

24 February 2021

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# Medibank Private Limited

## Financials

### HOLD

**MPL A\$2.89**
**TARGET PRICE A\$2.63**

Medibank Private Limited (MPL) core business is the underwriting and distribution of PHI policies through its two brands, Medibank and AHM. It offers Hospital Cover and Extras Cover to customers in Australia as well as health insurance to overseas visitors and students. It also participates in the broader healthcare industry through the provision of integrated healthcare services to Policyholders, government, corporate and other customers.

### Company Data

Number of shares	2,754 M
Market Capitalisation	\$7,959.1M
Free float (%)	99.9
12-month high/low	\$3.07/\$2.48
Average Daily Turnover (\$m)	25.44
% S&P/ASX200	0.42%
DDM Ranking	94
% All Ordinaries	0.36%
GICS Industry Group	Insurance

Source: FactSet, Barclay Pearce Capital

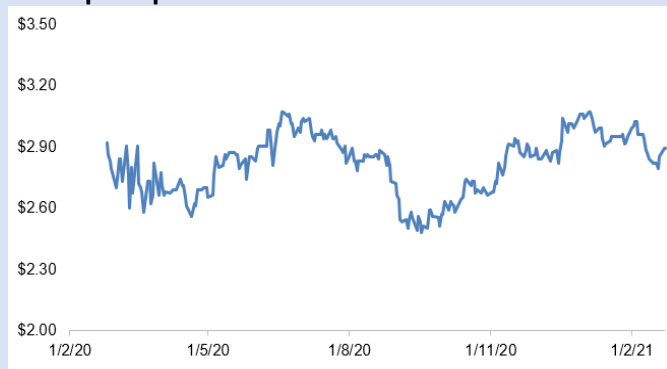
### Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	6,769.6	7,505.5	7,787.1	8,088.6
EBITDA (\$M)	491.9	606.8	642.5	620.5
Reported NPAT (\$M)	315.0	427.1	417.0	422.5
Adjusted NPAT (\$M)	366.7	427.8	421.0	428.8
Reported EPS (c)	11.4	15.6	15.1	15.2
Adjusted EPS (c - FD)	11.4	15.4	15.3	15.4
Adjusted EPS growth (%)	-30.1	34.9	-0.7	0.9
Adjusted P/E (x)	25.4	18.8	18.9	18.8
Dividend (c/sh)	12.0	12.5	12.6	12.8
Gross yield (%)	5.9	5.8	5.8	6.0
Net yield (%)	4.2	4.1	4.1	4.2
ROIC (%)	48.8	41.4	39.2	38.5

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

## Half Year Results Press Release

On 24<sup>th</sup> February, Medibank Private Limited (MPL) released their Interim results for the half year ended 31 December 2020 with the following highlights:

### Result Highlights

- Group statutory NPAT of \$226.4 million, up 26.8%;
- Group underlying NPAT of \$203.4 million;
- Group operating profit of \$255.2 million, up 16.6%;
- The board has determined an interim ordinary dividend of 5.80 cents per share, fully franked; and
  - The interim dividend represents a 79% payout ratio of underlying NPAT from total operations, normalising for investment market returns
- Market share at 27.22%, up 28 basis points for the period of 6 months to December 2020.

### Outlook

- The group aims to increase market share achieve total policy holder growth in excess of 3%, including an expectation of growing the Medibank brand by approximately 1% during FY21;
- The group expects its payout ratio for FY21 to be towards the top end of its 75%-85% target range, which is consistent with its outlook statement provided in its FY20 Financial results announcement;
- The group is targeting \$20 million in productivity savings in FY21 and an additional \$30 million in planned savings in FY22 and FY23;
- Management expenses are expected to be approximately \$530 million for FY21; and
- Underlying drawing rate growth or increase in annualised average net claims expense per policy unit for 2H21 is forecast to be in line with 1H21 (approximately 2.6%).

MPL's CEO, Craig Drummond, said, "Today we have delivered a high-quality result underpinned by strong policyholder growth."

"While it's far too early to say the decline in industry participation has definitively bottomed, the private health insurance market has proved increasingly resilient and we've seen a flight to quality that the Medibank and ahm brands offer."

"Our ongoing support of customers throughout COVID has also resulted in a significant improvement in customer retention, with retention across both brands improving by approximately 30% over the past 12 months."

"Our company has emerged strongly from the disruption caused by COVID. We supported our customers and our people, and we did so without receiving any COVID-related government subsidies."

## Earnings changes

For H1 FY21, MPL reported revenues of \$3.44 Billion (up 0.6% from H1 FY20) and an underlying NPAT of \$203.4 million (up 13.4% from H1 FY20). The underlying NPAT is below the market consensus of \$228.6 million for H1 FY21. Hence, we expect negative earnings revisions of 6.5% for FY21 and future periods.

## Valuation

We are initiating on MPL with a price target of \$2.63 and a HOLD 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.

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**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)