

F&P Healthcare

1H21 Preview — Pumped Up

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UNDERPERFORM

We already know 1H21 will be an exceptional period for F&P Healthcare (FPH) and the market is expecting an upgrade to its FY21 'guide' when the company reports on 25 November; the devil will be in the detail. We expect focus to be on (1) the quantum of the upgrade, (2) detail behind the growth — particularly demand by countries seeing a COVID-19 second wave, product mix and progression of demand for FPH's products through the hospital and globally. COVID-19 is likely to continue to dominate the discussion near-term given the resurgence of cases globally, with FPH's Hospital products being used as a front-line therapy. It is likely too early for any meaningful insights into where to beyond COVID-19.

NZX Code	FPH	Financials: Mar/	20A	21E	22E	23E	Valuation (x)	20A	21E	22E	23E
Share price	NZ\$32.81	NPAT* (NZ\$m)	287.3	408.7	399.2	451.8	PE	65.6	46.2	47.5	42.2
Target price	NZ\$32.50	EPS* (NZc)	50.0	71.0	69.1	77.8	EV/EBIT	49.6	34.1	35.0	30.9
Risk rating	Medium	EPS growth* (%)	37.0	41.9	-2.7	12.7	EV/EBITDA	42.7	30.3	30.7	27.4
Issued shares	574.2m	DPS (NZc)	27.5	39.0	41.4	46.7	Price / NTA	20.9	17.1	15.2	13.4
Market cap	NZ\$18,839m	Imputation (%)	100	100	100	100	Cash div yld (%)	0.8	1.2	1.3	1.4
Avg daily turnover	855.4k (NZ\$25,376k)	*Based on normalised profits					Gross div yld (%)	1.2	1.7	1.8	2.0

Key areas of focus

- **Upgraded FY21 'guide':** We have no doubt FPH will upgrade its 'guide'; market forecasts are already meaningfully higher.
 - FPH 'guide' (provided August 2020): FY21 revenue of ~NZ\$1.61bn and NPAT of NZ\$365–385m, based on a set of assumptions including that COVID-19 hospitalisations steadily return to normal by the end of CY20.
 - Market expectations ahead of FPH's 'guide': We forecast FY21 NPAT of NZ\$409m (consensus NZ\$395m; range NZ\$352-436m).
 - We thought the assumption set behind the 'guide' was conservative at the time, however, with rising COVID-19 hospitalisations (particularly in the US & Europe) and recent competitor data points — this has become increasingly apparent.
- **Insights on COVID-19 demand profile, particularly for countries seeing a second (or third) wave of COVID-19:** Competitor commentary suggests hardware sales have been lumpy, albeit that a second wave has not seen the same material lift in demand. Consumables growth should be driven by hospitalisations, hence, we expect FPH is still experiencing very strong demand.
- **Capex outlook:** An update on timing and quantum. The explosive growth in CY20 is likely to mean further near-term tooling and capacity investment (with a new building already signalled for Mexico) as FPH continues to invest ahead of the curve. While important to support future growth, we do not believe capacity should be used as a lead indicator of demand.

Investor briefing — 10am NZ time, Wednesday 25 November

 Dial in: 09 913 3624 for NZ (+61 2 9193 3719 for Australia); conference code 950349. Webcast link on www.fphcare.com/investor.

Figure 1. FPH 1H21 result expectations (NZ\$m)

	1H20	1H21E	% chg
Total revenue	570.9	880.3	54%
EBIT	166.0	292.1	76%
NPAT	121.2	216.3	78%
Underlying EPS	21.1	37.5	78%
Interim dividend (cps)	12.0	18.0	50%

Source: Forsyth Barr analysis, Company reports

Figure 2. Divisional breakdown forecasts (NZ\$m)

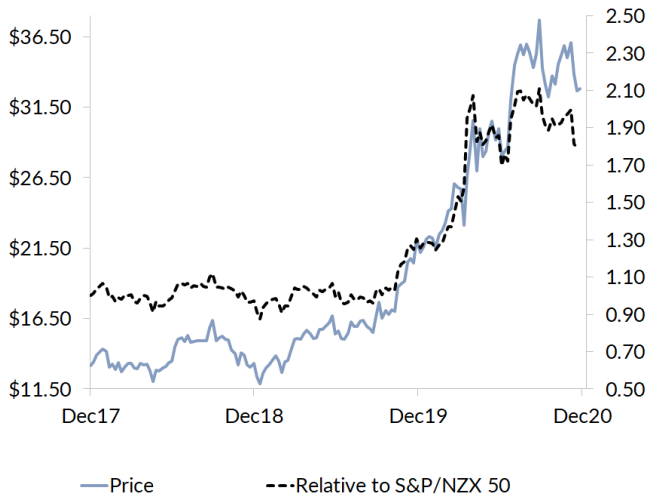
	1H19	1H20	1H21E	1H21E % chg
Hospital hardware	35.7	42.4	183.9	333%
Hospital consumables	261.6	311.2	468.5	51%
Hospital — total	297.3	353.6	652.4	85%
Homecare - total	211.1	214.7	225.4	5%
Distributed/Other	2.9	2.6	2.5	-4%
Total revenue	511.3	570.9	880.3	54%

Source: Forsyth Barr analysis, Company reports

Fisher & Paykel Healthcare Corporation (FPH)

Priced as at 23 Nov 2020 (NZ\$)						32.81						
12-month target price (NZ\$)*						32.50	Spot valuations (NZ\$)					
Expected share price return						-0.9%	1. DCF					34.02
Net dividend yield						1.2%	2. Compco					25.60
Estimated 12-month return						0.3%	3. n/a					n/a
Key WACC assumptions						DCF valuation summary (NZ\$m)						
Risk free rate						1.30%	Total firm value					20,005
Equity beta						0.77	(Net debt)/cash					0
WACC						5.2%	Less: Capitalised operating leases					(207)
Terminal growth						1.5%	Value of equity					19,798
Profit and Loss Account (NZ\$m)						Valuation Ratios						
	2019A	2020A	2021E	2022E	2023E		2019A	2020A	2021E	2022E	2023E	
Sales revenue	1,070.4	1,263.7	1,705.3	1,673.1	1,868.4	EV/EBITDA (x)	57.1	42.7	30.3	30.7	27.4	
Normalised EBITDA	329.3	440.3	620.2	611.4	684.3	EV/EBIT (x)	64.2	49.5	34.0	34.9	30.9	
Depreciation and amortisation	(41.7)	(61.0)	(68.1)	(74.4)	(77.1)	PE (x)	89.8	65.6	46.2	47.5	42.2	
Normalised EBIT	292.6	379.3	552.1	537.0	607.3	Price/NTA (x)	22.1	20.9	17.1	15.2	13.4	
Net interest	0.8	(1.7)	(1.1)	(0.4)	0.5	Free cash flow yield (%)	0.7	0.9	1.3	1.9	1.8	
Associate income	0	0	0	0	0	Net dividend yield (%)	0.7	0.8	1.2	1.3	1.4	
Tax	(82.0)	(83.2)	(142.3)	(137.5)	(155.9)	Gross dividend yield (%)	1.0	1.2	1.7	1.8	2.0	
Minority interests	0	0	0	0	0	Capital Structure						
Normalised NPAT	209.2	287.3	408.7	399.2	451.8	Interest cover EBIT (x)	n/a	>100x	>100x	>100x	n/a	
Abnormals/other	0	0	0	0	0	Interest cover EBITDA (x)	n/a	>100x	>100x	>100x	n/a	
Reported NPAT	209.2	287.3	408.7	399.2	451.8	Net debt/ND+E (%)	-6.3	-4.5	-8.0	-18.4	-21.8	
Normalised EPS (cps)	36.5	50.0	71.0	69.1	77.8	Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a	
DPS (cps)	23.3	27.5	39.0	41.4	46.7	Key Ratios						
Growth Rates							2019A	2020A	2021E	2022E	2023E	
Revenue (%)	9.1	18.1	34.9	-1.9	11.7	Return on assets (%)	24.2	26.0	32.6	31.0	32.1	
EBITDA (%)	6.4	33.7	40.9	-1.4	11.9	Return on equity (%)	22.9	29.4	34.3	29.5	29.2	
EBIT (%)	8.5	29.6	45.5	-2.7	13.1	Return on funds employed (%)	26.8	33.0	40.2	35.6	37.3	
Normalised NPAT (%)	10.0	37.3	42.2	-2.3	13.2	EBITDA margin (%)	30.8	34.8	36.4	36.5	36.6	
Normalised EPS (%)	9.5	37.0	41.9	-2.7	12.7	EBIT margin (%)	27.3	30.0	32.4	32.1	32.5	
Ordinary DPS (%)	9.4	18.3	41.8	6.2	12.8	Capex to sales (%)	11.7	12.3	9.7	6.9	9.0	
Cash Flow (NZ\$m)							2019A	2020A	2021E	2022E	2023E	
EBITDA	329.3	440.3	620.2	611.4	684.3	Capex to depreciation (%)	366	322	301	192	269	
Working capital change	6.7	(14.3)	(67.4)	5.1	(31.0)	Imputation (%)	100	100	100	100	100	
Interest & tax paid	(82.7)	(95.9)	(143.4)	(137.8)	(155.4)	Pay-out ratio (%)	64	55	55	60	60	
Other	0	0	0	0	0	Operating Performance						
Operating cash flow	253.3	330.1	409.4	478.7	497.9	Sales revenue (NZ\$m)		2019A	2020A	2021E	2022E	2023E
Capital expenditure	(125.7)	(155.7)	(165.0)	(116.0)	(167.5)	Hospital	642	801	1,215	1,133	1,283	
(Acquisitions)/divestments	0	0	0	0	0	Growth (%)	12	25	52	(7)	13	
Other	0	(9.7)	(7.3)	(7.8)	(8.1)	Homecare	421	457	486	535	580	
Funding available/(required)	127.6	164.7	237.1	354.9	322.3	Growth (%)	6	9	6	10	8	
Dividends paid	(114.6)	(146.4)	(191.4)	(232.4)	(255.7)	Core products - total	1,064	1,259	1,700	1,668	1,864	
Equity raised/(returned)	2.1	0	0	0	0	Distributed products	7	5	5	5	5	
(Increase)/decrease in net debt	15.1	18.3	45.7	122.5	66.5	Total sales	1,070	1,264	1,705	1,673	1,868	
Balance Sheet (NZ\$m)						Cost breakdown and margins						
Working capital	159.0	203.6	271.0	265.9	296.9	Gross profit (NZ\$m)	716	836	1,080	1,094	1,220	
Fixed assets	601.4	710.6	803.2	838.3	919.6	Gross margin (%)	67	66	63	65	65	
Intangibles	61.5	73.9	88.5	105.2	124.3	R & D costs (NZ\$m)	(100)	(119)	(130)	(137)	(153)	
Right of use asset	0	24.7	24.2	23.7	23.2	SG&A costs (NZ\$m)	(286)	(277)	(330)	(346)	(383)	
Other assets	109.1	136.5	136.0	135.5	135.0	Key line items to call out						
Total funds employed	931.0	1,149.3	1,322.9	1,368.6	1,499.1	R&D tax credit (incl. as offset to tax)	n/a	13	15	15	17	
Net debt/(cash)	(54.4)	(42.2)	(87.9)	(210.4)	(277.0)	Litigation costs within SG&A	(23)	0	0	0	0	
Lease liability	0	33.6	36.2	38.0	39.4	Currency						
Other liabilities	72.2	181.4	184.0	185.8	187.2	NZDUSD spot rate	0.68	0.65	0.64	0.64	0.64	
Shareholder's funds	913.2	976.5	1,190.8	1,355.2	1,549.5	NZDEUR spot rate	0.59	0.58	0.56	0.56	0.56	
Minority interests	0	0	0	0	0	USD hedging - % cover			85	60	45	
Total funding sources	931.0	1,149.3	1,322.9	1,368.6	1,499.1	USD hedging - average rate			0.65	0.65	0.64	

* 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
The Vanguard Group	5.3%
BlackRock Investment Management	5.0%

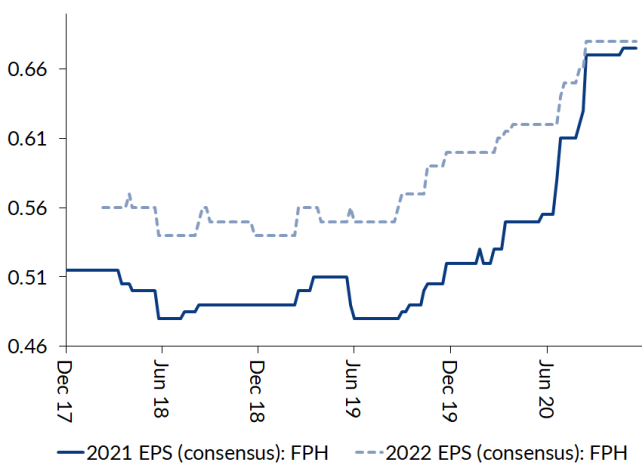
Source: NZX, Forsyth Barr analysis, NOTE: based on SPH notices only

Figure 5. International valuation comparisons

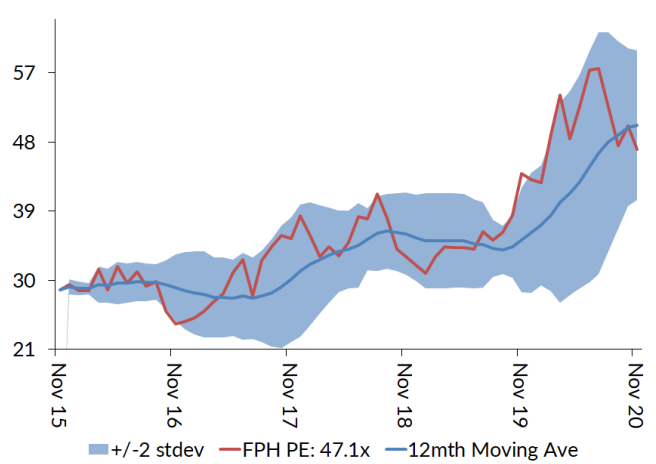
Company	Code	Price	Mkt Cap (m)	PE		EV/EBITDA		EV/EBIT		Cash Yld
				2021E	2022E	2021E	2022E	2021E	2022E	
F&P Healthcare	FPH NZ	NZ\$32.81	NZ\$18,839	46.2x	47.5x	30.3x	30.7x	34.0x	35.0x	1.3%
RESMED INC	RMD US	US\$211.02	US\$30,580	43.3x	39.6x	30.1x	28.1x	35.0x	32.3x	0.8%
TELEFLEX INC	TFX US	US\$370.61	US\$17,258	33.8x	27.8x	26.2x	21.3x	32.1x	25.2x	0.4%
BOSTON SCIENTIFIC CORP	BSX US	US\$33.70	US\$48,256	29.1x	19.8x	21.0x	15.7x	26.1x	17.7x	0.0%
BECTON DICKINSON AND CO	BDX US	US\$231.87	US\$67,212	>50x	17.9x	18.5x	13.9x	36.2x	16.6x	1.7%
Compco Average:				35.4x	26.3x	23.9x	19.8x	32.4x	23.0x	0.7%
FPH Relative:				31%	81%	27%	56%	5%	53%	76%

EV = Current Market Cap + Actual Net Debt

Source: *Forsyth Barr analysis, Bloomberg Consensus, Compco metrics re-weighted to reflect headline (FPH) 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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