

## Korian

Price EUR23.17

Don't throw the baby out with the bath water!

Fair Value EUR30 vs. EUR38 (+30%)

BUY vs. SELL

Bloomberg	KORI.FP
Reuters	KORI.PA
12-month High / Low (EUR)	36.3 / 23.2
Market Cap (EUR)	1,841
Ev (BG Estimates) (EUR)	3,388
Avg. 6m daily volume (000)	127.0
3y EPS CAGR	-0.3%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-24.7%	-34.7%	-27.7%	-31.2%
Healthcare	-10.3%	-14.3%	-18.0%	-15.3%
DJ Stoxx 600	-9.0%	-16.1%	-18.4%	-14.6%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	2,500	2,579	2,931	3,009
% change		3.2%	13.6%	2.7%
EBITDA	358	344	378	398
EBIT	235.6	231.0	255.2	274.9
% change		-2.0%	10.5%	7.7%
Net income	112.8	99.1	104.1	116.0
% change		-12.1%	5.0%	11.4%

	2014	2015e	2016e	2017e
Operating margin	9.4	9.0	8.7	9.1
Net margin	4.2	3.8	3.6	3.9
ROE	4.9	5.0	5.0	5.2
ROCE	3.0	2.9	3.0	3.1
Gearing	78.2	76.4	82.0	72.8

(EUR)	2014	2015e	2016e	2017e
EPS	1.42	1.23	1.28	1.41
% change		-13.2%	3.8%	10.1%
P/E	16.3x	18.8x	18.1x	16.5x
FCF yield (%)	9.3%	11.7%	12.9%	12.9%
Dividends (EUR)	0.60	0.60	0.60	0.60
Div yield (%)	2.6%	2.6%	2.6%	2.6%
EV/Sales	1.3x	1.3x	1.2x	1.2x
EV/EBITDA	9.3x	9.8x	9.5x	8.8x
EV/EBIT	14.1x	14.7x	14.1x	12.8x

Following the decision by the Board of Directors last November to remove Yann Coléou with immediate effect, we decided to downgrade our recommendation from Buy to Sell, maintaining our numbers with no tangible factor likely to affect our estimates. Since this move, the share has underperformed its main competitor (-18% vs. Orpea and -23% in absolute term) with an acceleration following the 2015 profit warning due to results resetting (no cash impacts). Considering 1) the massive stock adjustment, 2) bad news that is in our view mostly behind us, 3) the upcoming action plan to restore performance (23<sup>rd</sup> March) and 4) strong sector fundamentals, we have upgraded our recommendation to Buy with a FV of EUR30 using a DCF with forecasts lower than the recently adjusted consensus.

## ANALYSIS

- **Base results reset:** Following the FY 2015 revenue publication, the new management team lowered 2015 EBITDA margin by 100bps vs. last year (2014 EBITDA margin of 14.3%) compared with previous guidance for “a solid operating margin”. Restatement was mainly due to **Germany** (2/3 of EBITDA adjustment) and **France**, both regions where new CFOs were appointed at the end of the year (respectively Philippe Misteli, former CFO of Kaufman & Braod and Laurence Branthomme, former CFO for American Express Voyages d'affaires in France). Remember that the restatement represents c. EUR30m o/w EUR21/22m due to the reclassification of personnel and IT expenses in Germany (EUR13/14m) and France (EUR7m), plus EUR7m linked to a lower than expected operating performance in H2 (60% stemming from Germany for bad check charges and 40% from France for social harmonisation between the former Medica and Korian employees).
- **In our view, 2016 should be a year of transition...:** Despite those adjustments with the arrival of Sophie Boissard the new CEO at the end of January, and Laurent Lemaire the new CFO on 26th February and the implementation of the action plan to be announced at the FY 2015 results meeting on 23rd March, 2016 could be another year of transition. Taking into account this scenario, we estimate that lfl revenue growth should be at 2.7%, lower than guidance from management for 3%, with EBITDA margin under further pressure and down by 50bps at 12.9%. With such results, we are lower than the consensus by EUR20m on EBITDA at EUR378m vs. EUR398m (same situation for 2017e at EUR398m compared with consensus at EUR426m).

## Main changes

	2015e			2016e			2017e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
SALES	2 593	2 579	-0,5%	3 002	2 931	-2,4%	3 127	3 009	-3,8%
EBITDA	375	344	-8,1%	425	378	-11,0%	455	398	-12,6%
	14,4%	13,4%	-109 bp	14,2%	12,9%	-124 bp	14,6%	13,2%	-133 bp
EBIT	263	231	-12,2%	299	255	-14,6%	327	275	-16,0%
	10,1%	9,0%	-119 bp	10,0%	8,7%	-124 bp	10,5%	9,1%	-133 bp
EPS	1,47	1,23	-16,4%	1,69	1,28	-24,5%	1,94	1,41	-27,5%

Source : Company Data; Bryan Garnier &amp; Co. ests.

- **....but valuation looks attractive even in such scenario:** Based on these estimates and using a DCF with a WACC at 6.3% taking into account a leverage beta of 1.2x and a long term growth of 2.5% with EBIT margin of 9.5% compared with 8.7% in 2016e (for Orpea our long term EBIT margin is 13%), our valuation reaches nearly EUR32. Our OpCo-PropCo moves to EUR27.5.

## VALUATION

- At the current share price, the stock is trading on 2016e EV/EBITDA of 9.5x and 8.8x for 2017e compared with an EBITDA CAGR 2015-2018 of 7%.
- We expect that restated financial leverage (Net debt - real estate debt)/ EBITDA -6,5% Real estate debts) should be at 3.4x for 2015e and 3.7x for 2016 including Casa Reha, compares with covenant of 4.5x. Remember that real estate historical valuation reached EUR860m at the end of H1 2015.

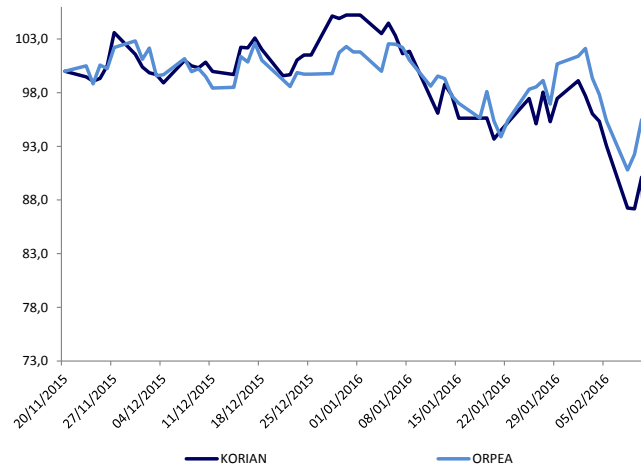
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#### NEXT CATALYSTS

- Laurent Lemaire, new CFO arrival on 26th February
- FY 2015 results on 23rd March (after market)

#### Comparative performance between Korian and Orpea since the removal of Yann Coléou on 20<sup>th</sup> November 2015



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**Analyst :**

Bruno de La Rochebrochard  
33(0) 1 56 68 75 88  
bdelarochebrochard@bryangarnier.com

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Beaufort House	26 Avenue des Champs Elysées	750 Lexington Avenue	rue de Grenus 7	The Imperial Hotel
15 St. Botolph Street	75008 Paris	New York, NY 10022	CP 2113	Janpath
London EC3A 7BB	Tel: +33 (0) 1 56 68 75 00	Tel: +1 (0) 212 337 7000	Genève 1, CH 1211	New Delhi 110 001
Tel: +44 (0) 207 332 2500	Fax: +33 (0) 1 56 68 75 01	Fax: +1 (0) 212 337 7002	Tel +4122 731 3263	Tel +91 11 4132 6062
Fax: +44 (0) 207 332 2559	Regulated by the	FINRA and SIPC member	Fax+4122731 3243	+91 98 1111 5119
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