



HBM Healthcare Investments Buy

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Switzerland | Holding companies

Beta Profile: %
DIVIDEND

MCap: CHF1.3bn

Target Price: CHF240.00
Current Price: CHF186.00
Up/downside: 29.0%
Market data: 18 October 2024

Bloomberg: HBMN SW
Free float 83%
Avg. daily volume (CHFm) 1.3
YTD abs performance 1.9%
52-week high/low (CHF) 213.50/148.20

Forex still taking its toll despite positive portfolio news flow

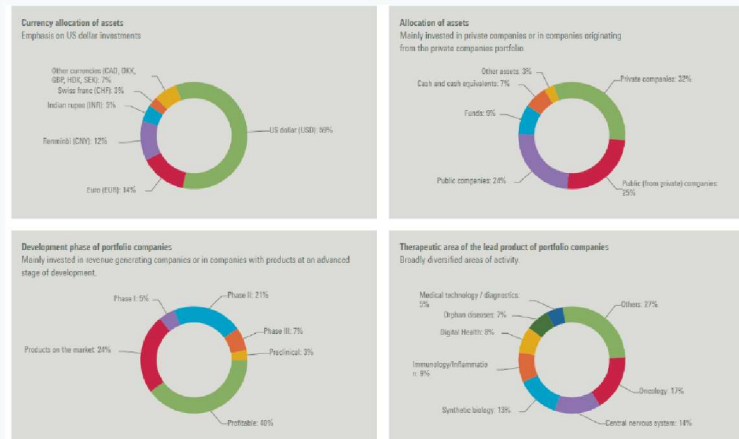
Key points:

- **HBM Healthcare** published its H1 figures this morning, closing the period with a profit of CHF23m (vs. a net loss of CHF70m last year) and an NAV increase of 1.5% over the period.
- Looking at the portfolio, both the private and public segments of the fund contributed positively. The public portfolio delivered a CHF22m net increase in NAV, driven by the increased market valuation of both Cathay Biotech (thanks to positive macro news in China) and Harmony Biosciences (solid commercial performance of Wakix, one of their drugs). Following positive readouts, the company also noted growth from BioInvent (+CHF13m), Insmed (+CHF10m), Argenx (+CHF10m), and ArriVent Biopharma (+CHF5m). However, performance was hampered by Pacira Bioscience (-CHF6m) due to the approval of its first generic and ALX Oncology (-CHF 13m), which presented weaker-than-expected data in the full readout of the ASPEN-06 phase II trial.
- On the private side, the net increase amounted to CHF28m, driven by the sale of Yellow Jersey Therapeutics to J&J (+CHF59m) and positive developments from Swixx Biopharma (+CHF26m). However, several companies contributed negatively, including Alumis Therapeutics (-CHF6m) and Fangzhou (-CHF4m) following their IPOs, as well as several value adjustments totaling CHF-25m.
- The biggest challenge for HBM remained negative forex impacts, which reduced the funds' performance by -5% (i.e., CHF-89m in net profit).
- Overall, excluding the forex impact, HBM delivered a strong return, once again highlighting the diversity of its portfolio, which provides exposure to readouts, M&A, and IPOs. This comes in the context of easing interest rates, yet the company still trades at a 25% discount to NAV. Buy rating reiterated.

Forex remains the main headwind for HBM

- HBM Healthcare Investments delivered a solid performance in the first half of the 2024/25 fiscal year, reporting a profit of CHF23m, with the net asset value (NAV) per share increasing by 1.5%. This was supported by both private and public companies, despite a negative currency impact of nearly 5%. Partial hedging of the US dollar softened the blow from currency losses.
- **Strong contributions from private companies:** The sale of Yellow Jersey Therapeutics to Johnson & Johnson contributed CHF59m, and Swixx BioPharma added CHF26m, reflecting a solid operational performance and revaluation.
- **Public company performance:** BioInvent (+CHF13m), Insmed (+CHF10m), and Argenx (+CHF10m) all benefited from positive clinical trial results, while Cathay Biotech (+CHF8m) and Harmony Biosciences (+CHF8m) also contributed due to strong business growth.
- **Challenges in the portfolio:** Negative currency effects and value adjustments for companies like ConnectRN (-CHF13m) and ALX Oncology (-CHF13m) weighed on the overall performance. ALX's sharp decline followed mixed trial results in the ASPEN-06 study.
- **Asset reallocation:** The portfolio shifted towards public companies (49% of assets) as private company investments decreased to 32%, driven by sales and IPOs. Follow-on investments included CHF34m in private companies and CHF6m in a new investment in Bluejay Therapeutics.

Chart 1: HBM's portfolio at a glance



Source: Kepler Cheuvreux

- **Outlook:** Despite lingering macroeconomic uncertainties, including geopolitical risks and the US elections, HBM's portfolio continues to show strong value-creation potential. Recent IPO activity, including Upstream Bio (which raised USD255m) and the anticipated listing of SAI Life Sciences on the Mumbai stock exchange, is expected to further enhance portfolio value.

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

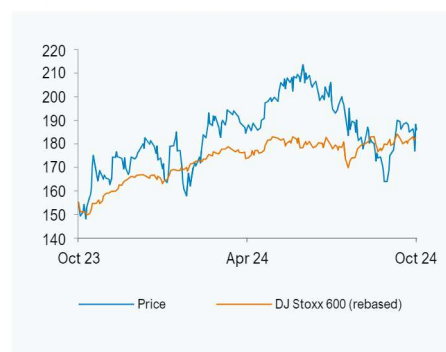
- Failure in clinical trials.
- Sales ramp-up of revenue-generating companies in the portfolio.
- Loss of confidence in HBM's investment team is likely to lead to a lower premium to NAV.

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 October 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%	4.3%	4.8%
Valuation										
Discount to NAV	na	-13.1%	-9.8%	-7.6%	7.6%	-3.1%	-16.0%	-22.0%	-22.3%	-24.6%
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	186.0	186.0
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	164.0	na
Average price (Year)	98.1	120.1	163.9	197.2	275.9	330.3	238.9	184.3	186.0	186.0

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Rating Breakdown	A	B
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Hold	35%	27%
Reduce	8%	4%
Not Rated/Under Review/Accept Offer	3%	6%
Total	100%	100%

Source: Kepler Cheuvreux

A: % of all research recommendations

B: % of issuers to which material services of investment firms are supplied

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Company Name	Date	Business Line	Rating	Target Price	Closing Price
HBM Healthcare Investments (CHF)	21/11/2023 06:13	Equity Research	Buy	253.00	165.00
	24/01/2024 05:35	Equity Research	Buy	240.00	165.60

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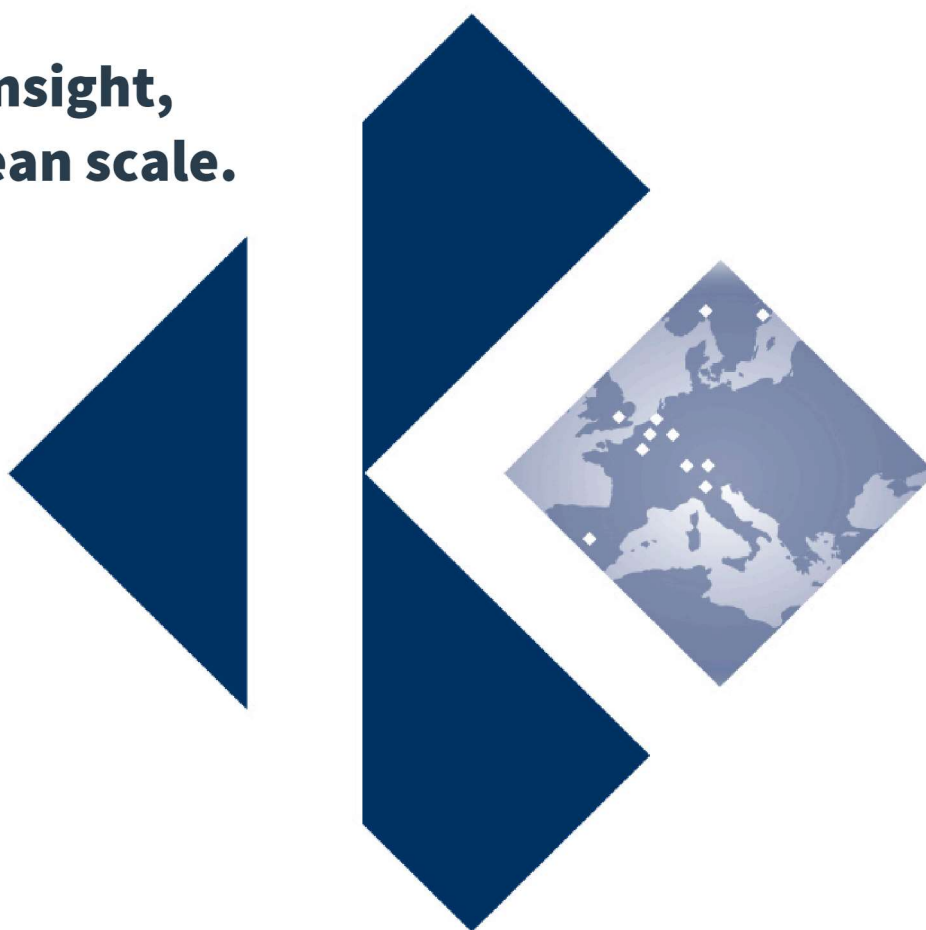
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