

Orpea

Price EUR72.17

Feedback: Top line growth secured with strong margin

Fair Value EUR79 vs. EUR76 (+9%)

BUY

Bloomberg	ORP.FP
Reuters	ORP.PA
12-month High / Low (EUR)	76.7 / 58.4
Market Cap (EURm)	4,335
Ev (BG Estimates) (EURm)	7,324
Avg. 6m daily volume (000)	116.9
3y EPS CAGR	17.0%

	1 M	3 M	6 M	31/12/15
Absolute perf.	-5.2%	-2.7%	1.5%	-2.2%
Healthcare	-2.4%	-13.0%	-8.0%	-12.5%
DJ Stoxx 600	2.2%	-7.2%	-1.9%	-6.7%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2,392	2,778	2,932	3,088
% change		16.1%	5.5%	5.4%
EBITDA	400	475	519	560
EBIT	303.3	371.8	405.0	433.0
% change		22.6%	9.0%	6.9%
Net income	153.3	177.8	204.2	229.9
% change		16.0%	14.8%	12.5%

	2015	2016e	2017e	2018e
Operating margin	12.7	13.4	13.8	14.0
Net margin	6.4	6.4	7.0	7.4
ROE	8.5	9.8	11.3	12.7
ROCE	3.6	4.3	4.7	5.0
Gearing	166.5	165.1	158.3	150.0

(EUR)	2015	2016e	2017e	2018e
EPS	2.42	3.01	3.47	3.87
% change	-	24.3%	15.4%	11.5%
P/E	29.8x	24.0x	20.8x	18.6x
FCF yield (%)	NM	5.5%	7.2%	7.8%
Dividends (EUR)	0.90	1.05	1.22	1.36
Div yield (%)	1.2%	1.5%	1.7%	1.9%
EV/Sales	3.1x	2.6x	2.5x	2.3x
EV/EBITDA	18.4x	15.4x	13.9x	12.6x
EV/EBIT	24.2x	19.7x	17.8x	16.3x

2015 was another year of international expansion (total network up 31%) reinforcing and securing lfl top-line growth with a strong margin for the next three/four years. Expansion risks with three new strategic platforms in 2015 seem to be well managed with further investment in IT and a team of over 30 managers dedicated to international. Even if international expansion weighs on the short term margin, each new area offers a great opportunity for better results notably with the real estate optimisation and new bolt-on acquisitions. In all, after some adjustments, we are confirming our Buy recommendation with a FV increase to EUR79 vs. EUR76.

ANALYSIS

- **Strong international platform that should drive lfl revenue growth...:** In 2015, Orpea built three new platforms with SeneCura in Austria, Celenus in Germany and Medi-System in Poland (January 2016) with the group's global network increasing by 31% to reach nearly 71,000 beds mainly abroad which now represents 54% of the network (...but less than 40% of 2016e consolidated revenue and just over 35% of EBITDAR), thereby securing lfl top line growth. In fact, based on the current pipeline, i.e. over 9,000 beds o/w 82% under construction and 67% abroad, lfl revenue growth is secured for the next three/four years. Our estimates is 5.3% lfl growth for 2016e o/w 4.3% in France, 5.1% in 2017e and 5% in 2018e.
- **...with a sustained margin:** International expansion weighed on 2015 EBITDAR margin by 30bp and on EBITDA margin, which was down 130bps. The impact on EBITDAR margin was due to the temporary impact of acquisitions and new openings notably in Belgium (19.8% compared with 28.3% in France and 27.3% for the group), Italy (12%) and in Germany (26.6%) after the acquisition of Celenus, which should be progressively erased. Note that acquisitions impacted the margin by 70bp, whereas it would have improved by 40bp excluding them. With acquisitions of asset light companies, rentals increased significantly to reach over EUR252m from EUR188m and the group's objective is clearly to optimise real estate management, which is fully dedicated to its business regarding financial conditions. Management expects to increase the real estate ownership rate to between 40% and 50% (36% in 2015).

Main changes

	2016e			2017			2018
	Old	New	Δ%	Old	New	Δ%	New
SALES	2 768	2 778	0,3%	2 933	2 932	-0,1%	3 088
EBITDA	470	475	1,0%	509	519	2,1%	560
	17,0%	17,1%	12 bp	17,4%	17,7%	37 bp	18,1%
EBIT	367	372	1,2%	397	405	1,9%	433
	13,3%	13,4%	12 bp	13,6%	13,8%	27 bp	14,0%
EPS	2,98	3,01	1,2%	3,38	3,47	2,7%	3,87

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

VALUATION

- Based on our estimates and using a DCF with WACC at 6.1% taking into account our new ERP of 7% vs. 6.4% and a risk-free rate of 1.6% vs. 2% with a beta of 1x and a long term growth rate of 2.5%, adn EBIT margin of 13% compared with 12.7% in 2015, our FV works out to EUR79 vs. EUR76 previously.
- At the current share price, the stock is trading on 2016e EV/EBITDA of 15.4x and 13.9x for 2017e compared with an EBITDA CAGR 2015-2018 of 11.8%.

NEXT CATALYSTS

- Q1 2016 results on 4th May
- H1 2016 results on 20th July

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