

7 February 2018

## Paragon Care Limited (PGC)

**BUY**

**Share Price: A\$0.79**

### H118 Result preview

**Target Price:**

**A\$1.20**

Management will deliver H118 results on Thursday (08/02); the first for new CEO, Andrew Just. While the results have been well guided (Revenues c\$52-53m and EBITDA \$5.2-5.7m) the business will be more seasonal than in previous years. Combining this with significant inventory investment for (1) new hospital bed product (2) South Australian build out and also one-off transaction costs, it suggests to us that cash generation/conversion will be weighed down significantly. The share price performance of late however would suggest that the market is at least aware of this. Looking past this set of results, we think that PGC is primed for a big 2018/19. While we see some upside to revenue guidance (\$125m-135m), more strategically, the creation of the dedicated M&A role helps to drive further consolidation potential, and potentially bringing forward the mid-term group revenue target of \$250m. With fundamentals of health spend remaining supportive, organic growth levers now available (i.e. South Australia) and with MIDAS e-health gaining market traction (Toshiba collaboration agreement), we remain very bullish. With over 50% upside to our target price, Buy maintained.

#### Forecasts

- **Guidance:** Revenue \$52-53m. EBITDA \$5.2-5.7m. \$2.5-3.0m (underlying).
- **Forecasts:** Revenue \$52.5m, EBITDA \$5.5m, EBITDA margin 10.5%, NPAT \$2.8m (underlying). DPS 1.1cps.
- One off costs should be in the range of \$250-300k.

#### Outlook

- There may be some upside to full year revenue guidance (\$125-135m) due to recent M&A, however with only late FY18 contributions we expect this to be small. Our \$125m revenue forecast implies 4% underlying growth.
- Watch for further announcements regarding bolt-on M&A and build out of the South Australian business, as it seeks to capitalise on the Adelaide Hospital ramp-up.
- MIDAS is fast gaining traction and we are keen to hear Management's view on take up into FY19.

#### BUY maintained, PT \$1.20

- Due to the seasonal nature of hospital spending, the PGC share price tends to follow this (i.e. weaker H1, stronger H2). Investor should be mindful of this historic share price trend.
- Our valuation does not assume any further acquisitions.

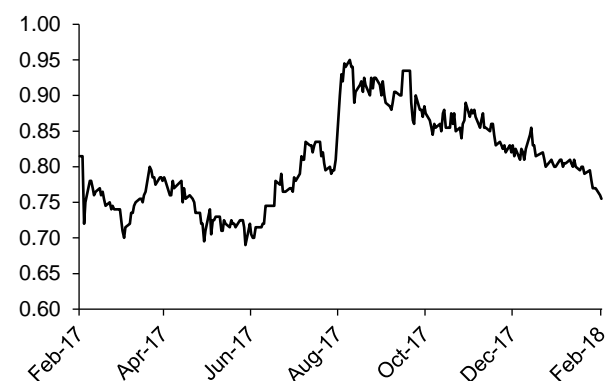
#### Company Data

Shares – ordinary (M)	166.7
Dilution (M)	0.0
Total (fully diluted) (M)	166.7
Market capitalisation (\$M)	130.9
12 month low/high (\$)	\$0.69 - \$0.97
Average monthly turnover (\$M)	4.6
Index	All Ordinaries
GICS Industry	Health Care Equip. & Services

#### Financial Summary (fully diluted/normalised)

Year end June	2016A	2017A	2018E	2019E	2020E
Revenue (\$M)	93.3	117.2	124.9	136.9	152.4
Costs (\$M)	(81.2)	(100.1)	(106.1)	(115.9)	(128.6)
EBITDA (\$M)	12.1	17.1	18.8	21.0	23.8
NPAT (\$M)	7.5	10.2	11.1	12.6	14.6
EPS (¢ps)	5.5	6.2	6.7	7.6	8.9
EPS Growth (%)	74.5	13.1	8.0	13.6	16.2
PER (x)	14.3	12.6	13.4	11.8	10.2
Free Cashflow (\$M)	5.5	10.9	10.4	11.3	12.9
FCFPS (¢ps)	4.0	6.7	6.3	6.9	7.8
PFCFPS (x)	19.4	11.8	14.3	13.1	11.5
Enterprise Value (\$M)	148.6	148.2	171.9	173.6	167.1
EV / EBITDA (x)	12.3	8.7	9.2	8.3	7.0
Payout ratio (%)	40.0	48.3	48.3	48.3	48.3
Dividends (¢ps)	2.2	3.0	3.2	3.7	4.3
Yield (%)	2.8	3.8	3.6	4.1	4.8

#### PGC – performance over one year



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This report must be read with the disclosure and disclaimer on the final page of this document.

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## Analysis

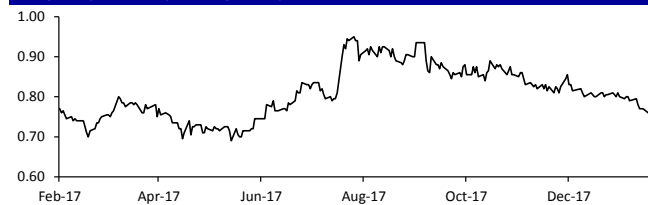
### ParagonCare

Year end 30 June

#### MARKET DATA

Recommendation		BUY
Price	\$	0.79
Price target (12-month)	\$	1.20
52 week high / low	\$	\$0.69 - \$0.91
Market capitalisation	\$m	129.5
Shares on issue (basic)	no.	165.0
Options / rights	no.	0.0
Other equity	no.	0.0
Shares on issue (diluted)	no.	165.0

#### 12-MONTH SHARE PRICE PERFORMANCE



#### INVESTMENT FUNDAMENTALS

	FY16A	FY17A	FY18E	FY19E	FY20E	
Reported NPAT	\$m	7.5	10.2	11.1	12.6	14.6
NPAT normalised	\$m	7.5	10.2	11.1	12.6	14.6
Reported EPS (diluted)	¢	5.5	6.2	6.7	7.6	8.9
EPS normalised (diluted)	¢	5.5	6.2	6.7	7.6	8.9
...Growth			13.1%	8.0%	13.6%	16.2%
PER normalised	x	14.3	12.6	13.4	11.8	10.2
Operating cash flow per share	¢	5.7	7.3	6.9	7.5	8.5
Free cash flow per share	¢	4.0	6.7	6.3	6.9	7.8
Price to free cash flow per share	x	19.4	11.8	14.3	13.1	11.5
FCF yield	%	5.1	8.5	7.0	7.6	8.7

#### Dividend

Payout	%	40.0	48.3	48.3	48.3	48.3
Yield	%	2.8	3.8	3.6	4.1	4.8
Franking	%	100	100	100	100	100

#### Enterprise value

EV/EBITDA	x	12.3	8.7	9.2	8.3	7.0
EV/EBIT	x	13.2	9.3	9.8	8.8	7.4
Price to book (NAV)	x	1.8	1.6	1.7	1.6	1.4
Price to NTA	x	(15.7)	(8.2)	(15.4)	(53.1)	29.1

#### KEY RATIOS

	FY16A	FY17A	FY18E	FY19E	FY20E	
EBITDA margin	%	12.9	14.6	15.0	15.3	15.6
EBIT margin	%	12.1	13.6	14.1	14.4	14.8
NPAT margin	%	8.1	8.7	8.9	9.2	9.6
ROE	%	10.3	12.3	12.5	13.3	14.3
ROA	%	8.8	10.3	11.4	12.5	13.7

#### Net tangible assets per share

Net debt / (cash)	\$m	19.0	18.7	23.4	25.0	18.6
Interest cover (EBIT / net interest)	x	8.0	9.1	10.0	11.1	13.5
Gearing (net debt / EBITDA)	x	1.6	1.1	1.2	1.2	0.8
Leverage (net debt / (net debt + equity))	x	0.2	0.2	0.2	0.2	0.2

#### DUPONT ANALYSIS

	FY16A	FY17A	FY18E	FY19E	FY20E	
Net Profit Margin	%	8.1	8.7	8.9	9.2	9.6
Asset Turnover	x	0.6	0.7	0.8	0.8	0.9
Return on Assets	%	5.1	6.1	6.8	7.5	8.4
Financial Leverage	x	2.0	2.0	1.9	1.8	1.7
Return on Equity	%	10.3	12.3	12.5	13.3	14.3

#### DIVISIONAL BREAKDOWN

	FY16A	FY17A	FY18E	FY19E	FY20E	
Revenue	\$m	93.4	117.2	124.9	136.9	152.4
Cost of sales	\$m	(56.9)	(71.1)	(74.1)	(81.2)	(89.9)
Gross Profit	\$m	36.5	46.1	50.8	55.7	62.5
Other income	\$m	0.0	0.4	0.0	0.0	0.0
Costs						
Operating expenses	\$m	(5.7)	(7.8)	(7.9)	(8.2)	(9.1)
Corporate	\$m	(0.4)	(0.3)	(0.3)	(0.4)	(0.4)
Selling and Admin	\$m	(1.1)	(1.3)	(1.4)	(1.5)	(1.7)
Employee and consult (Incl directors)	\$m	(17.2)	(21.0)	(22.5)	(24.6)	(27.4)
EBITDA	\$m	12.1	17.1	18.8	21.0	23.8
Gross profit margin	%	39.0%	39.3%	40.7%	40.7%	41.0%
EBITDA margin	%	13.0%	14.6%	15.0%	15.3%	15.6%

#### PROFIT AND LOSS

	FY16A	FY17A	FY18E	FY19E	FY20E	
Total revenue	\$m	93.3	117.6	124.9	136.9	152.4
EBITDA	\$m	12.1	17.1	18.8	21.0	23.8
Depreciation & amortisation	\$m	(0.8)	(1.1)	(1.2)	(1.2)	(1.2)
EBIT	\$m	11.3	16.0	17.6	19.8	22.6
Net interest	\$m	(1.4)	(1.8)	(1.8)	(1.8)	(1.7)
Non-operating income	\$m	0.0	0.0	0.0	0.0	0.0
Pretax Profit	\$m	9.9	14.2	15.8	18.0	20.9
Tax expense	\$m	(2.3)	(4.1)	(4.7)	(5.4)	(6.3)
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Operating NPAT	\$m	7.5	10.2	11.1	12.6	14.6
Significant items	\$m	0.0	0.0	0.0	0.0	0.0
Reported NPAT	\$m	7.5	10.2	11.1	12.6	14.6

#### GROWTH PROFILE

	FY16A	FY17A	FY18E	FY19E	FY20E	
Operating revenue	%	381.6	26.0	6.2	9.6	11.3
EBITDA	%	467.7	42.1	9.5	11.8	13.5
EBIT	%	503.4	41.6	10.0	12.4	14.2
Operating NPAT	%	407.1	35.1	8.9	13.6	16.2
Normalised EPS	%	105.2	13.1	8.0	13.6	16.2
DPS	%	76.0	36.4	8.0	13.6	16.2

#### BALANCE SHEET

	FY16A	FY17A	FY18E	FY19E	FY20E	
Cash	\$m	19.1	18.6	13.6	13.6	13.6
Receivables	\$m	19.4	20.8	22.1	24.3	27.0
Inventory	\$m	22.6	21.7	23.1	25.3	28.2
Other	\$m	0.0	0.0	0.0	0.0	0.0
Current	\$m	61.1	61.1	58.8	63.1	68.7
Prop, plant & equip	\$m	3.0	3.4	3.6	3.7	3.8
Goodwill	\$m	81.0	98.4	98.1	97.7	97.4
Other	\$m	2.6	3.2	3.4	3.7	4.1
Non current	\$m	86.7	105.0	105.0	105.1	105.3
Total assets	\$m	147.8	166.1	163.8	168.2	174.0
Accounts Payable	\$m	22.7	25.5	27.2	29.8	33.2
Borrowings	\$m	38.2	37.2	36.9	38.6	32.2
Other	\$m	14.2	20.6	11.2	4.9	6.2
Total liabilities	\$m	75.0	83.4	75.4	73.3	71.5
Net assets	\$m	72.8	82.7	88.4	94.9	102.5
Equity	\$m	72.8	82.7	88.4	94.9	102.5
Minorities	\$m	0.0	0.0	0.0	0.0	0.0
Shareholder's equity	\$m	72.8	82.7	88.4	94.9	102.5
Shares on issue	m	159.9	165.0	165.0	165.0	165.0

#### CASH FLOW

	FY16A	FY17A	FY18E	FY19E	FY20E	
EBITDA	\$m	12.1	17.1	18.8	21.0	23.8
Dividends	\$m	0.0	0.0	0.0	0.0	0.0
Change in working capital	\$m	(8.7)	2.2	(0.9)	(1.5)	(1.9)
Net interest	\$m	(1.4)	(1.7)	(1.8)	(1.8)	(1.7)
Tax paid	\$m	(3.4)	(4.2)	(4.7)	(5.4)	(6.3)
Other	\$m	9.3	(1.4)	0.0	0.0	0.0
Operating cash flow	\$m	7.8	12.0	11.4	12.3	13.9
Capital expenditure	\$m	(2.2)	(1.1)	(1.0)	(1.0)	(1.0)
Acquisitions/divestment/other	\$m	(55.0)	(6.9)	(9.6)	(7.3)	0.0
Investing cash flow	\$m	(57.2)	(7.9)	(10.6)	(8.3)	(1.0)
Equity	\$m	39.3	0.0	0.0	0.0	0.0
Increase / (decrease) in borrowings	\$m	27.1	(1.1)	4.7	1.7	(6.4)
Dividend/other	\$m	(1.6)	(3.5)	(5.5)	(5.7)	(6.5)
Net cash flow	\$m	15.4	(0.5)	0.0	0.0	0.0
Free cash flow	\$m	5.5	10.9	10.4	11.3	12.9

Source: Petra Capital

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