

Lokman Hekim

On track to deliver 2018 guidance

We cut our 12M TP to TRY6.80/share (from TRY8.40 previously) for Lokman Hekim due to an increase in our risk-free-rate assumption. On the other hand, the 1H18 results show that the company is well on track to deliver its 2018 guidance for top-line growth and profitability. We maintain our BUY rating for the stock as we believe it is attractively valued (trading at 2019E EV/EBITDA of just 5.8x and P/E of 19.2x, implying a significant discount to global peers).

Strong performance across the board in 1H18

Lokman posted 20% growth in revenue in 2Q18 on the back of higher traffic and price increases, bringing YoY growth to 17% in 1H18. The total number of outpatients increased by 10% YoY in the first half of the year, while the total number of inpatients was up 5.5%. Moreover, thanks to improving margins in new investments (Akay Hospital and a medical centre in Ankara), led by higher operating leverage, EBITDA grew by 65% YoY in 1H18. We expect total EBITDA growth to be 36% and 21% in 2018 and 2019, respectively, thanks to a continuing recovery in new investments.

Hospital upgrades continue as planned

Upgrades at Akay Hospital (room additions and refurbishments) are expected to be operational by end-2018, according to management, and the capacity expansion at Etlik Hospital (from 37 beds to 100 beds) is expected to be completed by early 2019. Moreover, management expects the first service outsourcing mandate granted to the company (physiotherapy and rehabilitation business in Elazig City Hospital) to start operations in early 4Q18 (two months ahead of schedule). The company also added another service outsourcing mandate (Ankara Bilkent City Hospital) in July. We see these mandates as positive because we believe they will help the company to diversify revenue generation. We continue to believe that in the future outsource servicing for public-private partnership (PPP) projects might be a new growth area for Lokman, considering that there are 32 PPP projects (with 42k beds) across the country (the majority of these projects are likely to be completed in the next few years, in our view).

Negligible FX exposure

Lokman's has no FX-denominated debt and almost all of its debt is at fixed rates, while the average duration of the debt is close to two years. All in all, we see Lokman's sensitivity to movements in FX and interest rates as relatively low in the short-to-medium term.

Reducing TP due to higher risk-free-rate assumption

Even though we believe Lokman is on track to deliver its 2018 guidance, we cut our 12M TP to TRY6.80/share due to an increase in our risk-free-rate assumption for Turkish equities. The stock currently trades at 2019E EV/EBITDA of 5.8x and P/E of 19.2x, implying a wide discount to global peers. We maintain our BUY rating for the stock as we believe the healthcare sector in general is well positioned to withstand a slowing Turkish economy – which we expect starting from 4Q18 onwards due to the weakening macro environment in the country.

Reducing TP

BUY (maintained)

TP: TRY6.80 (previously TRY8.40)

Healthcare
Turkey

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Report date: 3 September 2018
Current price, TRY 4.94
Upside/downside, % 38

MktCap, TRYmn 121
Average daily volume, TRYmn 1
Free float, TRYmn 121
Bloomberg LKMNH TI

Summary valuation and financials TRYmn (unless otherwise stated)

	FY17	FY18E	FY19E	FY20E
Revenue	246	286	332	397
EBITDA	28	38	46	58
Net income	6	9	6	18
Net debt	96	108	120	108
EPS, TRY	0.26	0.37	0.26	0.73
DPS, TRY	0.17	0.10	0.05	0.15
EV/sales, x	1.1	0.9	0.8	0.7
EV/EBITDA, x	9.5	7.0	5.8	4.6
P/E, x	19.3	13.7	19.2	6.9
Net debt/EBITDA, x	3.4	2.8	2.6	1.8
Dividend yield, %	3.3	2.0	1.0	2.9
FCF yield, %	0.9	9.8	13.0	20.8
RoIC, %	10.9	15.0	18.3	23.2

Source: Company data, Renaissance Capital estimates

Figure 1: Price performance – 52 weeks, TRY



Figure 2: LKMNH – P&L summary, TRYmn (unless otherwise stated)

	FY17	1H17	1H18	YoY	1Q18	2Q17	2Q18	QoQ	YoY
Revenue	246.1	116.8	136.9	17.2%	68.6	56.9	68.3	-0.5%	20%
Gross profit	29.6	11.8	19.5	64.3%	11.3	3.5	8.1	-28.2%	130%
EBIT	18.9	6.5	13.5	109.1%	8.5	0.8	5.1	-40.3%	535%
EBITDA	27.9	10.9	18.1	65.3%	10.8	3.0	7.3	-32.9%	139%
Net income	6.3	1.7	4.4	157.4%	2.5	-0.8	1.9	-26.0%	-351%
Gross margin	12.0%	10.1%	14.2%	407	16.5%	6.2%	11.9%	-460	568
Opex/sales	-4.3%	-4.6%	-4.4%	26	-4.2%	-4.8%	-4.5%	-33	31
EBIT margin	7.7%	5.5%	9.9%	434	12.3%	1.4%	7.4%	-492	600
EBITDA margin	11.3%	9.4%	13.2%	385	15.8%	5.4%	10.6%	-515	529
Net margin	2.6%	1.5%	3.2%	176	3.7%	-1.3%	2.8%	-95	408

Source: Company data, Rasyonet, Renaissance Capital

Figure 3: LKMNH – balance-sheet summary, TRYmn (unless otherwise stated)

	FY17	1H17	1H18	YTD	1Q18	2Q17	2Q18	QoQ	YoY
Current assets	83.3	76.8	95.6	24.5%	90.2	76.8	95.6	6.0%	24.5%
Long-term assets	148.6	133.8	164.5	22.9%	157.0	133.8	164.5	4.7%	22.9%
Total assets	231.8	210.6	260.0	23.5%	247.2	210.6	260.0	5.2%	23.5%
Short-term liabilities	82.9	71.5	108.4	51.7%	95.6	71.5	108.4	13.4%	51.7%
Long-term liabilities	70.8	61.5	71.7	16.6%	70.5	61.5	71.7	1.6%	16.6%
Shareholders' equity	78.1	77.7	80.0	3.0%	81.1	77.7	80.0	-1.4%	3.0%
Total liabilities & shareholders' equity	231.8	210.6	260.0	23.5%	247.2	210.6	260.0	5.2%	23.5%
Net debt	96.0	82.9	114.5	38.1%	98.5	82.9	114.5	16.3%	38.1%
Short-term financial loans	30.9	25.8	49.5	91.5%	33.4	25.8	49.5	48.0%	91.5%
Long-term financial loans	67.1	58.0	67.4	16.1%	66.7	58.0	67.4	1.0%	16.1%
Cash & cash equivalents	2.0	0.9	2.3	144.7%	1.7	0.9	2.3	37.0%	144.7%
Net cash cycle	55.2	26.9	44.9	67.1%	41.4	29.3	46.0	11.0%	57.1%
Receivable days	87.2	65.3	80.6	23.3%	82.3	67.1	80.8	-1.9%	20.3%
Inventory days	21.9	12.2	27.4	124.0%	25.3	12.0	26.7	5.7%	122.1%
Payable days	53.9	50.7	63.1	24.4%	66.2	49.9	61.5	-7.0%	23.3%

Source: Company data, Rasyonet, Renaissance Capital