

6 December 2021

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Sigma Healthcare Limited

Health Care

BUY

SIG A\$0.47
TARGET PRICE A\$0.55

Sigma Healthcare Limited (SIG) is a full line wholesaler and distribution. SIG has pharmacy-led network, including over 1200 branded and independent stores representing the brands Amcal, Guardian, PharmaSave, Chemist King and Discount Drugstores (DDS).

Company Data

Number of shares	1059.3 M
Market Capitalisation	\$513.7M
Free float (%)	97.3
12-month high/low	\$0.73/\$0.485
Average Daily Turnover (\$m)	0.6
% S&P/ASX200	0.03%
DDM Ranking	N/A
% All Ordinaries	N/A
GICS Industry Group	Health Care Equipment & Services

Source: FactSet, Barclay Pearce Capital

Earnings summary

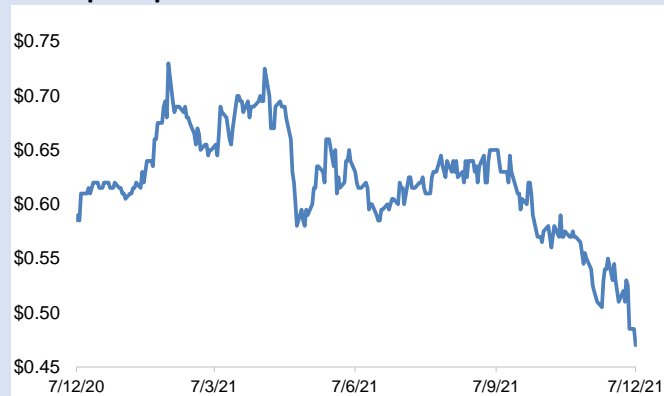
Earnings Summary (AUD)

Year end January	2021A	2022F	2023F	2024F
Revenue (\$M)	3,400.4	3,148.8	3,401.7	3,546.0
Reported NPAT (\$M)	59.8	-8.7	18.7	32.2
Adjusted NPAT (\$M)	29.1	16.1	30.3	35.5
Reported EPS (c)	5.9	-1.5	1.2	3.1
Adjusted EPS (c - FD)	2.9	2.1	3.1	3.5
Adjusted EPS growth (%)	125.7	-17.1	39.2	12.6
Adjusted P/E (x)	17.0	18.8	13.7	12.1
Dividend (c/sh)	1.0	1.7	2.2	2.6
Gross yield (%)	2.9	4.9	6.4	7.6
Net yield (%)	2.1	3.4	4.5	5.3
ROIC (%)	5.0	2.8	4.8	5.6

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

FY22 Revised Earnings Guidance

On 6th December, Sigma Healthcare Limited (SIG) announced its revised FY22 Earnings guidance with the following highlights:

Financial Result Snapshot

- Underlying EBITDA down 10%;

Group Highlights

- Challenging second half of the financial year, which has been impacted by shorter-term operational issues

Group Outlook

- Sales have been impacted and resulted in an unexpected increase in operating costs;
- One-off and non-operating costs are likely to be higher at around \$25-\$30 million, resulting in peak net debt being commensurately impacted;

Group Chairman, Ray Gunston said: *“Notwithstanding this set-back, we remain confident in the future growth profile for Sigma, which was further underlined with the Sigma Board recently approving the extension to our new Victorian Distribution Centre in Truganina. This will see \$20m invested to double existing capacity to 40,000 square metres to accommodate the growth pipeline ahead. The extension is expected to be completed over the next 18-months. Sigma has undertaken an extensive transformation program over the past four years that puts the company on a strong footing for our incoming CEO Vikesh Ramsunder to execute our strategy, focussing on actions to accelerate our long-term growth and improve margins.*

We remain focused on growing our core business, whilst continuing to build on business expansion opportunities across areas such as Hospital Services, Contract Logistics and medical devices and consumables, to leverage our strategic advantage across our automated DC network.”

Earnings changes

With 10 months of FY22 complete, SIG now anticipates FY22 Underlying EBITDA to be down around 10% versus FY21. This compares to previous guidance of +5% and market expectations of +0.2%. Hence, we expect negative earnings revision of 10% for FY22 and 7% for future periods.

Valuation

We are updating our 12-month price target on SIG from \$0.67 to \$0.55 and revising our HOLD recommendation to BUY. The price target is underpinned by our valuation.

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Barclay Pearce Capital Management provides research services to its clients. Mr Wright is General Manager of Research and has over thirty (30) years' experience in the financial services industry, particularly in financial analysis and research report writing. Mr Wright joined the Barclay Pearce team in 2020 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.

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Buy	45.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Hold	18.6%	(0.0% of stocks with recommendations are Barclay Pearce clients)
Underperform	35.8%	(0.0% of stocks with recommendations are Barclay Pearce clients)