



AmInvestment Bank

ALPHA IVF

(ALPHA MK EQUITY, ALPH.KL)

23 Oct 2024

Company Report

AmInvestment Bank

Team Coverage

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Rationale for report: Company Update

BUY

(Maintained)

Price	RM0.36
Fair Value	RM0.42
52-week High/Low	RM0.38/RM0.30

Key Changes

Fair value	↔
EPS	↔

YE to May	FY24	FY25F	FY26F	FY27F
Revenue (RMmil)	167.6	221.3	292.8	336.2
Core net profit (RMmil)	52.9	67.9	75.0	87.1
FD Core EPS (Sen)	1.1	1.4	1.5	1.8
FD Core EPS growth (%)	(0.6)	28.3	10.4	16.2
Consensus Net Profit (RMmil)	-	-	-	-
DPS (Sen)	0.4	0.8	0.9	1.1
PE (x)	33.5	26.1	23.7	20.4
EV/EBITDA (x)	22.9	18.0	12.5	11.3
Div yield (%)	1.2	2.3	2.5	2.9
ROE (%)	44.3	33.8	32.6	33.3
Net Gearing (%)	nm	nm	nm	nm

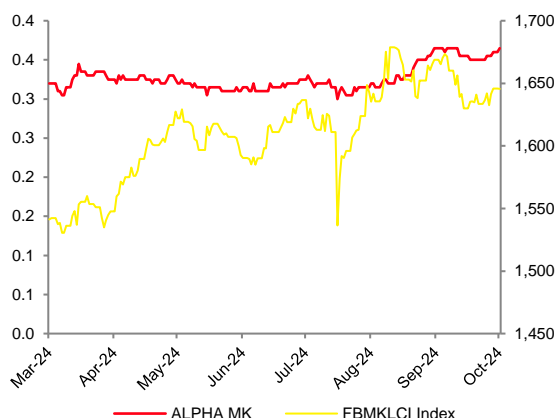
Stock and Financial Data

Shares Outstanding (million)	4,860.0
Market Cap (RMmil)	1,773.9
Book Value (RM/Share)	0.04
P/BV (x)	9.5
ROE (%)	44.3
Net Gearing (%)	-

Major Shareholders	Dr. Colin Lee (34.2%) ACE Specialists (9.2%) Lee Soon Ai (8.9%)
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Free Float	48.4
Avg Daily Value (RMmil)	5.3

Price performance	3mth	6mth	12mth
Absolute (%)	12.3	12.3	-
Relative (%)	11.7	5.6	-



Investment Highlights

- Retain BUY on Alpha IVF with unchanged FV of RM0.42, based on 28x CY25 PE. We attach a 3-star ESG rating to Alpha IVF. Our earnings forecast remains unchanged as the Group's 1QFY25 core net profit tracking expectation at 21.3% of our full year estimates.
- Alpha IVF's 1QFY25 revenue and core net profit were lower QoQ due to high base effect in 4QFY24 as festive seasons in 3QFY24 has led to patients delaying IVF treatment cycle to 4QFY24. Positively, Alpha IVF's 1QFY25 gross margin remained strong at 59.7% (FY24 : 58.1%; FY23 : 55.7%) mainly attributable to high foreign patients contribution.
- In 1QFY25, Oocyte Pick Up (OPU) cases stood at 770 which was lower YoY and QoQ (4QFY24 : 863; 1QFY24 : 806). However, we are not concerned about the decline in OPU cases as we gather that the Group is in the midst of hiring a new Obstetricians and Gynaecologists specialist with huge clientele base which will improve the capacity utilization moving forward. Currently the implied utilization rate is about 38.5% based on annualized number of OPU cases in 1QFY25. Apart from that, the Group plans to open 2 full-fledged centres, 1 each for FY25 and FY26 with a potential site in Sabah.
- China. Despite conception period for Dragon baby is over, the revenue from Chinese patients has not shown any sign of slowing down. On the contrary, Alpha IVF still saw strong 1QFY25 revenue from Chinese patients at RM6.9 mil, which was more than half of that in FY24. The Group has identified China as key growth market. Thus, Alpha IVF has opened its 1st sales representative office on 4th September 2024 and has identified another location for 2nd sales representative office. These sales representative offices will serve as a gateway for Chinese patients to access Alpha IVF's services and expertise directly. We believe Alpha IVF will continue to benefit from regulatory arbitrage as Preimplantation Genetic Testing is not allowed in China.
- Indonesia. Alpha IVF is currently negotiating land lease agreements for its full fledge IVF centre in Bali and has planned to open 4 satellite clinics in Indonesia with 2 each in FY25 and FY26. The Group will set up the first satellite clinic in Jakarta by early 2025.
- Philippines. Alpha IVF entered into strategic joint venture with two respected Filipino doctors to cater to the growing demand for advanced reproductive technologies in the Philippines. Alpha IVF will set up its 1st full-fledged fertility centre in Quezon City, Manila to handle 1,500 OPU annually, which will bring the Group total capacity to 9,500 OPU annually.

- All in, we remain sanguine on the long term growth prospect of the company, to be driven by (a) continued growth in foreign patients to Malaysian operations; (b) commencement of new full-fledged centres in Malaysia, the Philippines and Indonesia; and (c) commencement of new representative offices in China and satellite clinics in Indonesia.

EXHIBIT 1: QUARTERLY RESULTS

FYE May (RM mil)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)	3MFY24	3MFY25	YoY (%)
Revenue	41.6	46.7	43.0	(8.0)	3.4	41.6	43.0	3.4
COGS	(17.7)	(18.8)	(17.3)	(7.8)	(2.3)	(17.7)	(17.3)	(2.3)
Gross Profit	23.9	28.0	25.7	(8.2)	7.6	23.9	25.7	7.6
Other Income	0.0	0.0	0.1	nm	nm	0.0	0.1	nm
Admin Expenses	(4.7)	(9.3)	(7.5)	(19.6)	59.3	(4.7)	(7.5)	59.3
Other Expenses	(1.5)	(0.3)	(0.5)	77.4	(65.7)	(1.5)	(0.5)	(65.7)
EBIT	17.7	18.4	17.7	(3.4)	0.1	17.7	17.7	0.1
Net interest income/(cost)	0.2	1.1	1.3	nm	nm	0.2	1.3	nm
Pretax profit	17.9	19.4	19.0	(2.1)	5.9	17.9	19.0	5.9
Income Tax	(4.4)	(5.1)	(4.1)	(20.5)	(8.3)	(4.4)	(4.1)	(8.3)
PAT	13.5	14.3	14.9	4.4	10.5	13.5	14.9	10.5
Minority Interests	(0.4)	(0.3)	(0.6)	84.9	40.5	(0.4)	(0.6)	40.5
PATAMI	13.1	14.0	14.4	2.7	9.6	13.1	14.4	9.6
Core PATAMI	13.1	15.4	14.4	(6.6)	10.0	13.1	14.4	10.0
Depreciation & Amortisation	(1.9)	(1.2)	(1.3)	7.2	(30.4)	(1.9)	(1.3)	(30.4)
EBITDA	19.6	19.6	19.0	(2.7)	(2.8)	19.6	19.0	(2.8)
Basic EPS (sen)	0.3	0.3	0.3	(6.6)	1.7	0.3	0.3	1.7

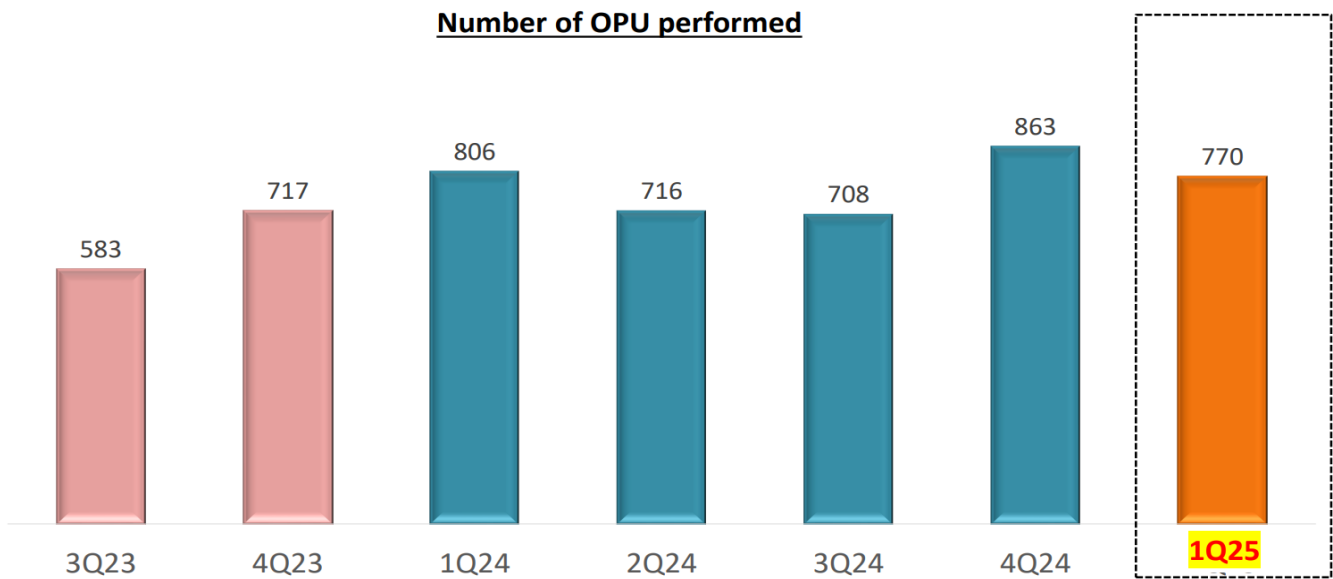
				QoQ (%-point)	YoY (%-point)			YoY (%-point)
Gross Profit Margin (%)	57.4	59.8	59.7	(0.1)	2.3	57.4	59.7	2.3
EBITDA Margin (%)	47.0	41.8	44.2	2.4	(2.8)	47.0	44.2	(2.8)
Pretax Margin (%)	43.1	41.5	44.2	2.7	1.1	43.1	44.2	1.1
Core PATAMI Margin (%)	31.5	33.0	33.6	0.5	2.0	31.5	33.6	2.0
Effective Tax (%)	24.6	26.3	21.4	(4.9)	(3.3)	24.6	21.4	(3.3)

Segmental Revenue Reporting

FYE May (RM mil)	1QFY24	4QFY24	1QFY25	QoQ (%)	YoY (%)	3MFY24	3MFY25	YoY (%)
Revenue								
Malaysia	33.7	38.0	35.4	(2.6)	1.7	33.7	35.4	1.7
Singapore	7.9	8.7	7.6	(1.2)	(0.3)	7.9	7.6	(0.3)
Total Revenue								
Revenue breakdown (%)								
Malaysia	80.9	81.3	82.3			80.9	81.3	
Singapore	19.1	18.7	17.7			19.1	18.7	

Source: AmInvestment Bank

EXHIBIT 2: NUMBER OF OPU PERFORMED



Source: Company

EXHIBIT 3: PB BAND CHART

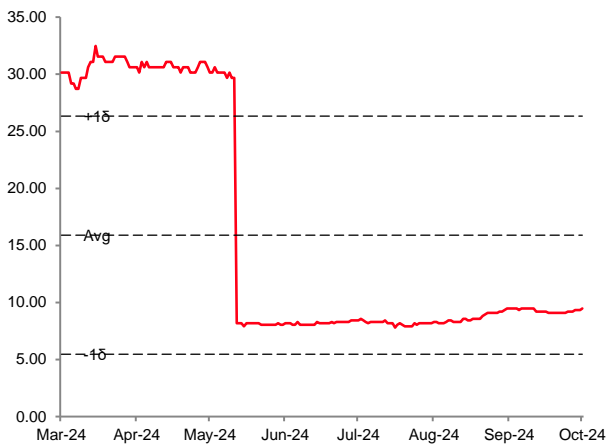


EXHIBIT 4: PE BAND CHART

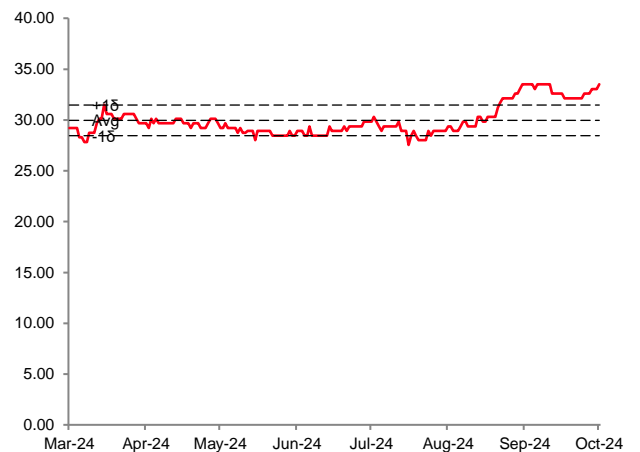


EXHIBIT 5: ESG MATRIX

	Environmental assessment	Parameters	Weightage	Rating				Rationale
1	Energy efficiency	Adoption of measures to ensure energy efficiency	33%	*	*	*		Implement energy-efficient equipment and practices to reduce energy consumption within centres.
2	Waste management	Adoption of measures to minimise waste production	33%	*	*	*		Implement proper waste management measures eg. proper disposal of medical waste and recycling.
3	Water and effluent management	Adoption of measures to optimise water consumption	33%	*	*	*		Implement water-saving practices to reduce water consumption.
Weighted score for environmental assessment			100%	*	*	*		
Social assessment								
1	Responsibility to patients	Education to patients	33%	*	*	*		Provide comprehensive education to patients about the IVF process, potential risks and alternatives, promoting informed decision-making.
2	Patient support	Services provided to support patients emotionally/psychologically	33%	*	*	*		Offer emotional and psychological support for patients undergoing IVF treatment, recognising and supporting the emotional transition process of patients.
3	Ethical practices	Adherence to ethical practices	33%	*	*	*		Adhere to ethical and transparent practices in patient interactions, including informed consent, privacy protection, and responsible handling of genetic information.
Weighted score for social assessment			100%	*	*	*		
Governance assessment								
1	Board age diversity	% under 60 years old	25%	*				0%. board members are in the age range of 65-77.
2	Board women representation	% of total board directors	25%	*	*			17% representation, lower than min 30% recommended by MCGG.
3	Independent board directors	% of total board directors	25%	*	*	*	*	67% - independent non-exec, higher than min 50% recommended by MCGG.
4	Remuneration to directors	% of total staff costs	25%	*	*			Estimated RM3.4mil in FY24F - 10% of FY24F staff costs
Weighted score for governance assessment			100%	*	*	*		
Environmental score			33%	*	*	*		
Social score			33%	*	*	*		
Governance score			33%	*	*	*		
Overall ESG Score			100%	*	*	*		

Source: AmlInvestment Bank

Company profile

Alpha IVF is primarily a fertility care specialist focusing on the provision of assisted reproductive services (ARS) in Malaysia and Singapore. Currently, Alpha IVF has 3 specialist centres in Malaysia – Alpha International Women’s Specialists (Alpha KL), Alhaya and Genesis Specialists (Genesis) as well as a specialist centre in Singapore named Alpha International Women’s Specialists (Alpha Singapore). The Group’s Oocyte Pick Up capacity is 8,000 per annum, in which Alpha KL has capacity of 4,000, Alhaya 1,000, Genesis 2,000 and Alpha Singapore 1,000. 80% of their revenue derived from Malaysian operations while balance is from Singapore.

In the ARS landscape, fertility care specialists primarily compete on the clinic pregnancy rate of IVF treatments. Notably, Alpha IVF is able to achieve up to 87.5% in IVF clinical pregnancy rate vs an average of 72.6% in Malaysia, 64.9% in Singapore and 61.4% among regional listed peers.

Investment thesis and catalysts

We have a BUY recommendation on the stock on the back of its strong earnings growth over the next 3 years to be driven by continued recovery of foreign patients, commencement of 51% owned Alhaya International Women’s Specialists Sdn Bhd as well as local and overseas expansion.

Valuation methodology

We adopt price to earnings multiple of 28x which is at a premium to the average valuation of 25x of local peers and 21x of regional peers. In term of PEG ratio, Alpha’s 1.8 is lower than local peers’ average of 3.0 and comparable to regional peer Monash IVF’s 1.7.

The premium is justified given Alpha’s industry leading clinic pregnancy rate which stands in a good position to capitalize on the region’s low in-vitro fertilization penetration rates in the region.

Risk factors

The key risk factors to Alpha are :

- i) Over-dependence on executive directors and key skilled personnel;
- ii) Risk of medical litigation claims;
- iii) Risk of adverse changes in the regulatory regime relating to the healthcare industry;
- iv) Reliance on approvals, licenses, permits and certificates; and
- v) Delays in expansion plans.

EXHIBIT 6: FINANCIAL DATA

Income Statement (RMmil, YE 31 May)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	137.5	167.6	221.3	292.8	336.2
EBITDA	74.0	76.5	97.9	137.2	147.8
Depreciation	(6.7)	(6.3)	(7.1)	(33.5)	(27.6)
Operating income (EBIT)	67.3	70.1	90.8	103.7	120.2
Other income & associates	-	-	-	-	-
Net interest	(0.1)	1.9	2.7	2.7	3.8
Exceptional items	-	-	-	-	-
Pretax profit	67.2	72.0	93.5	106.4	124.0
Taxation	(12.4)	(17.9)	(21.7)	(24.1)	(28.0)
Minorities/pref dividends	(1.5)	(1.1)	(3.9)	(7.4)	(8.8)
Net profit	53.2	52.9	67.9	75.0	87.1
Core net profit	53.2	52.9	67.9	75.0	87.1
Balance Sheet (RMmil, YE 31 May)	FY23	FY24	FY25F	FY26F	FY27F
Fixed assets	22.4	24.1	79.7	70.3	65.4
Intangible assets	8.9	8.9	8.9	8.9	8.9
Other long-term assets	2.2	32.7	32.7	32.7	32.7
Total non-current assets	33.5	65.7	121.3	112.0	107.0
Cash & equivalent	28.5	22.9	11.0	57.0	104.2
Stock	2.7	2.9	4.3	6.2	7.4
Trade debtors	1.3	1.0	3.0	3.6	4.5
Other current assets	29.9	135.7	122.9	122.9	122.9
Total current assets	62.4	162.5	141.1	189.7	238.9
Trade creditors	3.2	2.5	4.8	6.8	8.0
Short-term borrowings	1.3	-	-	-	-
Other current liabilities	16.1	21.5	23.7	24.8	25.3
Total current liabilities	20.6	24.0	28.5	31.6	33.3
Long-term borrowings	3.0	-	-	-	-
Other long-term liabilities	17.6	14.5	13.1	11.9	10.9
Total long-term liabilities	20.7	14.5	13.1	11.9	10.9
Shareholders' funds	51.6	187.4	214.6	244.6	279.4
Minority interests	3.0	2.3	6.2	13.6	22.4
BV/share (RM)	0.01	0.04	0.04	0.05	0.06
Cash Flow (RMmil, YE 31 May)	FY23	FY24	FY25F	FY26F	FY27F
Pretax profit	67.2	72.0	93.5	106.4	124.0
Depreciation	6.7	6.3	7.1	33.5	27.6
Net change in working capital	8.8	(1.3)	(0.4)	0.2	(0.1)
Others	(22.4)	(18.0)	(24.2)	(27.6)	(35.2)
Cash flow from operations	60.3	59.0	76.0	112.5	116.2
Capital expenditure	(0.9)	(13.8)	(50.8)	(19.2)	(19.2)
Net investments & sale of fixed assets	-	-	-	-	-
Others	(1.0)	(28.6)	3.5	3.8	4.9
Cash flow from investing	(1.8)	(42.4)	(47.3)	(15.4)	(14.3)
Debt raised/(repaid)	(11.5)	(6.9)	-	-	-
Equity raised/(repaid)	1.0	114.2	-	-	-
Dividends paid	(26.3)	(33.1)	(40.7)	(45.0)	(52.3)
Others	(1.0)	(0.6)	(0.8)	(1.1)	(1.2)
Cash flow from financing	(37.9)	73.6	(41.5)	(46.1)	(53.4)
Net cash flow	20.6	90.2	(12.8)	51.0	48.5
Net cash/(debt) b/f	22.6	95.6	(24.7)	46.0	47.2
Net cash/(debt) c/f	43.8	186.0	(37.5)	97.0	95.7
Key Ratios (YE 31 May)	FY23	FY24	FY25F	FY26F	FY27F
Revenue growth (%)	50.9	21.9	32.1	32.3	14.8
EBITDA growth (%)	90.8	3.3	28.0	40.2	7.7
Pretax margin (%)	48.9	43.0	42.2	36.3	36.9
Net profit margin (%)	38.7	31.6	30.7	25.6	25.9
Interest cover (x)	1,103.0	nm	nm	nm	nm
Effective tax rate (%)	18.5	24.9	23.2	22.6	22.6
Dividend payout (%)	114.1	41.0	60.0	60.0	60.0
Debtors turnover (days)	4	2	3	4	4
Stock turnover (days)	6	6	6	7	7
Creditors turnover (days)	7	6	6	7	8

Source: Company, AmlInvestment Bank Bhd estimates

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