

Ramsay Health Care

N Neutral

Mixed momentum

Key Points

- RHC provided an update on operational trends as part of its AGM, with UK volume growth ahead of our expectations (Australia/France in line).
- In France, RHC noted a continuation of inflationary pressures, with lower cost compensation expected in 1H24 vs the pcp.
- Despite an improved balance-sheet position, digital investments will constrain margin improvement, with valuations fair at current levels. Neutral.

Positive operating trends in Australia and the UK, France a challenge:

- (1)** In Australia, total admissions per workday in 1Q24 rose by +5.2% YoY (MRE volumes +4.5% for 1H24) and +8.7% vs 1Q20 (pre-COVID). Mid-single digit volume growth is expected in FY24 (MRE +5.5%).
 - (2)** In the UK, admissions increased +11.4% vs pcp (ahead of MRE at +5%), driven by NHS and private patient backlogs. Mid-high single-digit growth is expected in FY24 (ahead of MRE at +5%).
 - (3)** Elysium occupancy has improved, with +900 net new starters on-boarded since Jan-23, reducing agency staff (lowering labour costs).
 - (4)** Low single digit activity growth is expected in France for FY24 (MRE +2%), with cost inflation continuing to impact profitability. In the absence of cost compensation in coming months, the French result is expected to moderate in 1H24 vs the pcp.
- Incorporating revised assumptions:** Based on year-to-date operating trends/management commentary, we have tempered revenue growth/increased cost growth for France, partly offset by improved volume/revenue trends in the UK. We have also increased the effective tax rate for FY24 (expected to be ~33-34% from ~30% previously due to delayed abolition of the French CVAE tax). Overall, our forecasts imply revenue growth of +6% (FY24 guidance of mid-single digit top line growth), with +3% NPAT growth ex-RSD profit on sale (RHC expect growth in earnings).

Earnings changes: EPS revisions (ex-gain on sale in FY24) of -3%/-1%/0% in FY24/25/26E (minor positive revisions in outer years) reflect the incorporation of revised operational assumptions, a higher effective tax rate in FY24.

Valuation: Target price unchanged at \$53.50.

Catalyst: Operating trends; 1H24 result (29-Feb 2024).

Investment Thesis and Recommendation

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

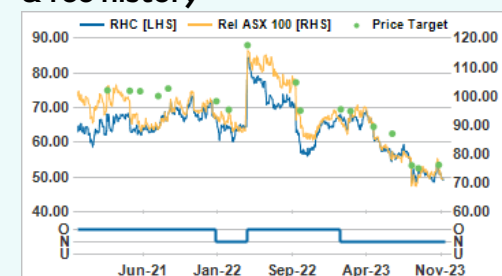
Health Care Equipment & Services Australia

RHC AU	Neutral
Price (at 28 Nov 2023)	AUD49.15
12-month target	AUD53.50
12 month TSR (%)	10.8
Volatility Index	Medium
Market Cap (Local) (m)	11,277
Market Cap (USD) (m)	7,442
30-day avg turnover (AUD)(m)	25.5

Investment Fundamentals

Year end 30 Jun	2023A	2024E	2025E	2026E
Revenue (m)	15,339	16,332	17,585	18,390
EBITDA (m)	2,022	2,130	2,433	2,695
EBITDA growth (%)	10.5	5.3	14.2	10.8
EBIT (m)	1,021	1,092	1,310	1,527
EBIT growth (%)	14.6	6.9	20.0	16.5
Reported profit (m)	285.1	920.1	465.5	605.5
Adjusted profit (m)	285.1	290.1	465.5	605.5
EPS adj (€)	125	127	204	265
EPS adj growth (%)	7.6	1.7	60.4	30.1
PER adj (x)	39.4	38.7	24.1	18.5
PER rel (x)	2.6	2.5	1.6	1.3
Total DPS (€)	75.0	77.0	122	159
Total DPS growth (%)	(22.7)	2.7	58.4	30.3
Total div yield (%)	1.5	1.6	2.5	3.2
Franking (%)	100.0	100.0	100.0	100.0
ROA (%)	5.0	5.2	6.3	7.2
ROE (%)	7.0	6.4	9.2	11.4
EV/EBITDA (x)	8.2	7.8	6.8	6.1
Net debt/equity (x)	109.4	82.8	79.9	75.6
P/BV (x)	2.7	2.3	2.2	2.1

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	16,332	17,585	18,390	EPS (reported)	116	125	403	204	265
Opex	11,932	13,190	14,060	14,989	15,527	EPS Growth (%)	-40%	8%	2%	60%	30%
EBITDAR	1,952	2,150	2,272	2,597	2,863	DPS	97	75	77	122	159
Rent	137	147	157	164	168	Growth (%)	-36%	-23%	3%	58%	30%
EBITDA	1,815	2,002	2,115	2,433	2,695	Yield (%)	1%	1%	1%	2%	2%
D&A	939	1,001	1,038	1,122	1,168	Payout ratio (%)	84%	60%	61%	60%	60%
EBIT	876	1,001	1,076	1,310	1,527	ND/EBITDA (x)	3.8x	3.6x	3.0x	2.0x	1.8x
Net interest	353	474	570	539	535	ROE (%)	6%	6%	5%	8%	10%
Associate profit	15	20	15	0	0	ROIC (%)	9%	10%	10%	12%	14%
PBT	539	547	522	771	991	EBITDAR margin (%)	14%	14%	14%	15%	16%
Tax	159	182	174	231	297	EBIT margin (%)	6%	7%	7%	7%	8%
OEI	105	67	42	58	72						
Underlying NPAT	274	298	306	482	622	Balance Sheet (A\$m)	2022A	2023A	2024E	2025E	2026E
Abnormals	0	0	630	0	0	Cash	314	656	349	281	261
Reported NPAT	274	298	936	482	622	Current assets	3,287	3,896	3,469	3,519	3,531
						Fixed assets	4,807	5,238	5,634	6,074	6,521
Segmental (A\$m)	2022A	2023A	2024E	2025E	2026E	Intangibles	5,799	6,164	6,137	6,116	6,099
Australia	5,361	5,711	6,157	6,658	7,065	RoU assets	4,628	4,949	4,742	4,519	4,281
UK	1,322	1,941	2,132	2,350	2,463	Other assets	953	783	799	799	799
France	5,017	5,291	5,558	5,930	6,109	Total assets	19,473	21,030	20,781	21,028	21,231
Nordics	2,047	2,396	2,485	2,647	2,753	Current liabilities	3,726	3,810	3,789	3,933	3,982
Total Revenue	13,747	15,339	16,332	17,585	18,390	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	884	1,058	1,222	Other liabilities	920	997	997	997	997
UK	82	209	281	340	384	Total liabilities	14,947	16,207	15,119	15,074	14,913
France	927	863	837	907	949	Shareholders funds	2,198	2,216	2,216	2,216	2,216
Nordics	233	281	270	292	307	CARES	252	252	252	252	252
Total EBITDAR	1,952	2,150	2,272	2,597	2,863	Retained earnings	1,709	1,787	2,569	2,803	3,095
						Other equity	368	568	624	682	754
Australia	698	786	873	1,047	1,211	Total equity	4,526	4,823	5,662	5,954	6,318
UK	80	206	278	338	382						
France	826	751	718	782	821	Cash Flow (A\$m)	2022A	2023A	2024E	2025E	2026E
Nordics	210	258	245	266	281	EBITDA	1,815	2,002	2,115	2,433	2,695
Total EBITDA	1,815	2,002	2,115	2,433	2,695	- Inc. in working capital	465	-161	154	-26	-17
						- Net interest paid	375	466	570	539	535
						- Tax paid	229	234	174	231	297
						+ Other	-30	-183	0	0	0
						Operating cash flow	716	1,280	1,217	1,689	1,879
						- Capex	709	721	954	1,080	1,129
						- Acquisition	1,277	87	0	0	0
						+ Other	2,015	94	895	0	0
						Investing cash flow	30	-714	-59	-1,080	-1,129
						- Dividends paid	371	237	153	248	330
						+ 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	-1,466	-677	-770
						Opening cash balance	1,005	314	656	349	281
						Net cash movement + FX	-691	342	-308	-68	-20
						Closing cash balance	314	656	349	281	261

ND/EBITDA (x) - pre-AASB 16					
	2022A	2023A	2024E	2025E	2026E
ND/EBITDA (x)	3.8x	3.6x	3.0x	2.0x	1.8x

EBITDAR composition (A\$m)					
	2022A	2023A	2024E	2025E	2026E
EBITDAR (A\$m)	1,952	2,150	2,272	2,597	2,863
	Australia	UK	France	Nordics	
	698	786	873	1,047	1,211
	80	206	278	338	382
	826	751	718	782	821
	210	258	245	266	281

EBITDAR margin (%)					
	2022A	2023A	2024E	2025E	2026E
EBITDAR margin (%)	14%	14%	14%	15%	16%

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	10211/17579	249/382	328/663
Fundamental (Consensus) *	11121/17579	301/382	475/663

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

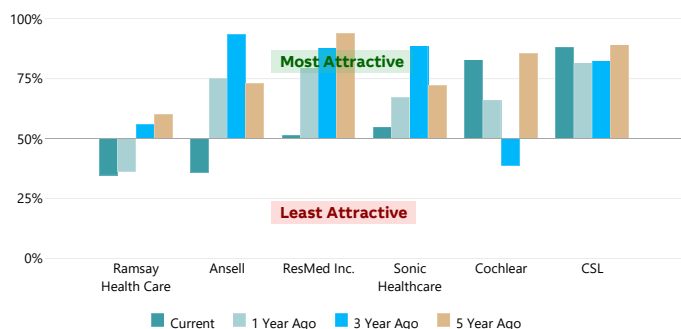
Alpha Model Decomposition

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	51%	35%	See all the styles below
VALUE	59%	45%	Book, CF, Yield, Earnings Multiples
ANALYST	26%	15%	Revisions (Earnings, Recommendations)
MOMENTUM	40%	30%	Price Momentum
GROWTH	33%	7%	EPS, Sales (Forecast, Historic)
PROFITABILITY	57%	46%	ROE, Margin, Asset Turnover
QUALITY	58%	67%	Accruals, Earn Stability, Cash Conversion
CAPITAL	76%	61%	Investment/Capex, Net share issuance
LIQUIDITY	82%	88%	Size, Turnover, Analyst Coverage
RISK	25%	26%	Beta, Volatility, Earn.Cert, Leverage
TECHNICAL	95%	92%	MACD, RSI, Bollinger, Williams R, etc

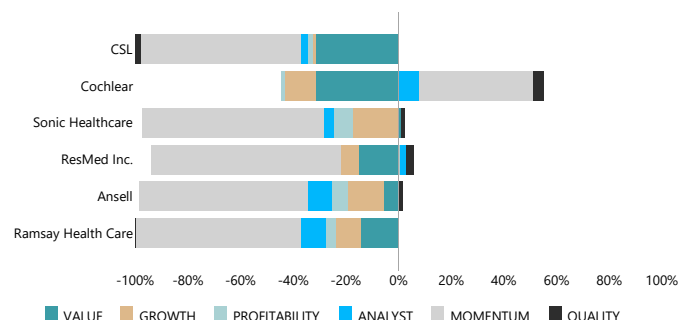
Current and Historical Alpha Model Rank

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



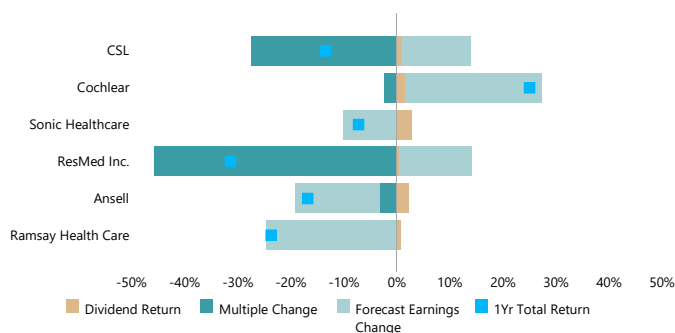
Factors driving the Alpha Model vs peers

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

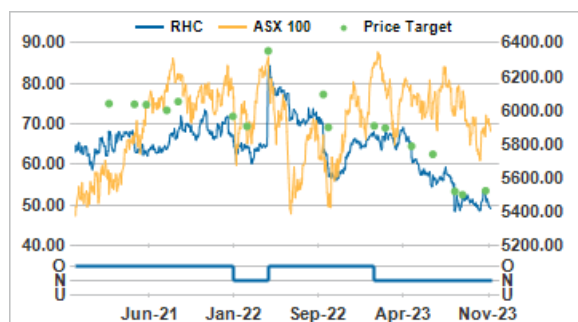
Company Name	Disclosure
<p>Ramsay Health Care (RHC AU) Neutral 12-month target: AUD53.50 - DCF Valuation: AUD 53.50 - DCF (WACC 6.5%, beta 0.9, ERP 5.0%, RFR 3.1%, TGR 2.5%) Price: AUD49.15</p>	<p>Macquarie Group Limited together with its affiliates owns a net long of 0.5% or more of the equity securities 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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