

Ramsay Health Care

N Neutral

Going once, going twice - sold

Key Points

- RHC has confirmed the sale of Ramsay Sime Darby Healthcare for A \$2.0bn, representing ~20x trailing 12-month EBITDA.
 - Net proceeds of ~A\$895mn (post-tax) will be used to pay down debt, resulting in reduced WOFG leverage (<2.5x at Jun-24), interest savings of A\$55mn.
 - Despite an improved balance-sheet position, digital investment will constrain margin improvement, with valuations fair at current levels. Neutral.
- Sale of Ramsay Sime Darby confirmed:** RHC and Sime Darby have reached agreement on the sale of Ramsay Sime Darby Health Care (RSD) for A\$2.0bn, which we estimate to represent ~20x trailing 12-month EBITDA. Net proceeds of ~A\$935mn (~A\$895mn post tax), will be used to reduced WOFG debt, resulting in interest cost savings of ~A\$55mn. We assume deal completion at the end of 3QFY24, providing FY24 net interest costs of A\$570mn (from A\$581mn), in line with revised guidance (lower end of A\$570-600mn).
 - Key takeaways from Australian site tours: (1)** Improving surgical, medical and rehab admissions trends (in-patient days above FY19), but with maternity and mental health both remaining below pre-COVID levels. **(2)** Staffing availability has improved, which will enable increased utilisation of capacity added in recent years (extra sessions for existing specialists). **(3)** Digital investments (net EBITDA impacts of -A\$60-70mn/-A\$70-80mn in FY24/25) are expected to be break-even in FY27 and a net benefit in FY28.
 - Current valuation looks fair:** Based on the current share price and incorporating the sale of RSD, we calculate an EV of ~A\$15.2bn and FY24 EBITDA of ~A\$1.3bn, adjusting for ownership in Ramsay Santé/AASB-16 impacts. This implies a group multiple of 11.8x. For Australian operations, we calculate an implied EV of ~A\$10.5bn and an EBITDA multiple of 12.9x which we see as fair based on the current structure (see here for analysis in relation to the value of Australian property assets).

Earnings changes: We revise 2024E/25E/26E EPS up +1%/+3%/+2% to reflect lower net interest costs, partly offset by loss of RSD JV earnings. Our FY24/25 NPAT forecasts sit -7%/+6% vs VA consensus.

Valuation: TP moves to A\$53.50 (from A\$52.50) reflecting EPS revisions.

Catalysts: Activity trends; AGM (28-Nov).

Investment Thesis and Recommendation

Retain Neutral. Despite improving activity trends and increased staff availability in Australia, digital investments will constrain margin improvement in FY24/25. While the sale of RSD will improve WOFG leverage, we see current valuations as fair.

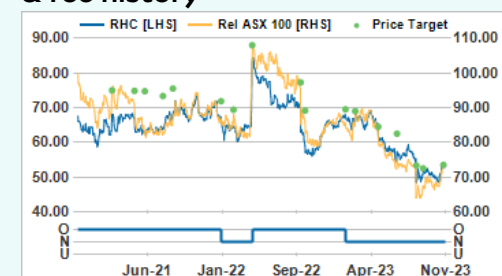
Health Care Equipment & Services Australia

RHC AU	Neutral
Price (at 13 Nov 2023)	AUD52.44
12-month target	AUD53.50
12 month TSR (%)	3.9
Volatility Index	Medium
Market Cap (Local) (m)	12,032
Market Cap (USD) (m)	7,639
30-day avg turnover (AUD)(m)	20.7

Investment Fundamentals

Year end 30 Jun	2023A	2024E	2025E	2026E
Revenue (m)	15,339	16,552	17,714	18,520
EBITDA (m)	2,022	2,184	2,516	2,712
EBITDA growth (%)	10.5	8.0	15.2	7.8
EBIT (m)	1,021	1,117	1,370	1,520
EBIT growth (%)	14.6	9.3	22.7	10.9
Reported profit (m)	285.1	928.9	486.1	591.9
Adjusted profit (m)	285.1	298.9	486.1	591.9
EPS adj (€)	125	131	213	259
EPS adj growth (%)	7.6	4.8	62.6	21.8
PER adj (x)	42.0	40.1	24.6	20.2
PER rel (x)	2.9	2.6	1.7	1.5
Total DPS (€)	75.0	79.0	128	156
Total DPS growth (%)	(22.7)	5.3	62.0	21.9
Total div yield (%)	1.4	1.5	2.4	3.0
Franking (%)	100.0	100.0	100.0	100.0
ROA (%)	5.0	5.3	6.5	7.2
ROE (%)	7.0	6.6	9.6	11.1
EV/EBITDA (x)	8.6	7.9	6.9	6.4
Net debt/equity (x)	109.4	81.6	77.4	73.4
P/BV (x)	2.9	2.4	2.3	2.2

RHC AU rel ASX 100 performance, & rec history



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

Figure 1 - RHC Financial Summary

RHC	June Year-End					Price Target: 53.50	Rating: Neutral				
Income Statement (A\$m)	2022A	2023A	2024E	2025E	2026E	Ratios	2022A	2023A	2024E	2025E	2026E
Revenue	13,747	15,339	16,552	17,714	18,520	EPS (reported)	116	125	407	213	259
Opex	11,932	13,190	14,226	15,033	15,638	EPS Growth (%)	-40%	8%	5%	63%	22%
EBITDAR	1,952	2,150	2,326	2,681	2,882	DPS	97	75	79	128	156
Rent	137	147	158	165	170	Growth (%)	-36%	-23%	5%	62%	22%
EBITDA	1,815	2,002	2,169	2,516	2,712	Yield (%)	1%	1%	1%	2%	2%
D&A	939	1,001	1,067	1,146	1,193	Payout ratio (%)	84%	60%	60%	60%	60%
EBIT	876	1,001	1,102	1,370	1,520	ND/EBITDA (x)	3.8x	3.6x	2.9x	1.9x	1.7x
Net interest	353	474	570	539	534	ROE (%)	6%	6%	5%	8%	9%
Associate profit	15	20	15	0	0	ROIC (%)	9%	10%	11%	13%	14%
PBT	539	547	547	831	985	EBITDAR margin (%)	14%	14%	14%	15%	16%
Tax	159	182	164	249	296	EBIT margin (%)	6%	7%	7%	8%	8%
OEI	105	67	69	79	82						
Underlying NPAT	274	298	314	502	608	Balance Sheet (A\$m)	2022A	2023A	2024E	2025E	2026E
Abnormals	0	0	630	0	0	Cash	314	656	395	378	361
Reported NPAT	274	298	944	502	608	Current assets	3,287	3,896	3,553	3,638	3,652
						Fixed assets	4,807	5,238	5,618	6,043	6,473
Segmental (A\$m)	2022A	2023A	2024E	2025E	2026E	Intangibles	5,799	6,164	6,138	6,117	6,099
Australia	5,361	5,711	6,157	6,658	7,062	RoU assets	4,628	4,949	4,742	4,519	4,281
UK	1,322	1,941	2,117	2,346	2,459	Other assets	953	783	799	799	799
France	5,017	5,291	5,782	6,051	6,233	Total assets	19,473	21,030	20,849	21,115	21,304
Nordics	2,047	2,396	2,497	2,659	2,766	Current liabilities	3,726	3,810	3,831	3,957	4,005
Total Revenue	13,747	15,339	16,552	17,714	18,520	Long-term debt	5,174	5,862	4,967	4,967	4,967
						Lease liabilities	5,128	5,538	5,367	5,177	4,968
Australia	710	797	878	1,093	1,201	Other liabilities	920	997	997	997	997
UK	82	209	247	318	364	Total liabilities	14,947	16,207	15,161	15,097	14,937
France	927	863	923	971	1,001	Shareholders funds	2,198	2,216	2,216	2,216	2,216
Nordics	233	281	279	299	316	CARES	252	252	252	252	252
Total EBITDAR	1,952	2,150	2,326	2,681	2,882	Retained earnings	1,709	1,787	2,569	2,819	3,088
						Other equity	368	568	650	730	811
Australia	698	786	867	1,082	1,190	Total equity	4,526	4,823	5,688	6,017	6,368
UK	80	206	244	315	362						
France	826	751	803	845	871	Cash Flow (A\$m)	2022A	2023A	2024E	2025E	2026E
Nordics	210	258	254	273	289	EBITDA	1,815	2,002	2,169	2,516	2,712
Total EBITDA	1,815	2,002	2,169	2,516	2,712	- Inc. in working capital	465	-161	149	-25	-17
						- Net interest paid	375	466	570	539	534
						- Tax paid	229	234	164	249	296
						+ Other	-30	-183	0	0	0
						Operating cash flow	716	1,280	1,286	1,752	1,899
						- Capex	709	721	966	1,087	1,137
						- Acquisition	1,277	87	0	0	0
						+ Other	2,015	94	895	0	0
						Investing cash flow	30	-714	-71	-1,087	-1,137
						- Dividends paid	371	237	162	252	340
						+ Equity movements	0	0	0	0	0
						+ Debt movements	-650	400	-895	0	0
						- Principal lease repayments	388	403	418	429	440
						+ Other	-2	-2	0	0	0
						Financing cash flow	-1,411	-242	-1,476	-681	-780
						Opening cash balance	1,005	314	656	395	378
						Net cash movement + FX	-691	342	-261	-17	-17
						Closing cash balance	314	656	395	378	361
						EBITDAR margin (%)					

Source: Company data, Macquarie Research, November 2023

Key Risks to Investment Thesis

- Key risks to our earnings forecasts, target price and rating primarily relate to activity trends and cost growth as well as strategic initiatives to improve RHC's balance sheet position and/or deliver shareholder value.

Company Description

Ramsay Health Care Ltd. is in the provision of healthcare services and the operation of hospitals and day surgery facilities. It operates through the following segments: Asia Pacific, UK, France and Nordics. The company was founded by Paul Joseph Ramsay in 1964 and is headquartered in Sydney, Australia.

Key Quant Findings

The quant model currently holds a neutral view on Ramsay Health Care. The strongest style exposure is Quality, indicating this stock is likely to have a superior and more stable underlying earnings stream. The weakest style exposure is Growth, indicating this stock has weak historic and/or forecast growth. Growth metrics focus on both top and bottom line items.

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	10842/17576	266/382	341/663
Fundamental (Consensus) *	10781/17576	276/382	455/663

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

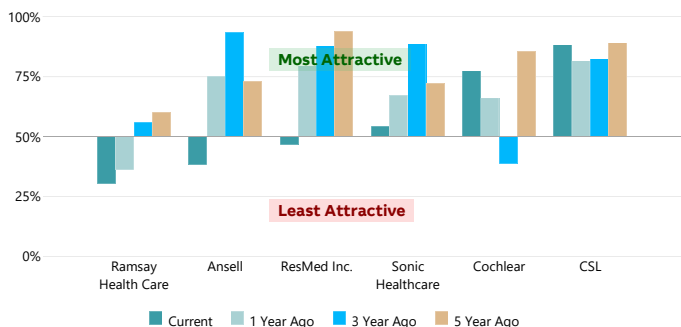
Alpha Model Decomposition

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 (/663)	market (/382)	
ALPHA	49%	30%	See all the styles below
VALUE	55%	41%	Book, CF, Yield, Earnings Multiples
ANALYST	32%	16%	Revisions (Earnings, Recommendations)
MOMENTUM	50%	40%	Price Momentum
GROWTH	35%	7%	EPS, Sales (Forecast, Historic)
PROFITABILITY	57%	45%	ROE, Margin, Asset Turnover
QUALITY	59%	68%	Accruals, Earn Stability, Cash Conversion
CAPITAL	76%	59%	Investment/Capex, Net share issuance
LIQUIDITY	73%	51%	Size, Turnover, Analyst Coverage
RISK	28%	29%	Beta, Volatility, Earn.Cert, Leverage
TECHNICAL	14%	10%	MACD, RSI, Bollinger, Williams R, etc

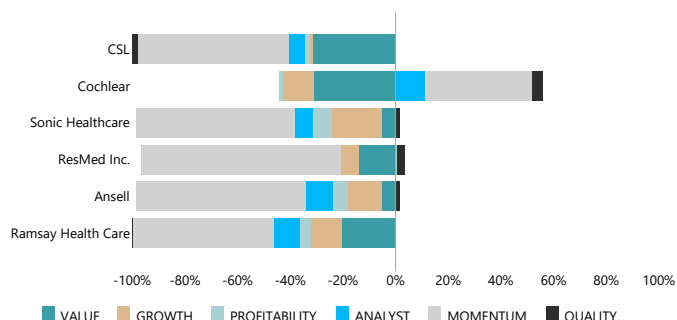
Current and Historical Alpha Model Rank

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



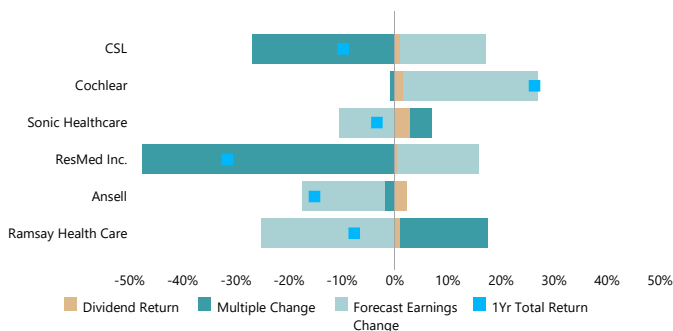
Factors driving the Alpha Model vs peers

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

Australia & NZ	Monthly Factor Long-Short Returns for												Last 5 Years (ann)	Last 10 Years (ann)
	Oct - 23	Sep - 23	Aug - 23	Jul - 23	Jun - 23	May - 23	Apr - 23	Mar - 23	Feb - 23	Jan - 23	Dec - 22	Nov - 22		
ALPHA	2%	0%	-1%	-3%	2%	1%	-3%	0%	0%	-1%	-1%	-3%	-5%	-1%
VALUE	3%	4%	0%	1%	4%	3%	-3%	-5%	-1%	-2%	1%	2%	3%	-2%
ANALYST	3%	-1%	-1%	0%	-1%	-1%	0%	-1%	0%	0%	-3%	-5%	8%	6%
MOMENTUM	2%	1%	3%	-4%	0%	-1%	-3%	1%	-4%	-4%	-2%	0%	-12%	-4%
GROWTH	-2%	-2%	-2%	-1%	2%	5%	-2%	0%	-3%	-4%	0%	-6%	-8%	-2%
PROFITABILITY	3%	-1%	2%	-3%	6%	-1%	-4%	3%	-5%	4%	-3%	5%	3%	2%
QUALITY	-2%	1%	1%	-3%	1%	3%	-2%	-1%	0%	-2%	-1%	2%	-10%	-8%
CAPITAL	5%	0%	-4%	-1%	1%	0%	-1%	4%	-3%	-2%	0%	1%	-1%	-1%
LIQUIDITY	2%	2%	1%	1%	0%	0%	0%	1%	-9%	0%	2%	4%	-1%	-1%
RISK	2%	3%	-2%	-2%	0%	3%	-1%	-4%	6%	-5%	0%	-2%	1%	0%
TECHNICAL	-1%	0%	4%	-2%	0%	1%	3%	4%	1%	3%	-1%	8%	12%	10%

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: maccapequitiesresearchquantglobal@macquarie.com. Explanation for items on this page can be found at <https://www.macquarieinsights.com/rp/dr/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 30 September 2023

	AU/NZ	Asia	USA	
Outperform	55.31%	64.52%	63.21%	(for global coverage by Macquarie, 2.50% of stocks followed are investment banking clients)
Neutral	36.98%	21.69%	34.91%	(for global coverage by Macquarie, 0.64% of stocks followed are investment banking clients)
Underperform	7.72%	13.79%	1.89%	(for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients)

Company-Specific Disclosures

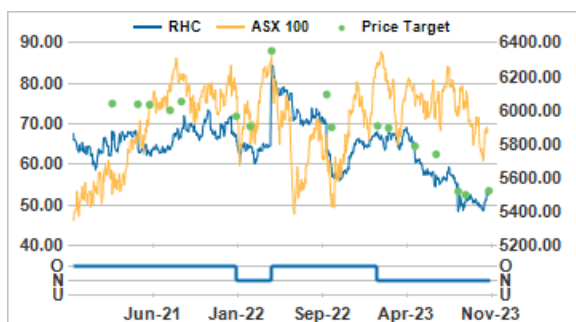
Company Name	Disclosure
<p>Ramsay Health Care (RHC AU) Neutral 12-month target: AUD53.50 - DCF Valuation: AUD 53.50 - DCF (WACC 6.5%, beta 0.9, ERP 5.0%, RFR 3.1%, TGR 2.5%) Price: AUD52.44</p>	<p>Macquarie Group Limited together with its affiliates owns a net long of 0.5% or more of the equity securities of Ramsay Health Care Ltd</p> <p>Macquarie Group Limited together with its affiliates beneficially owns 1% or more of the equity securities of Ramsay Health Care Ltd.</p>

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Recommendation history

Company name	Date	Recommendation	Target price
Ramsay Health Care (RHC AU)	14-Nov-2023	Neutral	AUD 53.50
	14-Sep-2023	Neutral	AUD 52.50
	25-Aug-2023	Neutral	AUD 53.35
	28-Jun-2023	Neutral	AUD 62.50
	3-May-2023	Neutral	AUD 64.50
	23-Feb-2023	Neutral	AUD 69.00
	25-Jan-2023	Neutral	AUD 69.50
	26-Sep-2022	Outperform	AUD 69.15
	13-Sep-2022	Outperform	AUD 77.25
	21-Apr-2022	Outperform	AUD 88.00
	24-Feb-2022	Neutral	AUD 69.40
	18-Jan-2022	Neutral	AUD 71.85
	27-Aug-2021	Outperform	AUD 75.50
	28-Jul-2021	Outperform	AUD 73.35



4-Jun-2021	Outperform	AUD 74.75
4-May-2021	Outperform	AUD 74.85
26-Feb-2021	Outperform	AUD 75.00

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