STIFEL | GMP

Equity Research

Protech Home Medical Corp.

BUY

PTQ-TSXV

May 20, 2020

Last:	**C$1.10**
Target:	**C$2.00**

Q2 highlights resilient business as M&A looms

M&A playbook works with 17 assets integrated and expected to resume
PTQ reported strong Q2 results that were pre-released at the end of April. Q2 sales were a record at $24.1mm, up 16% YoY and within the range of tight increased guidance of $24.0-$24.3mm. Organic growth was solid at what we estimate to be +6% YoY, despite COVID-19. Q2 Adj. EBITDA was $4.9mm (20.4% margin) vs. $3.8mm (18.2% margin) last year. Cash from ops of $1.6mm was consistent with last year and reflected an inventory build for potential shortages related to COVID-19 but was still above our forecast of $0.6mm. In the company's outlook, PTQ mentioned its resilient business model and essential service status, expected to withstand economic headwinds. PTQ's M&A pursuits are also expected to resume in the back half of 2020 with several target assets, where purchase multiples are expected to be lower as the result of COVID-19 with some strain on smaller operators. PTQ's CEO has integrated 17 assets in the industry and we see acquisitions as positive catalysts, given the track record and potential scale benefits. **BUY.**

About PTQ and thesis: PTQ provides home medical equipment, supplies and service in the U.S., including oxygen and ventilator therapy (~40% of sales) and sleep therapy (~40% of sales), along with custom mobility equipment. We see PTQ as providing important solutions in keeping people healthy and out of the hospital or for early discharges, increasingly important now. PTQ's healthcare equipment also helps bridge virtual care with recent changes in Telehealth. More broadly, we see PTQ as a healthcare infrastructure company, evident in the stability of results, essential service status and recent reimbursement support by Medicare and Medicaid. Although the industry is competitive, PTQ has advantages as a solid operator with strong service, increasing scale and use of technology. We forecast that PTQ will continue a high-growth trajectory both organic and through M&A to $113mm in sales next year (16% 2yr CAGR) with a balance sheet to support (~$14mm pro-forma cash). PTQ is trading at a discount of ~6x EBITDA as an important healthcare provider.

Rating: We maintain a BUY and $2.00 target based on 10x 2021 EBITDA. We expect double-digit YoY growth next quarter (FQ3) with ~20% adj. EBITDA margins, along with decent cash generation. This highlights an undervalued situation in our view with the stock still trading at 6x EBITDA. M&A is expected to resume in the near term as well, where the CEO has a solid track record and experience in acquiring and integrating good assets. As the M&A strategy plays out, we expect margin expansion and greater cash generation with scale. **BUY**.

	Old	New
Rating	BUY	n.c.
Target	$2.00	n.c.
Revenue F2020E (mm)	$94.7	$95.3
Revenue F2021E (mm)	$111.4	$112.6
EPS f.d. F2020E	-$0.02	-$0.03
EPS f.d. F2021E	$0.05	n.c.

Share Data

Share o/s (mm, basic)	83.6
52-week high/low	1.19/0.47
Market cap (C$mm)	$105.1
Enterprise value (C$mm)	$120.0
Dividend	nil
Dividend yield	n.a.
Projected return	82%

Financial Data

FYE Sept 30	2019	2020E	2021E
Revenue (mm)	$81.0	$95.3	$112.6
EV/Revenue	1.5x	1.3x	1.1x
EBITDA (mm)	$14.9	$18.3	$21.5
EV/EBITDA	8.1x	6.6x	5.6x
EPS f.d.	($0.09)	($0.03)	$0.05
P/E	n/a	n/a	22.0x
FCFPS	-$0.02	$0.02	$0.10
P/FCF	n/a	56.3x	11.7x
Net debt	$12.7	$13.2	($0.1)
Net debt/EBITDA	0.9x	0.7x	n/a
Book value	$19.1	$21.6	$28.0
P/BV	5.5x	4.9x	3.8x

All figures in C$ unless otherwise noted

Current Chart   Previous Research

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