

17 February 2021

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Virtus Health Limited

Health Care Equipment & Services

UNDERPERFORM

VRT A\$6.32

TARGET PRICE A\$5.92

Virtus Health Limited (VRT) is an Australian company, headquartered in Sydney, that provides assisted reproductive technology, specialist pathology and day hospital services.

Company Data

Number of shares	80.4 M
Market Capitalisation	\$496.8 M
Free float (%)	97.6
12-month high/low	\$6.18/\$1.56
Average Daily Turnover (\$m)	3.72
% S&P/ASX200	0.03%
DDM Ranking	223
% All Ordinaries	0.02%
GICS Industry Group	Health Care

Source: FactSet, Barclay Pearce Capital

Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	258.9	310.6	311.8	322.2
EBITDA (\$M)	57.0	80.3	78.7	81.8
Reported NPAT (\$M)	0.5	36.7	30.3	31.7
Adjusted NPAT (\$M)	20.6	33.3	30.5	31.8
Reported EPS (c)	0.6	46.4	38.2	39.6
Adjusted EPS (c - FD)	25.4	39.0	37.3	39.2
Adjusted EPS growth (%)	-28.1	53.2	-4.1	5.0
Adjusted P/E (x)	24.3	15.9	16.5	15.8
Dividend (c/sh)	12.0	17.2	24.6	26.0
Gross yield (%)	2.8	3.8	5.4	5.7
Net yield (%)	1.9	2.7	3.8	4.0
ROIC (%)	5.1	6.8	6.5	6.9

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

H1FY21 Financial Results

On 16th February, Virtus Health Limited (VRT) released their financial results for the half year ended 31 December 2020 with the following highlights:

- Group revenue \$169.6m (H1FY20: \$142.1m);
- Reported earnings before interest, tax, depreciation and amortisation ("EBITDA") is \$59.0m (H1FY20: \$39.5m);
- Reported NPAT attributable to equity holders is \$29.9m (H1FY20: \$15.0m);
- Debt repayments of \$10m in H1FY21 (>\$20m since March 2020), with a leverage ratio of 1.7x at 31 December 2020 (FY20: 2.1x);
- Refreshed growth strategy driving digital enablement to deliver organisational-wide value and improved IVF pregnancy rates; and
- Interim dividend for H1FY21, 12cps fully franked.

Key Financial Results

Metric	H1FY21 (A\$m)	H1FY20 (A\$m)	Variance (%)
Revenue	169.61	142.05	19.4%
Reported EBITDA	58.97	39.54	49.1%
PBT	42.39	21.35	98.6%
NPAT Pre-minorities Reported	30.28	15.47	95.7%
NPAT attributable to Virtus owners	29.93	14.97	100.0%
Basic EPS (cps)	37.42	18.65	100.6%
Diluted EPS (cps)	36.98	18.48	100.1%

Outlook

- Virtus Health has demonstrated resilience and has recovered strongly in H1 FY2021, from the severe disruptions of the COVID-19 pandemic. However, we anticipate normalisation of growth rates heading into H2 FY2021.
- "The timing and extent of this normalisation will be a function of a number of factors including consumer sentiment, availability of international travel, future pandemic lockdowns and vaccination rollout effectiveness," Ms Munnings said.
- Rising COVID-19 cases in the UK and Europe has led to the imposition of stricter restrictions in UK and Ireland which also could impact activity in Q3 FY2021 and beyond.
- "We expect to see sporadic disruptions from local and international COVID outbreaks for some time yet but remain optimistic that our clinics will continue to maintain their resilience."

Earnings changes

For H1 FY21 VRT reported statutory NPAT of \$30.3 million. This was significantly higher than market consensus NPAT of \$17.8 million. However, rising COVID-19 cases in the UK and Europe has led to the imposition of stricter restrictions in UK and Ireland. Hence, we only expect positive earnings revisions of 5% for FY21 and future periods.

Valuation

We are initiating on VRT with a price target of \$5.92 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.

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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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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)