

29/2022/GPW (88) September 7, 2022

This report is prepared for the Warsaw Stock Exchange SA within the framework of the Analytical Coverage Support Program 3.0.

BioMaxima

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Analysts:
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Mikołaj Stępień

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Sector: Health Care & biotechnology
Bloomberg: BMX PW
Price: PLN 25.85
12M EFV: PLN 37.10 (→)

Market Cap: US\$ 23.4 m
Av. daily turnover: US\$ 0.07 m
12M range: PLN 18.14-39.00
Free float: 73%

BioMaxima

Recent events

- Buyback start: June 29
- Ex-dividend day (DPS at PLN 0.45): June 22
- Tests for monkeypox virus diagnostics placed on the market

Upcoming events

- Release of consolidated 1H22 financial results: September 30
- Release of consolidated 3Q22 financial results: November 28

2Q22 financial results preview

The vital contract for a delivery of tests for SARS-CoV-2 (worth PLN 94.8 million) signed at the beginning of this year was realized in 85% in 1Q22 with the remaining 15% (c. PLN 14.2 million) to support 2Q22E results. We forecast 2Q22 revenues/ EBITDA/ EBIT/ NI at PLN 27.2/ 5.4/ 4.9/ 4.1 million. The Company managed to generate high margins on this contract which was reflected in 1Q22 financials; that's why we expect the healthy level of 2Q22 EBIT margin, albeit lower qoq (18.1%). Due to the low base effect, we expect a very high yoy growth dynamic of revenues/ EBITDA/ EBIT/ NI.

Pending buyback

To date, the Company has purchased 153,500 shares (3.5% of the share capital) for PLN 4.3 million in the pending buyback which implies a PLN 28 per share price. BioMaxima has spent already 86% of the amount earmarked for the buyback (PLN 5 million). We assume that the buyback should come to an end before the release of 2Q22 financial results (scheduled for September 30). As the own shares are purchased to be then redeemed, we change the diluted number of the Company's shares to 4.31 million.

Guide to adjusted profits

No factors necessitating adjustments.

Key data

IFRS consolidated		2021	2022E	2023E	2024E
Sales	PLN m	79.1	160.3	78.8	91.4
EBITDA	PLN m	15.3	42.7	10.1	15.6
EBIT	PLN m	13.7	40.6	8.0	13.1
NI	PLN m	10.2	33.1	7.8	12.0
EPS	PLN	2.30	7.69	1.82	2.78
EPS yoy chg	%	25	235	-76	53
ND	PLN m	0.0	-15.6	-10.8	-18.3
P/E	x	11.2	3.3	14.1	9.2
P/CE	x	9.6	3.1	11.2	7.6
EV/EBITDA	x	7.5	2.2	9.9	5.9
EV/EBIT	x	8.4	2.3	12.5	7.0
DPS	PLN	0.25	0.46	1.15	0.27
Gross dividend yield	%	1.0	1.8	4.5	1.1
No. of shares (eop)	m	4.5	4.3	4.3	4.3

Source: Company, DM BOŚ SA estimates

Stock performance



Source: Bloomberg

Fig. 1. Biomaxima; 2Q22 results preview

IFRS consolidated (PLN m)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22E	yoy chg
Sales	7.0	16.4	14.4	23.4	26.7	14.8	14.4	23.3	93.6	27.2	84%
EBITDA	1.0	4.1	1.7	5.1	8.2	1.2	1.7	4.2	30.7	5.4	361%
EBITDA margin	13.6%	25.1%	11.6%	21.9%	30.7%	8.0%	11.9%	18.2%	32.8%	19.9%	-
EBIT	0.6	3.8	1.4	4.7	7.8	0.8	1.2	3.8	30.2	4.9	496%
EBIT margin	8.8%	23.1%	9.4%	20.1%	29.3%	5.6%	8.6%	16.1%	32.3%	18.1%	-
Net profit	0.0	3.1	1.2	3.7	6.3	0.6	1.1	2.2	24.2	4.1	541%
Net profit margin	0.5%	18.6%	8.3%	15.6%	23.5%	4.3%	7.8%	9.5%	25.8%	15.1%	-

Source: Company, DM BOŚ SA

Valuation

Our 12M EFV is under a positive impact of (i) valuation horizon forward shift, (ii) slight decline of the RFR, and (iii) lower number of shares due to the pending buyback, while falling medians of the peers' valuation multiples have a negative impact on our assessment of the Company's 12M EFV. Ultimately, as neither negative nor positive factors get the upper

hand, our 12M EFV constituting an average of the outcomes of the DCF valuation and peer-relative valuation stays at PLN 37.10 per share intact.

Financial forecasts

We slightly modify our financial forecasts to account for the transfer of a part of capex from 2022 to 1Q23 and current costs of the pending buyback.

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	45	27	4	9	0	2
Percentage	52%	31%	5%	10%	0%	2%

Distribution of DM BOŚ's current market relative recommended weightings

	Overweight	Neutral	Underweight	Suspended	Under revision	Not rated
Numbers	38	32	6	9	0	2
Percentage	44%	37%	7%	10%	0%	2%

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	9	5	0	1	0	2
Percentage	53%	29%	0%	6%	0%	12%

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	9	4	1	1	0	2
Percentage	53%	24%	6%	6%	0%	12%

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During the last 12 months DM BOŚ S.A. rendered investment services on behalf of BioMaxima pursuant to the agreement signed and received a remuneration by virtue of this.

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

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