

03 June 2022

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Healius Limited (HLS)

Health Care

UNDERPERFORM

HLS A\$4.19 TARGET PRICE A\$3.87

Healius Limited (HLS) is a healthcare company which provides facilities and support services to independent general practitioners, radiologists and a range of other healthcare professionals. Healius has three main businesses - Pathology, Imaging and Day Hospitals.

Company Data

Number of shares	578.9M
Market Capitalisation (\$m)	2408.1
Free float (%)	99.1
12-month high/low	\$5.52/\$4.01
Average Daily Turnover (\$m)	25.93
% S&P/ASX200	0.114%
DDM Ranking	329
% All Ordinaries	0.089%
GICS Industry Group	Health Care

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end June	2021A	2022F	2023F	2024F
Revenue (\$M)	1,913.1	2,303.0	1,920.4	1,904.3
EBITDA (\$M)	513.8	777.5	518.4	501.4
Reported NPAT (\$M)	43.7	317.4	139.6	130.9
Adjusted NPAT (\$M)	148.4	327.8	149.6	134.8
Reported EPS (c)	7.0	52.6	23.7	21.9
Adjusted EPS (c - FD)	23.7	55.8	25.4	23.3
Adjusted EPS growth (%)	166.3	140.6	-51.8	-7.9
Adjusted P/E (x)	17.6	6.7	14.8	16.1
Dividend (c/sh)	13.3	19.1	15.9	14.5
Gross yield (%)	4.6	6.6	5.4	5.0
Net yield (%)	3.2	4.6	3.8	3.5
ROIC (%)	7.2	13.3	6.0	5.7

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

FY2022 YTD Update

On 3rd of June 2022, Healius Limited (HLS) announced trading and strategy updates with the following highlights:

Trading Updates:

- Continued to trade broadly with aforementioned update;
- Q3 Pathology is slightly ahead of Medicare data;
- Revenue in all divisions slowly trending up, but not yet returned to normal with impacts from floods and COVID isolation requirements;
- Operational challenges and additional costs are experienced due to high levels of COVID infection in workforce, patient and clinical workforce;
- After a strong January, COVID testing counts to around 15,000 per working day through February to April, in line with expected 1H22 results;
- COVID testing remains 15,000 per working day in May;
- Unaudited underlying EBIT for the year-to-date to May 2022 is in the order of \$473 million;
- Increase of over 100% on unaudited underlying EBIT of \$234 million in FY2021 for the same period.

Strategy Update:

- Sale of Adora Fertility and three co-located Healius Day Hospitals (collectively Adora) to funds managed by Liverpool Partners has been completed;
- Refinanced debt and second buyback have commenced, \$15m purchased to date;
- Reconfirmed margin expansion targets from its Sustainable Improvement Program;
- Focussed on developing core pathology and imaging business, where it is well-positioned as an incumbent operator with clear operating leverage;
- Continued focus on growing digital diagnostic systems.

Outlook:

- Growth in requests for testing of other respiratory viruses along with COVID is expected to continue through winter;
- Slower BAU recovery in Imaging is expected given COVID impacts.

Earnings changes

HLS has reported unaudited underlying EBIT for the year-to-date to May 2022 of \$473 million. The market expects an EBIT of \$547.7m for FY2022. Hence, we expect negative earnings revisions of 5% for FY22 and for future periods.

Valuation

We are updating our 12-month target price from \$6.92 to \$3.87 and updating our recommendation from BUY to UNDERPERFORM. 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.

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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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(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)