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Sector: Health Care & biotechnology
Bloomberg code: BMX PW
Price: PLN 22.20
12M EFV: PLN 34.60 (↓)

Market Cap: USD 22.4 m
Av. daily turnover: USD 0.08 m
12M range: 18.40-39.00 PLN
Free float: 73%

BioMaxima

1Q22 financial results preview

We expect record high financials in 1Q22 on the back of a PLN 94.8 million contract for a delivery of SARS-CoV-2 tests signed in January. The contract was fulfilled in the beginning of April and the majority of revenues should have fallen to 1Q22 results, we believe. We forecast 1Q22 revenues/ EBITDA/ EBIT/ NI at PLN 93.4/ 23.9/ 23.4/ 18.8 million which implies that in the discussed quarter the results should beat last year's financials with FY21 revenues and NI at PLN 79.1 million and 10.2 million, respectively. We assume very good operating and net margins, at 25.9% and 20.1%, respectively, due to the effect of scale. We expect a material interest cost growth stemming from the WIBOR rate hikes, albeit this should not affect significantly other P&L items.

Valuation

The valuation horizon forward shift and rising growth in the residual period (due to the high inflation environment) have a positive impact on our valuation, with the negative impact coming from (i) the rise of the risk-free rate, (ii) rise of the market risk premium (due to the outbreak of war in the neighboring country), (iii) cost of debt increase, (iv) peer group multiples decline, and (v) increasing costs of construction materials resulting in an expected capex increase for 2022-23 (from PLN 12.8 million to 14.1 million). In consequence, our 12M EFV for BioMaxima constituting an average of the DCF valuation and peer-relative exercise falls to PLN 34.6 per share with the biggest impact of the risk-free rate rise.

Financial forecasts

Our financial forecasts for the Company are subject to minor modifications due to a growth of financial costs and expected capex increase for 2022-23.

Guide to adjusted profits

No factors necessitating adjustments.

Key data

IFRS consolidated		2021	2022E	2023E	2024E
Sales	PLN m	79.1	161.2	78.8	91.4
EBITDA	PLN m	15.3	29.5	10.1	15.6
EBIT	PLN m	13.7	27.8	7.7	13.1
NI	PLN m	10.2	22.8	7.1	11.8
EPS	PLN	2.30	5.11	1.60	2.66
EPS yoy chg	%	25	123	-69	66
ND	PLN m	13.2	-5.9	-6.2	-13.7
P/E	x	9.7	4.3	13.9	8.4
P/CE	x	8.3	4.1	10.5	6.9
EV/EBITDA	x	7.3	3.2	9.2	5.5
EV/EBIT	x	8.2	3.3	12.0	6.5
DPS	PLN	0.25	0.45	0.77	0.24
Gross dividend yield	%	1.1	2.0	3.5	1.1
No. of shares (eop)	m	4.5	4.5	4.5	4.5

Source: Company, DM BOŚ SA estimates.

Stock performance



Source: Bloomberg

Upcoming events

1. Release of consolidated 1Q22 financial results: May 30
2. Ex-dividend day (DPS at PLN 0.45): June 9
3. General Shareholders Assembly: June 13
4. Dividend payment: June 23
5. Release of consolidated 1H22 financial results: September 30
6. Release of consolidated 3Q22 financial results: November 28

Fig. 1. Biomaxima; 1Q22 financial results preview

IFRS consolidated (PLN m)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22E	yoy chg	FY21	FY22E	yoy chg
Sales	7.0	16.4	14.4	23.4	26.7	14.8	14.4	23.3	93.4	250%	79.1	161.2	104%
EBITDA	1.0	4.1	1.7	5.1	8.2	1.2	1.7	4.2	23.9	191%	15.3	29.5	93%
EBITDA margin	13.6%	25.1%	11.6%	21.9%	30.7%	8.0%	11.9%	18.2%	25.5%	-	19.4%	18.3%	-
EBIT	0.6	3.8	1.4	4.7	7.8	0.8	1.2	3.8	23.4	198%	13.7	27.8	104%
EBIT margin	8.8%	23.1%	9.4%	20.1%	29.3%	5.6%	8.6%	16.1%	25.0%	-	17.3%	17.3%	-
Net profit	0.0	3.1	1.2	3.7	6.3	0.6	1.1	2.2	18.8	200%	10.2	22.8	123%
Net profit margin	0.5%	18.6%	8.3%	15.6%	23.5%	4.3%	7.8%	9.5%	20.1%	-	13.0%	14.1%	-

Source: Company, DM BOŚ SA

Other issues

On June 13, the General Shareholders Assembly is convened that will vote, among other things, on the buyback of shares. The buyback will include up to 432,000 shares (10% of the Company's shares) each priced not more than PLN 30 per share. BioMaxima's management explains that the buyback is justified by the Company's good financial condition and low market price.

A number of Ukrainian immigrants in Poland has exceeded 3 million since the outbreak of war. The COVID-19 vaccination rate in Ukraine belongs to the lowest in Europe; this is true with respect to vaccinations against other diseases such as measles,

tuberculosis, polio, etc. We believe, that in the upcoming quarters BioMaxima may experience some demand for diagnostics regarding the above mentioned diseases.

In May, QIAGEN N.V. (a German provider of sample and assay technologies for molecular diagnostics, applied testing, academic and pharmaceutical research) acquired a 96% share in Blirt, Polish company focusing on production of specialty enzymes utilized in nucleic acid purification and sequencing. The price tag stood at PLN 274.8 million which implies Blirt's valuation corresponding to 7x / 50x their revenues/ profits. The transaction confirms the foreign investors' interest in Poland's molecule diagnostics market which is the turf where BioMaxima operates.

Catalysts

1. The SARS-CoV-2 becomes endemic
2. Increase in demand for the Group's products unrelated to the pandemic
3. Increasing patients awareness
4. Production capacity expansion
5. Successful launch of new products
6. Exports development
7. Unvaccinated Ukrainian immigrants diagnostics (e.g. SARS-CoV-2, tuberculosis, measles, polio)
8. Acquisitions of companies compatible with the Company's operations
9. A potential takeover target
10. Successful restructuring of the Romanian subsidiary
11. Moderate efficacy of vaccines and drugs for Covid-19
12. Presence in all the fast growing IVD segments
13. Increasing recognition of the Company in Poland and abroad
14. High efficacy of the Company's tests in detection of Omicron
15. Spreading over time the changes in law (IVDR)

Risk factors

1. Dwindling demand related to the economic deterioration
2. The SARS-CoV-2 pandemic development
3. Change in the health care systems priorities
4. Change in reimbursement policies and IVD funding
5. Change in cooperation terms with public bodies
6. Change in law (IVDR) (postponed for 3 years)
7. Entry of new solutions to the market
8. Growing competition
9. Intellectual property breach
10. Deterioration of products quality
11. Loss of key employees
12. Lack of qualified staff
13. Changes in the shareholding structure
14. FX rates

Competitive advantages

1. European brand (vital for exports)
2. Attractive products prices as compared to global players
3. Well established market position in Poland
4. Important sales relationships outside Poland
5. Broad product offer (over 3,000 indexes)
6. Own production technologies
7. Focus on globally known and implemented technologies

BASIC DEFINITIONS

A/R turnover (in days) = $365/(\text{sales}/\text{average A/R})$
Inventory turnover (in days) = $365/(\text{COGS}/\text{average inventory})$
A/P turnover (in days) = $365/(\text{COGS}/\text{average A/P})$
Current ratio = $(\text{current assets} - \text{ST deferred assets})/\text{current liabilities}$
Quick ratio = $(\text{current assets} - \text{ST deferred assets} - \text{inventory})/\text{current liabilities}$
Interest coverage = $(\text{pre-tax profit before extraordinary items} + \text{interest payable})/\text{interest payable}$
Gross margin = $\text{gross profit on sales}/\text{sales}$
EBITDA margin = $\text{EBITDA}/\text{sales}$
EBIT margin = EBIT/sales
Pre-tax margin = $\text{pre-tax profit}/\text{sales}$
Net margin = $\text{net profit}/\text{sales}$
ROE = $\text{net profit}/\text{average equity}$
ROA = $(\text{net income} + \text{interest payable})/\text{average assets}$
EV = $\text{market capitalization} + \text{interest bearing debt} - \text{cash and equivalents}$
EPS = $\text{net profit}/\text{no. of shares outstanding}$
CE = $\text{net profit} + \text{depreciation}$
Dividend yield (gross) = $\text{pre-tax DPS}/\text{stock market price}$
Cash sales = $\text{accrual sales corrected for the change in A/R}$
Cash operating expenses = $\text{accrual operating expenses corrected for the changes in inventories and A/P, depreciation, cash taxes and changes in the deferred taxes}$

DM BOŚ S.A. generally values the covered non bank companies via two methods: comparative method and DCF method (discounted cash flows). The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the DCF method is its independence from the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Please note that we also resort to other valuation techniques (e.g. NAV-, DDM- or SOTP-based), should it prove appropriate in a given case.

KEY TO INVESTMENT RANKINGS

This is a guide to expected price performance in absolute terms over the next 12 months:

Buy – fundamentally undervalued (upside to 12M EFV in excess of the cost of equity) + catalysts which should close the valuation gap identified;
Hold – either (i) fairly priced, or (ii) fundamentally undervalued/overvalued but lacks catalysts which could close the valuation gap;
Sell – fundamentally overvalued (12M EFV < current share price + 1-year cost of equity) + catalysts which should close the valuation gap identified.

This is a guide to expected relative price performance:

Overweight – expected to perform better than the benchmark (WIG) over the next quarter in relative terms
Neutral – expected to perform in line with the benchmark (WIG) over the next quarter in relative terms
Underweight – expected to perform worse than the benchmark (WIG) over the next quarter in relative terms

The recommendation tracker presents the performance of DM BOŚ S.A.'s recommendations. A recommendation expires on the day it is altered or on the day 12 months after its issuance, whichever comes first.

Relative performance compares the rate of return on a given recommended stock in the period of the recommendation's validity (i.e. from the date of issuance to the date of alteration or – in case of maintained recommendations – from the date of issuance to the current date) in a relation to the rate of return on the benchmark in this time period. The WIG index constitutes the benchmark. For recommendations that expire by an alteration or are maintained, the ending values used to calculate their absolute and relative performance are: the stock closing price on the day the recommendation expires/ is maintained and the closing value of the benchmark on that date. For recommendations that expire via a passage of time, the ending values used to calculate their absolute and relative performance are: the average of the stock closing prices for the day the recommendation elapses and four directly preceding sessions and the average of the benchmark's closing values for the day the recommendation expires and four directly preceding sessions.

Distribution of DM BOŚ's current recommendations

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	47	25	4	9	0	2
Percentage	54%	29%	5%	10%	0%	2%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	39	34	4	9	0	1
Percentage	45%	39%	5%	10%	0%	1%

Banks

Net Interest Margin (NIM) = $\text{net interest income}/\text{average assets}$
Non interest income = $\text{fees\&commissions} + \text{result on financial operations (trading gains)} + \text{FX gains}$
Interest Spread = $(\text{interest income}/\text{average interest earning assets})/(\text{interest cost}/\text{average interest bearing liabilities})$
Cost/Income = $(\text{general costs} + \text{depreciation})/(\text{profit on banking activity} + \text{other net operating income})$
ROE = $\text{net profit}/\text{average equity}$
ROA = $\text{net income}/\text{average assets}$
Non performing loans (NPL) = loans in 'basket 3' category
NPL coverage ratio = $\text{loan loss provisions}/\text{NPL}$
Net provision charge = $\text{provisions created} - \text{provisions released}$

DM BOŚ S.A. generally values the covered banks via two methods: comparative method and fundamental target fair P/E and target fair P/BV multiples method. The advantage of the former is the fact that it incorporates the current market assessment of the value of the company's peers. The weakness of the comparative method is the risk that the valuation benchmark may be mispriced. The advantage of the fundamental target fair P/E and target fair P/BV multiples method is its independence of the current market valuation of the comparable companies. The weakness of this method is its high sensitivity to undertaken assumptions, especially those related to the residual value calculation. Assumptions used in valuation can change, influencing thereby the level of the valuation. Among the most important assumptions are: GDP growth, forecasted level of inflation, changes in interest rates and currency prices, employment level and change in wages, demand on the analysed company products, raw material prices, competition, standing of the main customers and suppliers, legislation changes, etc. Changes in the environment of the analysed company are monitored by analysts involved in the preparation of the recommendation, estimated, incorporated in valuation and published in the recommendation whenever needed.

Distribution of DM BOŚ's current recommendations for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Buy	Hold	Sell	Suspended	Under revision	Not rated
Numbers	11	5	0	1	0	2
Percentage	58%	26%	0%	5%	0%	11%

Distribution of DM BOŚ's current market relative recommended weightings for the companies which DM BOŚ has supplied with material investment services within the last 12 months

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	10	6	1	1	0	1
Percentage	53%	32%	5%	5%	0%	5%

Recommendation tracker

Analyst	Fundamental Recommendation	Relative Recommendation	Report date	Reiteration date	Distribution date	Price at issue/ reiteration*	EFV (12 months)
Biomaxima							
Sylwia Jaśkiewicz	Not rated	Not rated	06.09.2021	-	07.09.2021	30.70	37.30 –
Sylwia Jaśkiewicz	-	-	-	07.10.2021	07.10.2021	23.98	37.30 →
Sylwia Jaśkiewicz	-	-	-	04.11.2021	04.11.2021	23.20	37.30 →
Sylwia Jaśkiewicz	-	-	-	07.11.2021	08.11.2021	24.50	37.30 →
Sylwia Jaśkiewicz	-	-	-	15.11.2021	16.11.2021	26.20	37.30 →
Sylwia Jaśkiewicz	-	-	-	05.12.2021	06.12.2021	25.96	37.30 →
Sylwia Jaśkiewicz	-	-	-	16.01.2022	17.01.2022	34.40	37.30 →
Sylwia Jaśkiewicz	-	-	-	04.02.2022	04.02.2022	31.98	41.40 ↑
Sylwia Jaśkiewicz	-	-	-	07.02.2022	07.02.2022	30.50	41.40 →
Sylwia Jaśkiewicz	-	-	-	28.02.2022	28.02.2022	24.78	41.40 →
Sylwia Jaśkiewicz	-	-	-	14.04.2022	14.04.2022	22.75	41.40 →
Sylwia Jaśkiewicz	-	-	-	01.05.2022	02.05.2022	21.75	41.40 →
Sylwia Jaśkiewicz	-	-	-	19.05.2022	20.05.2022	22.20	34.60 ↓

* prices at issue/reiteration are the closing prices at the report or reiteration date

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This report constitutes a recommendation within the meaning of Commission Delegated Regulation (EU) 2016/958 of 9 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the technical arrangements for objective presentation of investment recommendations or other information recommending or suggesting an investment strategy and for disclosure of particular interests or indications of conflicts of interest. This report is for information purposes only.

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The report was not shown to the analyzed company before the distribution of the report.

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