

23 February 2021

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## Estia Health Limited

### Health Care

#### UNDERPERFORM

**EHE A\$2.03 TARGET PRICE A\$1.74**

Estia Health Limited (EHE) is a provider of residential aged care services in Australia that owns and develops high quality residential aged care homes in Australia; provides residents in our homes with the highest standards of aged care services in an innovative, supportive and caring environment; and delivers earnings growth through a development pipeline, enhancement of current homes, and acquisitions.

#### Company Data

Number of shares	261.3 M
Market Capitalisation	\$530.4 M
Free float (%)	75.9
12-month high/low	\$2.30/\$0.91
Average Daily Turnover (\$m)	0.79
% S&P/ASX200	0.03%
DDM Ranking	263
% All Ordinaries	0.02%
GICS Industry Group	Health Care Equipment & Services

Source: FactSet, Barclay Pearce Capital

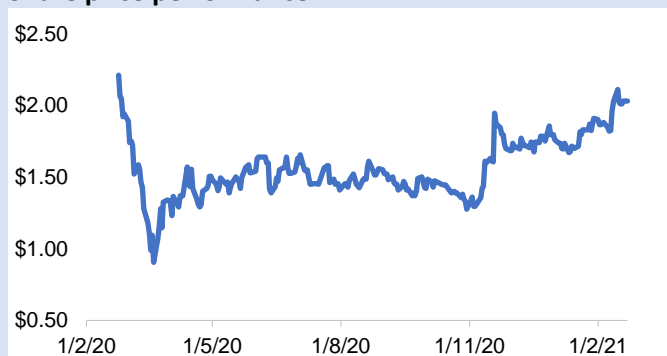
#### Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	579.9	630.9	655.7	691.3
EBITDA (\$M)	126.6	99.2	117.2	126.3
Reported NPAT (\$M)	-116.9	20.1	26.7	30.8
Adjusted NPAT (\$M)	25.2	14.1	24.8	29.9
Reported EPS (c)	-44.8	6.8	9.9	11.5
Adjusted EPS (c - FD)	9.6	5.6	9.6	11.1
Adjusted EPS growth (%)	-38.8	-41.8	71.0	15.8
Adjusted P/E (x)	21.0	36.2	21.1	18.3
Dividend (c/sh)	5.4	4.6	8.4	9.7
Gross yield (%)	3.8	3.2	5.9	6.8
Net yield (%)	2.7	2.3	4.2	4.8
ROIC (%)	3.6	2.0	3.4	4.0

Source: Barclay Pearce Capital

Barclay Pearce Capital contributes all company estimates to Thomson Reuters, FactSet, Nucleus 195, Capital IQ and Bloomberg.

#### Share price performance.



Source: FactSet, Barclay Pearce Capital

## FY2021 Half Year Results

On 23<sup>rd</sup> February, Estia Health Limited (EHE) released their results for the half year ended 31 December 2020 with the following highlights:

- \$5.3m net loss after tax;
- \$3.8m profit after tax before impairment and shareholder class action settlement cost;
- Direct incremental costs arising from the Group's intense COVID-19 response were \$20.1m in the period;
- \$8.5m of Government Temporary Funding and grants were received in the period;
- Group occupancy averaged 90.6% during the period, 93.5% in its 42 homes outside Victoria, and 85.1% across its 27 homes in Victoria, which were heavily impacted by COVID-19 restrictions;
- Net RAD balances were sustained despite the occupancy fall with net inflows of \$1.5m in the period;
- \$86.0m net bank debt and \$240.0m available liquidity at period end;
- Shareholder class action dating back to 2015-2016 settled at a net cost of \$11.7m to the Group; and
- No Interim Dividend has been declared;

Chief Executive Ian Thorley said *"The second wave COVID-19 outbreak in Victoria from July to October tested the sector in a way never previously experienced and we again thank our residents, their families and employees for their ongoing support during this difficult time."*

*"Our absolute priority throughout the COVID-19 pandemic has been the health, safety and well-being of our residents and employees and we had no hesitation in committing whatever was required to that priority. Supported by strong governance, depth of management and our financial capacity, we committed more than \$20 million in additional costs across our workforce, Infection Prevention and Control, PPE, cleaning, waste disposal, and staff and family welfare support"*

*"The financial and operational strength of the Group, together with Government's additional funding and the geographic and demographic diversity of our homes, supported the Group's financial outcomes in the period, and with that our ability to provide for the needs of residents and employees. Our financial performance outside of Victoria has remained consistently sound and this has supported the additional investment, costs and lost revenues in Victoria."*

*"It is evident that the impact of COVID-19 on the entire Australian economy and community will continue to be experienced for the foreseeable future, at least until the benefits of the vaccine program are evident."*

*"The aged care sector, which cares for some of the most vulnerable members of the community, will need to continue to be on alert to COVID-19. As infections and clusters emerge in local communities it is likely that regular lockdowns, restrictions to visitor access and increased PPE usage will continue to be part of the normal operating mode of residential aged care homes for a significant time to come."*

### Earnings changes

For H1 FY21, EHE reported an underlying net profit after tax of \$3.8m, which compares with market consensus of \$11.6 million. Results in the second half are equally uncertain. Hence, we don't expect any significant earnings revisions.

### Valuation

We are initiating on EHE with a price target of \$1.74 and a UNDERPERFORM recommendation. The price target is underpinned by our Valuation.

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Barclay Pearce Capital provides research services to its client. Mr Wright is General Manager of Research and has over twenty (26) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2017 where he has been involved in the research and publication of reports. Prior to this Mr Wright worked at a number of entities where he held Director/Head of Research and General Manager of Research positions. Mr Wright holds a Bachelor of Mathematics (Honours) from Edinburgh University and has completed the SDIA Accreditation Program (RG146) through DeakinPrime.

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**Hold** – Describes stocks that are neither a buy nor underperform.

**Underperform** – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of less than minus 10% within a 12-month period.

**NR** – The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Barclay Pearce Capital policies.

**Speculative Buy** – Describes stocks we research with a positive bias, whose company fundamentals and/or financials are being covered, but for which there is insufficient information for Barclay Pearce Capital to assign a Buy or Underperform rating.

**Free Float (float / current shares outstanding) \*100** – This float figure is the number of shares that are available to the public and is calculated by subtracting the shares held by insiders and those deemed to be stagnant shareholders. Stagnant holders include ESOP's, ESOT's, QUEST's, employee benefit trusts, founding shareholder equity stake plus senior management equity stake, corporations not actively managing money, venture capital companies and shares held by Governments.

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### Valuation Methodology

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Buy	40.2%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Speculative Buy	0.4%	( 100.0% of stocks with recommendations are Barclay Pearce clients)
Hold	19.5%	( 0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	40.0%	( 0.0% of stocks with recommendations are Barclay Pearce clients)