

19 February 2021

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Sonic Healthcare Limited

Health Care

UNDERPERFORM

SHL A\$34.02 **TARGET PRICE A\$27.86**

Sonic Healthcare Limited, a healthcare company, provides medical diagnostic services, and administrative services and facilities to medical practitioners.

Company Data

Number of shares	477.8 M
Market Capitalisation	\$16,045.7 M
Free float (%)	95.2
12-month high/low	\$36.75/\$21.67
Average Daily Turnover (\$m)	45.19
% S&P/ASX200	0.83%
DDM Ranking	365
% All Ordinaries	0.68%
GICS Industry Group	Health Care Equipment & Services

Source: FactSet, Barclay Pearce Capital

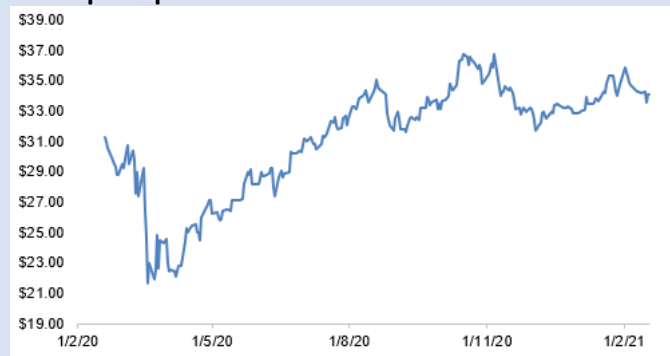
Earnings Summary (AUD)

Year end June	2020A	2021F	2022F	2023F
Revenue (\$M)	6,831.8	8,932.7	7,794.1	7,726.8
EBITDA (\$M)	1,425.1	2,266.5	1,693.4	1,667.8
Reported NPAT (\$M)	527.7	1,033.0	702.6	690.3
Adjusted NPAT (\$M)	552.1	1,066.7	706.9	682.1
Reported EPS (c)	110.6	218.4	147.7	145.0
Adjusted EPS (c - FD)	116.8	234.6	151.1	145.4
Adjusted EPS growth (%)	-4.3	100.9	-35.6	-3.8
Adjusted P/E (x)	28.8	14.3	22.2	23.1
Dividend (c/sh)	85.0	150.4	107.8	105.2
Gross yield (%)	3.1	5.3	4.0	3.9
Net yield (%)	2.5	4.3	3.2	3.1
ROIC (%)	7.1	13.1	8.9	8.6

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

Half Year Results Media Release

On 18th February, Sonic Healthcare Limited (SHL) released their interim results for the half year ended 31 December 2020 with the following highlights:

- Revenue growth of 33% to A\$4.4 billion.
- EBITDA growth of 89% to A\$1.3 billion.
- Net profit growth of 166% to A\$678 million.
- Significant revenue and earnings contribution from COVID-19 testing, leveraging existing infrastructure.
- More than 18 million COVID-19 PCR tests have been performed to date in ~60 Sonic laboratories globally.
- Global base business revenue (ex-COVID testing) H1 FY2021 down 1% versus H1 FY2020 (Constant Currency), significantly less impacted than in the first few months of the pandemic.
- Margin accretion in both laboratory and imaging operations.
- Strong balance sheet, with gearing at record low level and A\$1.3 billion of available liquidity (pre-interim dividend).
- Progressive dividend policy maintained, increase of 2 cents (6%) to 36 cents for the FY2021 Interim Dividend.

Outlook

- Expect demand for COVID-19 PCR testing to continue into foreseeable future, volumes unpredictable
- Potential growing demand for COVID-19 serology testing (immunity status)
- Increasing acquisition, contract and joint venture growth opportunities
 - Supported by very strong balance sheet
 - Currently bidding on significant opportunities in Australia, UK, USA and Alberta, Canada
- Sonic in strong position for future growth
 - Geographical diversification, providing increased opportunities for expansion
 - Underlying strong healthcare growth drivers unchanged
 - Leading market positions in Australia, Germany, USA, UK, Switzerland
 - Deep-seated culture, with committed, experienced global leadership teams

SHL CEO Dr Colin Goldschmidt said:

“Sonic’s strong financial results for the half year reflect the millions of COVID-19 PCR tests we have performed across our countries of operation as part of combatting the pandemic. The volumes and quality of testing we have been able to provide in such a short timeframe have only been possible through the investments we have made over many decades in our people and in infrastructure.”

Earnings changes

For H1 FY21 SHL reported statutory NPAT of \$678.0M which is 69% of their forecasted annual NPAT of \$983.8M. High levels of COVID-19 testing and leveraging their existing infrastructure contributed significantly to their revenue and earnings. However, given the likely decline of COVID testing levels, their H2 NPAT is likely to maintain profit figures to a lesser extent. Hence, we expect positive earnings revisions of 5% for FY21 and no significant earnings revisions for future periods.

Valuation

We are initiating on SHL with a price target of \$27.86 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)