

BioDue (BIO2.IM)

Sector: Healthcare

1H2017: Investment and JV start-ups weaken profitability

October 4th, 2017

Investment summary

- BioDue S.p.A. develops, manufactures and markets cosmetics, solid and liquid food supplements and medical devices both on behalf of national and international pharmaceutical companies (Industrial division), both under its own brands (Pharcos, Biofta and Selerbe).
- The BoD of BioDue S.p.A. on August 3, 2017 resolved to initiate a feasibility study for admission to MTA negotiations, possibly STAR segment. This decision is in line with the strategic development plan and consistent with the desire to focus on dimensional growth even for external lines, as well as on strengthening the internationalization process.

Latest news

- BioDue has adopted the IFRS accounting standards for the preparation of the financial statements as of January 1, 2017.
- In the 1H2017 BioDue's turnover increased 3.3% yoy and amounted to 18.4M€ driven by Selerbe's excellent performance (+ 23.2%). The EBITDA declined 13% yoy to 2.4M€ (13.1% EBITDA margin) and the net income amounted to 1.2M€.
- JV Pharcomed Corp. became operational in March 2017, recording revenues of 0.6M\$ in the first four months, 0.2M\$ EBITDA and net profit of 0.1M\$. In line with the holding strategy, in May 2017, Pharcomed Corp. established Pharcomed Mexico SA de CV, a jointly owned Mexican JV; based on commercial agreements, Pharcomed Mexico exclusively distributes Pharcomed products in Mexico.
- On August 4, 2017 Ruffo Benedetti announced that it had completed the sale of 8.162% of the share capital of Biodue S.p.A. through an accelerated bookbuilding executed by Invest Banca S.p.A. and Sempione SIM S.p.A.
- Appointment of Invest Banca S.p.A. as a specialist operator replacing Integrae SIM S.p.A. since September 4th 2017.

Valuation

- BioDue has a thirty-year history of growth, the listing on the AIM market was the first step on a path of growth and strengthening, now it has officially started the process of switching to the main market.
- In light of BioDue expectations for the FY2017 and the growth rate of revenues – made known by the Company - at the end of August (Jan-Aug 2017), almost double that of 3.3% at June 30th 2017, we confirm our valuation and a fair value of 7.11€ per share.

Risks

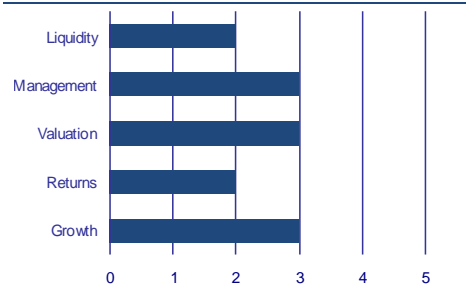
- Further slowdown in the full implementation of the investments in production capacity.
- Difficulties to finalize and manage external growth.

Forecast	16A	17E	18E	19E
Sales (€M)	34.6	37.2	40.1	43.2
EBIT (€M)	3.1	3.8	4.9	5.9
EPS (€)	0.18	0.20	0.26	0.31
Valuation	16A	17E	18E	19E
SHARE PRICE	4.50	5.41	7.49	7.88
EV/EBITDA	11.8	11.9	13.4	11.9
P/E	25.2	26.8	28.9	25.1
Dividend yield	1.3%	1.1%	1.1%	1.4%

Key Data

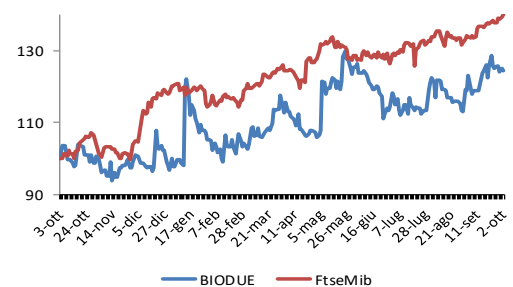
Price (€)	5.41
Market cap (€M)	60.3
Equity Value (€M)	79.3
Fair Value (€)	7.11
P/E LTM	25.2
P/E TTM	26.9

Investment Profile from 1 worst to 5 best



Stock data

Ticker Bloomberg	BIO2.IM
N° of shares (M)	11.1
Free float	21.5%
Main shareholder	Benedetti family (60.3%)
Daily trading volume	8,954 shares



Share Price perf (%)	3M	6M	1A
Absolute	5.2%	10.3%	24.3%
Rel. to FtseMib	-3.3%	-2.4%	-15.9%

Contact mail:
er@twiceresearch.it

Latest results (1H2017)

On June 30th 2017, the Company registered the following results:

- Revenues from sales increased 3.3% yoy to 18.4M€, twelve months before they were equal to 17.8M€.
- Foreign revenues amounted to 2.2M€ in 1H2017, +12.9% yoy; the increase comes to about half from the first effects of Pharcos's distribution on the Americas through Pharmed Corp (operating from March 2017) and the other half to the growth of the Selerbe line for new customers. At June 30th foreign revenues represented 12.1% of total revenues.
- The EBITDA was positive for 2.4M€, representing 13.1% EBITDA margin; it was down by 13% compared to the corresponding period of the previous year due to:
 - the revenue side, the delay in purchases by wholesalers (so-called "holiday orders") however required in the following months;
 - the cost side, the expense for indirect costs (personnel and services) to instrumental and plant investments carried out during the half year as well as the transfer of IN and OUT logistics.
- The EBIT was positive for 1.7M€, 9.4% EBIT margin, after carrying out D&A for 0.7M€, up 0.6M€ due to the large investments made in 2016.
- The net result was equal to 1.2M€, financial costs are extremely low and income taxes amounted to 0.6M€, with an increase in the tax rate ranging from 28.8% to 31.5% as a result of the reduction in the discount rate of the ACE.
- The NFP is negative (debt) for 7M€, 4.7M€ at 31/12/2016 after gross investments for 1.6M€ and distributed dividends for 0.7M€. The operating cash flow generation was neutral. At the end of January 2017, the Company obtained two M/L term loans of 2.6M€, with average interest rate of 1.5%. These new mortgages have expired previous M / L term loans for a total of 1.15M€, interest rates of 2.25%.

M€	1H2017	1H2016	% var
Total Revenues	18.4	17.8	+3.3%
Ebitda	2.4	2.8	-13.0%
<i>Ebitda margin</i>	<i>13.1%</i>	<i>15.6%</i>	
Ebit	1.7	2.2	-20.6%
<i>Ebit margin</i>	<i>9.4%</i>	<i>12.3%</i>	
Net Result	1.2	1.5	-20.0%

	1H2017	FY2016
NFP (cash)	7.0	4.6

Chart: Revenues Breakdown

M€	1H2017	1H2016	% var
<u>Industrial</u>	10.5	10.4	+0.2%
Pharcos	3.9	3.9	-0.5%
Selerbe	2.7	2.2	+23.2%
BiOfta	1.3	1.2	+5.1%
Others	0.003	0.002	+50.0%
Total	18.4	17.8	+3.3%

FINANCIALS

Income statement (€M)	16A	17E	18E	19E	Balance sheet (€M)	16A	17E	18E	19E
Sales	34.6	37.2	40.1	43.2	LONG LIVED ASSETS	14.2	14.4	14.6	14.5
COGS	16.2	17.4	18.7	20.1	WC	7.5	8.0	8.4	8.8
Gross Profit	18.5	19.9	21.4	23.0	CAPITAL EMPLOYED	21.7	22.4	23.0	23.4
EBITDA	4.7	5.4	6.5	7.5	EQUITY	15.1	16.7	18.7	20.9
Depreciation, Amortization	1.3	1.6	1.6	1.6	MINORITY INTEREST	0.0	0.0	0.0	0.0
EBIT	3.1	3.8	4.9	5.9	PROVISIONS	1.0	1.0	1.0	1.0
Net Financial Results	-0.1	-0.1	0.0	0.0	PENSIONS (e.g. TFR)	0.0	0.0	0.0	0.0
Income tax	-1.0	-1.5	-2.0	-2.4	NET DEBT	5.5	4.7	3.3	1.4
Net result	2.0	2.3	2.9	3.5	CAPITAL INVESTED	21.7	22.4	23.0	23.4
EPS (€)	0.18	0.20	0.26	0.31					
DPS (€)	0.06	0.06	0.09	0.11					
Margin (%)	16A	17E	18E	19E	Ratios	16A	17E	18E	19E
Gross Margin	53.3%	53.3%	53.3%	53.3%	ROCE after tax	8.4%	10.3%	12.8%	15.1%
EBITDA Margin	13.6%	14.6%	16.2%	17.3%	ROE	13.1%	13.5%	15.5%	16.7%
EBIT Margin	8.8%	10.3%	12.2%	13.6%	Capital Turnover	1.6	1.7	1.7	1.8
Net Margin	5.8%	6.0%	7.2%	8.1%	Net Debt / EBITDA	1.2	0.9	0.5	0.2
					Gearing	36.5%	27.9%	17.9%	6.7%
Growth (%)	16A	17E	18E	19E	WC / Sales	21.8%	21.5%	21.0%	20.5%
Sales growth	3.0%	7.6%	7.7%	7.6%	Amortization / Sales	3.8%	4.3%	4.0%	3.7%
EBIT growth	-16.0%	25.8%	27.4%	20.2%	Capex / Sales	13.9%	8.1%	4.5%	3.5%
Net growth	-15.8%	13.1%	28.4%	21.0%	EPS growth	-15.8%	13.1%	28.4%	21.0%
					PEG	-159.0	204.5	101.5	119.7
Cash Flow statement (€M)	16A	17E	18E	19E	Valuation	16A	17E	18E	19E
Cash Flow	3.3	3.9	4.5	5.1	EV/Sales	1.6	1.7	2.2	2.1
+/- Var. Working Capital	-0.3	-0.5	-0.4	-0.4	EV/EBITDA	11.8	11.9	13.4	11.9
Operating Cash Flow	3.0	3.4	4.1	4.7	EV/EBIT	18.2	16.9	17.7	15.2
Op. Cash Flow / Sales	8.7%	9.1%	10.2%	10.8%	P/E	25.2	26.8	28.9	25.1
Capex	-4.8	-3.0	-1.8	-1.5	P/B	3.3	3.6	4.5	4.2
FCF	-1.8	0.4	2.3	3.2	EV/CE	2.6	2.9	3.8	3.8
FCF / Sales	-5.2%	1.0%	5.7%	7.3%	FCF Yield	-3.6%	0.6%	2.7%	3.6%
					Dividend yield	1.3%	1.1%	1.1%	1.4%
Stock data	16A	17E	18E	19E					
Number of Shares (M)	11.1	11.1	11.1	11.1					
Share price	4.50	5.41	7.49	7.88					
Market cap (€M)	50.2	60.3	83.5	87.9					

Source: Company data, Twice estimates

(*) Financial results at 31/12/2016 expressed in accordance with IAS accounting principles

Valuation

In light of 1H2017 financial results, we confirm our valuation based on 3 years cash flow projections and terminal value computed using *Twice's Sustainable Growth Adjusted P/E* ("SGAP") methodology. The model points out a 7.11€ fair value.

With regards to the 3 years business plan we made the following assumptions:

- For the three years plan we foresee a consolidation of revenues growth, the CAGR 2017 - 2019 will be equal to 7.65%, determined by the following drivers: consolidation and retention of the industrial division's customers and, for the own brands division, full development of the internationalization process (in particular in the American continent), expansion of products range and increase market share.
- Even margins will grow accordingly to the greater use of operating leverage and to the increase of the incidence of own brands sales than industrial division. Ebitda and Ebit margin 2018 will reach respectively 17.3% and 13.6%.
- In FY17 we estimate capex equal to 3.0M€ in line with the investment plan at the time stated by the company.
- The NFP at December 2017 should remain in line with the end of 2016 due to the additional investments planned and it should start to decline since 2018 thanks to the positive cash flows generation.

Cash Flow	FY 2017	FY 2018	FY 2019
Sales	37.2	40.1	43.2
<i>Sales growth</i>	7.6%	7.7%	7.6%
EBIT	3.8	4.9	5.9
<i>Margin</i>	10.3%	12.2%	13.6%
Taxes	1.5	2.0	2.4
<i>Tax rate</i>	40.0%	40.0%	40.0%
Net Result	2.3	2.9	3.5
Depreciation	1.6	1.6	1.6
<i>% of sales</i>	4.3%	4.0%	3.7%
Capex	-3.0	-1.8	-1.5
<i>% of sales</i>	-8.1%	-4.5%	-3.5%
Var. Working Capital	-0.5	-0.4	-0.4
Dividends	0.7	1.0	1.2
Free Cash Flow after dividends	-0.3	1.3	1.9

NET RESULT 2019	3.5
<i>SGA PE</i>	24.9
TV actualized	76.7
Dividends actualized	2.6
Equity value (€M)	79.3
Number of Shares (M)	11.1
Equity value per share (€)	7.11
<i>Upside</i>	31.4%

Sensitivity analysis		Net result CAGR 2016-2019				
		7.9%	14.6%	20.7%	35.9%	52.1%
Mkt premium	3.9%	4.4				14.1
	2.4%		7.5		13.2	
	3.3%			7.11		
	5.8%		4.0		6.9	
	8.4%	2.4				7.3