

Lokman Hekim Still healthy

Following a call with management and a review of our numbers post FY16 results, we have adjusted our FY17E and FY18E EBITDA for Lokman Hekim (LKMNH) by 18% and 12%, respectively, on higher-than-expected margins in existing operations and a swift operational turnaround in the newly-acquired Akay Hospital (AH) in Ankara – leading to an increased 12-month TP of TRY7.10 (from TRY5.80). Management is confident of reaching a double-digit EBITDA margin in AH by year-end. In addition, LKMNH's new medical centre in Ankara became fully operational this month. We regard management's FY17 guidance (a 20-25% YoY increase in revenues and EBITDA) as quite conservative and achievable. Despite a 70% share price rally since November 2016, LKMNH is trading at attractive multiples (FY17E EV/EBITDA of 6.0x and P/E of 14.8x) vs international peers. We reiterate our **OUTPERFORM** rating.

FY17 guidance released

As discussed in our [note](#) of 27 March, LKMNH has released its FY17 guidance. It expects to continue to invest in AH (acquired in 3Q16) to improve technology, infrastructure and service quality. Regarding the Etlik Hospital capacity increase plan (from 37 beds to 100 beds), the company expects to start construction later this year. For FY17 financial performance, management forecasts consolidated revenues at TRY235-240mn (up from TRY195mn in FY16, indicating 21-23% YoY growth) and EBITDA at TRY32.5-34mn (up from TRY29mn in FY16, indicating 12-17% YoY growth). While management projects the EBITDA margin at 13.8-14.2% in FY17, it is keeping its long-term EBITDA margin target at 15%.

We believe guidance is rather conservative

LKMNH managed to deliver 38% YoY revenue growth in FY16 on the back of both organic and inorganic growth (acquisition of AH and a new medical centre in Ankara). With these, the total number of patients grew 19% to 1mn in FY16. Thanks to the full consolidation of AH and the medical centre this year, we expect total patient numbers to increase by 17% to 1.2mn in FY17. Meanwhile, we project total capacity to reach 660 beds in FY17 (vs 500 beds in FY15), before heading to close to 700 beds in FY18 and close to 800 beds in FY20. Given greater capacity and above-inflation price increases, we expect the top line to grow by c. 30% YoY to TRY250mn (from TRY195mn in FY16) this year. Moreover, thanks to quite high operational leverage at the existing hospitals and a rapid operational turnaround in the newly acquired hospital, we forecast an EBITDA margin of 14.2% in FY17 (excluding the dilutive impact of AH it would be around 17%). Based on this, our revenue and EBITDA projections are 5% and 7%, respectively, ahead of management's conservative guidance.

Increasing TP to TRY7.10 / share, **OUTPERFORM** reiterated

Considering what we believe to be its strong growth potential (organic and inorganic), we maintain our positive view on LKMNH and reiterate our **OUTPERFORM** rating. Our revised 12M TP of TRY7.10 implies 32% upside potential. LKMNH trades at 6.0x FY17E EV/EBITDA and 14.8x FY18E P/E, indicating a substantial discount to global peers (trading at c. 20x FY17E P/E and c. 15x EV/EBITDA on average).

Increasing TP **OUTPERFORM**

(maintained)
TP: TRY7.10 (previously TRY5.80)

Healthcare
Turkey

Metin Esendal
+44 (207) 005-7925
MEsendal@rencap.com

Report date: 30 March 2017
Current price, TRY 5.36
Upside/downside, % 32

MktCap, \$mn 36
Average daily volume, \$mn 1
Free float, \$mn 22
Bloomberg LKMNH TI

Summary valuation and financials, TRYmn (unless otherwise stated)

	FY16	FY17E	FY18E	FY19E
Revenue	195	250	279	308
EBITDA	29	36	41	45
Net income	7	9	12	12
Net debt	69	75	70	68
EPS, TRY	0.30	0.37	0.50	0.51
DPS, TRY	0.12	0.17	0.10	0.10
EV/Sales, x	1.1	0.9	0.8	0.7
EV/EBITDA, x	7.3	6.0	5.2	4.8
P/E, x	18.5	14.8	11.0	10.8
Net debt/EBITDA, x	2.3	2.1	1.7	1.5
Dividend yield, %	2.2	3.1	1.9	1.9
FCF yield, %	3.9	9.3	12.7	13.0
RoC, %	15.4	14.6	16.2	15.7

Source: Company data, Renaissance Capital estimates

Figure 1: Price performance – 52 weeks, TRY

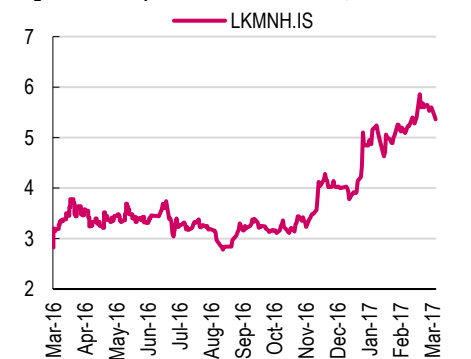
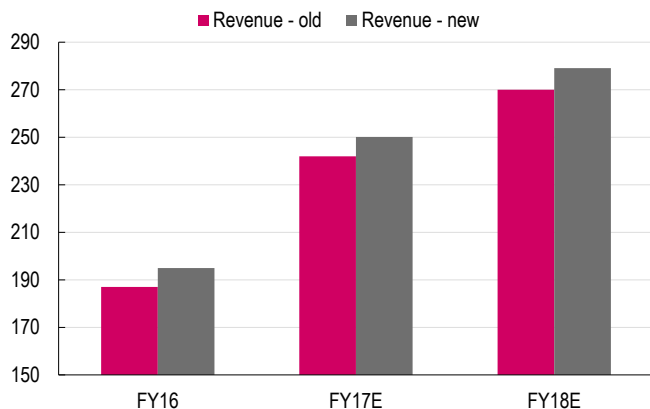
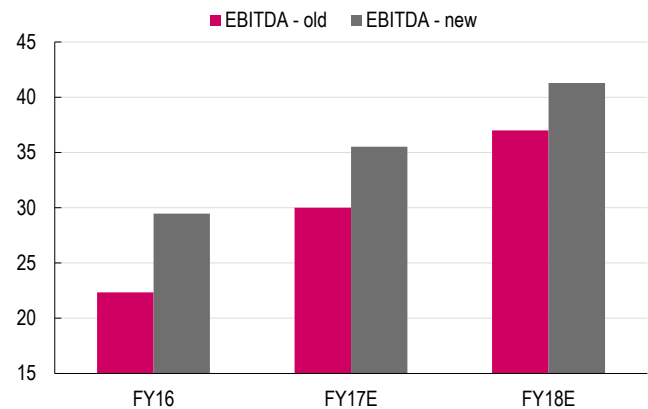


Figure 2: Revision in revenue assumptions, TRYmn



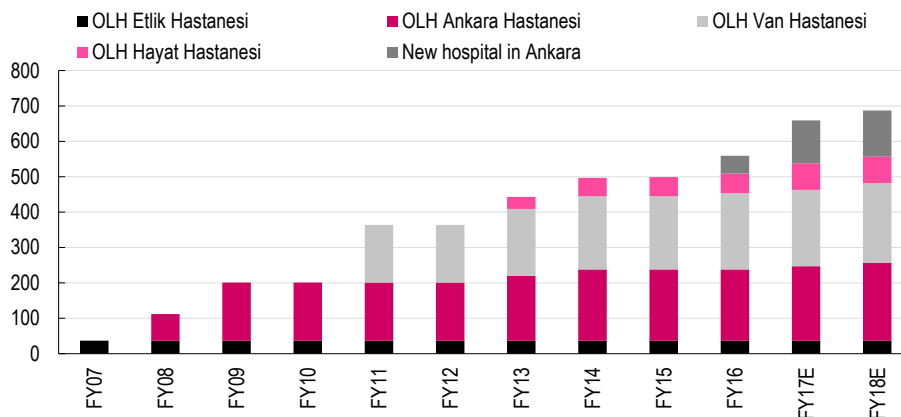
Source: Company data, Renaissance Capital estimates

Figure 3: Revision in EBITDA assumptions, TRYmn



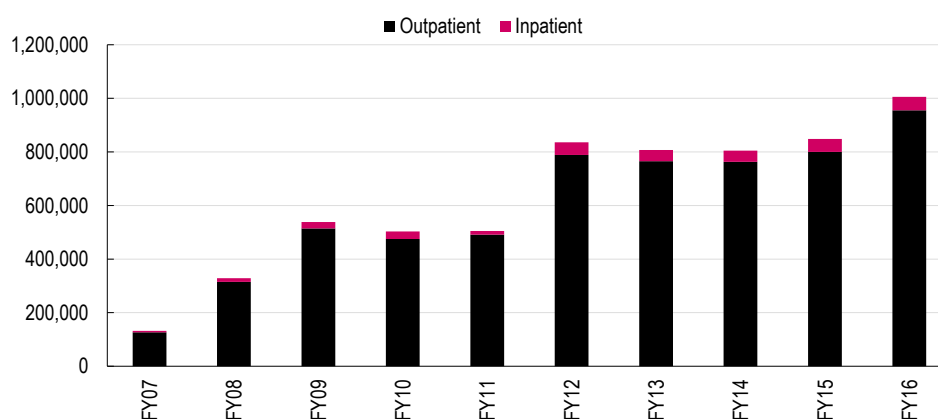
Source: Company data, Renaissance Capital estimates

Figure 4: LKMNH – bed capacity projection (annualised)



Source: Company data, Renaissance Capital

Figure 5: LKMNH – number of patients



Source: Company data, Renaissance Capital

Figure 6: LKMNH – key performance indicators

	FY14	YoY	FY15	FY16	QoQ	3Q15	YoY	4Q15	4Q16
Total patients, 000	805	19%	848	1006	48%	188	23%	225	277
Outpatients	763	19%	800	955	48%	177	24%	212	263
In-patients	42	4%	48	50	32%	11	13%	12	14

Source: Company data, Rasyonet, Renaissance Capital

Figure 7: LKMNH – P&L summary, TRYmn (unless otherwise state)

	FY14	YoY	FY15	FY16	QoQ	3Q15	YoY	4Q15	4Q16
Revenues	125.5	37.7%	141.6	195.0	83.6%	33.0	57%	38.6	60.7
Gross profit	11.7	80.0%	17.1	30.8	229.3%	3.1	78%	5.7	10.1
EBIT	6.5	105.3%	10.7	22.0	501.7%	1.3	93%	4.2	8.1
EBITDA	13.2	58.4%	18.6	29.5	194.6%	3.3	58%	6.2	9.8
Net income	1.7	32.7%	5.4	7.1	-29.4%	0.7	-77%	2.3	0.5
Gross margin	9.3%	371	12.1%	15.8%	737	9.3%	196	14.7%	16.7%
Opex/sales	-4.1%	1	-4.5%	-4.5%	191	-5.2%	52	-3.8%	-3.3%
EBIT margin	5.2%	372	7.6%	11.3%	928	4.1%	248	10.9%	13.4%
EBITDA margin	10.5%	197	13.1%	15.1%	611	10.1%	11	16.1%	16.2%
Net margin	1.4%	-14	3.8%	3.6%	-138	2.2%	-514	6.0%	0.9%

Source: Company data, Rasyonet, Renaissance Capital

Figure 8: LKMNH – balance-sheet summary, TRYmn (unless otherwise stated)

	YoY	FY14	YTD	FY15	QoQ	9M16	YoY	FY15	FY16
Current assets	11.4%	41.4	56.6%	46.1	18.0%	61.2	56.6%	46.1	72.2
Long-term assets	3.1%	88.3	37.2%	91.0	1.0%	123.7	37.2%	91.0	124.9
Total assets	5.8%	129.7	43.7%	137.2	6.6%	184.9	43.7%	137.2	197.2
Short-term liabilities	-14.4%	42.4	90.4%	36.3	-1.6%	70.3	90.4%	36.3	69.1
Long-term liabilities	27.2%	26.8	52.6%	34.0	27.7%	40.7	52.6%	34.0	51.9
Shareholder's equity	10.4%	60.5	13.9%	66.8	2.9%	74.0	13.9%	66.8	76.1
Total liabilities & shareholder's equity	5.8%	129.7	43.7%	137.2	6.6%	184.9	43.7%	137.2	197.2
Net debt	2.0%	43.7	54.8%	44.6	15.1%	59.9	54.8%	44.6	69.0
Short-term financial loans	-36.0%	19.6	53.5%	12.5	-10.8%	21.6	53.5%	12.5	19.3
Long-term financial loans	32.8%	24.6	54.8%	32.7	28.9%	39.2	54.8%	32.7	50.6
Cash & cash equivalents	33.3%	0.5	28.4%	0.6	-10.1%	0.9	28.4%	0.6	0.8
Net cash cycle	14.7%	49.8	-73.6%	57.1	117.8%	6.9	-73.6%	57.1	15.1
Receivable days	-2.4%	84.1	-8.4%	82.1	9.3%	68.9	-8.4%	82.1	75.2
Inventory days	-12.2%	17.8	-12.8%	15.7	9.1%	12.5	-12.8%	15.7	13.7
Payable days	-22.0%	52.2	81.3%	40.7	-0.8%	74.4	81.3%	40.7	73.8

Source: Company data, Rasyonet, Renaissance Capital