

HAEMATO AG

Germany / Pharma
 Frankfurt
 Bloomberg: HAE GR
 ISIN: DE0006190705

Business
 Update

RATING
BUY

PRICE TARGET
€6.20

Return Potential 39.6%
 Risk Rating High

FAVOURABLE CHANGES IN GERMAN LEGISLATION

On 19 December 2013, the new German government announced that the mandatory discount granted to statutory health insurance funds on patent protected drugs in Germany will be 7% from April 2014 onwards. The former mandatory discount of 16% enacted in FY 2010 expired on 31 December 2013. For the period January to March 2014, the mandatory discount is at the pre-FY 2010 level of 6%. The reduction of the mandatory discount is in general good news for HAEMATO because the lowered discount is predicted to increase the company's top-line: the discount is deducted from the group's "underlying" sales (i.e. sales shown in the financial tables are sales generated after deducting the discount). However, given the uncertainties regarding the pricing of wholesalers and competitors from FY 2014E onwards as well as the slowdown in sales growth in the run-up to the anticipated reduction of the discount, we stick to our financial forecasts for the time being. Our updated DCF model (shifted one year ahead) yields a new price target of EUR6.20 (previously: EUR5.90). We reiterate our Buy recommendation.

Mandatory discount of 7% from April 2014 onwards As already mentioned in former publications (such as our comprehensive reports on MPH Mittelstaendische Pharma Holding (MPH) dated 29 October 2012 and on HAEMATO dated 27 August 2013), there has been a mandatory discount of 16% (enacted in 2010) granted to statutory health insurance funds on patent protected drugs in Germany. The mandatory 16% discount expired on 31 December 2013. On 19 December 2013, the new German government decided on the reduction of the mandatory discount from 16% to 7%. The corresponding bill - and thus the new discount of 7% - will become effective in April 2014. From January to April 2014, there will be a mandatory discount of 6% (the mandatory discount would also have fallen back to the pre-FY 2010 level of 6% if the new government had not decided to implement a discount of 7%). This is in general good news for MPH and its subsidiary HAEMATO since it will increase the top-line: sales shown in the companies' financial tables already take the mandatory discount... (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2011A	2012A	2013E	2014E	2015E	2016E
Revenue (€m)	10.86	25.04	173.57	221.31	251.40	277.05
Y-o-y growth	n.a.	130.7%	593.1%	27.5%	13.6%	10.2%
EBIT (€m)	1.19	9.19	10.74	12.02	14.33	16.68
EBIT margin	10.9%	36.7%	6.2%	5.4%	5.7%	6.0%
Net income (€m)	1.66	7.41	8.32	8.87	10.70	12.55
EPS (diluted) (€)	0.12	0.54	0.40	0.43	0.51	0.60
DPS (€)	0.25	0.25	0.28	0.30	0.36	0.42
FCF (€m)	-8.88	-4.00	-6.17	3.90	7.73	9.95
Net gearing	10.3%	-31.5%	-13.4%	-8.5%	-11.0%	-14.9%
Liquid assets (€m)	3.32	7.53	24.52	22.57	24.09	26.62

RISKS

Regulatory changes in healthcare system, 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 13 Jan 2014

Closing Price	€ 4.44
Shares outstanding	20.78m
Market Capitalisation	€ 92.26m
52-week Range	€ 1.74 / 4.65
Avg. Volume (12 Months)	44,854

Multiples	2012A	2013E	2014E
P/E	12.8	11.4	10.7
EV/Sales	4.1	0.6	0.5
EV/EBIT	11.3	9.7	8.6
Div. Yield	5.6%	6.3%	6.7%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2013

Liquid Assets	€ 23.49m
Current Assets	€ 60.66m
Intangible Assets	€ 22.82m
Total Assets	€ 92.85m
Current Liabilities	€ 18.96m
Shareholders' Equity	€ 46.63m

SHAREHOLDERS

MPH AG	70.0%
Free Float	30.0%



...into account (i.e. sales generated after deducting the discount). From 1 January 2014 onwards, the top-line burden associated with the new bill (i.e. the mandatory discount) will be lower.

Dividend yield between 6% and 7% The reduction of the mandatory discount is supposed to be favourable for HAEMATO. However, given the uncertainties regarding the pricing of wholesalers and competitors from FY 2014E onwards as well as the slowdown in sales growth in the run-up to the anticipated reduction of the discount, we stick to our financial forecasts for the time being. Our updated DCF model (shifted one year ahead) yields a new price target of EUR6.20 (previously: EUR5.90). At the current share price level, HAEMATO is yielding between 6% and 7%. We reiterate our Buy recommendation.

Table 1: Valuation Model *

DCF valuation model								
All figures in EUR '000								
	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E
Net sales	173,574	221,307	251,405	277,048	303,116	329,239	355,009	379,989
NOPLAT	8,274	9,398	11,168	12,966	14,101	15,163	15,987	16,882
+ depreciation & amortisation	1,521	1,589	1,632	1,607	1,624	1,652	1,690	1,734
Net operating cash flow	9,796	10,988	12,800	14,574	15,725	16,815	17,677	18,617
- total investments (CAPEX and WC)	-16,017	-6,554	-4,597	-4,208	-4,409	-4,514	-4,566	-4,561
Capital expenditures	-1,041	-1,217	-1,257	-1,385	-1,488	-1,586	-1,678	-1,762
Working capital	-14,975	-5,337	-3,340	-2,823	-2,921	-2,927	-2,888	-2,799
Free cash flows (FCF)	-6,221	4,434	8,202	10,366	11,316	12,302	13,111	14,056
PV of FCF's	0	4,013	6,714	7,671	7,573	7,445	7,176	6,955
All figures in thousands								
PV of FCFs in explicit period	91,376							
PV of FCFs in terminal period	47,074							
Enterprise value (EV)	138,449							
+ Net cash / - net debt	-8,777							
Shareholder value	129,672							
Fair value per share in EUR 6.20								
WACC 10.6%								
Cost of equity	15.8%							
Pre-tax cost of debt	6.0%							
Tax rate	30.0%							
After-tax cost of debt	4.2%							
Share of equity capital	55.0%							
Share of debt capital	45.0%							
Fair value per share in EUR 6.20								
Terminal growth rate								
	0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%	
6.6%	11.04	11.44	11.91	12.48	13.16	14.02	15.12	
7.6%	9.24	9.49	9.79	10.13	10.53	11.01	11.59	
8.6%	7.88	8.05	8.24	8.45	8.70	8.99	9.33	
9.6%	6.82	6.93	7.06	7.20	7.36	7.55	7.76	
10.6%	5.98	6.05	6.14	6.24	6.34	6.46	6.60	
11.6%	5.29	5.34	5.40	5.47	5.54	5.62	5.72	
12.6%	4.72	4.75	4.80	4.85	4.90	4.95	5.02	
13.6%	4.24	4.26	4.30	4.33	4.37	4.41	4.45	

Source: First Berlin Equity Research

* Please note: In our DCF model we use a planning period until 2028. For layout reasons the table above only displays figures until 2020.

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	21 November 2013	€4.55	Buy	€5.90
3	Today	€4.44	Buy	€6.20

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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%

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