

# Protech Home Medical Corp.<sup>1,11</sup>

## BUY

PTQ-TSXV

August 18, 2020

Last: **C\$1.18**  
Target: **C\$2.00**

## Results tracking to thesis, valuation to re-rate

**Q2 shows 28% YoY growth, ~50% EBITDA expansion with 21% margins:** PTQ reported strong Q3 results (end June 30) that were pre-released on July 20. Q3 sales were \$25.9mm, up 28% YoY and adj. EBITDA was \$5.5mm (21% margin) with both metrics at the high end of a tight range released in July. These results demonstrate scale benefits, as the run-rate in sales exceeds \$100mm and we expect further margin and FCF expansion as the company targets to double the business. The goal is expected to be achieved with solid secular growth with home care gaining traction as a more efficient form of healthcare but also through M&A with a track record of success. PTQ's CEO has integrated 17 assets with an M&A playbook that works, leading to good acquisitions at fair valuation. Combined, the outlook and results continue to be favorable but PTQ valuation remains at a ~50% discount to peers, from what we believe to be related to a Medicare competitive round of bidding for sleep therapy and oxygen solutions. However, similar to home ventilators, we expect the bid to be deferred or to have a non-material impact, leading to a re-rating in PTQ valuation from 7x EBITDA, towards peers at 14x. **BUY.**

**Competitive bid for oxygen/sleep therapy not seen as impactful:** We see PTQ's low valuation (7x 2020 EBITDA vs. peers at ~14x) as in part related to a Medicare competitive round of bidding for home oxygen and sleep therapy solutions that is currently in progress. ~20% of PTQ's revenue is subject to potential pricing changes from the bid but with perceived higher exposure. The Centers for Medicare and Medicaid Services (CMS) recently deferred non-invasive home ventilators from the competitive bid program until 2024 and we believe a similar situation could play out for oxygen and sleep therapy. Home care has become of increasing focus ahead of the U.S. election and a potential second wave of COVID-19, where related services are seen as lower cost healthcare infrastructure but also important in freeing up capacity at hospitals. As a result, we believe that there will be a minor pricing impact if the bid were to proceed or if the bid were deferred, similar to home ventilators. Valuation should re-rate on the expected favorable outcome.

**Rating:** We maintain a BUY rating and \$2.00 target based on 10x 2021 EBITDA. We do not see a material impact from a Medicare competitive round of bidding that may be deferred entirely. M&A is also resuming, where the CEO has a solid track record of integrating good assets. PTQ has reported two consecutive record quarters, showing resilience in the business, despite COVID-19. **BUY.**

What's Changed	Old	New
Rating	BUY	n.c.
Target	\$2.00	n.c.
Revenue F2020E (mm)	\$95.3	\$97.8
Revenue F2021E (mm)	\$112.6	\$113.7
EPS f.d. F2020E	(\$0.02)	(\$0.06)
EPS f.d. F2021E	\$0.03	\$0.05

Share Data	
Share o/s (mm, basic)	111.8
52-week high/low	1.35/0.47
Market cap (C\$m)	\$131.9
*Enterprise value (C\$m)	\$118.2
Dividend	nil
Dividend yield	n.a.
Projected return	69%

Financial Data	2019	2020E	2021E
FYE Sept 30			
Revenue (mm)	\$81.0	\$97.8	\$113.7
EV/Revenue	1.5x	1.2x	1.0x
EBITDA (mm)	\$14.9	\$19.1	\$21.7
EV/EBITDA	8.0x	6.2x	5.5x
EPS f.d.	(\$0.09)	(\$0.06)	\$0.05
P/E	n/a	n/a	22.0x
FCFPS	(\$0.02)	\$0.15	\$0.08
P/FCF	n/a	11.0x	14.6x
Net debt	\$12.7	(\$11.3)	(\$19.8)
Net debt/EBITDA	0.9x	n/a	n/a
Book value	\$19.1	\$45.0	\$42.9
P/BV	6.9x	2.9x	3.1x

All figures in C\$ unless otherwise noted  
\*Pro-forma net cash position

 [Current Chart](#)

 [Previous Research](#)

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