

Sigma Healthcare

N Neutral

What's on at the warehouse

Key Points

- SIG wins the PBS supply contract of Chemist Warehouse from EBOS. This should generate an additional \$2b of revenue and group EBIT margins to 1.5-2.5%
 - SIG will issue 127m shares (worth \$99m at last trade 78cps) to Chemist Warehouse plus give CW the rights to assets or cash worth \$24.5m.
 - We are amortising the cost of winning the contract (\$81m assumed cost of shares plus \$24.5m cash option) over the five year life of contract.
-
- SIG is the current supplier to Chemist Warehouse for FMCG products, which account for about 29% of SIG's net sales revenue (approx \$1b). In the first full year of the new contract, SIG estimates that sales to Chemist Warehouse will generate a minimum of \$3b in revenue, which is a \$2b uplift to its current contract.
 - SIG will issue 127m shares to Chemist Warehouse. The value of this is approximately \$99m at last trade (nominal issue value of \$81m). SIG will also give Chemist Warehouse the right to acquire certain non-core assets, valued at \$24.5m. We are amortising the \$106m cost of acquiring the contract over the five year life of the contract resulting in an annual non-cash charge of \$21m (likely non-tax deductible).
 - The contract will have no impact to FY24. SIG has reiterated EBIT guidance of \$26-31m for FY24, with an EBIT margin of 1.5-2.5%. Assuming the low end of margin guidance, and the \$2b of incremental revenue from the new contract, this should generate an additional \$30m in EBIT for SIG in the first full year of the contract, which we net against the \$21m contract amortisation charge.
 - SIG's back-of-house operations have significant excess capacity, and will not need to add further capacity to fulfil the requirements of this contract. However, there will be additional labour costs required. Over the five-year period of the contract, it should deliver a cashflow benefit of ~\$150m to SIG.

Earnings changes: We have revised our forecasts for FY24/25/26 by -22%/+134%/+18%, respectively.

Valuation: Our target price has been increased by 26%, to \$0.82, on the back of increased earnings and contract certainty following the CW investment.

Catalyst: 1H24 result - September 2023.

Investment Thesis and Recommendation

Retain Neutral. We remain cautious on the stock due to 1) highly competitive market structure; 2) SIG's ERP implementation issues have led to frayed customer relationships.

Health Care Equipment & Services Australia

SIG AU	Neutral
Price (at 6 Jun 2023)	AUD0.78
12-month target	AUD0.82
12 month TSR (%)	6.5
Volatility Index	Medium
Market Cap (Local) (m)	821
Market Cap (USD) (m)	543
30-day avg turnover (AUD)(m)	2.4

Investment Fundamentals

Year end 31 Jan	2023A	2024E	2025E	2026E
Revenue (m)	3,660	3,477	4,520	5,650
EBITDA (m)	49.6	54.4	94.2	112.9
EBITDA growth (%)	65.3	9.7	73.2	19.8
EBIT (m)	19.3	23.8	62.9	83.7
EBIT growth (%)	733.2	23.8	163.7	33.2
Reported profit (m)	1.8	5.9	33.3	47.7
Adjusted profit (m)	3.0	7.1	34.5	48.9
EPS adj (¢)	0.3	0.7	3.2	4.3
EPS adj growth (%)	NM	133.9	361.8	32.6
PER adj (x)	259.6	111.0	24.0	18.1
PER rel (x)	14.2	7.8	2.0	1.8
Total DPS (¢)	1.0	0.4	1.7	2.2
Total DPS growth (%)	(50.0)	(64.2)	361.2	32.4
Total div yield (%)	1.3	0.5	2.1	2.8
Franking (%)	100.0	100.0	100.0	100.0
ROA (%)	1.6	2.1	5.3	7.0
ROE (%)	0.6	1.5	7.1	9.7
EV/EBITDA (x)	14.1	12.8	8.3	6.9
Net debt/equity (x)	14.0	10.5	(3.8)	14.6
P/BV (x)	1.6	1.6	1.7	1.7

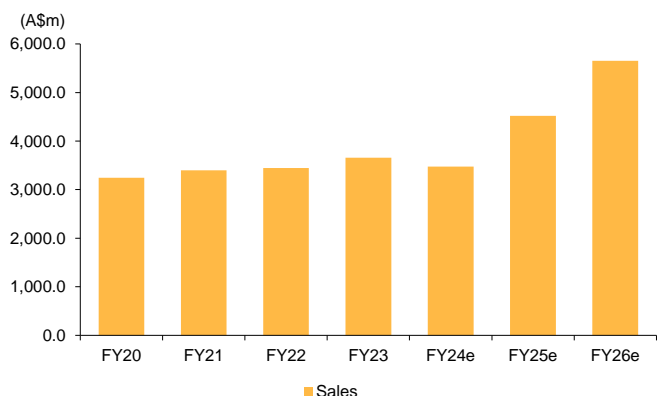
SIG AU rel Small Ordinaries performance, & rec history



Source: FactSet, Macquarie Research, Jun 2023 (all figures in AUD unless noted, TP in AUD)

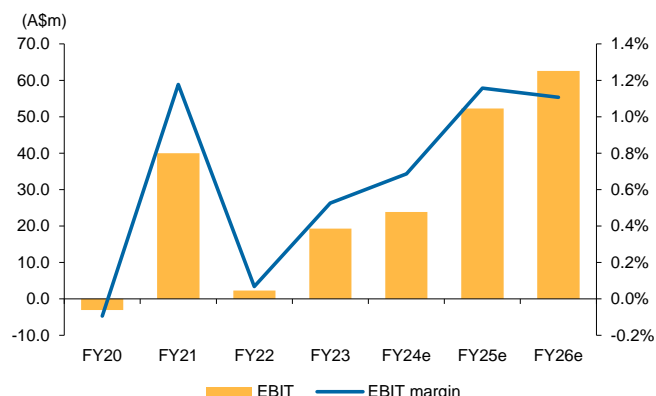
Key Charts

Figure 1 - 2H25 will be the first full half with the contract in place



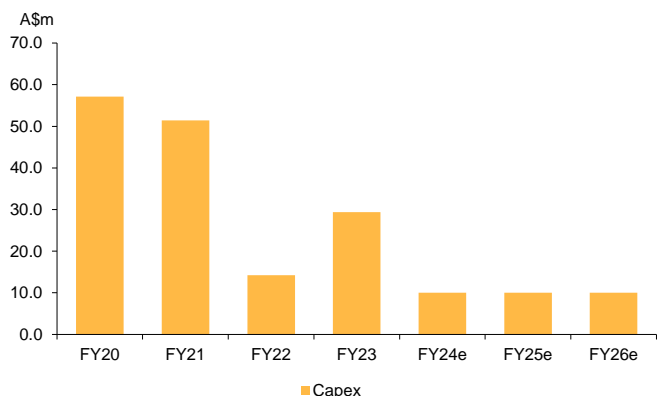
Source: Company data, Macquarie Research, June 2023

Figure 2 - We expect margins to remain at the lower end of company guidance (1.5-2.5%)



Source: Company data, Macquarie Research, June 2023

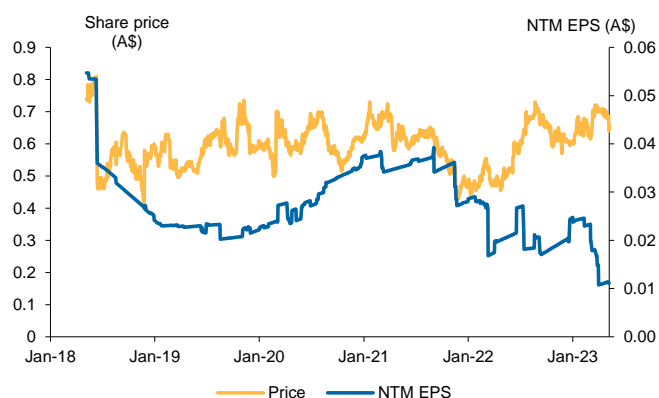
Figure 3 - SIG has moved out of a capex heavy period, with the completion of its logistics and software projects



Source: Company data, Macquarie Research, June 2023

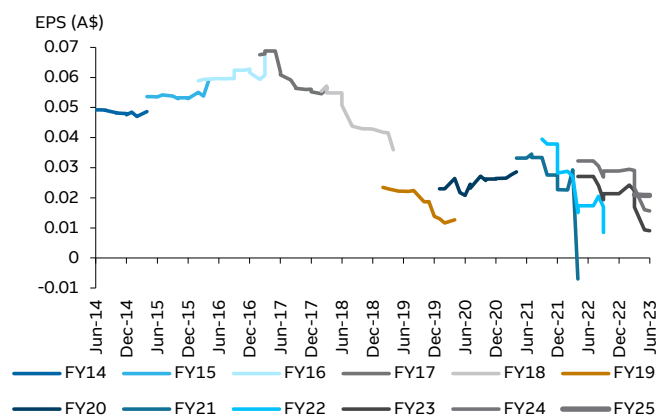
Valuation

Figure 4 - SIG's share price has been disconnected from NTM EPS over the last year



Source: Factset, Macquarie Research, June 2023

Figure 5 - Following this contract win, we are likely to see Consensus upgrades for FY25 onwards



Source: Factset, Macquarie Research, June 2023

Figure 6 - DCF

Terminal Value		
Terminal Growth Rate	%	1.0%
Terminal Value	\$m	736
Exit FCF Multiple	x	14.7x
Exit EV/EBITDA	x	6.2x

Equity value		
Enterprise value	\$m	1,094
Net debt	\$m	176
Non-Operating Assets	\$m	
Value of Equity	\$m	918
Value of Equity options issued	\$m	
Target Price	\$m	\$ 0.82

Source: Company data, Macquarie Research, June 2023

Figure 7 - Company comps

Security	Company Name	Factset						Macquarie				
		Market Cap (AU\$m)	Share Price (AUD)	12m Change	EBIT Margin (FY1)	PER (FY2)	EV/EBITDA (FY2)	EV/EBIT (FY2)	ND/EBITDA (FY1)	Rec	TP	TSR
ANZ Pharmacies												
EBO-NZ	EBOS Group Limited	6,569	34.28	(7.4%)	3.8%	21.9	11.6	14.4	1.4	Outperform	\$41.46	31.2%
SIG-AU	Sigma Healthcare Ltd	821	0.78	53.5%	0.8%	44.5	12.3	21.3	1.2	Neutral	\$0.82	6.5%
Weighted Avg				-0.7	3.5	24.4	11.7	15.2	1.4			
International Peers												
WBA-US	Walgreens Boots Alliance, Inc.	40,732	47.21	(28.0%)	3.5%	6.6	5.9	7.3	2.1			
CVS-US	CVS Health Corporation	137,005	106.87	(26.1%)	5.0%	7.9	6.6	7.5	2.4			
ABC-US	AmerisourceBergen Corporation	53,431	263.90	18.9%	1.2%	13.8	9.3	11.1	0.8			
HSIC-US	Henry Schein, Inc.	14,894	113.69	(10.6%)	7.6%	13.2	8.3	9.5	0.4			
MCK-US	McKesson Corporation	80,980	597.19	24.4%	1.6%	13.1	10.0	10.9	0.5			
PDCO-US	Patterson Companies Incorporated	3,965	40.58	(12.7%)	4.6%	11.5	8.0	9.0	1.1			
TSCO-GB	Tesco PLC	35,551	4.92	0.7%	3.9%	10.9	6.1	10.0	2.1			
1099-HK	Sinopharm Group Co., Ltd. Class H	6,828	5.09	45.2%	3.9%	7.0	2.8	3.1	0.6			
Weighted Avg				-4.3	3.6	10.2	7.6	9.0	1.6			

Source: Factset, Macquarie Research, June 2023

Note: Prices as at 06 June, market close.

EBO-NZ

- For further analysis and risks for EBO-NZ, see our NZ teams' recent report linked.

Key Risks to Investment Thesis

We note a key downside risk to our call is if government regulation gets tighter, impacting SIG's margins. A key upside risk is operational leverage from the extra Chemist Warehouse volume.

Company Description

Sigma Healthcare Ltd. engages in the manufacture and distribution of pharmaceutical products through pharmacy, grocery channels, and private label. The firm operates through the Amcal and Discount Drug Stores retail brands. It is also involved in the provision of services to retail pharmacists in Australia.

Sigma Healthcare (SIG AU) AUD/(m) unless otherwise noted

Income Statement	Jan FY	2023A	2024E	2025E	2026E	2H/23A	1H/24E	Balance Sheet	2023A	2024E	2025E	2026E
Revenue		3,660	3,477	4,520	5,650	1,824	1,744	Cash	16.7	34.3	102.5	8.5
EBITDA		49.6	54.4	94.2	112.9	28.9	27.5	Receivables	333.8	317.2	317.7	396.8
Depreciation		30.3	30.6	31.3	29.1	15.1	15.8	Inventories	324.9	313.0	331.0	339.8
Amortisation		0.0	0.0	0.0	0.0	0.0	0.0	Investments	16.1	16.1	16.1	16.1
EBIT		19.3	23.8	62.9	83.7	13.9	11.7	Fixed Assets	200.2	179.7	158.3	139.2
Net Interest Expense		13.8	13.7	13.6	13.9	7.5	6.9	Intangibles	118.2	118.2	118.2	118.2
Pre-Tax Profit		5.5	10.1	49.3	69.9	6.4	4.8	Other Assets	164.2	164.2	164.2	164.2
Tax Expense		2.4	3.0	14.8	21.0	2.6	0.7	Total Assets	1,174	1,143	1,208	1,183
Net Profit		3.0	7.1	34.5	48.9	3.8	4.1	Payables	449.8	426.1	462.2	421.8
Outside Equity Interests		0.0	0.0	0.0	0.0	0.0	0.0	Short Term Debt	3.7	3.7	3.7	3.7
Net Non Recurring & Assoc		0.0	0.0	0.0	0.0	0.0	0.0	Long Term Debt	80.0	80.0	80.0	80.0
Reported Earnings		1.8	5.9	33.3	47.7	3.3	3.5	Provisions	18.6	18.6	18.6	18.6
Adjusted Earnings		3.0	7.1	34.5	48.9	3.8	4.1	Other Liabilities	144.3	144.3	144.3	144.3
Gross Cashflow		33.4	37.7	65.8	78.0	18.9	19.9	Total Liabilities	696.3	672.6	708.7	668.3
Diluted Shares Outstanding (m)		1,018	1,017	1,049	1,144	1,015	1,017	Shareholders' Funds	475.9	468.1	497.6	512.7
EPS (adj) (€)		0.3	0.7	3.2	4.3	0.4	0.4	Minority Interests	1.8	1.8	1.8	1.8
EPS (adj) [AUD]		0.3	0.7	3.2	4.3	0.4	0.4	Total Shareholders' Equity	477.8	470.0	499.4	514.6
Total DPS (€)		1.0	0.4	1.7	2.2	0.5	0.2	Net Debt	67.0	49.4	(18.8)	75.2
Total DPS [AUD]		1.0	0.4	1.7	2.2	0.5	0.2	Net Debt / Equity (%)	14.0	10.5	(3.8)	14.6
								Interest Cover (x)	1.4	1.7	4.6	6.0
								ROE (%)	0.6	1.5	7.1	9.7
								ROA (%)	1.6	2.1	5.3	7.0
								ROIC (%)	1.7	3.1	8.5	12.2
Ratio		2023A	2024E	2025E	2026E			Cash Flow Analysis	2023A	2024E	2025E	2026E
Revenue Growth (%)		6.2	(5.0)	30.0	25.0	-	-	EBITDA	49.6	54.4	94.2	112.9
EBITDA Growth (%)		65.3	9.7	73.2	19.8	-	-	Tax Paid	(9.7)	0.0	0.0	0.0
EBIT Growth (%)		733.2	23.8	163.7	33.2	-	-	Chgs in Working Cap	65.8	4.9	17.4	(128.3)
EPS Growth (%)		NM	133.9	361.8	32.6	-	-	Net Interest Paid	590.6	(13.7)	(13.6)	(13.9)
Total DPS growth (%)		(50.0)	(64.2)	361.2	32.4	-	-	Other	(553.5)	0.0	0.0	0.0
CFPS Growth (%)		56.5	12.9	68.0	9.7	-	-	Operating Cashflow	142.7	45.6	98.1	(29.3)
EBITDA/Sales (%)		1.4	1.6	2.1	2.0	-	-	Acquisitions	0.8	0.0	0.0	0.0
EBIT/Sales (%)		0.5	0.7	1.4	1.5	-	-	Capex	(29.4)	(10.0)	(10.0)	(10.0)
Payout Ratio (%)		334.9	51.2	51.2	51.1	-	-	Other	0.0	(3.0)	(14.8)	(21.0)
EV/EBITDA (x)		14.1	12.8	8.3	6.9	-	-	Investing Cashflow	(28.6)	(13.0)	(24.8)	(31.0)
EV/EBIT (x)		36.2	29.2	12.4	9.3	-	-	Dividends Paid	(15.9)	(14.9)	(5.1)	(33.8)
EV/Sales (x)		0.2	0.2	0.2	0.1	-	-	Equity Movements	0.9	0.0	0.0	0.0
PGCFPS (x)		19.4	17.2	10.2	9.3	-	-	Debt Movements	(85.0)	0.0	0.0	0.0
P/BV (x)		1.6	1.6	1.7	1.7	-	-	Other	(16.9)	0.0	0.0	0.0
NTA per Share (\$)		0.4	0.4	0.3	0.4	-	-	Financing Cashflow	(116.9)	(14.9)	(5.1)	(33.8)
PE (adj) (x)		259.6	111.0	24.0	18.1	-	-	Net Chg in Cash/Debt	(2.8)	17.7	68.2	(94.0)
Total Div Yield (%)		1.3	0.5	2.1	2.8	-	-	Free Cashflow	113.3	35.6	88.1	(39.3)
Franking (%)		100.0	100.0	100.0	100.0	-	-					

Source: Company data, Macquarie Research Jun 2023

Key Quant Pick

The quant model currently holds a marginally positive view on Sigma Healthcare. The strongest style exposure is Price Momentum, indicating this stock has had strong medium to long term returns which often persist into the future. The weakest style exposure is Earnings Momentum, indicating this stock has received earnings downgrades and is not well liked by sell side analysts.

Macquarie Alpha Model: Key rankings

The Macquarie Quant's flagship Alpha model is a dynamic multi-factor model based on a staple of quant factors such as value, momentum, revisions, quality, and risk.

	Global	Market (Country)	Sector
	Whole Universe	Australia & NZ	Health Care Equip. & Services
Macquarie Alpha Model	7437/17561	197/422	277/675
Fundamental (Consensus) *	12542/17561	386/422	540/675

* based on Total Shareholder Return = Consensus Price target / Current Price

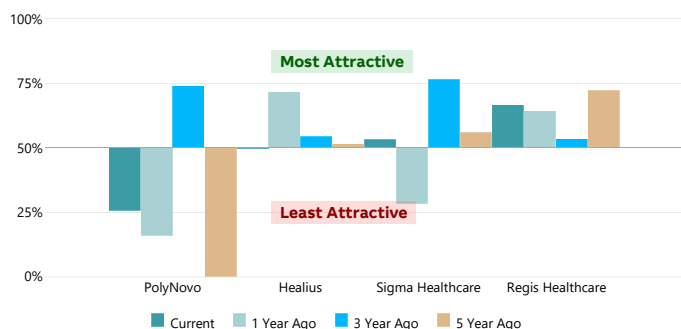
Alpha Model Decomposition

The Macquarie Alpha is decomposed into its sector and market relative factor & styles exposures (a higher/better percentile is coded in green, whilst lower in red).

Factors / Styles	Percentile relative to		Core factors in definition
	sectors (/675)	market (/422)	
ALPHA	59%	53%	See all the styles below
VALUE	40%	36%	Book, CF, Yield, Earnings Multiples
ANALYST	23%	9%	Revisions (Earnings, Recommendations)
MOMENTUM	89%	81%	Price Momentum
GROWTH	70%	38%	EPS, Sales (Forecast, Historic)
PROFITABILITY	44%	28%	ROE, Margin, Asset Turnover
QUALITY	46%	54%	Accruals, Earn Stability, Cash Conversion
CAPITAL	78%	75%	Investment/Capex, Net share issuance
LIQUIDITY	78%	68%	Size, Turnover, Analyst Coverage
RISK	58%	64%	Beta, Volatility, Earnings Certainty, Leverage
TECHNICAL	53%	71%	MACD, RSI, Bollinger, Williams R, etc

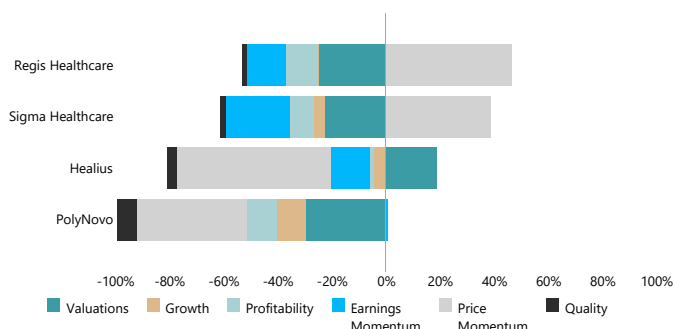
Current and Historical Alpha Model Rank

The chart shows the Macquarie Alpha model ranking against the company's peers and over recent history.



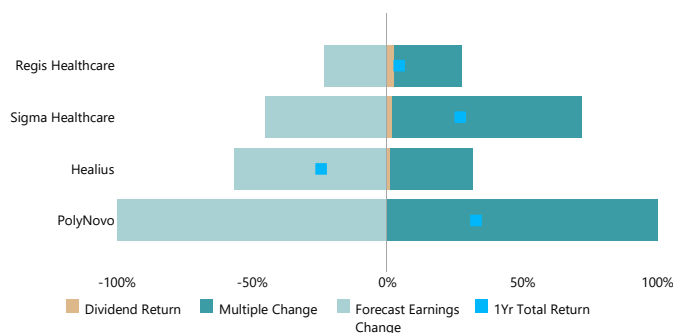
Factors driving the Alpha Model vs peers

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



Drivers of Stock Return

Breakdown of 1-year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



Macquarie Style Returns over last year

Recent performance to Macquarie style factors

	Monthly Factor Long-Short Returns for												Last 5 Years (ann)	Last 10 Years (ann)			
	Jan - 24	Dec - 23	Nov - 23	Oct - 23	Sep - 23	Aug - 23	Jul - 23	Jun - 23	May - 23	Apr - 23	Mar - 23	Feb - 23					
Australia & NZ																	
ALPHA	1%	-3%	0%	0%	-1%	-1%	-3%	0%	4%	6%	-8%	-1%	-5%	0%			
VALUE	3%	-3%	-5%	-1%	-2%	1%	2%	-2%	4%	6%	-10%	5%	0%	-2%			
ANALYST	-1%	0%	-1%	0%	0%	-3%	-5%	-3%	5%	5%	0%	1%	8%	6%			
MOMENTUM	-1%	-3%	1%	-4%	-4%	-2%	0%	-3%	2%	5%	-8%	3%	-1.3%	-2%			
GROWTH	5%	-2%	0%	-3%	-4%	0%	-6%	3%	-1%	5%	0%	1%	-8%	-1%			
PROFITABILITY	-1%	-4%	3%	-5%	4%	-3%	5%	-2%	4%	-3%	2%	2%	2%	3%			
QUALITY	3%	-2%	-1%	0%	-2%	-1%	2%	-6%	0%	-2%	-1%	6%	-1.1%	-8%			
CAPITAL	0%	-1%	4%	-3%	-2%	0%	1%	1%	-3%	1%	-3%	1%	-2%	0%			
LIQUIDITY	0%	0%	1%	-9%	0%	2%	4%	1%	2%	1%	-5%	-1%	-2%	-1%			
RISK	3%	-1%	-4%	6%	-5%	0%	-2%	-3%	1%	0%	-6%	2%	2%	0%			
TECHNICAL	1%	3%	4%	1%	3%	-1%	8%	4%	0%	3%	-3%	9%	1.3%	11%			

Source (all charts): FactSet, Refinitiv, and Macquarie Quant. For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative Team: maccapetitiesresearchquantglobal@macquarie.com. Explanation for items on this page can be found at <https://www.macquarieinsights.com/rp/d/r/p/OTUyMzg1>

Important Disclosures

Recommendation definitions	Volatility index definition	Financial definitions
<p>Macquarie – Asia and USA Outperform – expected return >10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie – Australia/New Zealand Outperform – expected return >10% Neutral – expected return from 0% to 10% Underperform – expected return <0%</p> <p>During periods of share price volatility, recommendations and target prices may occasionally and temporarily be inconsistent with the above definitions.</p> <p>Recommendations – 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>This is calculated from the volatility of historical price movements.</p> <p>Very high – highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.</p> <p>High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.</p> <p>Medium – stock should be expected to move up or down at least 25–40% in a year.</p> <p>Low – stock should be expected to move up or down at least 15–25% in a year.</p> <p>* Applicable to select stocks in Asia/Australia/NZ</p> <p>Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk</p>	<p>All "Adjusted" data items have had the following adjustments made: Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests</p> <p>EPS = adjusted net profit / efpowa* ROA = adjusted ebit / average total assets ROA Banks/Insurance = adjusted net profit /average total assets ROE = adjusted net profit / average shareholders funds Gross cashflow = adjusted net profit + depreciation *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

Recommendation proportions for quarter ending 31 March 2023

	AU/NZ	Asia	USA	
Outperform	56.13%	64.77%	64.49%	(for global coverage by Macquarie, 2.51% of stocks followed are investment banking clients)
Neutral	37.74%	23.98%	32.71%	(for global coverage by Macquarie, 1.83% of stocks followed are investment banking clients)
Underperform	6.13%	11.26%	2.80%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

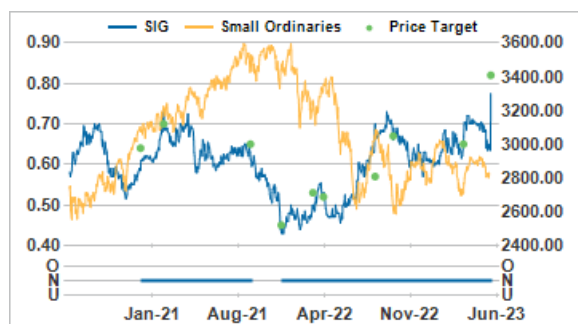
Company-Specific Disclosures

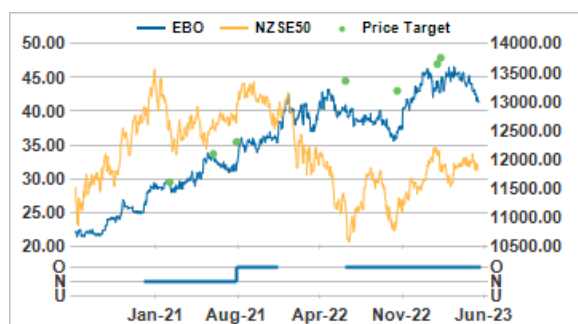
Company Name	Disclosure
<p>Sigma Healthcare (SIG AU) Neutral 12-month target: AUD0.82 - DCF Valuation: AUD 0.82 - DCF Price: AUD0.78</p>	Macquarie Group Limited together with its affiliates owns a net long of 0.5% or more of the equity securities of Sigma Healthcare Ltd
<p>EBOS Group (EBO NZ) Outperform 12-month target: NZD47.93 - DCF Valuation: NZD 44.27 - DCF (WACC 7.5%, beta 0.8, ERP 7.0%, RFR 3.2%, TGR 2.5%) Price: NZD41.46</p>	None

A reference to "Macquarie" is a reference to the entity within the Macquarie Group of companies (comprising Macquarie Group Limited and its worldwide affiliates and subsidiaries) that is relevant to this disclosure. Important disclosure information regarding the subject companies covered in this report is available publicly at www.macquarie.com/research/disclosures. Clients receiving this report can additionally access previous recommendations (from the year prior to publication of this report) issued by this report's author at <https://www.macquarieinsights.com>.

Recommendation history

Company name	Date	Recommendation	Target price
Sigma Healthcare (SIG AU)	6-Jun-2023	Neutral	AUD 0.82
	27-Mar-2023	Neutral	AUD 0.65
	26-Sep-2022	Neutral	AUD 0.67
	10-Aug-2022	Neutral	AUD 0.57
	29-Mar-2022	Neutral	AUD 0.52
	2-Mar-2022	Neutral	AUD 0.53
	10-Dec-2021	Neutral	AUD 0.45
	21-Sep-2021	Neutral	AUD 0.65
	8-Feb-2021	Neutral	AUD 0.70
	10-Dec-2020	Neutral	AUD 0.64
EBOS Group (EBO NZ)	22-Feb-2023	Outperform	NZD 47.93
	13-Feb-2023	Outperform	NZD 47.01
	27-Oct-2022	Outperform	NZD 43.03





Date	Recommendation	Price (NZD)
9-Jun-2022	Outperform	NZD 44.52
18-Aug-2021	Outperform	NZD 35.49
16-Jun-2021	Neutral	NZD 33.70
18-Feb-2021	Neutral	NZD 29.52

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