PGC Delivers Solid 1H, Full Year on Track

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

PRICE

A\$ 0.32 /sh

TARGET PRICE **A\$ 0.50 /sh**(UNCHANGED)

RECOMMENDATION **BUY** (UNCHANGED)

ANALYST

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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

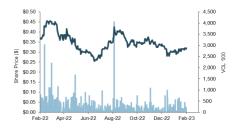
Buy, \$0.50/sh. Price Target

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	n, dil	
Market Capitalisation	215.3 A	\$m	
Enterprise Value	319.7 A	\$m	
Net Debt (Excl. leases)	69.6 A		
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
	6.6	13.1	24F 18.5
Reported NPAT	8.0	10.3	10.5
(+) D&A	8.0 0.0	0.0	
(+) Impairments			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
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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
	73.5	60.4	57.0
Borrowing			41.0
Leases	31.6	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	0.5	0.5	0.0
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/PORT EBITDA (x)	10.6	8.2	7.4
L v / 1 v O I I I L D I I D C (A)	10.0		1
FV/FRIT (x)	19 N	11 0	9 8 1
EV/EBIT (x) EV/Revenue (x)	19.0 1.3	11.0 1.0	9.8 0.9

Analysis

We build our earnings as follows (Figure 1):

Figure 1: Earnings Forecas	ts									
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



- Return to elective surgery still being impacted by hospital delays / theatre nurse availability
- Once this stabilises we would expect like-for-like growth of 10%+ for the next few years
- The next 2-3 years will also be impacted by Protheses List price changes – main impact is on pain management

--W− Diagnostics

- A strong market position in Australia with modest medium term growth (3%-5%)
- A growing presence in the transplant reagents market but off a small base
- SMS provides an expanded product offering which can be leveraged via PGC's sales network

Capital & Consumables

- Core growth should be circa 5%-10% per annum but varies from year to year based on level of new vs maturing agency agreements
- Quantum merger provides a footprint in Asia and an increased presence in high end medical equipment
- The Surgical part of this pillar (including orthopaedics, urology and general surgery) is also impacted by the level of elective surgery in New Zealand



- Staged integration that builds off the existing Quantum / PGC services businesses in Australia and New Zealand
- PGC/Quantum merger provides a more comprehensive coverage across geographies and product range
- Will be a slower rebuild in ANZ than previously expected but upside

Key organic growth drivers

- Product & procedure innovation
- New customer conversions

Key organic growth drivers

- Product innovation and expansion in domestic market
- Product offer expansion (Clinical Pathology Diagnostics and Scientific & Laboratory Equipment)

Key organic growth drivers

- New customer segments / expansion of existing customer base / product offer
- Leverage PGC / QHA networks / product profile

Key organic growth drivers

- · Speed of rebuild in ANZ
- Recovery in the Aged Care sector (Total Comms)
- Other segment opportunities including Home Care and Hospitals

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

Immulab export opportunities

- Significant export opportunities in blood diagnostic export markets good progress here but this will not materially impact earnings until FY25
- Also exploiting opportunities for manufacture into offshore markets including OEM (Blood Bank Diagnostics)
- Specific additional investment over the next 12 months to accelerate including new manufacturing facility at Mount Waverley

Accelerated growth in Asia

- Expansion into offshore markets via existing Quantum network good progress to date but will accelerate over the next 1-2 years
- More active consideration of acquisition opportunities in progress
- Main criteria are filling country gaps / targeting significant volume uplift

Comprehensive Service & Technology offering across AsiaPac

- Leveraging PGC's geographic and product platform to provide service maintenance and OEM third party support with Asia-wide coverage
- Represents the most comprehensive AsiaPac offer available in the market

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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Paragon Care Limited (PGC.ASX) | Price A\$0.32 | Target price A\$0.50 | Recommendation BUY;

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