

MPH Health Care AG

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

Update

RATING	BUY
PRICE TARGET	€ 6.90
Return Potential	94.9%
Risk Rating	High

PORTFOLIO VALUE TOPS €227M AT Q3 JUNCTURE

MPH Health Care recently reported KPIs for the nine month period. The value of the portfolio increased 6.7% Q/Q to €227m and is up 3.1% YTD. The gains have been driven chiefly by the strong share price development of M1 Kliniken AG. The lifestyle and beauty treatment specialist had a particularly strong nine month business development, while HAEMATO AG looks for a second half pickup in sales after a sluggish H1/17, and CR Capital is now primed to pay its first dividend this year. Our updated SOTP model reflects the upgraded outlook for M1. We maintain our Buy rating and raise our price target to €6.90 (old: €5.80).

Equity ratio climbs 93% at the nine month mark MPH reported equity of €220m for the nine month period. This compares to €207m at the end of H1 and corresponds to a 6.3% Q/Q increase. On a nine month basis, equity is up 2.8% YTD (FY/16: €214m). MPH distributed a €0.12 per share dividend amounting to €5.1m to shareholders in June. Financial assets remain the largest item on the balance sheet and totalled €227m at the end of September reflecting the developments of the core holdings. The company exited H1 with liquid funds of €6.3m. Reported NAVPS totalled €5.29 corresponding to a 49% premium to the current share price.

Six month reporting shows modest decline in pro-forma top-line MPH reports as an investment entity according to IFRS 10. Thus, the results of its primary holdings are no longer consolidated. On a pro-forma basis, revenue for the three holdings slid some -4.6% Y/Y to €161m. This stems mainly from the decline in revenue generated by CR Capital (H1/17: €0.3m vs H1/16: €8.4m) which benefited in the prior year period from the sale of two properties. This year CRC's revenue was mostly limited to initial unit sales at its Leipzig development with the first major handovers in the coming months. M1 Kliniken booked 20% Y/Y growth for the period due to the rising number of clinics, while HAEMATO sales dipped -2.4% Y/Y vs the exceptional top line booked in H1/16. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2014	2015	2016	2017E	2018E	2019E
Pro-forma Rev. (€m) ¹	219.25	262.89	329.07	345.34	394.33	447.59
Y-o-y growth	-3.3%	19.9%	25.2%	4.9%	14.2%	13.5%
EBIT (€m)	10.92	13.15	7.89	6.09	6.07	6.06
EBT (€m)	9.3	87.3	81.2	27.9	28.0	24.2
Net income (€m)	8.45	84.10	80.06	27.01	27.12	23.35
EPS (diluted) (€)	0.20	1.96	1.87	0.63	0.63	0.55
DPS (€)	0.19	0.12	0.12	0.12	0.12	0.12
NAV (€m)	94.73	139.02	213.95	235.82	257.80	275.91
Net gearing	29.1%	6.8%	1.7%	1.6%	1.6%	1.6%
Liquid assets (€m)	17.70	0.53	10.45	10.17	9.87	9.45

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

¹ We provide pro-forma revenue of M1 Beauty, 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 AG is a Berlin based management holding company. The strategic focus is the purchase and further development of companies positioned chiefly in growth segments of the healthcare market. The aim is to generate profitable growth through active development and create value in the portfolio companies and MPH AG.

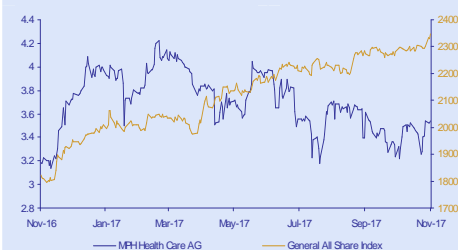
MARKET DATA

As of 22 Nov 2017

Closing Price	€ 3.54
Shares outstanding	42.81m
Market Capitalisation	€ 151.56m
52-week Range	€ 3.14 / 4.22
Avg. Volume (12 Months)	45,690

Multiples	2016	2017E	2018E
P/E	1.9	5.6	5.6
EV/Sales	2.0	5.9	5.9
EV/EBT	0.7	0.6	0.6
Div. Yield	3.4%	3.4%	3.5%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2017

Liquid Assets	€ 6.34m
Current Assets	€ 15.65m
Financial Assets	€ 212.47m
Total Assets	€ 228.18m
Current Liabilities	€ 5.52m
Shareholders' Equity	€ 206.61m

SHAREHOLDERS

Magnum	60.0%
Argenta Asset Mngt	2.5%
Baring Fund Managers	1.9%
Free Float	35.6%



PORTFOLIO UPDATE

HAEMATO - Robust platform for parallel import business We like HAEMATO for its well positioned parallel import operations, which account for some 90% of its top line with generics encompassing the balance. We recently had an opportunity to visit company operations in Berlin-Schönefeld and were impressed with the production and distribution facilities. The sourcing and distribution of pharmaceuticals is an intricate process entailing critical steps from localisation and repackaging of imported products to fulfilment.

In our meeting with management, we learned that HAEMATO should be able to begin selling its first branded HA-based products in 2018 pending CE Marking (Conformité Européenne). We understood the application is roughly half way through the process, and it is still too early to quantify potential unit sales. We expect initial volumes to be modest relative to parallel import revenue. However, this product's high gross margin will immediately have a significant impact on profitability at the EBIT level.

M1 boost financial firepower to accelerate growth The company specialises in lifestyle beauty treatments that include a wide range of cosmetic and reconstructive surgical procedures and aesthetic medicine. Beauty-lifestyle services are becoming more and more popular supported by greater prosperity and hence the ability to afford vanity treatments.

M1 recently completed a cap hike issuing 1.5m new shares at €11 for €16.5m in gross proceeds. The company aims to strengthen its position as a top healthcare provider in Germany by expanding its clinic network. M1 invested €2m in a building in Essen that will serve as a new clinic and add significant capacity. Management also recently hinted it is in the process of setting up a new outpatient clinic in Leipzig. The company is also aggressively training new staff to add surgical capacity and keep pace with market demand.

CR Capital – Market dynamics support positive outlook Meanwhile, 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 in German hubs and secondary locations (B-cities). We expect this environment to persist over the mid-term, which should provide good opportunities for CR Capital.

CR Capital is currently developing a €150m pipeline in Leipzig and has sold initial units from its Schkeuditz project. Saxony's largest city has been touted by *The New York Times* and *The Guardian* as the next Berlin, drawing international attention to the city with its thriving creative scene, green spaces and quality of living. The hype is supported by strong market dynamics including population and economic growth. We look for the first handovers in the months ahead.



M1 KLINIKEN SIX MONTH RESULTS

Sales rose some 20% Y/Y to €22.3m owing to the aggressive expansion of clinics across Germany, which numbered 13 at the end of June 2017. Substantial economies of scale allowed M1 to boost its operating margin some 220 basis points Y/Y to 18.7% translating to EBIT of €4.2m for the six month period.

Table 1: M1 Kliniken P&L highlights

All figures in EUR '000	H1/17	H1/17E	% delta	H1/16	% delta
Revenue	22,257	22,000	1.2%	18,498	20.3%
EBIT	4,157	3,300	26.0%	3,046	36.5%
Margin (%)	18.7%	15.0%	-	16.5%	-
Net Income	3,688	2,900	27.2%	2,893	27.5%
Margin (%)	16.6%	13.2%	-	15.6%	-

Source: First Berlin Equity Research; Company

M1 reported a cash position of €3.5m (FY/16: €5.8m). Inventories decreased slightly to €1.3m (FY/16: €1.4m). Tangible assets increased to €2.8m from €1.0m in FY/16, mainly as a result of the purchase of the building in Essen. Net debt, including the €5.2m participation certificate, totalled €16.3 at the end of H1. Equity declined slightly to €29.4m (FY/16: €30.3m) following the €4.5m dividend payout, but the equity ratio remained strong at 92% (FY/16: 94%).

Table 2: M1 Kliniken balance sheet highlights

All figures in EUR '000	H1/17	2016	Delta
Cash	3,472	5,812	-40.3%
Financial debt (short- and long-term)	0	0	-
Net debt	-3,472	-5,812	-40.3%
Total assets	32,134	32,186	-0.2%
Shareholders' equity	29,445	30,257	-2.7%
Equity ratio	91.6%	94.0%	-

Source: First Berlin Equity Research; Company

In May, the company acquired a 2,000 square metre building in the centre of Essen, which has the potential to nearly double the surgical capacity available in the Berlin-Köpenick clinic. Management are thus confident about future growth prospects and reiterated guidance of 20% sales growth for 2017.



HAEMATO SIX MONTH RESULTS

Six month results were lower than expected due to lower top line growth. Revenue slid 2.4% Y/Y but missed our target by some 13%. We attribute some of this to the optics resulting from the exceptional results booked in 2016. The strong momentum which we had expected for this year did not materialise, suggesting last year was boosted by the Italian Black Swan effects in 2015. Two years ago the regulatory authorities temporarily gated parallel import distribution channels (see report of 16 April 2015). That said, growth has traditionally been lumpy with spurts followed by flat performance. We therefore believe it makes more sense to evaluate growth on an annual basis rather than through a six month or quarterly lens. Despite the disappointing growth, we do not believe this is an operational issue, and we look for growth to resume in H2.

Table 3: HAEMATO P&L highlights

All figures in EUR '000	H1/17	H1/17E	% delta	H1/16	% delta
Revenue	138,814	160,874	-13.7%	142,274	-2.4%
Gross profit	9,188	11,100	-17.2%	9,780	-6.1%
Margin (%)	6.6%	6.9%	-	6.9%	-
EBIT	3,182	5,783	-45.0%	5,856	-45.7%
Margin (%)	2.3%	3.6%	-	4.1%	-
Net income	2,164	4,652	-53.5%	4,415	-51.0%
EPS diluted (€)	0.10	0.22	-52.7%	0.21	-51.0%

Source: First Berlin Equity Research, HAEMATO

Gross profit for the period amounted to €9.2m thus falling well short of our €11.2m target owing predominantly to the top line miss. HAEMATO sources pharmaceuticals for its parallel import business from a variety of regions, which can lead to price swings when supply is short. Moreover, HAEMATO continues to expand its product offering (currently over 800 medications), and each new pharmaceutical requires an import approval that adds to the direct costs.

Due largely to the lower gross profit and other operating income, EBIT fell to €3.2m for the period (H1/16: €5.9m) equating to a 2.3% margin (H1/16: 4.1%). The net financial result amounted to €0.5m (H1/16: €0.4m). HAEMATO reported net income of €2.2m vs €4.4m in the prior year corresponding to EPS of €0.10 (H1/16: €0.21).

Table 4: HAEMATO Balance sheet highlights

All figures in EUR '000	H1/17	2016	Delta
Cash	4,938	9,790	-49.6%
Short-term investments	2,859	2,813	1.6%
Financial debt (short- and long-term)	25,463	26,120	-2.5%
Net debt	20,525	16,331	25.7%
Total assets	119,761	116,774	2.6%
Shareholders' equity	66,108	63,091	4.8%
Equity ratio	55.2%	54.0%	-

Source: First Berlin Equity Research, HAEMATO

In early June, the company placed 1,201,102 new shares from its authorised capital at €6.20 per share. Consequently, the share capital increased to 21.98m shares (old: 20.78m). Gross proceeds of some €7.4m strengthened the balance sheet and will facilitate the growth strategy including expansion into branded medical products. Shareholders' equity improved to €66.1m (2016: €63.1m) following the cap hike. The equity ratio edged higher to 55% vs 54% at year end 2016. The company has also extended its largest credit line until 2020 / 2021, giving the company greater financial flexibility. We thus see the company adequately financed for the next operational stepping stones.



CR CAPITAL SIX MONTH RESULTS

H1 results reflect unit sales The top line amounted to €0.3m stemming chiefly from Schkeuditz unit sales. This is well off the prior year figure of €8.4m, which benefited from the sale of two properties in the portfolio (Griegstraße 2 and Lilienthalstraße) for some €8.1m. EBIT totalled €1.8m, thanks largely to €1.7m in other income for the period. We expect a pick up in H2. The company hinted at brisk sales from the 96 terrace homes under construction with the initial handovers expected in the coming months.

Schkeuditz construction progressing Core project development activities are currently centred on the Schkeuditz project in Leipzig. After several early stage delays typical for project development activities, the company broke ground in April. We believe CR Capital will hand over the first completed flats in the coming months and look for this to generate some €20m in revenue with good profitability, given excellent property market fundamentals pervasive in German hub cities. The Leipzig construction pipeline has a total volume of €150m, which we expect CR Capital to realise over the next five years providing excellent visibility.

Table 5: CR Capital P&L highlights

All figures in EUR '000	H1/17	H1/17E	% delta	H1/16	% delta
Revenue	312	462	-32.5%	8,439	-96.3%
EBIT	974	620	57.1%	-414	-
Margin (%)	312.2%	134.2%	-	n.a.	-
Net Income	1,106	745	48.5%	173	539.3%
Margin (%)	354.5%	161.3%	-	2.1%	-

Source: First Berlin Equity Research, CR Capital

CR Capital ended the period with total assets of €28.2m compared to €27.4m at the end of 2016. The increase stems primarily from the planned property disposals. Investment properties decreased from €9.2m in 2016 to €6.8m at the end of H1. Thanks to the positive net result, shareholders' equity increased to €23.7m allowing the equity ratio to climb to 84% (FY15: 83%). CR Capital also ended the period with a net debt position of €0.4m.

Table 6: CR Capital balance sheet highlights

All figures in EUR '000	H1/17	2016	Delta
Cash	1,866	5,441	-65.7%
Financial debt (short- and long-term)	2,254	2,209	-
Net debt	388	-3,232	-112.0%
Total assets	28,174	27,379	2.9%
Shareholders' equity	23,741	22,705	4.6%
Equity ratio	84.3%	82.9%	-

Source: First Berlin Equity Research, CR Capital

In October, the company conducted a 10:1 reverse share split reducing its share capital from €18,783,778 to €1,878,377. The capital reduction clears the way for the company to distribute a dividend to shareholders. We expect CR Capital to make a dividend payment of €1 per share for 2017. CR Capital also recently announced the acquisition of the Berlin based KENT Immobilienmanagement GmbH, which manages over 2,200 residential and commercial units in the Berlin, Potsdam, and Leipzig areas. This extends the company's value chain into the service channel and should help smooth out the performance of the core project development operations.



VALUATION

We use to a sum-of-the-parts methodology to value MPH. In our model, HAEMATO, M1 Kliniken, and CR Capital are each valued separately on a DCF basis. Based on the current stakes, we derive a fair value of €319m for the listed holdings, which also reflects the new price targets for M1 and HAEMATO.

First Berlin recently upgraded (see note of 1 November) the M1 price target to €16.50 (old: €10.80) on its strong H1 performance and improved outlook. We also downgraded the HAEMATO price target in our 4 October note to €7.40 (old: €8.40) on the weaker than expected H1 performance.

We add the book value of the non-listed holdings to this figure and subtract the H1/17 net debt and holding costs. Given the 42.8m shares outstanding (SO), we now see fair value for MPH at €6.90 per share (old: €5.80) corresponding to a Buy rating.

in € '000	Shareholdings	SO	MPH stake	Share price	Fair value ¹	Projected value
HAEMATO AG	11,012	21,980	50.1%	6.44	7.30	80,388
M1 Kliniken AG	12,505	16,500	75.8%	9.94	16.50	206,333
CR Capital Real Estate AG	1,151	1,878	61.3%	1.89	28.00	32,220
Projected value of listed holdings						318,940

Fair value of listed portfolio	318,940
Non-listed investment (book value)	4,484
Net debt (H1/17)	12,950
Present value of holding costs	-15,443
Total fair value	295,030
MPH Shares outstanding	42,814
Fair value per share (€)	6.89

¹ First Berlin Equity Research currently covers HAEMATO AG (Buy / PT EUR7.40), M1 Kliniken AG (Buy/ PT EUR16.50) and CR Capital (Buy / PT: EUR28)



INCOME STATEMENT

All figures in EUR '000	2014	2015	2016	2017E	2018E
Revenues	219,249	262,887	47	50	50
Change in inventories	-27	-3,720	0	0	0
Cost of goods sold	-197,433	-231,703	17	-10	-10
Personnel expenses	-6,479	-8,326	-559	-567	-576
Other OpEx	-8,006	-10,771	-432	-438	-445
Other income	5,442	9,978	8,843	6,870	6,870
Depreciation & amortisation	-1,829	-5,193	-24	0	0
Operating income (EBIT)	10,917	13,152	7,892	5,904	5,889
Net financial result	-1,604	-2,001	-445	-420	-420
Other financial result	0	7,860	7,482	0	0
Depreciation of financial assets	0	-6,417	-5,995	0	0
Revaluation result	0	74,707	72,220	22,191	22,316
Pre-tax income (EBT)	9,313	87,301	81,154	27,675	27,784
Income taxes	-860	-3,200	-1,090	-827	-824
Net income / loss	8,453	84,101	80,064	26,848	26,960
Minority interests	3,503	1,513	0	0	0
Net income after minorities	4,950	82,588	80,064	26,848	26,960
EPS (in €)	0.20	1.96	1.87	0.63	0.63

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



BALANCE SHEET

All figures in EUR '000	2014	2015	2016	2017E	2018E
Assets					
Current assets, total	68,150	685	10,452	10,010	9,549
Cash and equivalents	10,117	528	983	10,010	9,549
ST financial assets	7,581	0	9,466	0	0
Trade receivables	11,523	8	0	0	0
Inventories	35,401	0	0	0	0
Other ST assets	3,528	149	3	0	0
Non-current assets, total	82,051	150,419	219,878	242,037	264,343
Property, plant & equipment	2,406	14	6	6	6
Goodwill & other intangibles	53,562	24	26	26	26
Investment properties	13,436	0	0	0	0
Financial assets	12,371	150,360	219,824	242,005	264,311
Deferred taxes	276	21	22	0	0
Total assets	150,201	151,104	230,330	252,047	273,893
Shareholders' equity & debt					
Current liabilities, total	28,645	967	165	161	173
Trade payables	7,210	638	15	0	0
ST debt	14,359	60	0	0	0
Provisions	3,820	54	42	43	45
Other ST financial liabilities	510	205	87	96	105
Other current liabilities	2,746	10	21	22	23
Long-term liabilities, total	26,826	11,117	16,217	16,228	16,239
Long-term debt	23,356	9,990	14,000	14,000	14,000
LT provisions	27	0	0	0	0
Deferred tax liabilities	3,443	1,127	2,217	2,228	2,239
Shareholders' equity	68,771	139,020	213,948	235,658	257,480
Minority interests	25,959	0	0	0	0
Total equity	94,730	139,020	213,948	235,658	257,480
Total consolidated equity and debt	150,201	151,104	230,330	252,047	273,893

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	2017E	2018E
Pre-tax income	9,308	87,279	81,154	27,675	27,784
Depreciation and amortisation	1,829	10,896	6,020	0	0
Revaluation gains	-4,953	-81,551	-81,438	-12,724	-22,316
Changes in working capital	-9	-533	-13,606	31	23
Other adjustments	-5,055	-15,342	396	10	10
Net financial result	1,604	2,000	445	420	420
Operating cash flow	2,724	2,749	-7,029	15,412	5,922
Interest income	158	223	2,922	0	0
Interest expense paid	-1,779	-2,223	-660	-420	-420
Tax paid	-1,594	-406	0	-827	-824
Net operating cash flow	-491	343	-4,767	14,166	4,677
CapEx	-9,913	-26,814	-2,006	0	0
Proceeds from disposal of fixed assets	13,387	18,623	7,570	0	0
Cash flow from investing	3,474	-8,191	5,564	0	0
Free cash flow (FCF)	2,983	-7,848	797	14,166	4,677
Equity inflow, net	2,485	3,652	0	0	0
Debt inflow, net	5,880	6,741	3,950	0	0
Dividend paid to shareholders	-7,086	-8,223	-4,293	-5,138	-5,138
Cash flow from financing	1,279	2,170	-343	-5,138	-5,138
Net cash flows	4,262	-9,590	454	9,028	-460
Cash, start of the year	5,855	10,117	528	982	10,010
Cash, end of the year	10,117	528	982	10,010	9,549
EBITDA/share (in €)	0.30	0.56	0.32	0.14	0.14
Y-Y Growth					
Operating cash flow	n.m.	n.m.	n.m.	n.m.	-67.0%
Free cash flow	n.m.	n.m.	n.m.	1677.4%	-67.0%

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...13	↓	↓	↓	↓
14	7 December 2016	€3.22	Buy	€5.20
15	20 March 2017	€4.08	Buy	€5.50
16	30 May 2017	€3.62	Buy	€5.80
17	Today	€3.54	Buy	€6.90

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INFORMATION PURSUANT TO SECTION 34B OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO REGULATION (EU) NO 596/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF APRIL 16, 2014, ON MARKET ABUSE (MARKET ABUSE REGULATION) AND TO THE GERMAN ORDINANCE ON THE ANALYSIS OF FINANCIAL INSTRUMENTS [FINANV]

First Berlin Equity Research GmbH (hereinafter referred to as: "First Berlin") prepares financial analyses while taking the relevant regulatory provisions, in particular the German Securities Trading Act [WpHG], Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) and the German Ordinance on the Analysis of Financial Instruments [FinAnV] into consideration. In the following First Berlin provides investors with information about the statutory provisions that are to be observed in the preparation of financial analyses.

CONFLICTS OF INTEREST

In accordance with Section 34b Paragraph 1 of the German Securities Trading Act [WpHG] and Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014, on market abuse (market abuse regulation) financial analyses may only be passed on or publicly distributed if circumstances or relations which may cause conflicts of interest among the authors, the legal entities responsible for such preparation or companies associated with them are disclosed along with the financial analysis.

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- The author, First Berlin, or a company associated with First Berlin provided investment banking or consulting services for the analysed company within the past twelve months for which remuneration was or was to be paid;
- The author, First Berlin, or a company associated with First Berlin reached an agreement with the analysed company for preparation of a financial analysis for which remuneration is owed;
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PRICE TARGET DATES

Unless otherwise indicated, current prices refer to the closing prices of the previous trading day.

AGREEMENT WITH THE ANALYSED COMPANY AND MAINTENANCE OF OBJECTIVITY

The present financial analysis is based on the author's own knowledge and research. The author prepared this study without any direct or indirect influence exerted on the part of the analysed company. Parts of the financial analysis were possibly provided to the analysed company prior to publication in order to avoid inaccuracies in the representation of facts. However, no substantial changes were made at the request of the analysed company following any such provision.

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:

STRONG BUY: An expected favourable price trend of more than 50% combined with sizeable confidence in the quality and forecast security of management.

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

ADD: An expected favourable price trend of between 0% and 25%.

REDUCE: An expected negative price trend of between 0% and -15%.

SELL: An expected negative price trend of more than -15%.

RISK ASSESSMENT

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