Mabion

Santander Biuro Maklerskie

Bloomberg: MAB WA, Reuters: MAB.WA

CEE Equity Research

Pharma & Biotech, Poland

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Right time, right place

Upgrading to Hold, TP raised to PLN99 from PLN57

Mabion's manufacturing agreement with Novavax totals PLN1.5bn until 2025 which nearly doubles our expectations. We believe the contract makes the company's business self-sufficient. Management indicated the search of a strategic investor is continued, but we now expect a considerable delay. We have increased our earnings forecasts notably to reflect just-signed agreement. We have increased our target price to PLN99 from PLN57. We are upgrading Mabion to Hold from Sell.

Manufacturing agreement with Novavax signed. Mabion signed a manufacturing agreement with Novavax for commercial production of API to Novavax's covid vaccine in 2021-25. The value of the contract totals USD372mn (PLN1.5bn). Mabion expects to start production in December 2021 and book c. 40% of the value of the contract in 2022-23. Mabion's current manufacturing capacity, consisting of two bioreactors, is set to be increased by another two units in 2023 at the cost of c. PLN45-50mn. Management indicated profitability of the contract should change alongside growing volumes. The company also highlighted its production process is very efficient as well as it has cost advantage over European API producers, therefore its margins should exceed margins of European peers.

Earnings upgrades. We estimate Mabion's revenues from vaccine API manufacturing at PLN232mn in 2022E, PLN334mn in 2023E and PLN435mn both in 2024 and 2025E. We also forecast gross profit of the contract at PLN93mn, PLN150mn and PLN218mn in 2022-24E, respectively. Our gross margin assumption throughout the contract is 47%, reflecting scarcity of unutilised Good Manufacturing Practice certified facilities worldwide.

M&A story: Mabion's management indicated the search for a strategic investor is continued. We believe the agreement with Novavax is likely to delay the process notably as potential investors need time to process new data as well as Mabion's self-sufficient business does not appear to need an investor urgently.

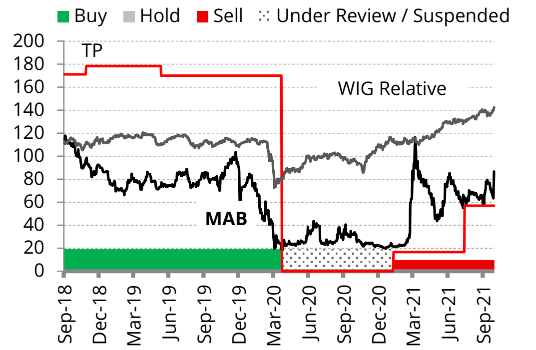
Valuation and risks. We set our target price based on a sum of the parts model at PLN99 (increased from PLN57). The stock offers 17% to our target price but we rate it Hold owing to 1) high volatility of share price recently and 2) engagement in new ventures, which in our opinion call for additional risk premium. Manufacturing business (PLN83/share) accounts for c. 85% of our target price. We valued it as an average of replacement value (PLN169mn), NPV of contract with Novavax (PLN475mn) and valuation treating the business on a par with global CDMO companies, using 20x EV/EBITDA multiple (PLN3,391mn). Regulatory process (i.e. registration of Novavax's covid vaccine), production process (i.e. quality) and competitive environment are the major business risks. The M&A process, which Mabion has started, creates additional risks to share price (upside and downside), associated with likely take-over bids.

Mabion: Financial summary and ratios (PLNmn)

Year to December	2018	2019	2020	2021E	2022E	2023E
Sales	2.1	0.0	0.0	14.5	232.1	333.7
EBITDA	-54.0	-52.2	-44.8	-33.9	53.9	121.2
EBIT	-64.6	-63.3	-54.7	-42.9	44.9	112.2
Net profit	-68.9	-63.7	-55.8	-42.9	44.9	112.2
P/E (x) adj.	NM	NM	NM	NM	30.4	12.1
EV/ EBITDA (x)	NM	NM	NM	NM	24.6	10.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, Santander Brokerage Poland estimates NOTE: historical 2019-20 valuation ratios based on historical average prices.

Recommendation	**Hold**
12M Target Price (PLN)	**99**
Price (PLN, 8 October 2021)	84.3
Market cap (PLNbn)	1.4
Free float	64%
Number of shares (mn)	16.2



The chart measures performance against the WIG index.

Company description

Mabion is a biotechnology company located in Poland.

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Fig. 1. Mabion: Assumptions, Financials and Ratios

Key ratios	2017	2018	2019	2020	2021E	2022E	2023E
EPS (PLN)	-4.91	-5.02	-4.64	-4.06	-2.66	2.78	6.94
DPS (PLN)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (PLN)	-4.59	3.07	-1.57	-5.64	0.83	3.60	10.54
No of shares (mn)	11.8	13.7	13.7	13.7	16.2	16.2	16.2
MCAP (PLNmn)	1,138	1,444	1,089	457	1,454	1,454	1,454
EV (PLNmn)	1,203	1,391	1,083	492	1,420	1,416	1,305
P/E (x)	NM	NM	NM	NM	NM	30.4	12.1
P/BV (x)	NM	34.3	NM	NM	101.9	23.4	8.0
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EV/Sales (x)	546	675	NM	NM	91.5	5.7	3.6
EV/EBITDA (x)	NM	NM	NM	NM	NM	24.6	10.0

Income statement (PLNmn)	2017	2018	2019	2020	2021E	2022E	2023E
Revenues	2.2	2.1	0.0	0.0	14.5	232.1	333.7
EBITDA	-46.3	-54.0	-52.2	-44.8	-33.9	53.9	121.2
D&A	8.0	10.7	11.1	9.8	9.0	9.0	9.0
EBIT	-54.3	-64.6	-63.3	-54.7	-42.9	44.9	112.2
Net financial costs	3.6	4.2	0.5	1.1	0.0	0.0	0.0
Pre-tax profit	-57.9	-68.9	-63.7	-55.8	-42.9	44.9	112.2
Tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	-57.9	-68.9	-63.7	-55.8	-42.9	44.9	112.2

Balance sheet (PLNmn)	2017	2018	2019	2020	2021E	2022E	2023E
PPE	72.3	72.4	71.7	65.3	71.3	117.3	123.3
Intangibles	0.0	0.0	1.4	1.1	1.1	1.1	1.1
Other non-current assets	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Cash	1.0	58.4	28.0	2.4	86.2	90.0	201.2
Other current assets	8.9	13.7	12.3	9.4	10.4	10.4	10.4
Total Assets	82.4	144.7	113.5	78.3	169.1	218.9	336.1
Equity	-54.2	42.1	-21.6	-77.4	13.4	58.2	170.4
Short and Long term Debt	66.0	5.6	21.9	36.7	51.7	51.7	51.7
Deffered income	12.1	32.7	44.7	48.0	53.0	58.0	63.0
Other liabilities	58.5	64.3	68.5	71.0	51.0	51.0	51.0
Total Equity and Liabilities	82.4	144.7	113.5	78.3	169.1	218.9	336.1
Net debt / (cash)	65.0	-52.8	-6.0	34.3	-34.5	-38.3	-149.5
Net debt to EBITDA (x)	-1.4	1.0	0.1	-0.8	1.0	-0.7	-1.2

Cash flow (PLNmn)	2017	2018	2019	2020	2021E	2022E	2023E
Operating CF, of which	-54.1	-64.6	-33.8	-35.2	-49.9	58.9	126.2
Investing CF	-7.1	-6.8	-9.2	-3.0	-15.0	-55.0	-15.0
FCF pre financing	-61.2	-71.4	-42.9	-38.2	-64.9	3.9	111.2
Equity raised	0.0	164.5	0.0	0.0	133.7	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company data, Santander Brokerage Poland estimates, NOTE: historical 2017-20 valuation ratios based on historical average prices

Fig. 2. Mabion: Earnings revisions (PLNmn)

	2021E			2022E			2023E		
	NEW	OLD	Ch.	NEW	OLD	Ch.	NEW	OLD	Ch.
Sales	**14.5**	95.0	-85%	**232.1**	190.0	22%	**333.7**	190.0	76%
EBITDA	**-33.9**	8.5	NM	**53.9**	56.0	-4%	**121.2**	66.0	84%
EBIT	**-42.9**	-0.5	NM	**44.9**	47.0	-5%	**112.2**	57.0	97%
Net profit	**-42.9**	-0.5	NM	**44.9**	47.0	-5%	**112.2**	57.0	97%
EPS (PLN)	**-0.38**	-32.32	NM	**0.36**	0.34	5%	**0.14**	0.28	-49%

Source: Company data, Santander Brokerage Poland estimates

Valuation

Sum-of-the-parts model

We have increased our target to PLN99 from PLN57.

Our target price is 100% based on a sum-of-the-parts (SOTP) model, in which we separately value the GMP-certified manufacturing plant and the CD20 project.

Fig. 3. Mabion: Sum-of-the-parts valuation model

Asset	Method	Value (PLNmn)	Value per share (PLN)	Success rate	Target price per share (PLN)	Assumptions
Manufacturing plant		1,345	83.2		83.2	Average of replacement value (PLN169mn), NPV of contract with Novavax (PLN475mn) and valuation treating the facility as an operating CDMO business (PLN3,391mn)
CD20 - US	NPV	497	30.7	25%	7.7	Commercial launch in 2026E
CD20 - Europe	NPV	285	17.7	50%	8.8	Commercial launch in 2024E
CD20 - RoW	NPV	109	6.7	25%	1.7	Commercial launch in 2028E
CD20 – cost of clinical trials 2022-23E		-72	-4.5		-4.5	
Net cash (debt) end 2021E		40	2.5		2.5	
Total*		**2,203**	**136.3**		**99**	

*Source: Company data, Santander Brokerage Poland estimates NOTE: *rounded to the nearest integer*

1. Production facility

Mabion owns a GMP-certified production facility. The pandemic exacerbated the scarcity of API production capacity worldwide. Mabion's co-operation agreement with Novavax suggests it could be a basis for a viable CDMO business.

We valued Mabion's production facility using three methods.

Firstly, we tried to establish its replacement costs. According to Mabion's 2020 financial statement, the value of the company's fixed assets before deduction of accumulated depreciation amounted to PLN119mn. The company also plans to invest c. PLN50mn in two new bioreactors. We believe the total (PLN169mn) to be a proxy for replacement value of Mabion's manufacturing plant.

Secondly, we calculated NPV of Mabion's contract with Novavax. We estimate it at PLN475mn. Our model assumes average contract profitability at 47%, lack of overhead costs, zero working capital engagement (prepayments from Novavax) and zero tax rate (utilisation of tax shield).We use WACC of 10%, in line our assumption for biotech sector in Poland.

Fig. 4. Mabion: Contract with Novavax: Assumptions and NPV model

	2021E	2022E	2023E	2024E	2025E	Average 22-25E
Share of total contract value executed	1%	16%	23%	30%	30%	
Revenues in USDmn	3.7	59.5	85.6	111.6	111.6	92.1
USDPLN FX rate	3.9	3.9	3.9	3.9	3.9	
Revenues in PLNmn	14.5	232.1	333.7	435.2	435.2	359.1
contract margin	*35%*	*40%*	*45%*	*50%*	*50%*	*47%*
Gross profit in PLNmn	5.1	92.9	150.2	217.6	217.6	169.6
Capex (PLNmn)		50.0				
FCF (PLNmn)	5.1	42.9	150.2	217.6	217.6	
WACC		10%				
NPV in PLNmn		475				

*Source: Company data, Santander Brokerage Poland estimates NOTE: *rounded to the nearest integer*

Thirdly, we treated Mabion's manufacturing plant as a CDMO business with annual EBITDA equal to the average that we expect the company's report on contract with Novavax in 2022-25E

(PLN170mn). Our peer group of CDMCs is trading at an average 2021E EB/EBITDA of 20x. Applying this ratio to our average EBITDA we arrive at the value of Mabion's CDMO business at PLN3,391mn.

In our SOTP model, we took the average of the replacement value, NPV of contract with Novavax and valuation, treating the production plant as a fully-fledged CDMO business. **We arrived at the value of PLN1,345mn.**

As a sanity check, we looked at M&A market and recent capacity additions by CDMO companies.

- In May 2020 Novavax purchased c. 14k sqm vaccine and biologics manufacturing facility in Czech Republic for USD167mn.
- Lonza, a CDMO which produces the drug substance for Moderna's Covid vaccine, has been adding new capacity (in the USA and Switzerland) at a cost of c. CHF70mn for the production of API for 100mn doses of vaccine annually.

We believe both data points suggest our strategic buyer might value Mabion's manufacturing plant well below our valuation of PLN1,345mn.

2. MabionCD20 project

We value the risk-adjusted NPV of the MabionCD20 in Europe, USA and Rest of The World. Risk-adjustment is based on our subjective assessment of probability of success. Our NPV models use a WACC of 10%. Our SOTP also incorporates cash burn in 2022-23E. We use USDPLN FX rate of 3.9.

We assume the total value of rituximab market, which peaked at over USD7bn in 2017, to shrink to USD4bn in 2025E as a result of the introduction of biosimilar products. In Europe, where the first rituximab biosimilar was introduced in 2017, we estimate the value of market declined from USD1.9bn in 2016 to c. USD1.1bn in 2020 or by c. 45%.

We assume MabionCD20 is launched in Europe in 2024 and in the USA in 2026 and that the product gains 10% market share in three years after its launch. We assume Mabion's royalty revenues at 15% of the product price. We attach a 50% probability of success in Europe, and 25% elsewhere.

We value the MabionCD20 project at PLN17 per share.

Fig. 5. Assumptions: Rituximab market value (USDmn) and market share of MabionCD20

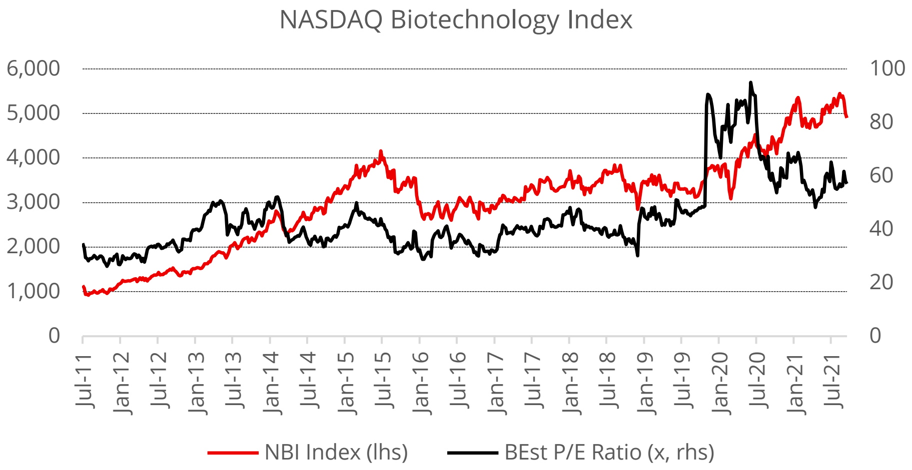
	2016	2017	2018	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Rituximab market value (USDmn)															
US	3,971	4,199	4,384	4,461	3,525	3,173	2,855	2,570	2,231	2,231	2,231	2,231	2,231	2,231	2,231
Europe	1,908	NA	NA	1,186	1,054	954	954	954	954	954	954	954	954	954	954
RoW	1,533	1,590	1,580	1,391	1,200	1,080	972	875	787	709	673	673	673	673	673
Total	**7,412**	**NA**	**NA**	**7,038**	**5,779**	**5,206**	**4,781**	**4,398**	**3,972**	**3,893**	**3,858**	**3,858**	**3,858**	**3,858**	**3,858**
MabionCD20 market share															
US											3.3%	6.6%	10.0%	10.0%	10.0%
Europe									3.3%	6.6%	10.0%	10.0%	10.0%	10.0%	10.0%
RoW													3.3%	6.6%	10.0%
Total									0.8%	1.6%	4.4%	6.3%	8.8%	9.4%	10.0%

Source: Company data, Santander Brokerage Poland estimates

Peer comparison

Numerous biotech companies have no recurrent earnings, which means earnings-based ratios are not meaningful. For illustrative purposes, we show the long-term P/E ratio of the NASDAQ Biotechnology Index. It currently trades at 57x forward P/E ratio.

Fig. 6. NASDAQ Biotechnology Index: price performance vs. P/E ratio



Source: Bloomberg, Santander Brokerage Poland

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In preparing this report Santander Brokerage Poland applied at least one of the following valuation methods: discounted cash flows (DCF), comparative, mid-cycle, dividend discount model (DDM), residual income, warranted equity method (WEV), SOTP valuation, liquidation value.

The discounted cash flows (DCF) valuation method is based on expected future discounted cash flows. One advantage of the DCF valuation method is that it takes into account all cash streams reaching Issuer and the cost of money over time. Some disadvantages of the DCF valuation method are that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The comparative valuation method is based on the economic rule of "one price". Some advantages of the comparative valuation method are that the analyst need only estimate a small number of parameters; the valuation is based on current market conditions; the relatively large accessibility of indicators for companies being compared; and that there is an extensive knowledge of the comparative method among investors. Some disadvantages of valuation by the comparative method are the considerable sensitivity of the results of the valuation on the choice of companies to the comparative group; the method can lead to a simplification of the picture of the company which in turn can lead to omitting certain important factors (e.g. growth dynamics, extra-operational assets, corporate governance, the repeatability of results, differences in applied accounting standards); and the uncertainty of the effectiveness of a market valuation of companies being compared.
The mid-cycle multiple valuation is based on long-term average valuation multiples of a sector or a peer group. The methodology aims to calculate a fair, through the cycle value of the company. Among its shortfalls is that at peaks and/or troughs of the cycle, the implied fair value may deviate substantially from the market's value of an analysed stock as well as the methods' reliance on the quality of external data (we usually use Bloomberg or Damodaran databases). Simplicity and average through-cycle value allowing to capture over- as well as under-valuation of a given stock are the main advantages of this methodology.
The dividend discount model (DDM) valuation is based on the net present value of the future dividends that are expected to be paid out by the company. Some advantages of the DDM valuation method are that it takes into account real cash flows to equity-owners and that the methodology is used in respect to companies with long dividend payout history. Main disadvantage of the DDM valuation method is that dividend payouts are based on a large number of parameters and assumptions, including dividend payout ratio.
Residual income method is conceptually close to the discounted cash flows method (DCF) for non-financial stocks, the difference being that it is based on expected residual income (returns over COE) rather than expected future cash flows. One advantage of this valuation method is that it captures the excess of profit potentially available to shareholders and the cost of money over time. Main disadvantage of the valuation method is that a large number of parameters and assumptions need to be estimated; and the valuation is sensitive to changes in those parameters.
The warranted equity method (WEV) is based on the formula P/BV = (two year forward ROE less sustainable growth rate)/(Cost of equity less sustainable growth rate) which allows estimating a fair value (FV) of a given stock in two years' time. Subsequently the FV is discounted back to today. The main advantage of the WEV method is that it is a transparent one and based on relatively short term forecasts, hence substantially reducing the margin of forecasting error. The main disadvantage in our view is that the model is based on the principle that stock price should converge towards its fair value implied by company's ROE and COE.
SOTP valuation - different assets of a company are being valued according to different valuation methods, and the sum of these valuations represents the final valuation of the company. SOTP valuation advantages / disadvantages are identical to advantages and disadvantages of the specific valuation methods used.
Liquidation value method – liquidation value is the estimated amount of money that an asset or company could be quickly sold for, such as if it were to go out of business. Then, the estimated assets value is adjusted for liabilities and liquidation expenses. One advantage of this valuation method is its simplicity. This method does not account for intangible assets as goodwill, which is the main disadvantage.

In the opinion of Santander Brokerage Poland, this report has been prepared with all due diligence and excludes any conflict of interests which could influence its content. In Santander Bank Polska there are implemented internal regulations, which are designed to prevent conflicts of interest concerning recommendations. Physical and logic barriers are established, and the principles of documentation adequate to the type of Santander Bank Polska operations are implemented. Additionally, Santander Bank Polska introduced a number of obligations and restrictions relating to the protection of confidential information flow between organizational units.
The date and time on the first page of this report indicates the date of the production of the recommendation, and the dissemination of the recommendation takes place on the same day before the start of the session.

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