

HAEMATO AG

Germany / Pharma
 Frankfurt
 Bloomberg: HAE GR
 ISIN: DE0006190705

H1 2014 Results

RATING
BUY

PRICE TARGET
€6.40

Return Potential 57.3%
 Risk Rating High

H1 2014 IN LINE; FULL YEAR GUIDANCE CONFIRMED

HAEMATO AG published H1 2014 results on 26 August, which were in line with our expectations. Due to last year's changes in the consolidation basis (consolidation of HAEMATO PHARM activities from Q2 2013 onwards), H1 2014 sales and net income increased significantly y/y. Guidance for the current fiscal year has been confirmed. HAEMATO AG predicts sales and profitability will increase y/y. Based on slightly revised estimates our DCF model yields an unchanged price target of EUR6.40. We reiterate our Buy recommendation.

H1 development in line As anticipated, H1 2014 sales increased markedly y/y to EUR114.1m (FBe: EUR110.7m; H1/13: EUR63.2m). HAEMATO's top line development during the reporting period was positively affected by the favourable changes in German legislation (see our comment dated 14 January) associated with the decreased mandatory discount. At the time of publication of its Q1 2014 financial key performance indicators (see our comment of 4 June) the company announced that it had benefited from windfall profits (sale of inventories that were bought at a lower price before the reduction of the mandatory discount) at the beginning of the current fiscal year. EBIT of EUR5.7m (FBe: EUR5.7m; H1/13: EUR4.7m including discontinued activities) was in line with our expectations. Due to a lower than anticipated tax burden, net income for the period of EUR4.9m (FBe: EUR4.7m; H1/13: EUR3.8m including discontinued activities) was slightly better than anticipated. At this year's AGM on 28 May (see our comment of 4 June) management guided for quarterly net income of around EUR2m from Q2 2014 onwards - emphasising the fact that Q1 2014 was unusually profitable.

However, since the AG's most important subsidiary HAEMATO PHARM has been consolidated from Q2 2013 onwards, a comparison of the H1 financial KPIs with previous year's figures is not meaningful.

Solid balance sheet Based on HAEMATO's positive H1 development, operating cash flow came in at EUR4.6m (H1/13: EUR-8.3m). (p.t.o.)

FINANCIAL HISTORY & PROJECTIONS

	2011A	2012A	2013A	2014E	2015E	2016E
Revenue (€m)	10.86	25.04	173.57	224.77	246.35	270.49
Y-o-y growth	n.a.	130.7%	593.1%	29.5%	9.6%	9.8%
EBIT (€m)	1.19	9.19	9.93	10.51	11.60	12.91
EBIT margin	10.9%	36.7%	5.7%	4.7%	4.7%	4.8%
Net income (€m)	1.48	6.84	7.94	8.30	9.01	9.89
EPS (diluted) (€)	0.11	0.34	0.41	0.40	0.43	0.48
DPS (€)	0.25	0.25	0.30	0.30	0.32	0.33
FCF (€m)	-8.88	-4.00	-4.22	9.89	2.72	7.18
Net gearing	10.3%	-31.5%	25.8%	11.2%	16.1%	14.7%
Liquid assets (€m)	3.32	7.53	3.32	7.33	3.82	4.35

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 25 Aug 2014

Closing Price	€ 4.07
Shares outstanding	20.78m
Market Capitalisation	€ 84.55m
52-week Range	€ 2.92 / 5.26
Avg. Volume (12 Months)	59,947

Multiples	2013A	2014E	2015E
P/E	10.6	10.2	9.4
EV/Sales	0.6	0.5	0.4
EV/EBIT	10.4	9.8	8.9
Div. Yield	7.4%	7.4%	7.9%

STOCK OVERVIEW



COMPANY DATA

As of 30 Jun 2014

Liquid Assets	€ 10.22m
Current Assets	€ 51.86m
Intangible Assets	€ 41.92m
Total Assets	€ 99.22m
Current Liabilities	€ 24.06m
Shareholders' Equity	€ 56.88m

SHAREHOLDERS

MPH AG	68.5%
Free Float	31.5%



Free cash flow (operating cash flow minus cash flow from investing activities) was positive at EUR4.0m (H1/13: EUR-0.3m), which - assuming the same free cash flow generation for H2 2014 - corresponds to a free cash flow yield (free cash flow divided by market capitalisation) of 9.6%. Due to dividend payments of EUR6.2m, net cash flow was negative at EUR-0.9m (H1/13: EUR-4.2m).

The firm's cash position by the end June thus decreased to EUR2.4m (end FY13: EUR3.3m). Including short-term investments, the company's liquid assets amounted to EUR10.2m (end FY13: EUR14.6m) at the end of H1 2014.

Short- and long-term financial liabilities were EUR29.2m (end FY13: EUR28.3m) at the end of June. Goodwill remained unchanged at EUR34.6m (goodwill to equity ratio of 60.8% vs. 59.4% at end FY13). Since the above-mentioned dividend payment more than offset the company's profit for the period, equity decreased slightly to EUR56.9m (end FY13: EUR58.2m), corresponding to an equity ratio of 57.3% (end FY13: 58.9%).

2014E guidance confirmed Management remains cautious with regard to future operating development due to increased competition and higher prices from wholesalers. However, guidance for the current fiscal year has been confirmed. HAEMATO AG predicts sales and profitability will increase. In order to fuel future top line growth, the company is evaluating new business opportunities in the pharma sector. Management announced at this year's AGM that it is planning to enter the market for OTC (over the counter) products to complement the product range in certain indications such as cancer treatment.

Buy recommendation and price target confirmed We have slightly adjusted our financial forecasts (see table 2 below). However, our updated DCF model yields an unchanged price target of EUR6.40. HAEMATO AG is yielding between 7% and 8% at the current share price level. We reiterate our Buy recommendation.

Table 1: Estimates vs. reported figures

in EURm	H1-14A	H1-14E	Delta	H1-13A	Delta
Sales	114.13	110.7	3.1%	63.21	80.5%
EBIT	5.67	5.68	-0.3%	4.66	21.7%
margin	5.0%	5.1%		7.4%	
Net income	4.88	4.74	2.8%	3.77	29.4%
margin	4.3%	4.3%	-	6.0%	-
EPS (in EUR, dil.)	0.23	0.23	2.8%	0.18	29.4%

Source: First Berlin Equity Research, HAEMATO AG

Table 2: Changes to forecasts

in EURm	2014E			2015E			2016E		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
Sales	224.77	224.77	0.0%	246.35	246.35	0.0%	270.49	270.49	0.0%
EBIT	10.15	10.51	3.5%	11.35	11.60	2.2%	12.70	12.91	1.7%
margin	4.5%	4.7%	-	4.6%	4.7%	-	4.7%	4.8%	-
Net income	8.27	8.30	0.3%	9.32	9.01	-3.3%	10.47	9.89	-5.5%
margin	3.7%	3.7%	-	3.8%	3.7%	-	3.9%	3.7%	-
EPS (EUR, dil.)	0.40	0.40	0.3%	0.45	0.43	-3.3%	0.50	0.48	-5.5%

Source: First Berlin Equity Research



Table 3: Valuation

DCF valuation model								
All figures in EUR '000								
	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E
Net sales	224,768	246,346	270,488	296,802	323,796	350,805	377,159	402,137
NOPLAT	9,210	9,685	10,441	11,797	13,165	14,520	15,862	17,178
+ depreciation & amortisation	1,857	1,829	1,773	1,447	1,241	1,120	1,057	1,034
Net operating cash flow	11,067	11,514	12,215	13,243	14,406	15,640	16,919	18,213
- total investments (CAPEX and WC)	-266	-8,123	-4,482	-4,541	-4,640	-4,636	-4,528	-4,311
Capital expenditures	-1,011	-985	-811	-876	-939	-1,000	-1,056	-1,106
Working capital	745	-7,137	-3,671	-3,665	-3,701	-3,636	-3,472	-3,205
Free cash flows (FCF)	10,801	3,391	7,733	8,703	9,766	11,004	12,391	13,902
PV of FCF's	10,428	2,961	6,104	6,212	6,304	6,424	6,539	6,635

All figures in thousands	
PV of FCFs in explicit period	95,857
PV of FCFs in terminal period	56,903
Enterprise value (EV)	152,759
+ Net cash / - net debt	-19,020
Shareholder value	133,740

Fair value per share in EUR	6.40
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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	6.40

		Terminal growth rate						
		0.0%	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
WACC	6.6%	11.64	12.16	12.76	13.49	14.38	15.48	16.89
	7.6%	9.65	9.99	10.37	10.82	11.35	11.98	12.75
	8.6%	8.16	8.38	8.64	8.93	9.26	9.66	10.12
	9.6%	6.99	7.15	7.32	7.52	7.74	8.00	8.29
	10.6%	6.06	6.18	6.30	6.44	6.59	6.76	6.96
	11.6%	5.31	5.39	5.48	5.58	5.69	5.81	5.94
	12.6%	4.69	4.75	4.81	4.88	4.96	5.05	5.14
	13.6%	4.17	4.21	4.26	4.31	4.37	4.43	4.50

Source: First Berlin Equity Research

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...3	↓	↓	↓	↓
4	27 February 2014	€4.11	Buy	€6.20
5	24 April 2014	€4.85	Buy	€6.20
6	4 June 2014	€4.49	Buy	€6.40
7	Today	€4.07	Buy	€6.40

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STRONG BUY: Expected return greater than 50% and a high level of confidence in management's financial guidance

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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