

Korian

Price EUR26.85

2015 results: No major surprises. 2016 forecasts in line with our scenario.

Fair Value EUR30 (+12%)

BUY

Bloomberg	KORI FP
Reuters	KORI.PA
12-month High / Low (EUR)	36.3 / 23.2
Market Cap (EURm)	2,134
Ev (BG Estimates) (EURm)	3,681
Avg. 6m daily volume (000)	131.1
3y EPS CAGR	-0.3%

Following the FY 2015 results downgrade mid-February, no major surprises were noted in the group's results with EBITDA margin bang in line with the new management guidance and consensus at 13.3%, down 100bps vs. 2014. Nevertheless, for 2016, and ahead of the "Korian 2020" strategic plan due to be presented on 15th September, new management announced that it has already taken measures (cost control, single procurement policy, management performance tools and strengthening processes) and confirmed its guidance for "significant" revenue growth to reach almost EUR3bn with an EBITDAR margin expected to be close to the 2015 level. Finally, with stable operating cash flow vs. 2014 at EUR245m, management will propose a dividend of EUR0.60 at the AGM.

	1 M	3 M	6 M	31/12/15
Absolute perf.	9.1%	-17.0%	-22.6%	-20.3%
Healthcare	-0.8%	-11.3%	-8.5%	-12.1%
DJ Stoxx 600	3.7%	-7.2%	-2.0%	-7.0%

ANALYSIS

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%

- **2015 results reset as announced:** After restatement, no major surprises were noted, with **EBITDAR** of EUR680m down EUR9m vs. 2014 (our forecast was EUR688m) representing a margin of 26.4%, down 120bp, and **EBITDA** of EUR342m with a margin of 13.3% down 100bps as announced by management mid-February. **Recurring EBIT** reached EUR218m lower than the consensus (EUR227m) and our EUR231m forecast. **Negative non-recurring items** increased significantly up to EUR39m from EUR12m taking into account the group reorganisations and the coverage of a certain number of risks (not yet detailed).

- **2016 outlook in line with our scenario:** The short term priority is to restore group performances. The new management team has already rolled out measures to reinforce Korian's dynamism with cost streamlining, a new procurement policy and tools and processes to better control management performances. 2016 is nevertheless set to be a year of transition as expected, and in all, management expects to maintain EBITDAR margin close to the 2015 level (our forecast is flat for EBITDAR with EBITDA margin down 40bps) after significant revenue growth to almost EUR3bn with the consolidation of Casa Reha (total revenue of EUR281m in 2015) integrated since January 2016.

	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

- **Beyond,** new management will present its 2020 strategic plan on 15th September 2016.

(EUR)	2014	2015e	2016e	2017e
EPS	1.42	1.23	1.28	1.41
% change		-13.2%	3.8%	10.1%
P/E	18.9x	21.8x	21.0x	19.1x
FCF yield (%)	8.0%	10.1%	11.1%	11.1%
Dividends (EUR)	0.60	0.60	0.60	0.60
Div yield (%)	2.2%	2.2%	2.2%	2.2%
EV/Sales	1.4x	1.4x	1.3x	1.3x
EV/EBITDA	10.1x	10.7x	10.3x	9.5x
EV/EBIT	15.4x	15.9x	15.3x	13.8x

VALUATION

- At the current share price, the stock is trading on 2016e and 2017e EV/EBITDA of 10.7x and 9.5x respectively compared with a 2015-2018 CAGR in EBITDA of 7%.

NEXT CATALYSTS

- Meeting at 10:00 am (Paris time)
- Q1 2016 revenue on 3rd May (after market)

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