

# EBOS Group

## 98th ASM — On Script With a Strong Print

**CHELSEA LEADBETTER CFA**  
chelsea.leadbetter@forsythbarr.co.nz  
+64 4 495 5262

### OUTPERFORM

EBOS Group's (EBO) 1Q21 trading update confirmed a positive start to the year, with strong growth across the board and modestly ahead of our expectations. No FY21 guidance was provided (unsurprisingly) given it is still early in the year and in light of the uncertain backdrop. We make small upgrades following the strong start. EBO ticks a lot of boxes, particularly in the current environment, including: a solid growth outlook, defensive product categories, attractive returns and a healthy balance sheet (with growing optionality). Valuation remains attractive against the NZ market and defensive peers. OUTPERFORM.

NZX Code	EBO	Financials: Jun/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$26.00	NPAT* (NZ\$m)	174.0	199.4	215.5	229.4	PE	24.1	21.1	19.5	18.3
Target price	NZ\$29.00	EPS* (NZc)	107.7	123.4	133.4	142.0	EV/EBIT	16.2	14.4	13.4	12.8
Risk rating	Medium	EPS growth* (%)	12.7	14.6	8.1	6.5	EV/EBITDA	12.7	11.5	10.9	10.4
Issued shares	161.6m	DPS (NZc)	77.5	85.0	91.0	97.0	Price / NTA	21.9	16.2	12.7	10.4
Market cap	NZ\$4,200m	Imputation (%)	25	25	25	25	Cash div yld (%)	3.0	3.3	3.5	3.7
Avg daily turnover	329.2k (NZ\$7,370k)	*Based on normalised profits					Gross div yld (%)	3.3	3.6	3.8	4.1

#### What's changed?

- **Earnings revisions:** +3-4% over medium-term, with a modest lift to Animal Care and Community Pharmacy growth assumptions.
- **Target price:** Lifted to NZ\$29.00 (prior NZ\$28.00) given earnings revisions.

#### Strong start to FY21

EBO provided a Q1 trading update at its ASM confirming a strong start to FY21, with revenue growth (+6.5%) and some operating leverage (EBITDA +9% and NPAT +15%). Growth was strong across the board, with Animal Care the key highlight.

- **Healthcare:** 1Q21 EBITDA up +9.2%. Limited detail was provided, but we expect growth rates were healthy across all segments, with the exception of Consumer Products which is likely still being impacted by a weak daigou channel.
- **Animal Care:** 1Q21 EBITDA up +18.7%, a particularly impressive result and meaningful acceleration on FY20 growth. Industry anecdotes point to a lift in pet ownership ('nesting effect') and elevated spend per pet. The latter may slow at some point, however, the trend of 'humanisation of pets' remains strong and growth is likely being helped by increasing time spent at home.

#### Small bolt-on acquisition in an unsurprising area...

EBO announced a small investment in the medical devices sector, with the acquisition of Cryomed Australia for A\$14.1m. The acquisition itself doesn't move the dial in terms of EBO group earnings, albeit complements its initial entry to the market (via acquisition) in October 2019. EBO has been clear it is targeting growth in the Australasian medical device sector, via both organic and acquisitive means. The sector is large (~A\$8bn) and fragmented which should offer a long-term growth opportunity, albeit it may take time to build. Industry growth is attractive, and margins are healthy, hence, EBO's interest.

#### ...balance sheet leaves ample capacity for more

EBO has a healthy balance sheet, with gearing well below the company's target range and up to A\$450m capacity to deploy. Bolt-on acquisitions has been an area of added value historically, not captured in our valuation or forecasts. Although quieter than usual recently, M&A remains a clear area of focus and the pipeline is "healthy". Strong cash conversion and our forecasts for an improving free cashflow profile (with major distribution facility upgrades largely complete) means optionality should continue to grow.

## Ebos Group Ltd (EBO)

Priced as at 13 Oct 2020 (NZ\$) **26.00**

<b>12-month target price (NZ\$)*</b>	<b>29.00</b>
Expected share price return	11.5%
Net dividend yield	3.3%
Estimated 12-month return	14.9%

<b>Key WACC assumptions</b>	
Risk free rate	1.30%
Equity beta	0.85
WACC	5.6%
Terminal growth	1.0%

<b>Spot valuations (NZ\$)</b>	
1. DCF	29.35
2. Multiple approach	27.29
3. Sum of the parts	26.45

<b>DCF valuation summary (NZ\$m)</b>	
Total firm value	5,925
(Net debt)/cash	(350)
Less: Capitalised operating leases	(780)
Value of equity	4,794

<b>Profit and Loss Account (A\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Sales revenue	6,930.4	8,765.5	9,141.8	9,391.8	9,660.1
<b>Normalised EBITDA</b>	<b>261.6</b>	<b>333.6</b>	<b>354.2</b>	<b>368.5</b>	<b>383.4</b>
Depreciation and amortisation	(32.1)	(73.1)	(71.7)	(70.7)	(70.7)
<b>Normalised EBIT</b>	<b>229.5</b>	<b>260.5</b>	<b>282.5</b>	<b>297.8</b>	<b>312.7</b>
Net interest	(25.3)	(30.4)	(24.7)	(22.1)	(19.1)
Associate income	0	0	0	0	0
Tax	(59.9)	(68.5)	(77.3)	(82.7)	(88.1)
Minority interests	(0.1)	(1.0)	(1.0)	(1.0)	(1.0)
<b>Normalised NPAT</b>	<b>144.4</b>	<b>162.5</b>	<b>181.4</b>	<b>193.9</b>	<b>206.5</b>
Abnormals/other	(6.7)	0	0	0	0
<b>Reported NPAT</b>	<b>137.7</b>	<b>162.5</b>	<b>181.4</b>	<b>193.9</b>	<b>206.5</b>
Normalised EPS (cps)	94.2	100.6	112.3	120.1	127.8
DPS (NZ cps)	71.5	77.5	85.0	91.0	97.0

<b>Growth Rates</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Revenue (%)	-0.8	26.5	4.3	2.7	2.9
EBITDA (%)	4.6	27.5	6.2	4.0	4.1
EBIT (%)	5.2	13.5	8.5	5.4	5.0
Normalised NPAT (%)	5.2	12.6	11.6	6.9	6.5
Normalised EPS (%)	4.2	6.8	11.6	6.9	6.5
Ordinary DPS (%)	13.5	8.4	9.7	7.1	6.6

<b>Cash Flow (A\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>EBITDA</b>	<b>261.6</b>	<b>333.6</b>	<b>354.2</b>	<b>368.5</b>	<b>383.4</b>
Working capital change	(62.5)	(0.0)	(18.9)	(10.8)	(11.5)
Interest & tax paid	(80.6)	(99.4)	(102.0)	(104.8)	(107.2)
Other	0	(5.0)	0	0	0
<b>Operating cash flow</b>	<b>118.5</b>	<b>229.2</b>	<b>233.3</b>	<b>252.9</b>	<b>264.8</b>
Capital expenditure	(34.2)	(29.3)	(35.0)	(36.8)	(38.6)
(Acquisitions)/divestments	(85.9)	(40.4)	0	0	0
Other	0	(35.7)	(23.8)	(23.7)	(23.4)
<b>Funding available/(required)</b>	<b>(1.5)</b>	<b>123.9</b>	<b>174.4</b>	<b>192.5</b>	<b>202.8</b>
Dividends paid	(103.0)	(118.6)	(125.0)	(132.3)	(141.0)
Equity raised/(returned)	168.2	29.7	0	0	0
<b>(Increase)/decrease in net debt</b>	<b>63.6</b>	<b>35.0</b>	<b>49.5</b>	<b>60.1</b>	<b>61.7</b>

<b>Balance Sheet (A\$m)</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Working capital	333.0	346.4	365.2	376.0	387.5
Fixed assets	174.5	173.7	173.7	173.7	173.7
Intangibles	1,117.2	1,135.9	1,135.4	1,135.4	1,135.1
Right of use asset	0	222.9	209.0	196.0	183.8
Other assets	122.6	209.2	209.2	209.2	209.2
<b>Total funds employed</b>	<b>1,747.3</b>	<b>2,088.1</b>	<b>2,092.6</b>	<b>2,090.3</b>	<b>2,089.2</b>
Net debt/(cash)	365.7	327.1	277.6	217.4	155.7
Lease liability	0	237.1	235.6	232.9	229.0
Other liabilities	142.3	213.0	213.0	213.0	213.0
Shareholder's funds	1,242.3	1,314.9	1,371.4	1,433.1	1,498.5
Minority interests	(3.1)	(4.1)	(5.1)	(6.1)	(7.1)
<b>Total funding sources</b>	<b>1,747.3</b>	<b>2,088.1</b>	<b>2,092.6</b>	<b>2,090.3</b>	<b>2,089.2</b>

\* Forsyth Barr target prices reflect valuation rolled forward at cost of equity less the next 12-months dividend

<b>Valuation Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
EV/EBITDA (x)	16.5	12.7	11.5	10.9	10.4
EV/EBIT (x)	18.8	16.2	14.4	13.4	12.8
PE (x)	27.2	24.1	21.1	19.5	18.3
Price/NTA (x)	29.9	21.9	16.2	12.7	10.4
Free cash flow yield (%)	2.1	5.1	5.2	5.7	6.0
Net dividend yield (%)	2.8	3.0	3.3	3.5	3.7
Gross dividend yield (%)	3.0	3.3	3.6	3.8	4.1

<b>Capital Structure</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Interest cover EBIT (x)	9.1	8.6	11.4	13.5	16.4
Interest cover EBITDA (x)	10.3	11.0	14.3	16.7	20.1
Net debt/ND+E (%)	22.7	19.9	16.8	13.2	9.4
Net debt/EBITDA (x)	1.4	1.0	0.8	0.6	0.4

<b>Key Ratios</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
Return on assets (%)	7.2	7.0	7.4	7.7	8.0
Return on equity (%)	11.6	12.4	13.2	13.5	13.8
Return on funds employed (%)	10.9	11.8	12.5	13.1	13.6
EBITDA margin (%)	3.8	3.8	3.9	3.9	4.0
EBIT margin (%)	3.3	3.0	3.1	3.2	3.2
Capex to sales (%)	0.5	0.3	0.4	0.4	0.4
Capex to depreciation (%)	208	51	60	65	69
Imputation (%)	25	25	25	25	25
Pay-out ratio (%)	75	72	69	68	68

<b>Operating Performance</b>	<b>2019A</b>	<b>2020A</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>Divisional revenue (A\$m)</b>					
Healthcare	6,548.3	8,340.4	8,682.0	8,917.9	9,165.2
Animal Care	382.0	425.1	459.8	473.9	494.9
<b>Total revenue</b>	<b>6,930.4</b>	<b>8,765.5</b>	<b>9,141.8</b>	<b>9,391.8</b>	<b>9,660.1</b>
<b>Divisional EBITDA (A\$m)</b>					
Healthcare	226.6	290.4	306.1	318.9	331.4
Animal Care	48.3	57.7	63.2	65.2	68.2
Corporate / Other	(13.3)	(14.5)	(15.2)	(15.7)	(16.2)
<b>Total EBITDA</b>	<b>261.6</b>	<b>333.6</b>	<b>354.2</b>	<b>368.5</b>	<b>383.4</b>

<b>Key Healthcare segment revenue (A\$m)</b>					
Community Pharmacy	3,704.1	5,090.2	5,141.1	5,218.2	5,296.4
% growth	-4.3	37.4	1.0	1.5	1.5
Institutional Healthcare	2,292.7	2,565.1	2,642.1	2,721.3	2,803.0
% growth	2.4	11.9	3.0	3.0	3.0
Contract Logistics	518.0	712.3	783.5	861.8	948.0
% growth	14.0	37.5	10.0	10.0	10.0
Consumer Products	113.9	115.4	115.4	116.6	117.8
% growth	4.9	1.3	0.0	1.0	1.0

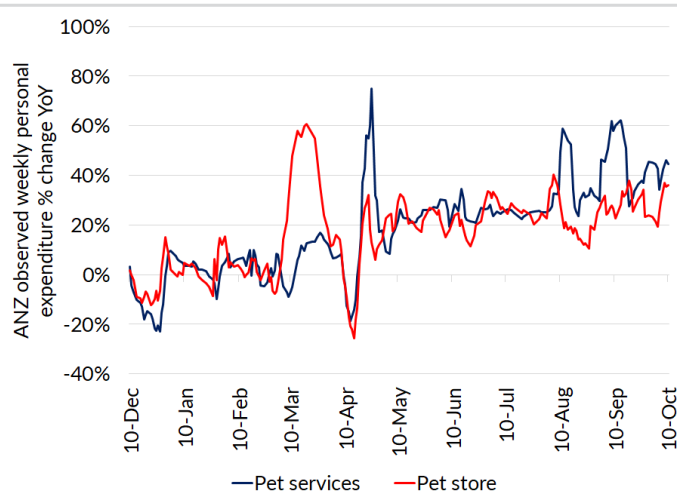
## Charts and tables of interest

Figure 1. Earnings revisions (A\$m)

A\$m	FY20A Actual	FY21E Old	FY21E New	% Chg	FY22E Old	FY22E New	% Chg	FY23E Old	FY23E New	% Chg
Revenue	8,766	9,072	9,142	0.8%	9,321	9,392	0.8%	9,583	9,660	0.8%
EBITDA	333.6	345.3	354.2	2.6%	359.2	368.5	2.6%	372.8	383.4	2.8%
Underlying NPAT	162.5	175.3	181.4	3.5%	187.5	193.9	3.4%	199.0	206.5	3.7%
Underlying EPS (cps)	100.6	108.5	112.3	3.5%	116.1	120.1	3.4%	123.2	127.8	3.7%
Dividend (NZ cps)	77.5	83.0	85.0	2.4%	87.0	91.0	4.6%	94.0	97.0	3.2%

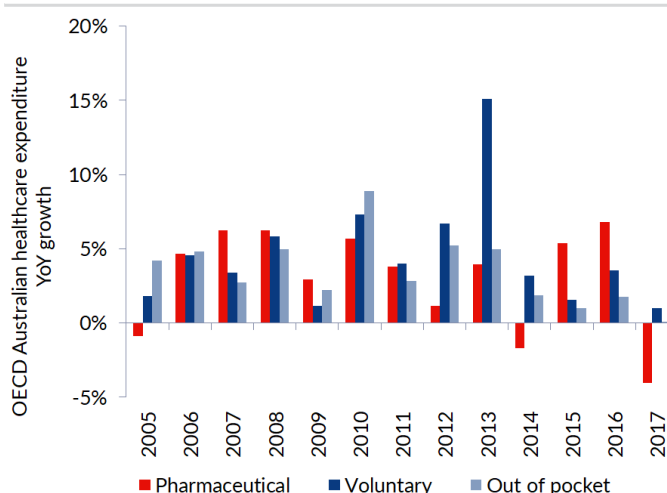
Source: Forsyth Barr analysis

Figure 2. Spending on pets still accelerating



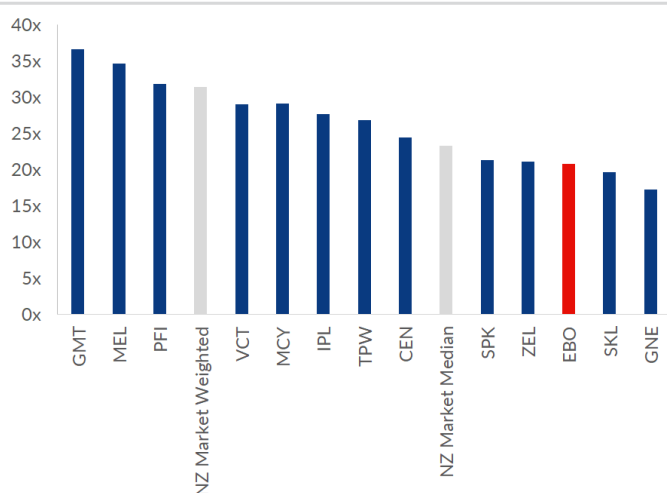
Source: Forsyth Barr analysis, ANZ

Figure 3. Proven category resilience through the cycle



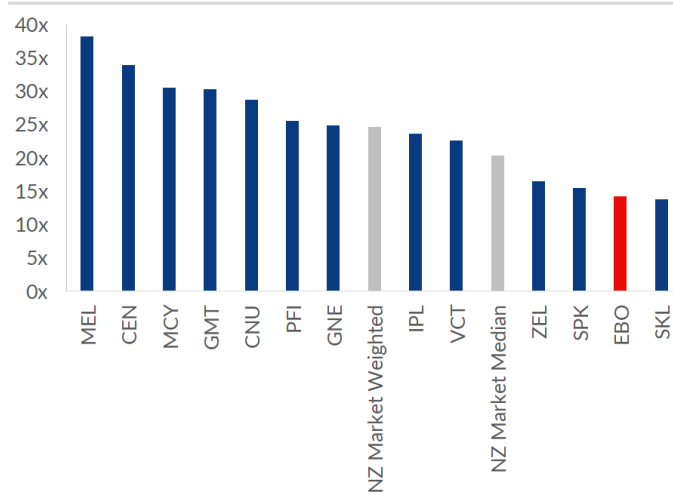
Source: Forsyth Barr analysis, OECD data

Figure 4. PE below the NZ market and defensive peers

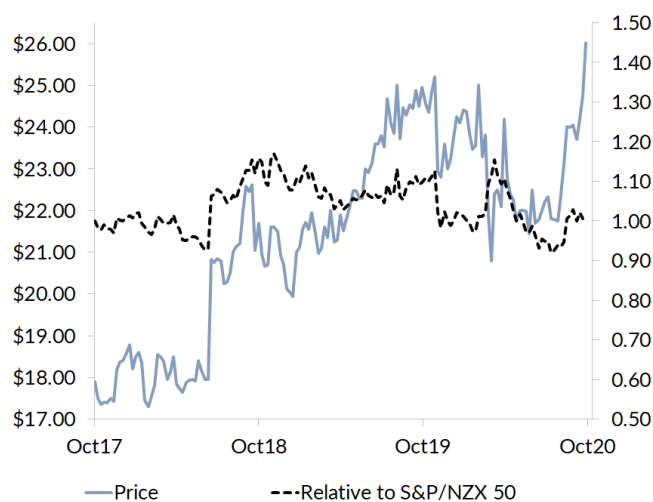


Source: Forsyth Barr analysis

Figure 5. ...as is EV/EBIT



Source: Forsyth Barr analysis

**Figure 6. Price performance**


Source: Forsyth Barr analysis

**Figure 7. Substantial shareholders**

Shareholder	Latest Holding
Sybos Holdings	18.7%
FMR	6.2%

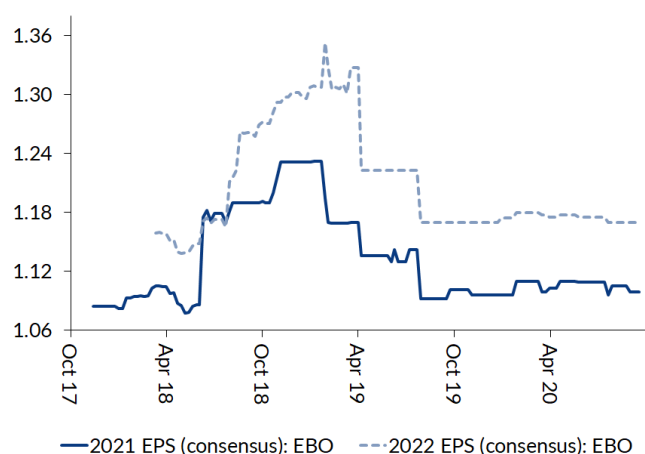
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

**Figure 8. International valuation comparisons**

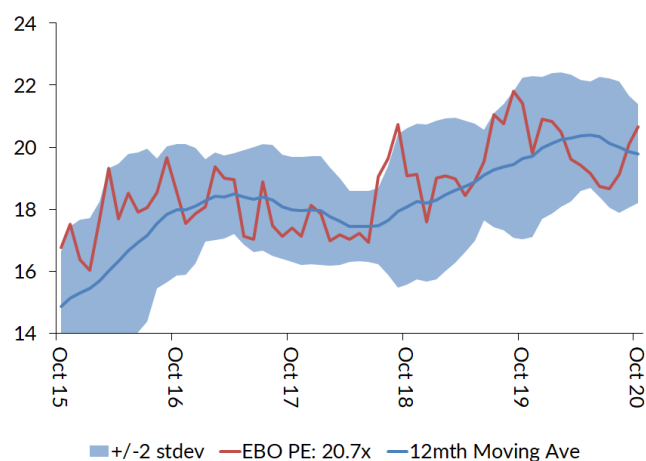
Company	Code	Price	Mkt Cap	PE		EV/EBITDA		EV/EBIT		Cash Yld	
(metrics re-weighted to reflect EBO's balance date - June)				2021E	2022E	2021E	2022E	2021E	2022E	2022E	
EBOS Group	EBO NZ	NZ\$26.00	NZ\$4,200	21.1x	19.5x	11.7x	11.1x	14.7x	13.8x	3.5%	
AUSTRALIAN PHARMA INDUS	API AT	A\$1.04	A\$512	12.5x	10.8x	6.1x	5.4x	10.4x	10.4x	7.3%	
SIGMA HEALTHCARE	SIG AT	A\$0.57	A\$604	16.5x	15.6x	9.6x	8.3x	15.5x	12.4x	5.1%	
MCKESSON CORP	MCK US	US\$151.68	US\$24,601	9.8x	8.8x	7.8x	7.4x	9.0x	8.2x	1.2%	
AMERISOURCEBERGEN CORP	ABC US	US\$97.06	US\$19,814	11.8x	10.9x	8.2x	7.8x	9.3x	8.7x	1.9%	
HENRY SCHEIN INC	HSIC US	US\$60.03	US\$8,570	19.8x	15.8x	11.9x	10.3x	15.9x	12.7x	n/a	
PATTERSON COS INC	PDCO US	US\$25.65	US\$2,471	16.1x	14.6x	11.8x	10.9x	14.3x	13.0x	4.1%	
SINOPHARM GROUP CO-H	1099 HK	CN¥17.06	CN¥53,238	7.5x	6.8x	6.1x	5.6x	6.5x	6.0x	4.5%	
Compco Average:				13.4x	11.9x	8.8x	8.0x	11.6x	10.2x	4.0%	
EV = Current Market Cap + Actual Net Debt				EBO Relative:	57%	64%	33%	39%	27%	35%	-13%

EV = Current Market Cap + Actual Net Debt

Source: \*Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (EBO) companies fiscal year end

**Figure 9. Consensus EPS momentum (NZ\$)**


Source: Forsyth Barr analysis

**Figure 10. One year forward PE (x)**


Source: Forsyth Barr analysis

**Analyst certification:** The research analyst(s) primarily responsible for the preparation and content of this publication ("**Analysts**") are named on the first page of this publication. Each such Analyst certifies (other than in relation to content or views expressly attributed to another analyst) that (i) the views expressed in this publication accurately reflect their personal views about each issuer and financial product referenced and were prepared in an independent manner, including with respect to Forsyth Barr Limited and its related companies; and (ii) no part of the Analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that Analyst in this report.

**Analyst holdings:** The following Analyst(s) have a threshold interest in the financial products referred to in this publication: N/A. For these purposes, a threshold interest is defined as being a holder of more than \$50,000 in value or 1% of the financial products on issue, whichever is the lesser.

**Ratings distributions:** As at 12 Oct 2020, Forsyth Barr's research ratings were distributed as follows:

<b>OUTPERFORM</b>	<b>NEUTRAL</b>	<b>UNDERPERFORM</b>
<b>41.5%</b>	<b>45.3%</b>	<b>13.2%</b>

Forsyth Barr's research ratings are OUTPERFORM, NEUTRAL, and UNDERPERFORM. The ratings are relative to our other equity security recommendations across our New Zealand market coverage and are based on risk-adjusted Estimated Total Returns for the securities in question. Risk-adjusted Estimated Total Returns are calculated from our assessment of the risk profile, expected dividends and target price for the relevant security.

**Disclosure:** Forsyth Barr Limited and its related companies (and their respective directors, officers, agents and employees) ("Forsyth Barr") may have long or short positions or otherwise have interests in the financial products referred to in this publication, and may be directors or officers of, and/or provide (or be intending to provide) investment banking or other services to, the issuer of those financial products (and may receive fees for so acting). Forsyth Barr is not a registered bank within the meaning of the Reserve Bank of New Zealand Act 1989. Forsyth Barr may buy or sell financial products as principal or agent, and in doing so may undertake transactions that are not consistent with any recommendations contained in this publication. Other Forsyth Barr business units may hold views different from those in this publication; any such views will generally not be brought to your attention. Forsyth Barr confirms no inducement has been accepted from the issuer(s) that are the subject of this publication, whether pecuniary or otherwise, in connection with making any recommendation contained in this publication. In preparing this publication, non-financial assistance (for example, access to staff or information) may have been provided by the issuer(s) being researched.

**Investment banking engagements:** Other than confidential engagements, Forsyth Barr has not within the past 12 months been engaged to provide investment banking services to the issuer that is the subject of this publication. For information about whether Forsyth Barr has within the past 12 months been engaged to provide investment banking services to any other issuer referred to in this publication, please refer to the most recent research report for that issuer's financial products.

**Not personalised financial advice:** The recommendations and opinions in this publication do not take into account your personal financial situation or investment goals. The financial products referred to in this publication may not be suitable for you. If you wish to receive personalised financial advice, please contact your Forsyth Barr Investment Adviser. The value of financial products may go up and down and investors may not get back the full (or any) amount invested. Past performance is not necessarily indicative of future performance. Disclosure statements for Forsyth Barr Investment Advisers are available on request and free of charge.

**Disclaimer:** This publication has been prepared in good faith based on information obtained from sources believed to be reliable and accurate. However, that information has not been independently verified or investigated by Forsyth Barr. Forsyth Barr does not make any representation or warranty (express or implied) that the information in this publication is accurate or complete, and, to the maximum extent permitted by law, excludes and disclaims any liability (including in negligence) for any loss which may be incurred by any person acting or relying upon any information, analysis, opinion or recommendation in this publication. Forsyth Barr does not undertake to keep current this publication; any opinions or recommendations may change without notice to you. Any analyses or valuations will typically be based on numerous assumptions; different assumptions may yield materially different results. Nothing in this publication should be construed as a solicitation to buy or sell any financial product, or to engage in or refrain from doing so, or to engage in any other transaction. This publication is not intended to be distributed or made available to any person in any jurisdiction where doing so would constitute a breach of any applicable laws or regulations or would subject Forsyth Barr to any registration or licensing requirement within such jurisdiction.

**Terms of use:** Copyright Forsyth Barr Limited. You may not redistribute, copy, revise, amend, create a derivative work from, extract data from, or otherwise commercially exploit this publication in any way. By accessing this publication via an electronic platform, you agree that the platform provider may provide Forsyth Barr with information on your readership of the publications available through that platform.