

25 May 2022

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Fisher and Paykel Healthcare

Corp Ltd (FPH)

Medical Specialities

BUY

FPH A\$18.72
TARGET PRICE A\$22.25

Fisher & Paykel Healthcare Corporation Limited (FPH) is a New Zealand-based company engaged in design, development, manufacture and marketing of products and systems for use in respiratory care, acute care, surgery and the treatment of obstructive sleep apnea (OSA) in home and hospital. FPH currently sells its products and systems in over 120 countries around the world.

Company Data

Number of shares	577.3
Market Capitalisation	\$10,806.9
Free float (%)	94.6
12-month high/low	\$32.51/\$18.45
Average Daily Turnover (\$m)	12.83
% S&P/ASX200	0.513
DDM Ranking	150
% All Ordinaries	0.400
GICS Industry Group	Health Care Equipment

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end March	2022A	2023F	2024F	2025F
Revenue (\$M)	1,529.9	1,464.9	1,636.1	1,715.2
EBITDA (\$M)	459.9	488.7	575.4	622.1
Reported NPAT (\$M)	342.9	292.8	353.3	389.0
Adjusted NPAT (\$M)	342.9	296.2	354.9	408.3
Reported EPS (c)	82.9	51.2	61.0	71.9
Adjusted EPS (c - FD)	82.2	51.1	61.2	70.3
Adjusted EPS growth (%)	-3.4	-14.2	19.7	14.8
Adjusted P/E (x)	22.8	36.6	30.6	26.6
Dividend (c/sh)	35.9	34.5	38.7	41.5
Gross yield (%)	2.7	2.6	3.0	3.2
Net yield (%)	1.9	1.8	2.1	2.2
ROIC (%)	24.5	20.4	22.7	26.1

Source: Barclay Pearce Capital

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

Share price performance



Source: FactSet, Barclay Pearce Capital

FY22 Preliminary Report

On 25th May 2022, Fisher and Paykel Healthcare Corp Ltd (FPH) announced its FY22 preliminary report results for the year ended 31st March 2022 with the following highlights:

Highlights:

- Total operating revenue of NZD\$1,681.7m, down 15% from NXD\$1,971.2m in FY21;
- Operating profit before financing costs of NZD\$505.6m, down 29% from NZD\$712.3m in FY21;
- NPAT of NZD\$376.9m, down 28% from NZD\$524.2m in FY21;
- 19% decline in Hospital operating revenue to NZD\$1.21b, 19% decline in constant currency;
- 3% constant currency revenue growth for new applications consumables, i.e. products used in noninvasive ventilation, Optiflow nasal high flow therapy and surgical applications, accounting for 71% of Hospital consumables revenue;
- 1% growth in Homecare operating revenue, 2% growth in constant currency;
- Investment in R&D was 9% of revenue, or NZD\$154m;
- Basic earnings per share of NZD91.1c, up from NZD65.3c in FY21;
- Diluted earnings per share of NZD90.4c, up from NZD65c in FY21;
- Final dividend of NZD22.5 cps, up 2% from NZD22c in FY21; and
- Total dividends of NZD39.5 cps, up 4% from NZD38.0c in FY21.

Outlook:

- Homecare product group
 - OSA mask growth dependent on new patient diagnosis rates;
 - Subject to availability of treatment hardware in FY23, FPH expects new OSA patient diagnoses to be above FY22 rates;
- Hospital product group
 - Sold -\$880M of hospital hardware during FY21 and FY22;
 - FPH does not expect hardware sales to continue at FY22 levels;
 - FY22 estimate average utilisation of hospital hardware - 60% to 70% of a pre-COVID-19 midpoint; and
 - FPH has not yet able to predict the pace of clinical change.

CEO Comments:

MD and CEO Lewis Gradon said:

“Over the last two financial years we have supplied \$880 million of hospital hardware, the equivalent of approximately 10 years' hardware sales prior to COVID-19. The growing body of evidence supporting the use of nasal high flow and our other respiratory therapies shows that our products have a clear role to play in improving care and outcomes beyond COVID-19 patients. We have a proven fifty-year track record of changing clinical practice and now we have the additional benefit of customers already having our hardware and clinical experience with its use.”

Earnings changes

For FY22, FPH reported NPAT of NZD\$376.9m (A\$342.9m @ 90.9c exchange rate) This is in line with current market expectations of \$339.3m, hence we don't expect any significant earnings revisions for FY23 and future periods.

Valuation

We are updating our 12-month target price from \$33.43 to \$22.25 and updating our recommendation from HOLD to BUY. The price target is underpinned by our valuation.

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Buy – Describes stocks that we expect to provide a total return (price appreciation plus net yield) of 15% or more within a 12-month period.

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.

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(CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of parts, net asset value, discounted dividend model (DDM), franking credits and return on equity (ROE) over the next 12 months.

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Buy	37.9%	0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	22.8%	0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	39.4%	0.0% of stocks with recommendations are Barclay Pearce clients)