

MPH Health Care AG

Germany / Healthcare
 Frankfurt
 Bloomberg: 93M1 GR
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Portfolio
 update

RATING
PRICE TARGET **BUY**
 € 67.00
 Return Potential 216.0%
 Risk Rating High

GOOD BUSINESS MOMENTUM IN Q1 FOR HOLDINGS

MPH's core holdings continue to operate unhampered by the pandemic. CR Capital announced a portfolio expansion with two green-tech companies that will support its home construction activities. M1 Kliniken enjoyed strong year end bookings across its beauty clinic network despite the Omicron storm sweeping across Europe. Meanwhile, Haemato AG (in which M1 holds a 68% stake) is girding for the pandemic with the recent addition of two point-of-care testing devices to its med-tech portfolio. In our view, portfolio news flow is supportive and should translate into NAV upside for MPH. We stick to our Buy rating but lower our price target to €67 (old: €75) after revamping our DCF model for M1 Kliniken.

CR Capital developments The investment holding is on a quest to build greener homes and has announced stakes in Solartec GmbH and Greentec GmbH. The former will supply solar PV modules to CR Capital's Terrabau GmbH. The home builder specializes in the fabrication of turn-key, solid-construction terraced and multi-family houses located in the exurbs of German metropolises. Greentec will supply green steel materials essential to green home construction. Both companies have recently started pilot projects and will play a key role in CR Capital's commitment to Environmental, Social, and Governance (ESG) guidelines and practices.

M1 Kliniken developments In December, the company reported that all specialist beauty centres were open for business and that November average daily bookings for the German clinic network were at record levels. This followed good 9M/21 results with treatments topping 84k in Q3 (+10% Y/Y; +2.4% Q/Q) and was a solid performance in a traditionally slow period, when people's summertime activities typically mean less crowded waiting rooms at the clinics. The Christmas holidays overlapped the weekends in 2021, and the extra days should also translate into peak bookings for the month. We thus expect a strong Q4/21. Omicron has not led to any operational issues thus far, and we do not expect any clinic closures. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020	2021E	2022E
Operating rev. (€m)	34.24	39.53	41.22	3.43	44.84	57.71
Y/Y growth	n.a.	0.2%	0.0%	-0.9%	12.1%	0.3%
EBIT (€m)	32.29	37.64	11.58	-71.02	41.50	53.29
EBT (€m)	32.1%	37.3%	11.0%	-71.5%	41.4%	53.2%
Net income (€m)	31.86	37.03	11.08	-70.38	40.57	52.12
EPS (diluted) (€)	7.44	8.65	2.59	-16.44	9.48	12.17
DPS (€)	2.00	2.00	0.00	0.00	0.00	1.60
NAVPS (€)	56.22	62.87	63.45	47.01	56.49	68.66
Net gearing	2.4%	4.8%	6.1%	1.7%	-0.9%	-4.0%
Liquid assets (€m)	8.29	1.08	2.10	4.23	5.58	14.96

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 23 Feb 2022

Closing Price	€ 21.20
Shares outstanding	4.28m
Market Capitalisation	€ 90.76m
52-week Range	€ 20.40 / 32.10
Avg. Volume (12 Months)	2,730

Multiples	2020	2021E	2022E
P/E	n.a.	2.2	1.7
EV/Sales	0.0	2.3	1.8
P/NAV	0.5	0.4	0.3
Div. Yield	0.0%	0.0%	7.5%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2021

Liquid Assets	€ 0.90m
Current Assets	€ 3.27m
Intangible Assets	€ 227.95m
Total Assets	€ 231.26m
Current Liabilities	€ 1.51m
Shareholders' Equity	€ 224.72m

SHAREHOLDERS

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



M1 reported in December that it was on track to hit its global year-end target of 47 beauty centres. This number includes new facilities in Aachen, Potsdam and Würzburg bringing the number of German locations to 34. A third Australian centre is also set to open in Brisbane in February, thus increasing the non-German footprint to 13 clinics.

Boosters for Haemato's med-tech portfolio M1 has a 68% stake in Haemato. In January, the specialty pharma company inked an agreement with a supplier of PCR point-of-care testing machines that can process samples on-site. The polymerase chain reaction (PCR) is regarded as the gold-standard in covid-19 testing and has been shown to be more reliable in detecting Omicron than antigen tests. The problem is the processing time, since samples normally have to be sent to labs for analysis. Haemato's real-time PoC equipment can process samples on-site and deliver results within 45 minutes since samples no longer have to be sent to labs for analysis.

Haemato has also added the Mini Dock to its PoC portfolio. The device is a cost-effective alternative to expensive PCR equipment and similar to a smartphone in terms of size and weight, while specificity is comparable to PCR testing.

The Mini Dock offers an alternative testing solution based on the same nucleic acid amplification (NAT) test method as PCR testing. However, amplification is conducted with the help of enzymes, instead of using heat. This speeds up the process time to ~15 min. and makes it significantly less expensive than a PCR lab analysis without compromising accuracy.

Haemato will sell these devices into its vast network of pharmacies and clinics (>7k) and is already delivering the first machines. Queues at testing centres exploded across Germany in Q1. We believe testing demand will remain strong into the spring, and that Haemato has an excellent opportunity to capitalise on this window of demand, thanks to its ready-made infrastructure, sales force, and customer base.



VALUATION MODEL

We use a sum-of-the-parts methodology to value MPH. The model is driven by the projected fair values of M1 Kliniken and CR Capital, which we have valued separately on a DCF and discounted dividend basis (overleaf). Shareholdings reflect six month 2021 reporting. We lower our target price for MPH to €67 (old: €75) to reflect updates to our updated DCF model for M1 Kliniken (overleaf). Our rating remains Buy.

Table 1: SotP model

Unit	Shareholdings '000	SO '000	MPH stake %	Share price* €	Fair value per share ¹ €	Projected value €m
M1 Kliniken AG	12,310	19,643	63%	7.1	14.0	172
CR Capital Real Estate AG	2,192	3,811	58%	31.5	59.0	129
Projected value of listed holdings						302

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

	Unit	Value
Fair value of listed portfolio	€m	302
Non-listed investment (book value)	€m	24
Net debt	€m	3
Present value of holding costs	€m	-36
Total fair value	€m	286
MPH shares outstanding	m	4
Fair value per share	€	67

¹ First Berlin Equity Research covers CR Capital (Buy/ PT:€69); M1 (Buy/ PT:€4)

Table 2: SotP changes

	Unit	New	Old	Variance
Fair value of listed portfolio	€m	302	336	-10%
Non-listed investment (book value)	€m	24	24	0%
Net debt	€m	3	3	0%
Present value of holding costs	€m	-35	-35	0%
Total fair value	€m	287	321	-11%
MPH shares outstanding	m	4	4	0%
Fair value per share	€	67	75	-11%



M1 Kliniken We recently initiated coverage of M1 Kliniken AG with a Buy rating and €14 price target (old fair value per share: €17; not rated). After discussing expansion plans and potential pandemic headwinds with M1 management, we have dialled back some of our growth assumptions and adjusted the discount rate resulting in the more conservative fair value.

That said, prospects remain excellent for M1. The company operates a disruptive network of branded clinics for cosmetic treatments. Now the beauty and lifestyle specialist is accelerating the international expansion of its clinic network and wants to double the number of beauty centres by YE24 (currently ~47). A \$51bn addressable beauty market underpins our optimism, and we believe M1's operational upside is currently underappreciated by the market.

Table 3: M1 Kliniken DCF model

All figures in EUR '000	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Sales	313,801	353,937	424,301	465,621	506,846	541,720	566,695	585,733
NOPLAT	8,216	12,041	15,054	18,486	21,745	23,158	27,555	31,065
(+) depreciation & amortisation	5,281	6,384	7,791	9,281	9,746	10,636	9,460	8,729
Net operating cash flow	13,496	18,425	22,845	27,766	31,491	33,793	37,014	39,795
(-) Total investments (CAPEX and WC)	-2,007	-13,232	-18,818	-15,848	-15,722	-15,491	-12,319	-11,065
(-) Capital expenditures	-6,804	-8,141	-9,395	-10,426	-10,403	-10,935	-9,205	-8,667
(-) Working capital	4,797	-5,090	-9,423	-5,421	-5,319	-4,557	-3,113	-2,399
Free cash flows (FCF)	11,489	5,193	4,026	11,919	15,769	18,302	24,696	28,729
PV of FCFs	11,489	4,782	3,396	9,208	11,158	11,862	14,661	15,623

All figures in EUR '000		Terminal EBIT margin							
		6.2%	6.3%	6.8%	7.3%	7.8%	8.3%	8.8%	9.3%
PV of FCFs in explicit period	113,542								
PV of FCFs in terminal period	220,242	21.79	24.01	26.23	28.44	30.66	32.88	35.10	
Enterprise value (EV)	333,784	16.79	18.44	20.08	21.73	23.37	25.02	26.67	
+ Net cash / - net debt	-17,360	13.41	14.68	15.95	17.22	18.49	19.76	21.03	
+ Investments / minority interests	-41,497	10.98	11.98	12.99	14.00	15.00	16.01	17.02	
Shareholder value	274,926	9.14	9.96	10.77	11.58	12.40	13.21	14.03	
Fair value per share in EUR	14.00	7.71	8.38	9.05	9.72	10.39	11.06	11.72	

		Terminal growth rate							
		6.2%	6.3%	6.8%	7.3%	7.8%	8.3%	8.8%	9.3%
Cost of equity	9.9%	21.64	23.47	25.69	28.44	31.94	36.55	42.87	
Pre-tax cost of debt	4.0%	17.40	18.61	20.03	21.73	23.79	26.34	29.59	
Tax rate	25.0%	14.29	15.13	16.10	17.22	18.54	20.12	22.03	
After-tax cost of debt	3.0%	11.92	12.53	13.21	14.00	14.90	15.94	17.17	
Share of equity capital	90.0%	10.06	10.52	11.02	11.58	12.22	12.95	13.79	
Share of debt capital	10.0%	8.57	8.92	9.30	9.72	10.18	10.71	11.30	
WACC	9.2%	7.35	7.62	7.91	8.23	8.58	8.97	9.41	

*Please note our model runs through 2030 and we have only shown the abbreviated version for formatting purposes

CR Capital Solartec and Greentec are both in the early stages of ramping up operations. Our targets for CR Capital thus remain unchanged until we have greater visibility on the new portfolio additions. We still look for Terrabau GmbH to be the earnings workhorse for the investment holding company this year.

Table 4: CR Capital discounted dividend model

	Unit	2021E	2022E	2023E	2024E	2025E	2026E	TV
EPS	€	18.0	20.8	24.0	27.2	29.9	31.3	33.2
Payout ratio	%	14	14	14	14	14	14	14
Dividend (DPS)	€	2.5	2.9	3.4	3.9	4.2	4.4	4.6
Y/Y	%	66.4	18.2	14.9	13.6	8.6	4.9	-
NPV	€	2.5	2.7	2.9	3.0	3.0	2.9	37.2
Terminal growth rate	%	2.0						
Discount factor	%	9.0						
NPV of dividends	€	22						
TV	€	37						
Fair value per share	€	59						

*Our model runs through 2028 and we have only shown the abbreviated version for formatting purposes



INCOME STATEMENT

All figures in EUR '000	2017	2018	2019	2020	2021E	2022E
Fair value gains on financial assets	25,583	31,019	33,747	0	39,391	48,247
Income from participations	848	170	780	0	400	400
Investment income	7,380	8,317	6,651	3,385	4,998	9,014
Other operating income	425	28	43	48	50	53
Operating revenue	34,236	39,534	41,221	3,433	44,839	57,714
SG&A	-1,177	-1,146	-934	-841	-883	-927
Other OpEx	-360	-703	-330	-417	-438	-460
Net loss from investments	0	0	-1,164	-12,453	0	0
Fair value loss on financial assets	-392	0	-27,207	-60,720	-2,000	-3,000
Depreciation & amortisation	-21	-45	-11	-17	-14	-36
EBIT	32,286	37,640	11,575	-71,015	41,505	53,291
Interest expense	-499	-507	-540	-510	-108	-108
Interest income	332	209	15	75	0	0
EBT	32,119	37,342	11,050	-71,450	41,397	53,183
Income taxes	-264	-317	27	1,071	-828	-1,064
Net income / loss	31,855	37,025	11,076	-70,379	40,569	52,119
Minority interests	0	0	0	0	0	0
Net income after minorities	31,855	37,025	11,076	-70,379	40,569	52,119
EPS (in €)	7.44	8.65	2.59	-16.44	9.48	12.17

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



BALANCE SHEET

All figures in EUR '000	2017	2018	2019	2020	2021E	2022E
Assets						
Current assets, total	8,288	1,152	2,237	4,318	5,677	15,058
Cash and equivalents	1,239	1,018	1,797	369	1,642	10,935
ST financial assets	7,046	64	305	3,865	3,942	4,021
Trade receivables	0	3	4	0	0	0
Inventories	0	7	0	0	0	0
Other ST assets	3	60	131	84	92	102
Non-current assets, total	249,069	285,101	290,908	206,390	241,298	284,048
Property, plant & equipment	4	2	56	43	61	64
Goodwill & other intangibles	18	1	1	0	0	0
Financial assets	249,047	285,098	290,851	206,346	241,237	283,984
Total assets	257,357	286,253	293,144	210,707	246,975	299,106
Shareholders' equity & debt						
Current liabilities, total	229	327	15,724	4,742	432	435
Trade payables	37	28	24	36	36	36
Provisions	70	99	91	74	76	79
Other ST financial liabilities	90	87	15,578	4,613	300	300
Other current liabilities	32	113	31	19	20	21
Long-term liabilities, total	16,483	16,798	5,779	4,703	4,712	4,720
Long-term debt	14,000	14,000	3,000	3,000	3,000	3,000
Deferred tax liabilities & others	2,483	2,798	2,779	1,703	1,712	1,720
Shareholders' equity	240,665	269,127	271,641	201,262	241,831	293,950
Minority interests	0	0	0	0	0	0
Total equity	240,665	269,128	271,641	201,262	241,831	293,950
Total consolidated equity and debt	257,377	286,253	293,144	210,707	246,975	299,106
NAV	240,665	269,128	271,641	201,262	241,831	293,950
NAVPS (€)	56.2	62.9	63.5	47.0	56.5	68.7



CASH FLOW STATEMENT

All figures in EUR '000	2017	2018	2019	2020	2021E	2022E
Net income	31,855	37,025	11,076	-70,379	40,569	52,119
Depreciation and amortisation	21	45	11	17	14	36
Revaluation gains	-25,946	-30,360	-6,540	60,720	-37,391	-45,247
Changes in working capital	2,485	7,058	-93	-3,581	-74	-76
Other adjustments	-457	-830	384	12,453	0	0
Net financial result	167	299	526	510	108	108
Tax expense	264	317	-26	-1,071	828	1,064
Operating cash flow	8,389	13,554	5,337	-1,331	4,053	8,003
Investment income	-7,380	-8,317	-6,651	-1,500	-4,998	-9,014
Tax paid	0	-41	-38	41	-828	-1,064
Net operating cash flow	1,009	5,196	-1,352	-2,790	-1,772	-2,074
CapEx	-11	-11	-52	-4	-32	-39
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	11,332	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	4,998	9,014
Interest income	332	208	15	0	0	0
Cash flow from investing	4,883	3,653	6,742	12,828	7,466	11,475
Equity inflow, net	0	0	-1	-4	0	0
Debt inflow, net	0	0	4,492	-11,000	-4,313	0
Dividend paid to shareholders	-5,137	-8,563	-8,562	0	0	0
Interest expense	-499	-507	-540	-462	-108	-108
Cash flow from financing	-5,636	-9,070	-4,611	-11,466	-4,421	-108
Net cash flows	256	-221	779	-1,428	1,273	9,293
Cash, start of the year	983	1,239	1,018	1,797	369	1,642
Cash, end of the year	1,239	1,018	1,797	369	1,642	10,935
Free cash flow (FCF)	5,892	8,849	5,390	10,038	5,694	9,401
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%	86.2%	-43.3%	65.1%

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PRICE TARGET DATES

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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.

RISK ASSESSMENT

The First Berlin categories for risk assessment are low, average, high and speculative. They are determined by ten factors: Corporate governance, quality of earnings, management strength, balance sheet and financial risk, competitive position, standard of financial disclosure, regulatory and political uncertainty, strength of brandname, market capitalisation and free float. These risk factors are incorporated into the First Berlin valuation models and are thus included in the target prices. First Berlin customers may request the models.

RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	29 October 2012	€24.55	Buy	€55.00
2...17	↓	↓	↓	↓
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	6 May 2021	€27.40	Buy	€75.00
24	11 June 2021	€28.50	Buy	€75.00
25	20 September 2021	€23.30	Buy	€75.00
26	Today	€21.20	Buy	€67.00

INVESTMENT HORIZON

Unless otherwise stated in the financial analysis, the ratings refer to an investment period of twelve months.

UPDATES

At the time of publication of this financial analysis it is not certain whether, when and on what occasion an update will be provided. In general First Berlin strives to review the financial analysis for its topicality and, if required, to update it in a very timely manner in connection with the reporting obligations of the analysed company or on the occasion of ad hoc notifications.

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Legally required information regarding

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

can be accessed through the following internet link: <https://firstberlin.com/disclaimer-english-link/>

SUPERVISORY AUTHORITY: Bundesanstalt für Finanzdienstleistungsaufsicht (German Federal Financial Supervisory Authority) [BaFin], Graurheindorferstraße 108, 53117 Bonn and Marie-Curie-Straße 24-28, 60439 Frankfurt am Main

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