

HAEMATO AG

Germany / Pharma
 Frankfurt
 Bloomberg: HAE GR
 ISIN: DE0006190705

Q3/16
 KPIs

RATING
BUY

PRICE TARGET
€7.00

Return Potential 28.4%
 Risk Rating High

ON TRACK FOR A RECORD YEAR

HAEMATO has reported preliminary KPIs for 9M/16. Both revenue and net income were slightly above our forecasts for the period and continue the strong growth and profitability seen in H1/16. The strong nine month performance puts the company well on track to meet our full year targets. Meanwhile, political support to combat rising healthcare costs remains a positive for HAEMATO. The German Federal Council recently voted not to overturn the import quota subsidy program as proposed by the state of Bavaria. We maintain our Buy rating and €7.00 pricetarget.

Sales remain brisk driving further profitability Revenue in Q3 climbed some 18% Y/Y to €70.8m and topped our forecast of €69.4m. This continues the strong top line momentum of H1/16 which saw revenues rising 40% Y/Y. We attribute this growth to key personnel additions that have been instrumental in boosting German sales activity. On a nine month basis, sales grew 32% Y/Y to €213.1m (9M/15: €162.0m). This top line performance puts the company well on track to achieve our full year revenue target of €280.8m. Net income amounted to €2.1m in Q3/16 (FBe: €1.9m). The net income margin was 3.0% in Q3 (H1/16: 3.1%) and implies that operating expenses remained stable during the period. For the nine month period, net income totalled €6.6m (9M/15: €4.5m).

German Federal Council (Bundesrat) votes to retain import quota At present, pharmacists have to ensure that at least 5% of medications sold to clients are sourced through parallel importers such as HAEMATO. The prerequisite for this is that the imported product is at least 15% and €15 less expensive than the original German equivalent. On 25 November, the majority of the Federal States rejected the Bavarian application to scrap the subsidy for imported pharmaceuticals. The German Association of Pharmacists (Deutsche Apothekerverband - DAV) also supported the abolition of parallel imports voicing concerns that import channels serve as a gateway for illegal pharmaceutical trafficking. (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2013	2014	2015	2016E	2017E	2018E
Revenue (€m)	173.57	202.67	229.73	280.78	311.67	345.95
Y-o-y growth	593.1%	16.8%	13.3%	22.2%	11.0%	11.0%
EBIT (€m)	9.93	8.23	8.22	10.59	10.86	12.63
EBIT margin	5.7%	4.1%	3.6%	3.8%	3.5%	3.6%
Net income (€m)	8.38	6.98	5.54	8.08	8.16	9.18
EPS (diluted) (€)	0.41	0.34	0.27	0.39	0.39	0.44
DPS (€)	0.30	0.30	0.30	0.30	0.30	0.30
FCF (€m)	-0.25	4.73	0.95	9.08	5.09	5.53
Net gearing	23.6%	39.6%	49.0%	42.8%	43.3%	42.4%
Liquid assets (€m)	14.59	5.17	5.24	4.45	3.62	4.22

RISKS

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

COMPANY PROFILE

HAEMATO AG, a subsidiary of MPH Mittelständische Pharma Holding AG, is a pharma company focusing on the sale of generics and parallel imports in high priced niches. The company is targeting selected pharmaceutical products in a small number of clinical indications such as oncology or HIV.

MARKET DATA

As of 06 Dec 2016

Closing Price	€ 5.45
Shares outstanding	20.78m
Market Capitalisation	€ 113.25m
52-week Range	€ 4.43 / 5.62
Avg. Volume (12 Months)	16,008

Multiples	2015	2016E	2017E
P/E	20.4	14.0	13.9
EV/Sales	0.3	0.3	0.2
EV/EBIT	8.6	6.6	6.5
Div. Yield	5.5%	5.5%	5.5%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2016

Liquid Assets	€ 4.64m
Current Assets	€ 63.90m
Intangible Assets	€ 34.60m
Total Assets	€ 120.00m
Current Liabilities	€ 50.40m
Shareholders' Equity	€ 56.50m

SHAREHOLDERS

MPH AG	50.1%
Free Float	49.9%



Opponents further argue that the quota produces a mountain of bureaucratic red-tape for pharmacists, compromises drug safety, and that it triggers bottlenecks in other countries. Moreover, the import quota generates moderate savings compared to discount agreements according to Christopher Hermann, Chairman of DAV.

However, the German Association of Pharmaceutical Importers (VAD) takes a different view, contending that discounts actually impair the ability of pharmacists to make decisions freely and that pharmacists have the right to reject an import anytime. The VAD also claims that imported pharmaceuticals result in some €240m in savings, a figure that swells above €3bn when savings traced to indirect competitive effects are considered. While the outcome is clearly good news for parallel importers, we believe HAEMATO has a plan in place to incentivise pharmacists in the event that political pressure builds again in the future.

Table 1: Results vs our forecasts

All figures in EUR '000	Q3 2016	Q3 2016E	% delta	Q3 2015	% delta	9M/16	9M/15	% delta
Revenue	70,831	69,440	2.0%	60,513	17.1%	213,105	161,990	31.6%
Net Income	2,122	1,944	9.1%	1,723	23.2%	6,612	4,490	47.3%
Margin (%)	3.0%	2.8%	-	2.8%	-	3.1%	2.8%	-

Source: First Berlin Equity Research; HAEMATO AG

Full year targets well within reach; retain Buy rating Third quarter sales were slightly higher than expected and we expect HAEMATO to hit our FY/16 revenue target of €280m, which would imply growth of over 22% this year. Over the mid-term, we look for a three year revenue CAGR of 15% for the period 2016 - 2018.

In our view, HAEMATO remains well positioned to capitalise on trends in the healthcare industry; particularly the need to combat rising healthcare costs. This view was recently confirmed, when the German Federal Council voted to keep the import quota in place. Strong trends in lifestyle beauty treatments should also provide some tailwinds for its nascent Medical Devices segment. These trends should unlock new growth opportunities with much more attractive margins over the mid-term for the company. We leave our forecasts unchanged and continue to see fair value at €7.00. Our rating remains Buy.



VALUATION MODEL

All figures in EUR '000	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E
Sales	280,784	311,670	345,953	382,279	420,506	458,352	495,020	529,672
NOPLAT	8,049	8,253	9,595	10,998	12,659	14,130	15,628	17,130
+ depreciation & amortisation	1,785	1,450	1,213	1,061	967	909	877	859
Net operating cash flow	9,834	9,703	10,808	12,059	13,626	15,039	16,505	17,989
- total investments (CAPEX and WC)	2,435	-4,789	-5,200	-5,456	-5,792	1,250	-5,083	-4,865
Capital expenditures	-562	-606	-653	-624	-663	-698	-726	-747
Working capital	2,997	-4,183	-4,547	-4,831	-5,128	1,947	-4,357	-4,117
Free cash flows (FCF)	12,269	4,914	5,608	6,603	7,834	16,288	11,422	13,124
PV of FCF's	12,191	4,434	4,594	4,912	5,292	9,990	6,361	6,637

All figures in thousands	
PV of FCFs in explicit period	103,923
PV of FCFs in terminal period	74,181
Enterprise value (EV)	178,104
+ Net cash / - net debt	-33,624
+ Investments / minority interests	0
Shareholder value	144,480
Fair value per share (€)	6.95

		Terminal growth rate								
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%		
WACC	Cost of equity	15.0%	7.1%	10.78	11.28	11.87	12.57	13.40	14.41	15.66
	Pre-tax cost of debt	5.5%	8.1%	8.92	9.26	9.65	10.10	10.63	11.24	11.98
	Tax rate	24.0%	9.1%	7.50	7.74	8.01	8.31	8.66	9.05	9.52
	After-tax cost of debt	4.2%	10.1%	6.38	6.55	6.74	6.95	7.19	7.46	7.77
	Share of equity capital	55.0%	11.1%	5.48	5.61	5.74	5.90	6.07	6.25	6.47
	Share of debt capital	45.0%	12.1%	4.75	4.84	4.94	5.05	5.18	5.31	5.46
	WACC	10.1%	13.1%	4.13	4.21	4.28	4.37	4.46	4.56	4.67

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



INCOME STATEMENT

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
Revenues	173,566	202,674	229,727	280,784	311,670	345,953
Cost of goods sold	-161,845	-186,376	-214,454	-261,862	-290,946	-322,429
Gross profit	11,721	16,298	15,273	18,922	20,724	23,525
Personnel expenses	-3,540	-4,501	-5,409	-6,154	-6,857	-7,265
Other OpEx	-4,837	-6,009	-6,462	-7,497	-8,415	-9,341
Other income	8,403	4,501	6,622	7,104	6,857	6,919
Depreciation & amortisation	-1,813	-2,056	-1,799	-1,785	-1,450	-1,213
Operating income (EBIT)	9,934	8,233	8,225	10,591	10,859	12,625
Net financial result	-927	-1,366	-2,197	-993	-1,254	-1,291
Pre-tax income (EBT)	9,007	6,867	6,028	9,597	9,605	11,334
Income taxes	-627	112	-489	-1,519	-1,441	-2,153
Minority interests	0	0	0	0	0	0
Net income / loss	8,380	6,979	5,539	8,078	8,164	9,180
Diluted EPS (in €)	0.41	0.34	0.27	0.39	0.39	0.44
EBITDA	11,747	10,289	10,024	12,375	12,309	13,838
Ratios						
Gross margin	6.8%	8.0%	6.6%	6.7%	6.6%	6.8%
EBIT margin on revenues	5.7%	4.1%	3.6%	3.8%	3.5%	3.6%
EBITDA margin on revenues	6.8%	5.1%	4.4%	4.4%	3.9%	4.0%
Net margin on revenues	4.8%	3.4%	2.4%	2.9%	2.6%	2.7%
Tax rate	7.0%	-1.6%	8.1%	11.0%	15.0%	19.0%
Expenses as % of revenues						
Personnel expenses	-2.0%	-2.2%	-2.4%	-2.2%	-2.2%	-2.1%
Other OpEx	-2.8%	-3.0%	-2.8%	-2.7%	-2.7%	-2.7%
Depreciation & amortisation	-1.0%	-1.0%	-0.8%	-0.6%	-0.5%	-0.4%
Y-Y Growth						
Revenues	n.a.	16.8%	13.3%	22.2%	11.0%	11.0%
Operating income	n.a.	-17.1%	-0.1%	28.8%	2.5%	16.3%
Net income/ loss	n.a.	-16.7%	-20.6%	45.9%	1.1%	12.5%



BALANCE SHEET

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
Assets						
Current assets, total	53,470	51,559	52,860	55,332	60,144	66,882
Cash and equivalents	3,316	2,424	2,449	1,656	825	1,431
ST financial assets	11,277	2,743	2,791	2,791	2,791	2,791
Trade receivables	7,107	10,478	4,725	6,154	6,831	7,583
Inventories	30,786	34,188	41,677	43,046	47,827	53,002
Other ST assets	984	1,727	1,218	1,685	1,870	2,076
Non-current assets, total	45,387	50,142	54,129	55,476	55,169	55,168
Property, plant & equipment	354	1,094	1,308	1,395	1,464	1,548
Goodwill & other intangibles	42,585	41,354	40,213	38,903	37,989	37,346
Financial assets	2,237	7,480	12,474	14,898	15,405	15,928
Deferred taxes	211	214	134	281	312	346
Total assets	98,857	101,702	106,989	110,808	115,314	122,050
Shareholders' equity & debt						
Current liabilities, total	22,151	25,663	35,588	31,748	33,856	36,162
Trade payables	6,660	7,244	5,684	11,479	12,754	14,134
ST debt	11,271	12,554	21,636	12,688	12,688	12,688
Provisions	1,703	3,243	4,309	4,212	4,675	5,189
Other ST financial liabilities	1,272	474	539	562	623	692
Other current liabilities	1,245	2,148	3,420	2,808	3,117	3,460
Long-term liabilities, total	18,468	17,056	13,112	18,927	19,393	20,877
Long-term debt	17,059	15,959	12,190	17,502	17,814	19,127
LT provisions	79	20	21	21	21	21
Deferred tax liabilities	1,330	1,077	901	1,404	1,558	1,730
Shareholders' equity	58,238	58,982	58,289	60,134	62,064	65,011
Total consolidated equity and debt	98,857	101,702	106,989	110,808	115,314	122,050
Ratios						
Current ratio (x)	2.4	2.0	1.5	1.7	1.8	1.8
Quick ratio (x)	1.0	0.7	0.3	0.4	0.4	0.4
Net debt	13,737	23,346	28,586	25,742	26,885	27,592
Net gearing	24%	40%	49%	43%	43%	42%
Return on equity (ROE)	14.4%	11.8%	9.5%	13.4%	13.2%	14.1%
Capital employed (CE)	39,587.6	45,285.6	47,655.2	43,434.3	46,773.1	50,760.3
Return on capital employed (ROCE)	25%	18%	17%	24%	23%	25%



CASH FLOW STATEMENT

All figures in EUR '000	2013	2014	2015	2016E	2017E	2018E
Pre-tax income	8,991	6,867	6,028	9,597	9,605	11,334
Depreciation and amortisation	1,813	2,056	1,799	1,785	1,450	1,213
Changes in working capital	-7,196	6,175	-44	2,200	-3,411	-3,690
Other adjustments	-5,600	-7,632	-5,893	-2,424	-507	-524
Net financial result	928	1,366	1,621	1,625	1,254	1,291
Operating cash flow	-1,064	8,832	3,510	12,783	8,391	9,625
Interest income	23	183	8	14	10	10
Interest expense paid	-1,371	-1,551	-1,629	-1,639	-1,264	-1,301
Tax paid	-1,412	-902	-489	-1,519	-1,441	-2,153
Net operating cash flow	-3,824	6,561	1,400	9,638	5,697	6,180
CapEx	-27,282	-5,645	-796	-561	-606	-653
Proceeds from disposal of fixed assets	30,854	3,813	342	0	0	0
Cash flow from investing	3,572	-1,832	-454	-561	-606	-653
Free cash flow (FCF)	-252	4,729	946	9,077	5,091	5,527
Equity inflow, net	5,045	430	0	0	0	0
Debt inflow, net	427	183	5,313	-3,636	313	1,313
Dividend paid to shareholders	-3,407	-6,234	-6,234	-6,234	-6,234	-6,234
Cash flow from financing	2,065	-5,621	-921	-9,870	-5,921	-4,921
Net cash flows	-4,213	-892	25	-793	-830	605
Cash, start of the year	7,529	3,316	2,424	2,449	1,656	825
Cash, end of the year	3,316	2,424	2,449	1,656	825	1,431
EBITDA/share (in €)	0.60	0.50	0.48	0.60	0.59	0.67
Y-Y Growth						
Operating cash flow	n.a.	n.m.	-78.7%	588.3%	-40.9%	8.5%
Free cash flow	n.a.	n.m.	-80.0%	859.3%	-43.9%	8.6%
EBITDA/share	n.a.	-17.4%	-2.6%	23.5%	-0.5%	12.4%

FIRST BERLIN RECOMMENDATION & PRICE TARGET HISTORY

Report No.:	Date of publication	Previous day closing price	Recommendation	Price target
Initial Report	27 August 2013	€3.00	Buy	€5.70
2...11	↓	↓	↓	↓
12	4 May 2016	€5.04	Add	€6.00
13	31 May 2016	€5.40	Buy	€6.10
14	5 September 2016	€5.25	Buy	€7.00
15	Today	€5.45	Buy	€7.00

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