

Korian

Price EUR26.37

Feedback results: Wait and see but looks promising

Fair Value EUR29 vs. EUR30 (+10%)

NEUTRAL vs. BUY

Bloomberg	KORI.FP
Reuters	KORI.PA
12-month High / Low (EUR)	36.3 / 23.2
Market Cap (EURm)	2,096
Ev (BG Estimates) (EURm)	3,740
Avg. 6m daily volume (000)	131.8
3y EPS CAGR	-1.9%

	1 M	3 M	6 M	31/12/15
Absolute perf.	6.6%	-21.6%	-21.5%	-21.7%
Healthcare	-3.3%	-12.4%	-8.4%	-13.1%
DJ Stoxx 600	1.1%	-8.1%	-1.9%	-8.4%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	2,500	2,579	2,930	3,008
% change		3.2%	13.6%	2.7%
EBITDA	358	342	378	399
EBIT	248.0	218.2	236.9	254.6
% change		-12.0%	8.6%	7.5%
Net income	112.8	85.0	100.3	108.9
% change		-24.7%	18.0%	8.7%

	2014	2015e	2016e	2017e
Operating margin	9.4	6.9	7.7	8.1
Net margin	4.2	2.3	3.2	3.4
ROE	4.9	4.4	5.0	5.2
ROCE	3.0	2.4	2.5	2.6
Gearing	78.2	85.1	118.2	106.7

(EUR)	2014	2015e	2016e	2017e
EPS	1.42	1.07	1.25	1.34
% change	-	-24.7%	16.7%	7.4%
P/E	18.6x	24.7x	21.1x	19.7x
FCF yield (%)	8.1%	9.2%	11.6%	11.7%
Dividends (EUR)	0.60	0.60	0.60	0.60
Div yield (%)	2.3%	2.3%	2.3%	2.3%
EV/Sales	1.4x	1.5x	1.5x	1.5x
EV/EBITDA	10.0x	10.9x	12.0x	11.1x
EV/EBIT	14.4x	17.1x	19.1x	17.4x

In the new CEO and CFO's first speech after only a few weeks of presence, the results presentation was very factual but clear and precise. As announced in the press release, the short term priority is to restore group performances and 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 set to be a year of transition as expected and in all, management expects to maintain EBITDAR margin close to the 2015 level after significant revenue growth to almost EUR3bn with the consolidation of Casa Reha integrated since January 2016. Beyond, we will have to wait for the "Korian 2020" strategic plan due to be presented on 15th September. We have moved our FV to EUR29 with a Neutral recommendation vs. Buy.

ANALYSIS

- Undeniable advantages but a set that needs to be structured:** The observation made by the new management is relatively clear: after years of development largely directed by external growth, Korian must be structured and managed as a group with a framework of common reporting and control, industrialised processes, global group operations (Purchasing, IT) and synergies to be created in the service offering. Regarding management's financial expectations, we will have to wait for the investor day on 15th September to have numbers
- Financials not at risk but no major room to implement fresh expansion:** At the end of 2015, financials still looked sound with net debt of EUR1,645m up from EUR1,474m with restated leverage of 3.1x vs. a covenant <4.5x. With the integration of Casa Reha, restated financial leverage (Net debt – real estate debt)/EBITDA -6.5% Real estate debts) should be at 3.7x (real estate historical valuation reached almost EUR900m. Given the new management's ambitions confirming that bolt-on acquisitions are still relevant, IT investments need to be anticipated, real estate investment could be revisited regarding financial market conditions and trade-offs will be made.
- Some adjustments to our short term numbers:** Following FY 2015 results and management expectations we have adjusted our numbers with notably an EBITDAR 2016e margin of 26.2% vs. 26.4% previously i.e. down 20bp compared with 2015 (management's forecast is to maintain EBITDAR margin close to the 2015 level).

Main changes

	2015			2016e			2017e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
SALES	2 579	2 579	0,0%	2 931	2 930	0,0%	3 009	3 008	0,0%
EBITDA	344	342	-0,7%	378	378	-0,2%	398	399	0,2%
	13,4%	13,3%	-9 bp	12,9%	12,9%	-2 bp	13,2%	13,3%	3 bp
EBIT	231	218	-5,5%	255	237	-7,2%	275	255	-7,4%
	9,0%	8,5%	-49 bp	8,7%	8,1%	-62 bp	9,1%	8,5%	-67 bp
EPS	1,23	1,07	-13,2%	1,28	1,25	-2,4%	1,41	1,34	-4,8%

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

VALUATION

- Based on these estimates and using a DCF with WACC at 6.5% taking into account our new ERP of 7% vs. 6.4% and a risk-free rate of 1.6% vs. with a leverage beta of 1.2x and a long term growth of 2.5%, an EBIT margin of 9.5% compared with 8.5% in 2015, we have reduced our Fair Value to EUR29 vs. EUR30 previously.
- At the current share price the stock is trading on 2016e EV/EBITDA of 12x and 11.1x for 2017e compared with an EBITDA CAGR 2015-2018 of 7.5%

NEXT CATALYSTS

- Q1 revenue on 3rd May
- Investor day on 15th September



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