

Korian

Price EUR32.91

First take: H1 results beat consensus...waiting Capital Market day

Fair Value EUR29 (-12%)

NEUTRAL

Bloomberg	KORI FP
Reuters	KORI.PA
12-month High / Low (EUR)	36.3 / 23.2
Market Cap (EURm)	2,639
Ev (BG Estimates) (EURm)	4,852
Avg. 6m daily volume (000)	98.90
3y EPS CAGR	20.7%

Following H1 revenue released on 21st July (organic revenue growth of 3.5% excluding calendar effect), H1 results were slightly better than anticipated excluding non recurring items. FY 2016 management expectations has been confirmed regarding top line with an improvement on EBITDA margin to around 13.7% excluding non-recurring items (our forecast was 13.4% as consensus) from previously around the same level as in 2015 i.e. 13.3%. Reflecting Casa Reha acquisition net debt increase by EUR687m to EUR2.332m representing restated financial leverage of 3.9x (3.1x at the end of December).

	1 M	3 M	6 M	31/12/15
Absolute perf.	3.1%	20.2%	24.7%	-2.3%
Healthcare	-3.0%	4.2%	1.1%	-8.7%
DJ Stoxx 600	-2.2%	5.6%	-1.8%	-7.5%

ANALYSIS

- **H1 EBITDA ahead consensus and our expectation...:** Recurring EBITDA reached c. EUR198m compared with EUR194m for consensus and our forecast of EUR193m representing an EBITDA margin of 13.5% down only 10bps vs. last year (consensus was at 13.2%). The spread compared with anticipations was fully explained by positive impact from IAS 17 while EBITDAR margin was down 30bps vs. 2015 at 26.7%. By geography, France EBITDAR margin was up 60bps, Germany was down to 26.9% from 30.4%, Italy was down 60bps and Belgium improved to 26.1% from 24.6%.
- **...with FY target upgraded on EBITDA margin:** Following H1 results, management increased its expectation on recurring EBITDA margin to around 13.7% up 40 bps vs. flat previously. EBITDA margin improvement was totally due to a greater than expected impact of the IAS17 on German acquisitions. FY target top line has been confirmed to almost EUR3bn in line with our expectation and consensus (EUR2,987m).
- **Net debt significantly higher but largely refinanced:** As anticipated and mainly due to Casa Reha, net debt reach EUR2,332m representing a restated financial leverage of 3.9x compared with 3.1x at the end of 2015 and a covenant of 4.5x. Management that the syndicated loan (EUR1.3bn) was totally renegotiated at the same interest rate margin with 5-year maturity. More, the group launched a programme to issue up to EUR300m in short-term negotiable securities not yet used.

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	2,579	2,994	3,133	3,278
% change		16.1%	4.6%	4.6%
EBITDA	342	401	439	484
EBIT	218.2	256.9	288.5	326.3
% change		17.7%	12.3%	13.1%
Net income	85.0	112.4	130.5	153.4
% change		32.3%	16.1%	17.6%

	2015	2016e	2017e	2018e
Operating margin	6.9	8.2	8.9	9.6
Net margin	2.3	3.5	4.0	4.5
ROE	4.4	5.6	6.1	6.7
ROCE	2.4	2.7	3.0	3.4
Gearing	85.1	107.2	94.4	81.3

(EUR)	2015	2016e	2017e	2018e
EPS	1.06	1.39	1.60	1.86
% change	-	31.1%	15.0%	16.5%
P/E	31.1x	23.7x	20.6x	17.7x
FCF yield (%)	7.3%	9.9%	10.4%	11.5%
Dividends (EUR)	0.60	0.60	0.60	0.60
Div yield (%)	1.8%	1.8%	1.8%	1.8%
EV/Sales	1.7x	1.6x	1.5x	1.4x
EV/EBITDA	12.5x	12.1x	10.8x	9.5x
EV/EBIT	19.6x	18.9x	16.4x	14.0x

VALUATION

- At the current share price, the stock is trading at 12.1x 2016e EV/EBITDA and 10.8x 2017e, which compares with historical average of 9.3x.

NEXT CATALYSTS

- Capital Market day on 15th September (starting at 10:00am)
- Q3 revenue on 26th October

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SELL ratings 11%

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