

COMPANY UPDATE

Alpha IVF (ALPHA MK)

Cultivating Regional Success Begins with Alhaya

Alhaya continues to gestate well after breaking even. Its operational success should be a precursor to Alpha IVF's exciting expansion plans for FY25, which will nearly double its existing number of facilities. These will fuel an impressive three-year earnings CAGR of 19.0% (FY23-36F). We continue to like Alpha IVF for its industry-leading capabilities and track record. Maintain BUY and target price of RM0.40.

WHAT'S NEW

- Alhaya gestating well.** Alpha IVF's newest facility, Alhaya which commenced operations in Apr 24, has been gaining further traction from what we gather, after breaking even in its first month of operations. To recap, Alhaya is conveniently located within the Klang Valley region, based in KPJ Healthcare's (KPJ) flagship, premium health-tourism oriented Damansara Specialist Hospital 2. Alhaya KL is positioned to target an underserved segment of the market and leverages KPJ's marketing channels to attract foreign medical patients.
- Small but reflective of ability to replicate success rates for regional expansion.** At this juncture, we have conservatively assumed for Alhaya to contribute 0.5% and 4.1% of total group patient volume for FY24 and FY25 respectively. Although Alhaya is only a small contributor currently, it is positive that it is gestating well. What is even more important is that Alpha IVF is able to replicate its fertilisation and pregnancy rates (proven true thus far) with Alhaya. Operational success and execution is critical to its wider regional (Indonesia and Laos/Cambodia) growth ambitions
- FY25 is poised to be an exciting year.** Two sales representative offices in China should drive foreign patient volume heading into FY25. Subsequent to that, an additional specialist fertility clinic is expected to open in Malaysia by end-FY25, which would bring the number of Alpha fertility clinics in Malaysia to four. The three existing clinics are Penang, Kuala Lumpur and Alhaya. Indonesia and Laos/Cambodia are due to see a fertility clinic each as well. Two satellite clinics that will facilitate treatments are due to be added by end-FY25 as well. Given the pipeline of facility rollouts, FY25 is poised to be an especially exciting year.

KEY FINANCIALS

Year to 31 May (RMm)	2022	2023	2024F	2025F	2026F
Net turnover	91	137	164	194	243
EBITDA	38	63	69	93	108
Operating profit	30	56	62	83	95
Net profit (rep./act.)	14	42	53	64	71
Net profit (adj.)	14	42	53	64	71
EPS (sen)	0.3	0.9	1.1	1.3	1.5
PE (x)	107.0	36.5	29.0	23.8	21.6
P/B (x)	37.8	29.7	8.1	7.1	6.3
EV/EBITDA (x)	35.8	21.7	19.6	14.6	12.6
Dividend yield (%)	0.6	4.0	2.1	2.5	2.8
Net margin (%)	15.7	30.5	32.1	33.1	29.1
Net debt/(cash) to equity (%)	(46.3)	(99.3)	(93.4)	(72.9)	(68.0)
Interest cover (x)	28.1	61.6	141.3	189.8	219.1
ROE (%)	38.6	91.2	43.8	31.8	30.9
Consensus net profit	-	-	54	66	73
UOBKH/Consensus (x)	-	-	0.98	0.97	0.97

Source: Alpha IVF, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.315
Target Price	RM0.40
Upside	+27.0%

COMPANY DESCRIPTION

Renowned fertility centres in the ASEAN region, set up and operated by leading doctors and embryologists responsible for numerous fertility achievements both in the region and worldwide.

STOCK DATA

GICS sector	Health Care
Bloomberg ticker:	ALPHA MK
Shares issued (m):	4,860.0
Market cap (RMm):	1,530.9
Market cap (US\$m):	325.2
3-mth avg daily t'over (US\$m):	1.4

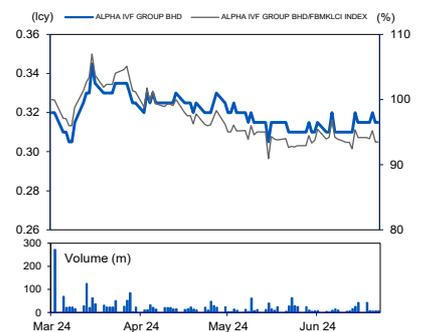
Price Performance (%)

52-week high/low	RM0.345/RM0.305			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
0.0	(4.5)	n.a.	n.a.	n.a.

Major Shareholders

Dato' Dr. Lee Soon Soo	43.2
Lee Soon Ai	8.9
Ng Peng Wah	8.3
FY25 NAV/Share (RM)	0.04
FY25 Net Cash/Share (RM)	0.03

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- **4QFY24 should see further sequential growth.** Alpha IVF should see sequential earnings growth in 4QFY24. Recall 3QFY24 is a seasonal low with few patients during the Chinese New Year festivities and the gradual ramp-up in foreign medical patients which are margin accretive as well. We do not expect Alhaya's commencement of operations to impact financials meaningfully as it remains early in its inception, having just launched in Apr 24. Given this backdrop, earnings should largely meet our estimates, and imply a growth of 26% for FY24. FY25's attractive earnings growth of 21% should remain largely driven by organic growth and foreign medical patients. We expect Alhaya to be earnings accretive but largely insignificant to FY25's earnings.

### EARNINGS REVISION/RISK

- **No change to earnings.** Key downside risks are the execution of new facilities, reputation risk, and key personnel concentration risk.

### VALUATION/RECOMMENDATION

- **Maintain BUY and target price of RM0.40**, pegged to 28.0x FY25F PE. While its peers are trading at a historical 22.8x 2025F PE, we believe Alpha IVF should trade at a 20% premium due to: a) its superior three-year earnings CAGR (FY23-26F) outlook of 19.0%, ahead of its peers' average of 13.4%; b) Alpha IVF's attractive growth and palatable valuations, as well as leading clinical success rates in the region; and c) its far superior profit margins of 32.0% for FY24-26 are more than double the average of its regional peers (15.3%) and well ahead of the next highest margin (23.7%).

### ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)

<ul style="list-style-type: none"> <li>• <b>Environmental</b> <ul style="list-style-type: none"> <li>- <b>Energy efficiency.</b> Implements energy-efficient equipment and practices to reduce energy consumption within the centres.</li> <li>- <b>Waste management.</b> Implements responsible waste management including proper disposal of medical waste and recycling initiatives.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Social</b> <ul style="list-style-type: none"> <li>- <b>Ethical practices.</b> Adheres to ethical and transparent practices in patient interactions, including informed consent, privacy protection and responsible handling of genetic information.</li> <li>- <b>Diversity &amp; inclusion.</b> Fosters a diverse and inclusive work environment, ensuring that all patients and employees are treated with respect and dignity.</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>• <b>Governance</b> <ul style="list-style-type: none"> <li>- <b>Board oversight.</b> Ensures that the board of directors or governing body provides effective oversight of the IVF centres' operations, including ESG strategies and performance.</li> </ul> </li> </ul>

### KEY ASSUMPTIONS

	FY24F	FY25F	FY26F
Revenue (RMm)	164.4	193.8	243.3
Growth yoy (%)	19.5	17.9	25.6
<b>Number of OPU</b>			
Existing Centre OPU	3,105	3,478	3,651
Growth yoy (%)	15.0	12.0	5.0
New Centres OPU	15	150	1,050
Growth yoy (%)	n.a.	900	600
Total OPU	3,120	3,628	4,701
Growth yoy (%)	15.6	16.3	29.6
# of New Centres	1	0	4
Blended Revenue per OPU (RM'000)	49.5	50.2	48.6
Growth yoy (%)	3.5	1.4	-3.1

Source: UOB Kay Hian

### GROWTH AND MARGIN OUTLOOK

	FY24F	FY25F	FY26F
Revenue (RMm)	164.4	193.8	243.3
Growth yoy (%)	19.5	17.9	25.6
EBITDA (RMm)	78.2	97.2	111.6
Growth yoy (%)	22.2	24.4	14.8
Core PATAMI (RMm)	52.8	64.2	70.8
Growth yoy (%)	25.9	21.6	10.2
EBITDA Margin (%)	47.6	50.2	45.9
Core PATAMI Margin (%)	32.1	33.1	29.1

Source: UOB Kay Hian

### PROFIT & LOSS

Year to 31 May (RMm)	2023	2024F	2025F	2026F
Net turnover	137	164	194	243
EBITDA	63	69	93	108
Deprec. & amort.	7	8	11	12
EBIT	56	62	83	95
Total other non-operating income	13	2	4	4
Associate contributions	0	0	0	0
Net interest income/(expense)	(1)	0	0	0
<b>Pre-tax profit</b>	<b>67</b>	<b>64</b>	<b>86</b>	<b>99</b>
Tax	(12)	(16)	(19)	(22)
Minorities	(2)	(2)	(3)	(6)
<b>Net profit</b>	<b>42</b>	<b>53</b>	<b>64</b>	<b>71</b>
Net profit (adj.)	42	53	64	71

### CASH FLOW

Year to 31 May (RMm)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>61</b>	<b>56</b>	<b>73</b>	<b>81</b>
Pre-tax profit	67	70	86	99
Tax	(11)	(16)	(19)	(22)
Deprec. & amort.	7	8	11	12
Associates	0	0	0	0
Working capital changes	9	(4)	(1)	(1)
Other operating cashflows	(11)	(2)	(3)	(7)
<b>Investing</b>	<b>0</b>	<b>(13)</b>	<b>(52)</b>	<b>(27)</b>
Capex (growth)	(1)	(15)	(56)	(35)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	1	2	4	8
<b>Financing</b>	<b>(38)</b>	<b>82</b>	<b>(41)</b>	<b>(45)</b>
Dividend payments	0	(32)	(39)	(42)
Issue of shares	1	117	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(9)	0	0	0
Others/interest paid	(30)	(3)	(3)	(2)
<b>Net cash inflow (outflow)</b>	<b>23</b>	<b>126</b>	<b>(20)</b>	<b>9</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>32</b>	<b>56</b>	<b>181</b>	<b>161</b>
Changes due to forex impact	1	0	0	0
<b>Ending cash &amp; cash equivalent</b>	<b>56</b>	<b>181</b>	<b>161</b>	<b>170</b>

### BALANCE SHEET

Year to 31 May (RMm)	2023	2024F	2025F	2026F
Fixed assets	22	30	75	98
Other LT assets	11	11	11	11
Cash/ST investment	56	181	161	170
Other current assets	7	11	12	14
<b>Total assets</b>	<b>96</b>	<b>233</b>	<b>259</b>	<b>293</b>
ST debt	1	1	1	1
Other current liabilities	19	19	19	20
LT debt	3	3	3	3
Other LT liabilities	18	15	14	12
Shareholders' equity	52	189	215	243
Minority interest	3	5	7	14
<b>Total liabilities &amp; equity</b>	<b>96</b>	<b>233</b>	<b>259</b>	<b>293</b>

### KEY METRICS

Year to 31 May (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	45.6	42.3	48.2	44.3
Pre-tax margin	48.9	38.9	44.5	40.6
Net margin	30.5	32.1	33.1	29.1
ROA	41.4	32.2	26.1	25.6
ROE	91.2	43.8	31.8	30.9
<b>Growth</b>				
Turnover	50.9	19.5	17.9	25.6
EBITDA	65.1	10.9	34.4	15.4
Pre-tax profit	124.6	(5.0)	35.0	14.7
Net profit	193.3	25.9	21.6	10.2
Net profit (adj.)	193.3	25.9	21.6	10.2
EPS	193.3	25.9	21.6	10.2
<b>Leverage</b>				
Debt to total capital	7.4	2.2	1.9	1.7
Debt to equity	8.4	2.3	2.0	1.8
Net debt/(cash) to equity	(99.3)	(93.4)	(72.9)	(68.0)
Interest cover (x)	61.6	141.3	189.8	219.1

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