


HBM Healthcare Investments Buy

Nicolas Pauillac
Equity Research Analyst
+33 1 53 65 34 97

Switzerland | Holding companies

 Beta Profile: 

MCap: CHF1.4bn

Target Price: CHF240.00
Current Price: CHF198.00
Up/downside: 21.2%
Market data: 18 July 2024

Bloomberg: HBMN SW	Reuters: HBMN.S
Free float	83%
Avg. daily volume (CHFm)	1.0
YTD abs performance	8.4%
52-week high/low (CHF)	213.50/146.00

Private portfolio delivers NAV growth

Key points:

- HBM published this morning its Q1 figures with the fund closing its first quarter with a 1.6% NAV increase (+CHF26m) despite a challenging public market, driven by the politics uncertainty and still high interest rates.
- The private portfolio appears to have been the main driver of this growth, with a CHF53m gain for the period (3.1% NAV bump), principally driven by the acquisition of a part of Numab by J&J as well as the recent good news flow coming from Swixx BioPharma (one of HBM largest position).
- However, both the public and fund portfolio displayed a negative performance of -CHF14m and -CHF4m respectively which have taken away some of the private gain, reducing the total NAV growth to 1.6%.
- Note that the company also realised one new investment over the quarter with an USD7m stake in Bluejay Therapeutics, a company specialised in the development of therapies for viral and liver disease.
- Looking forward, the team anticipates a still challenging macroenvironment for the rest of the year (US election, global trade conflict, geopolitical confrontation). However, HBM's portfolio appears to remain well positioned to outperform in this environment, with a currency hedging against the USD already in place as well as several key readouts from portfolio companies anticipated through the year (ALX Oncology, ArriVent, Biohaven, BioInvent, IO Biotech, Mineralys Therapeutics and Natera).
- Finally, note that the company also disposes of several position that are currently being harvested, which position HBM in a very attractive position to seek for opportunities in this still challenging environment for the private & public biotechs. Hence, we believe that the current discount to NAV of around 19% appears as a good investment opportunity to play the rerating of the fund as it continues to deliver growth over the year.

Private portfolio NAV up 3.1%

- HBM Healthcare Investments' private portfolio NAV rose by 3.1% (CHF53M) driven by a sustained positive news flow that once again highlights the deepness of it
- The first major trigger of the quarter has been the acquisition of Yellow Jersey Therapeutics by Johnson & Johnson for USD 1.25 billion in cash. Yellow Jersey, which had been spun off from the Swiss company Numab Therapeutics, is testing NM 26, a bispecific antibody for treating atopic dermatitis, in a phase I clinical trial. Completed in early July but recognized in the first quarter's balance sheet, the sale resulted in a profit of CHF 59 million. Note that HBM Healthcare Investments will retain an 8 percent stake in Numab Therapeutics, which continues to develop a promising pipeline in oncology and inflammatory diseases.
- Additionally, Swixx BioPharma has expanded its market position by acquiring Laboratorios Biopas, which operates in 20 countries in Central and South America, including the five largest markets. Swixx, founded ten years ago, generates over EUR 1 billion in sales with 1300 employees in Eastern Europe and Central Asia, and the Biopas acquisition will add 300 employees and USD 220 million in sales in Latin America. Note that in our view the company is gearing up and could potentially become IPO potential in the next years, potentially providing a very attractive exit multiple for HBM.
- Additionally, Alumis Therapeutics raised USD 250 million through an IPO on the Nasdaq stock exchange (the largest biotech IPO of the year so far). HBM Healthcare Investments initially invested USD 5 million in Alumis at the beginning of the year and increased its stake by a further USD 15 million during the IPO.
- Moreover, Fangzhou (Jianke), China's leading online platform for chronic disease management, went public in Hong Kong. The issue price of the new shares was higher than the book value of the investment at the end of the quarter, though early trading reduced the last published NAV by just under 0.9 percent as of 15 July 2024.

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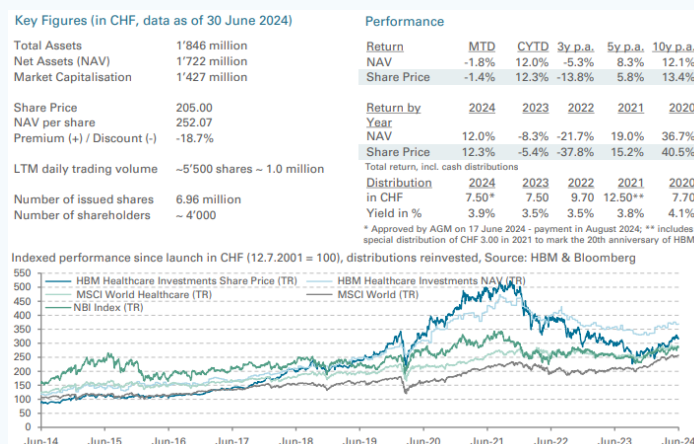
A more challenging dynamic on the public portfolio

- However, the public portfolio suffered a NAV loss of CHF-14m (-0.8% of the total NAV) despite the positive reaction of Insmad's share price (CHF 10 million NAV increase), following the publication of convincing phase III data for brensocatib as well as a similar upward move from Merus (CHF 10 million) after releasing interim data for petosemtamab combined with pembrolizumab (Keytruda®) as a first-line treatment for head and neck tumours. Finally, note that BioInvent and Vicore Pharma added CHF 9 million and CHF 6 million, respectively.
- However, negative contributions came from Y-mAbs Therapeutics (CHF -13 million), Biohaven (CHF -12 million), ALX Oncology (CHF -7 million), and Harmony Biosciences (CHF -7 million).

Outlook for the rest of the year

- With a balanced portfolio (43% public companies, 38% private companies, 10% funds, and 2% other assets) and several mature positions that HBM is currently harvesting to generate cash, the fund remains well-positioned for the rest of the year.
- Hence, despite anticipating a still challenging market, driven by speculation around interest rate cuts, geopolitical tensions, and political uncertainty, HBM appears to be well-positioned to seize any opportunities to reinforce its public and private portfolio with discounted assets.
- Additionally, the company is expecting several key catalysts from its portfolio companies, including ALX Oncology, ArriVent, Biohaven, BioInvent, IO Biotech, Mineralys Therapeutics, and Natera, which could generate NAV growth for the fund.
- Note that with a current discount to NAV of 19%, we believe that the market has already anticipated the fears in the healthcare/biotech market, and we believe that this represents an interesting investment angle for investors looking for exposure to the biotech field while relying on HBM's stock-picking expertise.

Chart 1: HBM Key figures



Source: HBM Healthcare

Appendix 1: Research framework

Last model update: 08 July 2024

Investment case

- Pharma trends and dynamics remain solid, and HBM has demonstrated its ability to identify the value of promising biotechs early on. HBM has a well-balanced portfolio of public and private companies, and a successful long-term exit strategy (IPO or trade sale).
- Shareholders benefit from an attractive return (a dividend in the range of 3-5% per year and a share buyback), leading to sustainable performance. As a result, HBM's shares posted one of the best five-year performances among its peers.
- Lastly, the non-listed investments could hide interesting value, as they are valued at their acquisition cost in our model.

Catalysts

- Any exit coming from the private portfolio (IPO or trade sale).
- Increased M&A activity by large pharma companies.
- Positive clinical trials in the public portfolio.

Valuation Methodology

- Our valuation is based on the NAV of all investments with a 10% discount to NAV.
- We expect the NAV of HBM's public company portfolio to reach the value implied by analysts' and consensus's target prices, while the valuation of investments in private companies are included at their acquisition costs or the price of the last round of financing.
- Our valuation points to a TP of CHF240.

Risk to our rating

- Failure in clinical trials.
- Sales ramp-up of revenue-generating companies in the portfolio.
- Loss of confidence in HBM's investment team is likely to lead to a lower premium to NAV.

Appendix 2: Company description

HBM Healthcare is a Swiss investment company managed by HBM Partners. It was founded in 2001 and listed on the Swiss Stock Exchange in February 2008. Its investment focus is private and public healthcare companies, mainly in Europe and North America. The investment portfolio is made up of stakes in about 50 companies (its largest investment is less than 20% of the portfolio). It also has investments in healthcare-dedicated funds to diversify outside of its core expertise.

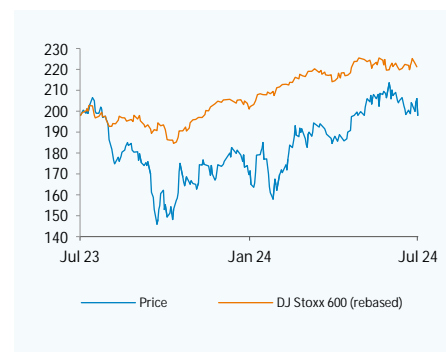
Mgmt

Dr Andreas Wicki, CEO | Erwin Troxler, CFO

Ownership

Free float: 82.70% | Nogra Group: 15.80% | CAAM Fund Service AB: 1.04% | Boarder to Coast Pensions Partnership Lt...: 0.99%

Appendix 3: share price perf.



Appendix 4: SWOT analysis

Strengths

- Highly skilled investment team with long-standing expertise
- Diversified portfolio of late-stage assets, both private and public
- Active role in value creation within portfolio companies
- Listed private healthcare equity fund

Opportunities

- Invested in emerging and innovative therapies
- Substantial clinical newsflow from holding companies
- Intense M&A activity in the global healthcare sector
- Favourable environment for healthcare IPOs

Weaknesses

- Size could be an obstacle to investing in small- and mid-caps
- Mature portfolio, which needs to be rebalanced
- Mixed performance over the years

Threats

- Competition from listed healthcare equity funds or ETFs
- Venture is an industry that does not scale well
- The biotech boom coming to an end
- Sector rotation with healthcare outflows

Appendix 5: Key financials

Last model update: 08 July 2024

Market data date: 18 July 2024

FY to 31/03 (CHF)	12/16	03/18	03/19	03/20	03/21	03/22	03/23	03/24	03/25E	03/26E
Key figure (CHF)										
NAV/share	na	165.71	187.24	205.56	308.93	284.89	254.81	248.09	239.40	246.72
EPS reported	na	16.40	30.05	26.26	108.71	-11.22	-21.03	-0.16	16.36	17.25
Total div/share	0.00	5.87	6.96	7.45	7.69	12.50	7.50	7.50	8.00	9.00
Ordinary div/share	na	5.87	6.96	7.45	7.69	12.50	7.50	7.50	8.00	9.00
Exceptional div/share	na	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.0%	4.9%	4.2%	3.8%	2.8%	3.8%	3.1%	4.1%	4.0%	4.5%
Valuation										
Discount to NAV	na	-13.1%	-9.8%	-7.6%	7.6%	-3.1%	-16.0%	-22.0%	-17.3%	-19.7%
Balance sheet structure (CHFm)										
GAV	na	1,191.1	1,259.5	1,327.0	2,027.5	1,905.7	1,689.9	1,603.6	1,545.8	1,647.4
NAV	0.0	1,150.5	1,302.6	1,430.1	2,149.2	1,982.0	1,772.7	1,703.9	1,665.5	1,716.4
Cash & others	na	223.2	268.7	229.0	429.2	225.2	232.0	203.4	222.8	172.1
ST Debt	na	164.6	126.1	26.3	257.7	0.0	0.0	3.7	3.7	3.7
LT Debt	na	99.2	99.4	99.6	49.8	148.9	149.2	99.4	99.4	99.4
Holding company net debt	na	40.6	-43.1	-103.1	-121.7	-76.3	-82.8	-100.3	-119.7	-69.0
Net debt/GAV	na	3.4%	-3.4%	-7.8%	-6.0%	-4.0%	-4.9%	-6.3%	-7.7%	-4.2%
Shareholder's equity	na	1,150.5	1,302.6	1,430.1	2,149.2	1,982.0	1,772.7	1,671.3	1,665.5	1,716.4
Book Value per share	na	165.71	187.24	205.56	308.93	284.89	254.81	243.35	239.40	246.72
Cash flow (CHFm)										
Cash flows from operating assets	na	-41.2	-36.4	-53.9	-55.0	-163.7	-29.5	-25.6	-65.0	-68.0
Disposals	na	698.0	726.8	656.1	988.3	620.6	586.6	368.6	650.0	700.0
Investments	na	-584.0	-592.3	-571.7	-695.5	-610.1	-467.9	-250.1	-500.0	-615.0
Cash flows from investing	na	114.0	134.5	84.3	292.8	10.5	118.7	118.5	150.0	85.0
Share issuances	na	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend paid	na	-40.8	-48.4	-51.8	-53.5	-87.0	-67.2	-51.7	-55.7	-62.6
Share buybacks	na	-9.9	-6.1	-0.8	22.2	-2.2	0.0	-33.2	-10.0	-5.0
Others	na	-12.1	4.7	-22.0	-1.4	37.1	-12.8	-37.6	0.0	0.0
Number of shares, YE (m)	na	6.94	6.96	6.96	6.96	6.96	6.96	6.87	6.96	6.96
Latest price / year end	99.0	144.0	168.8	190.0	332.5	276.0	214.0	193.6	198.0	198.0
52 week high	106.5	144.0	184.0	253.5	351.0	365.0	275.5	224.5	213.5	na
52 week low	92.0	99.0	145.0	154.2	187.0	242.0	192.2	146.0	184.6	na
Average price (Year)	98.1	120.1	163.9	197.2	275.9	330.3	238.9	184.3	198.0	198.0

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Hold	32%	30%
Reduce	9%	4%
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Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

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	24/01/2024 05:35	Equity Research	Buy	240.00	165.60

Credit research does not issue target prices. Left intentionally blank.

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Europe

 **Amsterdam**
Kepler Cheuvreux Benelux
Johannes Vermeerstraat 9
1071 DK Amsterdam
+31 20 563 2365

 **London**
Kepler Cheuvreux UK
5th Floor
95 Gresham Street
London EC2V 7NA
+44 20 7621 5100

 **Paris**
Kepler Cheuvreux France
112 Avenue Kleber
75016 Paris
+33 1 53 65 35 00

 **Brussels**
Kepler Cheuvreux Belgium
Rogier Tower
Place Rogier 11
1210 Brussels
+32 11 491460

 **Madrid**
Kepler Cheuvreux Espana
Paseo de la Castellana, 52
28046 Madrid
+34 914 36 5100

 **Stockholm**
Kepler Cheuvreux Sweden
Normalmstorg 12
11146 Stockholm
+46 8 723 51 00

 **Frankfurt**
Kepler Cheuvreux Germany
Taunusanlage 19
60325 Frankfurt
+49 69 756 960

 **Milan**
Kepler Cheuvreux Italia
Via C. Cornaggia 10
20123 Milan
+39 02 8550 7201

 **Vienna**
Kepler Cheuvreux Austria
Kohlmarkt 8/10
1010 Vienna
+43 1 205 77 388

 **Geneva**
Kepler Cheuvreux SA
Avenue Perdretemps 23,
1260 Nyon
Switzerland
+41 22361 5151

 **Oslo**
Kepler Cheuvreux Norway
Filipstad Brygge 1
Munkedamsveien 59B
0270 Oslo
+47 23 13 9080

 **Zurich**
Kepler Cheuvreux Switzerland
Stadelhoferstrasse 22
8001 Zurich
+41 43 333 66 66

North America

 **New York**
Kepler Capital Markets, Inc.
Tower 49
12 East 49th Street, Floor 36
10017 New York, NY USA
+1 212 710 7600