

EM healthcare

A slow start to the year

In our healthcare coverage, we look at three countries and three trends to watch: in Georgia the story is about the revival of reimbursements by the state, in Russia it is about higher out-of-pocket spending, and in Turkey it is about the impact of new PPP projects on the private sector's pricing capability and consumer preferences. We expect all companies we cover to attempt to re-accelerate growth in 2018. Our preference is Lokman Hekim, ahead of expected major healthcare IPOs in Turkey, as we like its growth profile (15/20% top-line/EBITDA CAGR in FY18-19E) and attractive valuation (7.3x FY18E EV/EBITDA).

Georgia Healthcare Group (GHG)

The start of 2018 sees the end of GHG's investment cycle, with the introduction of renovated hospitals with new 320-bed capacity. GHG's FCF should improve, as should revenue, depending on the pace of ramp-up of the new capacity; however, LfL revenue – which saw a 2% fall QoQ in 3Q17 in revenue collected from the state and a 7% fall in referral hospital revenue – will likely take longer to recover and should be key to watch as the year progresses. Another area for potential recovery is ambulatory clinics, although they generated only 6% of healthcare revenue in 9M17. We think progress on all lines of business may become visible in 2H18.

MD Medical Group (MDMG)

MDMG will likely be focused on expansion in 2018 and two-to-three years thereafter – mostly funded by debt, given its low (0.3x at 1H17) net debt/EBITDA. However, revenue growth is unlikely to exceed 15% due to the dilutive impact on pricing from entering new regions and slowing birth rates (deliveries comprised 16% of revenue in 1H17). Long-term trends benefiting private medical services, due to lower state spending on healthcare and a pick-up in private insurance and out-of-pocket payments, should be supported by higher oil prices and a stronger rouble, but there is also more competition from other private clinics.

Lokman (LKMNH)

Lokman continues to focus on the turnaround of Akay Hospital (acquired in 3Q16) and organic growth in existing operations. We expect total bed capacity to increase by c. 10% YoY in FY18 and the EBITDA margin to improve from 12.3% in FY17E to 13.0% in FY18E as new investments mature.

We prefer Lokman – exposure to Turkish healthcare ahead of IPOs

We have fine-tuned our estimates for Lokman and increased our TP to TRY8.40 (from TRY7.10), post rolling forward our TP to end-FY18 and revising our long-term growth estimates. We maintain our **BUY** rating for Lokman and believe it should be the indirect beneficiary of upcoming Turkish healthcare IPOs. We have also incorporated the latest trends in our forecasts, resulting in a reduction in our 2018 estimates for GHG and MDMG. We use multiple and DCF valuations to arrive at our TPs; we apply slightly different multiples to company financials depending on our perception of their growth vs the investment cycle and risks. We retain our **HOLD** rating for GHG and our **BUY** rating for MDMG. Our GHG TP is unchanged at GBp370, while we cut our TP for MDMG to \$12.5 (from \$13.3) after incorporating slower growth trends in our model.

Sector update

Equity Research
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Georgia/Russia/Turkey

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Summary sector ratings and TPs

Georgia Healthcare Group Plc

Bloomberg	GHG LN
Target price, GBP	3.7
Current price, GBP	3.5
Upside potential	6
Rating	HOLD
Previous rating	Hold

MD Medical Group

Bloomberg	MDMG LI
Target price, \$	12.5
Previous TP, \$	13.3
Current price, \$	10.1
Upside potential	24
Rating	BUY
Previous rating	Buy

Lokman

Bloomberg	LKMNH TI
Target price, TRY	8.4
Previous TP, TRY	7.1
Current price, TRY	6.2
Upside potential	36
Rating	BUY
Previous rating	Buy

Prices in this report as at market close on 29 December 2017.

Source: Bloomberg, Renaissance Capital estimates

GHG

Figure 1: GHG – old forecasts vs new, GELmn (unless otherwise stated)

	New		Old		Deviation	
	2017E	2018E	2017E	2018E	2017E	2018E
Revenue	758.6	872.9	762.5	873.6	-0.52%	-0.08%
EBITDA	106.4	135.6	111.1	141.6	-4.25%	-4.25%
EBITDA margin	14.0%	15.5%	14.6%	16.2%		
Net income (after minorities)	42.5	67.3	46.3	72.4	-8.17%	-6.99%

Source: Renaissance Capital estimates

Figure 2: GHG – financial forecasts, GELmn (unless otherwise stated)

	2016	2017E	2018E	2019E
Income statement				
Revenue, net of eliminations	423.8	758.6	872.9	955.5
Healthcare service revenue	243.5	271.7	341.3	382.5
Health insurance revenue	61.5	53.2	50.8	51.8
Pharma	133.0	449.7	500.9	541.8
Eliminations	(14.2)	(16.0)	(20.1)	(20.7)
YoY growth	75%	79%	15%	9%
Gross profit	146.0	244.4	290.8	318.7
EBITDA	78.0	106.4	135.6	155.8
EBITDA margin	18.4%	14.0%	15.5%	16.3%
Depreciation	19.6	27.5	31.2	33.6
EBIT	58.4	78.9	104.4	122.2
Net interest expense	(13.7)	(23.5)	(21.3)	(15.6)
Net other income	(4.5)	(2.0)	-	-
PBT	40.2	53.4	83.1	106.6
YoY growth	70%	33%	55%	28%
Taxation	21.2	(0.5)	(0.8)	(1.1)
Net income	61.3	52.9	82.3	105.5
Minority interest	11.1	10.4	14.9	18.1
Income to GHG shareholders	50.2	42.5	67.3	87.4
EPS, GEL	0.38	0.32	0.51	0.66
YoY growth	155%	-15%	58%	30%
Core EPS, GEL	0.38	0.32	0.51	0.66
DPS, GEL	-	-	-	0.20

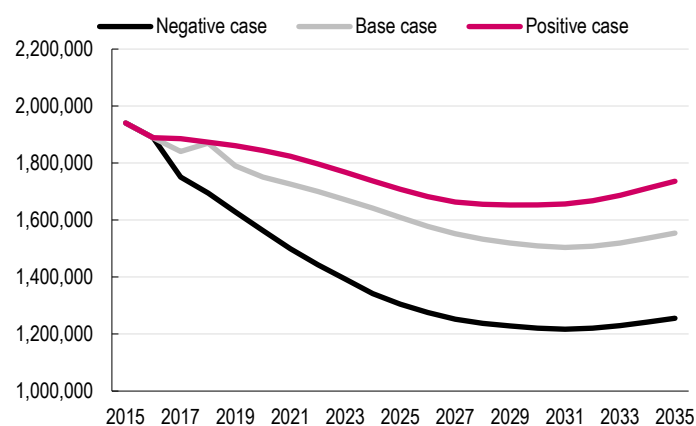
	2016	2017E	2018E	2018E
Balance sheet				
Cash and deposits	47.1	33.9	73.3	114.4
Other current assets	241.3	297.0	320.6	339.2
Fixed assets	648.0	747.9	777.1	792.5
Total assets	912.6	1,054.8	1,147.2	1,222.2
Current liabilities	115.8	189.8	229.9	249.4
Non-current liabilities	254.7	270.1	240.1	190.1
Shareholder equity	542.0	594.9	677.2	782.7
Total liabilities	912.6	1,054.8	1,147.2	1,222.2
Net debt	176.5	205.1	135.7	44.6

	2016	2017E	2018E	2018E
Cash-flow statement				
Op. cash flows	(70.0)	98.7	129.9	140.1
Investment cash flows	176.9	100.3	60.4	49.0
Finance cash flows	14.1	(11.7)	(30.0)	(50.0)

Source: Company data, Renaissance Capital estimates

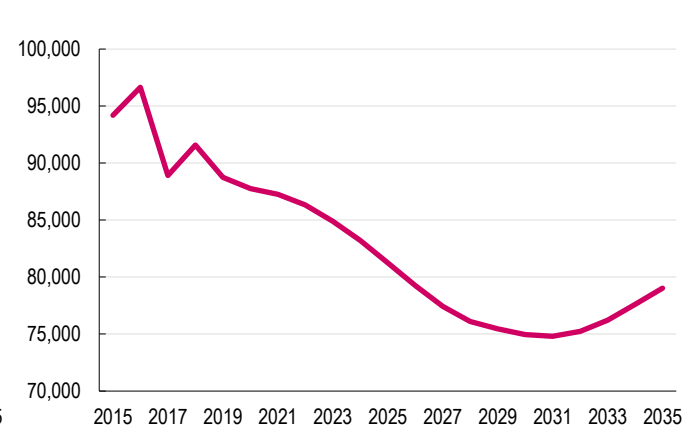
MDMG

Figure 3: Number of births in Russia (Rosstat forecast)



Source: Rosstat

Figure 4: Number of births in Moscow region (Rosstat forecast), base case



Source: Rosstat

Figure 5: MDMG – old forecasts vs new, RUBmn (unless otherwise stated)

	New		Old		Deviation	
	2017E	2018E	2017E	2018E	2017E	2018E
Revenue	13,764	15,703	14,514	17,010	-5.2%	-7.7%
EBITDA	4,106	4,607	4,457	5,129	-7.9%	-10.2%
EBITDA margin	29.8%	29.3%	30.7%	30.2%		
Net income (after minorities)	2,432	2,650	2,830	2,958	-14.1%	-10.4%

Source: Renaissance Capital estimates

Figure 6: MDMG – forecasts vs consensus, RUBmn (unless otherwise stated)

	RenCap		BBG consensus		Deviation	
	2017E	2018E	2017E	2018E	2017E	2018E
Revenue	13,764	15,703	14,444	17,310	-4.7%	-9.3%
EBITDA	4,106	4,607	4,363	5,254	-5.9%	-12.3%
EBITDA margin, %	29.8%	29.3%	30.2%	30.4%		
Net income (after minorities)	2,432	2,650	2,763	3,159	-12.0%	-16.1%

Source: Bloomberg, Renaissance Capital estimates

Figure 7: MDMG – YE18 TP calculation, blended DCF and multiples

DCF valuation	
WACC	14.8%
Growth	4.5%
per GDR, \$	11.0
EV/EBITDA, x	14
EV, RUBmn	64,494
Net debt, RUBmn	3,230
Minority, RUBmn	4,071
MktCap, RUBmn	57,192
per GDR, \$	13.2
P/E, x	22
MktCap, RUBmn	58,300
per GDR, \$	13.4
Average DCF and multiples, per GDR, \$	12.5

Source: Renaissance Capital estimates

Figure 8: MDMG – financial forecasts, RUBmn (unless otherwise stated)

Income statement	2016	2017E	2018E	2019E
Sales	12,179	13,764	15,703	17,940
Cash opex	(8,521)	(9,657)	(11,096)	(12,617)
EBITDA	3,658	4,106	4,607	5,324
EBITDA margin	30.0%	29.8%	29.3%	29.7%
Depreciation & amortisation	(946)	(1,110)	(1,248)	(1,492)
EBIT	2,724	3,031	3,383	3,858
Other	(91)	0	0	0
Net interest	(394)	(295)	(402)	(653)
PBT	2,239	2,736	2,981	3,206
Tax	38	(55)	(60)	(64)
Tax rate	nm	2%	2%	2%
Minority income/(loss)	212	249	271	292
Net earnings after minorities	2,066	2,432	2,650	2,850
Shares, mn	75	75	75	75
GDR, mn	75	75	75	75
EPS per common share, RUB	27.5	32.4	35.3	37.9
DPS per common share, RUB	8.2	9.7	10.6	11.4
DPS per GDR, \$	0.1	0.2	0.2	0.2

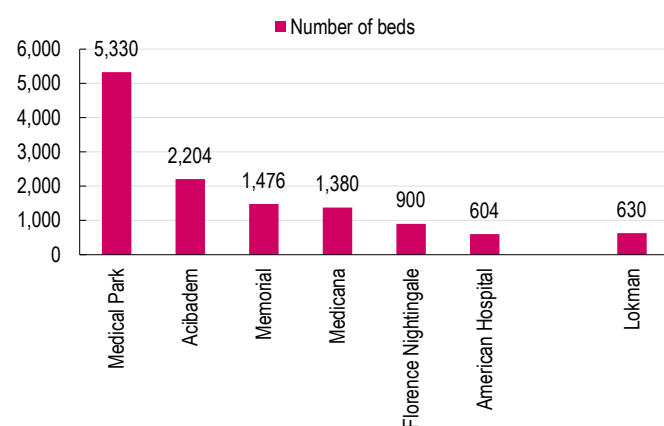
Balance sheet	2016	2017E	2018E	2019E
Non-current assets	16,213	18,183	21,681	28,948
Current assets	860	965	1,093	1,241
Monetary assets	1,643	2,352	2,851	1,392
Total assets	18,716	21,500	25,625	31,581
Current liabilities	2,176	2,341	2,514	2,782
Indebtedness	3,283	4,081	6,095	9,708
Minorities and other	909	968	1,015	1,063
Equity	12,347	14,110	16,000	18,028
Total liabilities & shareholders' equity	18,716	21,500	25,625	31,581
Net debt	1,640	1,729	3,244	8,316

Cash-flow statement	2016	2017E	2018E	2019E
Net earnings before minorities	2,277	2,681	2,921	3,142
Non-cash items	1,399	1,404	1,649	2,145
Change in working capital	184	61	44	120
Operating cash flow	3,861	4,146	4,615	5,407
Capex	(1,747)	(3,080)	(4,745)	(8,760)
Other adjustments	(407)	54	70	57
Investing cash flows	(2,155)	(3,026)	(4,675)	(8,703)
Free cash flow	1,706	1,120	(60)	(3,296)
Financing cash flow	(1,737)	(411)	558	1,837

Source: Company data, Renaissance Capital estimates

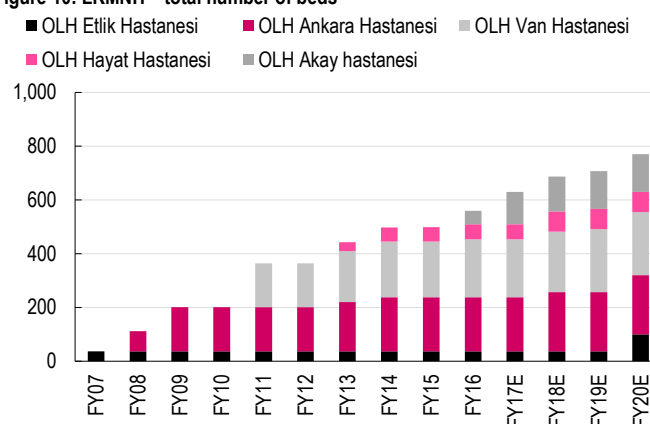
LKMNH

Figure 9: Large hospital chains in Turkey



Source: Medical Park data, Renaissance Capital

Figure 10: LKMNH – total number of beds



Source: Company data, Renaissance Capital estimates

Figure 11: LKMNH – old forecasts vs new, TRYmn (unless otherwise stated)

	New		Old		Deviation	
	2017E	2018E	2017E	2018E	2017E	2018E
Revenue	249	285	250	279	-0.5%	2.3%
EBITDA	31	37	33	39	-6.1%	-4.5%
EBITDA margin	12.3%	13.0%	13.0%	14.0%		

Source: Renaissance Capital estimates

Figure 12: LKMNH – P&L summary, TRYmn (unless otherwise stated)

	FY16	9M16	9M17	YoY	2Q17	3Q16	3Q17	QoQ	YoY	FY17E	YoY	FY18E	YoY	FY19E	YoY
Revenue	195.0	133.8	181.0	35.2%	57.0	48.8	63.9	12.2%	31%	248.7	27.5%	285.4	14.8%	327.0	14.6%
Gross profit	30.8	20.2	20.9	3.4%	3.7	6.8	8.8	136.2%	29%	32.2	4.6%	38.3	19.0%	44.8	16.9%
EBIT	22.0	13.5	13.0	-3.5%	1.0	4.1	6.3	534.5%	56%	21.9	-0.7%	26.9	23.0%	31.7	17.8%
EBITDA	29.5	19.2	19.7	2.4%	3.2	5.6	8.5	160.9%	50%	30.5	3.6%	37.2	21.9%	44.1	18.4%
Net income	7.1	6.6	3.4	-49.0%	-0.8	1.8	1.6	-317.5%	-11%	7.8	9.0%	9.5	22.5%	13.2	38.5%
Gross margin	15.8%	15.1%	11.6%	-356	6.6%	14.0%	13.8%	725	-20	13.0%	-285	13.4%	48	13.7%	27
Opex/sales	-4.5%	-5.0%	-4.4%	67	-4.8%	-5.7%	-3.9%	87	176	-4.2%	34	-4.0%	15	-4.0%	0
EBIT margin	11.3%	10.1%	7.2%	-289	1.7%	8.3%	9.9%	812	156	8.8%	-250	9.4%	63	9.7%	27
EBITDA margin	15.1%	14.3%	10.9%	-348	5.7%	11.5%	13.2%	754	170	12.3%	-284	13.0%	77	13.5%	43
Net margin	3.6%	4.9%	1.9%	-307	-1.3%	3.8%	2.6%	388	-121	3.1%	-53	3.3%	21	4.0%	70

Source: Company data, Rasyonet, Renaissance Capital estimates

Figure 13: LKMNH – balance-sheet summary, TRYmn (unless otherwise stated)

	FY14	FY15	FY16	YtD	1H17	9M16	9M17	QoQ	YoY	FY17E	YoY	FY18E	YoY	FY19E	YoY
Current assets	41.4	46.1	72.2	56.6%	76.8	61.2	86.3	12.4%	40.9%	91.5	26.7%	101.8	11.3%	113.4	11.4%
Long-term assets	88.3	91.0	126.9	39.4%	133.8	123.7	135.8	1.5%	9.8%	139.6	10.0%	152.1	9.0%	159.3	4.7%
Total assets	129.7	137.2	199.1	45.2%	210.6	184.9	222.1	5.5%	20.1%	231.1	16.1%	254.0	9.9%	272.7	7.4%
Short-term liabilities	42.4	36.3	69.4	91.2%	71.5	70.3	82.8	15.9%	17.9%	87.3	25.8%	95.2	9.1%	102.9	8.0%
Long-term liabilities	26.8	34.0	53.9	58.3%	61.5	40.7	64.4	4.8%	58.4%	59.3	10.0%	59.4	0.3%	49.6	-16.5%
Shareholder's equity	60.5	66.8	75.8	13.5%	77.7	74.0	74.9	-3.6%	1.3%	84.4	11.3%	99.7	18.0%	120.3	20.7%
Total liabilities & shareholders' equity	129.7	137.2	199.1	45.2%	210.6	184.9	222.1	5.5%	20.1%	231.0	16.0%	254.3	10.1%	272.8	7.3%
Net debt	43.7	44.6	69.0	54.8%	82.9	59.9	92.4	11.4%	54.1%	90.0	30.4%	96.0	6.7%	92.0	-4.2%
Short-term financial loans	19.6	12.5	19.3	53.5%	25.8	21.6	32.9	27.2%	52.1%	35.2	82.8%	41.2	17.1%	47.2	14.6%
Long-term financial loans	24.6	32.7	50.6	54.8%	58.0	39.2	60.8	4.8%	55.0%	55.8	10.3%	55.8	0.0%	45.8	-17.9%
Cash & cash equivalents	0.5	0.6	0.8	28.4%	0.9	0.9	1.3	35.4%	43.7%	1.0	26.0%	1.0	0.0%	1.0	0.0%
Net cash cycle	49.8	57.1	14.5	-74.7%	26.7	7.2	35.9	34.2%	401.5%	40.0	176.4%	45.0	12.5%	50.0	11.1%
Receivable days	84.1	82.1	75.2	-8.4%	65.2	69.1	70.7	8.4%	2.3%	75.0	-0.3%	75.0	0.0%	75.0	0.0%
Inventory days	17.8	15.7	13.7	-12.8%	12.2	12.5	15.7	28.7%	25.7%	15.0	9.8%	15.0	0.0%	15.0	0.0%
Payable days	52.2	40.7	74.4	82.8%	50.7	74.4	50.6	-0.3%	-32.1%	50.0	-32.8%	45.0	-10.0%	40.0	-11.1%

Source: Company data, Rasyonet, Renaissance Capital estimates

Figure 14: Healthcare service relative valuation in \$ terms

	Country	EV/EBITDA, x		P/E, x		P/B, x		RoE		EBITDA CAGR	EPS CAGR	EBITDA margin		PEG ratio, x	
		2017E	2018E	2017E	2018E	2017E	2018E	2017E	2018E	2016-2019E	2016-2019E	2017E	2018E	P/E 2017E to	EPS CAGR 2016-2019E
MD Medical Group*	Russia	12.6	11.0	18.2	16.5	3.1	2.7	20%	18%	13.3%	18.2%	29.8%	29.3%		1.00
GHG*	Georgia	19.2	15.1	39.6	25.0	3.2	2.8	9%	13%	25.9%	20.3%	14.0%	15.5%		1.95
Lokman Hekim*	Turkey	8.9	7.3	19.4	15.8	2.3	2.0	12.1%	13.5%	14.3%	22.7%	12.3%	13.0%		0.85
Apollo Hospitals Enterprise Ltd	India	23.3	18.3	72.4	42.7	4.5	4.3	6%	10%	21%	36%	10%	11%		2.02
China Resources Phoenix Healthcare Holdings Co Ltd	China	14.6	12.9	24.8	22.6	1.8	1.7	8%	8%	nm	nm	35%	35%		nm
Siloam International Hospitals Tbk PT	Indonesia	22.5	18.2	172.9	136.8	2.9	2.9	2%	3%	22%	17%	12%	12%		10.14
Dian Diagnostics Group Co Ltd	China	26.2	20.8	37.6	27.9	5.5	4.7	14%	16%	na	34%	12%	12%		1.12
Dr Lal PathLabs Ltd	India	26.3	22.5	42.1	35.4	11.5	9.1	24%	23%	16%	18%	25%	25%		2.37
Aier Eye Hospital Group Co Ltd	China	39.2	30.2	61.3	46.4	11.3	9.4	22%	23%	34%	33%	22%	22%		1.87
Mitra Keluarga Karyasehat Tbk PT	Indonesia	27.8	24.8	37.9	35.9	7.1	6.4	19%	20%	9%	5%	34%	34%		7.97
Topchoice Medical Investment Corp	China	31.4	25.8	51.3	40.0	9.8	7.9	19%	20%	28%	32%	28%	27%		1.61
IHH Healthcare Bhd	Malaysia	22.0	18.6	70.0	49.0	2.1	2.0	3%	4%	16%	27%	22%	22%		2.56
Dallah Healthcare Co	Saudi Arabia	16.9	16.2	19.4	20.5	3.5	3.2	18%	16%	17%	14%	31%	28%		1.35
Mouwasat Medical Services Co	Saudi Arabia	19.3	17.4	24.3	22.0	5.3	4.6	22%	22%	14%	17%	29%	29%		1.47
Al Hammadi Development and Investment Co	Saudi Arabia	26.8	20.1	41.6	28.9	3.1	2.9	8%	10%	26%	39%	26%	28%		1.06
NMC Health PLC	UAE	25.0	20.2	38.2	27.9	6.7	5.5	20%	23%	29%	38%	22%	23%		1.01
Netcare Ltd	South Africa	8.7	7.7	15.2	13.0	2.9	3.0	nm	nm	11%	nm	13%	14%		nm
Mediclinic International PLC	South Africa		12.4	12.3	24.1	19.6	1.3	1.1	5%	6%	2%	4%	18%		18%
	Average	22.8	19.1	48.9	37.9	5.3	4.6	14%	15%	19%	24%	23%	23%		3.2

*Renaissance Capital estimates; all others based on Bloomberg consensus estimates.

Source: Bloomberg, Renaissance Capital estimates