FORSYTH BARR

NEW ZEALAND EQUITY RESEARCH | HEALTHCARE | WHOLESALE & DISTRIBUTION
15 FEBRUARY 2021

EBOS Group
1H21 Preview — Looking For A Strong Delivery

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

OUTPERFORM

We expect EBOS Group (EBO) to report a strong 1H21 result on Wednesday 17 February, with growth across the portfolio, following on from a buoyant 1Q21. Animal Care will likely be the key highlight; a beneficiary of increased pet ownership, helped by consumer 'nesting'. While we expect it to be largely business as usual at a headline level, weekly/monthly trading has likely been more volatile than usual given COVID-19 and fluid government restrictions. EBO's portfolio and core product exposures are defensive and well positioned in the current backdrop. Key focus areas are (1) outlook/trading insights, (2) balance sheet and M&A update — with material headroom available.

NZX Code	EBO
Share price	NZ$29.70
Target price	NZ$29.00
Risk rating	Medium
Issued shares	164.1m
Market cap	NZ$4,875m
Avg daily turnover	285.4k (NZ$6,541k)

Financials: Jun/	20A	21E	22E	23E
NPAT* (NZ$m)	174.0	199.4	215.5	229.4
EPS* (NZc)	107.7	121.5	131.3	139.7
EPS growth* (%)	12.7	12.8	8.1	6.5
DPS (NZc)	77.5	84.0	90.0	96.0
Imputation (%)	25	25	25	25

*Based on normalised profits

Valuation (x)	20A	21E	22E	23E
PE	27.6	24.5	22.6	21.3
EV/EBIT	19.1	17.4	16.3	15.5
EV/EBITDA	14.9	13.9	13.1	12.6
Price / NTA	25.0	18.8	14.8	12.1
Cash div yld (%)	2.6	2.8	3.0	3.2
Gross div yld (%)	2.9	3.1	3.3	3.5

Key points of interest

- **Recent trading insights and any outlook comments**: A fluid trading backdrop in both Australia and New Zealand has likely seen continued monthly volatility, particularly in over-the-counter products and CBD/mall exposed pharmacies. Aside from this, we expect EBO's portfolio to be performing well, helped by a diversified revenue base and defensive core product exposures. We forecast 1H21E NPAT growth of +12%, following on from strong 1Q21 trading (EBITDA +9%; NPAT +15%).
- **Divisional detail:** We expect Animal Care to be the standout segment, with industry growth attractive and EBO well positioned to be outperforming. Within Healthcare we expect a strong result from Contract Logistics and Institutional Healthcare, outpacing cost inflation in NZ and slower growth in Community Pharmacy and Consumer Products.
- **Balance sheet, cashflow and M&A:** EBO has a well signalled and consistent bolt-on acquisitive strategy, albeit has been quiet over the past 12 months. Cash conversion is strong and gearing conservative; we estimate headroom of c. A$450–500m.
- **Vaccine rollout:** Any insight will be of broader interest. EBO does not appear to be directly involved in the distribution at this point (and if it was we do not see it as a material earnings driver), however, both Australia and New Zealand are planning to use pharmacies for vaccination, which may see incremental benefit for the segment through higher foot traffic.

Conference call — 11:30am NZ time on Wednesday, 17 February

Requires pre-registration: https://apac.directeventreg.com/registration/event/3870155.

Figure 1. 1H21E result expectations (post IFRS-16)

A$m	1H20	1H21E	% chg
Revenue	4,376.1	4,564.3	4.3%
EBITDA	**168.4**	**178.8**	**6.2%**
EBIT	132.6	143.7	8.4%
Underlying NPAT	**82.7**	**92.4**	**11.7%**
Underlying EPS (A cps)	51.0	56.3	10.4%
Dividend (NZ cps)	37.5	40.5	7.9%

Source: Forsyth Barr analysis, Company reports

Figure 2. Divisional detail (post IFRS-16 unless stated)

A$m	1H20	1H21E	% chg
Healthcare	147.0	154.1	4.8%
Animal Care	28.5	32.0	12.4%
Corporate costs	(7.1)	(7.3)	3.3%
Total EBITDA	**168.4**	**178.8**	**6.2%**
Total EBITDA pre IFRS-16	149.0	158.6	6.5%

Source: Forsyth Barr analysis, Company reports

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Ebos Group Ltd (EBO)

Priced as at 12 Feb 2021 (NZ$)	29.70

12-month target price (NZ$)*	29.00
Expected share price return	-2.4%
Net dividend yield	3.0%
Estimated 12-month return	0.6%

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

Key WACC assumptions	
Risk free rate	1.30%
Equity beta	0.85
WACC	5.6%
Terminal growth	1.0%

DCF valuation summary (NZ$m)	
Total firm value	5,906
(Net debt)/cash	(350)
Less: Capitalised operating leases	(780)
Value of equity	4,776

Profit and Loss Account (A$m)	2019A	2020A	2021E	2022E	2023E
Sales revenue	6,930.4	8,765.5	9,141.8	9,391.8	9,660.1
Normalised EBITDA	**261.6**	**333.6**	**354.2**	**368.5**	**383.4**
Depreciation and amortisation	(32.1)	(73.1)	(71.7)	(70.7)	(70.7)
Normalised EBIT	**229.5**	**260.5**	**282.5**	**297.8**	**312.7**
Net interest	(25.3)	(30.4)	(24.7)	(22.2)	(19.2)
Associate income	0	0	0	0	0
Tax	(59.9)	(68.5)	(77.3)	(82.7)	(88.0)
Minority interests	(0.1)	(1.0)	(1.0)	(1.0)	(1.0)
Normalised NPAT	**144.4**	**162.5**	**181.4**	**193.9**	**206.4**
Abnormals/other	(6.7)	0	0	0	0
Reported NPAT	**137.7**	**162.5**	**181.4**	**193.9**	**206.4**
Normalised EPS (cps)	94.2	100.6	110.5	118.1	125.8
DPS (NZ cps)	71.5	77.5	84.0	90.0	96.0

Valuation Ratios	2019A	2020A	2021E	2022E	2023E
EV/EBITDA (x)	18.9	14.9	13.8	13.1	12.6
EV/EBIT (x)	21.6	19.1	17.3	16.2	15.4
PE (x)	31.1	27.6	24.5	22.6	21.3
Price/NTA (x)	34.2	25.0	18.8	14.8	12.1
Free cash flow yield (%)	1.8	4.4	4.5	4.9	5.2
Net dividend yield (%)	2.4	2.6	2.8	3.0	3.2
Gross dividend yield (%)	2.6	2.9	3.1	3.3	3.5

Capital Structure	2019A	2020A	2021E	2022E	2023E
Interest cover EBIT (x)	9.1	8.6	11.4	13.4	16.3
Interest cover EBITDA (x)	10.3	11.0	14.3	16.6	20.0
Net debt/ND+E (%)	22.7	19.9	16.9	13.2	9.5
Net debt/EBITDA (x)	1.4	1.0	0.8	0.6	0.4

Growth Rates	2019A	2020A	2021E	2022E	2023E
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	9.9	6.9	6.5
Ordinary DPS (%)	13.5	8.4	8.4	7.1	6.7

Key Ratios	2019A	2020A	2021E	2022E	2023E
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	69	69

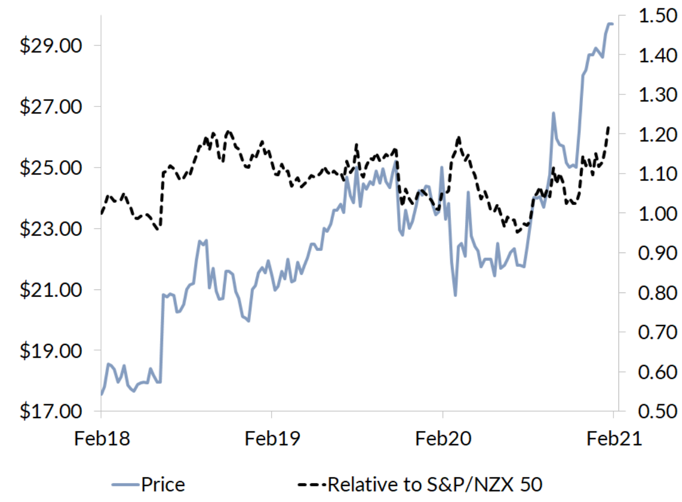
Cash Flow (A$m)	2019A	2020A	2021E	2022E	2023E
EBITDA	**261.6**	**333.6**	**354.2**	**368.5**	**383.4**
Working capital change	(62.5)	(0.0)	(18.9)	(10.8)	(11.5)
Interest & tax paid	(80.6)	(99.4)	(102.1)	(104.8)	(107.2)
Other	0	(5.0)	0	0	0
Operating cash flow	**118.5**	**229.2**	**233.2**	**252.8**	**264.7**
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)
Funding available/(required)	**(1.5)**	**123.9**	**174.4**	**192.4**	**202.7**
Dividends paid	(103.0)	(118.6)	(125.5)	(133.0)	(141.8)
Equity raised/(returned)	168.2	29.7	0	0	0
(Increase)/decrease in net debt	**63.6**	**35.0**	**49.0**	**59.5**	**60.9**

Operating Performance	2019A	2020A	2021E	2022E	2023E
Divisional revenue (A$m)					
Healthcare	6,548.3	8,340.4	8,682.0	8,917.9	9,165.2
Animal Care	382.0	425.1	459.8	473.9	494.9
Total revenue	**6,930.4**	**8,765.5**	**9,141.8**	**9,391.8**	**9,660.1**
Divisional EBITDA (A$m)					
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)
Total EBITDA	**261.6**	**333.6**	**354.2**	**368.5**	**383.4**
Key Healthcare segment revenue (A$m)					
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

Balance Sheet (A$m)	2019A	2020A	2021E	2022E	2023E
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
Total funds employed	**1,747.3**	**2,088.1**	**2,092.6**	**2,090.3**	**2,089.2**
Net debt/(cash)	365.7	327.1	278.1	218.6	157.8
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	1,370.9	1,431.9	1,496.5
Minority interests	(3.1)	(4.1)	(5.1)	(6.1)	(7.1)
Total funding sources	**1,747.3**	**2,088.1**	**2,092.6**	**2,090.3**	**2,089.2**

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

Figure 3. Price performance



Source: Forsyth Barr analysis

Figure 4. Substantial shareholders

Shareholder	Latest Holding
Sybos Holdings	18.7%
Harbour Asset Management & Jarden Securities Limited	5.2%

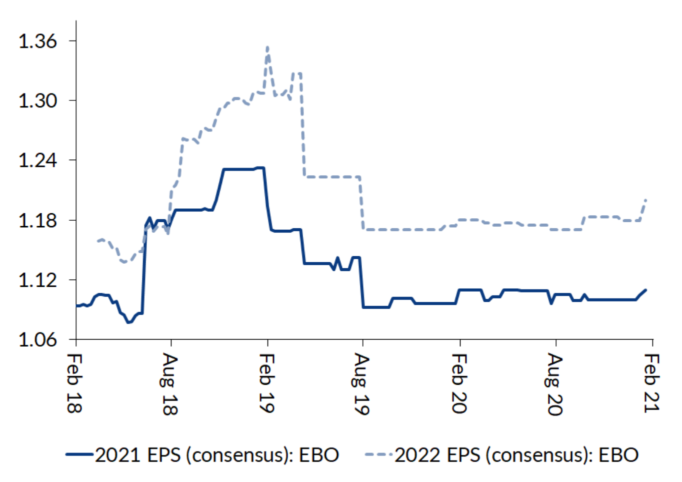
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 5. 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)			(m)	2021E	2022E	2021E	2022E	2021E	2022E	2022E
EBOS Group	**EBO NZ**	**NZ$29.70**	**NZ$4,875**	**24.5x**	**22.6x**	**13.4x**	**12.8x**	**16.8x**	**15.8x**	**3.0%**
AUSTRALIAN PHARMA INDUS	API AT	A$1.25	A$613	0.1x	13.3x	6.4x	5.5x	<0x	10.5x	5.0%
SIGMA HEALTHCARE	SIG AT	A$0.69	A$726	23.0x	18.4x	11.2x	9.6x	17.2x	14.1x	4.3%
MCKESSON CORP	MCK US	US$184.25	US$29,327	10.6x	9.8x	8.1x	7.7x	9.3x	8.7x	1.0%
AMERISOURCEBERGEN CORP	ABC US	US$106.72	US$21,845	7.8x	11.4x	4.6x	7.0x	5.5x	7.9x	1.7%
HENRY SCHEIN INC	HSIC US	US$70.37	US$10,047	20.9x	17.7x	12.8x	11.2x	16.6x	13.9x	n/a
PATTERSON COS INC	PDCO US	US$32.51	US$3,137	16.8x	16.0x	12.5x	11.9x	14.1x	13.4x	3.3%
SINOPHARM GROUP CO-H	1099 HK	CN¥18.50	CN¥57,732	7.9x	7.1x	6.4x	6.0x	7.1x	6.7x	4.2%
			Compco Average:	**12.4x**	**13.4x**	**8.9x**	**8.4x**	**11.6x**	**10.7x**	**3.2%**
EV = Current Market Cap + Actual Net Debt			**EBO Relative:**	**97%**	**69%**	**51%**	**52%**	**45%**	**47%**	**-7%**

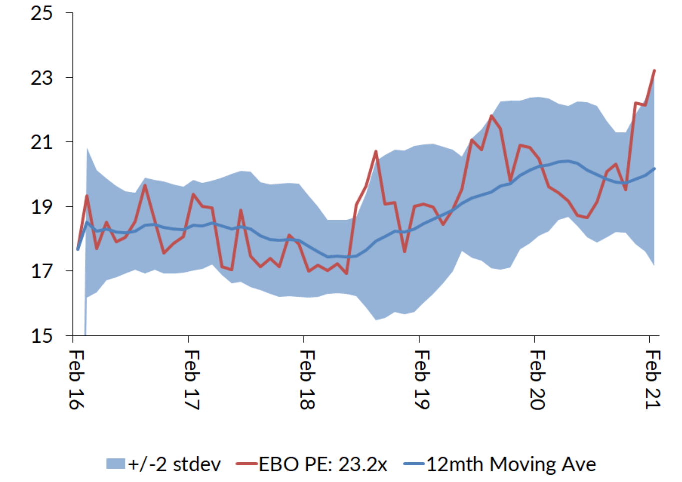
Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (EBO) companies fiscal year end

Figure 6. Consensus EPS momentum (NZ$)



Source: Forsyth Barr analysis

Figure 7. One year forward PE (x)



Source: Forsyth Barr analysis

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