

# Yovich & Co. Weekly Market Update

4<sup>th</sup> November 2024

## Market News

	NZX 50G	All Ords	Shanghai	FTSE	Dow	NASDAQ	NZDAUD	NZDUSD	OCR
Previous Week 25 <sup>th</sup> October	12771.61	8467.30	3299.70	8248.84	42114.40	18518.61	0.9045	0.5985	4.75%
Week Close 1 <sup>st</sup> November	12559.28	8379.65	3272.01	8177.15	42052.19	18239.92	0.9091	0.5962	4.75%
Change	-1.66%	-1.04%	-0.84%	-0.87%	-0.15%	-1.50%	0.50%	-0.38%	0.00%

The past week saw mostly negative movements across global indices, reflecting a cautious market sentiment influenced by various economic indicators and concerns. The NZX 50 fell by 1.66%, closing at 12,559.28, as investors responded to domestic concerns around economic growth moderation. In Australia, the All Ordinaries slipped by 1.04% to 8,379.65, impacted by weak retail data and persistent inflationary challenges, which weighed on consumer sentiment.

In the U.S., the Dow Jones edged down by 0.15% to 42,052.19. While GDP data showed robust growth, manufacturing data signalled possible slowdowns in certain sectors. The ISM Manufacturing PMI unexpectedly fell to 46.5 in October 2024 from 47.2 in September and below forecasts of 47.6. The NASDAQ dropped by 1.5%, driven by rising bond yields, which pressured tech stocks reliant on future growth projections.

The New Zealand Dollar strengthened against the Australian Dollar by 0.5%, attributed to relatively favourable economic indicators in New Zealand. However, it weakened against the U.S. Dollar by 0.38%, reflecting the dollar’s resilience as investors anticipate gradual U.S. rate cuts.

## Weekly Market Movers

The biggest movers of the Week ending 1 <sup>st</sup> November 2024			
Up		Down	
Serko	22.65%	Tourism Holdings	-7.91%
Vulcan Steel	7.16%	NZX	-4.93%
Freightways	3.96%	Ebos Group	-3.99%
Scales Corporation	1.78%	ANZ Bank	-3.98%
Oceania Healthcare	1.28%	Spark	-3.84%

Source: Iress

## Investment News: Staying Focused During Election Season

With the upcoming election, we’re here to help you navigate how potential changes could impact your financial plans—without diving into political predictions. Election cycles can bring market volatility due to policy uncertainty and investor sentiment. Staying focused on your long-term goals can help mitigate these fluctuations.

## Spotlight on EBOS Group Limited: Dominating Healthcare and Animal Care in Australasia


EBOS Group Limited, with a market capitalisation of NZD 6.98 billion, is a major player in the healthcare and animal care distribution sectors across Australasia. Listed on the NZX 50 with a 4.86% weighting, EBOS provides an extensive range of products and services, from pharmaceutical and medical consumables to veterinary products, catering to hospitals, pharmacies, clinics, and veterinary centers. Founded as Early Bros Dental & Surgical Supplies Ltd. in 1922 and rebranded to EBOS Group in 1986, the company has evolved into a healthcare distribution powerhouse, securing a solid reputation for both growth and reliability.

### Strategic Initiatives and Market Position

EBOS's strength lies in its dual focus on the healthcare and animal care markets. In healthcare, it provides medication management, logistics, and software solutions to pharmacies and healthcare facilities. Programmes like Pharmacy Choice and healthSAVE help independent pharmacies enhance their retail operations, while EBOS's hospital supplies business serves both public and private healthcare institutions, from day surgeries to aged care facilities. The company's diverse offerings in healthcare logistics and consumables make it an essential supplier in the region.

In the animal care sector, EBOS distributes pet nutrition, grooming products, and veterinary supplies for companion animals, livestock, and equine athletes, capitalising on the growing demand for pet healthcare. The animal care market has been a high-growth segment for EBOS, driven by increased pet ownership and spending on pet health products.

### Fundamental Analysis

Security Code	EBO.NZ			
Description	EBOS Group Limited			
Exchange	NZ			
Industry	Health Care Distributors			
Market Capitalisation (NZD)	\$6.98 billion			
Index	NZX 50			
Weighting in Index	4.86%			
Current Price (NZD)	\$	36.00		
Target Price (NZD)	\$	38.51		
Discount to Target Price	6.97%			
5 Year Hist Return	10.99%			
5 Year Hist Risk (SD)	23.97%			
Forecasts	6/2024A	6/2025F		
PE Ratio	20.66	23.37	20.73	18.65
Dividend Yield (%)	3.63	3.13	3.42	3.79
Revenue (NZD)	\$14,473 Million	\$12,910 Million	\$13,568 Million	\$14,210 Million
EBITDA (NZD)	\$685 Million	\$641 Million	\$696 Million	\$748 Million
Net Debt (NZD)	\$1,118 Million	\$1,090 Million	\$1,036 Million	\$952 Million
\$	30.81	\$ 34.66	\$ 38.51	\$ 42.36
	Strong Buy	Buy	Hold	Sell
			↑	
				Strong Sell

## Current Valuation and Price Target

EBOS currently trades at NZD 36.00 with a target price of NZD 38.51, presenting an upside potential of approximately 6.97%. Over the past five years, the company has delivered an annualised historical return of 10.99%, highlighting its resilience and consistent growth. The company’s risk profile, with a five-year historical standard deviation of 23.97%, is reasonable given its steady financial performance and strategic positioning within a relatively stable sector.

## Financial Forecast and Growth Prospects

EBOS’s forecasted financial metrics illustrate promising growth over the coming years:

**Revenue:** Revenue is projected to increase from NZD 14,473 million in FY2024 to NZD 14,210 million by FY2027. This steady growth is expected to be driven by continued expansion in both the healthcare and animal care segments, as well as strategic acquisitions and partnerships.

	1Yr	2Yr	3Yr	5Yr
Total Revenue	7.78	10.85	12.74	13.73
Net Income	7.17	15.77	13.59	14.55
Dividend Per Share	9.84	12.06	10.32	10
Gross Profit	5.52	15.04	18.38	15.16
EBITDA	6.52	19.89	19.72	16.38
Cash From Ops.	-11.02	18.32	5.29	24.05

**EBITDA:** Expected to reach NZD 748 million by FY2027, EBITDA growth reflects the company's focus on enhancing operational efficiencies and expanding its market share. EBOS’s EBITDA margins have steadily improved, supporting profitability as it scales its business.

**Net Debt:** Net debt is projected to decrease from NZD 1,118 million in FY2024 to NZD 952 million by FY2027, illustrating EBOS’s commitment to financial stability and prudent capital management. This deleveraging trajectory is favourable for long-term investors, enhancing EBOS’s ability to pursue growth initiatives without overextending its balance sheet.

## Profitability and Valuation Ratios

EBOS demonstrates solid profitability ratios, making it an attractive option for value-seeking investors:

**PE Ratio:** Expected to decline from 20.66 in FY2024 to 18.65 by FY2027, EBOS’s valuation is becoming increasingly attractive, reflecting investor confidence in its growth potential at a reasonable price.

	2024	2023	2022	2021
Return On Assets%	4.58	4.35	4.19	4.67
Return On Capital%	7.9	7.54	7.34	8.51
Return On Equity%	11.57	11.83	11.36	13.55
Gross Margin%	12.38	12.65	11.49	10.7
Earnings From Cont. Ops Margin%	2.07	2.15	1.88	2
Net Income Margin%	2.06	2.07	1.89	2.01
Normalized Net Income Margin%	1.89	1.89	1.91	1.83
Fixed Asset Turnover	17.64	19.84	20.68	21.22
Inventory Turnover	9.45	9.14	10.06	10.8

**Dividend Yield:** EBOS’s dividend yield is expected to grow slightly from 3.63% to 3.79%, rewarding shareholders with consistent income. This is especially appealing for income-focused investors who are looking for steady dividends from companies with a strong market position.

**Return on Equity (ROE):** EBOS boasts a healthy ROE of 11.57% in FY2024, reflecting effective management and profitability. Its

return on assets (ROA) and return on capital (ROC) are also solid, underscoring its efficient use of assets to generate earnings.

## **Growth and Profitability Trends**

In the broader context of growth, EBOS has shown impressive performance metrics:

**Revenue and Net Income Growth:** Over a five-year period, total revenue has grown by an annualised 13.73%, while net income growth has averaged 13.75%, highlighting EBOS's sustained ability to drive sales and profitability in a competitive market.

**Gross Margin:** EBOS has improved its gross margin from 10.7% in 2021 to 12.38% in 2024, demonstrating effective cost management and operational efficiencies.

These growth trends and profitability improvements indicate that EBOS has successfully navigated the challenges of scaling its business, optimising its supply chains, and capturing new market opportunities.

## **Investment Considerations**

For investors, EBOS represents a balanced blend of growth and stability:

**Consistent Revenue Growth:** EBOS's revenue and earnings growth reflect a resilient business model that has adapted to sector demands and captured growth opportunities.

**Attractive Dividend Yield:** A growing dividend yield, coupled with a stable financial structure, provides reliable income for dividend-seeking investors.

**Strong Market Position:** As one of the leading healthcare distributors in Australasia, EBOS's established market presence reduces risk, while its focus on both healthcare and animal care offers a diversified revenue base.

**Improving Financial Health:** EBOS's declining net debt and consistent cash flow growth enhance its ability to finance future growth initiatives and return capital to shareholders.

## **Conclusion**

EBOS Group Limited's robust fundamentals, strategic market position, and disciplined growth strategy make it a compelling investment opportunity in the healthcare and animal care sectors. With a steadily improving financial profile, an attractive dividend yield, and consistent growth in revenue and EBITDA, EBOS is well-suited for investors seeking both capital appreciation and income. As always, investors should consider both the growth potential and associated risks, including sector-specific challenges and economic factors, when evaluating EBOS as part of a diversified portfolio. In summary, EBOS's solid financial performance, attractive valuation, and strategic market positioning make it an appealing option for investors looking to gain exposure to the healthcare and animal care markets in Australasia.

### Upcoming Dividends: 5<sup>th</sup> November to 5<sup>th</sup> December.

Description	Security	ExDivDate	BooksClose	Gross Dividend Amount	Pay Date
Scott Technology Limited	SCT	05-Nov-24	06-Nov-24	3.58 cps	20-Nov-24
HALGLASS	HLG	05-Dec-24	06-Dec-24	34.29 cps	13-Dec-24

Source: Iress

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