	-5.05	-5.39
Free cash flows (FCF)	10.23	12.70	11.69	12.79	13.84	14.88	16.22	18.04
PV of FCF's	9.90	11.15	9.31	9.24	9.08	8.85	8.75	8.84
All figures in EURm								
PV of FCFs in explicit period	163.3							
PV of FCFs in terminal period	172.0							
Enterprise value (EV)	335.2							
+ Net cash / - net debt	-15.0							
+ Investments / minority interests	-57.2							
Shareholder value	263.0							
Fair value per share in EUR	6.10							
WACC								
WACC	10.2%							
Cost of equity	15.0%							
Pre-tax cost of debt	10.0%							
Tax rate	30.0%							
After-tax cost of debt	7.0%							
Share of equity capital	40.0%							
Share of debt capital	60.0%							
Fair value per share in EUR	6.10							

		Terminal growth rate						
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
WACC	6.2%	12.96	13.84	14.88	16.15	17.72	19.71	22.32
	7.2%	10.22	10.79	11.44	12.22	13.14	14.25	15.63
	8.2%	8.21	8.59	9.03	9.53	10.11	10.79	11.60
	9.2%	6.69	6.96	7.25	7.59	7.97	8.42	8.93
	10.2%	5.51	5.70	5.91	6.14	6.41	6.70	7.04
	11.2%	4.57	4.71	4.86	5.03	5.21	5.42	5.66
	12.2%	3.81	3.91	4.02	4.15	4.28	4.43	4.60
	13.2%	3.19	3.27	3.35	3.44	3.54	3.65	3.77

Source: First Berlin Equity Research

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...4	↓	↓	↓	↓
5	28 November 2013	€3.05	Buy	€6.10
6	22 May 2014	€3.02	Buy	€6.10
7	4 June 2014	€3.13	Buy	€6.10
8	Today	€2.49	Buy	€6.10

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STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance

BUY: Expected return greater than 25%

ADD: Expected return between 0% and 25%

REDUCE: Expected negative return between 0% and -15%

SELL: Expected negative return greater than -15%

Our risk ratings are Low, Medium, High and Speculative and are determined by ten factors: corporate governance, quality of earnings, management strength, balance sheet and financing risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, company size, free float and other company specific risks. These risk factors are incorporated into our valuation models and are therefore reflected in our price targets. Our models are available upon request to First Berlin clients.

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