MPH Health Care AG

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

H1/20 Results

RATING	**BUY**
PRICE TARGET	**€ 7.50**
Return Potential	188.5%
Risk Rating	High

H1 RESULTS MARRED BY MARKET TURBULENCE

Six month reporting reflects the mixed share price performance of the three core listed holdings. HAEMATO and CR Capital shares have rebounded from covid-19 lows but have not recaptured YE19 levels, while M1 Kliniken shares have drifted lower again since the post-lockdown recovery. Underlying business performance remains strong at all three companies. HAEMATO and CR Capital operated without interruption, while M1 is benefitting from strong post-lockdown beauty treatment demand. Our rating remains Buy with an unchanged €7.5 price target.

H1/20 NAVPS down 5% Y/Y and 12% YTD Net fair value writedowns totalled some €33m in H1/20 owing to the lacklustre share price performance of the listed holdings. MPH reported NAVPS of €5.6 (H1/19: €5.9; YE19: €6.3). MPH exited H1 with some €0.4m cash after reducing short-term debt by €7m in the period. There were no other significant changes to the balance sheet in H1. Both HAEMATO and M1 Kliniken suspended dividends to buffer against covid-19 related market volatility, but CR Capital will propose an unchanged €1.5 dividend to the AGM later this fall.

Covid-19 impact on underlying performances HAEMATO reported its best six month sales performance since H2/18 with revenue hitting €116m for the period. Thanks to swift implementation of safety measures, the company suffered no significant disruptions. M1 revenues slid some 12% on an annualised basis, due to the lockdown which resulted in clinic closures. CR Capital has yet to report H1 figures, but we believe the company was able to conduct business as usual during the lockdown.

Updated portfolio structure In July, MPH exchanged its stake in HAEMATO AG for an increased share of M1 Kliniken in a contribution in kind share deal. MPH received 2.14m shares from an M1 capital raise in exchange for its 11.012m HAEMATO shares. We have adjusted our sum-of-the-parts model to reflect the transaction. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2017	2018	2019	2020E	2021E	2022E
Pro-forma rev. (€m)[1]	347.50	365.64	315.57	353.70	418.22	477.08
Y/Y growth	5.6%	5.2%	-13.7%	12.1%	18.2%	14.1%
Operating revenue (€m)	34.24	39.53	41.22	17.51	37.74	27.31
EBIT (€m)	32.3	37.6	11.6	-22.0	32.0	21.5
Net income (€ m)	31.86	37.03	11.08	-22.02	30.88	20.53
EPS (diluted) (€)	0.74	0.86	0.26	-0.51	0.72	0.48
DPS (€)	0.20	0.20	0.00	0.20	0.20	0.21
NAV (€m)	240.66	269.13	271.64	249.62	271.93	283.73
Net gearing	2.4%	4.8%	6.1%	5.7%	4.9%	4.5%
Liquid assets (€ m)	8.29	1.08	2.10	0.82	1.54	2.28

[1] We provide pro-forma revenue of M1 Kliniken, HAEMATO 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

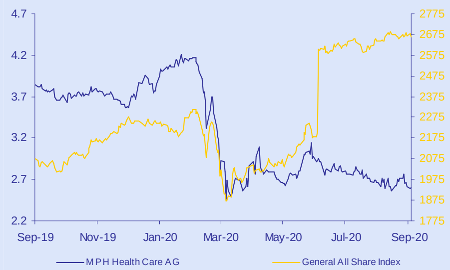
MPH Health Care AG is a Berlin-based investment company focused on the purchase and further development of companies positioned chiefly in growth segments of the healthcare market. These primarily entail specialty pharmaceuticals for chronic diseases and lifestyle and beauty treatments. The company also holds a stake in a residential property developer.

MARKET DATA

As of 15 Sep 2020	
Closing Price	€ 2.60
Shares outstanding	42.81m
Market Capitalisation	€ 111.32m
52-week Range	€ 2.47 / 4.21
Avg. Volume (12 Months)	20,321

Multiples	2019	2020E	2021E
P/E	10.1	n.a.	3.6
EV/EBIT	10.6	n.a.	3.8
P/NAV	0.4	0.4	0.4
Div. Yield	0.0%	7.7%	7.8%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2020	
Liquid Assets	€ 0.40m
Current Assets	€ 2.44m
Intangible 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%

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DEVELOPMENTS AT M1 KLINIKEN

The lifestyle-beauty specialist offers treatments that cover a wide range of cosmetic and reconstructive surgical procedures and aesthetic medicine. M1 reported a 12% Y/Y decrease in H1/20 revenue to €29m with net income retreating 50% to €2.0m. The performance was largely shaped by the pandemic lockdown. M1 clinics were forced to close their doors for nearly two months causing the Y/Y revenue shortfall. The closures triggered an 18% decline in Beauty segment (plastic and aesthetic surgery) revenues to €16.7m, while Trade segment sales, which comprise pharmaceutical and medical product trading activites, fell by 1% to €12.5m. The company reported record activity once restrictions were lifted and treatments resumed.

Table 1: M1 Kliniken H1 results vs prior year

in € '000	H1/20	H1/20E	*variance*	H1/19	*variance*
Revenue	29,130	n.a.	-	32,932	*-11.5%*
EBIT	1,243	n.a.	-	3,280	*-62.1%*
Margin (%)	*4.3%*	-	-	*10.0%*	-
Net Income	2,037	n.a.	-	4,003	*-49.1%*
Margin (%)	*7.0%*	-	-	*12.2%*	-

Source: First Berlin Equity Research; M1 Kliniken

Clinic rollout slowed by pandemic M1 opened three new clinics during H1 in London, Liverpool, and Graz. New clinic openings will continue in H2, although the original target of 50 clinics by YE20 looks like a stretch at this point.

Over the mid-term, M1 management want to build a Europe-wide clinic network of >100 facilities (YE19: 38) by 2023 / 2024 depending on the duration of the pandemic. Thanks to its in-house training academy, the company also has a full pipeline of doctors to populate the beauty centres.

Table 2: M1 financial highlights

in € '000	H1/20	2019	*variance*
Cash	14,181	9,098	*56%*
Financial debt (short- and long-term)	5,028	234	*2049%*
Net debt	-9,153	-8,864	*3%*
Total assets	92,094	92,814	*-1%*
Shareholders' equity	72,402	68,222	*6%*
Equity ratio	79%	74%	-

Source: First Berlin Equity Research; M1 Kliniken

M1 issued 2.143m new shares at the end of H1 in conjunction with the HAEMATO transaction helping boost shareholders' equity despite the net loss. HAEMATO will be consolidated in H2/20, which is reflected in our pro-forma forecasts.

DEVELOPMENTS AT HAEMATO

Encouraging sales performance in H1 HAEMATO announced its best six month sales performance since H2/18 and appears to be hitting its stride again. Considering the issues involved in navigating the pandemic restrictions, the results are even more promising. Swift implementation of safety measures at the Schönefeld production facility meant that HAEMATO suffered almost no downtime during the lockdown. Topline performance was supported by an encouraging gross margin validating management's decision to cull the portfolio of low margin products. Although net income came in lower than we had thought on non-cash, non-recurring items, this does not diminish the improved sales momentum.

Table 3: HAEMATO 2019 results vs prior year and FBe

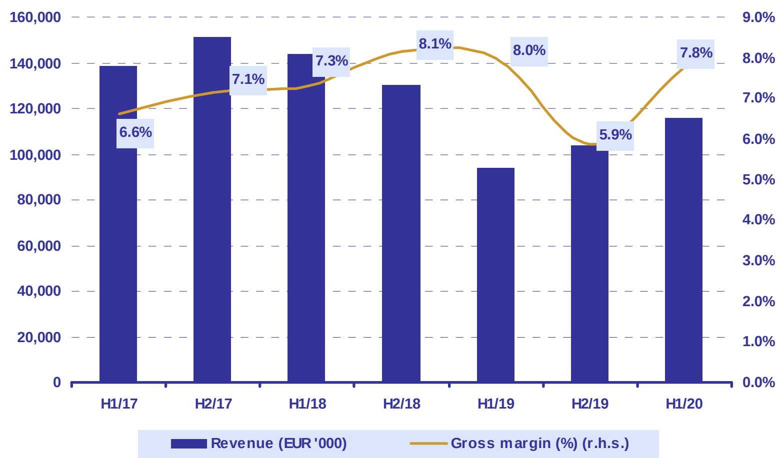
All figures in EUR '000	6M/20	6M/20E	*variance*	6M/19	*variance*
Revenue	115,808	114,691	*1.0%*	94,009	*23.2%*
Gross profit	9,005	8,602	*4.7%*	7,506	*20.0%*
Margin	*7.8%*	*7.5%*	-	*8.0%*	-
EBITDA	2,066	2,421	*-14.7%*	1,685	*22.6%*
Margin	*1.8%*	*2.1%*	-	*1.8%*	-
EBIT	1,230	1,825	*-32.6%*	713	*72.5%*
Margin	*1.1%*	*1.6%*	-	*0.8%*	-
Net Income	-2,820	-2,344	-	-2,100	-
Margin	*-2.4%*	*-2.0%*	-	*-2.2%*	-

Source: First Berlin Equity Research; HAEMATO

All quiet on the regulatory front Regulatory overhang has been the rub for shareholders in the past. Plus, the company had to wrangle with system upgrades to comply with stricter quality assurance measures, while also optimising the product portfolio. Regulatory headwinds have eased and overhauled systems are helping with the improving sales volumes. We look for the good business momentum to continue in H2.

Earlier in the year, we reported that HAEMATO secured the required legal permissions to import and distribute pain-relief narcotics. The associated revenue streams are wholesale-driven for now, while applications for their parallel import are being processed. Management hinted that they have completed all the red tape and hope the licenses will be granted in the coming calendar year.

Figure 1: HAEMATO revenue and gross margin developments



Source: First Berlin Equity Research; HAEMATO

Table 4: HAEMATO Financial highlights

All figures in EUR '000	H1/20	2019	*variance*
Cash	3,130	2,100	*49.0%*
Short-term financial assets	2,550	2,761	*-7.6%*
Financial debt (short- and long-term)	23,808	28,897	*-17.6%*
Net debt	18,128	24,036	*-24.6%*
Total assets	113,274	128,567	*-11.9%*
Shareholders' equity	69,399	72,219	*-3.9%*
Equity ratio	61%	56%	-

Source: First Berlin Equity Research; HAEMATO

DEVELOPMENTS AT CR CAPITAL

The shape of things in a pandemic world The residential property developer beefed up its staff last year with key personnel to increase development capacity to ~200 units per annum. Management also locked in contractors for the next three years. This paid off during the pandemic with operations running largely on time and unhampered during the lockdown. The company reported no significant red tape or development bottlenecks, thanks to secure regional supply chains. We expect the company to hand over up to 200 units in 2020, while the pipeline remains full with > 400 units under development. CR Capital is due to report 2019 results later this month but announced preliminary net income of €90m for the year.

What else has changed? In late July, the company signalled the market with plans to forge a real estate portfolio company with a REIT (Real Estate Investment Trust) legal form. The portfolio will be populated with properties from CR Capital's development pipeline in Berlin and the capital's exurbs. The new company will be listed but further details have not been communicated.

MPH FINANCIAL DEVELOPMENTS

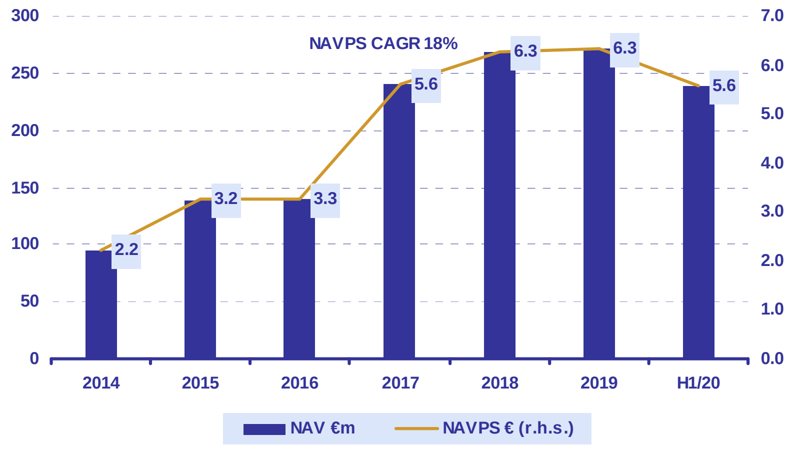
Table 5: 2019 MPH results vs FBe and prior year

All figures in EUR '000	H1/20	H1/20E	*variance*	H1/19	*variance*
Operating revenues	5,826	6,288	*-7.3%*	9,459	*-38.4%*
EBIT	-32,906	-2,556	-	-18,406	-
Net Income	-32,656	-1,909	-	-18,237	-
NAVPS (€)	5.58	6.30	*-11.4%*	5.86	*-4.8%*

Source: First Berlin Equity Research; MPH Health Care

NAV retreated to €239m (2019: €272m) corresponding to NAVPS of €5.6 (-12% YTD) in H1. The performance owes to the €-32.6m result. MPH realised net revaluations of €-32.6m for the period including €-36.9m in fair value write-downs vs €4.3m in fair value write-ups to financial assets.

Figure 2: MPH net asset value developments



Source: First Berlin Equity Research; MPH Health Care

Both HAEMATO and M1 suspended dividend payment on 2019 results to husband cash on coronaviral uncertainties. CR Capital will host its AGM this fall. Management will propose a €1.50 / share dividend, which remains unchanged after last year's 2:1 stock split effectively doubling the pay out to investors. MPH shareholders also voted at the July AGM to fully retain 2019 earnings and suspend the dividend payment to preserve liquidity for growth.

Table 6: MPH balance sheet developments

All figures in EUR '000	H1/20	2019	*variance*
Cash	399	1,796	*-78%*
Financial assets	250,837	290,851	*-14%*
Financial debt (short- and long-term)	11,976	18,574	*-36%*
Net debt	11,577	16,778	*-31%*
Total assets	253,332	293,144	*-14%*
Shareholders' equity	238,986	271,641	*-12%*
Equity ratio	*94%*	*93%*	-
NAV	238,986	271,641	*-12%*
NAVPS (€)	5.58	6.34	*-12%*

Source: First Berlin Equity Research; MPH Health Care

VALUATION MODEL

	Shareholdings	SO	MPH stake	Share price*	Fair value[1]	Projected value
Unit	**'000**	**'000**	**%**	**€**	**€**	**€m**
M1 Kliniken AG	13,155	19,643	67%	8.7	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)*

Fair value of listed portfolio	**€m**	**349**
Non-listed investment (book value)	€m	27
Net debt	€m	16
Present value of holding costs	€m	-40
Total fair value	**€m**	**319**
MPH shares outstanding	m	43
Fair value per share	**€**	**7.5**

[1] First Berlin Equity Research currently covers CR Capital (Buy / PT: EUR37) and HAEMATO AG (Buy / PT: EUR48)

INCOME STATEMENT

All figures in EUR '000	2017	2018	2019	2020E	2021E	2022E
Pro-forma revenues[1]	**347,504**	**365,638**	**315,567**	**353,698**	**418,221**	**477,077**
Fair value gains on financial assets	25,583	31,019	33,747	15,615	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**	**17,508**	**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	-36,933	-3,000	-3,000
Depreciation & amortisation	-21	-45	-11	-12	-20	-12
EBIT	**32,286**	**37,640**	**11,575**	**-21,986**	**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**	**-22,471**	**31,507**	**20,948**
Income taxes	-264	-317	27	449	-630	-419
Net income / loss	**31,855**	**37,025**	**11,076**	**-22,022**	**30,877**	**20,530**
Minority interests	0	0	0	0	0	0
Net income after minorities	**31,855**	**37,025**	**11,076**	**-22,022**	**30,877**	**20,530**
EPS (in €)	**0.74**	**0.86**	**0.26**	**-0.51**	**0.72**	**0.48**

[1]Pro-forma revenue of M1 Kliniken, HAEMATO 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**	**972**	**1,703**	**2,454**
Cash and equivalents	1,239	1,018	1,797	513	1,223	1,952
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**	**266,590**	**288,192**	**299,256**
Property, plant & equipment	4	2	56	57	58	59
Goodwill & other intangibles	18	1	1	1	1	1
Financial assets	249,047	285,098	290,851	266,533	288,133	299,196
Total assets	**257,357**	**286,253**	**293,144**	**267,562**	**289,895**	**301,710**
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**	**249,619**	**271,934**	**283,729**
Minority interests	0	0	0	0	0	0
Total equity	**240,665**	**269,128**	**271,641**	**249,619**	**271,934**	**283,729**
Total consolidated equity and debt	**257,377**	**286,253**	**293,144**	**267,562**	**289,895**	**301,710**
NAV	**240,665**	**269,128**	**271,641**	**249,619**	**271,934**	**283,729**
NAVPS (€)	**5.6**	**6.3**	**6.3**	**5.8**	**6.4**	**6.6**

CASH FLOW STATEMENT

All figures in EUR '000	2017	2018	2019	2020E	2021E	2022E
Net income	**31,855**	**37,025**	**11,076**	**-22,022**	**30,877**	**20,530**
Depreciation and amortisation	21	45	11	12	20	12
Revaluation gains	-25,946	-30,360	-6,540	21,312	-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	-449	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	449	-630	-419
Net operating cash flow	**1,009**	**5,196**	**-1,352**	**-1,708**	**-2,864**	**-2,786**
CapEx	-11	-11	-52	-12	-22	-13
Payments from acquistions of consildated 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**	**4,543**	**12,677**	**12,788**
Equity inflow, net	0	0	0	0	0	0
Debt inflow, net	0	0	4,492	-3,578	0	0
Dividend paid to shareholders	-5,137	-8,563	-8,563	0	-8,563	-8,734
Interest expense	-499	-507	-540	-540	-540	-540
Cash flow from financing	**-5,636**	**-9,070**	**-4,612**	**-4,118**	**-9,103**	**-9,274**
Net cash flows	**256**	**-221**	**778**	**-1,284**	**710**	**729**
Cash, start of the year	983	1,239	1,018	1,797	513	1,223
Cash, end of the year	**1,239**	**1,018**	**1,797**	**513**	**1,223**	**1,952**
Free cash flow (FCF)	**5,892**	**8,849**	**5,390**	**2,834**	**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%	-47.4%	246.2%	1.9%

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INFORMATION PURSUANT TO SECTION 85 (1) SENTENCE 1 OF THE GERMAN SECURITIES TRADING ACT [WPHG], TO ART. 20 (1) OF 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 ART. 37 OF COMMISSION DELEGATED REGULATION (EU) NO 2017/565 (MIFID) II.

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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	€2.45	Buy	€5.50
2...15	↓	↓	↓	↓
16	30 May 2017	€3.62	Buy	€5.80
17	23 November 2017	€3.54	Buy	€6.90
18	13 June 2018	€5.06	Buy	€7.10
19	15 August 2019	€3.76	Buy	€7.50
20	30 June 2020	€2.79	Buy	€7.50
24	Today	€2.60	Buy	€7.50

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/

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