

Thursday, December 22, 2016 | research report

# Polski Bank Komórek Macierzystych: buy (new)

**BKM PW; BKM.WA | Other, Poland**

## Dividend In The Blood

**PBKM collects and stores blood left in the umbilical cords and placenta of newborns. Cord blood can be used to harvest stem cells that can assist in the treatment of a variety of life-threatening diseases, including anemia, leukemia, metabolic and immunological disorders, and in regenerative medicine. It provides an alternative to embryonic and bone marrow stem cells. PBKM has a leading position in Poland and across Europe, with a market share of 14% built among others via the blood bank chain FamiCord. The Company operates a successful distribution network, and it has established close relationships with healthcare providers. An investment in PBKM provides a rare combination of a defensive play, relatively low exposure to political risk, and dividends (with dividend yield in 2017 forecast at 3.2%). Further, PBKM offers strong growth potential with a projected 2016-2019E CAGR of 17%, coupled with a healthy balance sheet, set to produce net cash throughout the forecast period. We are initiating coverage of PBKM with a buy rating and a price target of PLN 70.00 per share.**

## A defensive business model

PBKM's core market of healthcare services is characterized by low sensitivity to economic conditions. What is more, PBKM has built a mostly subscription-based revenue model which gives it an edge over European competition, and which generates less long-term risk than blood storage offered on a prepaid basis, and makes revenues more predictable. About 23% of the Company's cash revenue comes from blood storage, where the customer churn rate is low at less than 1%.

## Dividend potential

PBKM's dividend policy provides for annual distributions of up to 50% of consolidated annual net earnings. Because of the relatively low operating cash flow generated in 2016, next year's payout ratio will likely be scaled back to 35%, but within two years it should be restored to 50%. We believe PBKM will offer dividend yield of 7% in 2019, supported by limited capital investment (with CAPEX less than 4% of revenue) and a stable balance sheet with a consistent net cash position.

## Earnings outlook

The number of blood samples that PBKM has acquired for storage via B2C transactions has doubled to 123 thousand in the last three years. We expect PBKM to cross the 200,000 mark in 2020, one year later than the Company itself is aiming for, driven by Poland, where the market penetration rate with blood banking services is low at 1-3%, but is expected to increase with the increasing population and affluence of urban areas, and by Turkey, where the birth rate is the highest in Europe (with 1,337,000 live births per year) while the blood bank market penetration rate is less than 1%. The growth in the banked blood volume will be supported by operating leverage.

(PLN m)	2014	2015	2016E	2017E	2018E
Revenue	85.0	104.8	125.7	140.1	154.7
EBITDA (adjusted)	19.0	27.3	34.7	42.2	49.5
margin	22.4%	26.1%	27.7%	30.1%	32.0%
EBIT	12.0	15.4	29.9	36.1	43.3
Net income	10.0	9.1	24.0	29.0	34.9
DPS	0.79	1.21	1.41	1.69	2.48
P/E	26.9	29.4	11.2	9.3	7.7
P/CE	20.3	19.7	9.3	7.6	6.5
P/B	7.8	6.6	4.7	3.4	2.7
EV/EBITDA (adj.)	13.9	9.7	7.7	6.3	5.3
DYield	1.5%	2.2%	2.6%	3.1%	4.6%

<b>Current Price</b>	PLN 53.95
<b>Target Price</b>	PLN 70.00
<b>Market Cap</b>	PLN 255m
<b>Free Float</b>	PLN 124bn
<b>ADTV 3M</b>	PLN 0.61m

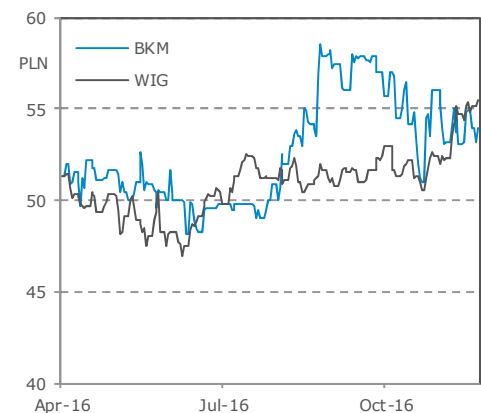
## Ownership

EVF I Investments	38.1%
Jakub Baran (CEO)	8.0%
Altus TFI	5.3%
Oskar Chejda	5.1%
Others	43.5%

## Business Profile

PBKM is the only blood bank in Poland offering cord blood storage. The Company is also involved in the development of advanced therapy medicinal products. PBKM has a presence in fifteen European Union countries, including via the chain blood bank locations FamiCord. The company runs seven labs, three in Poland and the rest in Hungary, Romania, Spain, and Turkey.

## BKM vs. WIG



Company	Target Price		Rating	
	new	old	new	old
PBKM	70.00	-	buy	-

Company	Current Price	Target Price	Upside
PBKM	53.95	70.00	+29.7%

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**List of abbreviations and ratios contained in the report:**

**EV** – net debt + market value  
**EBIT** – Earnings Before Interest and Taxes  
**EBITDA** – EBIT + Depreciation and Amortisation  
**P/CE** – price to earnings with amortisation  
**MC/S** – market capitalisation to sales  
**EBIT/EV** – operating profit to economic value  
**P/E** – (Price/Earnings) – price divided by annual net profit per share  
**ROE** – (Return on Equity) – annual net profit divided by average equity  
**P/BV** – (Price/Book Value) – price divided by book value per share  
**Net debt** – credits + debt papers + interest bearing loans – cash and cash equivalents  
**EBITDA margin** – EBITDA/Sales

**OVERWEIGHT (OW)** – a rating which indicates that we expect a stock to outperform the broad market  
**NEUTRAL (N)** – a rating which indicates that we expect the stock to perform in line with the broad market  
**UNDERWEIGHT (UW)** – a rating which indicates that we expect the stock to underperform the broad market

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A recommendation is valid for a period of 6-9 months, unless a subsequent recommendation is issued within this period. Expected returns from individual recommendations are as follows:

**BUY** – we expect that the rate of return from an investment will be at least 15%  
**ACCUMULATE** – we expect that the rate of return from an investment will range from 5% to 15%  
**HOLD** – we expect that the rate of return from an investment will range from -5% to +5%  
**REDUCE** – we expect that the rate of return from an investment will range from -5% to -15%  
**SELL** – we expect that an investment will bear a loss greater than 15%  
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The production of this recommendation was completed on December 22, 2016, 8:45 AM.  
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**Relative** – based on a comparison of valuation multipliers of companies from a given sector; simple in construction, reflects the current state of the market better than DCF; weak points include substantial variability (fluctuations together with market indices) as well as difficulty in the selection of the group of comparable companies.  
**Economic profits** – discounting of future economic profits; the weak point is high sensitivity to changes in the assumptions made in the valuation model.  
**Discounted Dividends (DDM)** – discounting of future dividends; the weak point is high sensitivity to changes in the assumptions as to future dividends made in the valuation model.  
**NAV** – valuation based on equity value, one of the most frequently used method in case of developing companies; the weak point of the method is that it does not factor in future changes in revenue/profits of a company.

**mBank did not issue any investment recommendation for PBKM in the 12 months prior to this publication**

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