EUROZ HARTLEYS

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PGC Delivers Solid 1H, Full Year on Track

PGC.ASX | PARAGON CARE LIMITED | HEALTHCARE | HEALTH CARE EQUIPMENT & SERVICES

PRICE	TARGET PRICE	RECOMMENDATION	ANALYST
A$ 0.32 /sh	**A$ 0.50 /sh**	**BUY**	**SETH LIZEE**
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Event

PGC has released its 1H results.

Impact

- Key financial highlights:
  - $153.9m revenue (+38% pcp)
  - $17.6m underlying EBITDA (vs $17.5m EH est, +37% pcp)
  - $6.3m underlying NPAT (+41% pcp, inc NCI)
- 1H Results were inline with our forecasts, with earnings growth mainly reflecting the uplift from Quantum and SMS.
- Full year guidance of 30% underlying EBITDA growth was reaffirmed, this remains inline with our $39.0m forecasts. The 2H is expected to mirror the same market and operating trends seen in the 1H.
- Operating cash flow decreased slightly over the H, this mainly the result of working capital movements, which are expected to improve over the balance of FY23.
- Net Debt (excl. leases) was $69.6m at the H, increasing HoH following the acquisition of SMS and some working capital movements, we forecast a slight decrease in net debt over the 2H.
- PGC has now entered into new financing arrangements with NAB and HSBC, which includes revolving cash facilities. We anticipate this will enable PGC to optimise its balance sheet and reduce cash holdings, we have now modelled this.
- PGC declared a 0.6cps fully franked dividend for the H, representing a 63% payout.
- Looking at the bigger picture, PGC has made significant headway in the advancement of key strategic initiatives, with the company having made considerable progress on the integration of acquisitions and the refinement of strategy and execution.
- PGC remains committed to building a $100m EBITDA business over the next 3-5 years. As our forecasts imply, M&A is likely to play a part in achieving this, PGC has stated this will be more of a focus over CY23 - and importantly, through a more strategic lense.
- In response to these results, we have made some slight tweaks to our forecasts, mainly around EBITDA segment buildup (which we note continues to evolve). We outline this in further detail below.

Action

Buy, $0.50/sh. Price Target

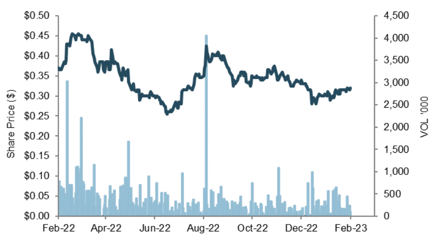
Catalyst

- Full Year Results

Share Price	0.32 A$/sh
Price Target	**0.50 A$/sh**
Valuation (DCF)	0.62 A$/sh
WACC	9.0%
TGR	3.0%
Shares on issue	672.9 m, dil
Market Capitalisation	215.3 A$m
Enterprise Value	319.7 A$m
Net Debt (Excl. leases)	69.6 A$m
Net Debt (Inc. Leases)	104.4 A$m

Key Financial Metrics	**22A**	**23F**	**24F**
Revenue (A$m)	247.9	319.8	347.4
EBITDA (A$m)	24.8	39.5	43.0
Normalised EBITDA	30.2	39.0	43.0
Reported NPAT (A$m)	6.6	13.1	18.5
Normalised NPAT (A$m)	10.8	12.8	18.5
Gross Cashflow (A$m)	18.3	20.0	25.3
Capex (A$m)	-4.6	-26.0	-6.0
Op. Free Cash flow (A$m)	10.8	5.4	14.9
Norm EBITDA Growth (%)	21%	29%	10%
Norm. NPAT Growth (%)	43%	18%	45%
Normalised EPS (Ac)	2.3	1.9	2.8
Norm. EPS growth (%)	7%	-17%	45%
Norm PER (x)	13.9	16.8	11.6
EV/Norm EBITDA (x)	10.6	8.2	7.4
DPS (Ac)	1.2	1.2	1.5
Dividend Yield (%)	3.8%	3.7%	4.6%
Net Cash (inc. Leases)	-85.1	-107.5	-103.6
Net Cash (excl. Leases)	-50.0	-62.0	-58.1

Performance



Source: Euroz Hartleys

Income Statement	22A	23F	24F
Capital & Consumables	110.3	96.1	103.3
Devices	79.1	79.7	87.6
Diagnostics	29.6	40.0	42.0
Services & Technology	28.9	104.0	114.4
Total Revenue	**247.9**	**319.8**	**347.4**
(-) COGS	-145.1	-187.1	-203.3
Gross profit	**102.8**	**132.6**	**144.1**
(+) Other Income	2.9	1.9	0.0
(-) OPEX	-75.5	-95.6	-101.0
Normalised EBITDA	**30.2**	**39.0**	**43.0**
(+/-) Abnormals	-5.5	0.5	0.0
Reported EBITDA	**24.8**	**39.5**	**43.0**
(-) D&A	-8.0	-10.3	-10.5
EBIT	**16.8**	**29.2**	**32.6**
(+/-) Net Fin	-6.1	-6.6	-6.1
PBT	10.7	22.6	26.5
(-) Tax	-3.5	-6.8	-7.9
(+/-) NCI	-0.5	-2.7	0.0
Reported NPAT	**6.6**	**13.1**	**18.5**
Normalised NPAT	**10.8**	**12.8**	**18.5**
Cash Flow Statement	**22A**	**23F**	**24F**
Reported NPAT	**6.6**	**13.1**	**18.5**
(+) D&A	8.0	10.3	10.5
(+) Impairments	0.0	0.0	0.0
(-) Lease Expenses	-3.1	-3.4	-3.7
(-/+) Other	6.8	0.0	0.0
Gross Cash flow	**18.3**	**20.0**	**25.3**
(-) Capital expenditure	-4.6	-26.0	-6.0
(-/+) Working capital change	-2.9	11.3	-4.4
Operating Free Cash flow	**10.8**	**5.4**	**14.9**
(+/-) Acquisition	-93.9	-15.5	0.0
(-) Dividend	-7.2	-7.8	-8.7
(+) Equity Issue	112.7	3.3	0.0
(+/-) NCI	0.5	2.7	0.0
(+/-) Other	-0.8	0.0	0.0
Net Cash flow	**22.2**	**-11.9**	**6.2**
EoP Net Cash	**-85.1**	**-107.5**	**-103.6**
EoP Net Cash (excl. Leases)	**-50.0**	**-62.0**	**-58.1**
Balance Sheet	**22A**	**23F**	**24F**
Cash	46.2	20.0	20.0
Receivables	42.9	39.0	42.4
Inventories	51.5	61.8	67.1
Other	10.3	10.3	10.3
Total Current Assets	**150.8**	**131.0**	**139.7**
PP&E	10.2	11.5	9.1
ROUA	20.3	39.1	43.1
Intangibles	244.4	259.4	259.4
Deferred Tax Assets	11.0	11.0	11.0
Other	0.3	0.3	0.3
Total Assets	**437.0**	**452.3**	**462.6**
Payables	28.3	35.6	39.4
Borrowing	22.8	21.5	21.2
Leases	3.5	4.5	4.5
Employee Benefits	6.6	7.1	7.5
Vendor Cond. Payables	1.4	1.4	1.4
Other Liabilities	24.9	24.9	24.9
Total Current Liabilities	**87.4**	**94.9**	**98.9**
Borrowing	73.5	60.4	57.0
Leases	31.6	41.0	41.0
Vendor Cond. Payables	1.4	1.4	1.4
Other	0.8	0.8	0.8
Total Liabilities	**194.7**	**198.6**	**199.1**
Issued Capital	228.7	231.9	231.9
Reserves	7.4	12.7	22.6
Retained Earnings	0.0	0.0	0.0
NCI	6.3	9.0	9.0
Total Equity	**242.3**	**253.6**	**263.5**

Performance Ratios	22A	23F	24F
Growth & Margins			
Revenue Growth	5%	29%	9%
EBITDA Growth	-7%	60%	9%
Norm EBITDA Growth	21%	29%	10%
EBIT Growth	-17%	74%	12%
Normalized Net Profit Growth	43%	18%	45%
Margins			
EBITDA margin	10%	12%	12%
EBIT margin	7%	9%	9%
Normalized net profit margin	4%	4%	5%
Effective tax rate	33%	30%	30%
Liquidity			
Capex/depreciation (x)	0.6	2.5	0.6
Current ratio (x)	1.7	1.4	1.4
Quick ratio (x)	1.0	0.6	0.6
Receivable days	63.2	44.5	44.5
Payable days	71.2	69.4	70.8
Risk Measures			
Dividend Cover (x)	2.0	1.7	1.9
Payout ratio (%)	50%	58%	52%
Net interest cover (x)	2.7	4.4	5.3
Net debt/equity (%)	35%	42%	39%
Net debt/EBITDA (Pre-AASB16)	1.9	1.8	1.5
Returns			
ROIC	6%	6%	7%
Incremental ROIC	20%	25%	26%
ROA	2%	3%	4%
ROE	3%	5%	7%
Share Data/Valuation	**22A**	**23F**	**24F**
Share Data			
Issued shares (m)	644.3	656.3	656.3
Weighted ave shares (m)	454.1	650.3	656.3
Fully diluted shares (m)	464.7	672.9	672.9
Basic EPS (c)	1.5	2.0	2.8
YoY change (%)	-40%	38%	40%
Fully diluted EPS (c)	1.4	2.0	2.8
YoY change (%)	-41%	37%	41%
Fully diluted normalised EPS (c)	2.3	1.9	2.8
YoY change (%)	7%	-17%	45%
Dividend/share (c)	1.2	1.2	1.5
Franking (%)	100%	100%	100%
Gross cash flow/share (c)	2.8	3.1	3.9
NBV/share (c)	37.6	38.6	40.1
NTA/Share (c)	-0.3	-0.9	0.6
Valuation			
PER (Basic) (x)	21.9	15.8	11.3
PER (Fully diluted) (x)	22.4	16.4	11.6
PER (Fully diluted, normalized) (x)	13.9	16.8	11.6
P/CFPS (x)	11.3	10.5	8.3
Price/NBV (x)	0.9	0.8	0.8
Price/NTA (x)	na	na	50.6
Dividend Yield (%)	3.8%	3.7%	4.6%
EV/EBITDA (x)	12.9	8.1	7.4
EV/Norm EBITDA (x)	10.6	8.2	7.4
EV/EBIT (x)	19.0	11.0	9.8
EV/Revenue (x)	1.3	1.0	0.9

Analysis

We build our earnings as follows (Figure 1):

Figure 1: Earnings Forecasts

FY	Units	2021A	2022A	1H 2023F	2H 2023F	2023F	2024F	2025F	2026F	2027F
Capital & Consumables	A$m	105.2	110.3	46.2	49.9	96.1	103.3	111.1	119.4	128.4
Devices	A$m	85.8	79.1	42.3	37.3	79.7	87.6	96.4	106.0	116.6
Diagnostics	A$m	25.9	29.6	17.8	22.2	40.0	42.0	44.3	46.8	49.6
Services & Technology	A$m	19.0	28.9	46.6	57.5	104.0	114.4	125.8	138.4	152.3
Total Revenue	**A$m**	**235.8**	**247.9**	**152.9**	**166.9**	**319.8**	**347.4**	**377.6**	**410.6**	**446.9**
Revenue Growth	*%*	*2%*	*5%*			*29%*	*9%*	*9%*	*9%*	*9%*
Capital & Consumables	A$m			6.6	7.0	13.6	14.6	15.7	16.9	18.2
Devices	A$m			6.3	5.6	11.9	12.7	13.7	14.6	15.7
Diagnostics	A$m			3.4	4.3	7.8	8.2	8.7	9.3	10.0
Services & Technology	A$m			6.5	8.0	14.5	16.2	18.0	20.1	22.4
Corporate O/H	A$m			-4.8	-3.5	-8.3	-8.7	-8.9	-9.1	-9.3
EBITDA	**A$m**	**26.5**	**24.8**	**18.1**	**21.4**	**39.5**	**43.0**	**47.3**	**51.9**	**57.0**
Norm EBITDA	**A$m**	**25.1**	**30.2**	**17.6**	**21.4**	**39.0**	**43.0**	**47.3**	**51.9**	**57.0**
Norm EBITDA Margin	*%*	*11%*	*12%*	*12%*	*13%*	*12%*	*12%*	*13%*	*13%*	*13%*
Norm EBITDA Growth	*%*	*74%*	*21%*			*29%*	*10%*	*10%*	*10%*	*10%*
(-) D&A	A$m	-6.2	-8.0	-5.4	-5.0	-10.3	-10.5	-11.1	-11.7	-12.4
EBIT	**A$m**	**20.3**	**16.8**	**12.7**	**16.5**	**29.2**	**32.6**	**36.2**	**40.3**	**44.6**
(-) Net Finance	A$m	-8.0	-6.1	-3.3	-3.3	-6.6	-6.1	-5.8	-5.3	-4.7
PBT	**A$m**	**12.3**	**10.7**	**9.4**	**13.2**	**22.6**	**26.5**	**30.4**	**35.0**	**40.0**
(+/-) Tax	A$m	-4.1	-3.5	-2.8	-4.0	-6.8	-7.9	-9.1	-10.5	-12.0
(+/-) NCI	A$m	0.0	-0.5	-1.3	-1.4	-2.7	0.0	0.0	0.0	0.0
NPAT	**A$m**	**8.3**	**6.6**	**5.3**	**7.8**	**13.1**	**18.5**	**21.3**	**24.5**	**28.0**
Norm NPAT	**A$m**	**7.6**	**10.8**	**5.0**	**7.8**	**12.8**	**18.5**	**21.3**	**24.5**	**28.0**
Norm NPAT Margin	*%*	*3%*	*4%*	*3%*	*5%*	*4%*	*5%*	*6%*	*6%*	*6%*
Norm NPAT Growth	*%*	*15%*	*43%*			*18%*	*45%*	*15%*	*15%*	*14%*
Reported NPAT Growth	*%*	*-111%*	*-20%*			*98%*	*41%*	*15%*	*15%*	*14%*

Source: EH estimate, PGC announcements

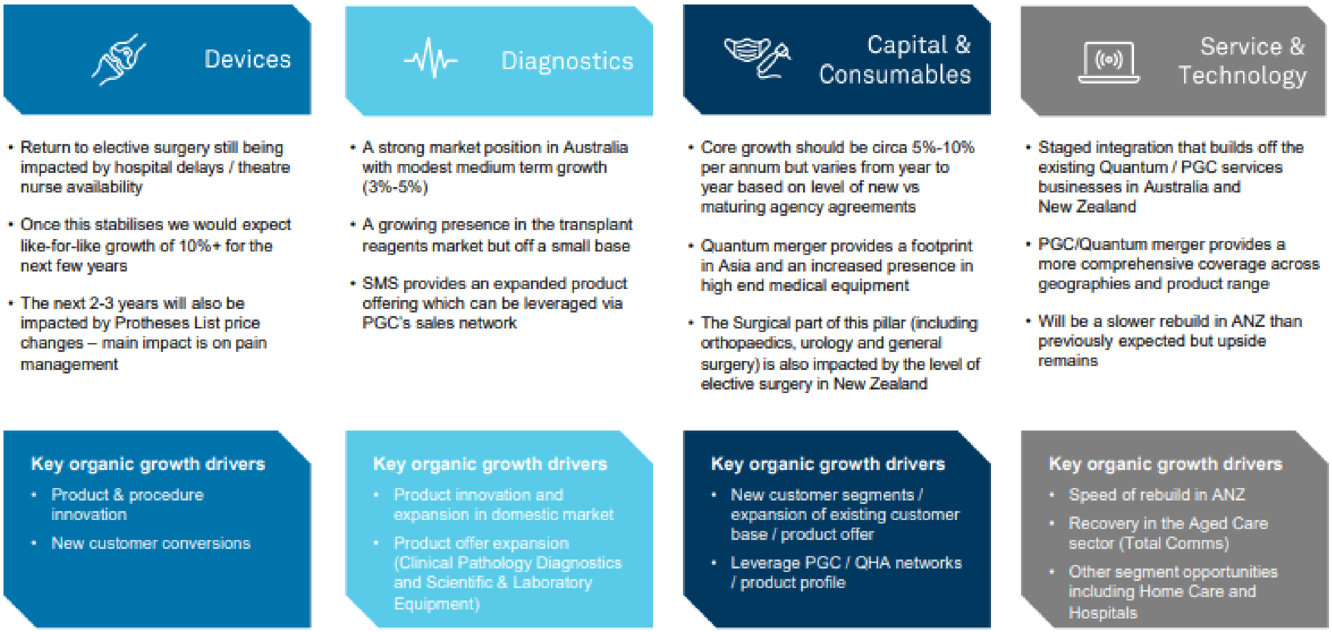
Commentary:

Earnings

- 1H Results were inline with our forecasts, with earnings growth mainly reflecting the uplift from a full quantum and partial SMS inclusion.
- PGC has maintained its full year guidance of 30% underlying EBITDA growth (implying ~$39.3m of EBITDA), with the company saying it expects the 2H to mirror the same market and operating trends of the 1H.
- Our FY23 EBITDA forecasts remain unchanged at $39.0m, however with the evolving nature of the segments we have made some changes to how we build up our EBITDA.
- Beyond FY23, we continue to model a conservative level of earnings growth, achieved through a mix of revenue growth and margin expansion
- Reported NPAT was lower than anticipated as a result of higher amortisation charges related to intangibles identified from the Quantum Merger and further NCI. We have updated our forecasts to factor in these changes, on that final point, PGC have previously outlined plans to acquire and clean up NCI, as a result this aspect remains fluid.

Supporting our growth forecasts are various short to medium term drivers, as outlined by PGC in its recent presentation (Figure 2). We expand on some of these themes in further detail in our initiation.

Figure 2: PGC Organic Growth Prospects by Pillar



Source: PGC investor presentation

The company has also outlined three additional areas which represent material opportunities to the business, shown below (Figure 3).

Figure 3: Additional Areas of Growth

Source: PGC investor presentation

We continue to note some of these areas represent further upside to our conservative forecasts, such as the Immulab export opportunities which we have not fully baked into our numbers.

Balance Sheet / Cash Flow

- PGC finished the H with $69.6m in net debt (excl. leases), increasing as a result of the SMS acquisition and some working capital movements (this also impacting operating cash flow during the H).
- The company expects working capital improvements across the balance of FY23 from a continued focus on management of inventories supported by improved S&OP processes.
- PGC had stated it expects net debt will decrease slightly over the balance of FY23, we forecast the company will finish the year with crica $62m (excl leases) of net debt.
- We have changed how the Mount Waverley facility capital expenditure flows through our model, we now have the spend coming through PP&E, which PGC is then refunded for out of its lease incentive receivables (hence the WC change), followed by the asset transfering into leases. Furthermore, we note the project budget has recently increased as a result of an expansion in scope and some increases in building costs. PGC is currently in discussions with its JV funding partner around supporting this funding requirement.
- PGC has now entered into new financing arrangements with NAB and HSBC for a range of facilities totaling A$120m and US$30m, for up to four years. As previously stated, these include revolving cash facilities, which we anticipate will enable PGC to optimise its balance sheet and reduce it cash holdings. We have assumed this in our modelling.
- PGC declared a 0.6cps fully franked dividend for the H, representing a 63% payout, the company continues to target a 40-60% payout range of underlying NPAT.

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