

28th September 2016

Healthcare

Orpea

Price EUR78.66

First take H1 results: Positive trend continues

Fair Value EUR85 (+8%)

BUY

ANALYSIS

- **Integration of recent acquisitions well managed:** After consolidated revenue up 23% on a reported basis at EUR1.381bn with organic growth of 5.7%, the main results were the following:
 - EBITDAR reached EUR368.5m (consensus at EUR367m like our forecast), up 21.4% compared with last year, impacted for the first time by IFRIC 21 (EUR6.4m) representing an **EBITDAR margin of 26.7% i.e. down 30bp vs. last year after IFRIC 21**. As expected, recent acquisitions mainly in Germany (Celenus, Vitalis, RGB) and to a lesser extent in Poland (Medi-System) weighed on the margin. Excluding this, EBITDAR margin would have been flat.
 - After rental expenses, EBITDA grew by 19.5% to EUR220.5m (consensus and our forecast at EUR223m) representing an EBITDA margin of 16% down 40bp. Excluding acquisitions mainly under asset light, EBITDA margin would have widened 60bp to 17%.
- **Real estate and financial flexibility reinforced:** During H1 and only due to acquisitions, real estate now represents a total amount of EUR3.7bn up EUR227m net of asset sales bearing in mind that real estate valuation is based on a cap rate of 6.3%. Real estate debt amounted to EUR2.6bn. Restated for real estate, financial leverage decreased to 2.5x from 2.9x at the end of 2015 vs. a covenant of <5.5x. In all, net debt stood at EUR3.226bn vs. EUR3.087bn in December 2015 with an average cost of debt of 3.4% down 40bps from 3.8%
- **Confident in FY results:** Management confirmed its FY revenue guidance of EUR2.810bn upgraded after H1 revenue mid-July with solid profitability. We are confirming our revenue forecast of EUR2.814bn but our EBITDAR and EBITDA could be a bit conservative today at respectively EUR755m and EUR458m representing an EBITDAR margin of 26.8% down 50bp and an EBITDA margin of 16.3% down 40bps.

VALUATION

- We are confirming our recommendation. At the current share price, the stock is trading at 17.5x EV/EBITDA 2016e and 15.5x 2017e which compares with an historical average of 13.1x and an EBITDA CAGR 2015-2018 of 11.2%.

NEXT CATALYSTS

- Today 10.00am: Analyst's meeting
- Q3 revenue on 3rd November 2016
- Capital Market Days on 6-7th December 2016 (Geneva)

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