30th March 2016

Healthcare

Orpea

Price EUR72.12

2015 results: Solid even though acquisitions weighed on the margin slightly

Fair Value EUR76 (+5%) **BUY**

Bloomberg	ORP FP
Reuters	ORP.PA
12-month High / Low (EUR)	76.7 / 58.4
Market Cap (EURm)	4,332
Ev (BG Estimates) (EURm)	6,428
Avg. 6m daily volume (000)	116.6
3y EPS CAGR	17.5%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.2%	-2.2%	3.2%	-2.2%
Healthcare	-2.7%	-13.6%	-6.4%	-12.8%
DJ Stoxx 600	0.9%	-8.9%	-0.7%	-7.9%

YEnd Dec. (EURm)	2014	2015e	2016e	2017e
Sales	1,949	2,393	2,768	2,933
% change		*22.8%*	*15.7%*	*5.9%*
EBITDA	350	406	470	509
EBIT	271.3	320.2	367.3	394.5
% change		*18.0%*	*14.7%*	*7.4%*
Net income	153.8	156.1	189.6	214.6
% change		*1.4%*	*21.5%*	*13.2%*

	2014	2015e	2016e	2017e
Operating margin	13.9	13.4	13.3	13.5
Net margin	7.9	6.5	6.8	7.3
ROE	9.1	9.1	10.9	12.1
ROCE	3.9	4.3	4.7	5.1
Gearing	147.4	122.3	118.5	110.1

(EUR)	2014	2015e	2016e	2017e
EPS	2.08	2.46	2.99	3.37
% change	-	*18.5%*	*21.2%*	*13.0%*
P/E	34.7x	29.3x	24.1x	21.4x
FCF yield (%)	NM	NM	5.1%	6.5%
Dividends (EUR)	0.80	0.86	1.05	1.18
Div yield (%)	1.1%	1.2%	1.4%	1.6%
EV/Sales	3.4x	2.7x	2.3x	2.1x
EV/EBITDA	18.7x	15.8x	13.6x	12.3x
EV/EBIT	24.1x	20.1x	17.4x	15.9x

Following FY 2015 revenue (up 22.7% reported and 5.4% lfl), results were more or less in line with expectations. EBITDAR reached EUR652m (consensus EUR655m) up 21.3% representing a margin of 27.3% down 30bp due to acquisitions, while EBITDA of EUR400m was bang in line with the consensus (EUR401m). The net result of EUR153m was slightly better (consensus EUR151m) up 12.5% and management is to propose a dividend of EUR0.90 (EUR0.87 anticipated) compared with EUR0.80 last year. In addition, the balance sheet was robust despite strong growth in the value of the real estate portfolio to over EUR3.4bn, up 23% with acquisitions in Germany, Austria and Spain. At the end of March, management expects sustained growth for 2016 with a revenue target of EUR2,720m, up 13.7% with solid profitability.

ANALYSIS

- **Sustained results even though acquisitions weighed on the margin slightly:** Results were in line with anticipations with EBITDAR up 21.3% at EUR652m with margin down 30bp but flat at 27.6% excluding acquisitions. Acquisitions also increased rental expenses to EUR252m from EUR188m up almost 35% (+1.1% excluding acquisition) with rents/EBITDAR representing 38.6% vs. 34.9% in 2014. Recurring EBITDA reached EUR400.3m (consensus EUR401m) i.e. an EBITDA margin of 16.7% compared with 18% in 2014. Finally, reported EBIT was EUR325m, up 5.2% mainly due to non-recurring profit from real-estate limited to EUR21.7m vs. EUR37.7m in 2014 reflecting management's aim to reinforce its real-estate portfolio.
- **Strong financials despite the significantly strengthened real estate portfolio:** the group's real-estate valuation rose to over EUR3.4bn, up by EUR600m with significant acquisitions in Germany, Austria and Spain with the group now owning 36% of its assets. Despite this development, the group still has financial flexibility with restated financial leverage of 2.9x (vs.2.6x in 2014 and a covenant of 5.5x). Note that average interest rates continued to decrease as announced at 3.8% vs. 4% in 2014 and an target of 3% in 2020.
- **2016 outlook:** At the end of March, the group's network had nearly 71,000 beds across nine countries o/w 54% abroad while the pipeline represented over 9,000 beds under construction. Taking into account these elements w/o new bolt-on acquisitions, management's revenue target is EUR2,720m up 13.7% (our forecast is EUR2,768m) with “solid profitability”.

VALUATION

- At the current share price, the stock is trading on 2016e and 2017e EV/EBITDA of 13.6x and 12.3x respectively compared with a CAGR 2015-2018 of slightly over 10%.

NEXT CATALYSTS

- FY 2015 presentation at 10:00 am (Paris time)
- Q1 2016 revenue on 4th May 2016

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

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London
Beaufort House
15 St. Botolph Street
London EC3A 7BB
Tel: +44 (0) 207 332 2500
Fax: +44 (0) 207 332 2559
Authorised and regulated by the Financial Conduct Authority (FCA)

Paris
26 Avenue des Champs Elysées
75008 Paris
Tel: +33 (0) 1 56 68 75 00
Fax: +33 (0) 1 56 68 75 01
Regulated by the Financial Conduct Authority (FCA) and the Autorité de Contrôle prudential et de resolution (ACPR)

New York
750 Lexington Avenue
New York, NY 10022
Tel: +1 (0) 212 337 7000
Fax: +1 (0) 212 337 7002
FINRA and SIPC member

Geneva
rue de Grenus 7
CP 2113
Genève 1, CH 1211
Tel +4122 731 3263
Fax+4122731 3243
Regulated by the FINMA

New Delhi
The Imperial Hotel
Janpath
New Delhi 110 001
Tel +91 11 4132 6062
+91 98 1111 5119
Fax +91 11 2621 9062