

COMPANY UPDATE

Alpha IVF (ALPHA MK)

Go Forth And Multiply

Alpha IVF's colossal expansion spans across multiple geographies, which are on track to be operational by end-FY25. Its newest addition, Alhaya has displayed encouraging patient traffic, and managed to break even within its first month of operations. This should serve to limit downside risk for Alpha IVF's regional expansion. Meanwhile, its pivot to the Philippines appears highly prospective. Maintain BUY and target price of RM0.40.

WHAT'S NEW

- We recently met Alpha IVF's (Alpha) management, and here are our key takeaways:
 - Alpha's colossal undertaking is on track.** To recap, Alpha has one fertility centre in Malaysia, Indonesia and Laos/Cambodia (though has since pivoted to Philippines) each, two satellite clinics in Indonesia and two sales representative offices in China, and these remain on track to commence operations by end-FY25. The monumental undertaking comes off its recently launched Malaysia facility, Alhaya in April that broke even within its first month of operations and has tracked the fertility success rates of the overall group.
 - Proven and replicable.** We believe Alhaya is a precursor to the successful gestation and minimal earnings drag, if any, of its upcoming fertility centres in both Malaysia and the region. The success is due to these new fertility centres being backed by Alpha's proprietary system of systems, resulting in region-leading fertility success rates, and part ownership by renowned, highly experienced specialists, which translates to an immediate base of patients.
 - Prodigious Philippines.** Alpha is in the final planning stage of establishing one fertility centre in Quezon City, Manila, the Philippines. Alpha will own 87% of this Philippine subsidiary. Local specialists, Dr Romerico and Dr Maria will own a 10% and 3% stake respectively. The metro Manila area has a population of 15m, but has only five existing IVF facilities. We are buoyed by the pivot to the Philippines (from the company's initial aim to expand to Laos/Cambodia) given the more affluent and larger addressable domestic market as well as a lack of competition. The shift away from Laos and Cambodia was due to Chinese medical patients avoiding the perceived increased dangers in those countries.

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	119	30	38	46
P/B (x)	37.8	42	12	36	46
EV/EBITDA (x)	35.8	40	24	34	43
Dividend yield (%)	0.6	0.7	0.7	0.7	0.7
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, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	RM0.35
Target Price	RM0.40
Upside	+14.3%

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 (%)

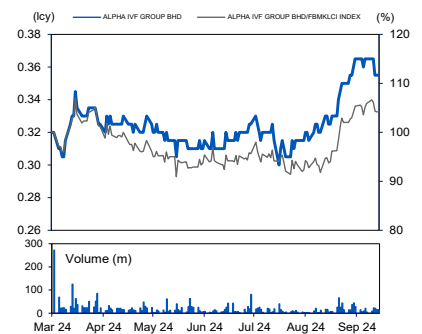
52-week high/low	RM0.345/RM0.305
1mth	0.0
3mth	(4.5)
6mth	n.a.
1yr	n.a.
YTD	n.a.

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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d. Strategic sales representative office in Shanghai commences operations. A representative office in Shanghai has commenced operations to draw in and facilitate Chinese patients to Alpha KL. We gather that it is strategically located opposite a women's hospital, which Alpha is in collaboration with. The establishment of these representative offices is critical to both draw patients in and command better margins as it saves on external agents that receive a 30-40% commission. Operations thus far is lean, being managed by a two-person team. Alpha conducted 194 ovum per unit (OPU) from China patients in FY24, which is only close to half of its pre-pandemic levels. The establishment of these two representatives will only further accelerate the natural recovery in Alpha's number of patients from China.

STOCK IMPACT

• **1QFY25 should see further sequential growth and yet again, a record quarter.** Alpha should see sequential earnings growth in 1QFY25. This quarter records Alhaya's full contribution, following the commencement of operations in Apr 24. Additionally, there has been a gradual ramp-up in foreign medical patients, which is also margin-accretive. Given this backdrop, earnings should largely meet our and consensus estimates. 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 this should be largely insignificant to Alpha's FY25 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 2025F 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'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"> • Environmental <ul style="list-style-type: none"> - Energy efficiency. Implements energy-efficient equipment and practices to reduce energy consumption within the centres. - Waste management. Implements responsible waste management including proper disposal of medical waste and recycling initiatives. • Social <ul style="list-style-type: none"> - Ethical practices. Adheres to ethical and transparent practices in patient interactions, including informed consent, privacy protection and responsible handling of genetic information. - Diversity & inclusion. Fosters a diverse and inclusive work environment, ensuring that all patients and employees are treated with respect and dignity. • Governance <ul style="list-style-type: none"> - Board oversight. Ensures that the board of directors or governing body provides effective oversight of the IVF centres' operations, including ESG strategies and performance.

KEY ASSUMPTIONS

	FY24F	FY25F	FY26F
Revenue (RMm)	164.4	193.8	243.3
Growth yoy (%)	19.5	17.9	25.6
Number of OPU			
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

ALPHA'S EXPANSION PROGRESS

Facilities	Status
Sales Rep Office in China No 1 (Shanghai)	Finalised
Sales Rep Office in China No 2	Final Planning Stage
Satellite Clinics in Indonesia No 1	Final Planning Stage
Satellite Clinics in Indonesia No 2	Strategic Planning Stage
IVF Centre in SEA No 1 (Manila, Philippines)	Final Planning Stage
IVF Centre in SEA No 2	Final Planning Stage
IVF Centre in SEA No 3	Prelim Planning Stage
IVF Centre in Malaysia No 1	Final Planning Stage
IVF Centre in Malaysia No 2	Prelim Planning Stage

Source: Alpha

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
Pre-tax profit	67	64	86	99
Tax	(12)	(16)	(19)	(22)
Minorities	(2)	(2)	(3)	(6)
Net profit	42	53	64	71
Net profit (adj.)	42	53	64	71

CASH FLOW

Year to 31 May (RMm)	2023	2024F	2025F	2026F
Operating	61	56	73	81
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)
Investing	0	(13)	(52)	(27)
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
Financing	(38)	82	(41)	(45)
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)
Net cash inflow (outflow)	23	126	(20)	9
Beginning cash & cash equivalent	32	56	181	161
Changes due to forex impact	1	0	0	0
Ending cash & cash equivalent	56	181	161	170

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
Total assets	96	233	259	293
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
Total liabilities & equity	96	233	259	293

KEY METRICS

Year to 31 May (%)	2023	2024F	2025F	2026F
Profitability				
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
Growth				
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
Leverage				
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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