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Investment Ideas

Monash IVF Group (MVF): Positive FY16 Results Sets the Bar High

We believe that MVF has a strong position within the growing Australian and overseas IVF markets. On this basis, an investment in MVF could well represent an attractive long-term opportunity for investors. The IRESS consensus target price of \$2.15 indicates some 16% upside potential relative to MVF's current share price of \$1.85. Coupled with an IRESS consensus dividend yield of ~5%, we calculate that MVF offers total potential upside of around 21%.

The Monash IVF Group recorded its strongest financial result since listing during FY16. The result highlights the strong industry fundamentals underlying the growing IVF market which MVF has been able to capitalise on.

Positive FY16 Financials:

- MVF reported bullish FY16 financial results which shine a bright light on the company's future prospects.
- **Highlights of MVF's FY16 Results include:**
 - o Revenue of \$156.6, an increase of 25.3% on FY15
 - o EBITDA of \$49.6m, a 27.6% increase on FY15
 - o NPAT of \$28.8m, an increase of 34.6% on FY15
 - o Paid a fully franked full year dividend of 8.5 cents per share (equivalent to a dividend yield of approximately 4.5%)
 - o Long-run patient growth forecasted at approximately 4.1%, slightly above domestic peer Virtus Health's (ASX: VRT) guidance of approximately 3% - 4%.
- **This result has been driven by exemplary growth in all segments of the business. Notably, the company's ultrasound business now contributes to 17% of total group revenue.**
 - o MVF's ultrasound business grew strongly in FY16 following gains in NSW market share resulting from the company's acquisition of the Sydney Ultrasound for Women business.
 - o The uptake of MVF's overseas operations in Malaysia has also been positive with revenues from operations in the region increasing 10.7% and patient treatments rising by almost 20% over the past year.
- The positive results will continue to be supported by the underlying strength in industry fundamentals which has seen the number of patient treatments and the group's revenue rise continuously over the past three years at CAGRs of 12.5% and 17.6%, respectively.

Drivers of IVF Demand Supporting Growth Trajectory:

- Demand in the market for IVF births set to continue as this form of pregnancy gains traction. A Research and Markets report indicates that the global IVF market is set to grow to \$USD756.7m by 2021 from its current levels at \$USD468.3m.
- **The key underlying drivers of this growth include:**
 - o Rising population numbers in Australia and across the globe
 - o Rising trend of women choosing to defer child birth until their mid to late 30s
 - o Greater numbers of single women and same-sex couples seeking treatment
 - o Advancements in technology and the increasing availability of this form of treatment

- *MVF has so far been able to capitalise on the demand for IVF by gaining market share in key regions through growth by its organic and inorganic growth strategy*
 - o *The company's Australian market share currently sits at approximately 25%. Contributing to this rise was a 7.4% increase in its share within key markets and the number of MVF patient treatments in Australia.*

Rising Demand in Ultrasound Business Set to Continue:

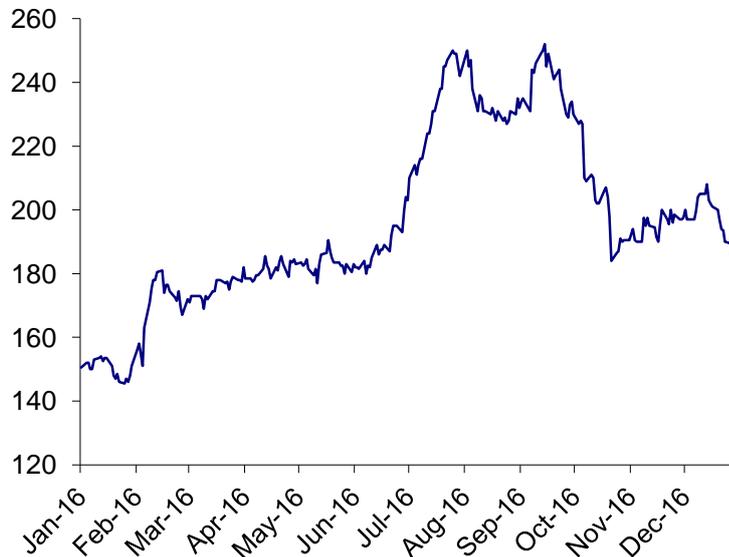
- *The Monash IVF Group remains one of the largest single providers of tertiary level diagnostic ultrasound in Australia. This segment of the business has made a significant contribution to the company's earnings in FY16 with the demand for the business' primary service, Non-Invasive Prenatal Testing (NIPT), quadrupling over FY16.*
- *The significant increase in the contribution to earnings from operations within the ultrasound business has exemplified the synergies between the two complementary ultrasound and IVF businesses.*
- *The demand for MVF's tertiary level diagnostic ultrasound business looks set to continue through rising demand as seen through the increasing number of patient referrals to specialists.*

Strong Global Industry Fundamentals Creating International Growth Opportunities:

- *The abovementioned Research and Markets report also notes that the Asia-Pacific region comprises the largest and fastest growing segment of the IVF market, driven primarily by the higher Japanese maternal age and the relaxation of the one child policy in China.*
- *Hitherto, MVF has focussed primarily on expanding and gaining market share from its domestic operations, with its only international expansion in Malaysia. In recognition of the size of the global market, management have signalled its intentions to review opportunities to expand internationally to regions within the Northern Hemisphere, South-East Asia, and into China.*
 - o *The Chinese market presents an excellent opportunity given the size of the potential target market, and the recent relaxation of China's one-child policy. MVF is currently seeking to partner with an existing operator in China with the knowledge of the country's regulations surrounding the industry to derisk any move into this region.*

Key Risks:

- *Short Term Demand Fluctuations. Patient growth rates in IVF treatment is historically subject to short term demand fluctuations.*
- *ACCC Investigation into IVF Success Rate Claims. Recent reports indicate that IVF success rate claims by Australia's major IVF clinics have been under scrutiny by the ACCC due to their ability to mislead consumers. Though no specific clinics have been named, the investigation has the potential to affect short term industry demand for IVF.*
- *Government Reforms. Changes to the levels of Government funding for Assisted Reproductive Services (ARS) can affect industry demand. As patients are currently reimbursed a portion of the costs for undertaking ARS, any reduction to the levels of funding has the potential to adversely affect the demand for the services provided by MVF.*
- *Foreign Country Risk. As MVF has operations in Malaysia, there remains the risk of the Malaysian government introducing laws which adversely affect their operations in this country.*
- *Increased Competition. A large amount of expenditure in the healthcare industry is directed towards the research and development (R&D) of new technologies. Although MVF contributes to R&D, there remains ongoing risk that the company is unable to keep up with the latest technology. Additionally, new entrants and existing competitors have the potential to affect MVF's market share and margins.*

MVF share price history (20 January 2016 - Present) (A\$cps)


Source: IRESS, State One Stockbroking

We believe that MVF has a strong future ahead and will continue to grow on the back of the uptake in IVF pregnancies across Australia and in the Asia-Pacific region.

Whilst MVF continues to gain market share in the ARP business, the increasing demand for the Monash IVF Group's ultrasound business will support this growth.

Although the company is exposed to a growing market, IVF success rate claims have recently been under scrutiny by the ACCC and may have the potential to impact short term demand; however continued diversification in MVF's revenue base through the company's ultrasound and international businesses may mitigate any adverse effects resulting from the investigation.

Investment Data					
Share Price (\$)		1.85			
Ord Shares (m)		235.4			
Market Cap (\$'m)		435.5			
EV (\$'m)		491.1			
Net Debt (\$'m)		55.6			
Average Daily Vol (6 mths)		313,370			
EPS Data		FY16	FY17F	FY18F	FY19F
EPS (c)		12.20	13.00	14.00	15.15
PER (X)		15.16	14.48	12.89	11.96
DPS (c)		8.50	9.00	9.90	10.35
DPS yield (%)		4.59	4.85	5.19	5.38
Substantial Shareholders (%)					
AustralianSuper Pty Ltd		9.59			
The Capital Group Companies Inc.		7.87			

Source: IRESS, State One Stockbroking



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