

Company Analysis: Elite Diagnostics Limited (ELITE)

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- Recommendation: **MARKET WEIGHT**
- Price Target: \$3.18
- Current Price: \$3.28¹

- Shares Outstanding: 353,400,000 units
- Market Value of Shares Outstanding: \$1.16 bn¹
- Financial Year End: June 30

ABOUT THE COMPANY

Elite Diagnostics Limited (ELITE) was incorporated in 2012 when it opened its first branch on Holborn Road. Since then it has expanded operations to a location in Liguanea and most recently, one in St. Ann. The company provides diagnostic imaging services including Magnetic Resonance Imaging (MRI), CT scans, Interventional Procedures and X-Rays. It also offers Endoscopic Ultrasound, the only one of its kind in the English – speaking Caribbean. The company launched its IPO in February 2018 and was subsequently listed on the JSE Junior Market.

CORPORATE STRATEGY

ELITE believes heavily in providing excellent customer care and comfort. The combination of world-class equipment and a customer-centric approach has resulted in Elite receiving consistent referrals from physicians as well as many repeat customers. It invests in state-of-the-art technology from General Electric and carries out preventative maintenance to ensure optimal operational efficiencies. It has positioned itself to perform well despite the current operating environment as the population and the need for medical services continues to grow.

The opening of the branch in St. Ann, allows ELITE to mitigate against the competition in Kingston and bring world-class customer care to the parish and the north coast.

FINANCIAL PERFORMANCE

	2016	2017	2018	2019	2020
Revenue (\$M)	193.5	263.1	298.2	404.9	434.3
Net Income (\$M)	28.8	44.2	44.9	51.9	6.6
EPS (\$)	-	0.13	0.13	0.15	0.02
Total Equity (\$M)	179.3	223.5	380.9	451.2	457.8
ROE (%)	-	21.9%	14.3%	11.1%	1.5%

Outlook

We anticipate that within the 2021 financial year, ELITE will experience the growth that was expected during the current year but was hampered by equipment malfunction and the coronavirus. We expect that Revenue from the St. Ann location will be the main driver for growth during the period, and we expect the company to broaden its services and/or expand its geographical footprint.

Projections and Valuations

Using a Discounted Cash Flow Method, with a required rate of return of 14.4%, we arrived at a target price of \$2.51. Based on our projections, this implies a 20.63x 2021 P/E.

Risks to Price Target

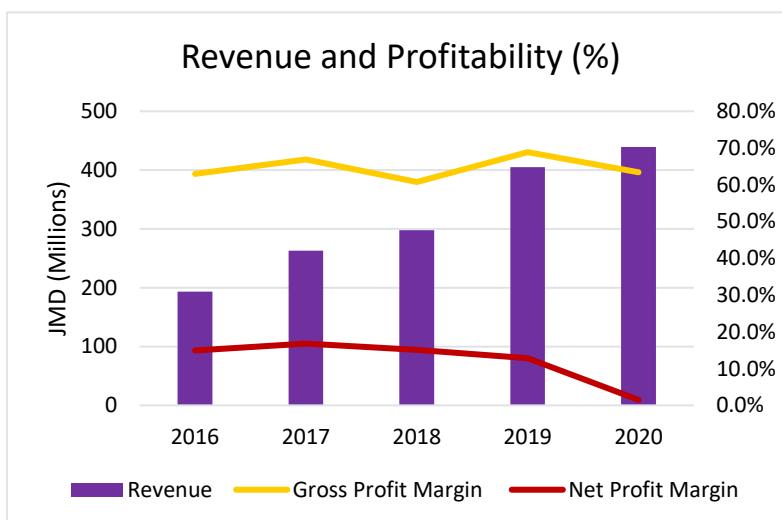
ELITE may face challenges in growing its operations as a result of the fierce competition within the industry which can reduce its market share and thus revenues. Additionally, on the downside, tighter restrictions as a result of the Coronavirus may similarly impact the financial performance. On the upside, rapid expansion of the Company's service offerings and geographic footprint would provide faster than anticipated growth.



FINANCIAL PERFORMANCE

(JMD \$M)	2016	2017	2018	2019	2020
Revenues	193.5	263.1	298.2	404.9	439.3
Gross Profit	121.9	175.9	180.5	278.6	278.3
Net Income	28.8	44.2	44.9	51.8	6.6
EPS (\$)	-	-	0.13	0.15	0.02
Total Assets	260.7	271.0	587.1	664.1	674.2
Total Liabilities	81.4	47.5	206.2	212.6	216.4
Total Equity	179.3	223.5	380.9	451.2	457.8

FOR THE LAST FIVE (5) YEARS:



Revenue earned increased from \$193.5 million to \$439.2 million, or by a compounded annual growth rate (CAGR) of 22.7%, between FY 2016 and 2020. Being a new company, much of this growth has been attributable to the company increasing its share of the market and its popularity, as well as through local expansion. ELITE opened its newest location in St. Ann in September 2019, which led to the 38.1% and 21.9% year-over-year (YoY) growth in its first and second quarters of 2020 respectively. In the last quarter of the 2020 financial year, ELITE reported a 20.1% YoY decrease in Revenue as a result of COVID-related lockdowns which reduced opening hours. The Company was able to increase its Gross Profit Margin from 63.0% in 2016 to 68.9% in 2019. However, in 2020, the Gross Profit Margin fell to 63.4% as a result of complications associated with the opening of the St. Ann branch. In addition, the CT and MRI machines at both the Kingston and St. Ann locations broke down during the period resulting in higher than normal Expense margins. Admin Expense increased by a CAGR of 29.7% between 2016 and 2020

and Expenses increased by 17.6% in 2020. Overall, the Net Profit Margin decreased from 14.9% to 1.5%, as higher Depreciation and Finance Costs also negatively impacted the bottom line.

ELITE's balance sheet increased by 158.6% from \$260.7 million to \$674.2 million. This was driven by increases in Property, Plant and Equipment, from \$185.4 million to \$576.3 million, and Receivables, from \$7.1 million to \$38.7 million. The Balance Sheet was funded by a 155.3% increase in Equity and a 165.8% increase in Liabilities. Equity increased as a result of the IPO conducted in 2018, from which the company raised \$131.1 million, net of expenses, along with the profits earned. Dividends were not declared during the period. Liabilities increased mainly due to an increase in Long-Term Debt. ELITE took on over \$167.4 million in debt in 2018 to purchase new medical equipment and an additional \$195 million in 2019, the latter of which was used to retire old debt. A 55.3% increase in Payables also contributed to the increase in Total Liabilities. ELITE has maintained healthy liquidity during the period with a current ratio not less than 4.64x. Long-Term Debt to Equity increased during the period and was recorded at 0.43x in 2020, up from a low of 0.15x in 2017.

OUTLOOK:

The Effect of COVID on Financial Performance

ELITE was not spared from the effects of COVID-19. COVID-related lockdowns reduced opening hours and the general fear of contracting the virus may have also reduced foot traffic, thereby accounting for the decrease in Revenue in its last quarter. The future as it relates to COVID is largely uncertain amid a second wave of the virus. If severe restrictions are imposed, ELITE is likely to report similar declines in Revenue as the last quarter of 2020. In this case, ELITE may report Net Losses during the period since a large portion of its expenses, Administrative Expenses and Depreciation, is fixed. On the other hand, if restrictions are not as severe, while Revenue growth may remain depressed, especially if fear of contracting the virus remains strong, ELITE's financial performance is expected to be stronger than that of the last quarter of FY 2020.



Dividend Payments Can Be Anticipated in the Near Term

Since listing, ELITE has not paid dividends to its shareholders as it has been restricted as part of a loan agreement that the Company has with Sagicor Bank. This loan will expire in October 2020; thereafter, ELITE will be eligible to declare dividends.

Increased Revenue as St. Ann is Fully Operational

By July 2020, ELITE's St. Ann location became fully operational, following the malfunction of some equipment. We expect that a large portion of growth within the short to medium term will come from Revenues at this location. In addition, ELITE should earn more revenue from the doctor's offices at this location, once they are fully occupied. We are also likely to see further expansion of ELITE locally and possibly regionally, once the St. Ann operations become profitable.

INVESTMENT POSITIVES

- Strong customer loyalty
- Receives consistent referrals from top-rated physicians
- Acquires state-of-the-art equipment which is expected provide accurate results
- The company has the potential to continue its current expansion locally and regionally
- The market for healthcare services is often resilient in periods of economic weakness

INVESTMENT NEGATIVES

- Moderate market competition, particularly in Kingston and St. Andrew. (Main competitors are Winchester MRI, Medical MRI services, UWI and Apex)
- Has not yet paid dividends



CONCLUSION

We hold a positive outlook for ELITE's performance in the future, given the stability generally experienced by healthcare services even during periods of economic weakness. Once the local government does not implement a shutdown as stringent as the one in April-May, we expect that ELITE will recover most of its sales lost during that period. Additionally, we expect to see further growth in Revenue now that its St. Ann location is fully operational. ELITE may also declare dividends to shareholders within the short term.

Using a Discounted Cash Flow Model, with a required rate of return of 14.4%, we arrived at a target price of \$3.18 which implies a 26.14x 2021 forward P/E. This price reflects a 3.0% downside from current levels and therefore we recommend that shareholders **MARKET WEIGHT** this stock in their portfolio.

SOURCES

The Jamaica Stock Exchange and ELITE Annual Reports and Quarterly Financials, Jamaica Observer

DISCLAIMER

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DEFINITIONS

- **OVERWEIGHT** – Security is deemed to be undervalued and is expected to outperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **MARKETWEIGHT** – Security is expected to provide similar returns compared to the market in general or at the same pace as comparable companies; neither strongly positive nor negative.
- **UNDERWEIGHT** – Security is deemed to be overvalued and is expected to underperform compared to the average market return and/or return of comparable securities in the same sector or industry.
- **ZEROWEIGHT** – This security is substantially distressed or at risk of a shock which may significantly impair its value.