HEALTHCARE

AfroCentric Investment Corporation

***Key message**: H1 22A results benefitted from Pharma diversification. Excluding once offs, normalised HEPS would have increased by 19% y/y (H1 22A: flat). Interim DPS was stable at ZAr 17/share.*

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- **H1 22A results snapshot:** Revenue +10% y/y (+3% h/h); EBITDA +5% y/y (-12% h/h), which meant the EBITDA margin moderated by 64bps y/y to 12.5%. Normalized HEPS (N.HEPS) and DPS were stable y/y at ZAr 26.51 and ZAr 17 (4% dividend yield), respectively. Shares in issue increased by 0.7% h/h (+0.2% y/y), while ROE was stable at 14.1%.
- **Results were adversely impacted by once offs:** This included ZAR 25mn in losses from the AfroCentric vaccine project investment as well as non-adherence to chronic medication (ZAR 22mn). Adjusting for both items, EBITDA would have increased by 13.7% y/y (4.6% reported) and N.HEPS would have increased by 19% y/y to ZAr 31/share (3% lower than our estimate). We acknowledge ACT has plans to improve non-adherence to chronic medication; however, this could still persist. Accordingly, if we adjust only for the investment related to the vaccine programme, EBITDA would have increased by 9.5% y/y and N.HEPS would have increased by 10% y/y to ZAr 29/share.
- **Administration business (61% of group EBITDA):** A steady growth from GEMS was not enough to offset losses from various closed schemes. which saw scheme membership decline by 2.4% y/y (+0.2% h/h) to 3.788mn lives. Despite this, the segment printed strong top line growth of 21% y/y (+9% h/h). EBITDA however only increased by 4% y/y (-19% h/h), as operating costs increased by 24% y/y (+10% h/h). This saw the EBITDA margin moderate by 207bps y/y to 12.7% (-388bps h/h). Within the segment, DENIS EBITDA increased by 417% y/y (-26% h/h) and Healthcare Africa increased by 41% y/y (-9% h/h).
- **Healthcare Retail business (31% of group EBITDA):** Top line growth was 4% y/y (flat h/h). Encouragingly, EBITDA increased by 10% y/y (+8% h/h), which saw the EBITDA margin expand by 39bps y/y to 7.7% (+61bps h/h). This was primarily driven by Scriptpharm (EBITDA +99% y/y & +21% h/h) and Mmed (EBITDA +111% y/y & -11% h/h). Scripts dispensed increased by 15% y/y (+15% h/h) to 7.2mn (DOH: +22%; Private: -23%). Pharmacy Direct and Activo Health were adversely impacted by a decline in member adherence to chronic medication compliance, and a desire for preventative products (like vitamins), which has started to revert to pre-covid levels**.**
- **Cash conversion cycle continues to be impacted by additional inventories related to Pharma (Pharmacy Direct, MMED and Activo):** Cash generated from operations was stable y/y (+6% h/h), while total CapEx declined by 37% y/y (-28% y/y). Net working capital was c.12% of revenue, and there was a NWC outflow of ZAR 2.2mn (H2 21A: -ZAR 117mn) vs. a ZAR 95mn inflow in H1 21A.
- **Despite an increase in net debt, the balance sheet remains strong with net debt/EBTIDA of c.0.8x:** Net debt increased by 73% y/y (+5% h/h) to ZAR 605mn to partially fund M&A. This in turn increased net finance costs by 76% y/y (+51% h/h). Management continues to promote organic growth and consider compatible bolt-on opportunities.

Financial summary: Year-end 30 June

Key metrics	H1 21A	H2 21A	FY 21A	H1 22A
Revenue	3 898 217	4 176 201	8 074 418	4 288 639
EBITDA	511 765	606 861	1 118 626	535 462
Margin (%)	*13.1%*	*14.5%*	*13.9%*	*12.5%*
Normalised HEPS (ZAr/share)	26.48	30.64	61.56	26.51
DPS (ZAr/share)	17.00	17.00	34.00	17.00
Net finance costs	(16 847)	(19 651)	(36 498)	(29 677)
Net debt	350 587	576 845	576 845	604 976
Net debt/EBITDA (x)	0.44	0.82	0.57	0.84
Net working capital	342 609	488 313	488 313	450 535
NWC as a % of revenue	*9%*	*12%*	*6%*	*11%*

Source: Company data, Chronux Research estimates

Details:

Price (18/03/2022):	R4.60
Market cap	R2.65bn
Shares in issue	576mn

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H1 22A Snapshot

H1 22A Snapshot (ZAR '000)

Details	H1 21A	H2 21A	FY 21A	H1 22A	H1 22E	y/y chg.	h/h chg.	Actual vs. CRe
Revenue								
Healthcare SA	1 573 205	1 756 349	3 329 554	1 909 725	1 636 133	21%	9%	17%
Denis Group	132 212	279 670	411 882	269 858	279 670	104%	-4%	-4%
Information Technology	336 711	348 780	685 491	321 860	377 116	-4%	-8%	-15%
Total SA administration business	**2 042 128**	**2 384 799**	**4 426 927**	**2 501 443**	**2 292 920**	***22%***	***5%***	***9%***
Healthcare Africa	110 400	86 968	197 368	100 693	115 920	-9%	16%	-13%
Total Group administration business	**2 152 528**	**2 471 767**	**4 624 295**	**2 602 136**	**2 408 840**	21%	5%	8%
Healthcare Retail	*2 072 783*	*2 167 379*	*4 240 162*	*2 159 999*	*2 503 626*	***4%***	***0%***	***-14%***
Pharmacy Direct & Curasana Wholesaler	779 648	761 595	1 541 243	774 217	873 206	-1%	2%	-11%
Activo (incl. Exeltis)	347 176	412 814	759 990	421 960	437 894	22%	2%	-4%
Scriptpharm	797 080	805 405	1 602 485	790 970	1 036 204	-1%	-2%	-24%
Mmed	148 879	187 565	336 444	172 852	156 323	16%	-8%	11%
Total Healthcare	**4 225 311**	**4 639 146**	**8 864 457**	**4 762 135**	**4 912 466**	***13%***	***3%***	***-3%***
Lease reversal adjustment	-	-	-	-	-			
Other (including inter-segment elimination)	(327 094)	(462 945)	(790 039)	(473 496)	(490 220)	45%	2%	-3%
Total	**3 898 217**	**4 176 201**	**8 074 418**	**4 288 639**	**4 422 246**	***10%***	***3%***	***-3%***
Revenue contribution (%)								
Healthcare SA	40%	42%	41%	45%	37%	417	247	753
Denis Group	3%	7%	5%	6%	6%	290	(40)	(3)
Information Technology	9%	8%	8%	8%	9%	(113)	(85)	(102)
Total SA administration business	52%	57%	55%	58%	52%	594	122	648
Healthcare Africa	3%	2%	2%	2%	3%	(48)	27	(27)
Total Group administration business	55%	59%	57%	**61%**	54%	546	149	620
Healthcare Retail	53%	52%	53%	50%	57%	(281)	(153)	(625)
Pharmacy Direct & Curasana Wholesaler	20%	18%	19%	18%	20%	(195)	(18)	(169)
Activo (incl. Exeltis)	9%	10%	9%	10%	10%	93	(5)	(6)
Scriptpharm	20%	19%	20%	18%	23%	(200)	(84)	(499)
Mmed	4%	4%	4%	4%	4%	21	(46)	50
Total Healthcare	108%	111%	110%	111%	111%	265	(4)	(4)
Other (including inter-segment elimination)	-8%	-11%	-10%	-11%	-11%	(265)	4	4
Cash costs								
Healthcare SA	(1 426 526)	(1 575 426)	(3 001 952)	(1 767 873)	(1 472 520)	24%	12%	20%
Denis Group	(128 917)	(256 677)	(385 594)	(252 815)	(254 500)	96%	-2%	-1%
Information Technology	(198 977)	(189 192)	(388 169)	(192 720)	(214 956)	-3%	2%	-10%
Total SA administration business	**(1 754 420)**	**(2 021 295)**	**(3 775 715)**	**(2 213 408)**	**(1 941 976)**	**26%**	**10%**	**14%**
Healthcare Africa	(81 264)	(41 710)	(122 974)	(59 469)	(78 826)	-27%	43%	-25%
Total Group administration business	**(1 835 684)**	**(2 063 005)**	**(3 898 689)**	**(2 272 877)**	**(2 020 801)**	**24%**	**10%**	**12%**
Healthcare Retail	*(1 920 517)*	*(2 013 081)*	*(3 933 598)*	*(1 992 970)*	*(2 300 735)*	***4%***	*-1%*	*-13%*
Pharmacy Direct & Curasana Wholesaler	(708 994)	(721 192)	(1 430 186)	(710 842)	(790 251)	0%	-1%	-10%
Activo (incl. Exeltis)	(284 212)	(330 999)	(615 211)	(355 587)	(354 005)	25%	7%	0%
Scriptpharm	(780 381)	(777 958)	(1 558 339)	(757 800)	(1 007 190)	-3%	-3%	-25%
Mmed	(146 930)	(182 932)	(329 862)	(168 741)	(149 288)	15%	-8%	13%
Total Healthcare	**(3 756 201)**	**(4 076 086)**	**(7 832 287)**	**(4 265 847)**	**(4 321 537)**	**14%**	**5%**	**-1%**
Lease reversal adjustment	42 655	43 801	86 456	39 174	43 801	-8%	-11%	-11%
Other (including inter-segment elimination)	327 094	462 945	790 039	473 496	490 220	45%	2%	-3%
Total	**(3 386 452)**	**(3 569 340)**	**(6 955 792)**	**(3 753 177)**	**(3 787 516)**	**11%**	**5%**	**-1%**
EBITDA								
Healthcare SA	146 679	180 923	327 602	141 852	163 613	-3%	-22%	-13%
Denis Group	3 295	22 993	26 288	17 043	25 170	417%	-26%	-32%
Information Technology	137 734	159 588	297 322	129 140	162 160	-6%	-19%	-20%
Total SA administration business	**287 708**	**363 504**	**651 212**	**288 035**	**350 944**	***0%***	***-21%***	***-18%***
Healthcare Africa	29 136	45 258	74 394	41 224	37 094	41%	-9%	11%
Total Group administration business	**316 844**	**408 762**	**725 606**	**329 259**	**388 038**	4%	-19%	-15%
Healthcare Retail	*152 266*	*154 298*	*306 564*	*167 029*	*202 891*	***10%***	***8%***	***-18%***
Pharmacy Direct & Curasana Wholesaler	70 654	40 403	111 057	63 375	82 955	-10%	57%	-24%
Activo (incl. Exeltis)	62 964	81 815	144 779	66 373	83 888	5%	-19%	-21%
Scriptpharm: Pharma Managed Care	16 699	27 447	44 146	33 170	29 014	99%	21%	14%
Mmed: Surgicals/Consumables	1 949	4 633	6 582	4 111	7 035	111%	-11%	-42%
Total Healthcare	**469 110**	**563 060**	**1 032 170**	**496 288**	**590 929**	***6%***	***-12%***	***-16%***
Lease reversal adjustment	42 655	43 801	86 456	39 174	43 801	-8%	-11%	-11%
Other (including inter-segment elimination)	-	-	-	-	-			
Total	**511 765**	**606 861**	**1 118 626**	**535 462**	**634 730**	***4.6%***	***-12%***	***-16%***
EBITDA margin (%)								
Healthcare SA	9.3%	10.3%	9.8%	7.4%	10.0%	(190)	(287)	(257)
Denis Group	2.5%	8.2%	6.4%	6.3%	9.0%	382	(191)	(268)
Information Technology	40.9%	45.8%	43.4%	40.1%	43.0%	(78)	(563)	(288)
Total SA administration business	***14.1%***	***15.2%***	***14.7%***	***11.5%***	***15.3%***	(257)	(373)	(379)
Healthcare Africa	26.4%	52.0%	37.7%	40.9%	32.0%	1 455	(1 110)	894
Total Group administration business	***14.7%***	***16.5%***	***15.7%***	***12.7%***	***16.1%***	(207)	(388)	(346)
Healthcare Retail	***7.3%***	***7.1%***	***7.2%***	***7.7%***	***8.1%***	39	61	(37)
Pharmacy Direct & Curasana Wholesaler	9.1%	5.3%	7.2%	8.2%	9.5%	(88)	288	(131)
Activo (incl. Exeltis)	18.1%	19.8%	19.1%	15.7%	19.2%	(241)	(409)	(343)
Scriptpharm: Pharma Managed Care	2.1%	3.4%	2.8%	4.2%	2.8%	210	79	139
Mmed: Surgicals/Consumables	1.3%	2.5%	2.0%	2.4%	4.5%	107	(9)	(212)
Total Healthcare	***11.1%***	***12.1%***	***11.6%***	***10.4%***	***12.0%***	(68)	(172)	(161)
Total	***13.1%***	***14.5%***	***13.9%***	***12.5%***	***14.4%***	(64)	(205)	(187)
EBITDA contribution (%)								
Healthcare SA	29%	30%	29%	26%	26%	(217)	(332)	71
Denis Group	1%	4%	2%	3%	4%	254	(61)	(78)
Information Technology	27%	26%	27%	24%	26%	(280)	(218)	(143)
Total SA administration business	**56%**	**60%**	**58%**	**54%**	**55%**	(243)	(611)	(150)
Healthcare Africa	6%	7%	7%	8%	6%	201	24	185
Total Group administration business	**62%**	**67%**	**65%**	**61%**	**61%**	(42)	(587)	36
Healthcare Retail	**30%**	**25%**	**27%**	**31%**	**32%**	144	577	(77)
Pharmacy Direct & Curasana Wholesaler	14%	7%	10%	12%	13%	(197)	518	(123)
Activo (incl. Exeltis)	12%	13%	13%	12%	13%	9	(109)	(82)
Scriptpharm: Pharma Managed Care	3%	5%	4%	6%	5%	293	167	162
Mmed: Surgicals/Consumables	0%	1%	1%	1%	1%	39	0	(34)
Total Healthcare	**92%**	**93%**	**92%**	**93%**	**93%**	102	(10)	(42)
Lease reversal adjustment	8%	7%	8%	7%	7%	(102)	10	42

Source: Chronux Research, Company data

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